TOWN OF ROSS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF ROSS
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JUNE 30, 2017

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Members of the Town Council of the Town of Ross
Ross, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Ross, California (Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 Accounting 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 of material misstatement.

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

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

Opinions

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, other postemployment benefit plan schedule of funding progress, the schedule of proportionate share of the net pension liability, and the schedule of pension contributions, as listed in the

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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 Town's financial statements as a whole. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the Town'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 on 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 Town's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Pleasanton, California
December 22, 2017

INTRODUCTION

The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2017 for the Town of Ross. The Management Discussion and Analysis is to be read in conjunction with the Town's financial s tatements.

FISCAL YEAR 2016-2017 FINANCIAL HIGHLIGHTS

The Fund Financial Statements show total Town revenues of $9.3M and total expenditures of $8.7M. The total fund balance is $.6M more than the prior year.

The Government-Wide Statement of Net Position, the first statement of the Basic Financial Statements, shows Town assets of $20.9M, deferred outflows of resources of $1.2M, liabilities of $6.7M, deferred inflows of resources of $1.3M, and a net position of $14.1M. Net position is $.6M more than the prior year.

In November 2012 the residents of Ross approved Measure D, a special tax for maintaining public safety services for a period of four years at a maximum rate of $950 per parcel. In fiscal year end June 30, 2017, the parcel tax was set at $950 resulting in $791K in revenue. This revenue was transferred into the General Fund to partially offset the cost of providing public safety services. In November 2016 the residents of Ross approved Measure K which extends the parcel tax eight years until June 30, 2025 at a rate of $970 per parcel beginning in fiscal year 2017-18 with annual cost of living adjustments thereafter.

Capital project highlights: added office space for building and planning departments, reconstructed the Bolinas Avenue and Sir Francis Drake intersection to improve safety for all users, added Laurel Grove sidewalk for a safer walk to school, and resurfaced Lagunitas Road. Work continues on bridge projects funded in all or in part by the Federal Highway Bridge Program. Work began on implementing new planning and building permitting software.

The Town continues to pay down unfunded pension and retiree health liabilities over and above what is required. In fiscal year ended June 30, 2017 these payments were $200K and $48K respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements are presented in four parts:

1. Management's Discussion and Analysis
2. The Basic Financial Statements, which include the government-wide and fund financial statements, along with the notes to the financial statements
3. Required supplementary information
4. Other supplementary information

The Basic Financial Statements are comprised of Government-wide Financial Statements and Fund Financial Statements. These two sets of financial statements provide the reader two different viewpoints of the Town's financial activities and financial position.

Government-wide Financial Statements provide a long-term view of the Town's activities as a whole and comprise the Statement of Net Position and Statement of Activities. The Statement of Net Position provides information about the financial position of the Town as a whole, including all of its capital assets and long-term liabilities on a full accrual basis, similar to the basis used by private companies. The Statement of Activities provides information about the Town's revenues and expenses, on a full accrual basis, with the emphasis on measuring net revenues and expenses for each of the Town's activities. This statement also explains in detail the change in net position for the fiscal year.

All of the Town's basic services are considered to be governmental activities, including general government, planning, public safety, public works, and recreation. These services are supported by charges for services and general Town revenues such as taxes, investment income, and rental revenue.

All of the Town's activities are required to be grouped into governmental activities or business-type activities. In the case of the Town of Ross, there are no business-type activities as of June 30, 2017.

Fund Financial Statements report the Town's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Town's General Fund and other major funds. Unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Fund Financial Statements measure only current revenue and expenditures on the modified accrual basis, which means they measure only current financial resources and uses. The balance sheets exclude capital assets, long-term debt, and other long-term amounts. Major funds account for the major financial activities of the Town and are presented individually, while activities of non-major funds are presented in summary, with supplementary schedules presenting the detail for each of these funds. Major funds are explained in note 2.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information follows the basic financial statements and includes budgetary comparison schedules for major funds, schedule of funding progress for retiree health benefits, a schedule of proportionate share of the net pension liability, and a schedule of pension contributions.

Supplementary information follows the required supplementary information which includes the combining and individual fund statements and schedules that provide information on non-major governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town has presented its financial statements in accordance with the Governmental Accounting Standards Board (GASB) Statements for accounting and financial reporting for State and Local Governments and include the Basic Financial Statements and Management's Discussion and Analysis. Comparative financial information is provided in Tables 1 and 2.

Condensed Statement of Net Position
Table 1

	June 30, 2017	June 30, 2016	Net change	% Change
ASSETS				
Cash and investments	$ 12,716,174	$ 12,167,681	$ 548,493	4.51%
Receivables	407,132	239,448	167,684	70.03%
Deposits and prepaid expenses	28,883	27,895	988	3.54%
Net OPEB Asset	85,043	62,863	22,180	35.28%
Capital assets, net of accumulated depreciation	7,666,267	7,059,916	606,351	8.59%
Total Assets	20,903,499	19,557,803	1,345,696	6.88%
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	1,159,405	1,342,831	(183,426)	-13.66%
LIABILITIES				
Accounts payable	425,814	244,437	181,377	74.20%
Accrued and other liabilities	105,141	100,501	4,640	4.62%
Prepaid Fees	85,992	21,566	64,426	298.74%
Permit deposits payable	1,621,792	1,639,350	(17,558)	-1.07%
Accrued compensated absences	271,855	255,112	16,743	6.56%
Unearned revenue	176,222	308,444	(132,222)	-42.87%
Long-term debt:				
Due within one year	-	10,938	(10,938)	100.00%
Capital lease:				
Due within one year	562	510	52	10.20%
Due in more than one year	188,196	188,783	(587)	-0.31%
Net pension liability	3,837,845	3,548,143	289,702	8.16%
Total Liabilities	6,713,419	6,317,784	106,468	1.69%
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	1,283,379	1,148,449	134,930	11.75%
NET POSITION				
Net investment in capital assets	7,477,509	6,859,685	617,824	9.01%
Restricted	2,671,985	2,654,378	17,607	0.66%
Unrestricted	3,916,612	3,920,338	(3,726)	-0.10%
Total Net Position	$ 14,066,106	$ 13,434,401	$ 631,705	4.70%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Condensed Statement of Activities
Table 2

	Fiscal Year Ended 2017	2016	Net change	% Change
REVENUES				
Program Revenues:				
Charge for services	$ 2,400,414	$ 2,714,297	$ (313,883)	-11.56%
Operating and capital contributions and grants	1,289,640	1,280,466	9,174	0.72%
General revenues:				
Property taxes	4,143,084	3,856,409	286,675	7.43%
Public safety tax	791,580	773,210	18,370	2.38%
Other taxes	303,274	381,047	(77,773)	-20.41%
Investment earnings	81,938	59,103	22,835	38.64%
Other	328,925	199,853	129,072	64.58%
Total Revenues	9,338,855	9,264,385	74,470	0.80%
EXPENSES				
General Government	938,330	953,304	(14,974)	-1.57%
Planning	245,844	335,006	(89,162)	-26.62%
Public Safety	4,398,004	3,343,422	1,054,582	31.54%
Public Works	1,752,001	1,561,345	190,656	12.21%
Recreation	1,363,506	1,093,907	269,599	24.65%
Interest on long-term debt	9,465	33,464	(23,999)	-71.72%
Total Expenses	8,707,150	7,320,448	1,386,702	18.94%
Change in net position	631,705	1,943,937	(1,312,232)	-67.50%
Net position beginning of year	13,434,401	11,490,464	1,943,937	16.92%
Net position end of year	$ 14,066,106	$ 13,434,401	$ 631,705	4.70%

Net position increased by $632K. in the current year. Revenues increased $74K over the prior year. Expenses increased $1.4M over the prior year primarily due to implementing the GASBs relating to accrual of pension expense.

