

# City of Morgan Hill

## Comprehensive Annual Financial Report

Year Ended June 30, 2018





**CITY OF MORGAN HILL**

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2018**

**PREPARED BY  
ADMINISTRATIVE SERVICES**



**CITY OF MORGAN HILL**



**CITY OF MORGAN HILL**

**CITY OF MORGAN HILL, CALIFORNIA**  
**Comprehensive Annual Financial Report**  
**For The Fiscal Year Ended June 30, 2018**

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# INTRODUCTORY SECTION



**CITY OF MORGAN HILL**

November 21, 2018

Honorable Mayor, Members of the City Council, City Manager, and Citizens of Morgan Hill:

The *Comprehensive Annual Financial Report (CAFR)* of the City of Morgan Hill, California for the fiscal year ended June 30, 2018, is submitted for your information and review. Responsibility for the accuracy of the information, and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. Management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. Management is committed to maintain the City's internal controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. The financial statements within this report have been audited by the City's independent financial auditor, Maze & Associates, which has issued an unmodified opinion. The auditor's opinion letter is included in this report.

The format of this report complies with the financial reporting model developed under Governmental Accounting Standards Board (GASB) Statement No. 34, as modified by additional published statements.

- The Statement of Net Position and the Statement of Activities represent a combination of all the City's funds, comprising the City's General Fund, Special Revenue, Capital Projects, Debt Service, Internal Service, and Enterprise Funds, including activities which are restricted. Information about individual funds can be found in the combining statements contained within the CAFR.
- The amount reported as "unrestricted" in the net position section of the Statement of Net Position includes: (i) amounts designated by the City Council for general reserve purposes; (ii) amounts that have accumulated in various internal service funds to be used for the purposes intended for those funds; and (iii) amounts that have been collected from water and sewer rate payers in the business-type activities that are needed to fund ongoing water and sewer operating and capital needs.
- The amount reported as capital assets in the assets section of the Statement of Net Position includes the value of infrastructure acquired between 1980 and June 30, 2018.

To assist with the reader's review of the City's financial statements, a narrative section called Management's Discussion and Analysis (MD&A) is included. The MD&A reports on the financial highlights of the City and provides additional analysis on the variances and trends reported as part of the financial statements. The MD&A is designed to disclose any significant events or decisions that affect the financial condition of the City.

The financial reporting entity includes all of the funds of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Wastewater Facilities Financing Corporation and the Morgan Hill Financing Authority are governed by boards which are substantially the same as the City's governing body. These two component units have been blended into the City's basic financial statements because the City is able to impose its will on these component units and because the component units provide services primarily to the City. The Morgan Hill Corporation Yard Commission (Commission) is a joint powers authority (JPA) between the City and the Morgan Hill Unified School District, and it functions for the benefit of the City and the School District. Since the services of the Corporation Yard Commission are not provided primarily to the City, the financial information for the Commission is discretely presented in the basic financial statements so that this information may be separately accounted for. In April 2018, the City Council of the City of Morgan Hill and the Board of Education of the Morgan Hill Unified School District adopted resolutions to terminate the JPA and dissolve the Commission.

This report includes all funds of the City. The City provides a broad range of services including police protection, economic development, housing assistance, water and sewer services, streets and parks construction and maintenance, planning and engineering, code compliance, recreation and community services, and general city administration and support services. The City operates and maintains two fire stations, with personnel provided under contract by the State's CalFire.

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all governmental fund types. Budgetary comparisons are reflected in the City's financial report for all governmental funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations between activities within a fund budget to facilitate the functions of those activities in accordance with the directions, goals, and policies of the City Council. Activities are defined as an individual program or division within a department. The City Council's approval is required for additional appropriations or transfers between funds. Unencumbered appropriations lapse at the end of each fiscal year.

## **ECONOMIC CONDITIONS AND OUTLOOK**

Morgan Hill's financial condition continues to improve as the City continues to benefit from a strong local economy, demand for development, and the resulting increased property values and associated revenues. After necessary reductions and process efficiencies during the Great Recession, the City has been adding back positions and enhancing services when possible to support critical City services, including economic development outreach. Working with our local and regional partners, the City actively promotes Morgan Hill as an ideal place for investment. The City's economic development efforts continued to bear fruit with the retention and expansion of several businesses. In addition, the City has been successful in significantly enhancing its fee based recreation facilities and programs. As a result, participation has grown and the City's reliance on tax support to fund services decreased during the recession from \$1.6M in Fiscal Year (FY) 06-07 to breakeven a few short years later.

The City is benefiting from the continued strong economy and high demand for development services, resulting in significant property tax growth. The Assessed Value (AV) growth for the entire City is 6.4 percent higher than last fiscal year. This includes growth in property taxes resulting from new development being added to the tax role, as well as increases in AV from changes in ownership.

Since FY 10-11, a steady stream of new housing construction has added over 1,800 new homes. Housing prices have continued to appreciate at a steady pace with median home prices in most parts of the Bay Area hitting an all-time high. The pace of commercial development, which has been slower than residential development to respond to the strengthening economy, accelerated in the past year as previously vacant commercial space in Morgan Hill became occupied.

New housing units being added to the assessor's roll, coupled with commercial developments in the community, restoration of Proposition 8 temporary reductions granted by the County Assessor's Office during the Great Recession, and higher property values, have led to a steady increase in local property tax revenues. Based on the latest County Assessor's Office's projection, property tax revenues are expected to increase an additional 9% from FY 17-18 actual of \$11.4 million to \$12.5 million in the next fiscal year. Recreation revenues reached an all time high of \$7.1 million in FY 17-18.

Strengthening of the regional economy in the past several years, along with the growth of the housing market and a declining unemployment rate, led to an increase in consumer confidence and spending. As consumer confidence grows, consumer spending continues to grow, resulting in more than a doubling of sales tax revenue since the low experienced in FY 09-10. Morgan Hill's unemployment rate hit a high of 15% in 2010, and has dropped to 3.0% in 2018. This is lower than the state-wide unemployment rate of 4.2%, but slightly above the County of Santa Clara rate of 2.9%.

Developments in the community, coupled with increased consumer confidence and a strong labor market, have all contributed to the strengthening of the General Fund. General Fund reserves remained at 45% of general fund revenues, including transfers in, for the year ending June 30, 2018, an increase of \$0.8 million over the prior year. The Council has set the long-term general fund reserve goal of 25% of general fund revenues, and the minimum level of 15%.

In the three years prior to FY 17-18, the community development fund experienced noticeable fund balance growth as a result of increased development activity after the Great Recession. As the development activity returned to a more typical level, the community development fund ended the fiscal year with an operating deficit of approximately \$620,000, as compared to the prior year deficit of approximately \$132,000. The fund is forecasted to continue to be structurally imbalanced, requiring significant use of reserves in subsequent years. Barring any unforeseen circumstances, the remaining fund reserves, combined with planned phase-in fee increases should support the fund's operating deficits in the current two- year adopted budget timeframe. Staff plans to bring recommendations to the City Council to address the fund's structural deficit during the Mid-Cycle Budget review in Spring 2019.

The City benefits from a reasonably diverse local economy that includes a variety of business activities and employers. The largest employers are: Morgan Hill Unified School District, Anritsu, Specialized Bicycle Components, Paramit, Wolfsped, Lusamerica Foods, NxEdge, and Wal-Mart. Business attraction and retention, economic development, recreation, affordable housing, and capital improvements provide the foundation of the City's strategy for enhancing economic growth. In addition, City Council directed staff to take all possible steps to position Morgan Hill as the city of choice for businesses to expand and relocate. The largest undertaking is the development of the Morgan Hill Downtown, with significant infrastructure improvements such as undergrounding of utilities, public art, trails and plaza/park space, and several retail projects as mentioned earlier, including a recently completed 3-story with 271 parking spaces public parking garage. These projects will assist in fulfilling the vision and goals for the Downtown to make the Downtown the most walkable, bike-friendly, urban, family-oriented, and transit oriented neighborhood in Morgan Hill.

City staff prepares five-year projections for the General Fund, Community Development Fund, and the Wastewater and Water Funds at least once a year. In addition, a six-year capital improvement plan is prepared and updated annually that addresses each infrastructure project or improvement and the funding/anticipated financing sources to complete. The forecasts also include annual maintenance costs anticipated as the infrastructure and improvement projects are completed and taken into the City's operations.

These projections also include an analysis of the City's ability to meet its unassigned fund balance target over the entire five-year financial forecast horizon. The City Council considers this information when approving the budget and when making key financial decisions throughout the year, to help the City Council more closely monitor compliance with its reserves policy and fund balance goals.

## **AWARDS**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morgan Hill for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2017. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA certificate is valid for a period of one year only. The City has received this certificate for the last 23 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements and will be submitting it to the GFOA again this year.

## **ACKNOWLEDGMENTS**

The *Comprehensive Annual Financial Report* represents many months of work by the City's entire Finance staff and other departments who assisted in the process of compiling the information. A special "thank you" to our external auditors who contributed long hours to make this document possible. Their efforts and continued dedication are greatly appreciated. I also wish to express appreciation to the City Council and City Manager for their support, interest, integrity, and sound leadership in financial matters.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Dat Nguyen', with a long horizontal flourish extending to the right.

Dat Nguyen, CPA, CGFM  
Finance Director

# **CITY OF MORGAN HILL, CALIFORNIA**

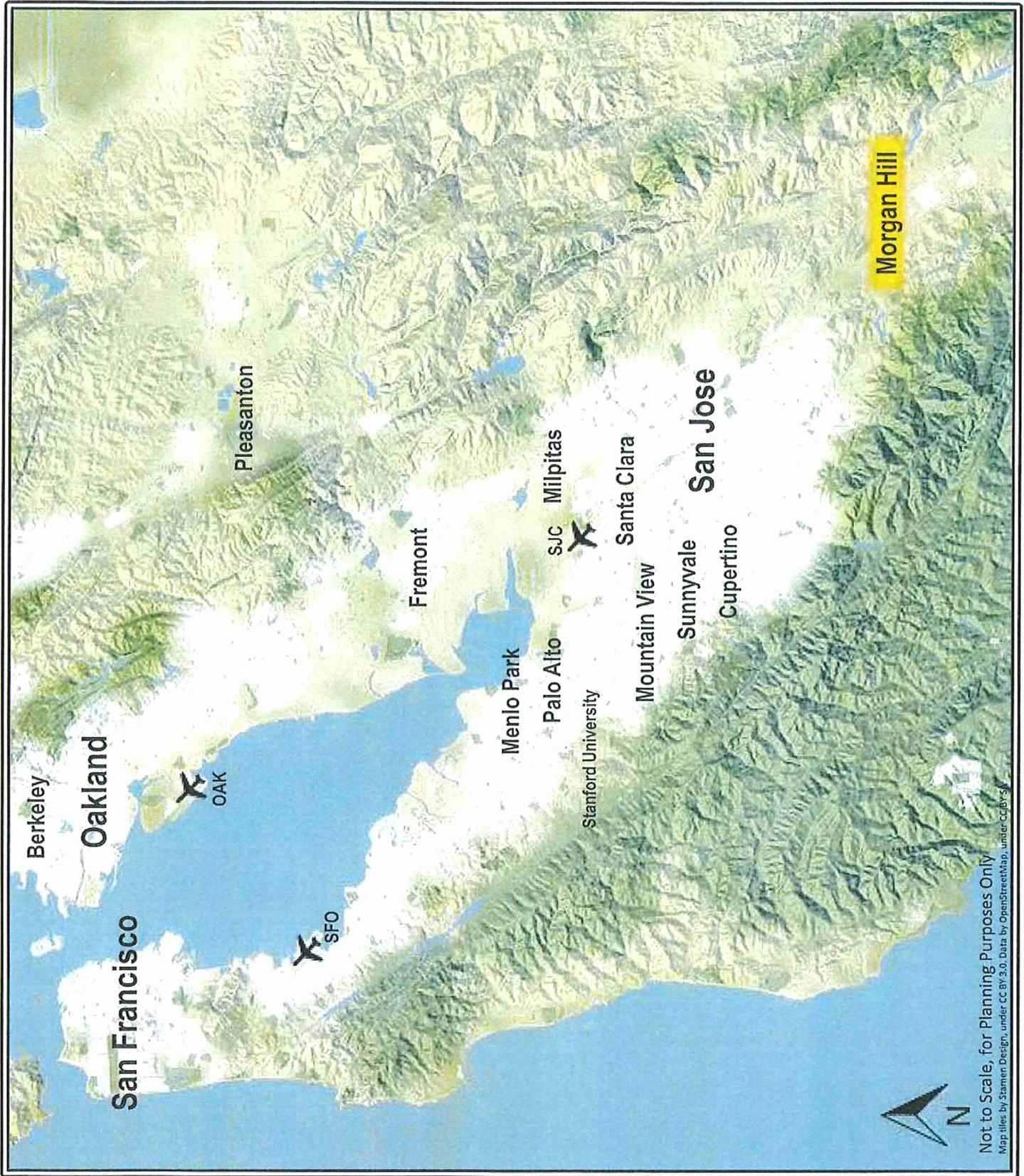
## **ELECTED OFFICIALS AND CITY STAFF**

### **ELECTED OFFICIALS**

Steve Tate	Mayor
Rich Constantine	Mayor Pro Tem
Larry Carr	Council Member
Caitlin Jachimowicz	Council Member
Rene Spring	Council Member
David Clink	City Treasurer
Irma Torrez	City Clerk

### **CITY STAFF**

Christina Turner	City Manager
Donald Larkin	City Attorney
Leslie Little	Assistant City Manager for Community Development
Cindy Murphy	Assistant City Manager for Administrative Services
Dat Nguyen	Finance Director
Chris Ghione	Public Services Director
Jennifer Carman	Community Development Director
Edith Ramirez	Economic Development Director
Michelle Katsuyoshi	Human Resources Director
David Swing	Chief of Police
Jake Hess	Fire Chief







Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Morgan Hill  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morrill*

Executive Director/CEO

# FINANCIAL SECTION



**CITY OF MORGAN HILL**

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council  
City of Morgan Hill, California

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Morgan Hill (City), California, as of and for the year ended June 30, 2018, 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 the 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which became effective during the year ended June 30, 2018 and required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Note 2(v).

In addition, City also restated restricted cash invested in PARS trust for Pension, as discussed in Note 8.

The emphasis of these matters does not constitute a modification to our opinions.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information as listed on the Table of Contents 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, Supplementary Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, 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.

*Maze & Associates*

Pleasant Hill, California  
November 19, 2018



**CITY OF MORGAN HILL**

## **Management's Discussion and Analysis (MD&A) For the Fiscal Year Ended June 30, 2018**

The management of the City of Morgan Hill (City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. Please read this overview in conjunction with the accompanying letter of transmittal and the basic financial statements. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 34, comparative data for the prior fiscal year is provided.

### **FINANCIAL HIGHLIGHTS**

- During FY 17-18, the City's net position, representing the difference between total assets and total liabilities, increased by \$6.5 million to \$473.3 million. Of the total net position, \$81.4 million, about 17%, in unrestricted assets may be used to meet the City's ongoing obligations to citizens and creditors, and the majority of the remaining, about 71%, consists of net investment in capital assets. Additional detailed information can be found on page 23, Statement of Net Position.
- Total revenues from all sources were \$90.0 million—\$4.4 million more than the prior year partially due to an increase in business-type activities and general revenues. Business-type activities saw a net increase of \$4.2 million in revenues compared to the prior year mainly due to the increase in collection of development impact fees.
- At June 30, 2018, the City had \$46.8 million, including unamortized bond premiums, in long-term debt, comprised of \$18.8 million secured by water revenues, \$14.5 million secured by wastewater revenues, \$9.2 million in lease revenue refunding bonds subject to a City appropriations covenant, \$3.9 million for Fire stations and apparatus, and \$0.4 million in energy efficiency loans. The \$46.8 million in long-term debt outstanding reflects a net decrease of \$3.1 million from the prior year.
- At June 30, 2018, the City's governmental funds reported ending fund balances of \$137.1 million, a nominal change from the prior fiscal year.
- The fund balance in the City's General Fund increased by \$0.7 million to \$18.4 million as the City continued to benefit from a strong economy. The restricted fund balance in the Community Development Fund decreased by \$0.6 million, with an ending fund balance of \$2.0 million.
- During FY 17-18, the General Fund had an excess of revenues over expenditures of \$1.2 million, excluding transfers. Transfers out exceeded transfers in by \$0.5 million. The principal purpose of the City's interfund transfers was for operational support to other funds.
- Actual revenues in the General Fund were \$1.5 million more than the final budget or \$2.7 million without the fair market value adjustment for the investments, mostly attributed to the increase in property and sales taxes.
- Actual expenditures in the General Fund were about \$3.3 million less than the final budget, with general government and public safety categories contributing \$2.9 million.
- During FY 17-18 Deferred inflows and outflows related to Net Pension Liability decreased by \$2.7 million. This is further discussed in Note 8, on page 80.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of two components:

- Government-wide financial statements – These include the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the City as a whole and about the overall financial condition of the City in a manner similar to a private-sector business. These statements are described in more detail in a subsequent section in this MD&A and can be found on pages 23 and 24 of this report.
- Fund financial statements – These statements provide additional information about the City's major funds, including how services were financed in the short term and including fund balances available for financing future projects. These statements are described in more detail in a subsequent section of this MD&A and can be found on pages 27 through 33.

### **A. Government-Wide Financial Statements**

These statements include all assets and liabilities of the City using the *accrual* basis of accounting, which is similar to the accounting used by most private sector companies. All current fiscal year revenues and expenses are accounted for regardless of when the cash is paid or received.

These statements report the City's net position and related changes. Net position, the difference between assets and liabilities, is one way to measure the City's financial position. Over time, increases or decreases in net position is indicator of whether the financial condition of the City is improving or deteriorating. However, it is also important to consider other non-financial factors, such as changes in the City's property tax and sales tax bases or in the condition of the City's infrastructure (for example, community facilities, parks and streets), to accurately assess the overall health of the City.

These statements present information about the City's activities, all of which are considered governmental in nature: police protection, economic development, housing assistance, water and wastewater service, streets and parks construction and maintenance, planning and engineering, code enforcement, recreation, community services and general city administration and support. The California Department of Forestry and Fire Protection (CALFIRE), serving as the Morgan Hill Fire Department, continue to assume contractual responsibility for providing fire protection services. These services are funded from monies received from property, sales, and other taxes, direct charges for the services provided, grants, and contributions from other agencies.

### **B. Fund Financial Statements**

These statements provide more detailed information about the City's individual funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. Data for the other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements.

The City adopts a biennial appropriated budget for each of the City's governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget.

**Proprietary funds:** The City maintains two different types of proprietary funds, *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for sewer and water operations, as well as for sewer and water capital project activities financed by development impact fees.

*Internal service funds* are accounting devices used to accumulate and allocate costs internally among the City's various functions and to build up reserves for the replacement of capital assets. The City uses internal service funds to account for building maintenance, building replacement, information systems, unemployment insurance, workers' compensation, employee benefits, general liability claims, fleet and equipment replacement, and capital improvement program administration. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All nine internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements provide separate information for sewer operations, sewer capital project impact activities, water operations, and water capital project impact activities, all of which are presented as major funds of the City because of significant public interest.

**Fiduciary Funds:** The City acts as a trustee, or fiduciary, in collecting assessments and remitting bond payments for the Morgan Hill Business Ranch and Madrone Business Park assessment districts. The City has no legal, contingent, or moral obligation for the repayment of the debt associated with these particular assessment districts and merely ensures that assets received are used for their intended purposes. In addition, the City maintains a Special Deposits Fund in which the City accounts for deposits held in trust for the benefit of third parties. The City also maintains a fund to hold in trust amounts collected on the Santa Clara County property tax roll for the Downtown Morgan Hill Property Based Improvement District (PBID) pending their distribution to the PBID. These fiduciary activities are excluded from the City's fund financial statements because these assets cannot be used to finance operations. The activity for these funds, however, is provided for in a separate combining statement of changes in assets and liabilities contained elsewhere in this report.

Included in fiduciary funds is the Successor Agency Private Purpose Trust Fund created upon dissolution of the former Redevelopment Agency. The Trust Fund was created to hold the non-housing assets of the former Redevelopment Agency until they were transferred for governmental purposes to other entities, or distributed to the underlying taxing jurisdictions in Santa Clara County after the payment of enforceable obligations, most notably outstanding tax allocation bonds.

Also included in fiduciary funds is the Other Post-Employment Benefits (OPEB) Trust Fund. The fund was established in accordance with GASB Statement No. 74 for the defined benefit OPEB plans administered through trusts that meet the specified criteria. The fund accounts for City's contributions, investments and benefit payments.

### **C. Notes to Basic Financial Statements**

The notes provide additional detail that is essential to a full understanding of the information in the government-wide and fund financial statements. The notes can be found on pages 47 through 99.

### **D. Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information starts on page 101.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's combined net position for the fiscal year ended June 30, 2018, was \$473.3 million. A significant portion of the City's net position (\$336.6 million or 71%) reflects the City's investment in capital assets (for example, land, infrastructure, buildings, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net position (\$55.3 million or 12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$81.4 million or 17%) may be used to meet the City's ongoing obligations to citizens and creditors. The \$81.4 million in unrestricted net position is comprised of \$73.6 million in governmental unrestricted net position and \$7.8 million in business-type unrestricted net position. The governmental unrestricted net position includes many assets that are not currently available for spending. The unrestricted business-type net position are funds that have been collected from water and sewer rate payers, and are needed to fund ongoing water and sewer operating and capital needs.

The table below summarizes the City's net position:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2017-18</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2016-17</b>
<b>Assets</b>						
Current and other assets	\$ 152,620,376	\$ 153,095,357	\$ 41,550,820	\$ 39,312,205	\$ 194,171,196	\$ 192,407,562
Capital assets	269,313,592	264,841,294	102,625,211	102,749,553	371,938,803	367,590,847
<b>Total Assets</b>	<b>421,933,968</b>	<b>417,936,651</b>	<b>144,176,031</b>	<b>142,061,758</b>	<b>566,109,999</b>	<b>559,998,409</b>
<b>Deferred outflows</b>						
Related to OPEB (Note 9)	400,871	-	133,623	-	534,494	-
Related to pension (Note 8)	12,144,417	12,057,001	2,083,484	2,278,517	14,227,901	14,335,518
<b>Total Deferred Outflows</b>	<b>12,545,288</b>	<b>12,057,001</b>	<b>2,217,107</b>	<b>2,278,517</b>	<b>14,762,395</b>	<b>14,335,518</b>
<b>Liabilities</b>						
Long-term liabilities	55,800,227	49,632,383	39,301,445	40,017,510	95,101,672	89,649,893
Other liabilities	7,291,842	9,069,457	4,095,248	5,071,420	11,387,090	14,140,877
<b>Total Liabilities</b>	<b>63,092,069</b>	<b>58,701,840</b>	<b>43,396,693</b>	<b>45,088,930</b>	<b>106,488,762</b>	<b>103,790,770</b>
<b>Deferred inflows</b>						
Related to OPEB (Note 9)	19,593	-	6,531	-	26,124	-
Related to pension (Note 8)	890,899	2,975,239	183,093	738,485	1,073,992	3,713,724
<b>Total Deferred Inflows</b>	<b>910,492</b>	<b>2,975,239</b>	<b>189,624</b>	<b>738,485</b>	<b>1,100,116</b>	<b>3,713,724</b>
<b>Net position</b>						
Net investment in capital assets	261,192,662	255,554,388	75,398,340	74,296,295	336,591,002	329,850,683
Restricted	35,645,795	32,099,094	19,634,698	17,655,169	55,280,493	49,754,263
Unrestricted	73,638,238	80,663,091	7,773,783	6,561,396	81,412,021	87,224,487
<b>Total Net Position</b>	<b>\$ 370,476,695</b>	<b>\$ 368,316,573</b>	<b>\$ 102,806,821</b>	<b>\$ 98,512,860</b>	<b>\$ 473,283,516</b>	<b>\$ 466,829,433</b>

**Governmental activities:** The table above shows that total assets increased compared to the prior year, by \$6.5 million, mainly due capital assets/projects. The increase of \$4.4 million in the total liabilities is mostly attributable to the increase of net pension liabilities, further discussed in note 8, on page 80.

The table and charts on the next pages summarize major program expenses, program revenues used to fund specific expenditure programs, and general City revenues available for funding all City programs. In FY 17-18, property tax revenue increased about 6% compared to FY 16-17 mainly attributable to new housing units being added to the assessor's roll, commercial developments in the community, restoration of Proposition 8 temporary reductions granted by the County Assessor's Office during the Great Recession, and property value increase as allowed under Proposition 13. Sales tax revenue increased by about 6% compared to prior year as the City continued to benefit from the strong economy.

Total governmental expenses increased by \$4.6 million or 9% to \$57.9 million compared to FY 16-17, mainly attributable to \$3.6 million increase in expenses by Public Safety and Public Works/Development Services, followed by \$1.0 million in Development Services expenses due to high demand for development services.

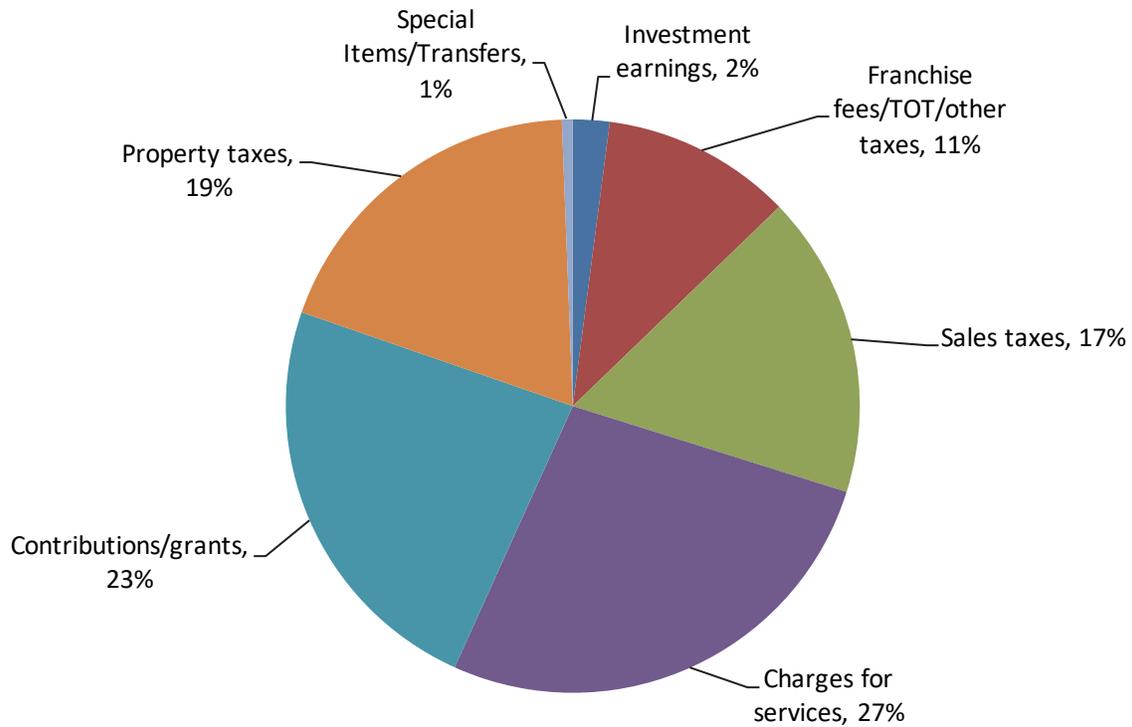
Overall, the City's Governmental Activities net position increased by \$2.2 million, mainly attributable to the investment in capital assets.

**City of Morgan Hill, California**  
**Management's Discussion and Analysis (MD&A)**  
**For the Fiscal Year Ended June 30, 2018**

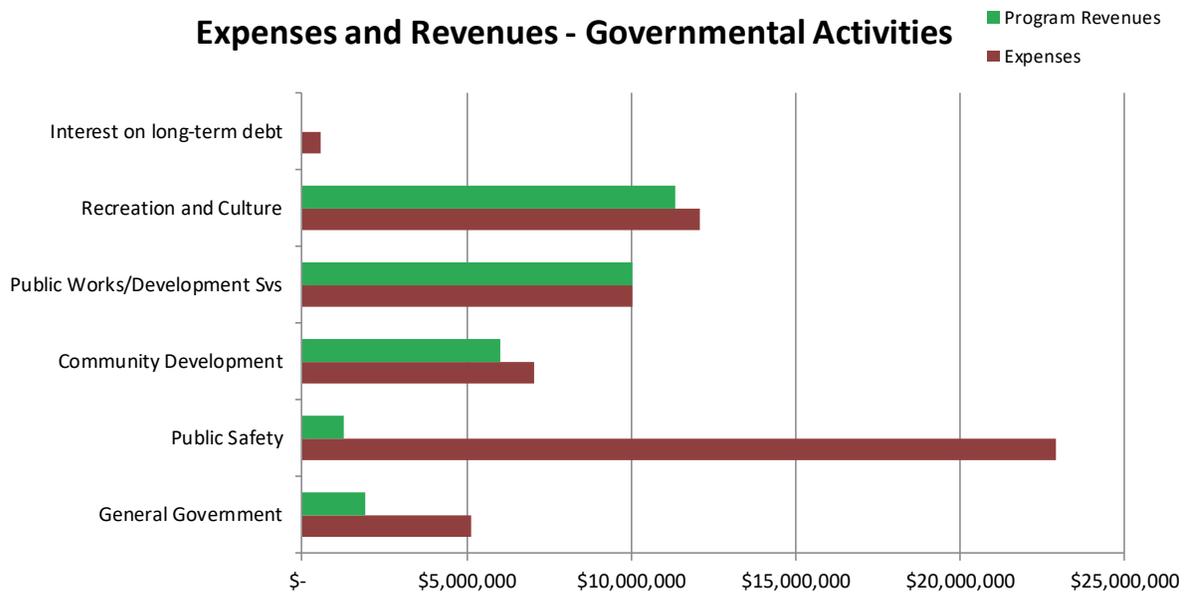
**Comprehensive Annual Financial Report**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2017-18</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2016-17</u>
<b>Revenues:</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 16,349,199	\$ 16,058,558	\$ 29,107,383	\$ 22,823,101	\$ 45,456,582	\$ 38,881,659
Operating Grants & Contributions	2,546,575	2,076,767			2,546,575	2,076,767
Capital Grants & Contributions	11,751,424	13,726,076		2,275,118	11,751,424	16,001,194
<i>General Revenues:</i>						
Property Taxes	11,582,252	10,908,334			11,582,252	10,908,334
Sales Taxes	10,358,420	9,734,686			10,358,420	9,734,686
Franchise, hotel & other taxes	5,478,690	5,198,405			5,478,690	5,198,405
Other general taxes/revenues	1,022,622	1,259,395			1,022,622	1,259,395
Unrestricted investment earnings	1,253,818	1,211,344	558,831	354,204	1,812,649	1,565,548
<b>Total Revenues</b>	<b>60,343,000</b>	<b>60,173,565</b>	<b>29,666,214</b>	<b>25,452,423</b>	<b>90,009,214</b>	<b>85,625,988</b>
<b>Expenses:</b>						
General Government	5,147,400	5,060,633			5,147,400	5,060,633
Public Safety	22,947,672	20,083,248			22,947,672	20,083,248
Community Development	7,069,348	6,687,917			7,069,348	6,687,917
Public Works/Development Services	10,051,526	9,330,791			10,051,526	9,330,791
Recreation and Culture	12,108,610	11,607,305			12,108,610	11,607,305
Interest on long-term debt	549,201	474,500			549,201	474,500
Sewer			10,956,264	10,597,987	10,956,264	10,597,987
Water			12,732,024	10,933,406	12,732,024	10,933,406
<b>Total Expenses</b>	<b>57,873,757</b>	<b>53,244,394</b>	<b>23,688,288</b>	<b>21,531,393</b>	<b>81,562,045</b>	<b>74,775,787</b>
Increase/(decrease) in net position before transfers	2,469,243	6,929,171	5,977,926	3,921,030	8,447,169	10,850,201
Transfers and special items	983,673	977,968	(983,673)	(977,968)	-	-
Increase/(decrease) in net position	3,452,916	7,907,139	4,994,253	2,943,062	8,447,169	10,850,201
Net position beginning	368,316,573	360,409,434	98,512,860	95,569,798	466,829,433	455,979,232
Prior period restatement (Note 2v)	(1,292,794)	-	(700,292)	-	(2,856,110)	
<b>Net position - year end</b>	<b>\$ 370,476,695</b>	<b>\$ 368,316,573</b>	<b>\$ 102,806,821</b>	<b>\$ 98,512,860</b>	<b>\$ 472,420,492</b>	<b>\$ 466,829,433</b>

### Revenues and Transfers In by Source Governmental Activities - \$61.3 Million



### Expenses and Revenues - Governmental Activities



**Business-type activities:** Business-type activities (water and wastewater) saw an increase of \$4.3 million in net position. Revenue from charges for services , combined with operation and capital contributions, in both the Water and Wastewater Funds increased by 17% or \$4.2 million compared to prior year, primarily due to the water rate adjustment approved by City Council in January 2016. Expenses increased by 10% or \$2.2 million compared to prior year mostly due to increases operating expenses such as salaries and benefits and wholesale water cost.

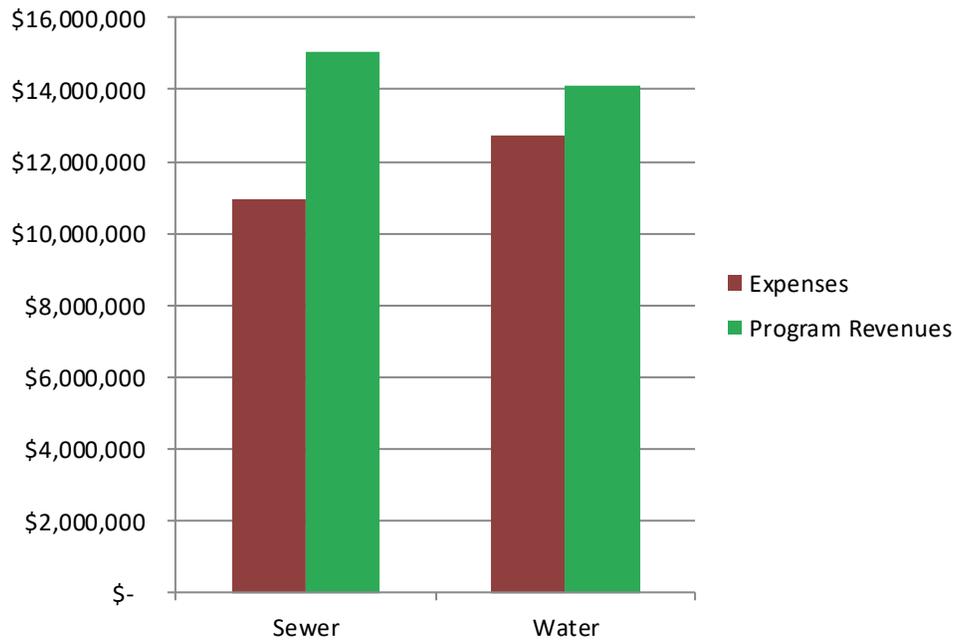
On January 17, 2014, State Governor, Edmund G. Brown, declared a drought state of emergency in California during the driest year in recorded state history, triggering water conservation efforts across state. As a result, the City Council enacted certain water restrictions since 2015 and on June 7, 2017, the Council adopted an ordinance, making 20% water conservation from the 2013 level permanent. On April 7, 2017, State Governor lifted the drought state of emergency across California, except within four counties. While the California drought emergency has been lifted, the State has encouraged its residents to continue making water conservation a way of life. The reduced consumption has impacted revenues, and the City has proactively reduced and deferred certain expenses to lessen the financial impact. In January 2016, the Council adopted a resolution approving the water and wastewater rate adjustments which went into effect April 1, 2016. The table below illustrates the increase for a typical single-family home with median water usage (14 units of water per month; 8 units of wastewater). We are in year three of the adopted water rate adjustments.

Total Average Single Family Monthly Utility Bill

<b>Prior to 4/1/16 Rates</b>		<b>Adopted Rates</b>				
		<b>4/1/16</b>	<b>1/1/17</b>	<b>1/1/18</b>	<b>1/1/19</b>	<b>1/1/20</b>
Water*	\$40.15	\$46.84	\$50.24	\$58.37	\$62.60	\$67.14
Wastewater*	\$49.98	\$49.98	\$50.98	\$52.00	\$53.04	\$54.10
Total	\$90.13	\$96.82	\$101.22	\$110.37	\$115.64	\$121.24
Total Percent Increase		7.4%	4.5%	9.0%**	4.8%	4.8%

\* Booster Station & Lift Station service charges are not included in the rates. \*\* Higher percent increase in January 1, 2018 is due to an assumed 10% increase in water consumption (conservation level drops from 30% to 20%).

The chart below summarizes the financial activities of the Sewer and Water Funds for FY 17-18.



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

**GOVERNMENTAL FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2018, the City's governmental funds reported combined ending fund balances of \$137.1 million, a nominal change from prior year. Overall revenues in governmental funds were 10% or \$5.2 million more than the prior year, with the biggest contributors for the increase mostly related to charges for current services and property tax and sales tax. Additional contributing factors included a strong local economy, demand for development, and the resulting increased property values and associated revenues for those factors.

**General Fund**

The General Fund is the primary operating fund of the City. At the end of FY 17-18, total fund balance for the General Fund amounted to \$18.4 million, including \$14.7 million in unassigned fund balance, an increase of \$0.3 million compared to prior year. The increase is attributable to a combination of strong local economy and conservative spending.

