**CITY OF LINDSAY**

**AUDITED BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**CITY OF LINDSAY**
**BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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# INTRODUCTORY SECTION

Justin Poore
Finance Director
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251 E. Honolulu
Lindsay, CA 93247

August 12, 2016

Honorable Mayor and City Council,
William Zigler, Interim City Manager
City of Lindsay, California

The comprehensive annual financial report of the City of Lindsay for the year ended June 30, 2015, is hereby submitted in accordance with Section 3.15 of the City Charter and California state law. The ordinance requires that the City issue annually a report on its financial position and activity, and that an independent firm of certified public accountants audit this report. Pursuant to the requirement, we hereby issue this annual financial report of the City of Lindsay (the City) for the fiscal year ended June 30, 2015.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Brown Armstrong Accountancy Corporation, a licensed certified public accountant firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2015, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified ("clean") opinion that the City's financial statements for the fiscal year ended June 30, 2015, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The City of Lindsay did not have any major federal projects or programs that met the $500,000 threshold that requires a separate "*Single Audit*" report per the Federal Single Audit Act of 1984 and related U.S. Office of Management and Budget (OMB) Circular A-133; therefore, the City is exempt from that reporting requirement for the fiscal year ended June 30, 2015.

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

**Profile of the Government**

The City of Lindsay incorporated in 1910, as a general law city of the State of California, and reclassified to a Charter City January 8, 1996, filed with the State of California in April 1996. Lindsay is located in the middle of the state in the Central San Joaquin Valley. The Central Valley is considered to be a national and world leader in the agricultural industry, with dairy, citrus and deciduous crops the primary commodity around the Lindsay area. The City of Lindsay currently occupies an incorporated area of 2.41 square miles with an urban development boundary of 3.9 miles and serves a population of 13,192 (2014) – an increase of 27% since 2000.

The City of Lindsay operates under the council-manager form of government. Policymaking and legislative authority are vested in a governing council consisting of the mayor and four other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with two council members elected in one election and three elected in another election, separated by two years. The mayor is selected from among the council members, by the council members, and serves a two year term. All five council members of the governing board are elected at-large. The council is responsible, among other things, for passing ordinances, adopting the budget, representing the City on other governmental committees, and hiring the City's manager and attorney. The city manager is responsible for carrying out polices and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The City of Lindsay provides a full range of services, including general administration, human resources, treasury, finance and accounting; risk management; police and fire protection, animal control and code enforcement; the construction, maintenance, and cleaning of streets and other infrastructure; planning, zoning, building inspection, and development services; community services - including a multi-use sports and entertainment center, a skate park, a wellness center, and adult and youth recreational activities. Water, sewer and wastewater treatment and collection, and solid waste disposal services are provided through enterprise funds; disposal and recycling services are contracted with Mid Valley Disposal. Transit services are contracted with the Tulare County Transit Authority; the City maintains the bus stop shelters. It also administers and/or oversees low-income loan programs for First-Time Homebuyers, Home Rehabilitation, Business Assistance, and Curb & Gutter.

The annual budget serves as the foundation for the City of Lindsay's financial planning and control. All departments of the City are required to submit requests for appropriations to the City Manager who uses these requests as the starting point for developing a proposed budget. The Finance Department, in conjunction with the City Council, prepares a Budget Development Calendar to establish and publish dates for public workshops to discuss goals, priorities, and challenges for the upcoming fiscal year that will affect the budget. The City Manager presents the proposed budget to the council and public for review prior to June 1. The council is required to hold public hearings on the proposed budget and to adopt the final budget no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, by department (e.g., streets, city services, etc.) and by function (e.g., sweeping, water plant chemicals, etc.). Each department head is responsible for monitoring departmental expenditures. Department heads may make transfers of appropriations within a department. The City Manager is authorized to transfer budgeted amounts between departments. Only council approval may amend the budget to increase the appropriations or otherwise change the adopted budget.

**Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

**Local Economy:** Lindsay's economy continues to struggle with many of the general fund revenues remaining stagnant. UUT, or utility users tax, has remained stagnant in receipts, and property tax values have slowly increased, however, the addition of solar to many residents' homes and/or businesses has further reduced the UUT collections. Sales tax revenues are still low compared to other municipalities in our immediate area, with unemployment being a driving factor.

Agriculture-related jobs continue to be the most common occupations of 41% of the population. Drought conditions for the state of California remain a matter of concern for the City of Lindsay for both residential water use and the fact that the economic base is still largely agrarian; we predicted last year of the direct negative impact the lack of water resources could have on our local growers, farm workers, and packing houses, with the related indirect negative impact on our local retailers as the labor force has less money to spend.

Job creation, business development, economic diversification, and retail recruitment remain a high priority for staff; the City suffered a set-back on the economic development front when the planned Dollar Store project pulled out and relocated to Strathmore taking potential jobs and retail sales tax out of Lindsay. Staff will continue to aggressively market Lindsay commercial and industrial possibilities via the Tulare County Economic Corporation, City website, the Lindsay Chamber of Commerce and social media.

On a positive front, the investment the City has made in community, recreational, and quality-of-life projects and opportunities – McDermont Field House, the Downtown Project, Friday Night Market, the Lindsay Wellness Center, and the Centennial Park renovation project to name a few - has had the positive effect of making Lindsay an attractive place to live.

**Long-Term Financial Planning**

An integral part of the City's budget process, the City Council continues to look forward to stabilizing revenue and expenditures. The City Council and the City's management team are evaluating ways to implement long-term changes to help the City accomplish this adaption. At the behest of the council, City staff is currently analyzing the City's organizational structure, City services and programs, cooperative partnerships, staffing needs, and revenue streams, etc. Considering current deficits, combined with projected continued short-falls in the general fund, it is obvious that new strategies are needed to solve the situation. Sewer and Refuse rates were reduced in July 2011 which resulted in a deficit and reduction to fund balance over the past four years; in FY15, rates were returned to the same rate structure of 2011 in order to ensure revenue will meet expenditures, with adequate reserves, in those two enterprise funds. However, with County landfill fees increasing, normal growth and infrastructure maintenance costs, drought mitigation measures that have reduced water revenue and the ever-increasing cost of doing business, staff and council will need to thoroughly review the rates, which are some of the lowest in the county, and consider an incremental phased rate increase in the coming years as most of the surrounding cities have already done. The ever-growing deficit in the general fund must also be addressed to either increase revenues or decrease costs, which is difficult as the Public Safety Department – one of the most necessary services in the City – comprises 82% of the cost. Recreation programming will be moved out of McDermont Field House in FY16-17 to bring that fund into balance, but will result in a greater strain on the general fund.

There is no doubt that the State will continue to try to solve its budget issues on the backs of local governments; it is imperative to develop and implement budget balancing strategies that will allow for the greatest level of service to our citizens while also providing contingency for consistent repair and maintenance of all the City's infrastructure.