GOVERNMENTAL FUNDS – MAJOR FUNDS HIGHLIGHTS

General Fund revenues for the year ended June 30, 2017 increased $86K over the prior year. Taxes are up $251K primarily due to an increase in property taxes and charges for services are down $211K due primarily to decrease in Recreation Department revenues. Public Safety parcel tax funds of $791K were transferred into the General Fund to partially offset the cost of providing police and fire services.

General Fund expenditures for the year ended June 30, 2017 decreased $929K from the prior year. Most of the decrease is attributed to a reduction in the amount paid to CalPERS to pay down the unfunded actuarial liability. In the current year the payment was $.2M and in the prior year it was $1M. Other reasons for the decrease are: a reduction in debt service expense of $.4M and savings in outside services.

General Government decreased $58K or 6%.

Planning decreased $102K due to savings in outside services.

Public Safety decreased $640K or 15% over the prior fiscal year primarily due to an additional $665K paid the prior fiscal year to CalPERS to pay down the unfunded liability.

Public Works decreased $117K or 9% over the prior fiscal year primarily due to an additional $67K paid the prior fiscal year to CalPERS to pay down the unfunded liability and savings that resulted from hiring a Public Works Director instead of using outside consultants..

Recreation expenditures increased $257K or 23% more than the prior fiscal year primarily due to legal expenses associated with a CalPERS related claim.

Capital expenditures increased $101K from the prior fiscal year which includes $98K spent to provide more efficient office space for the Building and Planning Departments.

Drainage Fund Highlights

Drainage Fund revenues decreased $255K or 44% over the prior fiscal year. Drainage impact fees decreased $265K due to a lowering of the fee from 1.8% of valuation to 1.0% of valuation effective April 15, 2016. Expenditures decreased by $131K or 41% from the prior fiscal year. Expenditures were related to Highway Bridge Program projects and miscellaneous drainage improvements.

Roadway Fund Highlights

Roadway Fund revenues increased $214K or 46% over the prior fiscal year. Road impact fees decreased $225K due to a lowering of the fee from 1.55% of valuation to 1% of valuation effective April 15, 2016. Grant revenue increased $438K. Expenditures increased $679K. over the prior fiscal year. A joint project with San Anselmo that was partially funded by a One Bay Area Grant for improvements at the Sir Francis Drake/Bolinas Avenue intersection was completed. A grant from the Transportation Authority of Marin Safe Walk to School Program partially funded the completion of the Laurel Grove sidewalk extension.

General Fund Budgetary Highlights

A comparison of the final budget to actual revenues and expenditures for the General Fund is presented in the required supplementary information section of this report.

Actual revenues are $7.3M which is $343K over budget primarily because of positive variances for property taxes and building/public works permits.

Actual expenditures are $7.5M which is $224K under budget. All departments were under budget except for Recreation. Recreation incurred one-time legal fees in connection with a CalPERS claim.

CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2017 is $7.7M. This figure does not include Town infrastructure such as roads and bridges constructed prior to June 30, 2005 as allowed under current governmental accounting standards. The cumulative historical cost figures before June 30, 2005 may be added in the future at management's discretion. All additional infrastructures from June 30, 2005 forward are recorded and accounted for. Additional detail on capital assets can be found in Note 5 to these financial statements.

LONG-TERM OBLIGATIONS

The Town's obligations consist of a capital lease in the amount of $189K, accrued compensated absences in the amount of $272K and a net pension liability of $3.8M. Additional information on long-term debt, pension, compensated absences, and OPEB can be found in Notes 2, 6, 7, 11, and 13 to these financial statements, respectively.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

General Fund property tax revenues for fiscal year ending June 30, 2018 are anticipated to be 2% higher than the prior year actual and 6.2% higher than prior year budget. Total General Fund revenues are estimated to be 3% higher than the prior year actual and 8% higher than prior year budget. General Fund expenditures are estimated to be 10% higher than the prior year actual

The police MOU approved in November 2015 is effective for July 1, 2015 through June 30, 2019. The MOU calls for annual raises of 3.5% which are partially offset by additional employee contributions for pension benefits of 1.5% per year and additional payments by employees for health benefits.

In November 2016 the residents of Ross approved Measure K which extends the Public Safety parcel tax eight years until June 30, 2025 at a rate of $970 per parcel with annual cost of living adjustments.

REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the Town of Ross's finances for all of the Town of Ross's residents, taxpayers, and customers. This financial report seeks to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Joe Chinn, Town Manager, Town of Ross, P.O. Box 320, Ross, CA 94957.

FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF ROSS

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	$ 11,094,382
Restricted assets - cash and investments	1,621,792
Accounts receivables	393,500
Interest receivables	13,632
Prepaid expenses	21,930
Deposits	6,953
Net OPEB asset	85,043
Capital assets, net of accumulated depreciation	7,666,267
Total Assets	20,903,499
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	1,159,405
LIABILITIES	
Accounts payable	425,814
Accrued and other liabilities	105,141
Prepaid fees	85,992
Deposits payable from restricted assets	1,621,792
Unearned revenue	176,222
Accrued compensated absences	
Due in more than one fiscal year	271,855
Capital lease payable to Ross School	
Due within one fiscal year	562
Due in more than one fiscal year	188,196
Net pension liability	3,837,845
Total Liabilities	6,713,419
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	1,283,379
NET POSITION	
Net investment in capital assets	7,477,509
Restricted for:	
Drainage projects	1,205,787
Highways and streets (roadway & gas tax)	1,199,680
Public safety (COPS)	34,939
General plan	231,579
Unrestricted	3,916,612
Total Net Position	$ 14,066,106

See accompanying Notes to the Financial Statements.

TOWN OF ROSS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues			Net Revenue (Expense) and Change in Net Position
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Total Governmental Activities
Governmental Activities:					
General government	$ 938,330	$ 7,262	$ -	$ -	$ (931,068)
Planning	245,844	236,217		68,440	58,813
Public safety	4,398,004	41,943	160,833	-	(4,195,228)
Public works	1,752,001	1,187,410	101,315	928,527	465,251
Recreation	1,363,506	927,582	30,525	-	(405,399)
Interest on long-term debt	9,465	-		-	(9,465)
Total Governmental Activities	$ 8,707,150	$ 2,400,414	$ 292,673	$ 996,967	(5,017,096)

General Revenues:	
Taxes:	
Property tax	4,143,084
Public safety tax	791,580
Sales tax	55,590
Franchise tax	176,711
Real property transfer tax	70,973
Investment earnings	81,938
Other revenue	328,925
Total General Revenues	5,648,801
Change in Net Position	631,705
Net position - beginning of year	13,434,401
Net position - end of year	$ 14,066,106

See accompanying Notes to the Financial Statements.

FUND FINANCIAL STATEMENTS

TOWN OF ROSS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General	Drainage	Roadway	Non-Major Governmental Funds	Totals
ASSETS					
Cash and investments	$ 8,626,952	$ 1,143,117	$ 761,336	$ 562,977	$ 11,094,382
Restricted assets - cash	1,621,792	-	-	-	1,621,792
Accounts receivables	145,533	91,387	129,636	26,944	393,500
Interest receivables	7,963	2,627	1,750	1,292	13,632
Prepaid expense	21,930	-	-	-	21,930
Deposits	6,953	-	-	-	6,953
Total Assets	$ 10,431,123	$ 1,237,131	$ 892,722	$ 591,213	$ 13,152,189
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	382,733	31,344	11,737	-	425,814
Accrued and other liabilities	105,141	-	-	-	105,141
Prepaid fees	79,992	-	6,000	-	85,992
Deposits payable from restricted assets	1,621,792	-	-	-	1,621,792
Unearned revenue	176,222	-	-	-	176,222
Total Liabilities	2,365,880	31,344	17,737	-	2,414,961
FUND BALANCES					
Restricted	-	1,205,787	874,985	591,213	2,671,985
Assigned	467,461	-	-	-	467,461
Unassigned	7,597,782	-	-	-	7,597,782
Total Fund Balances	8,065,243	1,205,787	874,985	591,213	10,737,228
Total Liabilities and Fund Balances	$ 10,431,123	$ 1,237,131	$ 892,722	$ 591,213	$ 13,152,189

See accompanying Notes to the Financial Statements.