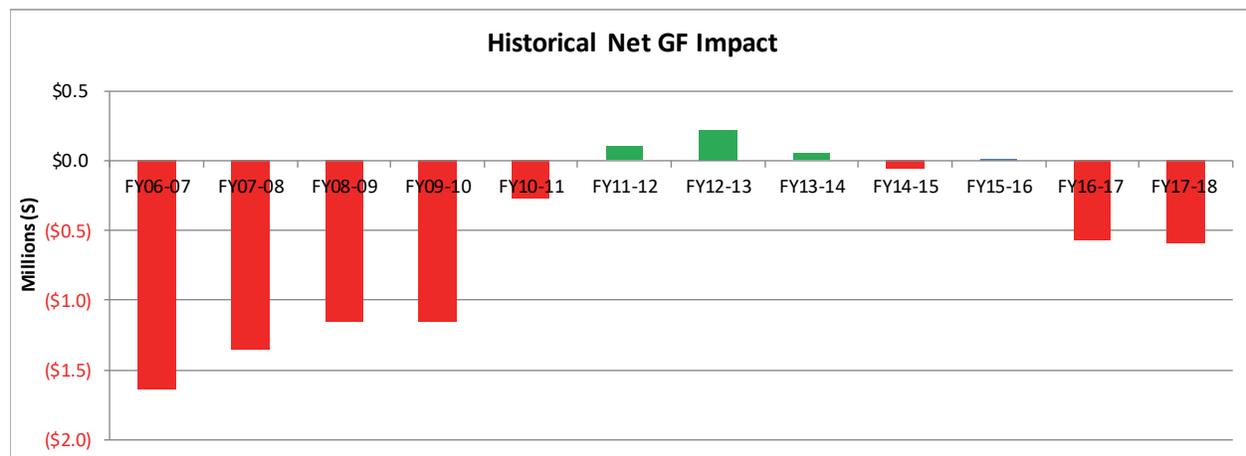
Significant changes in revenues and expenditures that affected the fund balance for the General Fund are as follows:

**a. Revenue Highlights**

Property tax revenue in the general fund was about \$0.8 million better than the final budget, and about \$0.7 million or 6% more than prior year. Increases in assessed value as allowed under Proposition 13, new housing units added to the assessor's roll, and restoration of Proposition 8 temporary reduction granted by the County of Santa Clara Assessor's Office during the Great Recession contributed to the increase in property tax revenues.

Furthermore, sales tax revenue in FY 17-18 was \$10.4 million, an increase of \$0.6 million or 6% compared to prior year. The franchise, hotel and other taxes revenue was \$5.5 million, an increase of \$0.3 million or 5% compared to prior year. For the hotel tax, the amount received for FY 17-18 is approximately \$2.7 million, similar to prior year amount as it appears this revenue category has plateaued

Recreation operations ended FY 17-18 year with a negative impact to the general fund of approximately \$0.6 million. The amount is slightly better than the budgeted net negative impact to the general fund of approximately \$0.7 million primarily due to conservative spending. The recreation services program has been self-sufficient in the prior five years from a negative impact to the general fund of over \$1.5 million in FY 06-07. The chart below shows the historical net impact of Recreation Operations to the general fund.



**b. Expenditure Highlights**

Expenditures, including transfers out increased slightly by 2.4% or \$0.9 million compared to the prior year to a total of \$38.6 million. The increase in expenditures was a result of the Council decision to continue to invest in service enhancements and one-time needs such as funding the Street Capital Improvement Program (CIP) fund for streets improvements, funding the Equipment Replacement Fund, and funding the Employee Benefits Fund to continue addressing City's unfunded liabilities. Recreation services saw an increase in expenditures for several items such as those related to the change in California's minimum wage law, which became effective January 1, 2017, and increased building maintenance services.

**c. Budgetary Highlights**

Over the course of the fiscal year, the City Council revised the City budget with adjustments that fell into one of the following three categories:

- Changes to adjust appropriations for capital projects
- Changes made during the fiscal year to align current year appropriations with unanticipated revenue
- Other revenue (usually grant revenues) and expenditure adjustments approved after the original budget was adopted

Budget adjustments approved by the City Council during FY 17-18 related primarily to projects, expenditure adjustments, and grant-related activity.

After taking into account these adjustments, actual expenditures including transfers out, were less than the final budget amounts by \$3.4 million, primarily from savings relating to the operations of the General Government, Public Safety, and Recreation Services.

### **Development Services Fund**

The Development Services Fund accounts for the City's planning, building, and engineering activities. At the end of FY 17-18, the fund balance amounted to \$2.0 million, all of which is restricted, a decrease of \$0.6 million or 23% from prior year.

After seeing a tremendous increase in fund balance from FY 12-13 through FY 14-15, a result of increased development activity after the Great Recession, the Development Services Fund ended the last three fiscal years with an operating deficit as development activity returned to a normal level, coupled with one-time items such as a General Plan update, and implementation of a permitting system, TRAKiT. The Development Services Department recently completed an update to the user fee study which was subsequently reviewed and adopted by the City Council on November 1, 2017. The updated fees went into effect on January 1, 2018 and will be phased in over a two-year period. Barring any unforeseen circumstances, the remaining fund balance amount of approximately \$2.0 million, combined with planned phase-in fee increases should support the fund's operating deficits in the current two-year adopted budget window. However, General Fund support may be required in future years due to the fund's structural deficit. This deficit is primarily due to the time spent on development activities that recover little to none of their related costs.

### **Housing Fund**

The Housing Fund accounts for the City's housing program specific to rehabilitation and development of affordable housing in Morgan Hill. At the end of FY 17-18, the fund balance amounted to \$60.3 million, all of which is restricted, a decrease of \$1.6 million or 3% from the prior year. As a result of the elimination of redevelopment agencies statewide, the Housing Program acted to serve as the successor to the former Morgan Hill Redevelopment Agency's housing functions and administer its legacy housing assets pursuant to Resolution 6504 adopted by the City Council on January 18, 2012. The City has accepted the housing assets of the former Redevelopment Agency (RDA) and beginning in FY 12-13 operated a limited housing program utilizing and leveraging other housing resources. The primary source of revenue for this fund is residual receipts and loan repayments from previously constructed projects and loans executed.

### ***PROPRIETARY FUNDS***

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

Unrestricted net position at June 30, 2018, amounted to \$6.8 million for Sewer Operations and \$1.0 million for Water Operations. Water Operations' unrestricted net position increased by \$0.5 million compared to prior year. The operating revenues saw an increase of \$1.0 million primarily due to the water rate adjustments approved by City Council in January 2016 as mentioned earlier in the analysis. The Sewer Impact Fund had \$15.6 million in net position restricted for capital improvements and expansion, an increase of \$2.3 million from prior year mainly due to higher collection of impact fees while the Water Impact Fund had \$4.1 million for the same purpose, a decrease of \$0.3 million from prior year, a result of continued investment in infrastructure.

**FIDUCIARY FUNDS**

The City of Morgan Hill, as the Successor Agency to Redevelopment Agency, fully expended the remainder of the 2008 bond proceeds within its Downtown redevelopment project areas in the prior year, with the main transaction during FY 17-18 being the annual debt service per the Recognized Obligations Payment Schedule, approved by the California State Department of Finance.

The Other Post Employment Benefit (OPEB) Trust Fund, which the City established in the prior year includes the City's contribution of \$300,000 for FY 17-18. This fund was established in accordance with GABS No. 74 for the defined benefit OPEB plans administered through trusts that meet the specified criteria. The trust accounts for City's contributions, investments and health benefits paid.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:** The City's capital assets for its governmental activities as of June 30, 2018, amounted to \$269.3 million (net of accumulated depreciation), as summarized below. The capital assets included land, buildings, park and roadway improvements, vehicles and other equipment, infrastructure, and construction in progress, as summarized in the schedule below.

<b>Governmental Funds Capital Assets:</b>	<b>2018</b>	<b>2017</b>
Land	\$ 43,510,012	\$ 40,291,374
Buildings & Improvements	92,247,881	88,970,158
Machinery, Equipment, and Vehicles	4,448,436	4,711,856
Infrastructure	121,041,030	125,092,546
Construction in Progress	8,066,233	5,775,360
<b>Total Governmental Funds Capital Assets:</b>	<b>\$ 269,313,592</b>	<b>\$ 264,841,294</b>

More detailed information concerning capital assets may be found in Note 5 beginning on page 67.

**LONG-TERM DEBT**

At the end of FY 17-18, the City had long-term debt outstanding of \$46.8 million. Of the total, Governmental Activities long-term debt portion is \$13.5 million. Of this amount, \$4.3 million represented debt to be paid directly from general City revenues and is related to fire houses and equipment leases, including energy efficient loans.

The remaining \$33.3 million of the City's debt is almost all for bonds secured solely by specified water and sewer revenue sources. Additional detailed information on long-term debt can be found in Note 7, of the Notes Section, on page 76.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Morgan Hill, Finance Department, 17575 Peak Avenue, Morgan Hill, CA 95037.

# Basic Financial Statements



**CITY OF MORGAN HILL**

# **Government-Wide Financial Statements**



**CITY OF MORGAN HILL**

**CITY OF MORGAN HILL**

**STATEMENT OF NET POSITION AND STATEMENT  
OF ACTIVITIES**

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the entire City's financial activities and financial position.

The Statement of Net Position reports the difference between the City's total assets and deferred outflows and the City's total liabilities and deferred inflows, including all the City's capital assets and all its long-term debt. The Statement of Net Position summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating interfund transactions and balances. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's Net Position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the modified accrual basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

The balances and the activities of the discretely presented component unit of the Morgan Hill Corporation Yard Commission are included in these statements as separate columns.



**CITY OF MORGAN HILL**

City of Morgan Hill  
Statement of Net Position  
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MH Corporation Yard Commission
<b>Assets</b>				
Pooled cash and investments (Note 4)	\$ 79,064,709	\$ 32,267,844	\$ 111,332,553	\$ -
Restricted pooled cash and investments (Note 4)	30,000	5,710,461	5,740,461	
Cash and investments with fiscal agents (Note 4)	863,149	-	863,149	
Receivables:				
Accrued interest	186,034	107,756	293,790	
Other accounts receivable	4,503,105	3,182,452	7,685,557	
Loans receivable (Note 6)	66,821,256	282,307	67,103,563	
Prepays	34,899	-	34,899	
Property held for resale	1,117,224	-	1,117,224	
Capital assets, Net (Note 5)				
Non-Depreciable	51,576,245	7,712,936	59,289,181	
Depreciable and Sewer Capacity Rights	217,737,347	94,912,275	312,649,622	
<b>Total Assets</b>	<b>421,933,968</b>	<b>144,176,031</b>	<b>566,109,999</b>	
<b>Deferred Outflows</b>				
Related to OPEB (Note 9)	400,871	133,623	534,494	
Related to pension (Note 8)	12,144,417	2,083,484	14,227,901	
<b>Total Deferred Outflows</b>	<b>12,545,288</b>	<b>2,217,107</b>	<b>14,762,395</b>	
<b>Liabilities</b>				
Accounts payable	2,204,862	1,173,988	3,378,850	
Accrued liabilities	1,724,863	50,372	1,775,235	
Interest payable	56,581	208,281	264,862	
Customer and other deposits	1,699,094	388,084	2,087,178	
Unearned revenue	244,775	4523	249,298	
Compensated absences (Note 2l):				
Due within one year	578,366	-	578,366	
Due in more than one year	1,844,382	-	1,844,382	
Net OPEB liabilities,				
due in more than one year (Note 9)	3,348,887	1,116,295	4,465,182	
Net pension liabilities,				
due in more than one year (Note 8)	37,888,825	7,174,119	45,062,944	
Long-term debt (Note 7)				
Due within one year	783,301	2,270,000	3,053,301	
Due in more than one year	12,718,133	31,011,031	43,729,164	
<b>Total Liabilities</b>	<b>63,092,069</b>	<b>43,396,693</b>	<b>106,488,762</b>	
<b>Deferred Inflows</b>				
Related to OPEB (Note 9)	19,593	6,531	26,124	
Related to pension (Note 8)	890,899	183,093	1,073,992	
	<b>910,492</b>	<b>189,624</b>	<b>1,100,116</b>	
<b>Net Position (Note 2n)</b>				
Net investment in capital assets	261,192,662	75,398,340	336,591,002	
Restricted for:				
Capital expansion projects	35,391,872	19,634,698	55,026,570	
Debt service	253,923		253,923	
Unrestricted	73,638,238	7,773,783	81,412,021	
<b>Total Net Position</b>	<b>\$ 370,476,695</b>	<b>\$ 102,806,821</b>	<b>\$ 473,283,516</b>	<b>\$ -</b>

See accompanying notes to basic financial statements

City of Morgan Hill  
Statement of Activities  
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 5,147,400	\$ 1,928,020	\$ -	\$ -
Public safety	22,947,672	649,945	283,195	354,218
Community development	7,069,348	4,909,128	1,119,407	
PW/development public service	10,051,526	39,436	1,103,392	8,906,399
Recreation & culture	12,108,610	8,822,670	40,581	2,490,807
Interest on long-term debt	549,201			
Total government activities	<u>57,873,757</u>	<u>16,349,199</u>	<u>2,546,575</u>	<u>11,751,424</u>
Business-type activities:				
Sewer	10,956,264	15,025,433		
Water	12,732,024	14,081,950		
Total business-type activities	<u>23,688,288</u>	<u>29,107,383</u>		
Total primary government	<u>\$ 81,562,045</u>	<u>\$ 45,456,582</u>	<u>\$ 2,546,575</u>	<u>\$ 11,751,424</u>
<b>Component unit:</b>				
Corporation Yard	<u>\$ 165,715</u>	<u>\$ 8,883</u>	<u>\$ -</u>	<u>\$ -</u>

**General revenues:**

- Property taxes
- Sales taxes
- Franchise, hotel and other taxes
- Other general revenues/taxes
- Unrestricted investment earnings

**Transfers**

Total general revenues and transfers

**Change in net position**

- Net position - beginning
- Prior period restatement (Note 2v and 8)

**Net position - ending**

See accompanying notes to basic financial statements

**Net (Expense) Revenue and  
Changes in Net Position**

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Corporation Yard
\$ (3,219,380)	\$ -	\$ (3,219,380)	\$ -
(21,660,314)		(21,660,314)	
(1,040,813)		(1,040,813)	
(2,299)		(2,299)	
(754,552)		(754,552)	
(549,201)		(549,201)	
<u>(27,226,559)</u>		<u>(27,226,559)</u>	
	4,069,169	4,069,169	
	1,349,926	1,349,926	
	<u>5,419,095</u>	<u>5,419,095</u>	
<u>(27,226,559)</u>	<u>5,419,095</u>	<u>(21,807,464)</u>	
			(156,832)
11,582,252		11,582,252	
10,358,420		10,358,420	
5,478,690		5,478,690	
1,022,622		1,022,622	
1,253,818	558,831	1,812,649	
983,673	(983,673)		
<u>30,679,475</u>	<u>(424,842)</u>	<u>30,254,633</u>	
3,452,916	4,994,253	8,447,169	(156,832)
368,316,573	98,512,860	466,829,433	156,832
(1,292,794)	(700,292)	(1,993,086)	
<u>\$ 370,476,695</u>	<u>\$ 102,806,821</u>	<u>\$ 473,283,516</u>	<u>\$ -</u>



**CITY OF MORGAN HILL**

# Fund Financial Statements



**CITY OF MORGAN HILL**

<b>FUND FINANCIAL STATEMENTS</b>
----------------------------------

### **MAJOR GOVERNMENTAL FUNDS**

The funds described below were determined to be Major Funds by the City in fiscal year 2018. Individual non-major funds may be found in the Supplemental section.

#### **GENERAL FUND**

The General Fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

#### **DEVELOPMENT SERVICES FUND**

This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

#### **HOUSING FUND**

The Housing Fund accounts for housing services. The fund receives revenues in the form of federal and state grants. Other revenues sources include interest and loan repayment from borrowers.

City of Morgan Hill  
Balance Sheet  
Governmental Funds  
June 30, 2018

	General	Development Services	Housing	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Pooled cash and investments (Note 4)	\$ 12,862,601	\$ 3,419,871	\$ 4,082,996	\$ 47,526,394	\$ 67,891,862
Cash and investments with fiscal agents (Note 4)	863,024			125	863,149
Receivables:					
Accrued interest	30,236	8,234	6,785	115,346	160,601
Other accounts receivable	3,793,559			662,302	4,455,861
Loans receivable (Note 6)	2,106,281		55,074,742	9,640,233	66,821,256
Due from other funds (Note 2o)	12,226				12,226
Interfund advances receivable (Note 2o)	668,362			110,278	778,640
Prepays	34,899				34,899
Property held for resale			1,117,224		1,117,224
<b>Total Assets</b>	<b>\$ 20,371,188</b>	<b>\$ 3,428,105</b>	<b>\$ 60,281,747</b>	<b>\$ 58,054,678</b>	<b>\$ 142,135,718</b>
<b>Liabilities</b>					
Accounts payable	\$ 1,344,808	\$ 199,226	\$ 13,437	\$ 272,648	\$ 1,830,119
Accrued liabilities	369,991	44,005	65	26,263	440,324
Due to other funds (Note 2o)				12,226	12,226
Interfund advances payable (Note 2o)				778,640	778,640
Unearned revenue	237,356		1,403	4,993	243,752
Customer and other deposits	30,648	1,182,921	2,000	483,525	1,699,094
<b>Total Liabilities</b>	<b>1,982,803</b>	<b>1,426,152</b>	<b>16,905</b>	<b>1,578,295</b>	<b>5,004,155</b>
<b>Fund Balances (Note 2m):</b>					
Nonspendable:					
Loans receivable	2,106,281				2,106,281
Prepaid expenditures	34,899				34,899
Advances receivable	668,362				668,362
Restricted:					
PARS pension trust	863,024				863,024
Community services				13,856,082	13,856,082
Parks and recreation				7,135,316	7,135,316
Streets and highways				216,655	216,655
Debt service				253,923	253,923
Public safety				162,343	162,343
Community development		2,001,953	60,264,842		62,266,795
Capital projects expansion				35,391,872	35,391,872
Other purposes				197,124	197,124
Unassigned	14,715,819			(736,932)	13,978,887
<b>Total Fund Balances</b>	<b>18,388,385</b>	<b>2,001,953</b>	<b>60,264,842</b>	<b>56,476,383</b>	<b>137,131,563</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 20,371,188</b>	<b>\$ 3,428,105</b>	<b>\$ 60,281,747</b>	<b>\$ 58,054,678</b>	<b>\$ 142,135,718</b>

See accompanying notes to basic financial statements

**City of Morgan Hill  
 Reconciliation of the Governmental Funds - Balance Sheet  
 To the Statement of Net Position  
 For the Fiscal Year Ended June 30, 2018**

<b>Total fund balances - governmental funds</b>	\$ 137,131,563
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>	
<p>Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Government Funds.</p>	264,016,213
<p>Internal service funds are used by management to charge the costs of building maintenance, management information systems, fleet management, general liability, workers' compensation, and CIP administration to the individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.</p>	12,426,506
<p>In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statements, it is recognized in the period that it is incurred.</p>	(56,581)
<p>Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p>	
Deferred outflows of resources related to pensions	12,144,417
Deferred outflows of resources related to OPEB	400,871
Long-term debt	(13,438,090)
Net OPEB obligation	(3,348,887)
Net pension liability	(37,888,825)
Deferred inflows of resources related to pensions	(890,899)
Deferred inflows of resources related to OPEB	(19,593)
	(56,581)
<b>Total net position - governmental activities</b>	<b>\$370,476,695</b>

See accompanying notes to basic financial statements

City of Morgan Hill  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2018

	General	Development Services	Housing	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes and special assessments	\$ 11,359,893	\$ -	\$ -	\$ 222,359	\$ 11,582,252
Sales taxes	10,358,420				10,358,420
Franchise, hotel and other taxes	5,478,690				5,478,690
Licenses and permits	211,275				211,275
Funding from other governmental agencies	382,290			1,312,490	1,694,780
Charges for current services	8,928,605	4,460,653		13,723,853	27,113,111
Investment income and rentals	(73,776)	57,652	79,908	1,038,479	1,102,263
Other revenues	998,469			173,918	1,172,387
<b>Total Revenues</b>	<b>37,643,866</b>	<b>4,518,305</b>	<b>79,908</b>	<b>16,471,099</b>	<b>58,713,178</b>
<b>Expenditures</b>					
Current					
General government	5,065,907			9,218	5,075,125
Public safety	20,838,592			15,057	20,853,649
Community development	184,833	5,026,916		1,345,904	6,557,653
Housing services			934,748		934,748
Streets and highways	1,995,137			104,534	2,099,671
Parks and recreation	7,580,211			1,023,729	8,603,940
Other public services	474,207			591,221	1,065,428
Capital outlay					
Construction projects	104,362		793,462	12,441,571	13,339,395
Debt service					
Principal	98,561			325,000	423,561
Interest and fiscal charges	143,385			353,637	497,022
<b>Total Expenditures</b>	<b>36,485,195</b>	<b>5,026,916</b>	<b>1,728,210</b>	<b>16,209,871</b>	<b>59,450,192</b>
Excess (deficiency) of revenues over (under) expenditures	1,158,671	(508,611)	(1,648,302)	261,228	(737,014)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	71,000				71,000
Transfers in (Note 2n)	1,583,647			2,398,226	3,981,873
Transfers out (Note 2n)	(2,118,574)	(136,121)	(2,326)	(1,390,482)	(3,647,503)
<b>Total other financing sources and uses</b>	<b>(463,927)</b>	<b>(136,121)</b>	<b>(2,326)</b>	<b>1,007,744</b>	<b>405,370</b>
Net change in fund balances	694,744	(644,732)	(1,650,628)	1,268,972	(331,644)
Fund Balances - Beginning, as restated (Note 8)	17,693,641	2,646,685	61,915,470	55,207,411	137,463,207
<b>Fund Balances - Ending</b>	<b>\$ 18,388,385</b>	<b>\$ 2,001,953</b>	<b>\$ 60,264,842</b>	<b>\$ 56,476,383</b>	<b>\$ 137,131,563</b>

See accompanying notes to basic financial statements

**City of Morgan Hill  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balances of Governmental Funds  
 To the Statement of Activities  
 For the Year Ended June 30, 2018**

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

<b>Net change in fund balances-total governmental funds</b>	<b>\$ (331,644)</b>
Governmental funds report capital outlay as expenditures. This is the amount of capital outlay that has been recorded as an asset on the statement of net position.	13,339,393
Loss on capital asset disposal (net of accumulated depreciation)	(33,214)
Depreciation expense is reported in connection with all of a government's depreciable assets.	(10,638,634)
Contributions of infrastructure improvements by developers are capitalized in the statement of activities, but are not recorded in the Governmental Fund Statements because no cash changed hands	1,478,267
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(51,290)
Governmental funds report the payment of debt service as an expenditure. Payments for debt service and bond premium amortization reduce liabilities on the statement of net position.	787,528
Net change in net OPEB liability and related deferred outflows/inflows of resources	(44,229)
Net change in net pension liability and related deferred outflows/inflows of resources	(2,046,120)
Net profit (loss) from Internal Service Funds need to be combined to the government wide statement of activities	<u>992,859</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 3,452,916</u></b>

See accompanying notes to basic financial statements



**CITY OF MORGAN HILL**

## MAJOR PROPRIETARY FUNDS

### **ENTERPRISE FUNDS:**

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The City reports the following major proprietary funds:

#### **SEWER OPERATIONS ENTERPRISE FUND**

The Sewer Enterprise funds account for the collection of sewer revenues, including user fees, operating costs of sewer collection and treatment and capital improvements.

#### **SEWER IMPACT ENTERPRISE FUND**

This fund receives revenues from developers of properties and the funds may only be used for the design, improvement, expansion, and development of sewer infrastructure.

#### **WATER OPERATIONS ENTERPRISE FUND**

The Water Enterprise funds account for the revenues, including user fees, the pumping and distribution of water to commercial and residential users, the maintenance of the water system and capital improvements.

#### **WATER IMPACT ENTERPRISE FUND**

This fund receives revenues from developers of properties and the funds may only be used for the design, improvement, expansion, and development of water infrastructure.

City of Morgan Hill  
Proprietary Funds  
Statement of Net Position  
June 30, 2018

Business-type Activities

	Enterprise Funds		
	Sewer Operations	Sewer Impact	Water Operations
<b>Assets</b>			
Current assets:			
Pooled cash and investment (Note 4)	\$ 9,085,025	\$ 15,911,743	\$ 4,140,159
Restricted pooled cash and investments (Note 4)	5,710,461		
Cash with fiscal agents (Note 4)	-		
Receivables:			
Accrued interest	47,444	37,966	11,730
Other accounts receivable	1,325,050	316	1,857,086
Notes receivable - current (Note 6)		282,307	
Total current assets	16,167,980	16,232,332	6,008,975
Noncurrent assets:			
Interfund advance (Note 2o)			
Capital assets, net (Note 5)			
Non-Depreciable	1,090,131	981,715	4,838,534
Depreciable and Sewer capacity rights	24,142,608	29,918,936	32,926,286
Total noncurrent assets	25,232,739	30,900,651	37,764,820
<b>Total Assets</b>	<b>41,400,719</b>	<b>47,132,983</b>	<b>43,773,795</b>
<b>Deferred Outflows of Resources</b>			
Related to OPEB (Note 9)	53,449		80,174
Related to pension (Note 8)	694,495		1,388,989
<b>Total Deferred Outflows</b>	<b>747,944</b>		<b>1,469,163</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	63,165	487,084	586,006
Accrued liabilities	25,991	10,116	13,739
Customer deposits	1,330	31,764	322,461
Unearned revenue		4,523	
Interest payable	7,481	142,144	34,607
Current obligations for:			
Bonds payable (Note 7)	1,375,000		528,050
Energy efficiency loan (Note 7)			
Compensated absences (Note 2l)			
Total current liabilities	1,472,967	675,631	1,484,863
Noncurrent liabilities:			
Interfund advance (Note 2o)			
Long term obligations for:			
Bonds payable (Note 7)	13,136,031		10,546,250
Net pension liability (Note 8)	2,391,373		4,782,746
Energy efficiency loan (Note 7)			
Net OPEB obligation (Note 9)	446,519		669,776
Compensated absences (Note 2l)			
Total noncurrent liabilities	15,973,923		15,998,772
<b>Total Liabilities</b>	<b>17,446,890</b>	<b>675,631</b>	<b>17,483,635</b>
<b>Deferred Inflows of Resources</b>			
Related to OPEB (Note 9)	2,612		3,919
Related to pension (Note 8)	61,031		122,062
<b>Total Deferred Inflows</b>	<b>63,643</b>		<b>125,981</b>
<b>Net Position: (Note 2n)</b>			
Net investment in capital assets	17,807,169	30,900,651	26,690,520
Restricted for capital expansion		15,556,701	
Unrestricted	6,830,961	-	942,822
<b>Total Net Position</b>	<b>\$ 24,638,130</b>	<b>\$ 46,457,352</b>	<b>\$ 27,633,342</b>

See accompanying notes to basic financial statements

Business-type Activities Enterprise Funds (continued)		Governmental Activities Internal Service Funds
Water Impact	Totals	
\$ 3,130,917	\$ 32,267,844	\$ 11,172,847
	5,710,461	30,000
10,616	107,756	25,433
	3,182,452	47,244
	282,307	
<u>3,141,533</u>	<u>41,550,820</u>	<u>11,275,524</u>
		8,422
802,556	7,712,936	
7,924,445	94,912,275	5,297,379
8,727,001	102,625,211	5,305,801
<u>11,868,534</u>	<u>144,176,031</u>	<u>16,581,325</u>
	133,623	
	2,083,484	
	<u>2,217,107</u>	
37,733	1,173,988	374,743
526	50,372	1,284,539
32,529	388,084	
	4523	1,023
24,049	208,281	
366,950	2,270,000	
		11,700
		578,366
<u>461,787</u>	<u>4,095,248</u>	<u>2,250,371</u>
		8,422
7,328,750	31,011,031	
	7,174,119	
		51,644
	1,116,295	
		1,844,382
<u>7,328,750</u>	<u>39,301,445</u>	<u>1,904,448</u>
<u>7,790,537</u>	<u>43,396,693</u>	<u>4,154,819</u>
	6,531	
	183,093	
	<u>189,624</u>	
	75,398,340	5,242,457
4,077,997	19,634,698	
-	7,773,783	7,184,049
<u>\$ 4,077,997</u>	<u>\$ 102,806,821</u>	<u>\$ 12,426,506</u>

City of Morgan Hill  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
For the Year Ended June 30, 2018

	Business-type Activities		
	Enterprise Funds		
	Sewer Operations	Sewer Impact	Water Operations
<b>Operating Revenues:</b>			
Charges for current services	\$ 10,829,471	\$ -	\$ 12,985,414
Other operating income	23,486	4,172,476	
<b>Total Operating Revenues</b>	<b>10,852,957</b>	<b>4,172,476</b>	<b>12,985,414</b>
<b>Operating expenses:</b>			
Salaries and benefits	1,674,372		3,409,962
Utilities and taxes	53,143		3,832,427
Operations and maintenance	4,570,583	15,534	1,472,338
Depreciation	1,619,067	1,308,480	2,573,132
Amortization of sewer capacity rights	944,917		
Administrative charges	222,132	13,944	287,052
<b>Total Operating expenses</b>	<b>9,084,214</b>	<b>1,337,958</b>	<b>11,574,911</b>
Operating Income (Loss)	1,768,743	2,834,518	1,410,503
<b>Nonoperating revenues (expenses):</b>			
Investment earnings	207,814	229,257	63,910
Interest and rentals			45,901
Interest (expense)	(343,116)	(190,976)	(432,830)
Total nonoperating revenues (expenses)	(135,302)	38,281	(323,019)
Income (loss) before operating transfers and contributions	1,633,441	2,872,799	1,087,484
Transfers In (Note 2o)	232,776		1,072,086
Transfers (Out) (Note 2o)	(891,912)	(240,480)	(491,901)
Change in net position	974,305	2,632,319	1,667,669
Total Net Position - Beginning, as restated (2v)	23,663,825	43,825,033	25,965,673
<b>Total Net Position-Ending</b>	<b>\$ 24,638,130</b>	<b>\$ 46,457,352</b>	<b>\$ 27,633,342</b>

See accompanying notes to basic financial statements

<b>Business-type Activities</b>		<b>Governmental</b>
<b>Enterprise Funds (continued)</b>		<b>Activities</b>
<b>Water</b>		<b>Internal Service</b>
<b>Impact</b>	<b>Totals</b>	<b>Funds</b>
\$ -	\$ 23,814,885	\$ 9,804,049
1,050,635	5,246,597	26,370
<b>1,050,635</b>	<b>29,061,482</b>	<b>9,830,419</b>
	5,084,334	4,362,329
	3,885,570	862,398
8,534	6,066,989	2,503,000
411,021	5,911,700	1,547,114
	944,917	
3,948	527,076	362,688
<b>423,503</b>	<b>22,420,586</b>	<b>9,637,529</b>
627,132	6,640,896	192,890
57,850	558,831	151,555
	45,901	
(300,780)	(1,267,702)	(889)
(242,930)	(662,970)	150,666
384,202	5,977,926	<b>343,556</b>
	1,304,862	689,109
(664,242)	(2,288,535)	(39,806)
(280,040)	4,994,253	992,859
4,358,037	97,812,568	11,433,647
<b>\$ 4,077,997</b>	<b>\$ 102,806,821</b>	<b>\$ 12,426,506</b>

**City of Morgan Hill**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	<b>Business-Type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Sewer Operations</b>	<b>Sewer Impact</b>	<b>Water Operations</b>
Cash Flows from Operating activities			
Receipts from customers and users	\$ 10,675,697	\$ 3,964,997	\$ 13,296,465
Other receipts	23,486		
Payments for supplies and services	(5,047,163)	(77,946)	(6,545,078)
Payments to employees for salaries and benefits	(1,704,907)		(2,935,678)
Payments for interfund services			
Net cash provided (used) by operating activities	<u>3,947,113</u>	<u>3,887,051</u>	<u>3,815,709</u>
Cash Flows From Noncapital Financing Activities			
Transfers in	232,776		1,072,086
Transfers (out)	(891,912)	(240,480)	(491,901)
Net cash provided (used) by noncapital and financing activities	<u>(659,136)</u>	<u>(240,480)</u>	<u>580,185</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(2,022,336)	(1,672,016)	(2,807,335)
Principal paid on debt	(1,392,557)		1,741,350
Bond proceeds reallocation			(2,251,700)
Interest paid on debt	(343,116)	(190,976)	(432,830)
Net cash provided (used) by capital and related financing activities	<u>(3,758,009)</u>	<u>(1,862,992)</u>	<u>(3,750,515)</u>
Cash Flows From Investing Activities			
Interest earnings	183,359	204,221	57,525
Net cash provided (used) by investing activities	<u>183,359</u>	<u>204,221</u>	<u>57,525</u>
Net change in cash and cash equivalents	(286,673)	1,987,800	702,904
Cash and cash equivalents, beginning	15,082,159	13,923,943	3,437,255
<b>Cash and Cash equivalents, ending</b>	<b><u>\$ 14,795,486</u></b>	<b><u>\$ 15,911,743</u></b>	<b><u>\$ 4,140,159</u></b>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating income (loss)	\$ 1,768,743	\$ 2,834,518	\$ 1,410,503
Adjustments to reconcile:			
Interest and rentals			45,901
Depreciation expense	1,619,067	1,308,480	2,573,132
Amortization of sewer capacity rights	944,917		
(Increase) decrease in accounts receivable	(155,381)	578	(298,832)
(Increase) decrease in prepaid expenses	1,608		442,388
(Increase) decrease in notes receivables		(212,580)	
Increase (decrease) in customer deposits	(1)		121,594
Increase (decrease) in accounts payable	(51,510)	361,555	(851,314)
Increase (decrease) in accrued liabilities	(43,333)	(503,334)	(100,352)
Increase (decrease) in unearned revenue		4,523	
Increase (decrease) in interest payable	(106,462)	93,311	(1,595)
Increase (decrease) in compensated absences			
Increase (decrease) in net pension liability	(36,433)		465,438
Increase (decrease) in net OPEB liability	5,898		8,846
Total adjustments	<u>2,178,370</u>	<u>1,052,533</u>	<u>2,405,206</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ 3,947,113</u></b>	<b><u>\$ 3,887,051</u></b>	<b><u>\$ 3,815,709</u></b>

See accompanying notes to basic financial statements

Business-Type Activities		Governmental	
Enterprise Funds (continued)		Activities	
Water Impact	Total	Internal Service Funds	
\$ 1,056,235	\$ 28,993,394	\$ 9,908,224	
	23,486		
(7,336)	(11,677,523)	(4,076,954)	
	(4,640,585)	(4,156,243)	
		(362,688)	
1,048,899	12,698,772	1,312,339	
	1,304,862	649,303	
(664,242)	(2,288,535)		
(664,242)	(983,673)	649,303	
(230,588)	(6,732,275)	(1,873,600)	
(2,606,350)	(2,257,557)	(30,150)	
2,251,700			
(300,780)	(1,267,702)	(986)	
(886,018)	(10,257,534)	(1,904,736)	
51,641	496,746	135,787	
51,641	496,746	135,787	
(449,720)	1,954,311	192,693	
3,580,637	36,023,994	11,010,154	
<b>\$ 3,130,917</b>	<b>\$ 37,978,305</b>	<b>\$ 11,202,847</b>	
\$ 627,132	\$ 6,640,896	\$ 192,890	
	45,901		
411,021	5,911,700	1,547,114	
	944,917		
	(453,635)	3,443	
	443,996	682	
	(212,580)		
5,600	127,193		
5,728	(535,541)	163,891	
526	(646,493)	(896,942)	
	4523		
(1,108)	(15,854)		
		301,261	
	429,005		
	14,744		
421,767	6,057,876	1,119,449	
<b>\$ 1,048,899</b>	<b>\$ 12,698,772</b>	<b>\$ 1,312,339</b>	



**CITY OF MORGAN HILL**

<b>FIDUCIARY FUNDS</b>
------------------------

**FIDUCIARY FUNDS**

Fiduciary funds are used to account for the assets held by the City in a trust capacity or as an agent for individuals, private organizations or other governmental units. The financial activities of these funds are excluded from the entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

The Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. The Other Post Employment Benefits (OPEB) Trust Fund was established for the defined benefit OPEB plans administered through trusts that meet specified criteria. Agency funds are used to account for assets held by the City as an agent for numerous assessment districts for the receipt of property tax levies to pay the debt service and administrative fees of the districts.

City of Morgan Hill  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2018

	<u>Private- Purpose Trust Fund</u>		
	<u>Successor Agency</u>	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<b>Assets:</b>			
Pooled cash and investments (Note 4)	\$ 131,437	\$ -	\$ 2,976,182
Cash and investments with fiscal agents (Note 4)	12,155,128		1,140,202
Investments with Trustees (Note 4):			
Equity		491,981	
Fixed income		450,878	
Mutual funds		195,722	
Accounts receivable			4,007
Interest receivable	1,458		
Loans receivable, net (Note 10a)	2,621,890		
Capital assets, net (Note 10b)			
Non-depreciable	1,512,204		
Depreciable	329,632		
<b>Total Assets</b>	<b><u>16,751,749</u></b>	<b><u>1,138,581</u></b>	<b><u>\$ 4,120,391</u></b>
<b>Liabilities</b>			
Accounts payable	1,001,087		\$ 5,781
Customer and other deposits			4,114,610
Interest payable	1,239,248		
Long-term debt (Note 10c):			
Due within one year	4,185,000		
Due in more than one year	76,783,735		
Loan payable to the City, due in more than one year (Note 10d)	2,513,275		
<b>Total Liabilities</b>	<b><u>85,722,345</u></b>		<b><u>\$ 4,120,391</u></b>
<b>Net Position</b>			
Held (deficit) in trust	<b><u>\$ (68,970,596)</u></b>		
Restricted for OPEB benefits		<b><u>\$ 1,138,581</u></b>	

See accompanying notes to basic financial statements

City of Morgan Hill  
Statement of Changes in Fiduciary Net Position  
Trust Funds  
For the Year Ended June 30, 2018

	Private- Purpose Trust Fund	
	Successor Agency	OPEB Trust Fund
<b>Additions:</b>		
Property tax	\$ 8,883,321	\$ -
Employer contributions		371,747
Grant/Project reimbursements		
Investment income:		
Interest		68,473
Less Investment expenses		(2,733)
Interest and rentals	149,180	
Total additions	<u>9,032,501</u>	<u>437,487</u>
<b>Deductions:</b>		
Community development	169,349	
Interest expense	3,503,099	
Loss on sale of capital asset	(1,000)	
Benefit payments		71,747
Depreciation expense	28,663	
Total deductions	<u>3,700,111</u>	<u>71,747</u>
<b>Change in Net Position</b>	5,332,390	365,740
Total net position-beginning	(74,302,986)	772,841
<b>Total net position-ending</b>	<u>\$ (68,970,596)</u>	<u>\$ 1,138,581</u>

See accompanying notes to basic financial statements



**CITY OF MORGAN HILL**

## 1. DEFINITION OF THE REPORTING ENTITY

The City of Morgan Hill, California, (the City) was incorporated in November 1906 as a general law city and operates under a Council-Manager form of government.

These financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 fiscal year end.