**Cash Management Policies and Practices**

Cash temporarily idle during the fiscal year was either invested in the Local Agency Investment Fund (LAIF), a State investment pool, or Certificates of Deposit (CDs) held at Bank of the Sierra. It is the goal of this administration to continue to increase the City's reserve cash.

**Risk Management**

The City of Lindsay participates in a 54-member city Joint Powers Authority – the Central San Joaquin Valley Risk Management Authority – for all property, liability, workmen's compensation, and employee assistance program coverage. Additional information can be found in NOTE 11 in the notes to the basic financial statements.

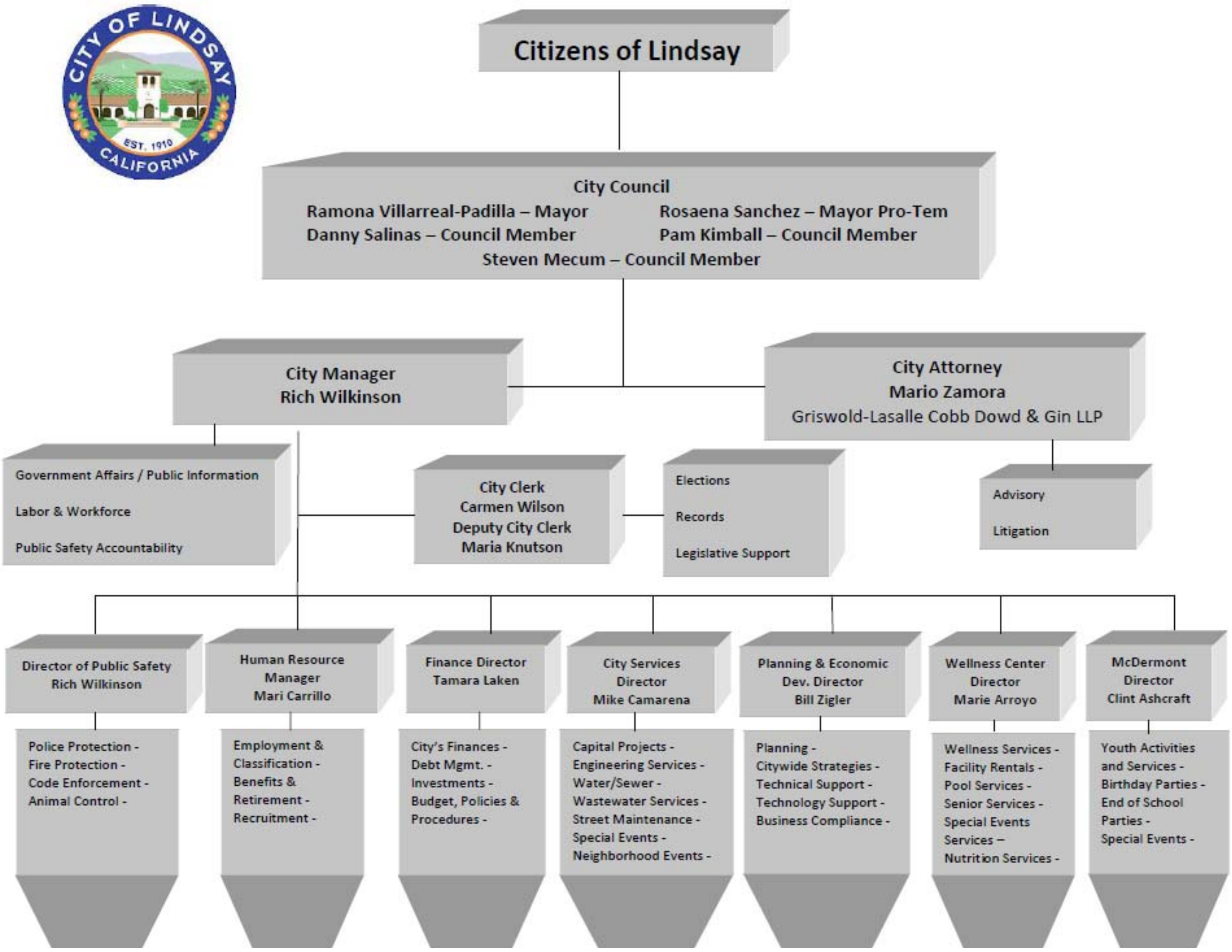
**Pension and Other Postemployment Benefits**

The City participates in the defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS) for all full-time employees. Each fiscal year, CalPERS calculates the amount of the annual contribution the City must make to the pension plan to ensure the plan will be able to fully meet its obligation to retired employees on a timely basis. In FY16, CalPERS will implement its "smoothing" process wherein they will invoice the City a lump sum in excess of $800,000 for the combined MISC and SAFETY Unfunded Liability from previous years. This will create a real hardship for Lindsay and seriously strain the cash flow. It is expected that invoicing for Unfunded Liability will continue through FY18 in amounts estimated to be between $300,000 and $680,000 (combined MISC & SAFETY) with relief by FY19 and subsequent lower pension costs once the full effects of the Public Employees Pension Reform Act have been realized.

The City also provides post-retirement health benefits for retirees that meet the eligibility requirements. As of the end of the current fiscal year, there were seven (7) retired employees receiving these benefits, the current portion financed on a pay-as-you-go-basis with the retiree paying a portion and the City paying a portion that is included in the annual budget. The MOU for FY16 increased the eligibility requirement for this benefit from 15 years to 20 years and it is anticipated that this benefit will be abolished in future years as the ACA has almost doubled the cost to the City. Additional information on the City's pension arrangements and postemployment benefits can be found in NOTE 9 and NOTE 12 in the Notes to the Basic Financial Statements.

**Acknowledgements**
The preparation of this document could not have been accomplished without the dedicated services of the entire staff of the Finance Department. All departments contributed necessary data to complete this report and I appreciate their contribution. I would like to thank the Mayor and City Council and the Interim City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. Recognition is also extended to our auditors, Brown Armstrong Accountancy Corporation, for their significant and competent assistance: The City has been implementing the recommendations of this audit firm since 2011, as described in the findings section of each audit, to as much degree as time and resources have allowed. This has made the City much more transparent while also identifying major issues that must be addressed in the coming years to ensure the fiscal health of the City.