TOWN OF ROSS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Fund Balances - Total Governmental Funds	$ 10,737,228
Amounts reported for governmental activities in the Statement of Net Position were different because:	
Capital assets of governmental activities are not financial resources and therefore are not reported in the governmental funds	7,666,267
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds	(271,855)
Net other postemployment employment benefits assets are considered a long term asset and therefore are not reported on the governmental funds balance sheets	85,043
Certain liabilities and deferred inflows and outflows of resources are not due and payable or realizable in the current period and therefore are not reported in the Governmental Fund Financial Statements:	
Capital lease	(188,758)
Net pension liability	(3,837,845)
Deferred outflows due to pension liabilities	1,159,405
Deferred inflows due to pension liabilities	(1,283,379)
Net Position of Governmental Activities	$ 14,066,106

See accompanying Notes to the Financial Statements.

TOWN OF ROSS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2017

	General	Drainage	Roadway	Non-Major Governmental Funds	Total
REVENUES					
Taxes	$ 4,488,133	$ -	$ -	$ 791,580	$ 5,279,713
Intergovernmental	68,077	105,433	476,080	183,728	833,318
Building/public works permit	923,534	194,180	195,436	68,440	1,381,590
Revenue from use of money and property	266,869	8,324	5,726	4,335	285,254
Charges for services	1,424,142	-	-	-	1,424,142
Fines and forfeitures	16,235	-	-	-	16,235
Miscellaneous	114,121	4,481	-	-	118,602
Total Revenues	7,301,111	312,418	677,242	1,048,083	9,338,854
EXPENDITURES					
Current:					
General government	883,480	-	-	-	883,480
Planning	233,259				233,259
Public safety	3,588,370	-	-	143,045	3,731,415
Public works	1,212,295	58,912	134,146	38,247	1,443,600
Recreation	1,344,957	-	-	-	1,344,957
Capital outlay	236,097	123,173	686,707	18,726	1,064,703
Debt service:					
Principal	11,473	-	-	-	11,473
Interest and fees	9,465	-	-	-	9,465
Total Expenditures	7,519,396	182,085	820,853	200,018	8,722,352
Revenues Over (Under) Expenditures	(218,285)	130,333	(143,611)	848,065	616,502
OTHER FINANCING SOURCES (USES)					
Transfers in	817,180	-	-	-	817,180
Transfers out	-	-	-	(817,180)	(817,180)
Total Other Financing Sources (Uses)	817,180	-	-	(817,180)	-
Net Change in Fund Balances	598,895	130,333	(143,611)	30,885	616,502
Fund Balances, Beginning of Year	7,466,348	1,075,454	1,018,596	560,328	10,120,726
Fund Balances, End of Year	$ 8,065,243	$ 1,205,787	$ 874,985	$ 591,213	$ 10,737,228

See accompanying Notes to the Financial Statements.

TOWN OF ROSS

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, 2017

Net Change in Fund Balances - Total Governmental Funds	$ 616,502
Amounts reported for governmental activities in the Statement of Activities and Changes in Net Position were different because:	
Governmental funds report capital outlays as expenditures, but in the Statement of Activities the cost of such assets is allocated over their estimated useful lives as depreciation expense or is allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:	
Cost of assets capitalized	1,064,705
Depreciation expense	(458,353)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	11,473
Compensated absences expenses incurred and reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Amounts paid for previously accrued compensated absences are recorded as expenditures in the governmental funds, but reduce the accrual on the Statement of Net Position and are not included as an expense in the Statement of Activities.	(16,742)
Other post employment benefits expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	22,180
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 governmental funds. Pension expense	(608,059)
Change in Net Position of Governmental Activities	$ 631,705

See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL

The Town of Ross (the Town) operates under a Council-Manager form of government and provides the following services as authorized as a general law Town: police, streets, public improvements, public works, planning and zoning, recreation, and general administrative services. The Town provides fire protection services through a JPA.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Town consists of all funds, departments, boards, and agencies that are not legally separate from the Town.

B. Basis of Accounting and Measurement Focus

Fund Financial Statements

The accounts of the Town are organized on the basis of individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. The Town's resources are accounted for in these individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

Government–Wide Financial Statements

The Town's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Town. The Town does not currently have any fiduciary or business-type activities.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, deferred inflows and outflows of resources, including capital assets and infrastructure as well as long-term debt are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of program revenues for the Town are reported in three categories: (1) charges for services, (2) operating contributions and grants, and (3) capital contributions and grants. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Contributions and grants include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported as general revenues.

Certain eliminations have been made as prescribed by the GASB with regard to interfund activities, payables, and receivables. Internal balances in the Government-Wide Financial Statements have been eliminated.

Governmental Fund Financial Statements

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

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are generally included on the balance sheets. The reported fund balance is the net current assets, which is considered only to be a measure of available spendable resources. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents a summary of sources and uses of available spendable resources during a period by presenting increases and decreases in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 90-days after year-end, except for property taxes for which the accrual period is 60 days after year-end) are recognized when due. Those revenues susceptible to accrual are property taxes, sales taxes, transient occupancy taxes, utility user taxes, property transfer taxes, interest revenues, and charges for services. Fines, licenses, use of property, and permit revenues are not susceptible to accrual because they generally are not measurable until received in cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long term obligations and certain other long-term liabilities such as pension and compensated absences which are recognized when due. Because of their current financial resources focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund expenditures or fund liabilities.

The Town reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Town except those required to be accounted for in another fund.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

The Drainage Fund accounts for expenditures and related financial resources collected through drainage impact fees and other restricted funds collected specifically for drainage maintenance, repair and modification.

The Roadway Fund accounts for expenditures and related financial resources collected through road impact fees and other restricted funds collected specifically for roadway improvements, repair and modification.

C. Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budget/actual comparisons in this report use this budgetary basis. Budgetary comparison schedules are presented for the General, Drainage, and Roadway Funds. The budgetary comparison schedules present both the original adopted budget and the final budget with all amendments.

D. Capital Assets

The Town's assets are capitalized at historical cost or estimated historical cost. The Town's policy has set the capitalization threshold as follows:

Buildings and Building Improvements	$	25,000	
Electronic equipment		1,000	
Infrastructure		50,000	
Land and land improvements		25,000	
Machinery, equipments and vehicles		5,000	*
Computer Software		5,000	

* Other than the electronic equipment

Leased assets are capitalized using the present value of the future lease payments. Contributed capital assets are valued at their estimated acquisition value on the date of contribution. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Capital Assets (Continued)

Depreciation on all assets is provided on the straight-line basis using mid-year convention. Department heads or their designees assign a useful life to all assets using the following general guidelines:

Buildings and building improvements	5-25 Years
Electronic equipment	3-5 Years
Infrastructure	10-50 Years
Land improvements	5-50 Years
Machinery, equipments and vehicles	3-10 Years

In accordance with the GASB, the Town has reported all capital assets including infrastructure on a prospective basis in the Government-wide Statement of Net Position. The Town elected to use the basic approach as defined by the GASB, whereby depreciation expense and accumulated depreciation has been recorded.

E. Interfund Transactions

With Council approval, resources may be transferred from one Town fund to another. Transfers are used to (1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Property Taxes

The County of Marin assesses all properties and it bills, collects, and distributes property taxes and special assessments as follows:

	Secured	Unsecured
Lien dates	January 1	January 1
Assessment dates	July 1	July 1
Due dates	50% on November 1 and February 1	July 1
Delinquent as of	December 10 and April 10	August 31

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenue is recognized in accordance with applicable GASB pronouncements; that is, in the fiscal year for which the taxes have been levied provided they become available. Available means due or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period. The County of Marin remits the entire amount of the tax levy to the Town (net of County administrative fees), and handles all delinquencies, retaining any interest and penalties.