**Blended Component Units.** The financial reporting entity includes all of the funds of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Wastewater Facilities Financing Corporation and the Morgan Hill Financing Authority are governed by boards which are substantially the same as the City's governing body. These two component units have been blended into the City's basic financial statements because the City is able to impose its will on these component units and because the component units provide services primarily to the City. Until March 7, 2012 the Morgan Hill Economic Development Corporation was similarly governed by a board that was the same as the City's governing body, so its financial activity through that date had also been blended into the City's basic financial statements. The Corporation modified its bylaws on March 7 to change the make-up of the board. The number of board members increased from five to seven, only two of whom are members of the City Council. Therefore, for the purposes of financial reporting, the Corporation's financial activity beginning March 7, 2012 is excluded from the City's basic financial statements.

**Discretely Presented Component Unit.** The Morgan Hill Corporation Yard Commission is a joint powers authority (JPA) between the City and the Morgan Hill Unified School District, and it functions for the benefit of the City and the School District. Since the services of the Corporation Yard Commission are not provided primarily to the City, the financial information for the Commission is discretely presented in the basic financial statements so that this information may be separately accounted for.

The Morgan Hill Corporation Yard Commission functions for the benefit of the City and the Morgan Hill Unified School District. The Commission is equally comprised of members from each governing body and one member at large. The Commission was formed in 1975 under a joint powers agreement to facilitate the operation of a joint tenancy between the school district and the City. The activities of the Commission are included in the City's basic financial statements as a discretely presented component unit because the Commission board is not substantially the same as the primary governments, nor does it operate exclusively, nor almost exclusively, for the benefit of the City. The City is responsible for the day to day operations and financial reporting of the Commission, but the fiscal liability is shared between the City and School District. In April 2018, the City Council of the City of Morgan Hill and the Board of Education of the Morgan Hill Unified School District adopted resolutions to terminate the JPA and dissolve the Commission.

**1. DEFINITION OF THE REPORTING ENTITY (continued)**

The Financing Corporation and the Financing Authority do not issue separate financial statements.

Complete financial statements for the Commission may be obtained from the City at the following address:

City of Morgan Hill  
Attention: Finance Department  
17575 Peak Avenue  
Morgan Hill, CA 95037

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements, except for the interfund services provided and used which are not eliminated in the process of consolidation. 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 services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a 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.

**(a) Measurement focus, basis of accounting and financial statements presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds use the economic resources measurement focus, except for the agency funds which have no measurement focus. 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 fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

**General Fund**

The General Fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

**Development Services Fund**

This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

**Housing Fund**

The Housing Fund accounts for housing services. The fund receives revenues in the form of federal and state grants. Other revenues sources include interest and loan repayment from borrowers.

The City reports major funds on the government-wide financial statements separately from other funds. Major funds are defined as any fund the City believes to be of particular importance to financial statement users. At a minimum, the General Fund and any fund that meets both of the following criteria *must* be reported as a major fund:

Ten percent criterion. An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Five percent criterion. An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise fund of any one of the items for which it met the 10 percent criterion.

The City reports the following major enterprise funds:

### **Sewer Operations Enterprise Funds**

The Sewer Operations Enterprise funds account for the collection of sewer revenues, including user fees, operating costs of sewer collection and treatment and capital improvements.

### **Sewer Impact Enterprise Fund**

The Sewer Impact Enterprise Fund accounts for the revenues from developers of properties and the funds may only be used for the design, improvement, expansion, and development of sewer infrastructure.

### **Water Operations Enterprise Funds**

The Water Operations Enterprise Funds account for the revenues, including user fees, the pumping and distribution of water to commercial and residential users, the maintenance of the water system and capital improvements.

### **Water Impact Enterprise Fund**

The Water Impact Enterprise Fund accounts for the revenues from developers of properties and the funds may only be used for the design, improvement, expansion, and development of water infrastructure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Additionally, the City reports the following fund types:

Internal Service Funds account for services provided to other departments of the City such as information services, building maintenance, vehicle replacement, workers' compensation, unemployment and general liability insurance, and construction administration. Services are provided by these funds on a cost allocation basis.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fiduciary funds are used to account for the assets held by the City in a trust capacity or as an agent for individuals, private organizations or other governmental units. The Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. The Other Post Employment Benefits (OPEB) Trust Fund was established for the defined benefit OPEB plans administered through trusts that meet specified criteria. Agency funds are used to account for assets held by the City as an agent for numerous assessment districts for the receipt of property tax levies to pay the debt service and administrative fees of the districts.

Assets equal liabilities and the measurement of operations is not a focus of the Agency Funds. Fiduciary Funds use the full accrual basis of accounting for reporting receivables and payables. Fiduciary funds are reported in the fund financial statements but are not included for government wide reporting purposes.

Non-major governmental funds include special revenue funds where the revenues recorded in the funds are restricted for special purposes. Debt service funds are used to account for the collection of resources and payment of debt service obligations outstanding bonds. Capital projects funds are used to account for the revenues, including grants and development fees, and expenditures for capital improvements. These funds do not meet the criteria for being reported as a major fund and are reported in the aggregate under one column, other governmental funds, on the financial statements.

**(b) Budgetary Information**

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all governmental fund types. Budgetary comparisons are reflected in the City's financial report for all governmental funds.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations between an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. Activities are defined as an individual program or division within a department. The City Council's approval is required for additional appropriations or transfers between activities that exceed the appropriations at the fund level. Unencumbered appropriations lapse at the end of each fiscal year.

Budget proposals are prepared by each of the City's department directors. The budget proposals and justifications are submitted to the Finance Department, which compiles the information and prepares the City's preliminary budget. The City Council reviews the City Manager's recommended budget at a meeting open to the public. Changes approved at this meeting are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Any revisions that increase the total budgeted expenditures of any project or fund must be approved by the City Council. Budgeted amounts presented, for the General Fund and those funds which have legally adopted budgets, include the original adopted budget, the final amended budget and comparison to actual expenditures. Since the budget is controlled at the activity level, not the department level, staff reports to the City Council and Morgan Hill residents, a detailed report on budget versus actual variances for every activity in every fund monthly.

**(c) Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all governmental fund types. Encumbrances outstanding at fiscal year-end are re-appropriated by the City Council in the next year. See details of outstanding encumbrances in Note 11(c).

**(d) Cash and Investments**

Cash and investments of individual funds are combined for investment purposes in a commingled pool except for the investments held by fiscal agents, which are maintained and invested separately.

The City's cash and cash equivalents are considered to be cash on hand or demand deposits. Cash equivalents are stated at fair value. The fair value of investments is determined annually and is based on current market prices. Investment income earned on the commingled pool is allocated quarterly among the funds based upon the average daily balance of cash maintained by each fund.

Gains or losses on securities included in the investment portfolio are recognized at the earlier of the end of the fiscal year or when the related security is sold. Investments in securities purchased with the intent to trade for a profit are prohibited by the City's policy.

Resolutions authorizing certain bonds require that certain amounts be held by a fiscal agent to secure principal and interest payments. Such amounts are classified as restricted cash and investments held by fiscal agents. Each fund type's portion of this pool is displayed on the combined balance sheet as "pooled cash and investments" and "restricted pooled cash and investments" held by the City.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Fair Value Measurements**

Fair value is defined as 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. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**(f) Prepaid Items**

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

**(g) Property Held for Resale**

Property is acquired by the City for subsequent resale for redevelopment purposes. Property held for resale is reported as an asset at the lower of cost of estimated net realizable value in the fund that acquired it.

**(h) Capital Assets**

Capital assets, which include property, plant and equipment and infrastructure assets (streets, curbs and gutters, water and sewer systems, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated useful life of at least three years. Capital assets are recorded at historical cost or estimated acquisition value if purchased or constructed. Donated capital assets are valued and reported at acquisition value.

Donated capital assets, donated works of art and similar items received in a service concession arrangement are measure at acquisition value.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value.

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:

Buildings and land improvements	30-50 years
Infrastructure	20-30 years
Machinery, equipment and vehicles	5-20 years

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

**(i) Sewer Capacity Rights**

Capacity rights are capitalized in the Sewer Enterprise Funds. Such rights are being amortized over 30 years, the estimated life of the sewer treatment facility. Sewer capacity rights will be fully amortized in 2023.

**(j) Deferred Outflows and Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period.

**(k) Special Assessment Districts for which the City is Not Obligated in Any Manner**

Recognition of revenue related to noncurrent receivables of the special assessment districts is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes full value will ultimately be received by the City. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Compensated Absences**

It is the City’s policy to permit employees to accumulate earned but unused vacation, sick and compensatory time off subject to certain limits. There is no liability for unused sick leave as the City has no obligation to pay for any accumulated balance when employees separate from employment. All vacation and compensatory time are accrued in the government-wide and proprietary fund financial statements.

Upon retirement or leave from the City, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employees' Retirement System (CalPERS) (see Note 8).

The City maintains a separate internal service fund, the Employee Benefits Fund, for the collecting and distributing of the cost of future compensated absences payouts. The funding for future payments is based on 15% of the total liability, with resources budgeted and set aside each year. The timing of payments for accrued vested vacation, sick leave, and compensatory time benefits (compensated absences) is not certain. Compensated absences are paid by the Employee Benefits Fund.

	Governmental Activities
Beginning Balance	\$ 2,121,487
Additions	960,742
Payments	(659,481)
Ending Balance	<u>\$ 2,422,748</u>
Current Portion	\$ 578,366
Non-current Portion	\$ 1,844,382

**(m) Restricted Assets**

Assets which are restricted for specified uses by bond debt requirements, grant provisions, or other requirements are classified as restricted assets held by the City as fiscal agent.

**(n) Fund Balances and Net Position**

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the City’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.

Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council and/or the City Manager. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. An assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the City.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of commitments made, which include future funding sources for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

### **Net Position:**

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

Net Investment in Capital Assets, describes the portion of Net Position which is represented by the current net book value of the City’s capital assets and capacity rights, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and for Development Services activities.

Unrestricted describes the portion of Net Position which is not restricted as to use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Interfund Transactions

Interfund transactions are recorded as transfers on the fund financial statements which result in interfund receivables and payables. Balances reported in the fund financial statements are eliminated for the government-wide financial statements.

Interfund transfers reported on the fund financial statements are summarized as follows:

Transfers Out	Transfers In								Total
	General Fund	Nonmajor Governmental	Sewer Operations	Water Operations	Building Maintenance	Building Replacement	Equipment Replacement	Employee Benefits	
General Fund	\$ -	\$ 1,611,712	\$ -	\$ -	\$ 10,032	\$ 30,240	\$ 300,000	\$ 166,590	\$ 2,118,574
Community Development Fund		107,904						28,217	136,121
Housing Fund								2,326	2,326
Nonmajor Governmental Funds	889,591	486,634						14,257	1,390,482
Sewer Operations Fund	347,028	81,948		415,548			25,000	22,388	891,912
Sewer Impact Fund		7,704	232,776						240,480
Water Operations Fund	347,028	86,772					25,000	33,101	491,901
Water Impact Fund		7,704		656,538					664,242
Information Systems		1,212						7,907	9,119
Building Maintenance								9,400	9,400
CIP Administration		6,636						13,876	20,512
General Liability								775	775
Total Transfers in	\$ 1,583,647	\$ 2,398,226	\$ 232,776	\$ 1,072,086	\$ 10,032	\$ 30,240	\$ 350,000	\$ 298,837	\$ 5,975,844

The principal purpose of the City's interfund transfers was for operational support to other funds.

Due From/Due to Other Funds

Individual interfund receivables and payables at June 30, 2018, are as follows:

	Due from	Due to
General Fund	\$ 12,226	\$ -
Community Development Block Grant		
Special Revenue Fund	-	12,226
	<u>\$ 12,226</u>	<u>\$ 12,226</u>

Interfund transactions are reported on the governmental fund type statements but are eliminated for government-wide reporting. Long term interfund advances from the General Fund and Fire Impact Fund to the Police Impact Fund in the amounts of \$668,362 and \$110,278, respectively, to cover cash shortage were outstanding at June 30, 2018, and are reflected in the fund financial statements. Additionally, a long term interfund advance from the Equipment Replacement Internal Service Fund to the Building Maintenance Internal Service Fund in the amount of \$8,422 is a loan for an energy efficiency project at the City's Community and Cultural Center.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(p) Property Tax and Special Assessment Levy, Collection, and Maximum Rates**

The State of California's (the State) Constitution Article XIII A (commonly referred to as Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at its purchase price, as defined by Article XIII A and may be increased by no more than 2% per year unless the property is further improved, sold or transferred. The State legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties and bills, collects, and distributes property taxes and special assessments as follows:

<b>Date Category</b>	<b>Secured</b>	<b>Unsecured</b>
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (For November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. Taxes on real estate, land, and buildings are secured by liens on the property being taxed.

**(q) Unbilled Service Receivables**

The City bills for water and sewer services on a monthly basis. All amounts not billed at fiscal year-end are accrued and reflected as accounts receivable in the appropriate funds.

**(r) Income Taxes**

The City and its related entities fall under the purview of Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, they are not subject to federal or state income taxes.

**(s) Pensions**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(t) Other Post-Employment Benefits Other than Pensions**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the City Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

*OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB –* For purposes of measure the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by CERBT. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**(u) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(v) Net Position Restatement**

Management adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB), which became effective during the year ended June 30, 2018. In June 2015, GASB issued Statement No. 75 and the intention of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees – both active and inactive employees – are provided with postemployment benefits other than pensions by requiring recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense.

The implementation of the Statement required the Authority to make prior period adjustments. As a result, the beginning net position was restated and reduced by \$2,155,818 for Governmental Activities, \$700,292 for Business Activities, \$270,340 for Sewer Operations Enterprise Funds and \$429,952 for Water Operations Enterprise Funds correspondingly. For further information, see Note 9.

**3. BUDGETARY INFORMATION**

**Budgetary Results Reconciled to Generally Accepted Accounting Principles in the United States of America**

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (US GAAP basis). The results of operations for the General Fund are presented in the accompanying budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

Budgetary control is directed by the City Council by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the fund level. The City Manager is authorized to amend appropriations within the various departments and projects within a fund. A transfer of appropriations between funds, additional appropriations, or new appropriations required the authorization of the City Council.

**Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2018, the excess of expenditures over appropriations at the legal level of control is as below:

<u>Fund</u>	<u>Expenditures in Excess of Appropriations</u>
Special Revenue Funds:	
Supplemental Law Enforcement	\$ 6,000
Community Dev Block Grant	79,391
Environmental Programs	21,975
Environmental Remediation	7,970

4. CASH AND INVESTMENTS

Cash and investments as of June 30, 2018, were classified in the accompanying financial statements as follows:

Statement of Net Position:

Primary Government	
Pooled cash and investments	\$ 111,332,553
Restricted pooled cash and investments	5,740,461
Cash and investments with fiscal agents	863,149
Fiduciary Funds	
Pooled cash and investments	3,107,619
Cash and investments with fiscal agents	13,295,330
Investments with Trustees	1,138,581
	<u>\$ 135,477,693</u>

Cash and investments as of June 30, 2018, consisted of the following:

Cash on hand	\$ 6,500
Deposits with financial institutions	2,516,981
Investments	132,954,212
Total cash and investments	<u>\$ 135,477,693</u>

4. CASH AND INVESTMENTS (continued)

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

The table below identifies the investment types that are authorized for the City by the City of Morgan Hill investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds, held by bond trustees that are instead governed by the provisions of trust agreements with the City.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Bills & Notes	5 years	N/A	No Limit	No Limit
U.S. Government Agencies	5 years	N/A	No Limit	No Limit
Local Agency Investment Funds	N/A	N/A	No Limit	\$65M
Time Deposits	5 years	A-1	5%	\$2M per institution
Money Market Mutual Funds	N/A	AAAm	20%	No Limit

***Investments Authorized by Trust Agreements***

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are currently authorized for investment and held by bond trustees. The table also identifies certain provisions of these trust agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio
U.S. Treasury Obligations	No limit	N/A	No limit
U.S. Agency Securities	No limit	N/A	No limit
U.S. Direct and General Obligations	No limit	A	No limit
Deposit Accounts, Federal Funds and Banker's Acceptances	No limit	N/A, A-1 (a)	10%
Repurchase agreements	No limit	N/A, A (a)	No limit
FDIC Insured Certificates of Deposit	No limit	N/A, A-1 (a)	No limit
Money Market Mutual Funds	No limit	N/A, AAAM (a)	No limit
State and Local Agency Bonds	No limit	N/A	No limit
Insurer approved Investment Contracts	No limit	N/A	No limit
Insurer approved other forms of Investments including Repurchase Agreements	No limit	N/A	No limit
Local Agency Investment Fund (LAIF)	No limit	N/A	No limit
Taxable Government Money Market Funds (a)	6 months	Am-G	No limit
Tax-exempt Government Money Market Funds (a)	6 months	Am-G	No limit

(a) 2015 Lease Revenue Refunding Bonds

4. CASH AND INVESTMENTS (continued)

**Fair Value Measurement**

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 fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2018:

Investment Type	Level 1	Level 2	Total
<b>Investments by Fair Value:</b>			
U.S. Treasury Notes	\$ 4,255,830	\$ -	\$ 4,255,830
Federal Agency	-	65,864,926	65,864,926
Held by Bond Trustee:			
U.S. Treasury Notes	11,929,033	-	11,929,033
Total Investments at Fair Value	\$ 16,184,863	\$ 65,864,926	82,049,789
<b>Investments Measured at Amortized Cost:</b>			
Money Market Mutual Funds			2,639,885
Held by Bond Trustee:			
Money market mutual funds			1,375,282
<b>Investments Exempt from Fair Value Hierarchy:</b>			
Local Agency Investment Fund			46,889,256
Total Investments			\$ 132,954,212

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. Federal agency securities classified in Level 2 of the fair value hierarchy, are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investment in the California Local Agency Investment Fund totaling \$46.9 million and money market mutual funds at \$1.8 million are classified as exempt in the fair value hierarchy, as it is valued at amortized cost, which is exempt from being classified under GASB 72. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City mitigates its exposure to interest rate risk is by structuring the portfolio so that securities mature at the same time that major cash outflows occur; thus, eliminating the need to sell securities prior to maturity. In addition, the City prohibits the taking of short positions; that is, selling securities that the City does not own.

4. CASH AND INVESTMENTS (continued)

The City tries to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, and allowed for under bond covenants as approved by the City Council, the City cannot directly invest in securities maturing more than five years from the date of purchase.

Bond reserve funds and bond escrow funds, pursuant to bond documents, may be invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as possible with the expected use of the funds. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
Federal Agency	\$ 8,875,154	\$ 3,698,521	\$ 53,291,251	\$ 65,864,926
US Treasury Notes			4,255,830	4,255,830
Money Market Mutual Funds	2,639,885	-	-	2,639,885
Local Agency Investment Fund	46,889,256	-	-	46,889,256
Held by bond trustee:				
Money Market	1,375,282	-	-	1,375,282
US Treasury Notes	6,863,623	5,065,410	-	11,929,033
Total Investments	\$ 66,643,200	\$ 8,763,931	\$ 57,547,081	132,954,212
<b>Cash in Banks and on hand</b>				2,523,481
Total City Cash and Investments				\$ 135,477,693

**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.

4. CASH AND INVESTMENTS (continued)

Presented below is the minimum rating required by the City's investment policy, or trust agreements and the actual rating as of year end for each investment type.

Investment Type	Amount	Legal Rating	S&P Rating as of June 30, 2018		
			AA+	AAAm	Not Rated/Exempt
Federal Agency	\$ 65,864,926	N/A	\$ 65,864,926	\$ -	\$ -
US Treasury Notes (1)	4,255,830	N/A	-	-	4,255,830
Money Market Mutual Funds	2,639,885	N/A	-	2,639,885	-
Local Agency Investment Fund (1)	46,889,256	N/A	-	-	46,889,256
Held by Bond Trustee:					
US Treasury Notes (1)	11,929,033	N/A	-	-	11,929,033
Money Market Mutual Funds	1,375,282	N/A	-	1,375,282	-
<b>Total</b>	<b>\$ 132,954,212</b>		<b>\$ 65,864,926</b>	<b>\$ 4,015,167</b>	<b>\$ 63,074,119</b>

(1) Exempt from rating

**Concentration of Credit Risk**

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

Issuer	Investment	
	Type	Amount
Federal Home Loan Bank	Federal Agency Securities	\$ 24,745,782
Federal Home Loan Mortgage Corporation	Federal Agency Securities	16,612,103
Federal National Mortgage Association	Federal Agency Securities	23,759,823

**Custodial Credit Risk**

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

**4. CASH AND INVESTMENTS (continued)**

The City's investment policy requires that as protection against potential losses by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures. The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to the City's funds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the City Treasurer.

As of June 30, 2018, \$2,266,982 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

***External Investment Pool***

The City invests in LAIF, a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

An elected State Treasurer manages the State's Pooled Money Investment Account of which LAIF is a component. The LAIF Advisory Board oversees the operations of LAIF.

The City valued its investments in LAIF as of June 30, 2018, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total's aggregate amortized cost by total aggregate fair value.

5. CAPITAL ASSETS

The following is a summary of governmental activities capital assets at June 30, 2018:

	Balance Beginning of Year	Increases	Decreases	Transfers/ Adjustments	Balance End of Year
Capital assets not being depreciated:					
Land	\$ 40,291,374	\$ 3,218,638	\$ -	\$ -	\$ 43,510,012
Construction in progress	5,775,360	9,700,810	(11,738)	(7,398,199)	8,066,233
Total capital assets not being depreciated	46,066,734	12,919,448	(11,738)	(7,398,199)	51,576,245
Capital assets being depreciated:					
Infrastructure	203,847,397	1,683,018	-	47,280	205,577,695
Buildings and other improvements	132,882,291	814,780	-	7,350,919	141,047,990
Machinery/Equipment/Vehicles	12,076,835	1,252,538	-	-	13,329,373
Total capital assets being depreciated	348,806,523	3,750,336	-	7,398,199	359,955,058
Less accumulated depreciation for:					
Infrastructure	(78,754,851)	(5,781,814)	-	-	(84,536,665)
Buildings and other improvements	(43,912,133)	(4,887,976)	-	-	(48,800,109)
Machinery/Equipment/Vehicles	(7,364,979)	(1,515,958)	-	-	(8,880,937)
Total accumulated depreciation	(130,031,963)	(12,185,748)	-	-	(142,217,711)
Total Capital Assets Being Depreciated, Net	218,774,560	(8,435,412)	-	7,398,199	217,737,347
Governmental activities, net capital assets	\$ 264,841,294	\$ 4,484,036	\$ (11,738)	\$ -	\$ 269,313,592

Depreciation expense was charged to governmental functions as follows:

Governmental Function	Expense
Administration	\$ 55,378
Community Development	283,890
Public Works	5,235,978
Public Safety	712,516
Parks and Recreation	3,413,310
Housing Successor Agency	937,562
Internal Service	1,547,114
Total General Capital Assets	\$ 12,185,748

**5. CAPITAL ASSETS (Continued)**

As of June 30, 2018, Capital assets of business-type activities on the government-wide financial statements consisted of:

	Balance Beginning of Year	Increases	Decreases	Transfers	Balance End of Year
Capital assets not being depreciated:					
Land	\$ 1,825,332	\$ -	\$ -	\$ -	\$ 1,825,332
Construction in progress	5,292,838	3,995,425	\$ -	(3,400,659)	5,887,604
Total capital assets not being depreciated	<u>7,118,170</u>	<u>3,995,425</u>	<u>-</u>	<u>(3,400,659)</u>	<u>7,712,936</u>
Capital assets being depreciated:					
Infrastructure	124,665,248	1,965,852	-	9,652	126,640,752
Buildings and other improvements	59,598,911	163,664	-	3,391,007	63,153,582
Machinery/Equipment/Vehicles	11,403,668	607,334	-	-	12,011,002
Sewer capacity rights	28,347,522	-	-	-	28,347,522
Total capital assets, being depreciated, net	<u>224,015,349</u>	<u>2,736,850</u>	<u>-</u>	<u>3,400,659</u>	<u>230,152,858</u>
Less accumulated depreciation for:					
Infrastructure	(72,729,442)	(3,279,893)	-	-	(76,009,335)
Buildings and other improvements	(26,101,980)	(2,007,162)	-	-	(28,109,142)
Machinery/Equipment/Vehicles	(8,377,125)	(624,645)	-	-	(9,001,770)
Sewer Capacity Rights	(21,175,419)	(944,917)	-	-	(22,120,336)
Total accumulated depreciation	<u>(128,383,966)</u>	<u>(6,856,617)</u>	<u>-</u>	<u>-</u>	<u>(135,240,583)</u>
Total Capital Assets Being Depreciated, Net	<u>95,631,383</u>	<u>(4,119,767)</u>	<u>-</u>	<u>3,400,659</u>	<u>94,912,275</u>
Enterprise Funds, Net Capital Assets	<u>\$102,749,553</u>	<u>\$ (124,342)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,625,211</u>

Depreciation and amortization expense was charged to business-type funds as follows:

Funds	Amount
Sewer Funds	\$ 3,872,464
Water Funds	2,984,153
Total Business Type Activities	<u>\$ 6,856,617</u>

**6. GOVERNMENTAL LOANS RECEIVABLE**

Most of the housing loans described in the paragraphs below were originally made by the former Morgan Hill Redevelopment Agency as part of its low- and moderate-income housing duties and responsibilities. Effective February 1, 2012 the State of California dissolved all redevelopment agencies, including Morgan Hill's. Pursuant to the redevelopment dissolution law the City itself chose to assume the housing-related assets, liabilities and functions of the former Redevelopment Agency.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

The governmental activities loans receivable on the statement of net position as of June 30, 2018 total \$66,821,256 and consisted of the following types:

<u>Description</u>	<u>Amount</u>
Housing Rehabilitation	\$ 993,550
Sunrise Meadows	5,291,607
San Pedro Gardens	1,397,275
Morgan Hill Ranch Family Housing	2,631,755
Village Avante Apartments	1,580,418
Village Avante Apartments 2	1,086,828
Villa Ciolino	4,116,988
Jasmine Square	5,250,180
Murphy Ranch	8,677,810
Royal Court Apartments	5,186,804
Bella Terra	3,644,541
Millennium Housing	1,689,699
Habitat for Humanity	760,000
Crest Avenue Housing	7,706,176
UHC-The Crossings	3,720,342
BEGIN	4,586,148
Horizon Senior Housing	5,772,864
Down Payment Assistance-Citywide	287,282
Executive Management Loan	2,106,281
EAH, Inc.	4,836,284
Loans to Successor Agency	2,513,275
Other Loans	3,811,593
Allowance for Doubtful Accounts	<u>(10,826,444)</u>
Total:	<u>\$ 66,821,256</u>

**(a) CDBG Loans/Housing Rehabilitation Loans**

The City administers two home improvement revolving loan funds using Federal Community Development Block Grant Funds (CDBG) and former Redevelopment Agency Housing monies. The program provides below market rate loans, secured by deeds of trust, to eligible participants for housing rehabilitation. Although payments for most loans are amortized over an established payment schedule, some loans allow for deferred payment of accrued interest and principal until the homeowner's property is sold or transferred, applicable primarily for seniors and very low income families. On August 22, 2012 the City authorized the Office of Affordable Housing of Santa Clara County to assume the servicing of the City's existing CDBG rehabilitation loans, manage new loans including transferring existing rehabilitation loan funds to cover the costs associated with new loans. The City will continue to service one loan due to unresolved issues. As of June 30, 2018, the City has a total balance of \$993,550 of former Redevelopment Agency Housing Rehab loans, which includes accrued interest of \$263,600.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(b) Sunrise Meadows**

The Sunrise Meadows project consisted of 24 self-help homes reserved for low income households, and 36 contractor-built units reserved for those at median income. The former Redevelopment Agency attached a third trust deed on each of the 24 self-help units for loan amounts varying from \$50,000 to \$100,000 each. The notes with accrued compound interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued compound interest due at the time of sale. After the borrower has occupied the residence for 20 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2018, there was a balance of \$5,291,607 outstanding, of which \$4,383,205 is accrued interest, in its Housing Fund.

**(c) San Pedro Gardens**

The San Pedro Gardens project was developed in 1991, the former Redevelopment Agency provided a \$825,000 loan to Housing Authority of County of Santa Clara (HACSC); \$400,000 of the loan was "repaid" via HACSC's assignment of homebuyer promissory notes to the City at the time of closing. The result was a \$400,000 reduction in the Housing Authority's note. These notes are now referred to as the original homebuyer "City" San Pedro notes and they remain on the San Pedro homes with a formula that reduces 10% principal and interest in years 21-30. If the borrower has occupied the unit for 20 years, 10% of the balance outstanding will be forgiven each year and the loan will be totally canceled at year 30. As of June 30, 2018, the balance of these loans is \$1,397,275 which includes accrued compound interest of \$839,611. On November 16, 2016, City Council accepted the assignment of additional 7 San Pedro homeowner's self help notes, as consideration for forgiveness of the HACSC's outstanding loan of \$425,000. However, as of June 30, 2018, the assignment is still in progress and housing staff anticipates it to be completed over next several months within fiscal year 2019. The homeowner's self help notes will be converted to match the terms of the original homebuyer "City" San Pedro notes, forgiving 10% of principal and interest in year 21-30.

**(d) Morgan Hill Ranch Family Housing**

The Morgan Hill Ranch Family Housing Project consists of 96 residential rental units and a day care center. Ecumenical Association for Housing (EAH) developed the Project. The former Redevelopment Agency made a principal predevelopment loan of \$10,000 in FY 95-96 and principal development loan of \$610,579 in FY 96-97. The Agency provided an additional loan for land acquisition and construction costs in the amount of \$2,524,585 in FY 97-98. Commencing on the date of the first disbursement of the loans, the loans accrue simple interest at 3% per annum. At June 30, 2018, the loan had accrued interest of \$204,763 bringing the loan balance to \$2,631,755. All loans are secured by deeds of trust.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(e) Village Avante Apartments**

On June 1, 1999, the former Redevelopment Agency entered into an agreement with Don Avante Family Homes, Inc. (affiliate of EAH) for the acquisition and rehabilitation of the existing Village Avante 112-unit housing project located in the City Project Area.

Village Avante was initially a HUD subsidized rental apartment at risk of converting to a market rate project. The Agency's assistance mandated the long-term affordability of the units.

The loan accrues simple interest at a rate of 4% per annum on the unpaid balance with annual payments until April 1, 2039 and is secured by a deed of trust. The current balance as of June 30, 2018 is \$1,580,418, which includes accrued interest of \$43,919.

**(f) Village Avante Apartments 2**

On March 22, 2000, the former Redevelopment Agency authorized a loan to Don Avante Associates II (affiliate of EAH) in the amount of \$640,000. This loan was used to provide more attractive and durable landscaping, new steel-post privacy fencing at each patio and new black vinyl-coated chain link fencing along the west property line. The loan also included provisions for site and street lighting to create a safer environment at night. The note is a residual receipts note with a 40-year term. It accrues simple interest at a rate of 4% per annum and is secured by deed of trust. The balance at June 30, 2018 is \$1,086,828 which includes accrued interest of \$30,203.

**(g) Villa Ciolino**

On November 23, 1999, the former Redevelopment Agency approved a loan of \$1.9 million to South County Housing Corporation to acquire a blighted trailer park and housing project. South County Housing replaced 21 dilapidated housing units, rehabilitated 8 more, and added 13 additional apartments to create a new 42-unit rental housing complex. The loan is a residual receipt note in second position, at 4% compounded annually, with a term of 55 years, and is secured by deed of trust. On December 15, 1999, the Agency modified the interest rate from compound to simple. On June 28, 2000, the loan was further modified by approving an increase of \$475,000 to cover the additional costs of material and labor incurred because of an increased scope for off-site work and because of the pressures of a very busy construction market place. On April 1, 2015 the City Council accepted the loan transfer from South County Housing to affiliates of Eden Housing, as Villa Ciolino LLC. The balance at June 30, 2018 is \$4,116,988 which includes accrued interest of \$1,741,988.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(h) Jasmine Square**

In 2000, the Redevelopment Agency Board approved loans of \$3.25 million to South County Housing to purchase a four-plex, a dilapidated trailer park, and vacant parcels for development of an affordable housing project. Jasmine Square is a mixed-use 72 residential family apartments with 50,000 square feet of office space and a child care center. South County Housing replaced 23 sub-standard existing housing units with this project. The loan is secured by a deed of trust. On March 16, 2006, the Agency approved an additional loan amount of \$156,350 for the accrued interest on the loans previously made by the Agency which were refinanced by a permanent loan on September 12, 2005. On April 1, 2015 the City Council accepted the loan transfer from South County Housing to affiliates of Eden Housing, as Jasmine Square LLC. The balance of the Jasmine Square loan at June 30, 2018, is \$5,250,180, which includes accrued interest of \$1,843,830.

**(i) Murphy Ranch**

On August 8, 2001, the former Redevelopment Agency entered into a loan agreement in the amount of \$3,300,000 with Murphy Ranch, LP. The purpose was to fund the acquisition of property and the predevelopment, infrastructure and related costs of the development of the first 62 units of a 100 unit affordable residential complex. The term of the loan is 55 years and bears simple interest at 4%.

On May 7, 2002, the agreement was amended to increase the principal amount of the promissory note by \$1,990,000, increasing the total commitment to \$5,290,000 for the total development of the 100 unit project.

On May 10, 2004, the agreement was further amended to increase the loan amount an additional \$1,570,000. At June 30, 2018, there is a balance of \$8,677,810, which includes accrued interest of \$3,004,986.

**(j) Royal Court Apartments**

On May 15, 2003, the former Redevelopment Agency entered into a loan agreement in the amount of \$3,750,000 with the former South County Housing. South County Housing has used the proceeds to acquire real property, remove 13 existing sub-standard housing units, construct 12 for-sale townhomes that will remain affordable to moderate and low income households, and construct at least 55 apartments that will remain affordable to low and very low income households. The term of the loan is for six years, bears simple interest at 3% and is secured by a deed of trust. The first disbursement was processed on July 2, 2003. In April 2005, the Agency approved a low-interest, short-term loan increase of \$1,900,000 for the project (\$5,650,000 total) in response to construction delays resulting in cost increases. In August 2006, South County Housing repaid \$1.4 million of the loan to the Agency, plus accrued interest. On April 1, 2015 the City Council accepted the loan transfer from South County Housing to affiliates of Eden Housing, as Royal Court Housing LLC. At June 30, 2018, the balance due is \$5,186,804 which includes accrued interest of \$1,536,643.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(k) Bella Terra**

Bella Terra is an EAH affiliate which is a "tax credit limited partnership". Bella Terra Senior Housing Project includes 40 units of affordable senior rental housing with all resident units restricted to seniors over 55 and who qualify as low income households. On June 1, 2012 the former Redevelopment Agency approved a \$3,182,800 loan for the Bella Terra project. The term of the loan is for 55 years and is secured by a deed of trust. At June 30, 2018, the balance due is \$3,644,541, which includes accrued interest of \$461,741.

**(l) Millennium Housing**

On November 3, 2004, the former Redevelopment Agency approved a loan in the amount of \$1,200,000 to Millennium Housing. Millennium Housing used the Agency's loan to assist in the purchase of the 166 unit Hacienda Mobile Home Senior Park. To "spread out" the impact of the rent increase on the residents needed to finance the acquisition loan, the Agency has provided this loan to Millennium for a rental assistance fund. The loan is deferred with a 3% simple interest and is due upon the full repayment of the tax-exempt bonds or sale of the Park. These funds can be used for bond issuance costs and the rental assistance fund. Millennium will augment the rental assistance fund, as needed, to further subsidize residents in which a rent increase is deemed a hardship.

New residents of the Park will not be eligible for this rent subsidy. Seventy-five percent of the units (75%) must remain affordable to lower income households for 55 years. At June 30, 2018, the balance due is \$1,689,699, which includes accrued interest of \$489,699. This loan is secured by a deed of trust.

**(m) Habitat for Humanity**

On August 8, 2006, the former Redevelopment Agency entered into an agreement with Silicon Valley Habitat for Humanity for a loan in the amount of \$560,000 for the purchase of land and payment of impact fees. The loan carries a zero interest rate and in the event the borrower complies with the Deed of Trust and Regulatory Agreement, the loan shall be forgiven. On December 11, 2008, the loan was amended to increase the amount of the loan by \$200,000 for the purpose of financing the cost of so-called "green building" enhancements to the affordable units, photovoltaic systems for the affordable units, and additional development costs. The loan is forgivable as long as it remains affordable to the lower income households for 45 years. The balance due at June 30, 2018, was \$760,000.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(n) Crest Avenue Housing**

On September 3, 2008, the former Redevelopment Agency approved a loan in the amount of \$4,400,000 to the former South County Housing (SCH). SCH is using the Agency's loan for pre-development, acquisition, and construction for 52 units. In 2011, an additional \$1,875,000 was loaned for the rehabilitation of all units. The 52 affordable rental units will be intended for extremely low and very low income eligible families. The term of the loan is 55 years and bears simple interest at 3%. On April 1, 2015 the City Council accepted the loan transfer from South County Housing to affiliates of Eden Housing, as Crest Avenue Housing, LLC. The balance of this loan at June 30, 2018, is \$7,706,176, which includes accrued interest of \$1,431,176.

**(o) UHC-The Crossings**

On August 19, 2008, the former Redevelopment Agency approved a loan in the amount of \$2,600,000 to Urban Housing Communities (UHC). UHC is using this loan to rehabilitate a 24-unit affordable apartment complex. These units will be available to extremely low and low income families. Terms of the loan include repayment over 55 years through residual receipts at 3% simple interest. The balance at June 30, 2018, is \$3,720,342, which includes accrued interest of \$814,343.

**(p) BEGIN**

In 2007, the City of Morgan Hill received a grant award from the California Department of Housing and Community Development (HCD) for the Building Equity and Growth in Neighborhoods (BEGIN) program for the Madrone Plaza project. The BEGIN program provides down payment assistance to first time home buyers in the form of deferred payment loans. To date, eighty three (83) home buyers have received down payment assistance. At June 30, 2018 the balance due is \$4,586,148, which includes accrued interest of \$633,819.

**(q) Horizon Senior Housing**

On March 19, 2008, the former Redevelopment Agency entered into a disposition, development and loan agreement for the Horizon Senior Housing project with UHC Morgan Hill, L.P. This project consists of forty-eight (48) residential rental units for occupancy at affordable housing cost by elderly households, one (1) residential rental unit for occupancy by property management staff and a three thousand (3,000) square foot community room. The term of the loan is 55 years and bears simple interest at 3%. The balance of this loan at June 30, 2018, is \$5,772,864, which includes accrued interest of \$1,098,312.