# CITY OF LINDSAY DEPARTMENT ORGANIZATION



**CITY OF LINDSAY**
**PRINCIPAL CITY OFFICIALS**
**JUNE 30, 2015**

City Council

| | |
|---|---|
| Ramona Padilla | Mayor |
| Rosaena Sanchez | Mayor Pro-Tem |
| Steven Mecum | Council Member |
| Pam Kimball | Council Member |
| Danny Salinas | Council Member |

Administrative Officials and Department Heads

| | |
|---|---|
| William Zigler | Interim City Manager |
| Justin Poore | Finance Director/City Treasurer |
| Michael Camarena | City Services Director |
| Clint Ashcraft | McDermont Field House Director & Wellness Center Director |
| Chris Hughes | Interim Chief of Police |
| Carmen Wilson | City Clerk |

# FINANCIAL SECTION

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BROWN ARMSTRONG
*Certified Public Accountants*

# INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Lindsay, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lindsay (the City), California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 18 to the financial statements, the City is having difficulties maintaining operating cash balances and paying for City expenditures and is unable to repay certain "due to and due from other funds" and "advance to and advance from" balances. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

**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, schedule of the City's proportionate share of the net pension liability, schedule of the City's contributions, and Other Postemployment Benefits schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
August 12, 2016

As management of the City of Lindsay (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars (000's).

## Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $45,675 (*net position)*.

- As of the close of the current fiscal year, the City governmental funds reported combined ending fund balances of $10,135.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges *(business-type activities).* The governmental activities of the City include general government, public safety, parks and recreation, public works, streets and transportation, and community development. The business-type activities of the City include water, sewer, and refuse services, as well as the Lindsay Wellness Center and McDermont Field House Sports and Recreation Center (the McDermont Sports Complex) that provide fee-based entertainment, facility rental, and recreational events and activities for the community and other valley residents.

The government-wide financial statements have changed substantially from previous years due to the dissolution of the Lindsay Redevelopment Agency (LRA); all financial information relevant to the former LRA is now accounted for, as an integral part of these financial statements, in the Private-Purpose Trust Fund, a fiduciary fund established to manage the assets and debt of the former agency. The Water, Sewer, Refuse, Wellness Center, and McDermont Sports Complex Departments function for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

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

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

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

The City maintains seven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Community Development, and Local Transportation Funds, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

**Proprietary funds.** The City maintains one proprietary fund type called Enterprise Funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center Funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center Funds, all of which are considered to be major funds of the City.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Please see the table of contents for page numbers.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found by referring to the index of this report.

## Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lindsay, assets exceeded liabilities by $45,675 at the close of the most recent fiscal year.

Of the City's net position, the net investment in capital assets portion represents its investment in capital assets (e.g., land buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Lindsay's Net Position**
(amounts expressed in thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Current and other assets | $ 29,322 | $ 29,685 | $ (9,898) | $ (9,523) | $ 19,424 | $ 20,162 |
| Capital assets | 24,255 | 24,317 | 50,259 | 51,012 | 74,514 | 75,329 |
| Total assets | 53,577 | 54,002 | 40,361 | 41,489 | 93,938 | 95,491 |
| Deferred outflows of resources | 593 | - | 165 | - | 758 | - |
| Long-term liabilities | 11,405 | 22,772 | 16,740 | 15,898 | 28,145 | 38,670 |
| Other liabilities | 15,494 | 438 | 3,869 | 2,848 | 19,363 | 3,286 |
| Total liabilities | 26,899 | 23,210 | 20,609 | 18,746 | 47,508 | 41,956 |
| Deferred inflows of resources | 1,218 | - | 295 | - | 1,513 | - |
| Net position: | | | | | | |
| Net investment in capital assets | 22,518 | 22,769 | 36,118 | 36,475 | 58,636 | 59,244 |
| Restricted | 520 | 344 | - | - | 520 | 344 |
| Unrestricted | 3,015 | 7,679 | (16,496) | (13,732) | (13,481) | (6,053) |
| Total net position | $ 26,053 | $ 30,792 | $ 19,622 | $ 22,743 | $ 45,675 | $ 53,535 |

A portion of the City's net position, $15,248, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position,* $(28,209), represents the governmental activities negative balance of $11,713, combined with the business-type activities negative balance of $16,496. At fiscal year-end, the City reported negative balances in the unrestricted categories of net position, both for the government as a whole, as well as for the Community Development Fund of its separate governmental activities. The other non-major governmental funds had a combined positive fund balance at year-end.

**City of Lindsay's Changes in Net Position**
(amounts expressed in thousands)

| | Governmental activities 2015 | Governmental activities 2014 | Business-type activities 2015 | Business-type activities 2014 | Total 2015 | Total 2014 |
|---|---|---|---|---|---|---|
| Program revenues: | | | | | | |
| Charges for services | $ 349 | $ 346 | $ 5,405 | $ 5,697 | $ 5,754 | $ 6,043 |
| Operating grants and contributions | - | - | 421 | 484 | 421 | 484 |
| Capital grants and contributions | 1,848 | 1,818 | - | - | 1,848 | 1,818 |
| General revenues: | | | | | | |
| Property taxes | 526 | 513 | - | - | 526 | 513 |
| Other taxes | 3,565 | 3,540 | - | - | 3,565 | 3,540 |
| Miscellaneous | 973 | 681 | 61 | 106 | 1,034 | 787 |
| Transfer of assets to other governments | - | (1,148) | - | - | - | (1,148) |
| Transfers | (53) | (373) | 53 | 373 | - | - |
| Total revenues | 7,208 | 5,377 | 5,940 | 6,660 | 13,148 | 12,037 |
| Expenses: | | | | | | |
| General government | 2,013 | 1,966 | - | - | 2,013 | 1,966 |
| Public safety | 2,446 | 2,610 | - | - | 2,446 | 2,610 |
| Parks and recreation | 221 | 269 | - | - | 221 | 269 |
| Public works | 454 | 354 | - | - | 454 | 354 |
| Streets and transportation | 410 | 430 | - | - | 410 | 430 |
| Community development | 606 | 876 | - | - | 606 | 876 |
| Interest on long-term debt | 98 | 99 | - | - | 98 | 99 |
| Water Fund | - | - | 1,490 | 1,612 | 1,490 | 1,612 |
| Sewer Fund | - | - | 1,359 | 1,415 | 1,359 | 1,415 |
| Refuse Fund | - | - | 980 | 980 | 980 | 980 |
| McDermont Sport Complex Fund | - | - | 3,006 | 3,337 | 3,006 | 3,337 |
| Wellness Center Fund | - | - | 761 | 628 | 761 | 628 |
| Total expenses | 6,248 | 6,604 | 7,596 | 7,972 | 13,844 | 14,576 |
| Change in net position | 960 | (1,227) | (1,656) | (1,312) | (696) | (2,539) |
| Net position - beginning | 30,792 | 32,020 | 22,743 | 24,170 | 53,535 | 56,190 |
| Prior period adjustment | (5,699) | (1) | (1,465) | (115) | (7,164) | (116) |
| Net position - beginning, restated | 25,093 | 32,019 | 21,278 | 24,055 | 46,371 | 56,074 |
| Net position - ending | $ 26,053 | $ 30,792 | $ 19,622 | $ 22,743 | $ 45,675 | $ 53,535 |

**Governmental activities.** Governmental activities increased the City's net position by $960.

**Business-type activities.** Business-type activities decreased the City's net position by $1,656.

**Financial Analysis of the City's Funds**

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

***Governmental funds.*** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $10,135.

The fund balance of the City's General Fund decreased by $1,522 during the current fiscal year. Key factors in this decrease are as follows:

- There were several prior year adjustments made during the year, see Note 16, and expenses exceeded total revenue.