G. Pensions

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

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The Town does not have a policy that requires sick leave to be paid upon an employee's termination from the Town. As an estimate of the ultimate amount that may be paid out if an individual retires in good standing, accumulated sick leave is only recognized as a liability to the extent of twenty-five percent of sick leave calculated at fiscal year end and reflected in the government-wide financial statements. All vacation pay is accrued when incurred and is reflected in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if the liabilities have matured, e.g., as a result of employee resignations and retirements.

Following is a summary of the Town's sick leave pay out policies:

Miscellaneous Employees: Upon retirement, in good standing: 50% of accumulated unused sick leave, not to exceed 90 days.

Police Employees: Upon retirement, in good standing: 50% of unused sick leave, up to a maximum of 660 hours total for FY 2016-17.

I. 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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Cash and Cash Equivalents

The Town considers cash and cash equivalents as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment* Pools, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Town is authorized under California Government Code and the Town's investment policy to make direct investments in U.S. Treasury instruments and securities of the U.S. Government, the Local Agency Investment Fund (LAIF), federally insured deposits in commercial banks and savings and loan associations, Joint Powers Authority Pools, and money market funds.

The table below identifies the investment types that are authorized for the Town of Ross by the California Government Code. Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	N/A	None	None
Registered State Bonds, Notes, Warrants	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
Federal Agency Securities	5 years	N/A	None	None
Banker's Acceptance	180 days	N/A	40%	30%
Commercial Paper	270 days	A1, P1	25%	10%
Negotiable Certificates of Deposit	5 years	N/A	30%	None
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements	92 days	N/A	20% of base	None
Local Agency Investment Fund (LAIF)	N/A	N/A	None	None
Passbook Savings Account Demand Deposits	N/A	N/A	None	None
Medium Term Corporate Notes	5 years	A	30%	N/A
Mortgage Pass-Through Securities	5 years	AA	20%	N/A
Joint Powers Authority Pools	5 years	AA	10%	N/A
Mutual Funds	N/A	Top Ranking of 2 NRSRO (a)	20%	10%
Money Market Mutual Funds	N/A	Top Ranking of 2 NRSRO (a)	None	N/A

(a) Nationally Recognized Statistical Rating Organization

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources as they are needed.

L. Fund Balances

The Town of Ross complies with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions in the fiscal year 2017. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable,* such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

NOTE 3 – CASH AND INVESTMENTS

The Town's dependence on property tax receipts requires it to maintain significant cash reserves to finance operations during certain portions of the year. The Town pools cash from all sources so that it can safely invest at maximum yields, while individual funds can make expenditures at any time.

All investments are carried at fair value. Investment income is allocated quarterly among funds on the basis of average fund balance in funds that maintain positive average cash balances.

Summary of Deposits and Investments

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

Cash	$ 1,081,284
Investments	11,634,890
Total cash and cash equivalents	$ 12,716,174

Cash and Investments

Cash and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Cash and investments	$ 11,094,382
Restricted cash and investments	1,621,792
	$ 12,716,174

Restricted cash and investments are restricted for payment of permits deposits payable.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market's interest rates. The Town manages its exposure to interest rate risk by purchasing only short-term investments as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2017, the Town had the following investments:

		Investment Maturities (In Years)				
	Fair Value	≤ 1 year	≤ 2 years	≤ 3 years	≤ 4 years	≤ 5 years
Government Mortgage Backed Securities	$ 469	$ 469	$ -	$ -	$ -	$ -
Local Agency Investment Fund (LAIF)	2,889,108	2,889,108	n/a	n/a	n/a	n/a
Money Market Fund	97	97	n/a	n/a	n/a	n/a
CalTRUST Short Term Fund	8,233,753	8,233,753	n/a	n/a	n/a	n/a
CalTRUST Medium Term Fund	511,463	511,463	n/a	n/a	n/a	n/a
Total Investments	$ 11,634,890	$ 11,634,890	$ -	$ -	$ -	$ -

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The LAIF investment is not rated. Mortgage backed securities are government sponsored; therefore they are rated at or above AA. Money Market Funds have an S&P rating of AAAm. Short term fund has a S&P rating of AAf. CalTrust Short Term and Medium Funds investments are rated A- and above.

Concentration of Credit Risk

The Town's investment policy contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code.

Custodial Credit Risk - Deposits

This is the risk that, in the event of a bank failure, the Town's deposits may not be returned. The Town's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2017, the Town's bank balance of $1,094,744 is either insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Town's name.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Neither the California Government Code nor the Town's investment policy contains legal or policy requirements that would limit the exposure to custodial risk. The Town is not exposed to custodial credit risk.

Investment in the State Investment Pool

The Town is a voluntary participant in the LAIF that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Town's investment in the pool is reported in the accompanying financial statement at amounts based upon the Town's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, and is recorded on the amortized cost basis.

Fair Value Measurements

The Town categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the Town has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the Town's own data. The Town should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the Town are not available to other market participants.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Fair Value Measurements (continued)

Uncategorized - Investments in the Local Agency Investment Funds/State Investment Pool are not measured using the input levels above because the Town's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

		Fair Value Measurements Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
Government Mortgage Backed Securities	$ 469	$ -	$ 469	$ -	$ -
Local Agency Investment Fund (LAIF)	2,889,108	-	-	-	2,889,108
Money Market Fund	97	97			-
CalTRUST Short Term Fund	8,233,753	-	-	-	8,233,753
CalTRUST Medium Term Fund	511,463	-	-	-	511,463
Total Investments	$ 11,634,890	$ 97	$ 469	$ -	$ 11,634,324

NOTE 4 – INTERFUND TRANSFERS

With Council approval, resources may be transferred from one Town fund to another. Transfers are used to (1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

	Transfer In	Transfer Out
General Fund	$ 817,180	$ -
Non-Major Funds:		
Public Safety Tax Fund	-	791,580
Special Revenue Funds:		
General Plan Update Fund	-	25,600
Total	$ 817,180	$ 817,180

NOTE 5 – CAPITAL ASSETS

	Beginning Balance	Additions & Adjustments	Retirements & Adjustments	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 2	$ -	$ -	$ 2
Construction in progress	486,482	186,485	(48,112)	624,855
Total Capital Assets Not Being Depreciated	486,484	186,485	(48,112)	624,857
Capital Assets, Being Depreciated:				
Land improvements	6,841,894	745,366	(1,446)	7,585,814
Buildings	1,455,711	97,765	(8,179)	1,545,297
Furniture and fixtures	31,157	8,537	(1,320)	38,374
Office equipment	176,830	25,933	(29,294)	173,469
Safety equipment	54,182	9,451	(3,647)	59,986
Software		39,280	-	39,280
Street and park equipment	120,223	-	(492)	119,731
Vehicles	425,917	-	-	425,917
Leased building under capital lease - Ross	457,824	-	-	457,824
Total Capital Assets Being Depreciated	9,563,738	926,332	(44,378)	10,445,692
Less Accumulated Depreciation For:				
Land improvements	1,281,937	284,575	(1,446)	1,565,066
Buildings	1,057,919	80,138	(8,179)	1,129,878
Furniture and fixtures	27,316	3,194	(1,320)	29,190
Office equipment	141,582	15,723	(29,294)	128,011
Safety equipment	46,729	3,864	(3,647)	46,946
Software	-	3,928	-	3,928
Street and park equipment	71,860	6,370	(492)	77,738
Vehicles	286,660	45,300	-	331,960
Capital Lease - Ross Rec	76,304	15,261	-	91,565
Total Accumulated Depreciation	2,990,307	458,353	(44,378)	3,404,282
Total Capital Assets, Being Depreciated, Net	6,573,431	467,979	-	7,041,410
Governmental Activities Capital Assets, Net	$ 7,059,915	$ 654,464	$ (48,112)	$ 7,666,267

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

General government	$ 59,705
Public safety	60,432
Planning	7,554
Public works	314,522
Recreation	16,140
Total Depreciation Expense - Governmental Activities	$ 458,353

NOTE 6 - LONG-TERM DEBT

Following is a summary of the changes in long term obligations for the year:

Description	Balance 6/30/2016	Additions	Retirements	Balance 6/30/2017
City Of San Rafael - Promissory Note - Ford Unit 623	$ 10,938	-	$ 10,938	-
Total	$ 10,938	$ -	$ 10,938	$ -

A. Long-Term Notes

In October 2013, the Town issued a promissory note for a vehicle to the City of San Rafael with no interest to be paid back in four annual installments.