**(r) Down Payment Assistance-Citywide**

The Down Payment Assistance Program (DAP) assists first time home buyers who meet the income qualifications to buy their first home within the City limits. Loan payments are deferred for five (5) years and amortized over 25 years; total amount due upon sale of property. At June 30, 2018, there were 6 city wide loans with a total outstanding balance of \$287,282.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(s) Executive Management**

On July 2, 2014, City Council adopted resolution number 6929 to approve a housing loan to an executive employee in the amount of \$900,000. On March 18, 2015, City Council approved an additional loan of \$110,000 as home improvement loan. The housing loan bears an interest rate equal to 2.75% and the home improvement loan bears an interest rate equal to 5%. The housing loan requires bi-weekly principal and interest payments on the first fifty percent (50%) of the loan amount and interest only payments for the remaining fifty percent. The home improvement loan also requires bi-weekly principal and interest payments. Also, on June 15, 2016, City Council adopted resolution number 16109 approving a housing loan to another executive employee in an amount of \$835,000. The loan bears an interest rate of 1.75% and requires bi-weekly principal and interest payments on the first fifty percent (50%) of the loan amount and interest only payments for the remaining fifty percent.

On December 6, 2017, City Council adopted resolution 17-097 to approve a housing loan to an executive employee in the amount of \$1,300,000. The housing loan bears an interest rate equal to 2.50%. The housing loan requires bi-weekly principal and interest payments on the first fifty percent (50%) of the loan amount and interest only payments for the remaining fifty percent.

During fiscal year 2018, the first executive employee loans were repaid in full on September 27, 2017 for the amount of \$937,369. At June 30, 2018, the outstanding balance of the loans was \$2,106,281.

**(t) EAH, Inc.**

On August 7, 2014, the City entered into an Affordable Housing Loan Agreement with the developer, EAH, Inc. This project consists of thirty-three (33) affordable multi-family mixed-use units for occupancy and two thousand (2,000) square feet of non-retail commercial space. The first loan was in the amount of \$3,622,000. On December 1, 2015, the City and EAH, Inc. amended and restated the maximum loan balance to an amount not to exceed \$4,500,000. In addition to the amendment, on December 1, 2015, the City and EAH, Inc. entered into a seller takeback loan in the amount of \$390,000 with the City providing seller financing to EAH, Inc. as the City conveyed an additional parcel of land to the developer. The term of the loan is the lesser of 55 years from the date of issuance of the final certificate of occupancy or 57 years from the date of the note. The loan bears simple interest at 3%. The amount of funds drawn down by EAH, Inc. at June 30, 2018, is \$4,836,284, which includes accrued interest of \$336,284.

**(u) Loans to Successor Agency**

Please see Note 10 (d).

6. GOVERNMENTAL LOANS RECEIVABLE (Continued)

(v) Other Loans

The City and Agency have issued loans for several other projects. Detailed information for these loans is included in the following table.

Project Name	Loan Balance Outstanding
SCH (Skeels Hotel)	\$ 228,562
Community Solutions La Casa Del Puente	152,000
Down payment Assistance	43,533
Down payment Assistance-Madrone	3,169,697
Employee computer loans	24,303
Madrone Village Shopping Center - Bikram	193,498
Subtotal	\$ 3,811,593

(v) Allowance for Doubtful Accounts

The City's Allowance for Doubtful Accounts is used to estimate the uncollectible. Most of the \$10.8 million balance in the City's Allowance for Doubtful Accounts are forgiven loans. These loans are forgiven once certain criteria are met by the borrowers.

7. LONG TERM DEBT

Summary of Changes in Long-Term Debt:

	Balance July 1, 2017	Reductions	Balance June 30, 2018	Current Portion
<b>Governmental Activities</b>				
Bond Payable				
2015 Lease Revenue Refunding Bonds	\$ 8,720,000	\$ (325,000)	\$ 8,395,000	\$ 340,000
Premium	811,040	(42,686)	768,354	-
Capital Leases				
Fire Houses	2,317,197	(173,557)	2,143,640	180,162
Fire Apparatus	1,874,605	(147,724)	1,726,881	151,890
Copier Equipment/Software	18,454	(18,454)	-	-
Loans Payable				
Energy Efficiency Loan	75,044	(11,700)	63,344	11,700
Energy Assistance Act Loan	502,776	(98,561)	404,215	99,549
<b>Total Governmental Activities</b>	14,319,116	(817,682)	13,501,434	783,301
<b>Business Type Activities</b>				
2014 Water Revenue Bonds	19,635,000	(865,000)	18,770,000	895,000
2015 Sewer Revenue Bonds	14,430,000	(1,315,000)	13,115,000	1,375,000
Premium	1,473,588	(77,557)	1,396,031	-
<b>Total Business-Type Activities</b>	35,538,588	(2,257,557)	33,281,031	2,270,000
<b>Total Long Term Debt</b>	\$ 49,857,704	\$ (3,075,239)	\$ 46,782,465	\$ 3,053,301

**7. LONG TERM DEBT (continued)**

**(a) Fire Houses Capital Lease**

On April 1, 2014, the city of Morgan Hill entered into a lease agreement for the purchase of two fire stations, known as the El Toro Fire Station and the Dunne Hill Fire Station from the Santa Clara County Central Fire Protection District. Principal and interest payments are due March 1 and September 1 of each year and mature on March 2, 2028 with an effective interest rate of 3.77%.

**(b) Fire Equipment Capital Lease**

On September 7, 2012, the City of Morgan Hill entered into a lease agreement for the purchase of fire equipment. Annual principal and interest payments are due September of each year and mature on September 7, 2027 with an effective interest rate of 2.82%.

**(c) Copier Equipment/Software Capital Lease**

On October 17, 2013, the City of Morgan Hill entered into a lease agreement for the purchase of copier equipment. Annual principal and interest payments are due November 1 of each year and mature on November 1, 2018 with an effective interest rate of 4.55%. The lease was paid off in fiscal year 2018.

On November 13, 2013, the City of Morgan Hill entered into a lease agreement for the purchase of server backup software. Annual principal and interest payments are due November 1 of each year and mature on November 1, 2018 with an effective interest rate of 3.91%. The lease was paid off in fiscal year 2018.

**(d) Energy Efficiency Loan**

During fiscal 2014-15, the City entered into a loan agreement with the California Energy Commission in the amount of \$108,188 for LED street lights projects throughout the City of Morgan Hill. The loan bears zero interest and payments are due in monthly installments of \$975 from September 2014 through September 2024.

**(e) Energy Assistance Act Loan**

During fiscal 2014-15, the City entered into a loan agreement with the California Energy Commission for \$695,626 at one percent (1%) interest rate, for various energy savings projects throughout the City of Morgan Hill. Semi-annual principal and interest payments are due December 22 and June 22 of each year, which commenced on December 22, 2015. Payments on this loan shall be made from savings in energy costs or other legally available funds as the City chooses; but shall not be raised by the levy of additional taxes and shall not be an obligation against tax revenues.

**7. LONG TERM DEBT (continued)**

**(f) 2015 Lease Revenue Refunding Bonds**

On December 1, 2015, the Morgan Hill Financing Authority issued \$8,720,000 in Lease Revenue Refunding Bonds. The proceeds of the bonds were used to refund the 2004 Police Facility Lease Revenue Bonds and the 2006 Library Facility Lease Revenue Bonds. The refunding was completed to realize net present value savings related to the leases securing the prior bonds. Principal payments are due each November 1, commencing in November 2016. Interest is payable semiannually on May and November 1 each year. The bonds mature in 2035 and bear an annual interest percentage rate in the range from 3.0% to 5.0%

The City and the Authority have entered into a Site and Facility Lease, dated as of December 1, 2015, whereby the Authority has agreed to lease the Leased Property, which consists of the Police Facility, located on 16200 Vineyard Blvd., in the City. The bonds are secured by the pledge of future lease revenues from the aforementioned agreement.

Annual debt service requirements for governmental debt are shown below:

For the Year Ending June 30	Governmental Activities						Total		Totals
	Bonds Payable		Capital Leases		Loans Payable		Principal	Interest	
	Principal	Interest	Principal	Interest	Principal	Interest			
2019	\$ 340,000	\$ 330,988	\$ 332,052	\$ 127,831	\$ 111,249	\$ 3,795	\$ 783,301	\$ 462,614	\$ 1,245,915
2020	360,000	313,487	343,191	116,692	112,240	2,804	815,431	432,983	1,248,414
2021	375,000	295,113	354,712	105,171	113,254	1,789	842,966	402,073	1,245,039
2022	395,000	275,862	366,629	93,254	114,272	771	875,901	369,887	1,245,788
2023	415,000	255,613	378,954	80,929	11,700	-	805,654	336,542	1,142,196
2024-2028	2,405,000	937,315	2,094,983	204,431	4,844	-	4,504,827	1,141,746	5,646,573
2029-2033	2,920,000	411,340	-	-	-	-	2,920,000	411,340	3,331,340
2034-2036	1,185,000	45,500	-	-	-	-	1,185,000	45,500	1,230,500
Sub-Total	8,395,000	2,865,218	3,870,521	728,308	467,559	9,159	12,733,080	3,602,685	16,335,765
Add unamortized premium	768,354	-	-	-	-	-	768,354	-	768,354
Totals	<u>\$ 9,163,354</u>	<u>\$ 2,865,218</u>	<u>\$ 3,870,521</u>	<u>\$ 728,308</u>	<u>\$ 467,559</u>	<u>\$ 9,159</u>	<u>\$ 13,501,434</u>	<u>\$ 3,602,685</u>	<u>\$ 17,104,119</u>

**(g) 2014 Water Revenue Bonds**

On May 1, 2014, the City issued \$21,975,000 in Water Revenue Bonds for capital improvement projects and to advance refund the outstanding principal amounts of the 2003 Water Facilities Loan, the 1999 Certificates of Participation, and the 2004 Water Revenue Bonds. The bond matures in 2034 and bears a 3.75 annual percentage rate. The bonds are secured by the pledge of Net Revenues from the Water Operations. Portions of the proceeds, \$2,485,010 for the 1999 COP, \$488,039 for the 2003 loan and \$7,740,000 for the 2004 Water revenue bonds, were deposited in irrevocable trusts with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, these debts are considered defeased and the liability for those bonds has been removed from the statement of net position.

**7. LONG TERM DEBT (continued)**

The pledge of future net revenue ends upon repayment of all remaining debt service on the Bonds which is scheduled to occur in fiscal 2034. For fiscal year 2018, Water Operations net revenue (excluding depreciation and amortization) amounted to \$4, 007,178, which represented coverage of 2.50 over the \$1,601,313 in debt service.

**(h) 2015 Sewer Revenue Bonds**

On June 1, 2015, the City issued \$15,690,000 in Sewer Revenue Bonds for capital improvement projects and to current refund the outstanding principal amounts of the 2002 South County Regional Wastewater Revenue Bonds, finance capital improvements to the City’s wastewater collection system; and pay bonds issuance costs. The bonds are secured by the pledge of Net Revenues from the Sewer Operations Fund and the Sewer Impact Fund. Principal payment is due each October 1, commencing in October 2016.

The pledge of future net revenue ends upon repayment of all remaining debt service on the Bonds which is scheduled to occur in fiscal 2036. For fiscal year 2018, Sewer Operations net revenue (excluding depreciation and amortization) amounted to \$4, 346,665, which represented coverage of 2.24 over the \$1,939,800 in debt service.

Interest is payable semiannually on April and October 1 each year. The bond matures in 2034 and bears an annual interest percentage rate in the range from 3.25% to 5.0%.

Annual debt service requirements for business-type debt are shown below:

For the Year Ending June 30	Business-Type Activities		Totals
	Principal	Interest	
2019	\$ 2,270,000	\$ 1,268,000	\$ 3,538,000
2020	2,375,000	1,163,938	3,538,938
2021	2,095,000	1,054,938	3,149,938
2022	2,645,000	955,375	3,600,375
2023	2,600,000	838,188	3,438,188
2024-2028	7,870,000	3,153,626	11,023,626
2029-2033	9,535,000	1,502,561	11,037,561
2034-2036	2,495,000	123,024	2,618,024
Sub-Totals	31,885,000	10,059,650	41,944,650
Add unamortized premiums	1,396,031	-	1,396,031
	<u>\$ 33,281,031</u>	<u>\$ 10,059,650</u>	<u>\$ 43,340,681</u>

**7. LONG TERM DEBT (continued)**

**(i) Special Assessment Debt for which the City is Not Obligated in Any Manner**

Certain special assessment districts are established in various parts of the City to provide improvements to properties located in those districts. Properties in the assessment districts listed below are assessed for the cost of improvements and these assessments are payable solely by property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or to be the purchaser of last resort of foreclosed properties in these special assessment districts, nor is it obligated to advance the City's funds to repay this debt in the event of default. In fiscal year 2016, the City refinanced the two outstanding special assessment debt issues, and as of June 30, 2018, the total balance of these districts' outstanding debt was \$8,491,000 comprised of \$4,850,000 for Madrone Business Park 2015 A&B and \$3,641,000 for Morgan Hill Ranch 2015.

**8. PENSION PLANS**

***CalPERS Miscellaneous***

**Plan Descriptions** – All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Plans, an agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and the City's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**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.

**PARS Trust** – During FY 15-16 the City established an irrevocable trust with Public Agency Retirement Services (PARS) to set aside funds for pension liability. The City Council reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the City.

At June 30, 2018 the balance in the PARS trust was \$863,024. In the prior years, the PARS Trust balance had been excluded from City's cash and investment balance. In fiscal year 2018, due to the interpretation of GASB 68 for the treatment of the secondary Trust other than CERBT when City has Pension with CalPERS, City restated the PARS trust balance as restricted cash with fiscal agent in General Fund, the contributing fund, and increased the beginning fund balance for General Fund by \$863,024.

**8. PENSION PLANS (Continued)**

The Plan’s provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2%@55; 2.5%@55	2%@62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Annual benefits, as a % of eligible compensation	2% to 2.5%	2%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	19.941%	19.941%

\* The required employer contributions rate does not include the unfunded accrued liability (UAL) as percentage, which is 10.551% in FY17-18

**Contributions** - Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan 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.

**Net Pension Liability** - The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. For governmental funds, the General Fund has been primarily used to liquidate pension liabilities. The net pension liability of each of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability follows.

9. PENSION PLANS (Continued)

**Changes in Net Pension Liability** – The changes in Net Pension Liability for the Miscellaneous Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2016 (Measurement Date)</b>	\$ 88,648,166	\$ 65,000,926	\$ 23,647,240
<b>Changes in the year:</b>			
Service cost	2,569,067	-	2,569,067
Interest on the total pension liability	6,655,208	-	6,655,208
Changes in benefit terms			
Changes in assumptions	5,785,611	-	5,785,611
Differences between actual and expected experience	(1,017,186)	-	(1,017,186)
Plan to plan resource movement			
Contribution - employer	-	2,518,266	(2,518,266)
Contribution - employee	-	1,197,450	(1,197,450)
Net investment income	-	7,449,380	(7,449,380)
Benefit payments, including refunds of employee contributions	(3,242,574)	(3,242,574)	-
Administrative Expense	-	(95,969)	95,969
<b>Net changes during 2016-17</b>	<u>10,750,126</u>	<u>7,826,553</u>	<u>2,923,573</u>
<b>Balance at June 30, 2017 (Measurement Date)</b>	<u>\$ 99,398,292</u>	<u>\$ 72,827,479</u>	<u>\$ 26,570,813</u>

<sup>1</sup>All Tiers of the Miscellaneous Plan were combined into on GASB 68 report by CalPERS.

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

	Discount Rate		
	1% Decrease 6.15%	Current 7.15%	1% Increase 8.15%
Miscellaneous Net Pension Liability	\$ 40,863,999	\$ 26,570,813	\$ 14,820,986

8. PENSION PLANS (continued)

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions** - For the year ended June 30, 2018, the City recognized pension expense of \$7,557,544 at June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,950,036	\$ -	\$ 2,110,520	\$ -
Differences between actual and expected experience	107,408	(678,124)	177,109	(46,177)
Changes in assumptions	3,857,074	-	2,568,520	(197,064)
Net differences between projected and actual earnings on plan investments	802,088	-	560,038	-
Change in proportion	-	-	501,812	(152,627)
Differences between actual contributions and proportionate share of contributions	-	-	593,296	-
Total	<u>\$ 7,716,606</u>	<u>\$ (678,124)</u>	<u>\$ 6,511,295</u>	<u>\$ (395,868)</u>

A total of \$5,060,556 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

Year Ended June 30	Safety Annual Amortization	Miscellaneous Annual Amortization
2019	\$ 1,312,366	\$ 1,668,411
2020	1,849,683	2,624,963
2021	1,170,556	355,812
2022	(327,698)	(560,740)

Actuarial assumptions and information regarding the discount rate are discussed below.

**CalPERS Safety Cost-Sharing Plan**

The City’s Safety Plan is part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by CalPERS. PERF C consists of a miscellaneous pool and a safety pool (also referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The City sponsors two rate plans (two police) within the safety risk pool.

**8. PENSION PLANS (continued)**

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

**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 or 57, depending on hire date, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<b>Safety</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	57
Annual benefits, as a % of eligible compensation	3%	2.70%
Required employee contribution rates	9.00%	11.500%
Required employer contribution rates*	19.723%	11.990%

\* The required employer contributions rate does not include the unfunded accrued liability (UAL) as percentage, which is 21.469% for Classic and .042% for PEPR in FY17-18.

Beginning in fiscal year 2018, CalPERS collects employer contributions for the cost-sharing plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability was \$2,478,620 in fiscal year 2018.

**Contributions** - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan 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.

**8. PENSION PLANS (continued)**

For the year ended June 30, 2018, contributions to the Miscellaneous and Safety Plans were as follows:

	Miscellaneous		Safety	
	Classic	PEPRA	Classic	PEPRA
Contributions - employer	\$ 2,599,223	\$ 350,813	\$ 2,015,687	\$ 94,833

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

– For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans 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.

At June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Safety Plan as follows:

	Proportionate Share of Net Pension Liability
Safety	\$ 18,492,131

The City’s net pension liability is measured as the proportionate share of each Plan’s net pension liability. The net pension liability is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City’s proportion of the net pension liability was based on the City’s share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability as of June 30, 2016 and 2017 was as follows:

	Safety
Proportion - June 30, 2017	0.31681%
Proportion - June 30, 2018	0.30948%
Change-Increase (Decrease)	-0.00733%

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

	Discount Rate		
	1% Decrease 6.15%	Current 7.15%	1% Increase 8.15%
Safety Net Pension Liability	\$ 26,977,458	\$ 18,492,131	\$ 11,555,800

**8. PENSION PLANS (continued)**

Actuarial assumptions and information regarding the discount rate are discussed below.

Actuarial Assumptions – For the measurement period ended June 30, 2017, the total pension liabilities were determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

	All Plans
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by Entry Age and Service
Mortality*	Derived using CalPers Membership Data for all Funds (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

\* The mortality used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Change of Assumptions** – In fiscal year 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

**Employees Covered** – At June 30, 2018, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	148	39
Inactive employees entitled to but not yet receiving benefits	197	20
Active employees	157	60
Total	502	119

**Discount Rate** - The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.15% percent discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employee’s Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

**8. PENSION PLANS (continued)**

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100%		

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

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

**9. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**(a) Plan Description**

The City administers an agent multiple-employer defined-benefit post-employment healthcare plan. Dependents are eligible to enroll, and benefits continue to surviving spouses.

The City sets its monthly contribution rates for health insurance on behalf of active employees through negotiations with its employee associations and through discussions with its non-represented employees. Employees may designate additional amounts contributed by the City, up to a negotiated "Health Allowance" that varies by group (currently between \$610/month and \$778/month) to a cafeteria plan to be used for the purpose of paying PEMHCA premiums; the City then remits these additional amounts to CalPERS as employee contributions.

The City offers the same medical plans to its retirees as to its active employees, with the exception that once a retiree becomes eligible for Medicare (that is, reaches age 65), he or she must join a Medicare HMO or a Medicare Supplement plan under PEMHCA.

Employees become eligible to retire and receive the City's paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service, or by qualifying for disability retirement status. Benefits are paid for the lifetime of the retiree and, if applicable, the surviving spouse of the retiree. The City's contribution on behalf of all eligible retirees is determined under the "Unequal Contribution Method", under which the contribution for retirees is equal to the employer contribution for active employees, 5% multiplied by the number of years the City has participated in PEMHCA, to a maximum of 100% of the contribution for active employees after 20 years in PEMHCA. The City provides PEMHCA minimum for each subscriber under the unequal contribution method (\$126.25 in 2018), regardless of elected coverage tier.

The City also pays a .31% premium administrative fee for all active employees and retirees.

**(b) Funding Policy**

Generally accepted accounting principles do not require pre-funding of OPEB benefits. Therefore, the City's funding policy is to continue to pay healthcare premiums for retirees as they fall due. During FY 15-16 the City established an irrevocable trust with Public Agency Retirement Services (PARS) to set aside funds for OPEB liability. At June 30, 2018 the balance in the trust was \$1,138,581.

The City Council reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the City.

**9. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

**(c) Employees covered by benefit terms**

At June 30, 2017 (the census date), the benefit terms covered the following employees:

Active employees	189
Inactive employees, spouses, or beneficiaries currently receiving benefit payments	69
Inactive employees entitled to but not yet receiving benefit payments	<u>0</u>
Total	<u><u>258</u></u>

**(d) Net OPEB Liability**

The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. For governmental funds, the General Fund has been primarily used to liquidate OPEB liability.

**(e) Actuarial Assumptions**

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified:

<u>Actuarial Assumption</u>	<u>Measurement Date</u>
Measurement date	June 30, 2017
Funding Method	Entry Age Normal cost, level percent of pay
Asset Valuation Method	Market value of assets
Investment rate of return	6.5000%
Discount Rates	6.5% as of June 30, 2016 and June 30, 2017 base salary increases in year one: 4.000%. Base salary increases in subsequent years: 4.000%.
Salary increases	Additional merit-based increases based on CalPERS merit salary
Inflation	2.75% per year
Healthcare cost trend rates	6.000% in the first year, trending down to 3.835% over 56 years.
Mortality rate	CalPERS rates

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that the City contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set equal to the long-term expected rate of return.

9. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

(f) Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
	(a)	(b)	(c) = (a) - (b)
Balance at Fiscal Year Ending 6/30/2017:	\$ 4,821,696	\$ 402,373	\$ 4,419,323
Changes Recognized for the Measurement Period:			
Service Cost	311,361	-	311,361
Interest	326,450	-	326,450
Expected investment income	-	-	-
Contributions:			
Employer - City's contribution	-	358,737	(358,737)
Employer - Implicit subsidy	-	162,747	(162,747)
Net investment income	-	70,468	(70,468)
Benefit payments	(58,737)	(58,737)	-
Implicit rate subsidy fulfilled	(162,747)	(162,747)	-
Changes of assumptions	-	-	-
Administrative expenses*	-	-	-
Net Changes during Fiscal Year 2018	<u>416,327</u>	<u>370,468</u>	<u>45,859</u>
Balance at Fiscal Year Ending 6/30/2018:	<u>\$ 5,238,023</u>	<u>\$ 772,841</u>	<u>\$ 4,465,182</u>

\*Administrative expenses are included in investment expenses.

(g) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%), as follows:

Net OPEB Liability/(Asset)		
Discount Rate -1% (5.50%)	Discount Rate (6.50%)	Discount Rate +1% (7.50%)
\$ 4,537,979	\$ 4,465,182	\$ 3,535,829

(h) Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00%) or one percentage point higher (7.00%) than current healthcare cost trend rates, as follows:

Net OPEB Liability/(Asset)		
1% Decrease (5.00% Decreasing to 2.84%)	Healthcare Cost Trend Rates (6.00% Decreasing to 3.84%)	1% Increase (7.00% Decreasing to 4.84%)
\$ 3,839,765	\$ 4,465,182	\$ 5,224,951

9. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

(i) OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$593,647. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer contributions made subsequent to the measurement date	\$ 534,494	\$ -
Differences between actual and expected experience	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(26,124)
Changes of assumptions	-	-
Total	<u>\$534,494</u>	<u>(\$26,124)</u>

A total of \$534,494 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, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30</u>	<u>Annual Amortization</u>
2019	\$ (6,531)
2020	(6,531)
2021	(6,531)
2022	(6,531)

(j) OPEB Trust Fund

(i) Plan Administration

The City is the plan administrator. The Public Agency Retirement Services (PARS) administers the trust for the City. The City contracts with CalPERS, an agent multiple-employer plan administered by CalPERS to provide integrated medical/prescription drug coverage under the Public Employees' Medical and Hospital Care Act (PEMHCA).

	<u>Fiscal Year ended June 30, 2018</u>
Plan Type	Agent Multiple Employer
OPEB Trust	Yes
Special Funding Situation	No
Nonemployer Contributing Entity	No

**9. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

(ii) Contribution Information

The City’s funding/contribution policy is to continue to pay healthcare premiums for retirees as they fall due. In addition, the City established this irrevocable trust with Public Agency

Retirement Services (PARS) to set aside funds for OPEB liability. At June 30, 2018, the balance of the trust was \$1,138,581. The City reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the City.

(iii) Investment Policy

PARS offers different investment portfolios as part of the investment vehicle. The City’s policy regarding the allocation of the plan’s invested assets is established and may be amended by the management of the City of Morgan Hill. The primary objective is to maximize total Plan return, subject to the risk and quality constraints set forth in the investment guidelines. The investment objective the City has selected is the Moderate Objective, which has a dual goal to seek moderate growth of income and principal. The asset allocation ranges for this objective as of June 30, 2018, are listed below:

The following is the City adopted asset allocation policy as of June 30, 2018:

Asset Class Component:	<u>Target Allocation</u>
Equity	40-60%
Fixed Income	40-60%
Cash	0-20%
Assumed Long Term Rate of Inflation	2.75%
Discount Rate	6.50%

Market conditions may cause the account’s asset allocation to vary from the stated range from time to time. The investment manager (assisting the City) will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with the objectives.

(iv) Investment Concentration

As of June 30, 2018, the City’s Trust did not have investments in any one organization exceeding 5% of the City’s Trust investments.

9. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

(v) Investment Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 12.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

10. SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY

(a) Loans receivable of the Successor Agency as of June 30, 2018, consisted of the following:

Project Name	Loan Balance Outstanding	Special Provisions of Loan
Morgan Hill Grange	\$ 1,814,639	Loan will be forgiven at maturity unless property is transferred
Sycamore Glen	438,000	Interest and principal due at maturity
Specialized Loan	420,000	After 10 years - interest free
Johnson Lumber	105,617	Development Agreement-interest free
Associated Concrete	411,716	If loan conditions are met, loan will be treated as a reimbursement grant
Allowance for Doubtful Accounts	(568,082)	
Total:	\$ 2,621,890	

(b) Capital assets of the Successor Agency as of June 30, 2018, consisted of the following:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 1,512,204	\$ -	\$ -	\$ 1,512,204
Total capital assets not being depreciated	1,512,204	-	-	1,512,204
Capital assets being depreciated:				
Buildings and other improvements	859,896	-	-	859,896
Total capital assets, being depreciated, net	859,896	-	-	859,896
Less accumulated depreciation for:				
Buildings and other improvements	(501,601)	(28,663)	-	(530,264)
Total accumulated depreciation	(501,601)	(28,663)	-	(530,264)
Total Capital Assets Being Depreciated, Net	358,295	(28,663)	-	329,632
Net Capital Assets	\$ 1,870,499	\$ (28,663)	\$ -	\$ 1,841,836

**10. SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY (continued)**

Pursuant to Health and Safety Code (HSC) section 34191.5 (b), the City of Morgan Hill Successor Agency (Agency) submitted a Long-Range Property Management Plan (LRPMP) to the California Department of Finance (Finance). The Agency received a Finding of Completion and Finance approved the Agency's use or disposition of all the properties listed on the LRPMP. The only remaining Successor Agency's capital asset is the 41% interest in the property being used as the public parking to serve Caltrain Station and VTA Bus Depot as of June 30, 2018.

**(c) The Successor Agency's changes in long term debt are as follows:**

	Balance July 1, 2017	Reductions	Balance June 30, 2018	Current Portion
2013A Refunding Revenue Bonds	\$ 74,310,000	\$ -	\$ 74,310,000	\$3,185,000
Premium	5,885,085	(226,350)	5,658,735	
2013B Refunding Revenue Bonds	4,150,000	(3,150,000)	1,000,000	1,000,000
<b>Total</b>	<u>\$ 84,345,085</u>	<u>\$ (3,376,350)</u>	<u>\$ 80,968,735</u>	<u>\$ 4,185,000</u>

On February 21, 2008, the former Redevelopment Agency issued \$96,200,000 in Variable Rate Tax Allocation Bonds (Ojo de Agua Redevelopment Project Area) Series 2008A Tax Exempt Bonds and \$13,800,000 in Variable Rate Tax Allocation Bonds (Ojo de Agua Redevelopment Project Area) Series 2008B Taxable Bonds.

The proceeds from the sale of the Bonds were used to: 1) finance redevelopment projects benefiting the Ojo de Agua Redevelopment Project Area; 2) fund a debt service reserve account; and 3) pay costs of issuance of the Bonds.

On November 19, 2013, the Successor Agency issued \$74,310,000 Series 2013A and \$14,365,000 Series 2013B Refunding Revenue Bonds. The bonds were issued to refund and defease the previously issued former Redevelopment Agency Series 2008A Tax Exempt Bonds and the Series 2008B Taxable Bonds.

Future debt service requirements as follows:

For Year Ending June 30	Principal	Interest	Totals
2019	\$ 4,185,000	\$ 3,660,650	\$ 7,845,650
2020	3,440,000	3,495,750	6,935,750
2021	3,610,000	3,321,625	6,931,625
2022	3,795,000	3,138,875	6,933,875
2023	3,985,000	2,946,750	6,931,750
2024-2028	21,105,000	11,670,750	32,775,750
2029-2033	28,590,000	5,362,813	33,952,813
2034	6,600,000	165,000	6,765,000
<b>Sub Totals</b>	75,310,000	33,762,213	109,072,213
Add unamortized premium	5,658,735	-	5,658,735
<b>Totals</b>	<u>\$ 80,968,735</u>	<u>\$ 33,762,213</u>	<u>\$ 114,730,948</u>

**10. SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY (continued)**

- (d) The loans payable in the amount of \$2,513,275 is due to the City for the State’s Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The funds were previously borrowed from the former RDA’s Low and Moderate Fund to pay the SERAF. Upon the dissolution of the RDA, the City took control of the housing activities and the net position of the Low and Moderate Fund, which includes the SERAF receivable due from the Successor Agency.

**11. COMMITMENTS/CONTINGENCIES**

**(a) Grant Programs**

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City’s compliance with applicable program requirements will be determined at a future date. The amount of any expenditure which may be disallowed by the grantor agencies cannot be determined at this time. However, the City expects such amounts to be immaterial and, to the best of staff’s knowledge, has met all requirements of the various programs in the past.

Santa Clara Valley Transportation Authority, administrator of the Santa Clara County Vehicle Registration Fee (VRF) local road improvement and repair program, requires recipients to disclose VRF balance in their audit financial statements. Below is the reconciliation of VRF balances for the City of Morgan Hill.

17-18 Starting VRF Balance as of July 1, 2017:	\$ 527,040
17-18 VRF Revenue:	271,122
17-18 VRF Interest:	1,936
17-18 VRF Expended:	<u>800,099</u>
17-18 Ending VRF Balance as of June 30, 2018	<u>\$ -</u>

**(b) Gann Spending Limitation Initiative**

Under Article XIII B of the California Constitution, the City is restricted as to the amount of annual appropriations from proceeds of taxes. If the proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following fiscal year.

For the fiscal year ended June 30, 2018, based on calculations by the City’s management, proceeds of taxes did not exceed the appropriations limit.

**11. COMMITMENTS/CONTINGENCIES (continued)**

**(c) Construction and Other Significant Commitments**

Listed below are the projects for uncompleted contracts over \$200,000 outstanding as of June 30, 2018 for all funds.

<u>Project Name</u>	<u>Total Amount Outstanding</u>
Monterey Road Preservation	\$ 246,593
East Dunne Ave & Tennant Ave Sewer Mains	249,300
Sewer Trunk Line Cohansey to Rez	362,909
Inclusive Playground	400,000
2018 Inflow and Infiltration Project	691,850
2015 Lift Station Imps: F/D/W	1,153,000
Main Ave Well #3	1,562,519

Listed below are the total outstanding encumbrances by each major fund and nonmajor funds in the aggregate as of June 30, 2018.

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 1,049,044
Development Services	543,264
Housing	23,890
Nonmajor Funds	2,386,859

**(d) Contracting Out of Fire and Emergency Medical Services**

The City of Morgan Hill entered into a reimbursement agreement with the California Department of Forestry and Fire Protection (CALFIRE) effective September 1, 2012 for fire and life safety services. The City purchased the two fire houses located within Morgan Hill and also purchased three fire trucks and other emergency personnel vehicles. CALFIRE provides personnel services with the City reimbursing the State for those labor costs. All other costs associated are the responsibility of the City including equipment, supplies, and maintenance. The agreement for services between the City of Morgan Hill and the State of California expires June 30, 2023 and has a maximum amount of \$37,381,274. During fiscal year 2018, payments to CALFIRE related to this contract totaled \$4,825,648.

## 12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in Internal Service Funds. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported.

The City's basic financial statements also reflect as expenses the premiums assessed for insurance coverage, which are based on periodic actuarial studies by the firms providing coverage to the City.

The City is self-insured for workers' compensation up to a maximum of \$250,000 per occurrence. The City is a member of Local Agency Worker's Compensation Excess (LAWCX), a self-funded worker's compensation insurance pooled with 34 members, which cover the layer above the City's limit of \$250,000. The City, through LAWCX, purchased insurance covers the excess up to \$5,000,000 per occurrence. The City is also fully self-insured for unemployment insurance.

Prior to January 2018 the City participated in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. On January 16, 2018, ABAG Plan Corporation transitioned to Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA), a self-funded pooled insurance corporation established by a joint powers authority in which the City is one of 28 members. For the fiscal year ended June 30, 2018, PLAN JPA provided general liability insurance up to \$15,000,000 per occurrence through a combination of \$5,000,000 pool coverage and \$10,000,000 of excess insurance, subject to a \$100,000 deductible.

The rights and responsibilities of the member agencies are governed by the bylaws of the PLAN JPA, the risk coverage agreement, and a related memorandum of coverage. Each member chooses its self-insured liability retention at a level between \$25,000 and \$250,000. Each member has a vote in approving the pool's self-insured retention level, in setting the coverage limit, in establishing the level of pool reserves, approving the premium allocation methodology for setting premiums for each member, and in approving the methodology for returning disburseable equity to members. PLAN JPA is responsible for administering the insurance program. PLAN JPA provides claims administration and risk management services to the members.

PLAN JPA also provides property & auto insurance for the City, including a \$5,000 deductible for all property and auto. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the City's insurance coverage during the fiscal year ended June 30, 2018.

Complete financial statements for PLAN JPA may be obtained at the following address:

PLAN Joint Powers Authority  
1750 Creekside Oaks Drive, Suite 200  
Sacramento, CA 95833

**12. RISK MANAGEMENT (continued)**

Changes in the reported liabilities are as follows:

	Unemployment Workers' Compensation	General Liability	Total
<b>Liability as of 06/30/15</b>	<b>\$ 638,533</b>	<b>\$ 413,064</b>	<b>\$ 1,051,597</b>
Claims and changes in estimates during the fiscal year ended			
Claims payments during the fiscal year ended 06/30/16	1,339,224	254,750	1,593,974
	(417,757)	(142,286)	(560,043)
<b>Liability as of 06/30/16</b>	<b>1,560,000</b>	<b>525,528</b>	<b>2,085,528</b>
Claims and changes in estimates during the fiscal year ended			
Claims payments during the fiscal year ended 06/30/17	288,878	45,739	334,617
	(156,878)	(201,927)	(358,805)
<b>Liability as of 06/30/17</b>	<b>1,692,000</b>	<b>369,340</b>	<b>2,061,340</b>
Claims and changes in estimates during the fiscal year ended			
Claims payments during the fiscal year ended 06/30/18	526,947	66,518	593,465
	(1,199,947)	(188,059)	(1,388,006)
<b>Liability as of 06/30/18</b>	<b>\$ 1,019,000</b>	<b>\$ 247,799</b>	<b>\$ 1,266,799</b>

In addition, with respect to the general liability accrual, the City has several other unsettled lawsuits filed or claims asserted against it as of June 30, 2018. The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City.

As a result of such a review, the City has categorized such claims and lawsuits as "remote" loss contingencies, as defined in FASB Statement No. 5. The final outcome of claims and lawsuits which have been categorized as remote loss contingencies is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. The ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

The balances in the City's General Liability, Workers' Compensation and Unemployment Insurance Internal Service Funds include a reasonable reserve for anticipated future catastrophic losses.

**13. JOINT POWERS AUTHORITY (Discretely Presented Component Unit)**

The City and the Morgan Hill Unified School District formed the Corporation Yard Commission, a joint powers authority, in 1975. The Commission issued bonds for real property improvements and leased the property to the City and the School District. The annual lease payments made to the Commission were approximately equal to debt service payments on the bonds and operating costs of the Commission. The lease expired in December 1999, coinciding with the final payment on the bond issue and title to the property vested with the City.

In June of 1995, the property that is shared by the School District and the City was contaminated by a leaking fuel tank. Costs through June 30, 2018 for clean-up and legal fees totaled \$3,196,851 of which \$1,500,000 was reimbursed by the State Water Resources Control Board Underground Storage Tank Fund. This contamination has been mitigated and no future significant costs are expected related to clean up. During fiscal year 2017-18, City Council and Morgan Hill Unified School District mutually agreed to dissolve the Corporation Yard Commission, as the purpose has been served.

**14. TAX ABATEMENTS**

The City offers an auto dealership incentive program to the entities that propose to establish or expand businesses within the City. This incentive program is expected to provide a stimulus to the City's economy, increase the tax base and create jobs. Each of the agreements entered into by the City, provides for a rebate of taxes paid to the City according to formulas contained in the agreements. These limited terms agreements provide for a sharing of the taxes above certain amounts with a maximum rebate not to exceed the excess amount over the determined baseline to help businesses recover the cost of establishing or expanding businesses. The City generally expects to receive increased revenue as a result of these agreements. These incentive agreements require approval by City Council.