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

The combined unrestricted net position of the Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center activities at the end of the year amounted to $(16,496). The combined decrease in net position for all these funds was $3,120 due primarily to the losses in the McDermont Sports Complex, Sewer, Refuse, and Wellness Center Funds, as well as the prior year adjustments made during the year; see Note 16.

### Capital Assets and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to $74,514 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

**City of Lindsay's Capital Assets**
(Net of depreciation)
(amounts expressed in thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land | $ 772 | $ 772 | $ 697 | $ 684 | $ 1,469 | $ 1,456 |
| Buildings and improvements | 2,835 | 2,907 | 35,389 | 36,259 | 38,224 | 39,166 |
| Machinery and equipment | 193 | 425 | 271 | 178 | 464 | 603 |
| Infrastructure | 20,455 | 20,197 | 13,693 | 13,859 | 34,148 | 34,056 |
| Construction in progress | - | 16 | 209 | 32 | 209 | 48 |
| Total | $ 24,255 | $ 24,317 | $ 50,259 | $ 51,012 | $ 74,514 | $ 75,329 |

**City of Lindsay's Outstanding Debt**
(amounts expressed in thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Certificates of participation | $ 1,736 | $ 1,817 | $ 2,146 | $ 2,184 | $ 3,882 | $ 4,001 |
| Revenue bonds | - | - | 9,424 | 9,728 | 9,424 | 9,728 |
| Lindsay Olive Grower pond closure | - | - | 2,571 | 2,571 | 2,571 | 2,571 |
| Compensated absences | 161 | 165 | 69 | 83 | 230 | 248 |
| Other postemployment benefits | 865 | 758 | 769 | 707 | 1,634 | 1,465 |
| Total | $ 2,762 | $ 2,740 | $ 14,979 | $ 15,273 | $ 17,741 | $ 18,013 |

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of $17,741.

The City does not maintain ratings from any of the services for general obligation debt. The General Obligation Bond listed above is outstanding from an old issue that has not been claimed.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation ($186,380,085 for fiscal year 2015 per Tulare County Assessor). The City Charter Section 9.05A sets a 10% limitation. The current debt limitation for the City is $18,638,009, which is not in excess of the City's outstanding general obligation debt and in compliance with State and City statutes.

**Economic Factors and Next Year's Budget and Rates**

- Solar construction on personal residence homes and business structures has reduced Utility User Taxes (UUT) with a small increase in property tax revenue from the increased property values.

- Water conservation and drought mitigation measures will remain a top priority as staff pursues funding to assist with fixing our wells and ensuring a safe, adequate supply of potable water. The state still mandates a 25% reduction in water usage from residents and businesses which reduce the utility billing revenue received.

**Additional Information**

FUND RECLASSIFICATION:

In FY15 the Gas Tax and Transportation Fund were separated and the Street Improvement fees collected as part of the utility billing are now accounted for within a separate internal service fund (ISF) in order to ensure proper accountability and fund balance maintenance. Staff continues to strive to achieve the highest level of transparency and clarity to our citizens.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P.O. Box 369, City of Lindsay, CA 93247 (559) 562-5927.

# BASIC FINANCIAL STATEMENTS

**CITY OF LINDSAY**
**STATEMENT OF NET POSITION**
**JUNE 30, 2015**

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 740,004 | $ 2,719,054 | $ 3,459,058 |
| Accounts receivable, net | 119,209 | 316,605 | 435,814 |
| Interest receivable | 99 | - | 99 |
| Refundable deposits | - | 600 | 600 |
| Prepaid expense | 59,953 | - | 59,953 |
| Internal balances | 12,936,016 | (12,936,016) | - |
| Due from other governments | 386,350 | 1,604 | 387,954 |
| Notes receivable | 14,961,743 | - | 14,961,743 |
| Advances to Private-Purpose Trust Fund | 118,832 | - | 118,832 |
| Capital assets (net of accumulated depreciation) | | | |
| Land | 771,699 | 697,259 | 1,468,958 |
| Buildings and improvements | 2,834,510 | 35,389,299 | 38,223,809 |
| Infrastructure | 20,455,000 | 13,693,432 | 34,148,432 |
| Equipment | 193,224 | 270,690 | 463,914 |
| Construction in progress | - | 208,064 | 208,064 |
| Net Capital Assets | 24,254,433 | 50,258,744 | 74,513,177 |
| Total Assets | 53,576,639 | 40,360,591 | 93,937,230 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows from pensions | 593,452 | 165,271 | 758,723 |
| Total Assets and Deferred Outflows of Resources | $ 54,170,091 | $ 40,525,862 | $ 94,695,953 |
| LIABILITIES | | | |
| Cash overdraft | $ - | $ 2,909,308 | $ 2,909,308 |
| Accounts and other payables | 270,649 | 638,222 | 908,871 |
| Accrued wages | 223,302 | 56,132 | 279,434 |
| Accrued interest | 18,444 | 228,357 | 246,801 |
| Refundable deposits | 13,117 | 37,073 | 50,190 |
| Unearned revenue | 14,968,296 | - | 14,968,296 |
| Long-term - other | | | |
| Due to other governments | 891,177 | - | 891,177 |
| Advances from other funds | 2,820,678 | - | 2,820,678 |
| Unearned revenue | - | 478,577 | 478,577 |
| Long-term debt | | | |
| Due within one year | 137,737 | 374,453 | 512,190 |
| Due in more than one year | 2,623,618 | 14,604,415 | 17,228,033 |
| Net pension liability | 4,931,380 | 1,282,152 | 6,213,532 |
| Total Liabilities | 26,898,398 | 20,608,689 | 47,507,087 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows from pensions | 1,218,223 | 295,265 | 1,513,488 |
| NET POSITION | | | |
| Net investment in capital assets | 22,518,352 | 36,118,001 | 58,636,353 |
| Restricted | 519,913 | - | 519,913 |
| Unrestricted | 3,015,205 | (16,496,093) | (13,480,888) |
| Total Net Position | 26,053,470 | 19,621,908 | 45,675,378 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 54,170,091 | $ 40,525,862 | $ 94,695,953 |

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**
**STATEMENT OF ACTIVITIES**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | | Program Revenues | | |
|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | $ 2,013,378 | $ 349,358 | $ - | $ 1,847,954 |
| Public safety | 2,445,639 | - | - | - |
| Parks and recreation | 220,965 | - | - | - |
| Public works | 453,591 | - | - | - |
| Streets and transportation | 409,704 | - | - | - |
| Community development | 606,546 | - | - | - |
| Interest on long-term debt | 97,966 | - | - | - |
| Total Governmental Activities | 6,247,789 | 349,358 | - | 1,847,954 |
| Business-Type Activities: | | | | |
| Water Fund | 1,489,862 | 1,489,680 | - | - |
| Sewer Fund | 1,358,959 | 1,132,689 | - | - |
| Refuse Fund | 979,717 | 856,064 | - | - |
| McDermont Sports Complex Fund | 3,006,268 | 1,793,052 | 164,325 | - |
| Wellness Center Fund | 760,691 | 133,521 | 257,036 | - |
| Total Business-Type Activities | 7,595,497 | 5,405,006 | 421,361 | - |
| Total Primary Government | $ 13,843,286 | $ 5,754,364 | $ 421,361 | $ 1,847,954 |

The notes to the financial statements are an integral part of this statement.