Town paid off of all outstanding long-term debt, the last payment for the promissory note was in fiscal year 17.

B. Capital Leases

On November 6, 2012, the Town signed a memorandum of understanding with Ross School District regarding leasing a building on which the Town pays a minimum of $10,000 per year to have access to a minimum of eight classrooms to conduct recreation classes. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

Year ending June 30	Lease Payments
2018	$ 10,000
2019	10,000
2020	10,000
2021	10,000
2022	10,000
2023-2027	50,000
2028-2032	50,000
Thereafter to 2076	440,000
Total Minimum lease payments	590,000
Less: amount representing interest	(401,242)
Present value of minimum lease payments	188,758
Current portion	(562)
Long-term portion	$ 188,196

NOTE 7 – PENSION PLAN

The Town participates in the Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Cost Sharing) for its Miscellaneous and Safety employees which administered by CalPERS. A cost-sharing multiple-employer defined benefit pension plan is a plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay benefits of the employees of any employer that provides pensions through the plan.

General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Town's separate Safety and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information can be found on the CalPERS website at: http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml.

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and their beneficiaries. Benefits are based on years of credited service equal to one year of full time employment, age, and the average of the final 3 years' compensation except Safety employees final average compensation is 1 year. Members with five years of total service are eligible to retire at age 50 (PEPRA employees age 52) 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 1959 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.

NOTE 7 – PENSION PLAN (Continued)

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

	Miscellaneous		
Hire Date	Prior to January 1, 2013	On or after January 1, 2013	On or after January 1, 2013
Type of hire	Classic	Tier 2	PEPRA
Formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-63	50-63	52-67
Monthly benefits, as a % of annual salary	1.426% to 2.418%	1.092%-2.418%	1.0% to 2.5%
Required employee contribution rates	7.000%	7.000%	6.250%
Required employer contribution rates	8.377%	7.159%	6.555%

	Safety
Hire Date	Prior to January 1, 2013
Type of hire	Classic
Formula	3% @ 55
Benefit vesting schedule	5 years of service
Benefit payments	monthly for life
Retirement age	50-55
Monthly benefits, as a % of annual salary	2.4% to 3.0%
Required employee contribution rates	9.000%
Required employer contribution rates	17.689%

Contributions – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. The Town is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

Beginning in FY 2015-2016, CalPERS collected employer contributions towards unfunded liability as a dollar amount instead of the prior method of a contribution rate. The pool's unfunded liability is allocated to each individual plan based on the plan's total liability rather than by plan individual payroll. This allows employers to track their own unfunded liability and pay it down faster if they choose.

For the year ended June 30, 2017, the actuarial determined contributions for each Plan were as follows:

	Miscellaneous	Safety
Contributions - employer	$ 60,630	$ 157,241
Unfunded liability lump sum payment	62,886	302,003
Total	$ 123,516	$ 459,244

NOTE 7 – PENSION PLAN (Continued)

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

As of June 30, 2017, the Town's reported net pension liabilities for its proportionate shares of the pension liability of each Plan are as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 682,426
Safety	3,155,419
Total Net Pension Liability	$ 3,837,845

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

	Safety	Miscellaneous
Proportion - June 30, 2015	0.0427%	0.00904%
Proportion - June 30, 2016	0.0365%	0.00789%
Change - Increase (Decrease)	-0.0062%	-0.00115%

At the year ended June 30, 2017, the Town recognized pension expense of $608,059. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 123,516	$ -
Differences between expected and actual experience	2,620	600
Changes in assumptions	-	24,790
Net differences between projected and actual earnings on plan investments	129,024	-
Adjustment due to Differences in Proportions	-	174,882
Total	$ 255,160	$ 200,272

NOTE 7 – PENSION PLAN (Continued)

	Safety			
	Deferred Outflows of Resources		Deferred Inflows of Resources	
Pension contributions subsequent to measurement date	$	459,244	$	-
Differences between expected and actual experience		-		20,774
Changes in assumptions		-		90,557
Net differences between projected and actual earnings on plan investments		445,001		-
Adjustment due to Differences in Proportions		-		971,776
Total	$	904,245	$	1,083,107

	Total			
	Deferred Outflows of Resources		Deferred Inflows of Resources	
Pension contributions subsequent to measurement date	$	582,760	$	-
Differences between expected and actual experience		2,620		21,374
Changes in assumptions		-		115,347
Net differences between projected and actual earnings on plan investments		574,025		-
		-		-
Adjustment due to Differences in Proportions		-		1,146,658
Total	$	1,159,405	$	1,283,379

The amount of $582,759 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Miscellaneous Plan		Safety Police Plan		Total	
	Deferred Outflows/(Inflows) of Resources		Deferred Outflows/(Inflows) of Resources		Deferred Outflows/(Inflows) of Resources	
Year ended June 30						
2018	$	(75,231)	$	(462,342)	$	(537,573)
2019		(60,280)		(372,994)		(433,274)
2020		33,464		81,362		114,826
2021		33,440		115,847		149,287
	$	(68,607)	$	(638,127)	$	(706,734)

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

NOTE 7 – PENSION PLAN (Continued)

	All Plans
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.65%

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were 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, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate –To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

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

NOTE 7 – PENSION PLAN (Continued)

For Miscellaneous and Safety Plans

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return Years 0-10	Long-Term Expected Real Rate of Return Years 11+
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100%		

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

	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	$ 1,038,281	$ 4,800,829
Current Discount Rate	7.65%	7.65%
Net Pension Liability	$ 682,426	$ 3,155,419
1% Increase	8.65%	8.65%
Net Pension Liability	$ 389,457	$ 1,800,780

Payable to the pension plan

At June 30, 2017, the Town reported an outstanding amount of contributions to the pension plan required for the year ended June 30, 2017 of $8,237.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Town is subject to litigation arising in the normal course of business. In the opinion of the Town Attorney, there is no pending litigation that is likely to have a material adverse effect on the financial position of the town.

The Town may receive State and Federal funds for specific purposes that are subject to review by the grantor agencies. Such audits could generate expenditure disallowances under the terms of the grants. It is believed that any required reimbursements would not be material.

NOTE 9 – FUND BALANCES

As described in Note 2, the Town complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2014. In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Town Council, highest level of decision making authority prior to fiscal year end. Commitments may be modified or rescinded only through resolutions approved by Town Council.

Assigned – includes amounts that the Town of Ross intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Only the Town Council can assign fund balance.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

Fund balances are composed of the following elements:

	MAJOR			NON- MAJOR				TOTAL	
	General Fund	Drainage Fund	Roadway Fund	Gas Tax Fund	General Plan Update Fund	COPS Fund	Public Safety Tax Fund	Non-Major Governmental Funds	Total
Restricted:									
Grants for Safety	$ -	$ -	$ -	$ -	$ -	$ 34,939	$ -	$ 34,939	$ 34,939
Streets and Roadway Projects and Related	-	-	874,985	324,695	-	-	-	324,695	1,199,680
Drainage Projects and Related	-	1,205,787	-	-	-	-	-	-	1,205,787
General Plan Compliance Costs	-	-	-	-	231,579	-	-	231,579	231,579
Total Restricted	-	1,205,787	874,985	324,695	231,579	34,939	-	591,213	2,671,985
Assigned:									
Recreation	467,461	-	-	-	-	-	-	-	467,461
Unassigned:									
For economic uncertainties	1,500,000	-	-	-	-	-	-	-	1,500,000
For Facilities & equipment	2,059,163	-	-	-	-	-	-	-	2,059,163
Remaining unassigned	4,038,619	-	-	-	-	-	-	-	4,038,619
Total Unassigned	7,597,782	-	-	-	-	-	-	-	7,597,782
Total	$ 8,065,243	$ 1,205,787	$ 874,985	$ 324,695	$ 231,579	$ 34,939	$ -	$ 591,213	$ 10,737,228

Spending Order Policy

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town policy is to first apply restricted funds to projects or programs that meet the criteria of the funds purpose and then committed, assigned or unassigned funds as needed, in that order.