For financial reporting purposes, the GASB Statement No. 77 defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. According to the GASB 77, the substance of these agreements meet the definition of "tax abatements" as the revenues received were not available for general municipal services purposes, but rather used to effectively reduce the net tax liability of certain taxpayers per the conditions of an agreement.

The taxes paid to the City are included in the revenue reported in these financial statements. The payments made to the businesses based upon the taxes paid are also included as expenditures in these financial statements. For the fiscal year ended June 30, 2018, under this program the City has abatements of sales tax totaling \$88,745.

Pursuant to the Sales and Use Tax law (chapter 8 – Article 1 – section 7056), in order to protect the confidential information of sales taxes collected and abatements provided to each of the specific agencies, the City has presented the aggregate amount abated during the current fiscal year.



**CITY OF MORGAN HILL**

## **Required Supplementary Information**



**CITY OF MORGAN HILL**

City of Morgan Hill  
 General Fund  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balance - Budget and Actual  
 For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Property taxes and special assessments	\$ 10,114,000	\$ 10,566,000	\$ 11,359,893	\$ 793,893
Sales taxes	9,513,500	9,588,502	10,358,420	769,918
Franchise, hotel and other taxes	5,289,846	5,289,846	5,478,690	188,844
Licenses and permits	210,621	210,621	211,275	654
Funding from other govt agencies	324,413	286,198	382,290	96,092
Charges for current services	8,742,196	8,908,263	8,928,605	20,342
Investment income and rentals	1,067,550	1,046,550	(73,776)	(1,120,326)
Other revenues	220,053	220,053	998,469	778,416
<b>Total revenues</b>	<b>35,482,179</b>	<b>36,116,033</b>	<b>37,643,866</b>	<b>1,527,833</b>
<b>Expenditures:</b>				
General government				
Council	333,159	400,659	324,896	75,763
City Attorney	729,111	833,194	695,608	137,586
City Manager	992,754	3,197,153	1,122,345	2,074,808
Human Resources	706,168	754,123	687,045	67,078
City Clerk	627,038	627,038	661,561	(34,523)
Finance	1,600,475	1,603,414	1,574,452	28,962
Total General Government	4,988,705	7,415,581	5,065,907	2,349,674
Public Safety				
Police	15,454,045	15,709,092	15,004,900	704,192
Fire	5,723,471	5,723,471	5,833,692	(110,221)
Total Public Safety	21,177,516	21,432,563	20,838,592	593,971
Community Development				
Congestion Management	219,198	219,198	184,833	34,365
Total Community Development	219,198	219,198	184,833	34,365
Streets and Highways				
Street Maintenance	2,020,205	2,114,770	1,995,137	119,633
Total Streets and Highways	2,020,205	2,114,770	1,995,137	119,633
Culture and recreation				
Recreation	7,758,066	7,982,286	7,560,527	421,759
Cable TV/Comm.& Marketing	49,443	49,443	19,684	29,759
Downtown maintenance	273,021	296,241	284,581	11,660
Total Culture and recreation	8,080,530	8,327,970	7,864,792	463,178
Other Public Services				
Solid Waste Management	277,104	277,104	189,626	87,478
Total Other Public Services	277,104	277,104	189,626	87,478
Capital outlay				
Construction projects	50,000	761,104	104,362	656,742
Debt service				
Principal	107,101	107,101	98,561	8,540
Interest and fiscal charges	4,083	4,083	143,385	(139,302)
<b>Total Expenditures</b>	<b>36,763,258</b>	<b>39,787,186</b>	<b>36,485,195</b>	<b>3,301,991</b>
Excess (deficiency) of revenues over (under) expenditures	(1,281,079)	(3,671,153)	1,158,671	4,829,824
Other Financing sources (uses):				
Proceeds from sale of capital assets			71,000	71,000
Transfers in	1,655,508	1,682,103	1,583,647	(98,456)
Transfers (out)	(2,108,574)	(2,108,574)	(2,118,574)	(10,000)
Total other financing sources (uses)	(453,066)	(426,471)	(463,927)	(37,456)
Net change in fund balance	\$ (1,734,145)	\$ (4,097,624)	694,744	\$ 4,792,368
Fund Balance-Beginning			16,830,617	
Fund Balance-Ending			<b>\$ 17,525,361</b>	

City of Morgan Hill  
Community Development Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Charges for services	\$ 3,670,555	\$ 3,670,556	\$ 4,460,653	\$ 790,097
Investment income	9,417	9,417	57,652	48,235
<b>Total Revenues</b>	<b>3,679,972</b>	<b>3,679,973</b>	<b>4,518,305</b>	<b>838,332</b>
<b>Expenditures:</b>				
Current:				
Community development	5,008,839	5,407,728	5,026,916	380,812
<b>Total Expenditures</b>	<b>5,008,839</b>	<b>5,407,728</b>	<b>5,026,916</b>	<b>380,812</b>
Excess (deficiency) of revenues over (under) expenditures	(1,328,867)	(1,727,755)	(508,611)	1,219,144
<b>Other Financing Sources (Uses):</b>				
Transfers (out)	(136,104)	(136,104)	(136,121)	(17)
Total other financing sources (uses)	(136,104)	(136,104)	(136,121)	(17)
Net change in fund balance	\$ (1,464,971)	\$ (1,863,859)	(644,732)	\$ 1,219,127
Fund Balance-Beginning			2,646,685	
<b>Fund Balance-Ending</b>			<b>\$ 2,001,953</b>	

City of Morgan Hill  
Housing Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Charges for services	\$ 67,881	\$ 67,881	\$ -	\$ (67,881)
Funding from other governmental agencies	1,200,000	1,200,000		
Investment income	17,493	17,493	79,908	62,415
<b>Total Revenues</b>	<b>1,285,374</b>	<b>1,285,374</b>	<b>79,908</b>	<b>(1,205,466)</b>
<b>Expenditures:</b>				
Current:				
Housing services	1,931,214	1,943,434	934,748	1,008,686
Capitol Outlay		1,240,195	793,462	446,733
<b>Total Expenditures</b>	<b>1,931,214</b>	<b>3,183,629</b>	<b>1,728,210</b>	<b>1,455,419</b>
Excess (deficiency) of revenues over (under) expenditures	(645,840)	(1,898,255)	(1,648,302)	249,953
<b>Other Financing Sources (Uses):</b>				
Transfers (out)	(2,326)	(2,326)	(2,326)	
Total other financing sources (uses)	(2,326)	(2,326)	(2,326)	
Net change in fund balance	\$ (648,166)	\$ (1,900,581)	(1,650,628)	\$ 249,953
Fund Balance-Beginning			61,915,470	
<b>Fund Balance-Ending</b>			<b>\$ 60,264,842</b>	

City of Morgan Hill Miscellaneous Plan, an Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\*

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**

Measurement Period	2013-2014	2014-2015	2015-2016	2016-2017
<b>Total Pension Liability</b>				
Service Cost	\$ 2,070,308	\$ 2,160,542	\$ 2,258,111	\$ 2,569,067
Interest	5,561,850	5,903,293	6,326,739	6,655,208
Differences between expected and actual experience	-	(556,276)	302,964	(1,017,186)
Changes in assumptions	-	(1,526,156)	-	5,785,611
Changes in benefits	-	-	-	-
Benefit payments, including refunds of employee contributions	(2,431,338)	(2,739,905)	(3,020,203)	(3,242,574)
Net change in total pension liability	5,200,820	3,241,498	5,867,611	10,750,126
<b>Total pension liability - beginning</b>	74,338,507	79,539,327	82,780,825	88,648,436
<b>Total pension liability - ending (a)</b>	<u>\$ 79,539,327</u>	<u>\$ 82,780,825</u>	<u>\$ 88,648,436</u>	<u>\$ 99,398,562</u>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 1,708,041	\$ 2,301,680	\$ 2,590,587	\$ 2,518,266
Contributions - employee	1,128,472	1,001,923	1,071,857	1,197,450
Net investment income	9,159,676	1,400,430	317,085	7,449,380
Administrative Expense	-	-	-	(95,969)
Benefit payments, including refunds of employee contributions	(2,431,338)	(2,874,687)	(3,020,203)	(3,242,574)
Net change in plan fiduciary net position	9,564,851	1,829,346	959,326	7,826,553
<b>Plan fiduciary net position - beginning</b>	52,686,457	62,251,308	64,080,654	65,000,926
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 62,251,308</u>	<u>\$ 64,080,654</u>	<u>\$ 65,039,980</u>	<u>\$ 72,827,479</u>
 Net pension liability - ending (a)-(b)	 <u>\$ 17,288,019</u>	 <u>\$ 18,700,171</u>	 <u>\$ 23,608,456</u>	 <u>\$ 26,571,083</u>
 Plan fiduciary net position as a percentage of the total pension liability	 78.26%	 77.41%	 73.37%	 73.27%
 Covered payroll	 \$ 11,640,097	 \$ 13,206,077	 \$ 13,545,383	 \$ 14,943,991
 Net pension liability as percentage of covered-employee payroll	 148.52%	 141.60%	 174.29%	 177.80%

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

**Changes in assumptions.** In 2017 the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

\* Fiscal year 2015 was the 1st year of implementation of GASB 68.

Source: CalPERS Accounting Valuation

City of Morgan Hill Miscellaneous Plan, an Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\*

**SCHEDULE OF CONTRIBUTIONS<sup>1</sup>**

	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Actuarially determined contributions	\$ 2,191,276	\$ 2,590,586	\$ 2,557,965	\$ 2,950,036
Contributions in relation to the actuarially determined contributions	<u>2,191,276</u>	<u>2,590,586</u>	<u>2,557,965</u>	<u>2,950,036</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 \$ 13,206,077	 \$ 13,545,383	 \$ 14,943,991	 \$ 15,095,617
Contributions as a percentage of covered payroll	17%	19%	17%	20%
 <b>Notes to Schedule</b>				
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Asset valuation method	Market Value
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50%, net of pension plan investment expense, 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.

<sup>1</sup>Fiscal year 2015 was the 1st year of implementation of GASB 68

Source: City's general ledger and CalPERS Actuarial Valuation

City of Morgan Hill Safety Plan, a Cost-Sharing Multiple-Employer Defined Pension Plan  
Last 10 Years\*

**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY AND RELATED RATIOS  
AS OF THE MEASUREMENT DATE**

Measurement Period:	<u>6/30/2014<sup>1</sup></u>	<u>6/30/2015<sup>1</sup></u>	<u>6/30/2016<sup>1</sup></u>	<u>6/30/2017<sup>1</sup></u>
Plan's proportion of the Net Pension Liability (Asset)	0.20078%	0.33056%	0.31681%	0.30948%
Plan's proportion share of the Net Pension Liability (Asset)	\$ 12,493,165	\$ 13,620,561	\$ 16,408,464	\$ 18,492,131
Plan's Covered Payroll <sup>2</sup>	\$ 4,913,429	\$ 4,622,181	\$ 4,622,181	\$ 4,622,181
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	254.27%	294.68%	354.99%	400.07%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	79.82%	78.40%	74.06%	73.31%

<sup>1</sup>Historical information is required only for measurement periods for which GASB 68 is applicable.

<sup>2</sup>Covered Payroll represented above is based on pensionable earnings provided by the employer.

City of Morgan Hill Safety Plan, a Cost-Sharing Multiple-Employer Defined Pension Plan  
Last 10 Years\*

**SCHEDULE OF CONTRIBUTIONS**

Fiscal Year:	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Actuarially determined contribution	\$ 1,580,437	\$ 1,778,790	\$ 1,902,125	\$ 2,110,520
Contributions in relation to the actuarially determined contribution	<u>1,580,437</u>	<u>1,778,790</u>	<u>1,902,125</u>	<u>2,110,520</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 \$ 4,622,181	 \$ 4,622,181	 \$ 4,789,104	 \$ 5,685,714
Contributions as a percentage of covered payroll	32.17%	38.48%	39.72%	37.12%
 <b>Notes to Schedule</b>				
Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015
Methods and assumptions used to determine contribution rates:				
Actuarial cost method	Entry age Normal			
Amortization method	Level percentage of payroll			
Asset valuation method	5-year smoothed market			
Inflation	2.75%			
Salary increases	Varies by Entry Age and Service			
Investment rate of return	7.50%, net of pension plan investment expense, 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.			

\* - Fiscal year 2015 was the 1st year of implementation of GASB 68

**SCHEDULE OF CHANGES  
IN THE NET OPEB LIABILITY AND RELATED RATIOS  
An Agent Multiple-employer OPEB Plan  
Last 10 fiscal years\***

<b>Measurement Date</b>	<u><b>6/30/17</b></u>
<b>Total OPEB Liability (1)</b>	
Service Cost	\$ 311,361
Interest	326,450
Differences between expected and actual experience	-
Benefit payments	(58,737)
Implicit rate subsidy fulfilled	(162,747)
Changes of assumptions	-
<b>Net change in total OPEB liability</b>	<u>416,327</u>
<b>Total OPEB liability - beginning</b>	<u>4,821,696</u>
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 5,238,023</u></u>
 <b>OPEB fiduciary net position</b>	
Net investment income	\$ 70,468
Contributions:	
Employer - City's contribution	358,737
Employer - Implicit subsidy	162,747
Administrative expense	-
Implicit rate subsidy fulfilled	(162,747)
Benefit payments	(58,737)
<b>Net change in plan fiduciary net position</b>	<u>370,468</u>
<b>Plan fiduciary net position - beginning</b>	<u>402,373</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 772,841</u></u>
 Net OPEB liability - ending (a)-(b)	<u><u>\$ 4,465,182</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	14.75%
Covered-employee payroll	\$ 19,380,617
Total OPEB liability as a percentage of covered-employee payroll	23.04%

\* Fiscal year 2018 was the first year of implementation of GASB 75  
Administrative expenses are included in investment expenses.

**SCHEDULE OF CONTRIBUTIONS**  
 An Agent Multiple-employer OPEB Plan  
 Last 10 fiscal years\*

<b>Fiscal Year Ended June 30,</b>	<u><b>2018</b></u>
Actuarially Determined Contribution (ADC)	\$ 623,755
<b>Less: Contributions in Relation to the ADC</b>	<u>(521,484)</u>
Contribution deficiency (excess)	<u>\$ 102,271</u>
Covered-employee payroll	<u>\$ 19,380,617</u>
Contributions as a percentage of Covered-employee payroll	2.69%

**Notes to Schedule:**

\* Fiscal year 2018 was the first year of implementation.

**Assumptions and Methods**

Actuarial Cost Method	Entry Age Normal cost, level percent of Closed period, level
Amortization Method	percent of pay
Amortization Period	20 years
Inflation	2.75%
Assumed Payroll Growth	4.00%
Healthcare Trend Rates	6.000%, trending down to 3.835%
Rate of Return on Assets	6.50%
Mortality & Retirement Rates	CalPERS Rates

**SCHEDULE OF INVESTMENT RETURNS  
OTHER POST EMPLOYEMENT BENEFITS  
Last 10 Fiscal Years <sup>1</sup>**

<b>Fiscal year ended June 30,</b>	<b>Annual money-weighted rate of return, net of investment expense</b>
2017	10.30%
2018	12.76%

<sup>1</sup> This schedule is intended to show information for 10 years. Additional years will be added to this schedule in future fiscal years until 10 years of data is presented.

**1. BUDGETS AND BUDGETARY ACCOUNTING**

The City adopts a biennial operating budget on or before June 30 of the fiscal year. The operating budget takes the form of a two year financial plan which is adopted in its entirety by the City Council by resolution. Because Morgan Hill is a general law city, it is not subject to a budgetary process prescribed by statute or charter. The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager's budget control remains at the level of department and/or project within in any one fund. Expenditures cannot exceed the appropriated budget at the project or fund level without City Council approval. The City Manager is authorized to amend appropriations within the various departments within a fund, provided that the amount of the amended appropriation does not exceed the appropriation within the fund. Budgeted amounts are as originally adopted, or as amended by the City Council.

**2. ADJUSTMENTS TO GAAP BASIS FROM BUDGETARY BASIS**

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital project expenditures are budgeted on a project length basis rather than a fiscal year. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements.



**CITY OF MORGAN HILL**

**Combining and Individual Fund  
Financial Statements**



**CITY OF MORGAN HILL**

## Non Major Funds



**CITY OF MORGAN HILL**

## SPECIAL REVENUE FUND

Special Revenue Funds account for the proceeds of special revenue sources, other than special assessments, and major capital projects, that are legally restricted to expenditures for specified purposes.

**Street Maintenance**-This fund receives monies from state gas taxes based on population, and the funds may be expended only for street and road repair, maintenance, design, construction, and traffic signal design and installation. Proposition 111 monies from state gas taxes are received for the Congestion Management Program.

**Supplemental Law Enforcement Services**-This fund accounts for the receipt of one time General Fund revenues, AB3229 and grant monies to be used to fund additional police officers and one time capital expenditures.

**General Plan Update**-This fund accounts for revenues and expenditures associated with City's general plan update.

**Community Development Block Grants**-This fund receives revenues from Santa Clara County on a reimbursement basis, as a part of the federal government's program for low and moderate housing. Expenditures are restricted as to types of activities and nature of expense, and must benefit low and moderate income individuals seeking housing.

**Asset Seizure**-This fund accumulates revenue from the seizure of assets obtained by the police department from drug enforcement activities. Expenditures may be made from these funds only for police related activities in accordance with guidelines established by the state and federal governments.

**Landscape and Lighting Districts**-This fund derives its revenues from an assessment based on expenditures by the City for maintenance services to park areas within small developments. These services benefit the properties against which assessments are levied by ensuring proper upkeep.

**Environmental Programs**-Sources of funding are limited to 6% of the franchise fee and revenues from the countywide AB939 fee, which are used to fund expenditures related to solid waste management.

**Mobile Home Park Rent Stabilization**-This fund was created to monitor the fees charged to the mobile home park owners and tenants, as regulated by the Rent Stabilization Ordinance, and to ensure that they cover the City's cost for arbitration and litigation.

**Housing Development**-This fund receives in-lieu funding from developers who compete in the City's Residential Development Control system (Measure P). Funds are used in providing shelter and other similar services.

### Special Revenue Funds (Continued)

**Employee Assistance**-This fund was created to support various employee financial assistance programs. The first program, the employee computer loans, makes technology use affordable for all employees and improves skills in the workplace by encouraging use at home. Fund will be used on a revolving basis, and any future loans will be made from the repayment of previous loans.

**Environmental Remediation**-This fund is used to account for activity related to any necessary environmental remediation activity for which the city is responsible.

### Capital Projects Funds

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary and Special Revenue funds.

**Park Impact Fund**-This fund receives revenues from developers of properties and the fund may only be used for the design, development, maintenance, and construction of new parks or expansion of existing parks within the City.

**Park Maintenance**-This fund receives revenues from developers of properties and the funds may be used for the maintenance of the City's parks and for purchase of land for open space.

**Drainage Impact**-This fund receives revenues from developers of properties and the funds may only be used for the design and construction of new storm drains.

**Open Space**-This fund receives revenues from developers of properties and the funds may be used for the purchase of land for open space.

**Street CIP**- This fund accounts for the cost of capital improvements to the City's streets, roads and bridges.

**Traffic Impact**-This fund receives revenues from developers when their projects have an adverse impact on traffic flows, etc. The funds collected may be expended on new streets, traffic signals and improvements of existing streets where they are impacted by new development.

**Police, Library and Fire Impact**-These funds' revenues are derived from a fee charged to developers to cover the costs required for police and fire capital expansion projects to assist in providing service to new developments.

**Public Facilities**-This fund has no established source of revenue. Funds are transferred into this fund from the General Fund or other funds as they become available for capital projects which may not be funded by the other capital funds. Typical projects are sidewalk repair and replacement.

### **Capital Projects Funds (continued)**

**Library Impact Fund**-This fund revenues are derived from a fee charged to developers to cover the costs to construct library improvements required as a result of new development. Expenditures may only be made for the future construction of the required new library facilities or to reimburse the City for funds advanced to construct such facilities. Fund is subject to the restrictions of AB1600.

**Undergrounding**-This fund received revenues from developers for the undergrounding of utilities in areas of new development. Expenditures may be made only for the costs of design and construction associated with undergrounding.

**School/Pedestrian Traffic Safety**-This fund accounts for the revenues and expenditures relating the collection and use of development fees for this purpose.

**Community/Recreation Center Impact**-This fund was created to collect revenues derived from a fee charged to developers to cover the costs to construct new community centers in the City.

### **Debt Service Funds**

Debt Service Funds account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

**Civic Center (Library)**-On October 1, 2006, the Morgan Hill Financing Authority issued \$5,675,000 in Lease Revenue Bonds, which were refunded with the 2015 Lease Revenue Bonds. The proceeds of the Bonds were used to 1) assist the City of Morgan Hill in financing a portion of the construction costs of a new public library and related improvement, 2) assist the City in financing a portion of the costs for expanding City Hall facilities, 3) fund a reserve account for the Bonds, and 4) pay certain costs of issuance relating to the Bonds. This fund will account for the accumulation of resources and payments of principal, interest, and other related costs for the portion of 2015 Lease Revenue Bonds.

**Police Facility**-On August 1, 2004, the Morgan Hill Financing Authority issued \$7,395,000 in Lease Revenue Bonds, which were refunded with 2015 Lease Revenue Bonds. Proceeds of the Bonds were used to 1) assist the City of Morgan Hill in financing a portion of the acquisition and improvement costs of a new police headquarters and related facilities, 2) fund a reserve account for the Bonds, and 3) pay certain costs of issuance relating to the Bonds. This fund will account for the accumulation of resources and payments of principal, interest and other related costs for the portion of 2015 Lease Revenue Bonds.

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	Special Revenue Funds			
	Street Maintenance	Supplemental Law Enforcement	General Plan Update	Community Dev Block Grant
<b>Assets</b>				
Pooled cash and investment	\$ 429	\$ 50,367	\$ 1,196,143	\$ 67,306
Cash with fiscal agents				
Receivables:				
Accrued interest	163	55	2,872	163
Other accounts receivable	58,238			
Loans receivable				
Advances receivable				
<b>Total Assets</b>	<b>\$ 58,830</b>	<b>\$ 50,422</b>	<b>\$ 1,199,015</b>	<b>\$ 67,469</b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 38,416	\$ -
Accrued liabilities			50	
Due to other funds				12,226
Customer deposits/other liabilities				7,489
Advances payable				
Unearned revenue				
<b>Total Liabilities</b>			<b>38,466</b>	<b>19,715</b>
<b>Fund Balances</b>				
Restricted				
Community services			1,160,549	47,754
Parks and recreation				
Streets and highways	58,830			
Debt service				
Public safety		50,422		
Capital expansion projects				
Other purposes				
Unassigned				
<b>Total Fund Balances</b>	<b>58,830</b>	<b>50,422</b>	<b>1,160,549</b>	<b>47,754</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 58,830</b>	<b>\$ 50,422</b>	<b>\$ 1,199,015</b>	<b>\$ 67,469</b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	<u>Special Revenue Funds (continued)</u>			
	<u>Asset Seizure</u>	<u>Landscape and Lighting</u>	<u>Community Facilities</u>	<u>Environmental Programs</u>
<b>Assets</b>				
Pooled cash and investment	\$ 111,589	\$ 165,599	\$ 84,805	\$ 245,939
Cash with fiscal agents				
Receivables:				
Accrued interest	332	272	55	563
Other accounts receivable			80	
Loans receivable				
Advances receivable				
<b>Total Assets</b>	<u>\$ 111,921</u>	<u>\$ 165,871</u>	<u>\$ 84,940</u>	<u>\$ 246,502</u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 5,486	\$ 2,737	\$ 2,770
Accrued liabilities		2,560		
Due to other funds				
Customer deposits/other liabilities				
Advances payable				
Unearned revenue				
<b>Total liabilities</b>		<u>8,046</u>	<u>2,737</u>	<u>2,770</u>
<b>Fund Balances</b>				
Restricted				
Community services				243,732
Parks and recreation			82,203	
Streets and highways		157,825		
Debt service				
Public safety	111,921			
Capital expansion projects				
Other purposes				
Unassigned				
<b>Total Fund Balances</b>	<u>111,921</u>	<u>157,825</u>	<u>82,203</u>	<u>243,732</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 111,921</u>	<u>\$ 165,871</u>	<u>\$ 84,940</u>	<u>\$ 246,502</u>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	<u>Special Revenue Funds (continued)</u>			
	<u>Mobile Home Park Rent Stabilization</u>	<u>Housing Development</u>	<u>Employee Assistance</u>	<u>Environmental Remediation</u>
<b>Assets</b>				
Pooled cash and investment	\$ 43,240	\$ 2,979,038	\$ 38,844	\$ 134,482
Cash with fiscal agents				
Receivables:				
Accrued interest	104	9,351	87	340
Other accounts receivable				
Loans receivable		9,422,432	24,303	
Advances receivable				
<b>Total Assets</b>	<u>\$ 43,344</u>	<u>\$ 12,410,821</u>	<u>\$ 63,234</u>	<u>\$ 134,822</u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 49,549	\$ -	\$ 932
Accrued liabilities		569		
Due to other funds				
Customer deposits/other liabilities				
Advances payable				
Unearned revenue				
<b>Total liabilities</b>		<u>50,118</u>		<u>932</u>
<b>Fund Balances</b>				
Restricted				
Community services	43,344	12,360,703		
Parks and recreation				
Streets and highways				
Debt service				
Public safety				
Capital expansion projects				
Other purposes			63,234	133,890
Unassigned				
<b>Total Fund Balances</b>	<u>43,344</u>	<u>12,360,703</u>	<u>63,234</u>	<u>133,890</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 43,344</u>	<u>\$ 12,410,821</u>	<u>\$ 63,234</u>	<u>\$ 134,822</u>

City of Morgan Hill  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2018

	<u>Capital Projects Funds</u>			
	<u>Park Impact</u>	<u>Park Maintenance</u>	<u>Drainage Impact</u>	<u>Open Space</u>
<b>Assets</b>				
Pooled cash and investment	\$ 3,026,345	\$ 4,358,241	\$ 11,787,878	\$ 7,004,492
Cash with fiscal agents				
Receivables:				
Accrued interest	7,160	10,880	28,307	16,461
Other accounts receivable	19,794			
Loans receivable				
Advances receivable				
<b>Total Assets</b>	<b><u>\$ 3,053,299</u></b>	<b><u>\$ 4,369,121</u></b>	<b><u>\$ 11,816,185</u></b>	<b><u>\$ 7,020,953</u></b>
<b>Liabilities</b>				
Accounts payable	\$ 15,258	\$ 23,528	\$ 808	\$ 3,075
Accrued liabilities	780	6,014		
Due to other funds				
Customer deposits/other liabilities	249,955	73,772		
Advances payable				
Unearned revenue				
<b>Total liabilities</b>	<b><u>265,993</u></b>	<b><u>103,314</u></b>	<b><u>808</u></b>	<b><u>3,075</u></b>
<b>Fund Balances</b>				
Restricted				
Community services				
Parks and recreation	2,787,306	4,265,807		
Streets and highways				
Debt service				
Public safety				
Capital expansion projects			11,815,377	7,017,878
Other purposes				
Unassigned				
<b>Total Fund Balances</b>	<b><u>2,787,306</u></b>	<b><u>4,265,807</u></b>	<b><u>11,815,377</u></b>	<b><u>7,017,878</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3,053,299</u></b>	<b><u>\$ 4,369,121</u></b>	<b><u>\$ 11,816,185</u></b>	<b><u>\$ 7,020,953</u></b>

City of Morgan Hill  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2018

	<u>Capital Projects Funds</u>			
	<u>Street CIP</u>	<u>Traffic Impact</u>	<u>Police Impact</u>	<u>Fire Impact</u>
<b>Assets</b>				
Pooled cash and investment	\$ 2,390,295	\$ 3,265,069	\$ 42,546	\$ 3,788,398
Cash with fiscal agents				
Receivables:				
Accrued interest	5,366	7,680	81	9,102
Other accounts receivable	54,525	20		
Loans receivable		193,498		
Advances receivable				110,278
<b>Total Assets</b>	<u>\$ 2,450,186</u>	<u>\$ 3,466,267</u>	<u>\$ 42,627</u>	<u>\$ 3,907,778</u>
<b>Liabilities</b>				
Accounts payable	\$ 14,675	\$ 24,295	\$ 808	\$ 808
Accrued liabilities		270	111	17
Due to other funds				
Customer deposits/other liabilities	100,320			
Advances payable			778,640	
Unearned revenue	1,272	3,721		
<b>Total liabilities</b>	<u>116,267</u>	<u>28,286</u>	<u>779,559</u>	<u>825</u>
<b>Fund Balances</b>				
Restricted				
Community services				
Parks and recreation				
Streets and highways				
Debt service				
Public safety				
Capital expansion projects	2,333,919	3,437,981		3,906,953
Other purposes				
Unassigned			(736,932)	
<b>Total Fund Balances</b>	<u>2,333,919</u>	<u>3,437,981</u>	<u>(736,932)</u>	<u>3,906,953</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 2,450,186</u>	<u>\$ 3,466,267</u>	<u>\$ 42,627</u>	<u>\$ 3,907,778</u>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	<b>Capital Projects Funds</b>			
	<b>Public Facilities</b>	<b>Library Impact</b>	<b>Under Grounding</b>	<b>School Pedestrian &amp; Traffic Safety</b>
<b>Assets</b>				
Pooled cash and investment	\$ 711,553	\$ 2,387,650	\$ 705,508	\$ 1,493,732
Cash with fiscal agents				
Receivables:				
Accrued interest	1,686	5,727	1,697	3,607
Other accounts receivable	508,466			21,179
Loans receivable				
Advances receivable				
<b>Total Assets</b>	<b>\$ 1,221,705</b>	<b>\$ 2,393,377</b>	<b>\$ 707,205</b>	<b>\$ 1,518,518</b>
<b>Liabilities</b>				
Accounts payable	\$ 808	\$ 6,546	\$ -	\$ -
Accrued liabilities	74	15,287		
Due to other funds				
Customer deposits/other liabilities	35,913			16,076
Advances payable				
Unearned revenue				
<b>Total liabilities</b>	<b>36,795</b>	<b>21,833</b>		<b>16,076</b>
<b>Fund Balances</b>				
Restricted				
Community services				
Parks and recreation				
Streets and highways				
Debt service				
Public safety				
Capital expansion projects	1,184,910	2,371,544	707,205	1,502,442
Other purposes				
Unassigned				
<b>Total Fund Balances</b>	<b>1,184,910</b>	<b>2,371,544</b>	<b>707,205</b>	<b>1,502,442</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,221,705</b>	<b>\$ 2,393,377</b>	<b>\$ 707,205</b>	<b>\$ 1,518,518</b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	Capital Projects Funds	Debt Service Funds		Total Nonmajor Govt Funds
	Community/ Rec Center Impact Fund	Civic Center Debt Svs	Police Fac Bond Debt Svs	
<b>Assets</b>				
Pooled cash and investment	\$ 1,193,576	\$ 171,274	\$ 82,056	\$ 47,526,394
Cash with fiscal agents		55	70	125
Receivables:				
Accrued interest	2,767	329	139	115,346
Other accounts receivable				662,302
Loans receivable				9,640,233
Advances receivable				110,278
<b>Total Assets</b>	<b>\$ 1,196,343</b>	<b>\$ 171,658</b>	<b>\$ 82,265</b>	<b>\$ 58,054,678</b>
<b>Liabilities</b>				
Accounts payable	\$ 82,149	\$ -	\$ -	\$ 272,648
Accrued liabilities	531			26,263
Due to other funds				12,226
Customer deposits/other liabilities				483,525
Advances payable				778,640
Unearned revenue				4,993
<b>Total liabilities</b>	<b>82,680</b>			<b>1,578,295</b>
<b>Fund Balances</b>				
Restricted				
Community services				13,856,082
Parks and recreation				7,135,316
Streets and highways				216,655
Debt service		171,658	82,265	253,923
Public safety				162,343
Capital expansion projects	1,113,663			35,391,872
Other purposes				197,124
Unassigned				(736,932)
<b>Total Fund Balances</b>	<b>1,113,663</b>	<b>171,658</b>	<b>82,265</b>	<b>56,476,383</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,196,343</b>	<b>\$ 171,658</b>	<b>\$ 82,265</b>	<b>\$ 58,054,678</b>



**CITY OF MORGAN HILL**

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	Special Revenue Funds			
	Street Maintenance	Supplemental Law Enforcement	General Plan Update	Community Dev Block Grant
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies	716,340	139,416		
Charges for current services			507,407	195,726
Investment income	1,078	303	18,066	998
Other revenues			8,951	
<b>Total Revenues</b>	<b>717,418</b>	<b>139,719</b>	<b>534,424</b>	<b>196,724</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development			649,964	38,725
Streets and highways	2,028			
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				205,997
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b>2,028</b>		<b>649,964</b>	<b>244,722</b>
Excess (deficiency) of revenues over (under) expenditures	715,390	139,719	(115,540)	(47,998)
<b>Other Financing Sources (Uses)</b>				
Transfers in			110,016	
Transfers (out)	(657,000)	(106,000)	(4,003)	
<b>Total other financing sources (uses)</b>	<b>(657,000)</b>	<b>(106,000)</b>	<b>106,013</b>	
Net change in fund balances	58,390	33,719	(9,527)	(47,998)
Fund Balances-Beginning	440	16,703	1,170,076	95,752
<b>Fund Balances-Ending</b>	<b>\$ 58,830</b>	<b>\$ 50,422</b>	<b>\$ 1,160,549</b>	<b>\$ 47,754</b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	Special Revenue Funds (continued)			
	Asset Seizure	Landscape and Lighting	Community Facilities	Environmental Programs
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ 179,635	\$ 42,724	\$ -
Funding from other governmental agencies				
Charges for current services	89			122,220
Investment income	2,082	1,954	699	3,288
Other revenues				
<b>Total Revenues</b>	<b>2,171</b>	<b>181,589</b>	<b>43,423</b>	<b>125,508</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways				
Parks and recreation				
Other public services		183,990	21,417	364,891
Capital outlay:				
Construction projects				
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>		<b>183,990</b>	<b>21,417</b>	<b>364,891</b>
Excess (deficiency) of revenues over (under) expenditures	2,171	(2,401)	22,006	(239,383)
<b>Other Financing Sources (Uses)</b>				
Transfers in				327,804
Transfers (out)	(26,595)	(368)	(78)	(2,326)
<b>Total other financing sources (uses)</b>	<b>(26,595)</b>	<b>(368)</b>	<b>(78)</b>	<b>325,478</b>
Net change in fund balances	(24,424)	(2,769)	21,928	86,095
Fund Balances-Beginning	136,345	160,594	60,275	157,637
<b>Fund Balances-Ending</b>	<b>\$ 111,921</b>	<b>\$ 157,825</b>	<b>\$ 82,203</b>	<b>\$ 243,732</b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	Special Revenue Funds (continued)			
	Mobile Home Park Rent Stabilization	Housing Development	Employee Assistance	Environmental Remediation
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies				
Charges for current services		2,106,218		
Investment income	3,138	299,315	582	2,137
Other revenues				
<b>Total Revenues</b>	<b>3,138</b>	<b>2,405,533</b>	<b>582</b>	<b>2,137</b>
<b>Expenditures:</b>				
Current:				
General government			1,248	7,970
Public safety				
Community development	852	656,363		
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects		943,486		
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b>852</b>	<b>1,599,849</b>	<b>1,248</b>	<b>7,970</b>
Excess (deficiency) of revenues over (under) expenditures	2,286	805,684	(666)	(5,833)
<b>Other Financing Sources (Uses)</b>				
Transfers in				
Transfers (out)		(11,146)		
<b>Total other financing sources (uses)</b>		<b>(11,146)</b>		
Net change in fund balances	2,286	794,538	(666)	(5,833)
Fund Balances-Beginning	41,058	11,566,165	63,900	139,723
<b>Fund Balances-Ending</b>	<b>\$ 43,344</b>	<b>\$ 12,360,703</b>	<b>\$ 63,234</b>	<b>\$ 133,890</b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	<u>Capital Projects Funds</u>			
	<u>Park Impact</u>	<u>Park Maintenance</u>	<u>Drainage Impact</u>	<u>Open Space</u>
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies				
Charges for current services	2,122,998	1,011,203	2,035,554	1,019,939
Investment income	62,610	132,297	169,809	98,066
Other revenues	100,033	28,943		6,000
<b>Total Revenues</b>	<b><u>2,285,641</u></b>	<b><u>1,172,443</u></b>	<b><u>2,205,363</u></b>	<b><u>1,124,005</u></b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways			15,730	56,626
Parks and recreation	51,472	972,257		
Other public services				
Capital outlay:				
Construction projects	4,214,598	1,556,534	49,785	47,382
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b><u>4,266,070</u></b>	<b><u>2,528,791</u></b>	<b><u>65,515</u></b>	<b><u>104,008</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,980,429)</u>	<u>(1,356,348)</u>	<u>2,139,848</u>	<u>1,019,997</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in		200,004		
Transfers (out)	(82,704)	(5,252)	(7,704)	(16,500)
<b>Total other financing sources (uses)</b>	<b><u>(82,704)</u></b>	<b><u>194,752</u></b>	<b><u>(7,704)</u></b>	<b><u>(16,500)</u></b>
Net change in fund balances	(2,063,133)	(1,161,596)	2,132,144	1,003,497
Fund Balances-Beginning	4,850,439	5,427,403	9,683,233	6,014,381
<b>Fund Balances-Ending</b>	<b><u>\$ 2,787,306</u></b>	<b><u>\$ 4,265,807</u></b>	<b><u>\$ 11,815,377</u></b>	<b><u>\$ 7,017,878</u></b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