# CITY OF LINDSAY
# STATEMENT OF ACTIVITIES (Continued)
# FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Primary Government | | |
|---|---|---|---|
| Functions/Programs | Governmental Activities | Business-Type Activities | Total |
| Primary Government: | | | |
| Governmental Activities: | | | |
| General government | $ 183,934 | $ - | $ 183,934 |
| Public safety | (2,445,639) | - | (2,445,639) |
| Parks and recreation | (220,965) | - | (220,965) |
| Public works | (453,591) | - | (453,591) |
| Streets and transportation | (409,704) | - | (409,704) |
| Community development | (606,546) | - | (606,546) |
| Interest on long-term debt | (97,966) | - | (97,966) |
| Total Governmental Activities | (4,050,477) | - | (4,050,477) |
| Business-Type Activities: | | | |
| Water Fund | - | (182) | (182) |
| Sewer Fund | - | (226,270) | (226,270) |
| Refuse Fund | - | (123,653) | (123,653) |
| McDermont Sports Complex Fund | - | (1,048,891) | (1,048,891) |
| Wellness Center Fund | - | (370,134) | (370,134) |
| Total Business-Type Activities | - | (1,769,130) | (1,769,130) |
| Total Primary Government | (4,050,477) | (1,769,130) | (5,819,607) |
| General Revenues: | | | |
| Property taxes | 525,930 | - | 525,930 |
| Sales tax | 686,467 | - | 686,467 |
| Utility users tax | 684,539 | - | 684,539 |
| Franchise tax | 11,365 | - | 11,365 |
| Transient occupancy tax | 56,941 | - | 56,941 |
| Other taxes | 2,125,525 | - | 2,125,525 |
| Note collections | 660,418 | - | 660,418 |
| Sale of assets | 7,946 | - | 7,946 |
| Other income | 212,843 | 34,366 | 247,209 |
| Unrestricted investment earnings | 92,699 | 25,463 | 118,162 |
| Transfers | (53,140) | 53,140 | - |
| Total General Revenues | 5,011,533 | 112,969 | 5,124,502 |
| Change in Net Position | 961,056 | (1,656,161) | (695,105) |
| Net Position - Beginning | 30,791,587 | 22,742,794 | 53,534,381 |
| Prior Period Adjustment | (5,699,173) | (1,464,725) | (7,163,898) |
| Net Position - Ending | $ 26,053,470 | $ 19,621,908 | $ 45,675,378 |

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2015**

| | General Fund | Community Development Fund | Local Transportation Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | $ 13,365 | $ 71,323 | $ 106,522 | $ 548,794 | $ 740,004 |
| Accounts receivable - net | 118,050 | - | - | 1,159 | 119,209 |
| Interest receivable | - | 99 | - | - | 99 |
| Prepaid expense | 59,953 | - | - | - | 59,953 |
| Due from other funds | - | 3,478,832 | 700,000 | 121,892 | 4,300,724 |
| Due from other governments | 274,384 | - | 101,011 | 10,955 | 386,350 |
| Notes receivable | 52,714 | 14,906,927 | - | 2,102 | 14,961,743 |
| Advances to other funds | 13,476,016 | 34,092 | - | - | 13,510,108 |
| Total Assets | $ 13,994,482 | $ 18,491,273 | $ 907,533 | $ 684,902 | $ 34,078,190 |
| Liabilities | | | | | |
| Accounts and other payables | $ 122,964 | $ 132,634 | $ - | $ 15,051 | $ 270,649 |
| Accrued wages | 218,388 | - | 269 | 4,645 | 223,302 |
| Due to other funds | 4,721,892 | - | - | - | 4,721,892 |
| Due to other governments | 891,177 | - | - | - | 891,177 |
| Unearned revenue | 59,267 | 14,906,927 | - | 2,102 | 14,968,296 |
| Advances from other funds | 2,849,628 | 5,142 | - | - | 2,854,770 |
| Refundable deposits | 9,462 | 3,655 | - | - | 13,117 |
| Total Liabilities | 8,872,778 | 15,048,358 | 269 | 21,798 | 23,943,203 |
| Fund Balances | | | | | |
| Nonspendable | 11,078,775 | 99 | 101,011 | 10,995 | 11,190,880 |
| Restricted | 52,714 | - | 434,124 | 33,075 | 519,913 |
| Committed | 317,908 | 959,368 | 372,129 | 19,332 | 1,668,737 |
| Assigned | - | 2,483,448 | - | 599,702 | 3,083,150 |
| Unassigned | (6,327,693) | - | - | - | (6,327,693) |
| Total Fund Balances | 5,121,704 | 3,442,915 | 907,264 | 663,104 | 10,134,987 |
| Total Liabilities and Fund Balances | $ 13,994,482 | $ 18,491,273 | $ 907,533 | $ 684,902 | $ 34,078,190 |

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**
**JUNE 30, 2015**

| | |
|---|---|
| Fund balances of governmental funds | $ 10,134,987 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | 45,844,624 |
| Accumulated depreciation has not been included in the governmental funds. | (21,590,191) |
| Deferred Outflows of Resources and Deferred Inflows of Resources<br>Deferred outflows of resources are not current assets or financial resources, and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the governmental funds. | |
| Deferred outflows of resources | 593,452 |
| Deferred inflows of resources | (1,218,223) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Certificates of participation | (1,736,081) |
| Compensated absences | (160,727) |
| Other postemployment benefits | (864,547) |
| Accrued interest payable on long-term debt | (18,444) |
| Net pension liability | (4,931,380) |
| Net position of governmental activities | $ 26,053,470 |

The notes to the financial statements are an integral part of this statement.