Minimum Fund Balance Policy

The town establishes an emergency reserve in the General Fund for economic uncertainties in order to protect the town against revenue shortfalls or unpredicted one-time expenditures. The reserve consists of unassigned amounts in the General Fund to cover at least three months of operational expenditures.

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has joined together with other government agencies in the Association of Bay Area Government (ABAG), a public entity risk pool currently operating as a common risk management and insurance program for the members. The Town pays an annual premium to ABAG for its general comprehensive liability insurance. The Agreement provides that ABAG will be self-sustaining through member premiums and assessments. ABAG is governed by a Board consisting of elected officials. The Board controls the operations of ABAG including selection of management and approval of operating budgets, independent of any influence by member cities.

Audited and condensed financial information for ABAG is presented below for the year ended June 30, 2016, most recent statement available:

Total assets and deferred outflows	$	40,825,211
Total liabilities and deferred inflows		48,337,516
Net position	$	(7,512,305)
Total revenues	$	58,677,135
Total expenses		58,470,313
Change in net position	$	206,822

Audited financial information for each risk pool may be obtained from ABAG at 375 Beale St #700, San Francisco, CA 94105.

The Town maintains General and Auto Liability coverage through ABAG up to a limit of $5 million, except for Employee Benefit Plan Administrative Liability which has a limit of $250,000. Excess liability insurance is provided through ABAG for an additional $10 million, which is provided by Insurance Company of the State of Pennsylvania and additional $10 million provided by Lexington Insurance Company, for a total coverage of $20 million. The Town's deductible for this coverage is $25,000.

The Town maintains Property Insurance coverage through ABAG to cover losses above $100,000. The Town has a deductible of $5,000 for property and $5,000 for vehicles.

Within the past three years, settled claims have not exceeded the maximum coverage.

NOTE 11 – ACCRUED COMPENSATED ABSENCES

Compensated absences include vacation, compensatory, and sick time. Accrued and unpaid compensated absences are recorded as a liability on the Statement of Net Position and on the Governmental Funds Statement are expensed when paid. The liability at June 30, 2017 was $271,855 which reflects a net increase of $16,743 over the prior year.

NOTE 12 – PARTICIPATION IN JOINT POWERS AGREEMENTS

The Town of Ross participates in the following Joint Powers Agreements:

Marin Emergency Radio Authority (MERA) - a public agency consisting of Marin County, all cities and towns within Marin County, as well as fire districts and other special districts. MERA was founded in February 1997 to develop a proposal for a county-wide regional communications system to replace the existing inoperable and obsolete system with a state-of-the-art digital emergency communications system. As a participant in this JPA and a user of the system, Town of Ross makes an annual contribution to MERA to help fund the cost of this county-wide system. The contribution for the current year was $10,752 for operating expenses and $19,403 for bond and note payments.

Ross Valley Paramedic Authority – The Ross Valley Paramedic Authority ("RVPA") was created in December 1982. RVPA is a Joint Powers Agreement (JPA) between eight member agencies. Each of these agencies appoints a board member. The board elects a President and Vice President each year. The Executive Officer is Marin County Fire Chief Jason Weber, who volunteers his time to serve as the administrator on behalf of the County of Marin.

RVPA's operations are financed by its members, through a tax on each residential unit and an equivalent tax for commercial property. During fiscal year ended June 30, 2017, the tax was $57 per living unit and per $63 per 1,500 square feet of structure on parcels in non-residential use. Financial statements may be obtained by mailing a request to County of Marin Fire Chief, Jason Weber, P.O. Box 518 Woodacre, CA 94973.

Marin Telecommunications Agency – The Marin Telecommunications Agency (MTA) is a joint powers authority administering the Comcast, AT&T, and Horizon cable franchise agreements and developing policy related to telecommunications services in Marin County, including cable, broadband, and related services. It was formed in 1998 to negotiate and administer cable television franchises for its member agencies. It is governed by a ten member Board of Directors composed of representatives from the County of Marin and the cities/towns of Belvedere, Corte Madera, Fairfax, Mill Valley, Ross, San Anselmo, San Rafael, Sausalito, and Tiburon.

MTA's revenues are comprised of video services franchise and PEG (Public, Education and Government) fees received from the state franchised video service providers in Marin including AT&T, Comcast and Horizon Cable on behalf of MTA's member agencies. In accordance with MTA's Agreement of Formation/Joint Power Agreement MTA pays the franchise fees less MTA's operating budget to the member agencies based on revenue reports received from the video service providers. The PEG fees are paid to the Community Media Center of Marin (CMCM) in accordance with the MTA - CMCM Dedicated Access Provider Agreement.

Audited financial statements may be obtained by mailing a request to Marin Telecommunications Agency at 555 Northgate Drive, Suite 230, San Rafael, CA 94903.

NOTE 12 – PARTICIPATION IN JOINT POWERS AGREEMENTS (Continued)

Marin General Services Authority – The Marin General Services Authority ("MGSA") was created in 2005 by the cities, towns, and County of Marin and two Community Service Districts to offer various public services effectively and efficiently throughout the county in a uniform manner with minimal overhead expense including animal control, abandoned vehicle abatement, and taxicab regulation, information management services, and street light maintenance. The MGSA has administrative authority for Marin Map JPA which provides geographic information systems and serves as an advisory body to the Marin County Stormwater Pollution Prevention Program.

The financial responsibility of each member is based on a relative population and assessed value formula. Audited financial statements may be obtained by mailing a request to Marin General Services Authority at 555 Northgate Drive, Suite 230, San Rafael, CA 94903. The Town's member contributions for the current fiscal year were $34,378.

Marin Major Crimes Task Force – In 1979, a Joint Powers Agreement (JPA) was formed between the county, towns and cities. Currently, the members of the Task Force JPA include the county, the towns and cities of Belvedere, Corte Madera, Fairfax, Larkspur, Mill Valley, Novato, Ross, San Anselmo, and Tiburon. The JPA provides oversight of the MCTF through a 9 –member Oversight Committee comprised of a City Councilmember, a member of the County Board of Supervisors, two city managers, the County Administrator, two chief law enforcement officials and two Marin County residents who do not hold any of the above positions.

The MCTF is currently managed by the Sheriff's Office with a Sheriff's Lieutenant overseeing the operation and a Sheriff's Sergeant supervising the unit. The main focus of the MCTF is narcotic related investigations. We also serve as a countywide investigations resource and will assist other agencies with cases of significance. The MCTF supplements the efforts of the existing local law enforcement agencies to better deal with major cases or criminal activity that no single jurisdiction can effectively deal with alone.

The contribution for fiscal year end June 30, 2017 was $10,227.

Marin Hazardous & Spills Management Authority – This multi-agency and multi-jurisdictional agency responds to hazardous materials emergencies. The annual budget is determined by the Marin County Fire Chief's Association and is allocated on a jurisdiction percent of population based on the County of Marin's current census data. Financial statements may be obtained by mailing a request to the Hazardous Materials Response Team, c/o San Rafael Fire Department, 1039 C Street, San Rafael, CA 94901.

Marin County Stormwater Pollution Prevention Program (MCSTOPPP) – MCSTOPPP was formed in 1993 between the County of Marin and eleven cities and towns within Marin. The Town of Ross became a member in 2005. The goal of MCSTOPPP is to prevent storm water pollution, protect and enhance water quality in creeks and wetlands, preserve beneficial uses of local waterways, and comply with State and Federal regulations. MCSTOPPP is administered by the Marin County Flood Control and Water Conservation District with staffing provided by the Marin County Department of Public Works. The Marin General Services Authority provides budgetary and programmatic oversight. Member contributions are calculated using square miles and population factors. The Town's contribution for the current fiscal year was $8,260.