<b>Capital Projects Funds (Continued)</b>				
	<b>Street CIP</b>	<b>Traffic Impact</b>	<b>Police Impact</b>	<b>Fire Impact</b>
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies	425,589			
Charges for current services	1,236,540	838,926	275,778	44,579
Investment income	31,655	59,016	554	56,986
Other revenues				
<b>Total Revenues</b>	<b>1,693,784</b>	<b>897,942</b>	<b>276,332</b>	<b>101,565</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety			7,529	7,528
Community development				
Streets and highways	10,944	12,469		
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	2,167,379	1,955,197		
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b>2,178,323</b>	<b>1,967,666</b>	<b>7,529</b>	<b>7,528</b>
Excess (deficiency) of revenues over (under) expenditures	(484,539)	(1,069,724)	268,803	94,037
<b>Other Financing Sources (Uses):</b>				
Transfers in	999,996			
Transfers (out)		(31,896)	(227,542)	
<b>Total other financing sources (Uses)</b>	<b>999,996</b>	<b>(31,896)</b>	<b>(227,542)</b>	
Net change in fund balances	515,457	(1,101,620)	41,261	94,037
Fund Balances-Beginning	1,818,462	4,539,601	(778,193)	3,812,916
<b>Fund Balances-Ending</b>	<b>\$ 2,333,919</b>	<b>\$ 3,437,981</b>	<b>\$ (736,932)</b>	<b>\$ 3,906,953</b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	<b>Capital Projects Funds (Continued)</b>			
	<b>Public Facilities</b>	<b>Library Impact</b>	<b>Under Grounding</b>	<b>School Pedestrian &amp; Traffic Safety</b>
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies	9,966			21,179
Charges for current services	273,154	734,322	195,800	6,434
Investment income	11,622	34,150	10,507	23,238
Other revenues	15,207			
<b>Total Revenues</b>	<b>309,949</b>	<b>768,472</b>	<b>206,307</b>	<b>50,851</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways			540	4,023
Parks and recreation				
Other public services	12,018	8,905		
Capital outlay:				
Construction projects	573,581	280,294		285,246
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b>585,599</b>	<b>289,199</b>	<b>540</b>	<b>289,269</b>
Excess (deficiency) of revenues over (under) expenditures	(275,650)	479,273	205,767	(238,418)
<b>Other Financing Sources (Uses):</b>				
Transfers in				99,996
Transfers (out)		(211,368)		
<b>Total other financing sources (Uses)</b>		<b>(211,368)</b>		<b>99,996</b>
Net change in fund balances	(275,650)	267,905	205,767	(138,422)
Fund Balances-Beginning	1,460,560	2,103,639	501,438	1,640,864
<b>Fund Balances-Ending</b>	<b>\$ 1,184,910</b>	<b>\$ 2,371,544</b>	<b>\$ 707,205</b>	<b>\$ 1,502,442</b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	Capital Projects	Debt Service Funds		Total NonMajor Govt Funds
	Funds (Continued)	Civic Center Debt	Police Fac Bond Debt Svs	
	Community/ Rec Center Impact			
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ 222,359
Funding from other governmental agencies				1,312,490
Charges for current services	996,966			13,723,853
Investment income	12,196	2,133		1,038,479
Other revenues		14,784		173,918
<b>Total Revenues</b>	<b>1,009,162</b>	<b>16,917</b>		<b>16,471,099</b>
<b>Expenditures:</b>				
Current:				
General government				9,218
Public safety				15,057
Community development				1,345,904
Streets and highways	2,174			104,534
Parks and recreation				1,023,729
Other public services				591,221
Capital outlay:				
Construction projects	162,092			12,441,571
Debt service:				
Principal		135,000	190,000	325,000
Interest and fiscal charges		150,539	203,098	353,637
<b>Total Expenditures</b>	<b>164,266</b>	<b>285,539</b>	<b>393,098</b>	<b>16,209,871</b>
Excess (deficiency) of revenues over (under) expenditures	844,896	(268,622)	(393,098)	261,228
<b>Other Financing Sources (Uses):</b>				
Transfers in		278,952	381,458	2,398,226
Transfers (out)				(1,390,482)
<b>Total other financing sources (Uses)</b>		<b>278,952</b>	<b>381,458</b>	<b>1,007,744</b>
Net change in fund balances	844,896	10,330	(11,640)	1,268,972
Fund Balances-Beginning	268,767	161,328	93,905	55,207,411
<b>Fund Balances-Ending</b>	<b>\$ 1,113,663</b>	<b>\$ 171,658</b>	<b>\$ 82,265</b>	<b>\$ 56,476,383</b>



**CITY OF MORGAN HILL**

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

	Special Revenue Funds			Variance with Final Budget Positive (Negative)
	Street Maintenance			
	Budgeted Amounts		Actual	
Original	Final	Amounts		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies	761,458	761,458	716,340	(45,118)
Charges for current services				
Investment income	72	72	1,078	1,006
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>761,530</b>	<b>761,530</b>	<b>717,418</b>	<b>(44,112)</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development				
Streets and highways	2,022	2,022	2,028	(6)
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>2,022</b>	<b>2,022</b>	<b>2,028</b>	<b>(6)</b>
Excess (deficiency) of revenues over (under) expenditures	759,508	759,508	715,390	(44,118)
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)	(761,458)	(761,458)	(657,000)	104,458
<b>Total other financing sources (uses)</b>	<b>(761,458)</b>	<b>(761,458)</b>	<b>(657,000)</b>	<b>104,458</b>
Net change in fund balances	\$ (1,950)	\$ (1,950)	58,390	\$ 60,340
Fund Balances-Beginning			440	
<b>Fund Balances-Ending</b>			<b>\$ 58,830</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

Special Revenue Funds (continued)				
Supplemental Law Enforcement				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services	100,000	100,000	139,416	39,416
Investment income	395	395	303	(92)
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>100,395</b>	<b>100,395</b>	<b>139,719</b>	<b>39,324</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development				
Streets and highways				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>				
Excess (deficiency) of revenues over (under) expenditures	100,395	100,395	139,719	39,324
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)	(657,000)	(100,000)	(106,000)	(6,000)
<b>Total other financing sources (uses)</b>	<b>(657,000)</b>	<b>(100,000)</b>	<b>(106,000)</b>	<b>(6,000)</b>
Net change in fund balances	\$ (556,605)	\$ 395	33,719	\$ 33,324
Fund Balances-Beginning			16,703	
<b>Fund Balances-Ending</b>			<b>\$ 50,422</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

	Special Revenue Funds (continued)			Variance with Final Budget Positive (Negative)
	General Plan Update			
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services	587,661	587,661	507,407	(80,254)
Investment income	8,551	8,551	18,066	9,515
Fines, forfeitures, and other revenues			8,951	8,951
<b>Total Revenues</b>	<b>596,212</b>	<b>596,212</b>	<b>534,424</b>	<b>(61,788)</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development	665,593	1,526,665	649,964	876,701
Streets and highways				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>665,593</b>	<b>1,526,665</b>	<b>649,964</b>	<b>876,701</b>
Excess (deficiency) of revenues over (under) expenditures	(69,381)	(930,453)	(115,540)	814,913
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in	110,000	110,000	110,016	16
Transfers (out)	(3,997)	(3,997)	(4,003)	(6)
<b>Total other financing sources (uses)</b>	<b>106,003</b>	<b>106,003</b>	<b>106,013</b>	<b>10</b>
Net change in fund balances	\$ 36,622	\$ (824,450)	(9,527)	\$ 814,923
Fund Balances-Beginning			1,170,076	
<b>Fund Balances-Ending</b>			<b>\$ 1,160,549</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

<b>Special Revenue Funds (continued)</b>				
<b>Community Dev Block Grant</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services			195,726	195,726
Investment income	417	417	998	581
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>417</b>	<b>417</b>	<b>196,724</b>	<b>196,307</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development			38,725	(38,725)
Streets and highways				
Other public services				
Capital outlay:				
Construction projects		165,331	205,997	(40,666)
<b>Total Expenditures</b>		<b>165,331</b>	<b>244,722</b>	<b>(79,391)</b>
Excess (deficiency) of revenues over (under) expenditures	417	(164,914)	(47,998)	116,916
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)				
<b>Total other financing sources (uses)</b>				
Net change in fund balances	\$ 417	\$ (164,914)	(47,998)	\$ 116,916
Fund Balances-Beginning			95,752	
<b>Fund Balances-Ending</b>			<b>\$ 47,754</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Year Ended June 30, 2018

Special Revenue Funds (continued)				
Asset Seizure				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services			89	89
Investment income	250	250	2,082	1,832
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>250</b>	<b>250</b>	<b>2,171</b>	<b>1,921</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development				
Streets and highways				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>				
Excess (deficiency) of revenues over (under) expenditures	250	250	2,171	1,921
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)	(368)	(368)	(26,595)	(26,227)
<b>Total other financing sources (uses)</b>	<b>(368)</b>	<b>(368)</b>	<b>(26,595)</b>	<b>(26,227)</b>
Net change in fund balances	\$ (118)	\$ (118)	(24,424)	\$ (24,306)
Fund Balances-Beginning			136,345	
<b>Fund Balances-Ending</b>			<b>\$ 111,921</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

Special Revenue Funds (continued)				
Landscape and Lighting				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes and special assessment	\$ 186,190	\$ 186,190	\$ 179,635	\$ (6,555)
Funding from other govt agencies				
Charges for current services				
Investment income	1,131	1,131	1,954	823
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>187,321</b>	<b>187,321</b>	<b>181,589</b>	<b>(5,732)</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development				
Streets and highways				
Other public services	182,663	205,062	183,990	21,072
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>182,663</b>	<b>205,062</b>	<b>183,990</b>	<b>21,072</b>
Excess (deficiency) of revenues over (under) expenditures	4,658	(17,741)	(2,401)	15,340
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)	(368)	(368)	(368)	
<b>Total other financing sources (uses)</b>	<b>(368)</b>	<b>(368)</b>	<b>(368)</b>	
Net change in fund balances	\$ 4,290	\$ (18,109)	(2,769)	\$ 15,340
Fund Balances-Beginning			160,594	
<b>Fund Balances-Ending</b>			<b>\$ 157,825</b>	

**City of Morgan Hill**  
**Nonmajor Governmental Funds**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances-Budget and Actual**  
**For the Year Ended June 30, 2018**

Special Revenue Funds (continued)				
Community Facilities				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes and special assessment	\$ 43,074	\$ 43,074	\$ 42,724	\$ (350)
Funding from other govt agencies				
Charges for current services				
Investment income	266	266	699	433
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>43,340</b>	<b>43,340</b>	<b>43,423</b>	<b>83</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development				
Streets and highways				
Other public services	43,333	45,022	21,417	23,605
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>43,333</b>	<b>45,022</b>	<b>21,417</b>	<b>23,605</b>
Excess (deficiency) of revenues over (under) expenditures	7	(1,682)	22,006	23,688
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)			(78)	(78)
<b>Total other financing sources (uses)</b>			<b>(78)</b>	<b>(78)</b>
Net change in fund balances	\$ 7	\$ (1,682)	21,928	\$ 23,610
Fund Balances-Beginning			60,275	
<b>Fund Balances-Ending</b>			<b>\$ 82,203</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

Special Revenue Funds (continued)				
Environmental Programs				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services	51,675	51,675	122,220	70,545
Investment income	2,685	2,685	3,288	603
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>54,360</b>	<b>54,360</b>	<b>125,508</b>	<b>71,148</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development				
Streets and highways				
Other public services	343,096	343,096	364,891	(21,795)
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>343,096</b>	<b>343,096</b>	<b>364,891</b>	<b>(21,795)</b>
Excess (deficiency) of revenues over (under) expenditures	(288,736)	(288,736)	(239,383)	49,353
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in	327,804	327,804	327,804	
Transfers (out)	(2,326)	(2,326)	(2,326)	
<b>Total other financing sources (uses)</b>	<b>325,478</b>	<b>325,478</b>	<b>325,478</b>	
Net change in fund balances	\$ 36,742	\$ 36,742	86,095	\$ 49,353
Fund Balances-Beginning			157,637	
<b>Fund Balances-Ending</b>			<b>\$ 243,732</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

	Special Revenue Funds (continued)			Variance with Final Budget Positive (Negative)
	Mobile Home Park Rent Stabilization			
	Budgeted Amounts		Actual Amounts	
Original	Final			
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services				
Investment income	3,931	5,564	3,138	(2,426)
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>3,931</b>	<b>5,564</b>	<b>3,138</b>	<b>(2,426)</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development	880	880	852	28
Streets and highways				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>880</b>	<b>880</b>	<b>852</b>	<b>28</b>
Excess (deficiency) of revenues over (under) expenditures	3,051	4,684	2,286	(2,398)
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)				
<b>Total other financing sources (uses)</b>				
Net change in fund balances	\$ 3,051	\$ 4,684	2,286	\$ (2,398)
Fund Balances-Beginning			41,058	
<b>Fund Balances-Ending</b>			<b>\$ 43,344</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

	Special Revenue Funds (continued)			Variance with Final Budget Positive (Negative)
	Housing Development			
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services	836,500	836,500	2,106,218	1,269,718
Investment income	7,576	5,943	299,315	293,372
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>844,076</b>	<b>842,443</b>	<b>2,405,533</b>	<b>1,563,090</b>
<b>Expenditures:</b>				
Current:				
General government				
Community development	1,283,028	1,308,949	656,363	652,586
Streets and highways				
Other public services				
Capital outlay:				
Construction projects		950,000	943,486	(6,514)
<b>Total Expenditures</b>	<b>1,283,028</b>	<b>2,258,949</b>	<b>1,599,849</b>	<b>646,072</b>
Excess (deficiency) of revenues over (under) expenditures	(438,952)	(1,416,506)	805,684	2,222,190
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)	(11,142)	(11,142)	(11,146)	(4)
<b>Total other financing sources (uses)</b>	<b>(11,142)</b>	<b>(11,142)</b>	<b>(11,146)</b>	<b>(4)</b>
Net change in fund balances	\$ (450,094)	\$ (1,427,648)	794,538	\$ 2,222,186
Fund Balances-Beginning			11,566,165	
<b>Fund Balances-Ending</b>			<b>\$ 12,360,703</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

	Special Revenue Funds (continued)			Variance with Final Budget Positive (Negative)
	Employee Assistance			
	Budgeted Amounts		Actual Amounts	
Original	Final			
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services	30,600	30,600		(30,600)
Investment income	366	366	582	216
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>30,966</b>	<b>30,966</b>	<b>582</b>	<b>(30,384)</b>
<b>Expenditures:</b>				
Current:				
General government	41,247	41,247	1,248	39,999
Community development				
Streets and highways				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>41,247</b>	<b>41,247</b>	<b>1,248</b>	<b>39,999</b>
Excess (deficiency) of revenues over (under) expenditures	(10,281)	(10,281)	(666)	9,615
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)				
<b>Total other financing sources (uses)</b>				
Net change in fund balances	\$ (10,281)	\$ (10,281)	(666)	\$ 9,615
Fund Balances-Beginning			63,900	
<b>Fund Balances-Ending</b>			<b>\$ 63,234</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

<b>Special Revenue Funds (continued)</b>				
<b>Environmental Remediation</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services				
Investment income	1,104	1,104	2,137	1,033
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>1,104</b>	<b>1,104</b>	<b>2,137</b>	<b>1,033</b>
<b>Expenditures:</b>				
Current:				
General government			7,970	(7,970)
Community development				
Streets and highways				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>			<b>7,970</b>	<b>(7,970)</b>
Excess (deficiency) of revenues over (under) expenditures	1,104	1,104	(5,833)	(6,937)
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets				
Transfers in				
Transfers (out)				
<b>Total other financing sources (uses)</b>				
Net change in fund balances	\$ 1,104	\$ 1,104	(5,833)	\$ (6,937)
Fund Balances-Beginning			139,723	
<b>Fund Balances-Ending</b>			<b>\$ 133,890</b>	

City of Morgan Hill  
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Capital Project Funds (continued)				
Park Impact				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ 492,000	\$ -	\$ (492,000)
Charges for current services	1,425,170	3,187,150	2,122,998	(1,064,152)
Investment income	14,470	14,470	62,610	48,140
Other revenues			100,033	100,033
<b>Total Revenues</b>	<b>1,439,640</b>	<b>3,693,620</b>	<b>2,285,641</b>	<b>(1,407,979)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation	32,450	40,708	51,472	(10,764)
Other public services				
Capital outlay:				
Construction projects	2,585,000	9,129,291	4,214,598	4,914,693
<b>Total Expenditures</b>	<b>2,617,450</b>	<b>9,169,999</b>	<b>4,266,070</b>	<b>4,903,929</b>
Excess (deficiency) of revenues over (under) expenditures	(1,177,810)	(5,476,379)	(1,980,429)	3,495,950
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(82,700)	(82,700)	(82,704)	(4)
<b>Total other financing sources (uses)</b>	<b>(82,700)</b>	<b>(82,700)</b>	<b>(82,704)</b>	<b>(4)</b>
Net change in fund balances	\$ (1,260,510)	\$ (5,559,079)	(2,063,133)	\$ 3,495,946
Fund Balances-Beginning			4,850,439	
<b>Fund Balances-Ending</b>			<b>\$ 2,787,306</b>	

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Capital Project Funds (continued)				
Park Maintenance				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	583,000	583,000	1,011,203	428,203
Investment income	105,026	105,026	132,297	27,271
Other revenues		17,035	28,943	11,908
<b>Total Revenues</b>	<b>688,026</b>	<b>705,061</b>	<b>1,172,443</b>	<b>467,382</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation	927,899	927,901	972,257	(44,356)
Other public services				
Capital outlay:				
Construction projects		1,755,104	1,556,534	198,570
<b>Total Expenditures</b>	<b>927,899</b>	<b>2,683,005</b>	<b>2,528,791</b>	<b>154,214</b>
Excess (deficiency) of revenues over (under) expenditures	(239,873)	(1,977,944)	(1,356,348)	621,596
<b>Other Financing Sources (Uses):</b>				
Transfers in	200,000	200,000	200,004	4
Transfers (out)	(5,252)	(5,252)	(5,252)	
<b>Total other financing sources (uses)</b>	<b>194,748</b>	<b>194,748</b>	<b>194,752</b>	<b>4</b>
Net change in fund balances	\$ (45,125)	\$ (1,783,196)	(1,161,596)	\$ 621,600
Fund Balances-Beginning			5,427,403	
<b>Fund Balances-Ending</b>			<b>\$ 4,265,807</b>	

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Capital Project Funds (continued)				
Drainage Impact				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	1,815,191	1,815,191	2,035,554	220,363
Investment income	78,587	78,587	169,809	91,222
Other revenues				
<b>Total Revenues</b>	<b>1,893,778</b>	<b>1,893,778</b>	<b>2,205,363</b>	<b>311,585</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	11,139	19,397	15,730	3,667
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	170,000	209,084	49,785	159,299
<b>Total Expenditures</b>	<b>181,139</b>	<b>228,481</b>	<b>65,515</b>	<b>162,966</b>
Excess (deficiency) of revenues over (under) expenditures	1,712,639	1,665,297	2,139,848	474,551
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(7,700)	(7,700)	(7,704)	(4)
<b>Total other financing sources (uses)</b>	<b>(7,700)</b>	<b>(7,700)</b>	<b>(7,704)</b>	<b>(4)</b>
Net change in fund balances	\$ 1,704,939	\$ 1,657,597	2,132,144	\$ 474,547
Fund Balances-Beginning			9,683,233	
<b>Fund Balances-Ending</b>			<b>\$ 11,815,377</b>	

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Capital Project Funds (continued)				
Open Space				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	1,490,381	1,490,381	1,019,939	(470,442)
Investment income	49,589	49,589	98,066	48,477
Other revenues			6,000	6,000
<b>Total Revenues</b>	<b>1,539,970</b>	<b>1,539,970</b>	<b>1,124,005</b>	<b>(415,965)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	115,724	115,724	56,626	59,098
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	1,235,000	4,349,472	47,382	4,302,090
<b>Total Expenditures</b>	<b>1,350,724</b>	<b>4,465,196</b>	<b>104,008</b>	<b>4,361,188</b>
Excess (deficiency) of revenues over (under) expenditures	189,246	(2,925,226)	1,019,997	3,945,223
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(16,500)	(16,500)	(16,500)	
<b>Total other financing sources (uses)</b>	<b>(16,500)</b>	<b>(16,500)</b>	<b>(16,500)</b>	
Net change in fund balances	\$ 172,746	\$ (2,941,726)	1,003,497	\$ 3,945,223
Fund Balances-Beginning			6,014,381	
<b>Fund Balances-Ending</b>			<b>\$ 7,017,878</b>	

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Capital Project Funds (continued)				
Streets CIP				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ 103,468	\$ 1,200,066	\$ 425,589	\$ (774,477)
Charges for current services	253,439	1,355,066	1,236,540	(118,526)
Investment income	328	328	31,655	31,327
Other revenues				
<b>Total Revenues</b>	<b>357,235</b>	<b>2,555,460</b>	<b>1,693,784</b>	<b>(861,676)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	11,211	11,211	10,944	267
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	1,345,000	5,324,753	2,167,379	3,157,374
<b>Total Expenditures</b>	<b>1,356,211</b>	<b>5,335,964</b>	<b>2,178,323</b>	<b>3,157,641</b>
Excess (deficiency) of revenues over (under) expenditures	(998,976)	(2,780,504)	(484,539)	2,295,965
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,000,000	1,000,000	999,996	
Transfers (out)				
<b>Total other financing sources (uses)</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>999,996</b>	
Net change in fund balances	\$ 1,024	\$ (1,780,504)	515,457	\$ 2,295,965
Fund Balances-Beginning			1,818,462	
<b>Fund Balances-Ending</b>			<b>\$ 2,333,919</b>	

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Capital Project Funds (continued)				
Traffic Impact				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	1,322,730	1,322,730	838,926	(483,804)
Investment income	25,557	25,557	59,016	33,459
Other revenues				
<b>Total Revenues</b>	<b>1,348,287</b>	<b>1,348,287</b>	<b>897,942</b>	<b>(450,345)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	6,150	14,408	12,469	1,939
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	2,985,000	3,866,745	1,955,197	1,911,548
<b>Total Expenditures</b>	<b>2,991,150</b>	<b>3,881,153</b>	<b>1,967,666</b>	<b>1,913,487</b>
Excess (deficiency) of revenues over (under) expenditures	(1,642,863)	(2,532,866)	(1,069,724)	1,463,142
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(31,900)	(31,900)	(31,896)	4
<b>Total other financing sources (uses)</b>	<b>(31,900)</b>	<b>(31,900)</b>	<b>(31,896)</b>	<b>4</b>
Net change in fund balances	\$ (1,674,763)	\$ (2,564,766)	(1,101,620)	\$ 1,463,146
Fund Balances-Beginning			4,539,601	
<b>Fund Balances-Ending</b>			<b>\$ 3,437,981</b>	

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Capital Project Funds (continued)				
Police Impact				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	254,913	254,913	275,778	20,865
Investment income	1,305	1,305	554	(751)
Other revenues				
<b>Total Revenues</b>	<b>256,218</b>	<b>256,218</b>	<b>276,332</b>	<b>20,114</b>
<b>Expenditures:</b>				
Current:				
Public safety	1,313	9,571	7,529	2,042
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>1,313</b>	<b>9,571</b>	<b>7,529</b>	<b>2,042</b>
Excess (deficiency) of revenues over (under) expenditures	254,905	246,647	268,803	22,156
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(227,546)	(227,546)	(227,542)	4
<b>Total other financing sources (uses)</b>	<b>(227,546)</b>	<b>(227,546)</b>	<b>(227,542)</b>	<b>4</b>
Net change in fund balances	\$ 27,359	\$ 19,101	41,261	\$ 22,160
Fund Balances-Beginning			(778,193)	
<b>Fund Balances-Ending</b>			<b>\$ (736,932)</b>	

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Capital Project Funds (continued)				
Fire Impact				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	66,920	66,920	44,579	(22,341)
Investment income	27,657	27,657	56,986	29,329
Other revenues				
<b>Total Revenues</b>	<b>94,577</b>	<b>94,577</b>	<b>101,565</b>	<b>6,988</b>
<b>Expenditures:</b>				
Current:				
Public safety	26,379	34,637	7,528	27,109
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>26,379</b>	<b>34,637</b>	<b>7,528</b>	<b>27,109</b>
Excess (deficiency) of revenues over (under) expenditures	68,198	59,940	94,037	34,097
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(589,098)	(589,098)		589,098
<b>Total other financing sources (uses)</b>	<b>(589,098)</b>	<b>(589,098)</b>		<b>589,098</b>
Net change in fund balances	\$ (520,900)	\$ (529,158)	94,037	\$ 623,195
Fund Balances-Beginning			3,812,916	
<b>Fund Balances-Ending</b>			<b>\$ 3,906,953</b>	

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Capital Project Funds (continued)				
Public Facilities				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ 9,966	\$ 9,966
Charges for current services	782,794	782,794	273,154	(509,640)
Investment income	6,379	6,379	11,622	5,243
Other revenues			15,207	15,207
<b>Total Revenues</b>	<b>789,173</b>	<b>789,173</b>	<b>309,949</b>	<b>(479,224)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation				
Other public services	6,264	25,851	12,018	13,833
Capital outlay:				
Construction projects	40,000	1,434,607	573,581	861,026
<b>Total Expenditures</b>	<b>46,264</b>	<b>1,460,458</b>	<b>585,599</b>	<b>874,859</b>
Excess (deficiency) of revenues over (under) expenditures	742,909	(671,285)	(275,650)	395,635
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
<b>Total other financing sources (uses)</b>				
Net change in fund balances	\$ 742,909	\$ (671,285)	(275,650)	\$ 395,635
Fund Balances-Beginning			1,460,560	
<b>Fund Balances-Ending</b>			<b>\$ 1,184,910</b>	

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Capital Project Funds (continued)				
Library Impact				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	655,121	655,121	734,322	79,201
Investment income	6,290	6,290	34,150	27,860
Other revenues				
<b>Total Revenues</b>	<b>661,411</b>	<b>661,411</b>	<b>768,472</b>	<b>107,061</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation				
Other public services	2,449	10,707	8,905	1,802
Capital outlay:				
Construction projects	3,330,000	3,602,764	280,294	3,322,470
<b>Total Expenditures</b>	<b>3,332,449</b>	<b>3,613,471</b>	<b>289,199</b>	<b>3,324,272</b>
Excess (deficiency) of revenues over (under) expenditures	(2,671,038)	(2,952,060)	479,273	3,431,333
<b>Other Financing Sources (Uses):</b>				
Transfers in	589,098	589,098		(589,098)
Transfers (out)	(211,365)	(211,365)	(211,368)	(3)
<b>Total other financing sources (uses)</b>	<b>377,733</b>	<b>377,733</b>	<b>(211,368)</b>	<b>(589,101)</b>
Net change in fund balances	\$ (2,293,305)	\$ (2,574,327)	267,905	\$ 2,842,232
Fund Balances-Beginning			2,103,639	
<b>Fund Balances-Ending</b>			<b>\$ 2,371,544</b>	

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Capital Project Funds (continued)				
Undergrounding				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	50,100	50,100	195,800	145,700
Investment income	3,136	3,136	10,507	7,371
Other revenues				
<b>Total Revenues</b>	<b>53,236</b>	<b>53,236</b>	<b>206,307</b>	<b>153,071</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	539	539	540	(1)
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects		55,000		55,000
<b>Total Expenditures</b>	<b>539</b>	<b>55,539</b>	<b>540</b>	<b>54,999</b>
Excess (deficiency) of revenues over (under) expenditures	52,697	(2,303)	205,767	208,070
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
<b>Total other financing sources (uses)</b>				
Net change in fund balances	\$ 52,697	\$ (2,303)	205,767	\$ 208,070
Fund Balances-Beginning			501,438	
<b>Fund Balances-Ending</b>			<b>\$ 707,205</b>	

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	<b>Capital Project Funds (continued)</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>School Pedestrian &amp; Traffic Safety</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ 21,179	\$ 21,179
Charges for current services	437,250	437,250	6,434	(430,816)
Investment income	7,091	7,091	23,238	16,147
Other revenues				
<b>Total Revenues</b>	<b>444,341</b>	<b>444,341</b>	<b>50,851</b>	<b>(393,490)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	4,598	4,598	4,023	575
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	870,000	1,804,434	285,246	1,519,188
<b>Total Expenditures</b>	<b>874,598</b>	<b>1,809,032</b>	<b>289,269</b>	<b>1,519,763</b>
Excess (deficiency) of revenues over (under) expenditures	(430,257)	(1,364,691)	(238,418)	1,126,273
<b>Other Financing Sources (Uses):</b>				
Transfers in	100,000	100,000	99,996	4
Transfers (out)				
<b>Total other financing sources (uses)</b>	<b>100,000</b>	<b>100,000</b>	<b>99,996</b>	<b>4</b>
Net change in fund balances	\$ (330,257)	\$ (1,264,691)	(138,422)	\$ 1,126,277
Fund Balances-Beginning			1,640,864	
<b>Fund Balances-Ending</b>			<b>\$ 1,502,442</b>	

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<b>Capital Project Funds (continued)</b>				
<b>Community/Rec Center Impact</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	970,695	970,695	996,966	26,271
Investment income	14,579	14,579	12,196	(2,383)
Other revenues				
<b>Total Revenues</b>	<b>985,274</b>	<b>985,274</b>	<b>1,009,162</b>	<b>23,888</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways		1,830	2,174	(344)
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	160,000	309,400	162,092	147,308
<b>Total Expenditures</b>	<b>160,000</b>	<b>311,230</b>	<b>164,266</b>	<b>146,964</b>
Excess (deficiency) of revenues over (under) expenditures	825,274	674,044	844,896	170,852
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
<b>Total other financing sources (uses)</b>				
Net change in fund balances	\$ 825,274	\$ 674,044	844,896	\$ 170,852
Fund Balances-Beginning			268,767	
<b>Fund Balances-Ending</b>			<b>\$ 1,113,663</b>	

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 For the Year Ended June 30, 2018

	<b>Debt Service Funds</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Civic Center Debt Service</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	
<b>Revenues:</b>				
Charges for current services	\$ -	\$ -	\$ -	\$ -
Investment income	3,707	3,707	2,133	(1,574)
<b>Total Revenues</b>	<b>3,707</b>	<b>3,707</b>	<b>2,133</b>	<b>(1,574)</b>
<b>Expenditures:</b>				
Debt service:				
Principal	135,000	135,000	135,000	
Interest and fiscal charges	162,423	150,539	150,539	
<b>Total Expenditures</b>	<b>297,423</b>	<b>285,539</b>	<b>285,539</b>	
Excess (deficiency) of revenues over (under) expenditures	(293,716)	(281,832)	(268,622)	13,210
<b>Other Financing Sources (Uses):</b>				
Transfers in	293,701	293,701	278,952	(14,749)
<b>Total other financing sources (uses)</b>	<b>293,701</b>	<b>293,701</b>	<b>278,952</b>	<b>(14,749)</b>
Net change in fund balances	\$ (15)	\$ 11,869	10,330	\$ (1,539)
Fund Balances-Beginning			161,328	
<b>Fund Balances-Ending</b>			<b>\$ 171,658</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Year Ended June 30, 2018

Debt Service Funds, (continued)				
Police Facility Bond				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Charges for current services	\$ -	\$ -	\$ -	\$ -
Investment income	3,915	3,915		(3,915)
<b>Total Revenues</b>	<b>3,915</b>	<b>3,915</b>		<b>(3,915)</b>
<b>Expenditures:</b>				
Debt service:				
Principal	190,000	190,000	190,000	
Interest and fiscal charges	193,610	203,098	203,098	
<b>Total Expenditures</b>	<b>383,610</b>	<b>393,098</b>	<b>393,098</b>	
Excess (deficiency) of revenues over (under) expenditures	(379,695)	(389,183)	(393,098)	(3,915)
<b>Other Financing Sources (Uses):</b>				
Transfers in	381,458	381,458	381,458	
<b>Total other financing sources (uses)</b>	<b>381,458</b>	<b>381,458</b>	<b>381,458</b>	
Net change in fund balances	\$ 1,763	\$ (7,725)	(11,640)	\$ (3,915)
Fund Balances-Beginning			93,905	
<b>Fund Balances-Ending</b>			<b>\$ 82,265</b>	

# Internal Service Funds



**CITY OF MORGAN HILL**

## INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods or services provided by a department for other departments on a cost-reimbursement basis.

**Information Systems-** Based on the information technology equipment in each department, the Information Systems fund levies for the costs of operating this fund.

**Building and Maintenance-**This fund levies a charge against each department for its share, based on the square footage of the City's owned facilities, of the costs of operations for building maintenance.

**Building Replacement-**This fund accounts for reserves set aside for the future replacement of major building components. A funding schedule based on the replacement cost and life of the major building components is used as an allocation to user departments.

**CIP Project Implementation-**This fund levies a charge against each fund for its share of the costs of implementing the capital improvements program including the costs incurred for personnel, administration and capital outlay.

**Unemployment Insurance-**This fund receives funds through charging each department an assessment, based on gross salaries, to cover the cost of charges for unemployment benefits levied by the State.

**Workers' Compensation -**This fund assesses a levy against all labor expenditures to provide the revenue to cover the costs for excess workers' compensation insurance premiums, claims administration, and expenses for the workers' compensation program. A fund reserve covers the City's \$250,000 deductible per claim.

**Equipment Replacement-**This fund is used to accumulate reserves, via a charge to all operating departments with equipment and/or vehicles to fund the replacement of the equipment and vehicles.

**Employee Benefits-**This fund collects and holds the annual increase in employee paid leave liability, the difference between accrued and taken. In addition, this fund reports the compensated absence liability for the City as a whole.

**General Liability -**This fund levies a charge against each operating fund/department for its share, based on payroll, of the liability and property insurance programs to cover expenditures for insurance premiums, claims administration, and claims expense. A fund reserve covers the City's \$100,000 deductible per liability claim.