## CITY OF LINDSAY
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## GOVERNMENTAL FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | General Fund | Community Development Fund | Local Transportation Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Note collections | $ - | $ 652,576 | $ - | $ 7,842 | $ 660,418 |
| Property taxes | 525,930 | - | - | - | 525,930 |
| Other taxes | 3,498,003 | - | - | 66,834 | 3,564,837 |
| Licenses and permits | 312,030 | - | - | - | 312,030 |
| Intergovernmental | 162,417 | 525,355 | 683,150 | 477,032 | 1,847,954 |
| Charges for services | 37,328 | - | - | - | 37,328 |
| Fees and fines | 113,390 | - | - | - | 113,390 |
| Interest revenue | 2,783 | 89,266 | 371 | 279 | 92,699 |
| Other revenue | 99,113 | 74 | - | 266 | 99,453 |
| Total revenues | 4,750,994 | 1,267,271 | 683,521 | 552,253 | 7,254,039 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 1,001,451 | - | - | 38,422 | 1,039,873 |
| Public safety | 2,445,639 | - | - | - | 2,445,639 |
| Parks and recreation | 195,951 | - | - | 25,014 | 220,965 |
| Public works | 453,591 | - | - | - | 453,591 |
| Streets and transportation | 95,221 | - | - | 314,483 | 409,704 |
| Community development | - | 579,988 | 26,558 | - | 606,546 |
| Debt service: | | | | | |
| Principal | 16,371 | - | 64,400 | - | 80,771 |
| Interest and administrative charges | 41,011 | - | 57,740 | - | 98,751 |
| Capital outlay | 990,087 | - | 15,853 | - | 1,005,940 |
| Total expenditures | 5,239,322 | 579,988 | 164,551 | 377,919 | 6,361,780 |
| Excess (deficiency) of revenues over (under) expenditures | (488,328) | 687,283 | 518,970 | 174,334 | 892,259 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Sale of land | 7,946 | - | - | - | 7,946 |
| Transfers in | 1,323,425 | 538,213 | - | 9,898 | 1,871,536 |
| Transfers out | (1,325,810) | (330,348) | (158,518) | (110,000) | (1,924,676) |
| Total other financing sources (uses) | 5,561 | 207,865 | (158,518) | (100,102) | (45,194) |
| Net change in fund balances | (482,767) | 895,148 | 360,452 | 74,232 | 847,065 |
| Fund balances - beginning | 6,643,764 | 1,476,335 | 536,914 | 576,878 | 9,233,891 |
| Prior period adjustment | (1,039,293) | 1,071,432 | 9,898 | 11,994 | 54,031 |
| Fund balances - ending | $ 5,121,704 | $ 3,442,915 | $ 907,264 | $ 663,104 | $ 10,134,987 |

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**
**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, 2015**

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | $ | 847,065 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported as expenditures in the governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay $1,005,940 exceeded depreciation $(988,624) in the current period. | | 17,316 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | | |
| Change in accrued interest payable | | 785 |
| Pension expense | | 116,751 |
| Repayment of long-term debt is reported as an expenditure in the governmental funds. In the statement of net position, the repayment reduces long-term liabilities: | | |
| Bond and note principal | | 80,771 |
| Long-term compensated absences reported in the statement of activities are not reported as expenditures in the governmental funds. | | 4,754 |
| Amortization of net other postemployment benefits obligation activities to individual funds. | | (106,386) |
| Change in net position of governmental activities | $ | 961,056 |

The notes to the financial statements are an integral part of this statement.

# CITY OF LINDSAY
# STATEMENT OF NET POSITION
# PROPRIETARY FUNDS
# JUNE 30, 2015

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Water Fund | Sewer Fund | Refuse Fund | McDermont Sports Complex Fund |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 891,485 | $ 1,827,569 | $ - | $ - |
| Accounts receivable, net | 150,038 | 75,880 | 53,696 | 34,855 |
| Due from other funds | 540,000 | - | - | - |
| Due from other governments | 1,604 | - | - | - |
| Refundable deposits | - | - | - | - |
| Total current assets | 1,583,127 | 1,903,449 | 53,696 | 34,855 |
| Non-current assets | | | | |
| Capital assets | | | | |
| Construction in progress | - | 208,064 | - | - |
| Land | 68,377 | 230,143 | - | 217,413 |
| Buildings and improvements | 5,104,546 | 6,800,531 | - | 22,987,873 |
| Infrastructure | 9,137,056 | 12,602,765 | - | - |
| Equipment | 21,356 | 180,700 | - | 1,663,572 |
| Less accumulated depreciation | (5,272,157) | (8,398,989) | - | (4,131,132) |
| Total non-current assets | 9,059,178 | 11,623,214 | - | 20,737,726 |
| Total assets | 10,642,305 | 13,526,663 | 53,696 | 20,772,581 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows from pensions | 35,435 | 27,013 | 6,958 | 82,213 |
| Total Assets and Deferred Outflows of Resources | $ 10,677,740 | $ 13,553,676 | $ 60,654 | $ 20,854,794 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | | |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Cash overdraft | $ - | $ - | $ 32,367 | $ 2,774,382 |
| Accounts and other payables | 113,614 | 100,659 | 138,080 | 67,679 |
| Accrued wages | 8,464 | 6,514 | 1,561 | 32,073 |
| Accrued interest | 33,771 | 104,829 | - | 49,973 |
| Compensated absences payable | 5,241 | 4,796 | 880 | 9,825 |
| Unearned revenue | - | - | - | 110,000 |
| Refundable deposits | 37,073 | - | - | - |
| Long-term debt - current portion | 61,966 | 153,212 | - | 96,519 |
| Total current liabilities | 260,129 | 370,010 | 172,888 | 3,140,451 |
| Non-current liabilities | | | | |
| Other postemployment benefits | 86,339 | 74,427 | 23,507 | 476,738 |
| Net pension liability | 274,902 | 209,565 | 53,977 | 637,796 |
| Advances from other funds | - | - | - | 13,476,016 |
| Long-term debt | 1,876,565 | 8,313,089 | 1,761 | 1,533,105 |
| Total non-current liabilities | 2,237,806 | 8,597,081 | 79,245 | 16,123,655 |
| Total liabilities | 2,497,935 | 8,967,091 | 252,133 | 19,264,106 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows from pensions | 63,307 | 48,260 | 12,430 | 146,878 |
| NET POSITION | | | | |
| Net investment in capital assets | 7,131,129 | 3,166,506 | - | 19,127,752 |
| Unrestricted | 985,369 | 1,371,819 | (203,909) | (17,683,942) |
| Total net position | 8,116,498 | 4,538,325 | (203,909) | 1,443,810 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 10,677,740 | $ 13,553,676 | $ 60,654 | $ 20,854,794 |

The notes to the financial statements are an integral part of this statement.