NOTE 12 – PARTICIPATION IN JOINT POWERS AGREEMENTS (Continued)

Ross Valley Fire Department – On July 1, 2012, the Town entered into a Joint Powers Agreement with Town of Fairfax, Town of San Anselmo, and the Sleepy Hollow Fire Protection District to merge the Ross Fire Department with the Ross Valley Fire Department to provide fire services to the Town. All costs are fairly and equitably allocated among all members of the JPA, of which, the Town's percentage share is 23.37%. During fiscal year 2016-17, the Town made $1,754,649 payments towards service provided by the Ross Valley Fire Department. The Town also made a payment of $2,285 for apparatus replacement.

The Town of Ross shall not assume or be liable for any obligation of the JPA, whether absolute, contingent, known, unknown, or otherwise incurred by the JPA prior to the agreement date. The Town remains liable for its payments under the outstanding Marin Emergency Radio Authority (MERA) bonds as of the agreement date.

NOTE 13 – POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description: The Town's single employer defined benefit postemployment healthcare plan provides health care benefits to eligible retirees in accordance with a Board resolution. Eligible employees retiring at or after age 50 with a minimum of 5 years of CalPERS service or disability may opt to continue health care coverage, with a portion of the monthly premium paid for by the Town which is currently the Public Employees Medical and Health Care Act (PEMHCA) minimum amount. Coverage discontinues either at the request of the retiree or by defaulting on the employee portion of the premium.

The Town contracts with CalPERS to administer its retiree health benefit plan. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The Town chooses among the menu of benefit provisions and adopts certain benefit provisions by Board resolution.

Funding Policy: The Town's annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (UAAL) (or funding excess) over a period not to exceed 23 years on a closed basis. The current ARC is $65,000. The plan members receiving benefits currently don't make any contributions.

Annual OPEB Cost and Net OPEB Asset/Obligation: The Town's annual OPEB cost (expense) is calculated based on the ARC. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB asset/obligation to the Plan:

ANNUAL OPEB ASSET/OBLIGATION

Net OPEB obligation (asset), beginning of year	$	(62,863)
Annual required contribution		65,000
Contributions made		(39,180)
CERBT Payment		(48,000)
Net OPEB obligation (asset), end of year	$	(85,043)

NOTE 13 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

The annual OPEB costs, employer contributions, percentage contributed and net OPEB obligation (asset) as of June 30, 2017 and the two preceding years is as follows:

Funding Status				
Fiscal Year Ending	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
6/30/2015	$ 35,000	$ 238,624	682%	$ 15,867
6/30/2016	36,000	114,820	319%	(62,863)
6/30/2017	65,000	87,180	134%	(85,043)

Funded Status and Funding Progress: The June 30, 2015 actuarial valuation study (most recent study available) was used to develop the June 30, 2017 annual required contribution. The funded status of the plan as of June 30, 2017 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 30, 2015	$ 296,000	$ 679,000	$ 383,000	44%	$ 1,344,000	28.50%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment. Annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to the point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used. The actuarial assumptions included a 7.25 percent investment rate of return, which is the expected long-term investment returns on plan assets, projected aggregate salary increase of 3.25% and healthcare cost trend rates ranging from 7.2% to 5% through the year 2021. Both rates include a 3 percent inflation assumption. The UAAL is being amortized as a level percentage of payroll. At the last actuarial valuation (June 30, 2015), investment gains and losses spread over a 5-year rolling period and actuarial value of assets are not less than 80% nor more than 120% of market value. Remaining amortization periods is 23-year fixed (closed) on June 30, 2017.

NOTE 13 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2015
Actuarial cost method	Entry age, normal cost
Amortization method	Level percentage of payroll
Amortization period	23 years
Investment rate of return	7.25%
Salary Increase	3.25%
Inflation	3.00%
PERS Minimum Employer Contribution	4.50%

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

In 2017, the Town has/will be adopting new accounting and reporting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Statement No. 74 replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, statement 43, and statement No. 50, Pension Disclosures. The provisions in statement 74 are effective for fiscal years beginning after June 15, 2016. This statement did not impact the financial statements.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is effective for reporting periods beginning after December 15, 2015. This statement did not impact the financial statements.

GASB Statement No. 78 – In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27.* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This statement did not impact the financial statements.

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 80 – In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment to GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. This statement did not impact the financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Town has implemented the provisions of this Statement as of June 30, 2017.

Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in statement 75 are effective for fiscal years beginning after June 15, 2017. The Town is evaluating its effect on the financial statements.

GASB Statement No. 81 – In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The Town is evaluating its effect on the financial statements.

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 83 – In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Town is evaluating its effect on the financial statements.

GASB Statement No. 84 – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Town is evaluating its effect on the financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged. The Town has not determined its effect on the financial statements.

GASB Statement No. 86 – In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Town is evaluating its effect on the financial statements.

GASB Statement No. 87 – In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for the reporting periods beginning December 15, 2019. The Town is evaluating its effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ROSS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (UNAUDITED) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes	$ 4,309,000	$ 4,309,000	$ 4,488,133	$ 179,133
Intergovernmental	60,714	60,714	68,077	7,363
Building/public works permits	682,700	682,700	923,534	240,834
Revenue from use of money and property	232,687	232,687	266,869	34,182
Charges for services	1,608,200	1,608,200	1,424,142	(184,058)
Fines and forfeitures	20,000	20,000	16,235	(3,765)
Miscellaneous	44,500	44,500	114,121	69,621
Total Revenues	6,957,801	6,957,801	7,301,111	343,310
EXPENDITURES				
Current:				
General government	933,253	933,253	883,480	49,773
Planning	290,694	290,694	233,259	57,435
Public safety	3,629,177	3,629,177	3,588,370	40,807
Public works	1,364,587	1,364,587	1,212,295	152,292
Recreation	1,149,794	1,149,794	1,344,957	(195,163)
Capital outlay	354,748	354,748	236,097	118,651
Debt service:				
Principal	11,473	11,473	11,473	-
Interest	9,465	9,465	9,465	-
Total Expenditures	7,743,191	7,743,191	7,519,396	223,795
Excess (Deficiency) of Revenues Over Expenditures	(785,390)	(785,390)	(218,285)	567,105
OTHER FINANCING SOURCES (USES)				
Transfers in	821,550	821,550	817,180	(4,370)
Net Change in Fund Balance	36,160	36,160	598,895	562,735
Fund Balance, Beginning of Year	7,466,348	7,466,348	7,466,348	-
Fund Balance, End of Year	$ 7,502,508	$ 7,502,508	$ 8,065,243	$ 562,735

TOWN OF ROSS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (UNAUDITED) AND ACTUAL
DRAINAGE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Intergovernmental	$ 594,194	$ 594,194	$ 105,433	$ (488,761)
Licenses and permits	200,000	200,000	194,180	(5,820)
Revenue from use of money and property	3,000	3,000	8,324	5,324
Miscellaneous	-	-	4,481	4,481
Total Revenues	797,194	797,194	312,418	(484,776)
EXPENDITURES				
Current:				
Public works	335,000	335,000	58,912	276,088
Capital outlay	620,000	620,000	123,173	496,827
Total Expenditures	955,000	955,000	182,085	772,915
Excess (Deficiency) of Revenues Over Expenditures	(157,806)	(157,806)	130,333	288,139
Net Change in Fund Balance	(157,806)	(157,806)	130,333	288,139
Fund Balance, Beginning of Year	1,075,454	1,075,454	1,075,454	-
Fund Balance, End of Year	$ 917,648	$ 917,648	$ 1,205,787	$ 288,139