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Net Position  
June 30, 2018

	Information Systems	Building Maintenance	Building Replacement	CIP Project Implementation	Unemployment Insurance
<b>Assets:</b>					
Current assets					
Pooled cash and investment	\$ 675,524	\$ 197,295	\$ 2,140,356	\$ 64,898	\$ 152,014
Restricted pooled cash and investments					
Receivables:					
Accrued interest	1,479	176	5,145	66	392
Other accounts receivable	376	337			
Total current assets	<u>677,379</u>	<u>197,808</u>	<u>2,145,501</u>	<u>64,964</u>	<u>152,406</u>
Noncurrent assets					
Advance to other funds					
Depreciable Capital assets, net	332,802	1,090,212	2,014,726	5,367	
Total noncurrent assets	<u>332,802</u>	<u>1,090,212</u>	<u>2,014,726</u>	<u>5,367</u>	
<b>Total Assets</b>	<b><u>1,010,181</u></b>	<b><u>1,288,020</u></b>	<b><u>4,160,227</u></b>	<b><u>70,331</u></b>	<b><u>152,406</u></b>
<b>Liabilities:</b>					
Current liabilities					
Accounts payable	80,447	191,064	62,543	1,719	
Accrued liabilities	4,448	11,538	1,471	283	
Current obligations for:					
Energy efficiency loan		11,700			
Compensated absences					
Total current liabilities	<u>84,895</u>	<u>214,302</u>	<u>64,014</u>	<u>2,002</u>	
Noncurrent liabilities					
Long term obligations for:					
Advance from other funds		8,422			
Unearned revenue	850				
Energy efficiency loan		51,644			
Compensated absences					
Total noncurrent liabilities	<u>850</u>	<u>60,066</u>			
<b>Total Liabilities</b>	<b><u>85,745</u></b>	<b><u>274,368</u></b>	<b><u>64,014</u></b>	<b><u>2,002</u></b>	
<b>Net Position:</b>					
Net investment in capital assets	332,802	1,026,868	2,014,726	5,367	
Unrestricted	591,634	(13,216)	2,081,487	62,962	152,406
<b>Total Net Position</b>	<b><u>\$ 924,436</u></b>	<b><u>\$ 1,013,652</u></b>	<b><u>\$ 4,096,213</u></b>	<b><u>\$ 68,329</u></b>	<b><u>\$ 152,406</u></b>

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Net Position  
June 30, 2018

	<u>Workers'</u> <u>Compensation</u>	<u>Equipment</u> <u>Replacement</u>	<u>Employee</u> <u>Benefits</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
<b>Assets:</b>					
Current assets					
Pooled cash and investment	\$ 1,730,570	\$ 4,400,352	\$ 213,826	\$ 1,598,012	\$ 11,172,847
Restricted pooled cash and investments	30,000				30,000
Receivables:					
Accrued interest	3,900	10,244	462	3,569	25,433
Other accounts receivable		46,531			47,244
Total current assets	<u>1,764,470</u>	<u>4,457,127</u>	<u>214,288</u>	<u>1,601,581</u>	<u>11,275,524</u>
Noncurrent assets					
Advance to other funds		8,422			8,422
Depreciable Capital assets, net		1,854,272			5,297,379
Total noncurrent assets		<u>1,862,694</u>			<u>5,305,801</u>
<b>Total Assets</b>	<b><u>1,764,470</u></b>	<b><u>6,319,821</u></b>	<b><u>214,288</u></b>	<b><u>1,601,581</u></b>	<b><u>16,581,325</u></b>
<b>Liabilities:</b>					
Current liabilities					
Accounts payable	1,292	24,952		12,726	374,743
Accrued liabilities	1,019,000			247,799	1,284,539
Current obligations for:					
Energy efficiency loan					11,700
Compensated absences			578,366		578,366
Total current liabilities	<u>1,020,292</u>	<u>24,952</u>	<u>578,366</u>	<u>260,525</u>	<u>2,249,348</u>
Noncurrent liabilities					
Long term obligations for:					
Advance from other funds					8,422
Unearned revenue		173			1,023
Energy efficiency loan					51,644
Compensated absences			1,844,382		1,844,382
Total noncurrent liabilities		<u>173</u>	<u>1,844,382</u>		<u>1,905,471</u>
<b>Total Liabilities</b>	<b><u>1,020,292</u></b>	<b><u>25,125</u></b>	<b><u>2,422,748</u></b>	<b><u>260,525</u></b>	<b><u>4,154,819</u></b>
<b>Net Position:</b>					
Net investment in capital assets					
Unrestricted	744,178	1,862,694	4,432,002	(2,208,460)	1,341,056
<b>Total Net Position</b>	<b><u>\$ 744,178</u></b>	<b><u>\$ 6,294,696</u></b>	<b><u>\$ (2,208,460)</u></b>	<b><u>\$ 1,341,056</u></b>	<b><u>\$ 12,426,506</u></b>

**City of Morgan Hill**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2018**

	Information Systems	Building Maintenance	Building Replacement	CIP Project Implementation	Unemployment Insurance
<b>Operating Revenues:</b>					
Charges for current services	\$ 1,601,460	\$ 3,065,836	\$ 442,416	\$ 1,418,790	\$ -
Other operating income		26,370			
Total Operating Revenues	<u>1,601,460</u>	<u>3,092,206</u>	<u>442,416</u>	<u>1,418,790</u>	<u></u>
<b>Operating Expenses:</b>					
Salaries and benefits	945,707	679,030		1,110,189	
Claims and insurance premiums					14,658
Operations and maintenance	306,707	2,099,848	11,911	34,275	
Depreciation	96,410	242,605	320,488	413	
Administrative charges	40,896	102,300		219,492	
Total Operating Expenses (Loss)	<u>1,389,720</u>	<u>3,123,783</u>	<u>332,399</u>	<u>1,364,369</u>	<u>14,658</u>
<b>Operating Income</b>	<b><u>211,740</u></b>	<b><u>(31,577)</u></b>	<b><u>110,017</u></b>	<b><u>54,421</u></b>	<b><u>(14,658)</u></b>
<b>Nonoperating revenues(expenses):</b>					
Investment earnings	7,558	1,221	31,645	371	2,480
Interest (expense)	(42)	(129)			
Total nonoperating revenue (expenses)	<u>7,516</u>	<u>1,092</u>	<u>31,645</u>	<u>371</u>	<u>2,480</u>
Income (loss) before operating transfers	<u>219,256</u>	<u>(30,485)</u>	<u>141,662</u>	<u>54,792</u>	<u>(12,178)</u>
Transfers in		10,032	30,240		
Transfers out	(9,119)	(9,400)		(20,512)	
Total transfers	<u>(9,119)</u>	<u>632</u>	<u>30,240</u>	<u>(20,512)</u>	<u></u>
Change in net position	210,137	(29,853)	171,902	34,280	(12,178)
Total net position-beginning, as restated	714,299	1,043,505	3,924,311	34,049	164,584
<b>Total net position-ending</b>	<b><u>\$ 924,436</u></b>	<b><u>\$ 1,013,652</u></b>	<b><u>\$ 4,096,213</u></b>	<b><u>\$ 68,329</u></b>	<b><u>\$ 152,406</u></b>

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2018

	Workers' Compensation	Equipment Replacement	Employee Benefits	General Liability	Total
<b>Operating Revenues:</b>					
Charges for current services	\$ 1,008,484	\$ 719,772	\$ 612,287	\$ 935,004	\$ 9,804,049
Other operating income					26,370
Total Operating Revenues	<u>1,008,484</u>	<u>719,772</u>	<u>612,287</u>	<u>935,004</u>	<u>9,830,419</u>
<b>Operating Expenses:</b>					
Salaries and benefits			1,560,742	66,661	4,362,329
Claims and insurance premiums	195,543			652,197	862,398
Operations and maintenance	46,452	639		3,168	2,503,000
Depreciation		887,198			1,547,114
Administrative charges					362,688
Total Operating Expenses (Loss)	<u>241,995</u>	<u>887,837</u>	<u>1,560,742</u>	<u>722,026</u>	<u>9,637,529</u>
<b>Operating Income</b>	<u><b>766,489</b></u>	<u><b>(168,065)</b></u>	<u><b>(948,455)</b></u>	<u><b>212,978</b></u>	<u><b>192,890</b></u>
<b>Nonoperating revenues(expenses):</b>					
Investment earnings	20,250	64,106	3,212	20,712	151,555
Interest (expense)		(718)			(889)
Total nonoperating revenue (expenses)	<u>20,250</u>	<u>63,388</u>	<u>3,212</u>	<u>20,712</u>	<u>150,666</u>
Income (loss) before operating transfers	<u>786,739</u>	<u>(104,677)</u>	<u>(945,243)</u>	<u>233,690</u>	<u>343,556</u>
Transfers in		350,000	298,837		689,109
Transfers (out)				(775)	(39,806)
Total transfers		<u>350,000</u>	<u>298,837</u>	<u>(775)</u>	<u>649,303</u>
Change in net position	786,739	245,323	(646,406)	232,915	992,859
Total net position-beginning, as restated	(42,561)	6,049,373	(1,562,054)	1,108,141	11,433,647
<b>Total net position-ending</b>	<u><b>\$ 744,178</b></u>	<u><b>\$ 6,294,696</b></u>	<u><b>\$ (2,208,460)</b></u>	<u><b>\$ 1,341,056</b></u>	<u><b>\$ 12,426,506</b></u>

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Cash Flows  
For the Year Ended June 30, 2018

	Information Systems	Building Maintenance	Building Replacement	CIP Project Implementation	Unemployment Insurance
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 1,608,896	\$ 3,128,588	\$ 498,579	\$ 1,418,790	\$ (770)
Payment for supplies and services	(253,188)	(2,063,299)		(35,753)	(14,658)
Payments to employees for salaries and benefits	(972,287)	(709,846)	1,471	(1,149,439)	
Payments for interfund services	(40,896)	(102,300)		(219,492)	
Net cash provided (used) by operating activities	<u>342,525</u>	<u>253,143</u>	<u>500,050</u>	<u>14,106</u>	<u>(15,428)</u>
<b>Cash Flows from NonCapital Financing Activities</b>					
Interfund loans received (paid)		(8,338)			
Transfers (to)/from other funds	(9,119)	632	30,240	(20,512)	
Net cash provided (used) by noncapital financing activities	<u>(9,119)</u>	<u>(7,706)</u>	<u>30,240</u>	<u>(20,512)</u>	
<b>Cash Flows from Capital and Related Financing Activities</b>					
Interest paid	(72)	(129)			
Principal paid on capital debt	(1,836)	(11,696)			
Purchases of capital assets	(358,709)	(249,166)	(474,516)	(5,780)	
Net cash provided (used) by capital and related financing activities	<u>(360,617)</u>	<u>(260,991)</u>	<u>(474,516)</u>	<u>(5,780)</u>	
<b>Cash Flows from Investing Activities</b>					
Interest earnings	6,680	1,155	28,441	333	2,246
Net cash provided (used) by investing activities	<u>6,680</u>	<u>1,155</u>	<u>28,441</u>	<u>333</u>	<u>2,246</u>
Net increase (decrease) in cash and equivalents	(20,531)	(14,399)	84,215	(11,853)	(13,182)
Cash and equivalents at July 1	696,055	211,694	2,056,141	76,751	165,196
<b>Cash and equivalents at June 30</b>	<u>\$ 675,524</u>	<u>\$ 197,295</u>	<u>\$ 2,140,356</u>	<u>\$ 64,898</u>	<u>\$ 152,014</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 211,740	\$ (31,577)	\$ 110,017	\$ 54,421	\$ (14,658)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	96,410	242,605	320,488	413	
(Increase) decrease in receivables	7,436	36,382	5,983		
(Increase) decrease in prepaid expenses		647		35	
Increase (decrease) in accounts payable	53,519	35,902	62,091	(1,513)	
Increase (decrease) in accrued liabilities	(26,580)	(30,816)	1,471	(39,250)	(770)
Increase in compensated absences					
(Decrease) in OPEB payable					
Total adjustments	<u>130,785</u>	<u>284,720</u>	<u>390,033</u>	<u>(40,315)</u>	<u>(770)</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 342,525</u>	<u>\$ 253,143</u>	<u>\$ 500,050</u>	<u>\$ 14,106</u>	<u>\$ (15,428)</u>

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Cash Flows  
For the Year Ended June 30, 2018

	Workers' Compensation	Equipment Replacement	Employee Benefits	General Liability	Total
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 1,008,484	\$ 698,366	\$ 612,287	\$ 935,004	\$ 9,908,224
Payment for supplies and services	(918,373)	(639)		(791,044)	(4,076,954)
Payments to employees for salaries and benefits			(1,259,481)	(66,661)	(4,156,243)
Payments for interfund services					(362,688)
Net cash provided (used) by operating activities	<u>90,111</u>	<u>697,727</u>	<u>(647,194)</u>	<u>77,299</u>	<u>1,312,339</u>
<b>Cash Flows from NonCapital Financing Activities</b>					
Interfund loans received (paid)		8,338			
Transfers (to)/from other funds		350,000	298,837	(775)	649,303
Net cash provided (used) by noncapital financing activities		<u>358,338</u>	<u>298,837</u>	<u>(775)</u>	<u>649,303</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Interest paid		(785)			(986)
Principal paid on capital debt		(16,618)			(30,150)
Purchases of capital assets		(785,429)			(1,873,600)
Net cash provided (used) by capital and related financing activities		<u>(802,832)</u>			<u>(1,904,736)</u>
<b>Cash Flows from Investing Activities</b>					
Interest earnings	17,797	57,500	3,193	18,442	135,787
Net cash provided (used) by investing activities	<u>17,797</u>	<u>57,500</u>	<u>3,193</u>	<u>18,442</u>	<u>135,787</u>
Net increase (decrease) in cash and equivalents	107,908	310,733	(345,164)	94,966	192,693
Cash and equivalents at July 1	1,652,662	4,089,619	558,990	1,503,046	11,010,154
<b>Cash and equivalents at June 30</b>	<u><b>\$ 1,760,570</b></u>	<u><b>\$ 4,400,352</b></u>	<u><b>\$ 213,826</b></u>	<u><b>\$ 1,598,012</b></u>	<u><b>\$ 11,202,847</b></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 766,489	\$ (168,065)	\$ (948,455)	\$ 212,978	\$ 192,890
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense		887,198			1,547,114
(Increase) decrease in receivables		(46,358)			3,443
(Increase) decrease in prepaid expenses					682
Increase (decrease) in accounts payable	333	24,952		(11,393)	163,891
Increase (decrease) in accrued liabilities	(676,711)			(124,286)	(896,942)
Increase in compensated absences			301,261		301,261
(Decrease) in OPEB payable					
Total adjustments	<u>(676,378)</u>	<u>865,792</u>	<u>301,261</u>	<u>(135,679)</u>	<u>1,119,449</u>
<b>Net cash provided(used) by operating activities</b>	<u><b>\$ 90,111</b></u>	<u><b>\$ 697,727</b></u>	<u><b>\$ (647,194)</b></u>	<u><b>\$ 77,299</b></u>	<u><b>\$ 1,312,339</b></u>



**CITY OF MORGAN HILL**

# Fiduciary Funds

**City of Morgan Hill  
Statement of Changes in Assets and Liabilities  
Fiduciary Funds  
For the Year Ended June 30, 2018**

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
<b><u>Special Deposits</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 824,632	\$ 48,490	\$ (5,682)	\$ 878,804
Accounts receivable	841	423	-	1,264
Total Assets	<u>\$ 825,473</u>	<u>\$ 48,913</u>	<u>\$ (5,682)</u>	<u>\$ 880,068</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 99	\$ (5,682)	\$ 5,781
Customer and other deposits	825,473	48,814	-	874,287
Total Liabilities	<u>\$ 825,473</u>	<u>\$ 48,913</u>	<u>\$ (5,682)</u>	<u>\$ 880,068</u>
<b><u>Downtown MH PBID</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 99,806	\$ 1,379	\$ -	\$ 101,185
Accounts receivable	94	149	4	239
Total Assets	<u>\$ 99,900</u>	<u>\$ 1,528</u>	<u>\$ 4</u>	<u>\$ 101,424</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 99,900	\$ 1,528	\$ 4	\$ 101,424
Total Liabilities	<u>\$ 99,900</u>	<u>\$ 1,528</u>	<u>\$ 4</u>	<u>\$ 101,424</u>
<b><u>Morgan Hill Business Ranch 1998</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 644,030	\$ -	\$ (5,108)	\$ 649,138
Cash with fiscal agents	563,471	9,242	-	572,713
Accounts receivable	5,925	-	5,003	922
Total Assets	<u>\$ 1,213,426</u>	<u>\$ 9,242</u>	<u>\$ (105)</u>	<u>\$ 1,222,773</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 1,213,426	\$ 9,242	\$ (105)	\$ 1,222,773
Total Liabilities	<u>\$ 1,213,426</u>	<u>\$ 9,242</u>	<u>\$ (105)</u>	<u>\$ 1,222,773</u>
<b><u>Morgan Hill Business Ranch 2004</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 39,435	\$ 543	\$ -	\$ 39,978
Accounts receivable	37	59	-	96
Total Assets	<u>\$ 39,472</u>	<u>\$ 602</u>	<u>\$ -</u>	<u>\$ 40,074</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 39,472	\$ 602	\$ -	\$ 40,074
Total Liabilities	<u>\$ 39,472</u>	<u>\$ 602</u>	<u>\$ -</u>	<u>\$ 40,074</u>
<b><u>Tenant Business Park A.D.</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 583,837	\$ 8,037	\$ -	\$ 591,874
Interest receivable	542	881	-	1,423
Total Assets	<u>\$ 584,379</u>	<u>\$ 8,918</u>	<u>\$ -</u>	<u>\$ 593,297</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 584,379	\$ 8,918	\$ -	\$ 593,297
Total Liabilities	<u>\$ 584,379</u>	<u>\$ 8,918</u>	<u>\$ -</u>	<u>\$ 593,297</u>

City of Morgan Hill  
Statement of Changes in Assets and Liabilities  
Fiduciary Funds  
For the Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
<b><u>Madrone Business Park A.D.</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 666,157	\$ 22,875	\$ -	\$ 689,032
Cash with fiscal agents	550,218	17,271	-	567,489
Accounts receivable	-	-	-	-
Total Assets	<u>\$ 1,216,375</u>	<u>\$ 40,146</u>	<u>\$ -</u>	<u>\$ 1,256,521</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 1,216,375	\$ 40,146	\$ -	\$ 1,256,521
Total Liabilities	<u>\$ 1,216,375</u>	<u>\$ 40,146</u>	<u>\$ -</u>	<u>\$ 1,256,521</u>
<b><u>Police Donation Trust</u></b>				
Restricted pooled cash and investments	\$ 25,799	\$ 372	\$ -	\$ 26,171
Accounts receivable	24	39	-	63
Total Assets	<u>\$ 25,823</u>	<u>\$ 411</u>	<u>\$ -</u>	<u>\$ 26,234</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 25,823	\$ 411	\$ -	\$ 26,234
Total Liabilities	<u>\$ 25,823</u>	<u>\$ 411</u>	<u>\$ -</u>	<u>\$ 26,234</u>
<b><u>Total Agency Funds</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 2,883,696	\$ 81,696	\$ (10,790)	\$ 2,976,182
Cash with fiscal agents	1,113,689	26,513	-	1,140,202
Accounts receivable	7,463	1,551	5,007	4,007
Total Assets	<u>\$ 4,004,848</u>	<u>\$ 109,760</u>	<u>\$ (5,783)</u>	<u>\$ 4,120,391</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 99	\$ (5,682)	\$ 5,781
Customer and other deposits	4,004,848	109,661	(101)	4,114,610
Total Liabilities	<u>\$ 4,004,848</u>	<u>\$ 109,760</u>	<u>\$ (5,783)</u>	<u>\$ 4,120,391</u>



**CITY OF MORGAN HILL**

# STATISTICAL SECTION



**CITY OF MORGAN HILL**

## STATISTICAL SECTION

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**City of Morgan Hill**  
**Net Position by Component**  
**Last Ten Fiscal Years**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b><u>Governmental activities</u></b>				
Net investment in capital assets	\$ 210,599,605	\$ 144,747,662	\$ 154,973,003	\$ 204,525,131
Restricted	89,096,812	130,431,751	31,636,883	9,619,462
Unrestricted	38,302,432	157,606,137	164,406,578	121,969,718
Total governmental activities net position	<u>\$ 337,998,849</u>	<u>\$ 432,785,550</u>	<u>\$ 351,016,464</u>	<u>\$ 336,114,311</u>
<b><u>Business-type activities</u></b>				
Net investment in capital assets	\$ 59,093,288	\$ 63,416,430	\$ 63,111,831	\$ 62,956,217
Restricted	22,651,286	21,011,955	20,074,671	20,374,278
Unrestricted	14,670,610	7,802,422	5,893,060	5,319,237
Total business-type activities net position	<u>\$ 96,415,184</u>	<u>\$ 92,230,807</u>	<u>\$ 89,079,562</u>	<u>\$ 88,649,732</u>
<b><u>Primary government</u></b>				
Net investment in capital assets	\$ 269,692,893	\$ 208,164,092	\$ 218,084,834	\$ 267,481,348
Restricted	111,748,098	151,443,706	51,711,554	29,993,740
Unrestricted	52,973,042	165,408,559	170,299,638	127,288,955
Total primary government net position	<u>\$ 434,414,033</u>	<u>\$ 525,016,357</u>	<u>\$ 440,096,026</u>	<u>\$ 424,764,043</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b><u>Governmental activities</u></b>				
Net investment in capital assets	\$ 243,272,964	\$ 212,704,540	\$ 247,387,770	\$ 255,554,388
Restricted	38,526,702	41,403,713	29,985,864	32,099,094
Unrestricted	102,514,658	67,076,890	83,047,293	80,663,091
Total governmental activities net position	<u>\$ 384,314,324</u>	<u>\$ 321,185,143</u>	<u>\$ 360,420,927</u>	<u>\$ 368,316,573</u>
<b><u>Business-type activities</u></b>				
Net investment in capital assets	\$ 53,811,487	\$ 59,973,693	\$ 66,841,902	\$ 74,296,295
Restricted	26,762,669	22,200,202	18,635,222	17,655,169
Unrestricted	14,656,166	10,015,654	10,092,674	6,561,396
Total business-type activities net position	<u>\$ 95,230,322</u>	<u>\$ 92,189,549</u>	<u>\$ 95,569,798</u>	<u>\$ 98,512,860</u>
<b><u>Primary government</u></b>				
Net investment in capital assets	\$ 297,084,451	\$ 272,678,233	\$ 314,229,672	\$ 329,850,683
Restricted	65,289,371	63,603,915	48,621,086	49,754,263
Unrestricted	117,170,824	77,092,544	93,139,967	87,224,487
Total primary government net position	<u>\$ 479,544,646</u>	<u>\$ 413,374,692</u>	<u>\$ 413,374,692</u>	<u>\$ 466,829,433</u>

Source: City of Morgan Hill Annual Financial Reports

2013	2014	2015	2016	2017	2018
\$ 243,502,678	\$ 243,272,964	\$ 212,704,540	\$ 247,387,770	\$ 255,554,388	\$ 261,192,662
34,245,650	38,526,702	41,403,713	29,985,864	32,099,094	35,645,795
93,778,744	102,514,658	67,076,890	83,047,293	80,663,091	73,638,238
<u>\$ 371,527,072</u>	<u>\$ 384,314,324</u>	<u>\$ 321,185,143</u>	<u>\$ 360,420,927</u>	<u>\$ 368,316,573</u>	<u>\$ 370,476,695</u>
\$ 64,290,517	\$ 53,811,487	\$ 59,973,693	\$ 66,841,902	\$ 74,296,295	\$ 75,398,340
22,194,353	26,762,669	22,200,202	18,635,222	17,655,169	19,634,698
5,787,781	14,656,166	10,015,654	10,092,674	6,561,396	7,773,783
<u>\$ 92,272,651</u>	<u>\$ 95,230,322</u>	<u>\$ 92,189,549</u>	<u>\$ 95,569,798</u>	<u>\$ 98,512,860</u>	<u>\$ 102,806,821</u>
\$ 307,793,195	\$ 297,084,451	\$ 272,678,233	\$ 314,229,672	\$ 329,850,683	\$ 336,591,002
56,440,003	65,289,371	63,603,915	48,621,086	49,754,263	55,280,493
99,566,525	117,170,824	77,092,544	93,139,967	87,224,487	81,412,021
<u>\$ 463,799,723</u>	<u>\$ 479,544,646</u>	<u>\$ 413,374,692</u>	<u>\$ 413,374,692</u>	<u>\$ 466,829,433</u>	<u>\$ 473,283,516</u>
2018	2014	2015	2016	2017	2018
\$ 261,192,662	\$ 243,272,964	\$ 212,704,540	\$ 247,387,770	\$ 255,554,388	\$ -
35,645,795	38,526,702	41,403,713	29,985,864	32,099,094	-
73,638,238	102,514,658	67,076,890	83,047,293	80,663,091	-
<u>\$ 370,476,695</u>	<u>\$ 384,314,324</u>	<u>\$ 321,185,143</u>	<u>\$ 360,420,927</u>	<u>\$ 368,316,573</u>	<u>\$ -</u>
\$ 75,398,340	\$ 53,811,487	\$ 59,973,693	\$ 66,841,902	\$ 74,296,295	\$ -
19,634,698	26,762,669	22,200,202	18,635,222	17,655,169	-
7,773,783	14,656,166	10,015,654	10,092,674	6,561,396	-
<u>\$ 102,806,821</u>	<u>\$ 95,230,322</u>	<u>\$ 92,189,549</u>	<u>\$ 95,569,798</u>	<u>\$ 98,512,860</u>	<u>\$ -</u>
\$ 336,591,002	\$ 297,084,451	\$ 272,678,233	\$ 314,229,672	\$ 329,850,683	\$ -
55,280,493	65,289,371	63,603,915	48,621,086	49,754,263	-
81,412,021	117,170,824	77,092,544	93,139,967	87,224,487	-
<u>\$ 473,283,516</u>	<u>\$ 479,544,646</u>	<u>\$ 413,374,692</u>	<u>\$ 413,374,692</u>	<u>\$ 466,829,433</u>	<u>\$ -</u>

**City of Morgan Hill**  
**Changes in Net Position, Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	2009	2010	2011	2012
<b>Expenses</b>				
Governmental activities:				
General Government	\$ 8,878,261	\$ 16,360,096	\$ 11,037,315	\$ 4,766,029
Public Safety	16,075,877	16,116,741	16,139,261	16,638,629
Community development	10,450,462	5,648,317	8,088,271	4,839,149
Public Works development	6,317,670	4,680,068	6,463,307	8,788,778
Recreation and culture	7,204,213	6,726,266	7,327,153	9,062,677
Interest on long term debt	2,925,396	1,606,032	1,570,816	885,105
Total governmental activities expenses	<u>51,851,881</u>	<u>51,137,520</u>	<u>50,626,123</u>	<u>44,980,367</u>
Business-type activities:				
Sewer	9,086,415	9,319,927	9,365,344	9,000,914
Water	10,045,025	9,790,197	9,981,476	9,645,196
Total Business-type activities expenses	<u>19,131,440</u>	<u>19,110,124</u>	<u>19,346,820</u>	<u>18,646,110</u>
Total primary government expenses	<u>\$ 70,983,321</u>	<u>\$ 70,247,644</u>	<u>\$ 69,972,943</u>	<u>\$ 63,626,477</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General Government	\$ 2,614,067	\$ 2,733,726	\$ 2,815,111	\$ 2,624,813
Public Safety	717,811	932,391	605,624	527,037
Community development	3,910,314	1,693,674	3,724,059	3,426,873
Public Works development	197,182	166,202	160,390	166,805
Recreation and culture	4,049,151	4,248,023	4,591,037	5,003,708
Operating grants and contributions	2,061,109	1,219,140	1,990,487	6,149,144
Capital grants and contributions	11,927,826	5,687,684	4,271,069	5,575,964
Total governmental activities program revenues	<u>25,477,460</u>	<u>16,680,840</u>	<u>18,157,777</u>	<u>23,474,344</u>
Business-type activities:				
Charges for services:				
Sewer	8,197,498	7,948,974	9,234,177	9,497,789
Water	8,385,210	7,244,864	7,513,699	8,636,971
Operating grants and contributions				
Capital grants and contributions	2,375,590	64,070	-	587,287
Total business-type activities program revenues	<u>18,958,298</u>	<u>15,257,908</u>	<u>16,747,876</u>	<u>18,722,047</u>
Total primary government program revenues	<u>\$ 44,435,758</u>	<u>\$ 31,938,748</u>	<u>\$ 34,905,653</u>	<u>\$ 42,196,391</u>
<b>Net(Expense)/Revenue</b>				
Governmental activities	\$ (26,374,419)	\$ (34,456,680)	\$ (32,468,346)	\$ (21,506,023)
Business-type activities	(173,142)	(3,852,216)	(2,598,944)	75,937
Total primary government net expense	<u>\$ (26,547,562)</u>	<u>\$ (38,308,896)</u>	<u>\$ (35,067,290)</u>	<u>\$ (21,430,086)</u>
<b>General Revenues and Other Changes in Net Position</b>				
Governmental activities:				
Property taxes	\$ 31,119,435	\$ 30,017,644	\$ 27,617,280	\$ 25,778,767
Sales taxes	6,862,003	5,680,409	4,514,936	5,604,863
Franchise taxes	2,508,042	2,429,152	2,504,462	2,604,868
Other general revenue taxes	593,476	910,887	1,052,510	1,073,963
Unrestricted investment earnings	2,365,477	7,290,413	2,861,158	3,599,520
Special item-transfer to Economic Development Corporation				
Special items - assets transfer from Successor Agency				
Extraordinary item-Loss on dissolution of the redevelopment agency				
Transfers	(13,336,884)	666,875	725,828	737,279
Total governmental activities	<u>30,111,549</u>	<u>46,995,380</u>	<u>39,276,174</u>	<u>39,399,260</u>

2013	2014	2015	2016	2017	2018
\$ 2,885,308	\$ 2,904,732	\$ 2,843,336	\$ 4,092,113	\$ 5,060,633	\$ 5,147,400
17,279,531	17,670,163	19,950,164	17,737,431	20,083,248	22,947,672
6,435,624	5,717,704	4,790,542	6,300,312	6,687,917	7,069,348
6,249,886	6,516,103	3,166,946	6,544,763	9,330,791	10,051,526
10,051,499	9,871,553	9,993,458	10,819,408	11,607,305	12,108,610
574,134	511,693	558,971	643,763	474,500	549,201
<u>43,475,982</u>	<u>43,191,948</u>	<u>41,303,416</u>	<u>46,137,790</u>	<u>53,244,394</u>	<u>57,873,757</u>
9,942,911	9,642,194	9,887,909	10,098,803	10,597,987	10,956,264
10,438,233	10,851,273	10,527,296	13,642,270	10,933,406	12,732,024
20,381,144	20,493,467	20,415,205	23,741,073	21,531,393	23,688,288
<u>\$ 63,857,126</u>	<u>\$ 63,685,415</u>	<u>\$ 61,718,621</u>	<u>\$ 69,878,863</u>	<u>\$ 74,775,787</u>	<u>\$ 81,562,045</u>
\$ 2,034,479	\$ 1,927,610	\$ 1,771,476	\$ 1,688,575	\$ 1,744,657	\$ 1,928,020
583,799	738,424	760,141	801,342	812,692	649,945
2,817,569	6,719,080	5,801,869	4,301,337	4,909,182	4,909,128
149,794	181,583	41,703	48,513	45,947	39,436
5,640,640	5,834,679	6,477,163	6,747,293	8,546,080	8,822,670
3,227,567	4,601,340	3,355,013	3,317,893	2,076,767	2,546,575
12,024,593	10,942,471	7,272,503	11,837,394	13,726,076	11,751,424
<u>26,478,441</u>	<u>30,945,187</u>	<u>25,479,868</u>	<u>28,742,347</u>	<u>31,861,401</u>	<u>30,647,198</u>
12,524,768	13,927,768	10,561,028	10,506,697	10,755,875	15,025,433
10,722,187	11,225,987	9,041,044	10,834,507	12,067,226	14,081,950
1,399,261	946,507	3,734,586	6,408,502	2,275,118	-
24,646,216	26,100,262	23,336,658	27,749,706	25,098,219	29,107,383
<u>\$ 51,124,657</u>	<u>\$ 57,045,449</u>	<u>\$ 48,816,526</u>	<u>\$ 56,492,053</u>	<u>\$ 56,959,620</u>	<u>\$ 59,754,581</u>
\$ (16,997,541)	\$ (12,246,761)	\$ (15,823,548)	\$ (17,395,443)	\$ (21,382,993)	\$ (27,226,559)
4,265,072	5,606,795	-	-	-	-
<u>\$ (12,732,469)</u>	<u>\$ (6,639,966)</u>	<u>\$ (15,823,548)</u>	<u>\$ (17,395,443)</u>	<u>\$ (21,382,993)</u>	<u>\$ (27,226,559)</u>
\$ 16,223,976	\$ 8,867,646	\$ 8,933,340	\$ 9,380,677	\$ 10,908,334	\$ 11,582,252
6,638,381	7,766,996	8,640,396	8,790,769	9,734,686	10,358,420
2,893,942	3,359,018	3,786,751	4,232,789	5,198,405	5,478,690
928,469	858,724	881,549	1,146,383	1,259,395	1,022,622
1,640,975	1,424,940	2,494,499	713,844	1,211,344	1,253,818
(19,931,051)	-	-	-	-	-
(1,617,196)	-	-	-	-	-
(703,201)	761,419	775,682	813,033	977,968	983,673
<u>6,074,295</u>	<u>23,038,743</u>	<u>25,512,217</u>	<u>25,077,495</u>	<u>29,290,132</u>	<u>30,679,475</u>

(Continued)

**City of Morgan Hill**  
**Changes in Net Position, Last Ten Fiscal Years**  
**(accrual basis of accounting)**

Business-type activities:				
Investment earnings	1,267,687	393,667	184,978	197,434
Transfers	<u>(666,875)</u>	<u>(725,828)</u>	<u>(737,279)</u>	<u>(703,201)</u>
Total business-type activities	<u>600,812</u>	<u>(332,161)</u>	<u>(552,301)</u>	<u>(505,767)</u>
Total primary government	<u>\$ 47,596,192</u>	<u>\$ 38,944,013</u>	<u>\$ 38,846,959</u>	<u>\$ 5,568,528</u>
Change in Net Position				
Governmental activities	\$ 20,620,961	\$ 4,819,494	\$ 6,930,914	\$ (15,431,728)
Business-type activities	<u>427,670</u>	<u>(4,184,377)</u>	<u>(3,151,245)</u>	<u>(429,830)</u>
Total primary government	<u>\$ 21,048,631</u>	<u>\$ 635,117</u>	<u>\$ 3,779,669</u>	<u>\$ (15,861,558)</u>

Source: City of Morgan Hill Annual Financial Reports

119,266	174,824	210,301	310,351	354,204	558,831
<u>(761,419)</u>	<u>(775,682)</u>	<u>(813,033)</u>	<u>(938,735)</u>	<u>(977,968)</u>	<u>(983,673)</u>
<u>(642,153)</u>	<u>(600,858)</u>	<u>(602,732)</u>	<u>(628,384)</u>	<u>(623,764)</u>	<u>(424,842)</u>
<u>\$ 22,396,590</u>	<u>\$ 24,911,359</u>	<u>\$ 24,474,763</u>	<u>\$ 56,000,858</u>	<u>\$ 28,666,368</u>	<u>\$ 30,254,633</u>
\$ 6,041,202	\$ 13,265,456	\$ 9,253,947	\$ 39,233,799	\$ 7,907,139	\$ 3,452,916
<u>3,622,919</u>	<u>5,005,937</u>	<u>2,318,721</u>	<u>3,380,249</u>	<u>2,943,062</u>	<u>4,994,253</u>
<u>\$ 9,664,121</u>	<u>\$ 18,271,393</u>	<u>\$ 11,572,668</u>	<u>\$ 42,614,048</u>	<u>\$ 10,850,201</u>	<u>\$ 8,447,169</u>

**City of Morgan Hill  
Fund Balances, Governmental Funds  
Last Ten Fiscal Years**

	<b>2009</b>	<b>2010</b>	<b>2011*</b>	<b>2012</b>
General Fund				
Reserved	\$ 217,263	\$ 178,137		
Unreserved	8,343,680	7,751,153		
Nonspendable			\$ 1,903,035	\$ 1,064,453
Restricted				
Unassigned			5,379,127	6,022,504
Total General Fund	<u>\$ 8,560,943</u>	<u>\$ 7,929,290</u>	<u>\$ 7,282,162</u>	<u>\$ 7,086,957</u>
All Other Governmental Funds				
Reserved	\$ 27,663,410	\$ 49,718,704		
Unreserved, reported in:				
Special revenue funds	6,121,254	4,678,586		
Capital projects funds	87,742,618	70,047,659		
Nonspendable			\$ 12,863,046	\$ 808,950
Restricted			93,672,686	44,489,941
Unassigned			(709,844)	(718,327)
Total all other governmental funds	<u>\$ 121,527,282</u>	<u>\$ 124,444,949</u>	<u>\$ 105,825,888</u>	<u>\$ 44,580,564</u>
Total Governmental Funds	<u>\$ 130,088,225</u>	<u>\$ 132,374,239</u>	<u>\$ 113,108,050</u>	<u>\$ 51,667,521</u>

\* GASB 54 was implemented FY 2010/11, prior years not restated

Source: City of Morgan Hill Annual Financial Reports

2013	2014	2015	2016	2017	2018
\$ 718,372	\$ 689,445	\$ 1,681,066	\$ 1,651,263	\$ 2,451,243	\$ 2,809,542
					863,024
9,865,845	12,025,157	14,017,661	15,894,753	14,379,374	14,715,819
<u>\$ 10,584,217</u>	<u>\$ 12,714,602</u>	<u>\$ 15,698,727</u>	<u>\$ 17,546,016</u>	<u>\$ 16,830,617</u>	<u>\$ 18,388,385</u>

\$ -	\$ 500	\$ -	\$ -	\$ 2,619	\$ -
48,587,517	56,701,605	119,292,842	119,738,718	120,545,140	119,480,110
(730,381)	(716,642)	(805,653)	(688,296)	(778,193)	(736,932)
<u>\$ 47,857,136</u>	<u>\$ 55,985,463</u>	<u>\$ 118,487,189</u>	<u>\$ 119,050,422</u>	<u>\$ 119,769,566</u>	<u>\$ 118,743,178</u>

<u>\$ 58,441,353</u>	<u>\$ 68,700,065</u>	<u>\$ 134,185,916</u>	<u>\$ 136,596,438</u>	<u>\$ 136,600,183</u>	<u>\$ 137,131,563</u>
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**City of Morgan Hill**  
**Changes in Fund Balances, Governmental Funds**  
**Last Ten Fiscal Years**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Revenues</b>				
Property taxes	\$ 30,366,428	\$ 27,943,938	\$ 25,945,308	\$ 16,399,498
Sales taxes	5,680,409	4,514,936	5,604,863	6,638,381
Franchise, hotel and other taxes	2,791,845	2,504,462	2,604,868	2,893,942
Licenses and permits	176,670	163,657	165,451	162,164
Funding from other governmental agencies	3,016,887	2,310,043	2,369,187	4,434,670
Charges for current services	9,484,108	12,293,781	13,282,176	14,021,433
Investment income and rentals	7,411,536	2,816,008	1,917,890	1,522,122
Other revenues	2,566,112	923,295	1,672,421	1,439,652
<b>Total Revenues</b>	<b>61,493,995</b>	<b>53,470,120</b>	<b>53,562,164</b>	<b>47,511,862</b>
<b>Expenditures</b>				
General government	8,736,094	16,292,724	10,169,203	4,684,494
Public safety	15,625,613	15,609,126	15,692,997	16,193,066
Community development	4,874,387	3,646,059	4,306,819	4,290,003
Housing services	8,861,963	3,657,418	7,630,051	3,238,969
Streets and Highways	1,959,312	1,671,103	2,206,211	2,838,999
Parks and recreation	6,344,024	5,819,347	5,642,790	5,869,353
Other public services	760,139	773,855	456,664	661,125
Capital outlay*	21,721,800	18,413,241	18,754,074	15,122,565
Debt service:				
Interest	2,646,643	3,040,000	1,304,526	833,282
Principal	1,780,000	1,331,049	3,335,000	3,115,000
<b>Total Expenditures</b>	<b>73,309,975</b>	<b>70,253,922</b>	<b>69,498,335</b>	<b>56,846,856</b>
Excess of revenues over (under) expenditures	<u>(11,815,980)</u>	<u>(16,783,802)</u>	<u>(15,936,171)</u>	<u>(9,334,994)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from loans				
Transfers in	2,649,092	4,367,582	9,426,126	9,195,528
Transfers out	(1,972,217)	(3,696,550)	(12,756,144)	(8,320,898)
Payment to refunded debt escrow agent				
Proceeds from capital leases				
Total other financing sources (uses)	<u>676,875</u>	<u>671,032</u>	<u>(3,330,018)</u>	<u>874,630</u>
Development Corporation				(5,809,583)
Extraordinary item-loss on dissolution of the redevelopment agency				<u>(47,170,582)</u>
Total special and extraordinary items				<u>(52,980,165)</u>
Net change in fund balances	<u>\$ (11,139,105)</u>	<u>\$ (16,112,770)</u>	<u>\$ (19,266,189)</u>	<u>\$ (61,440,529)</u>
Debt service as a percentage of of non-capital expenditures	Not available	Not available	Not available	Not available

\*Fiscal Years 2003 and 2004 included multiple land purchase agreements which were paid in full in 2004.