# CITY OF LINDSAY
# STATEMENT OF NET POSITION (Continued)
# PROPRIETARY FUNDS
# JUNE 30, 2015

| | Business-Type Activities - Enterprise Funds | |
|---|---|---|
| | Wellness Center Fund | Total Proprietary Funds |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ - | $ 2,719,054 |
| Accounts receivable, net | 2,136 | 316,605 |
| Due from other funds | - | 540,000 |
| Due from other governments | - | 1,604 |
| Refundable deposits | 600 | 600 |
| Total current assets | 2,736 | 3,577,863 |
| Non-current assets | | |
| Capital assets | | |
| Construction in progress | - | 208,064 |
| Land | 181,326 | 697,259 |
| Buildings and improvements | 8,595,050 | 43,488,000 |
| Infrastructure | 824,260 | 22,564,081 |
| Equipment | - | 1,865,628 |
| Less accumulated depreciation | (762,010) | (18,564,288) |
| Total non-current assets | 8,838,626 | 50,258,744 |
| Total assets | 8,841,362 | 53,836,607 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows from pensions | 13,652 | 165,271 |
| Total Assets and Deferred Outflows of Resources | $ 8,855,014 | $ 54,001,878 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| LIABILITIES | | |
| Current liabilities | | |
| Cash overdraft | $ 102,559 | $ 2,909,308 |
| Accounts and other payables | 218,190 | 638,222 |
| Accrued wages | 7,520 | 56,132 |
| Accrued interest | 39,784 | 228,357 |
| Compensated absences payable | 2,193 | 22,935 |
| Unearned revenue | 368,577 | 478,577 |
| Refundable deposits | - | 37,073 |
| Long-term debt - current portion | 39,821 | 351,518 |
| Total current liabilities | 778,644 | 4,722,122 |
| Non-current liabilities | | |
| Other postemployment benefits | 108,307 | 769,318 |
| Net pension liability | 105,912 | 1,282,152 |
| Advances from other funds | - | 13,476,016 |
| Long-term debt | 2,110,577 | 13,835,097 |
| Total non-current liabilities | 2,324,796 | 29,362,583 |
| Total liabilities | 3,103,440 | 34,084,705 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows from pensions | 24,390 | 295,265 |
| NET POSITION | | |
| Net investment in capital assets | 6,692,614 | 36,118,001 |
| Unrestricted | (965,430) | (16,496,093) |
| Total net position | 5,727,184 | 19,621,908 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 8,855,014 | $ 54,001,878 |

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**
**STATEMENT OF REVENUES, EXPENSES, AND**
**CHANGES IN FUND NET POSITION**
**PROPRIETARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Water Fund | Sewer Fund | Refuse Fund | McDermont Sports Complex Fund |
| Operating revenues | | | | |
| Service fees | $ 1,489,680 | $ 1,132,689 | $ 856,064 | $ 1,793,052 |
| Total operating revenues | 1,489,680 | 1,132,689 | 856,064 | 1,793,052 |
| Operating expenses | | | | |
| Salaries | 253,323 | 191,270 | 50,528 | 962,635 |
| Benefits | 156,742 | 123,238 | 29,285 | 353,677 |
| Materials, services, and supplies | 734,382 | 458,201 | 899,904 | 1,080,956 |
| Depreciation and amortization | 279,225 | 388,068 | - | 515,442 |
| Total operating expenses | 1,423,672 | 1,160,777 | 979,717 | 2,912,710 |
| Operating income (loss) | 66,008 | (28,088) | (123,653) | (1,119,658) |
| Nonoperating revenues (expenses) | | | | |
| Intergovernmental | - | - | - | 164,325 |
| Other income | 23 | - | - | - |
| Interest earnings | - | - | - | 21,240 |
| Interest expense | (66,190) | (198,182) | - | (93,558) |
| Total nonoperating revenues (expenses) | (66,167) | (198,182) | - | 92,007 |
| Other financing sources (uses) | | | | |
| Transfers in | 71,660 | - | 78,154 | - |
| Transfers out | (56,456) | (10,785) | (18,120) | - |
| Total other financing sources (uses) | 15,204 | (10,785) | 60,034 | - |
| Change in net position | 15,045 | (237,055) | (63,619) | (1,027,651) |
| Total net position - beginning | 8,415,500 | 5,014,786 | (78,627) | 3,200,077 |
| Prior period adjustment | (314,047) | (239,406) | (61,663) | (728,616) |
| Total net position - ending | $ 8,116,498 | $ 4,538,325 | $ (203,909) | $ 1,443,810 |

The notes to the financial statements are an integral part of this statement.

# CITY OF LINDSAY
# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (Continued)
# PROPRIETARY FUNDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Business-Type Activities - Enterprise Funds | |
|---|---|---|
| | Wellness Center Fund | Total Proprietary Funds |
| Operating revenues | | |
| Service fees | $ 133,521 | $ 5,405,006 |
| Total operating revenues | 133,521 | 5,405,006 |
| Operating expenses | | |
| Salaries | 172,772 | 1,630,528 |
| Benefits | 70,704 | 733,646 |
| Materials, services, and supplies | 235,285 | 3,408,728 |
| Depreciation and amortization | 188,385 | 1,371,120 |
| Total operating expenses | 667,146 | 7,144,022 |
| Operating income (loss) | (533,625) | (1,739,016) |
| Nonoperating revenues (expenses) | | |
| Intergovernmental | 257,036 | 421,361 |
| Other income | 34,343 | 34,366 |
| Interest earnings | 4,223 | 25,463 |
| Interest expense | (93,545) | (451,475) |
| Total nonoperating revenues (expenses) | 202,057 | 29,715 |
| Other financing sources (uses) | | |
| Transfers in | - | 149,814 |
| Transfers out | (11,313) | (96,674) |
| Total other financing sources (uses) | (11,313) | 53,140 |
| Change in net position | (342,881) | (1,656,161) |
| Total net position - beginning | 6,191,058 | 22,742,794 |
| Prior period adjustment | (120,993) | (1,464,725) |
| Total net position - ending | $ 5,727,184 | $ 19,621,908 |

The notes to the financial statements are an integral part of this statement.