TOWN OF ROSS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (UNAUDITED) AND ACTUAL
ROADWAY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Intergovernmental	$ 414,963	$ 469,963	$ 476,080	$ 6,117
Licenses and permits	200,000	200,000	195,436	(4,564)
Revenue from use of money and property	3,000	3,000	5,726	2,726
Miscellaneous	60,000	60,000	-	(60,000)
Total Revenues	677,963	732,963	677,242	(55,721)
EXPENDITURES				
Current:				
Public works	354,500	354,500	134,146	220,354
Capital outlay	535,000	677,000	686,707	(9,707)
Total Expenditures	889,500	1,031,500	820,853	210,647
Excess (Deficiency) of Revenues Over Expenditures	(211,537)	(298,537)	(143,611)	154,926
Net Change in Fund Balance	(211,537)	(298,537)	(143,611)	154,926
Fund Balance, Beginning of Year	1,018,596	1,018,596	1,018,596	-
Fund Balance, End of Year	$ 807,059	$ 720,059	$ 874,985	$ 154,926

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 30, 2012	$ -	$ 506,000	$ 506,000	0%	$ 1,564,000	32.35%
June 30, 2013	28,000	339,000	311,000	8%	1,615,000	19.26%
June 30, 2015	296,000	679,000	383,000	44%	1,344,000	28.50%

TOWN OF ROSS

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Years*

	Miscellaneous		
	2017	2016	2015
Plan's proportion of the net pension liability (asset)	0.00789%	0.00904%	0.00957%
Plan's proportionate share of the net pension liability (asset)	$ 682,426	$ 620,516	$ 597,760
Plan's covered payroll	$ 719,234	$ 734,555	$ 587,276
Plan's proportionate Share of the net pension liability (asset) as a percentage of covered payroll	94.88%	84.48%	101.44%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's proportionate share of total pension liability	82.83%	84.03%	83.03%

	Safety		
	2017	2016	2015
Plan's proportion of the net pension liability (asset)	0.03650%	0.04270%	0.04612%
Plan's proportionate share of the net pension liability (asset)	$ 3,155,417	$ 2,927,626	$ 2,869,504
Plan's covered payroll	$ 878,002	$ 817,494	$ 766,634
Plan's proportionate Share of the net pension liability (asset) as a percentage of covered payroll	359.39%	358.12%	374.30%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's proportionate share of total pension liability	80.81%	81.39%	81.42%

Notes to Schedule:

Benefit changes: In 2016, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2016, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees. In addition, the discount rate was changed from 7.5% in 2015 to 7.65% in 2016.

* - Fiscal year 2015 was the first year of implementation.

TOWN OF ROSS
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Years*

	Miscellaneous		
	2017	2016	2015
Actuarially determined contributions	$ 60,630	$ 74,274	$ 68,225
Contributions in relation to the actuarially determined contribution	(60,630)	(74,274)	$ (68,225)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 850,102	$ 719,324	$ 734,555
Contributions as a percentage of covered-employee payroll	7.13%	10.33%	9.29%

	Safety		
	2017	2016	2015
Actuarially determined contributions	$ 157,241	$ 265,124	$ 149,341
Contributions in relation to the actuarially determined contribution	(157,241)	(265,124)	(149,341)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 936,025	$ 878,002	$ 817,494
Contributions as a percentage of covered-employee payroll	16.80%	30.20%	18.27%

* - Fiscal year 2015 was the first year of implementation.

SUPPLEMENTARY INFORMATION

TOWN OF ROSS

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

	Special Revenue				
ASSETS	Gas Tax	General Plan Update Fund	Citizens Option for Public Safety	Public Safety Tax Fund	Total Non-major Governmental Funds
Cash and investments	$ 323,952	$ 231,048	$ 7,977	$ -	$ 562,977
Accounts receivables	-	-	26,944	-	26,944
Interest receivables	743	531	18	-	1,292
Total Assets	324,695	231,579	34,939	-	591,213
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	-	-	-	-	-
Total Liabilities	-	-	-	-	-
FUND BALANCES					
Restricted	324,695	231,579	34,939	-	591,213
Total Fund Balances	324,695	231,579	34,939	-	591,213
Total Liabilities and Fund Balances	$ 324,695	$ 231,579	$ 34,939	$ -	$ 591,213

TOWN OF ROSS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue				
	Gas Tax Fund	General Plan Update Fund	Citizens Option for Public Safety	Public Safety Tax Fund	Total Non-major Governmental Funds
REVENUES					
Taxes	$ -	$ -	$ -	$ 791,580	$ 791,580
Intergovernmental	54,232	-	129,496	-	183,728
Licenses and permits	-	68,440	-	-	68,440
Revenue from use of money and property	2,548	1,623	164	-	4,335
Total Revenues	56,780	70,063	129,660	791,580	1,048,083
EXPENDITURES					
Current:					
Public safety	-	-	143,045	-	143,045
Public works	38,247	-	-	-	38,247
Capital outlay	18,726	-	-	-	18,726
Total Expenditures	56,973	-	143,045	-	200,018
Excess (Deficiency) of Revenues Over Expenditures	(193)	70,063	(13,385)	791,580	848,065
OTHER FINANCING SOURCES (USES)					
Transfers out	-	(25,600)	-	(791,580)	(817,180)
Total Other Financing Sources (Uses)	-	(25,600)	-	(791,580)	(817,180)
Net Change in Fund Balances	(193)	44,463	(13,385)	-	30,885
Fund Balances, Beginning of Year	324,888	187,116	48,324	-	560,328
Fund Balances, End of Year	$ 324,695	$ 231,579	$ 34,939	$ -	$ 591,213

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

To the Members of the Town Council of the Town of Ross
Ross, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Ross (the Town) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information previously in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Town's financial statements were management's estimate of depreciation on capital assets, the fair value of investments, net pension liability, and deferred inflows and outflows of resources related to pensions. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of actuarial information related to pension benefits in Note 7, and other post employment benefits in Note 13. We relied on actuaries to provide much of the information contained in these footnotes.

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, budgetary comparison information, the other postemployment benefit plan schedule of funding progress, the schedule of proportionate share of the net pension liability, and the schedule of pension contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Vavrinek, Trine, Day & Co. LLP

Pleasanton, California
December 22, 2017

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

To the Members of the Town Council of the Town of Ross
Ross, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Ross (Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

Vavrinek, Trine, Day & Co. LLP

Pleasanton, California
December 22, 2017

TOWN OF
ROSS
Ross, California

Independent Accountants' Report On Appropriations Limit Calculation

For The Year Ended June 30, 2017

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES APPLIED TO APPROPRIATIONS LIMIT UNDER ARTICLE XIIIB OF THE CALIFORNIA CONSTITUTION

To the Members of the Town Council of the Town of Ross
Ross, California

We have performed the procedures enumerated below to the Appropriations Limit Calculation of the Town of Ross, (the Town), for the year ended June 30, 2018. These procedures, which were agreed to by the Town and the League of California Cities (as presented in the publication entitled Agreed Upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution) were performed solely to assist the Town in meeting the requirements of Section 1.5 of Article XIIIB of the California Constitution. The Town management is responsible for the Appropriations Limit Calculation. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained completed worksheets used by the Town to calculate its Appropriation Limit for the fiscal year ending June 30, 2018, and determined that the limit and annual adjustment factors were adopted by resolution of Town Council. We also determined that the population and inflation options were selected by a recorded vote of the Town Council.

   Findings: No exceptions were noted as a result of our procedures.

2. For the Appropriations Limit Calculation, we added the prior year's limit to the total adjustments and agreed the resulting amount to the current year's limit.

   Findings: No exceptions were noted as a result of our procedures.

3. We agreed the current year Appropriation Limit to corresponding information in worksheets used by the Town.

   Finding: No exceptions were noted as result of our procedures.

4. We agreed the prior year Appropriations Limit to the prior year Appropriation Limit adopted by the Town.

   Finding: No exceptions were noted as a result of our procedures.

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This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit Calculation. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the use of the Town Council and management of the Town and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Vavrinek, Trine, Day & Co. LLP

Pleasanton, California
December 22, 2017