Source: City of Morgan Hill Annual Financial Reports



**City of Morgan Hill  
Assessed and Actual Value of Taxable Property  
Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Residential Property</b>	<b>Industrial &amp; Manufacturing</b>	<b>Retail Property</b>	<b>Office Property</b>	<b>Agricultural * Misc</b>
2008	\$ 4,807,420,000	\$ 589,880,000	\$ 316,160,000	\$ 109,862,052	\$ 392,440,000
2009	4,961,070,000	603,450,000	383,790,000	119,210,000	411,710,000
2010	4,738,320,000	619,490,000	427,080,000	125,130,000	358,270,000
2011	4,433,150,460	558,011,467	430,523,811	110,443,961	353,667,109
2012	4,484,372,914	550,932,270	421,156,042	113,249,579	368,116,195
2013	4,507,614,537	539,717,016	421,320,064	117,463,292	352,093,930
2014	4,962,067,340	512,710,837	421,152,501	122,140,120	316,791,276
2015	5,574,226,679	513,579,704	422,977,007	114,132,142	310,190,203
2016	5,994,430,054	516,619,206	429,631,743	119,977,599	346,290,015
2017	6,532,653,616	538,100,408	437,279,917	122,061,211	335,160,931
2018	6,990,066,541	597,536,886	467,902,715	128,406,960	337,960,807

Source: Santa Clara County Annual Assessor's Report

	<b>Less Tax-Exempt Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>
\$	48,154,002	\$ 6,167,608,050	1.1182%
	48,820,000	6,430,410,000	1.1191%
	49,310,000	6,218,980,000	1.1417%
	49,494,200	5,836,302,608	1.1527%
	48,816,600	5,889,010,400	1.1590%
	48,455,400	5,889,753,439	1.1521%
	48,370,000	6,286,492,074	1.2069%
	48,746,600	6,886,359,135	1.2048%
	49,525,000	7,357,423,617	1.1610%
	50,008,000	7,915,248,083	1.1529%
	50,339,800	8,471,534,109	1.2090%

**City of Morgan Hill  
Direct and Overlapping Property Tax Rates  
Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>State Property Tax Rate Maximum Permitted by Prop 13</b>	<b>Voter-Approved Local Rates</b>		<b>State plus Voter-Approved Local Tax Rate</b>
		<b>County</b>	<b>Debt Service for Schools and Other Districts</b>	
2008	1.00%	0.0412%	0.0770%	1.1182%
2009	1.00%	0.0412%	0.0779%	1.1191%
2010	1.00%	0.0412%	0.1005%	1.1417%
2011	1.00%	0.0412%	0.1115%	1.1527%
2012	1.00%	0.0463%	0.1127%	1.1590%
2013	1.00%	0.0463%	0.1058%	1.1521%
2014	1.00%	0.0447%	0.1622%	1.2069%
2015	1.00%	0.0503%	0.1545%	1.2048%
2016	1.00%	0.0412%	0.1198%	1.1610%
2017	1.00%	0.0412%	0.1117%	1.1529%
2018	1.00%	0.0412%	0.1678%	1.2090%

Source: Santa Clara County Tax Rates and Information Report

City of Morgan Hill  
 Principal Property Tax Payers  
 Current Fiscal Year and Ten Years Ago

<u>Taxpayer</u>	<u>Land Use</u>	<u>2016</u>		
		<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Value</u>
Willowbrook California Props LLC	Industrial	\$ 24,686,807	1	0.42%
Jtj Apartment Investors LLC (16945 Del Monte)	Housing	24,604,278	2	0.42%
Morgan Hill Sr Living L P	Housing	23,814,601	3	0.40%
Woodland Residents Inc	Housing	20,805,229	4	0.35%
CalAtlantic Group Inc	Housing	17,511,391	5	0.30%
Jtj Apartment Investors LLC (16915 Del Monte)	Housing	16,877,909	6	0.29%
Diamond Creek Villa LLC	Housing	16,583,987	7	0.28%
Verity Holdings LLC	Commercial	13,103,374	8	0.22%
Target Corporation	Commercial	12,792,150	9	0.22%
Safeway	Commercial	12,592,605	10	0.21%
		<u>\$ 183,372,331</u>		<u>3.11%</u>

Source: County of Santa Clara Metroscan

**City of Morgan Hill  
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	Percent of Levy		Amount	Percent of Levy
2008	\$ 7,342,726	\$ 7,342,726	100%	<b>*City of Morgan Hill participates in the Teeter Plan</b>		
2009	6,926,194	6,926,194	100%			
2010	6,865,673	6,865,673	100%			
2011	6,334,456	6,334,456	100%			
2012	6,361,401	6,361,401	100%			
2013	6,441,484	6,441,484	100%			
2014	7,207,535	7,207,535	100%			
2015	8,168,385	8,168,385	100%			
2016	9,851,539	9,851,539	100%			
2017	10,430,200	10,430,200	100%			
2018	11,359,893	11,359,893	100%			

\*The Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided.

Source: City of Morgan Hill Annual Financial Reports



**CITY OF MORGAN HILL**

**City of Morgan Hill  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal years**

Fiscal Year Ended June 30,	<u>Governmental Activities</u>					Special Assessment Bonds
	Revenue Bonds	Lease Revenue Bonds	Loans Payable	Capital Lease Payable		
2008	\$ 108,631,722	\$ 11,926,573	\$ 4,600,188	\$ -	\$ -	655,000
2009	107,331,453	11,692,853	4,713,349			485,000
2010	104,758,995	11,449,131	4,826,107			335,000
2011	102,093,134	11,195,409	3,339,246			
2012		10,939,327	1,114,951			
2013		16,165,817	1,143,352			
2014		10,843,867		5,150,845		
2015		10,535,000	794,067	4,843,077		
2016		9,878,725	687,099	4,524,793		
2017		9,531,039	577,817	4,210,256		
2018		9,163,354	467,559	3,870,521		

Source: City of Morgan Hill Annual Financial Reports

**Business-Type Activities**

	<b>Water Facilities Loan</b>	<b>Water Certificates of Participation</b>	<b>Water Revenue Bonds</b>	<b>Sewer Capacity Rights</b>	<b>Wastewater Revenue Bonds</b>	<b>Total Primary Government</b>	<b>Percentage of Personal Income</b>	<b>Per Capita</b>
\$	823,844	\$ 3,172,120	\$ 7,430,814	\$ 18,242,972	\$ -	\$ 155,483,233	0.06%	3,905
	751,592	3,001,408	7,442,706	17,317,591		152,735,952	0.06%	3,836
	674,822	2,820,695	7,454,597	16,372,210		148,691,557	0.07%	3,695
	593,482	2,629,983	7,466,489	15,391,830		142,709,573	0.07%	3,725
	507,406	2,429,269	7,478,381	14,376,449		36,845,783	0.27%	942
	416,367	2,213,558	7,490,272	13,326,068		40,755,434	0.26%	1,017
			21,975,000	13,483,660		51,453,372	0.18%	1,249
			21,265,000		17,318,703	54,755,847	0.17%	1,311
			20,470,000		17,241,146	52,801,763	0.19%	1,186
			19,635,000		15,903,588	49,857,700	0.20%	1,120
			18,770,000		14,511,031	46,782,465	0.22%	1,051



**CITY OF MORGAN HILL**

**City of Morgan Hill  
Direct and Overlapping Governmental Activities Debt  
As of June 30, 2018**

**2017-18 Assessed Valuation: \$ 8,843,643,065**

<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>	<b>Total Debt 6/30/2018</b>	<b>% Applicable (1)</b>	<b>City's Share of Debt 6/30/2018</b>
Santa Clara County	\$ 1,012,400,000	1.966%	\$ 19,903,784
Gavilan Joint Community College District	90,905,000	28.381%	25,799,748.00
Morgan Hill Unified School District	151,400,000	65.371%	98,971,694.00
City of Morgan Hill 1915 Act Bonds	8,491,000	100%	8,491,000.00
Santa Clara Valley Water District Benefit Assessment District	82,285,000	1.966%	1,617,723.00
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$ 154,783,949</b>

**DIRECT AND OVERLAPPING GENERAL FUND DEBT:**

Santa Clara County General Fund Obligations	590,242,965	1.966%	11,604,177
Santa Clara County Pension Obligations	357,547,175	1.966%	7,029,377
Santa Clara County Board of Education Certificates Of Participation	4,985,000	1.966%	98,005
Gavilan Joint Community College District Certificates of Participation	13,915,000	28.381%	3,949,216
Morgan Hill Unified School District Certificates of Participation	13,505,000	65.371%	8,828,354
Santa Clara County Vector Control Certificates of Participation	2,470,000	1.966%	48,560
<b>City of Morgan Hill Lease Revenue Bonds</b>	<b>8,395,000</b>	<b>100%</b>	<b>8,395,000</b>
<b>City of Morgan Hill Capital Lease Obligation</b>	<b>3,870,521</b>	<b>100%</b>	<b>3,870,521</b>
<b>City of Morgan Hill Loans Payable</b>	<b>467,559</b>	<b>100%</b>	<b>467,559</b>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 44,290,769</b>
Less: Santa Clara County supported obligations			\$7,999,372
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 36,291,397</b>

**OVERLAPPING TAX INCREMENT DEBT (Successor Agency):** \$ 75,310,000 100% \$ 75,310,000

**TOTAL DIRECT DEBT** \$ **12,733,080**  
**TOTAL GROSS OVERLAPPING DEBT** \$ 261,651,638  
**TOTAL NET OVERLAPPING DEBT** \$ 253,652,266

**GROSS COMBINED TOTAL DEBT** \$ 274,384,718 (2)  
**NET COMBINED TOTAL DEBT** \$ 266,385,346

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of overlapping district's assessed value that is within the boundaries of the city divided by the district's total assessed value.  
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2016-17 Assessed Valuation:

Total Overlapping Tax and Assessment Debt.....	1.75%
<b>Total Direct Debt (\$12,733,080).....</b>	<b>0.14%</b>
Gross Combined Total Debt.....	3.10%
Net Combined Total Debt.....	3.01%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$2,745,458,404):

Total Overlapping Tax Increment Debt.....	2.74%
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**City of Morgan Hill  
 Legal Debt Margin Information  
 Last Ten Fiscal Years (In thousands)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Debt limit	\$ 925,141	\$ 964,561	\$ 932,847	\$ 875,445	\$ 883,352
Total net debt applicable to limit	-	-	-	-	-
Legal debt margin	\$ 925,141	\$ 964,561	\$ 932,847	\$ 875,445	\$ 883,352
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

Sources: County of Santa Clara Tax Rates and Information and City of Morgan Hill Annual Financial Report

Legal Debt limit is the total assessed value x 15%

<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
\$ 883,463	\$ 942,974	\$ 1,032,954	\$ 1,103,614	\$ 1,187,287	\$ 1,270,730
-	-	-	-	-	-
\$ 883,463	\$ 942,974	\$ 1,032,954	\$ 1,103,614	\$ 1,187,287	\$ 1,270,730
0%	0%	0%	0%	0%	0%

City of Morgan Hill  
Pledged-Revenue Coverage  
Last Ten Fiscal Years

<b>Sewer Bonds</b>					
Fiscal Year Ended June 30,	Utility Services Charges		Less: Operating Costs		Net Available Revenue
2008	\$	9,424,049	\$	6,552,427	\$ 2,871,622
2009		9,043,072		5,528,626	3,514,446
2010		8,235,801		5,737,510	2,498,291
2011		9,370,444		5,756,237	3,614,207
2012		9,618,420		5,324,664	4,293,756
2013		12,524,768		6,215,680	6,309,088
2014		13,927,768		5,993,976	7,933,792
2015		13,694,418		5,958,745	7,735,673
2016		15,464,101		5,777,190	9,686,912
2017		12,512,784		6,034,500	6,478,284
2018		11,325,433		6,535,770	4,789,663

<b>Water Bonds</b>					
Fiscal Year Ended June 30,	Utility Services Charges		Less: Operating Costs		Net Available Revenue
2008	\$	9,768,438	\$	8,060,209	\$ 1,708,229
2009		8,807,323		7,187,410	1,619,913
2010		7,351,704		6,875,846	475,858
2011		7,562,410		7,045,126	517,284
2012		8,713,774		6,699,127	2,014,647
2013		10,722,187		7,454,660	3,267,527
2014		11,225,987		7,636,802	3,589,185
2015		9,066,452		7,021,356	2,045,095
2016		10,181,073		7,728,531	2,452,542
2017		12,472,647		7,575,225	4,897,422
2018		14,036,049		8,990,718	5,045,331

Source: City of Morgan Hill Annual Financial Report

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**Sewer Bonds**

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	Debt Service		
Principal		Interest	Coverage
\$	1,040,000	\$ 905,340	1.48
	1,065,000	879,201	1.81
	1,085,000	849,631	1.29
	1,120,000	819,312	1.86
	1,155,000	655,156	2.37
	1,190,000	617,050	3.49
	1,235,000	576,100	4.38
	1,275,000	532,175	4.28
	-	528,074	18.34
	1,260,000	676,300	3.35
	1,315,000	624,800	2.47

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**Water Bonds**

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	Debt Service		
Principal		Interest	Coverage
\$	293,520	\$ 662,641	1.79
	307,705	649,195	1.69
	322,223	635,793	0.50
	336,722	512,780	0.61
	351,530	531,436	2.28
	371,525	515,629	3.68
	384,023	571,463	3.76
	710,000	892,734	1.28
	795,000	797,438	1.54
	835,000	767,625	3.06
	865,000	736,313	3.15

City of Morgan Hill  
Demographic and Economic Statistics  
Last Ten Fiscal Years

Year	Population	Median Household Income	Median Persons Per Household	Per Capita Median Income	County Unemployment Rate	Median Age	School Enrollment
2008	39,218	\$ 95,033	3.050	\$ 31,158	6.0	34.9	9,023
2009	39,814	96,703	3.100	31,195	11.7	36.1	9,194
2010	40,246	97,957	3.490	28,068	11.4	36.3	9,096
2011	38,309	99,243	3.060	32,432	13.3	33.5	9,006
2012	39,127	99,464	3.040	32,718	7.9	36.8	8,763
2013	40,079	105,500	4.000	26,375	7.1	36.2	8,701
2014	41,197	94,238	3.010	31,308	6.8	38.4	8,528
2015	41,779	95,531	3.030	31,528	5.2	37.5	9,000
2016	43,645	94,319	3.060	30,823	4.1	38.3	9,135
2017	44,145	96,051	3.000	32,017	4.1	36.8	9,137
2018	44,513	100,900	2.980	33,859	3.0	37.9	9,133

Source: State of Calif, Dept of Finance, Bureau of Labor Statistics

School enrollment data =<https://dq.cde.ca.gov/dataquest/dataquest.asp>



**CITY OF MORGAN HILL**

**City of Morgan Hill  
Principal Employers  
Current Fiscal Year, Prior Fiscal Year and Ten Years Ago**

<u>Employer</u>	<b>Fiscal Year 2018</b>		
	<b>Number of Employees</b>	<b>Rank</b>	<b>Percent of Total City Employment</b>
MORGAN UNIFIED SCHOOL DISTRICT	800	1	4.79%
VELODYNE LIDAR, INC	516	2	3.09%
ANRITSU COMPANY	455	3	2.72%
PARAMIT CORPORATION	340	4	2.03%
FLEXTRONICS INTERNATIONAL USA, INC.	304	5	1.82%
LUSAMERICA FOODS, INC.	282	6	1.69%
SPECIALIZED BICYCLE COMPONENTS	282	7	1.69%
NxEDGE MH LLC	253	8	1.51%
MISSION BELL MFG, INC.	233	9	1.39%
HOSPIRA, INC.	230	10	1.38%
INFINEON TECHNOLOGIES NORTH AMERICA CORP	228	11	1.36%
SHOE PALACE CORPORATION	227	12	1.36%
CREE, INC.	212	13	1.27%
COMCAST OF CALIFORNIA II, LLC.	194	14	1.16%
CITY OF MORGAN HILL	194	15	1.16%
INFINEON TECHNOLOGIES AMERICAS CORP	175	16	1.05%
YOUNG'S MARKET COMPANY, LLC	158	17	0.95%
PARAGON MECHANICAL, INC	129	18	0.77%
NEW PRODUCT INTEGRATION SOLUTIONS, INC.	129	19	0.77%
ANRITSU AMERICAS SALES COMPANY	128	20	0.77%

Wal-Mart Supercenter #5766

Target Store #T2252

Covenant Care MH LLC,dba:Pacific Hills Manor

The Home Depot #7572

Del Monaco Specialty Foods, Inc.

Safeway Inc. #1455

The Ford Store

Safeway Inc. #1891

Andpak, Inc

Sakata Seed America

Comcast Cable Communications

E.D.O. Reconnaissance & Surveillance Systems Inc.

Total	<u>5,469</u>	<u>32.72%</u>
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\*2008 collected data for top ten employers only

Fiscal Year 2017			Fiscal Year 2008*		
Number of Employees	Rank	Percent of Total City Employment	Number of Employees	Rank	Percent of Total City Employment
716	1	5.50%	812	1	4.34%
455	2	3.49%	679	2	3.63%
340	4	2.61%	282	5	1.51%
268	6	2.06%			
275	5	2.11%			
373	3	2.86%	218	7	1.16%
			174	9	0.93%
175	10	1.34%	498	4	2.66%
212	7	1.63%	162	10	0.87%
194	8	1.49%	196	8	1.05%
161	11	1.24%			
179	9	1.37%			
161	12	1.24%			
138	13	1.06%			
135	14	1.04%			
133	15	1.02%			
133	16	1.02%			
133	17	1.02%			
126	18	0.97%			
114	19	0.87%			
108	20	0.83%			
			500	3	2.67%
			239	6	1.28%
<u>4,529</u>		<u>34.76%</u>	<u>3,760</u>		<u>20.10%</u>

**City of Morgan Hill**  
**Full-time Equivalent City Government Employees by Function/Program**  
**Last Ten Fiscal Years**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
City Council	5.00	5.00	5.00	5.00	5.30
City Manager	4.00	4.00	11.00	3.00	0.95
City Attorney	2.00	2.00	3.00	3.00	2.53
Administrative Services				18.00	15.95
Community Services	18.50	18.50	14.00	14.00	24.23
Police	61.50	61.50	58.00	59.00	52.96
Fire					
Community Development	19.50	20.00	13.50	81.00	19.12
Public Works	59.50	60.50	60.00		34.24
Internal Services					13.57
Finance*	10.50	10.50	13.00		
Businesss Assistance & Housing Services*	10.50	10.50	9.50		
Council Srvs/Records Management*	4.75	4.75			
Information Services*	3.00	3.00			
Human Resources*	2.50	2.50			
City Clerk*					
<b>Total City Government Employees</b>	<b>201.25</b>	<b>202.75</b>	<b>187.00</b>	<b>183.00</b>	<b>168.85</b>

Source: City of Morgan Hill

\* Effective 2011 onward, departments were consolidated with Administrative Services

<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
5.00	5.00	5.00	5.00	5.00	5.00
0.70	0.95	1.20	3.00	2.90	4.05
2.63	2.63	2.63	2.63	2.68	2.75
16.30	18.25	18.40	19.15	20.13	24.96
23.90	24.65	21.79	23.33	23.56	29.39
55.50	56.50	58.50	59.50	60.60	61.60
0.25	0.25			0.10	0.10
20.33	20.08	22.67	19.87	21.77	26.17
31.79	31.79	32.29	43.10	45.10	40.98
13.10	13.90	19.52	11.92	11.66	
169.50	174.00	182.00	187.50	193.50	195.00

**City of Morgan Hill  
Operating Indicators by Function/Program  
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Recreation and Community Services</u>						
Daily Visitors	179,614	181,252	282,617	331,400	378,913	373,591
Recreation Program Visits	51,633	93,240	94,327	96,381	99,863	78,596
RCS Facility Rental Reservation Hours	38,764	47,495	34,796	35,750	37,237	43,712
CRC/AC Memberships	2,973	3,169	3,350	3,910	4,379	4,620
% of expenditures for capital outlay	30.01%	0.18%	13.03%	0.17%	8.64%	0.00%
<u>Public Safety</u>						
Police						
Number of crimes reported	1,115	965	4,066	3,867	3,480	4,176
% of expenditures for capital outlay	1.81%	0.68%	2.52%	0.14%	0.21%	0.46%
Fire						
Fire and Life Safety Inspections						501
Public Education Attendees						1,009
% of expenditures for capital outlay						53%
<u>Public Works</u>						
Sewer Operations						
Sewer lines flushed (ft)	401,201	649,622	684,973	648,424	527,853	649,943
Sanitary Sewer Overflows (SSO)	8	14	6	3	5	6
% of expenditures for capital outlay	6.90%	0.52%	8.03%	1.23%	12.50%	0.66%
Water Operations						
Water production (thous gal)	2,831,486	2,646,925	2,392,682	2,405,758	2,592,366	2,742,031
Water meters installed	126	92	90	114	93	218
Water meters repaired or replaced	588	559	880	864	182	819
Water customer accounts	12,139	12,156	12,256	12,711	12,423	12,713
% of expenditures for capital outlay	5.02%	5.73%	9.47%	3.93%	8.34%	5.00%
Streets Maintenance						
New signs installed	119	97	4	6	10	11
Signs repaired/replaced	91	92	29	64	93	106
% of expenditures for capital outlay	0.00%	0.001%	43.87%	0.00%	0.00%	0.00%
<u>Community Development</u>						
Planning applications	291	183	128	126	130	182
Building permits issued	1,085	795	902	1,053	1,050	1,734
% of expenditures for capital outlay	7.43%	0.40%	2.64%	0.00%	0.00%	0.00%
<u>Housing Agency</u>						
Rehab loans	2	3	6	5	0	0
Below Market Rate home sales	16	24	4	9	2	25
% of expenditures for capital outlay	6.54%	0.77%	0%	0.00%	0.00%	0.00%
<u>Total City Government Employees</u>	<u>201.3</u>	<u>202.8</u>	<u>187.0</u>	<u>183.0</u>	<u>168.9</u>	<u>169.5</u>

Fire Services added January 1, 2013

Source: Departments of the City of Morgan Hill

2014	2015	2016	2017	2018
327,313	349,844	402,342	314,149	321,079
96,879	77,451	84,519	95,602	86,392
48,600	53,775	373,733	44,238	47,439
4,697	4,737	4,703	4,903	4,944
1.46%	0.31%	0%	3.22%	3.22%
3,388	3,725	3,863	4,113	4,137
0.32%	1.22%	0.76%	3.10%	3.22%
1,214	1,375	1,074	1,359	1,133
2,223	2,536	3,370	3,417	3,242
0.36%	3.78%	0.19%	3.82%	1.61%
372,834	587,687	445,843	363,622	649,668
10	10	5	14	5
0.00%	0.54%	0.66%	1.24%	1.78%
2,808,225	2,217,117	1,884,822	2,123,958	2,372,393
258	271	348	195	469
1,087	1,409	780	286	585
12,857	13,274	13,647	13,841	13,953
8.72%	7.75%	5.75%	9.04%	5.51%
19	19	10	23	107
130	164	63	100	132
0.00%	0.00%	0.00%	0.00%	5.49%
216	210	171	185	160
1,966	2,105	2,204	2,197	2,191
22.92%	0.25%	4.71%	2.79%	0.60%
0	0	0	9	35
21	10	24	7	20
0.00%	0.00%	0.00%	0.00%	0.00%
174.0	182.0	187.5	193.5	195

**City of Morgan Hill  
Capital Asset Statistics by Function  
Last Ten Fiscal Years**

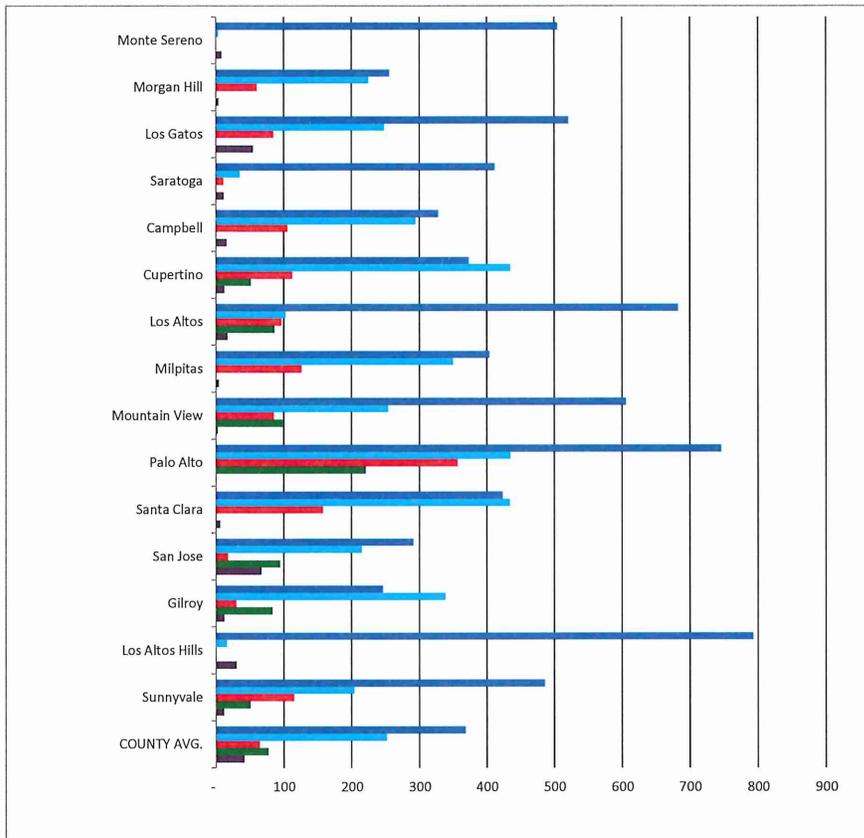
<b>Function/Program</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Community Services</b>					
Parks & Open Space Acreage*	58	78	78	470	470
Parks*	9	11	11	22	22
Swimming Pools	4	4	4	4	4
Community and Recreation Centers	4	4	4	4	4
<b>Streets</b>					
Streets (miles)	116	118	118	143	143
Streetlights	3,562	3,498	3,498	3,600	3,600
<b>Public Safety</b>					
Police Stations	1	1	1	1	1
Patrol Units	19	19	19	19	19
Motorcycle Patrol Units	2	2	2	2	2
Fire Houses (new 2013)	-	-	-	-	-
Fire Apparatus (new 2013)	-	-	-	-	-
Fire Personnel Vehicles (new 2013)	-	-	-	-	-
<b>Sewer</b>					
Sewer lines (miles)	150	150	150	150	155
Storm drains (miles)		95	95	95	95
Maximum daily capacity (thousand gallons)	5,900	5,900	5,900	5,900	5,900
<b>Water</b>					
Water mains (miles)	175	175	175	175	182
Water wells	16	17	18	18	17
Maximum daily capacity (thousand gallons)	14,000	14,000	16,000	16,150	15,700

\*Data prior to 2011 do not include Open Space Acreage nor Neighborhood parks

Source: Departments of the City of Morgan Hill

2013	2014	2015	2016	2017	2018
470	470	492	492	492	498
22	22	23	22	22	22
4	4	4	4	4	4
4	4	4	4	4	4
148	149	149	n/a	127	127.31
3,649	3,689	4,161	n/a	n/a	n/a
1	1	1	1	1	1
20	22	22	22	24	28
2	2	2	4	4	4
2	2	2	2	2	2
3	3	3	4	4	4
3	3	3	3	3	3
160	167	165	161	162	166
96	110	111	114	114	116.3
5,900	5,900	5,900	n/a	6,600	7,200
182	185	185	189	186	192
17	17	17	17	17	17
15,200	15,200	15,500	n/a	13,500	14,820

**City of Morgan Hill, California**  
**Property Tax per Capita, Sales Tax per Capita, Transient Occupancy Tax per Capita, and**  
**Business License Tax Per Capita - Santa Clara County Cities - 2017-18**

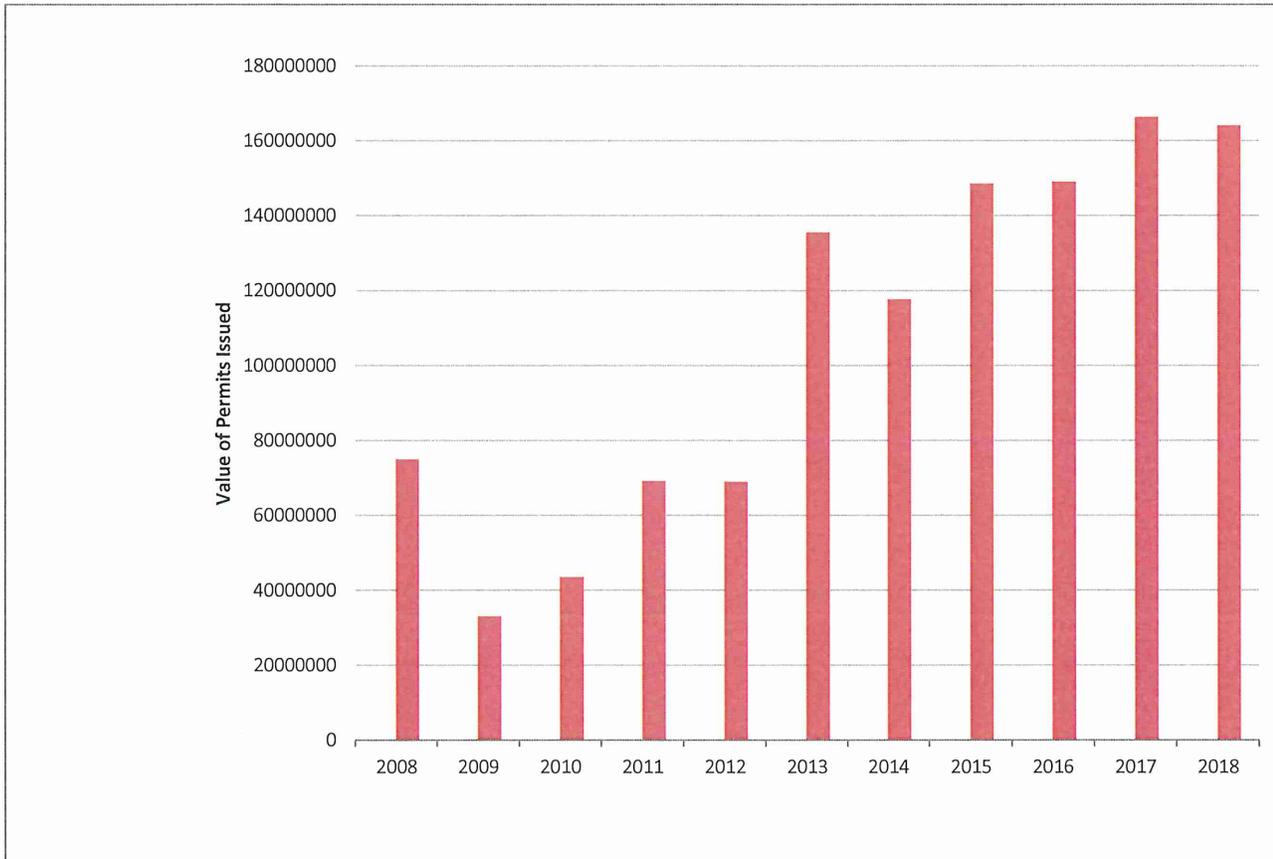


City	Population	Property Tax		Sales Tax		Transient Occupancy		Utility Tax		Business License	
		Amount	Per capita	Amount	Per capita	Amount	Per capita	Amount	Per capita	Amount	Per capita
Monte Sereno	3,630	1,833,253	505	13,764	4	-	-	-	-	32,031	9
<b>Morgan Hill</b>	<b>44,513</b>	<b>11,396,623</b>	<b>256</b>	<b>10,006,737</b>	<b>225</b>	<b>2,732,631</b>	<b>61</b>	-	-	<b>195,035</b>	<b>4</b>
Los Gatos	30,601	15,958,406	521	7,592,206	248	2,628,927	86	-	-	1,686,251	55
Saratoga	31,435	12,963,531	412	1,124,647	36	389,037	12	-	-	377,106	12
Campbell	42,696	14,015,701	328	12,575,376	295	4,557,720	107	-	-	698,184	16
Cupertino	60,091	22,433,806	373	26,164,531	435	6,810,718	113	3,146,398	52	800,536	13
Los Altos	31,361	21,428,501	683	3,243,554	103	3,072,982	98	2,732,325	87	547,065	17
Milpitas	74,865	30,261,513	404	26,213,910	350	9,536,211	127	-	-	329,362	4
Mountain View	81,527	49,418,921	606	20,713,381	254	7,057,226	87	8,135,782	100	250,739	3
Palo Alto	69,721	52,068,235	747	30,376,935	436	24,938,066	358	15,414,275	221	-	-
Santa Clara	129,604	54,965,098	424	56,322,044	435	20,579,504	159	-	-	898,990	7
San Jose	1,051,316	306,222,332	291	226,336,942	215	19,530,772	19	99,753,107	95	70,673,106	67
Gilroy	55,615	13,687,606	246	18,827,189	339	1,722,355	31	4,666,131	84	702,486	13
Los Altos Hills	8,568	6,799,663	794	139,105	16	-	-	-	-	264,424	31
Sunnyvale	153,389	74,568,761	486	31,314,096	204	17,741,915	116	7,854,383	51	1,837,527	12
<b>COUNTY AVG.</b>	<b>124,595</b>	<b>45,868,130</b>	<b>368</b>	<b>31,397,628</b>	<b>252</b>	<b>8,086,538</b>	<b>65</b>	<b>9,676,543</b>	<b>78</b>	<b>5,286,189</b>	<b>42</b>

FY 17-18 Actuals

# City of Morgan Hill, California

## Property Values, Construction and Permits Issued - Last Ten Fiscal Years



Fiscal Year	Assessed Property Values	Value of Permits Issued for				Bank Deposits
		Total Building Permits Issued	Commercial	Residential	Total	
2008	6,167,608,050	1,085	28,321,547	46,745,413	75,066,960	755,603,000
2009	6,430,410,000	795	20,561,964	12,625,349	33,187,313	778,298,000
2010	6,218,980,000	902	9,898,059	33,727,046	43,625,105	794,430,000
2011	5,836,302,608	1,053	15,985,102	53,316,931	69,302,033	801,868,000
2012	5,889,010,400	1,050	56,039,495	12,991,892	69,031,387	810,218,000
2013	5,889,753,439	1,734	9,440,434	126,140,682	135,581,116	na
2014	6,286,492,074	1,966	10,296,037	107,467,327	117,763,364	na
2015	6,886,359,135	2,105	29,977,231	118,711,385	148,688,616	na
2016	7,357,423,617	2,204	30,405,249	118,759,212	149,164,461	na
2017	7,965,256,083	2,197	44,534,477	121,894,120	166,428,597	na
2018	8,521,873,909	2,191	40,565,306	123,589,216	164,154,523	na

Source: City of Morgan Hill Building Department  
 Bank Deposits from Findley Reports service discontinued 2013

# City of Morgan Hill, California

## Miscellaneous Statistics - June 30, 2018

### General Information

Date of Incorporation	October 1906
Form of Government	Council/Manager
Area	12.9 square miles
Number of Registered voters	22,403
Median household income for Morgan Hill	\$ 100,900
Elevation in feet	320
Building Permits Issued during year	2,191

### Demographics:

Median Age	37.90
Median Persons per household	2.98
Population (consisting of)	44,513
White	50.3%
Hispanic	34.0%
Asian	9.8%
Black	1.8%
Native American	0.3%
Other, mixed	4.1%

### Fire Protection:

Number of stations (2 City, 1 State)	3
Fire Aparatus	2
Fire Vehicles Other	5

### Police Protection:

Number of stations	1
Number of reserves	4
Number of police cars/motorcycles	32

### Municipal Water Services:

Number of Active Accounts	13,953
Average Daily Consumption (gallons)	5,879,818
Miles of Water Mains	192
Pumping Capacity (thousand gallons/day)	14,820

### Education: Morgan Hill Unified School District

Elementary Schools (K-5)	6
Elementary/Middle School (K-8)	2
Middle Schools (6-8)	2
Comprehensive High Schools (9-12)	2
Continuation High School (10-12)	1
Community Adult School	1
Total School Enrollment	9,133

### Health Facilities:

Dentists and Optometrists	37
Physicians/Surgeons	23
Chiropractors	13
Therapists	32
Medical Clinics	12
Veterinarians	4

### Culture and Recreation:

Parks	22
Acres in parks	498
Libraries	1
Theaters	2
Churches	10
Reservoirs	11
Recreation Centers	4

### Employees:

City Council	5.00
City Manager	4.05
City Attorney	2.75
Administrative Services	24.96
Community Services	29.39
Police/ Fire	61.70
Community Development	26.17
Public Works	40.98
Internal Services	
Total Employees	195.00

### Sewer Services

Peak Flow (thousand gallons/day)	7,200
Miles of sewer lines	166

Sources: Various data records

**Capital Assets Used In The Operation  
Of Government Funds**

City of Morgan Hill  
**Capital Assets Used in Governmental Activities**  
**Schedule by Function and Activity**  
**For the Fiscal Year Ended June 30, 2018**

Function and Activity	Land	Buildings and Other Improvements	Machinery, Equipment and Vehicles	Infrastructure	Construction in Progress	Disposals	Total Assets
General Government							
Administration	\$ 545,070	\$ 5,502,012	\$ 9,074,336				\$ 15,121,418
Community Development	-	5,096,031	322,644				5,418,675.00
Housing	4,267,375	361,211					4,628,585.89
Public Works	6,203,109	11,482,384	67,644	204,649,933	4,888,588		227,291,658.00
Public Safety	859,005	12,460,738	3,784,663		11,738	(11,738)	17,104,406.00
Parks and Recreation	31,635,347	106,031,120	96,777		3,136,725		140,899,969
Total Governmental Fixed Assets	43,509,906	140,933,496	13,346,064	204,649,933	8,037,051	(11,738)	410,464,712
Less Accumulated Depreciation	-	(48,650,277)	(8,892,060)	(83,608,903)	-		(141,151,240)
<b>Capital Assets, Net</b>	<b>\$ 43,509,906</b>	<b>\$ 92,283,219</b>	<b>\$ 4,454,004</b>	<b>\$ 121,041,030</b>	<b>\$ 8,037,051</b>	<b>\$ (11,738)</b>	<b>\$ 269,313,472</b>

**City of Morgan Hill**  
**Capital Assets Used in Governmental Activities**  
**Schedule of Changes by Function and Activity**  
**For the Fiscal Year Ended June 30, 2018**

<b><u>Function and Activity</u></b>	<b>Restated Governmental Activities Capital Assets, Gross July 1, 2017</b>	<b>Additions</b>	<b>Accumulated Depreciation</b>	<b>Governmental Activities Capital Assets, Net July 1, 2018</b>
General Government				
Administration	\$ 13,247,819	\$ 1,873,598	\$ (8,954,660)	\$ 6,166,757
Community Development	5,418,675		(1,424,521)	3,994,154
Housing	2,891,278	1,737,308	(93,399)	4,535,187
Public Works	221,046,743	6,244,913	(84,550,968)	142,740,688
Public Safety	17,026,058	90,086	(6,919,346)	10,196,798
Parks and Recreation	134,176,092	6,723,879	(39,220,083)	101,679,888
Total Governmental Fixed Assets	\$ 393,806,665	\$ 16,669,784	\$ (141,162,977)	269,313,472

**City of Morgan Hill**  
**Capital Assets Used in Governmental Activities**  
**Comparative Schedules by Source**  
**For the Fiscal Years Ended June 30, 2018 and June 30, 2017**

	<u>2018</u>	<u>2017</u>
<b><u>Governmental Funds Capital Assets:</u></b>		
Land	\$ 43,509,906	\$ 40,291,373
Buildings & Improvements	92,283,223	88,964,593
Machinery, Equipments and Vehicles	4,454,001	4,717,424
Infrastructure	121,041,029	125,092,544
Construction in Progress	8,025,313	5,775,360
<b>Total Governmental Funds Capital Assets</b>	<b><u>\$ 269,313,472</u></b>	<b><u>\$ 264,841,294</u></b>

<b><u>Investments in Governmental Capital Assets by Source:</u></b>		
Administration	\$ 6,166,756	\$ 5,895,649
Community Development	3,994,154	4,278,044
Housing	4,535,188	2,806,986
Public Works	142,740,689	142,660,334
Public Safety	10,196,796	10,830,964
Parks and Recreation	101,679,889	98,369,316
<b>Total Governmental Funds Capital Assets</b>	<b><u>\$ 269,313,472</u></b>	<b><u>\$ 264,841,293</u></b>