# CITY OF LINDSAY
## STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Business-Type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Water Fund | Sewer Fund | Refuse Fund |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | $ 1,777,703 | $ 2,584,565 | $ 838,001 |
| Payments to employees | (407,110) | (313,515) | (80,275) |
| Payments to suppliers | (806,795) | (405,339) | (831,864) |
| Net cash provided (used) by operating activities | 563,798 | 1,865,711 | (74,138) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Grant income | - | - | - |
| Other income | 23 | - | - |
| Transfers in | 71,660 | - | 78,154 |
| Transfers out | (56,456) | (10,785) | (18,120) |
| Net cash provided (used) by noncapital financing activities | 15,227 | (10,785) | 60,034 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of capital assets | (248,021) | - | - |
| Capital expenditures | - | (221,654) | - |
| Interest paid on long-term debt | (66,190) | (149,397) | - |
| Principal payments on long-term debt | (59,550) | (198,182) | - |
| Net cash used by capital and related financing activities | (373,761) | (569,233) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | - | - | |
| Net cash provided by investing activities | - | - | - |
| Net increase (decrease) in cash and cash equivalents | 205,264 | 1,285,693 | (14,104) |
| Balances - beginning of year | 686,221 | 541,876 | (18,263) |
| Balances - end of the year | $ 891,485 | $ 1,827,569 | $ (32,367) |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | $ 66,008 | $ (28,088) | $ (123,653) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 279,225 | 388,068 | - |
| Changes in assets and liabilities: | | | |
| (Increase) Decrease in receivables | 29,627 | (48,124) | (18,063) |
| (Increase) Decrease in due from other funds | 260,000 | 1,500,000 | - |
| (Increase) Decrease in due from other governments | (1,604) | - | - |
| (Increase) Decrease in deferred outflows - deferred pension | (35,435) | (27,013) | (6,958) |
| Increase (Decrease) in accounts payable | (81,025) | 52,862 | 68,040 |
| Increase (Decrease) in due to other funds | - | - | - |
| Increase (Decrease) in compensated absences | 888 | - | (950) |
| Increase (Decrease) in net postemployment benefits | 13,340 | 10,132 | 2,702 |
| Increase (Decrease) in customer deposits | 8,612 | (545) | - |
| Increase (Decrease) in unearned revenue | - | - | - |
| Increase (Decrease) in salaries and benefits payable | - | - | - |
| Increase (Decrease) in net pension liability | (39,145) | (29,841) | (7,686) |
| Increase (Decrease) in deferred inflows - deferred pension | 63,307 | 48,260 | 12,430 |
| Net cash provided (used) by operating activities | $ 563,798 | $ 1,865,711 | $ (74,138) |

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**
**STATEMENT OF CASH FLOWS (Continued)**
**PROPRIETARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | Business-Type Activities - Enterprise Funds | | |
|---|---|---|---|
| | McDermont Sports Complex Fund | Wellness Center Fund | Total Proprietary Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | $ 1,877,197 | $ (127,072) | $ 6,950,394 |
| Payments to employees | (1,321,606) | (242,585) | (2,365,091) |
| Payments to suppliers | (1,243,205) | 88,946 | (3,198,257) |
| Net cash provided (used) by operating activities | (687,614) | (280,711) | 1,387,046 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Grant income | 164,325 | 257,036 | 421,361 |
| Other income | 21,240 | 38,565 | 59,828 |
| Transfers in | - | - | 149,814 |
| Transfers out | - | (11,312) | (96,673) |
| Net cash provided (used) by noncapital financing activities | 185,565 | 284,289 | 534,330 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of capital assets | (148,373) | - | (396,394) |
| Capital expenditures | - | - | (221,654) |
| Interest paid on long-term debt | (93,558) | (38,197) | (347,342) |
| Principal payments on long-term debt | (96,519) | (93,545) | (447,796) |
| Net cash used by capital and related financing activities | (338,450) | (131,742) | (1,413,186) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | - | - | - |
| Net cash provided by investing activities | - | - | - |
| Net increase (decrease) in cash and cash equivalents | (840,499) | (128,164) | 508,190 |
| Balances - beginning of year | (1,933,883) | 25,605 | (698,444) |
| Balances - end of the year | $ (2,774,382) | $ (102,559) | $ (190,254) |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | $ (1,119,658) | $ (533,625) | $ (1,739,016) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 515,442 | 188,432 | 1,371,167 |
| Changes in assets and liabilities: | | | |
| (Increase) Decrease in receivables | (25,855) | (2,136) | (64,551) |
| (Increase) Decrease in due from other funds | - | 314,948 | 2,074,948 |
| (Increase) Decrease in due from other governments | - | - | (1,604) |
| (Increase) Decrease in deferred outflows - deferred pension | (82,213) | (13,652) | (165,271) |
| Increase (Decrease) in accounts payable | 5,575 | 9,236 | 54,688 |
| Increase (Decrease) in due to other funds | (167,824) | - | (167,824) |
| Increase (Decrease) in compensated absences | - | (2,034) | (2,096) |
| Increase (Decrease) in net postemployment benefits | 31,071 | 5,234 | 62,479 |
| Increase (Decrease) in customer deposits | - | - | 8,067 |
| Increase (Decrease) in unearned revenue | 110,000 | (256,423) | (146,423) |
| Increase (Decrease) in salaries and benefits payable | (10,210) | - | (10,210) |
| Increase (Decrease) in net pension liability | (90,820) | (15,081) | (182,573) |
| Increase (Decrease) in deferred inflows - deferred pension | 146,878 | 24,390 | 295,265 |
| Net cash provided (used) by operating activities | $ (687,614) | $ (280,711) | $ 1,387,046 |

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**
**STATEMENT OF FIDUCIARY NET POSITION (DEFICIT)**
**FIDUCIARY FUND**
**JUNE 30, 2015**

| | Private-Purpose Trust Fund |
|---|---|
| ASSETS | |
| Current assets | |
| Notes receivable | $ 1,398,495 |
| Land held for resale | 1,705,000 |
| Advances to the City | 2,820,678 |
| Premium on Bond Insurance | 231,981 |
| Total assets | 6,156,154 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred pension | 370 |
| Total deferred outflows of resources | 370 |
| LIABILITIES | |
| Cash overdraft | 127,251 |
| Accounts payable | 19,019 |
| Unearned revenue | 1,398,495 |
| Due to City funds | 118,832 |
| Accrued interest payable | 573,988 |
| Long-term debt | |
| Due within one year | 320,000 |
| Due in more than one year | 17,620,000 |
| Net pension liabilities | 2,866 |
| Total liabilities | 20,180,451 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred pension | 660 |
| Deferred gain on refunding of debt | 532,485 |
| Total deferred inflows of resources | 533,145 |
| NET POSITION (DEFICIT) | |
| Net position (deficit) held in trust | $ (14,557,072) |

The notes to the financial statements are an integral part of this statement.

# CITY OF LINDSAY
## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
## FIDUCIARY FUND
## FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Private-Purpose Trust Fund |
|---|---|
| ADDITIONS | |
| Redevelopment Agency Property Tax Trust Fund | $ 1,454,562 |
| Loan repayments | 7,220 |
| Other income | 415,288 |
| Total additions | 1,877,070 |
| DEDUCTIONS | |
| Administrative expenses | 31,330 |
| Bond issurance costs | 365,976 |
| Interest on long-term debt | 871,241 |
| Total deductions | 1,268,547 |
| Change in net position before transfers | 608,523 |
| Transfers in | 475,911 |
| Transfers out | (475,911) |
| Change in net position | 608,523 |
| Net position, beginning | (15,162,319) |
| Prior period adjustment | (3,276) |
| Net position, beginning, restated | (15,165,595) |
| Net position, ending | $ (14,557,072) |

The notes to the financial statements are an integral part of this statement.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the City of Lindsay (the City) are prepared in conformity with accounting principles generally accepted in the United States of America. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The accompanying financial statements are presented on the basis set forth in GASB Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*; No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*; No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting.

**NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>** (Continued)

C. <u>Measurement Focus, Basis of Accounting, and Financial Statement Presentation</u> (Continued)

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

The City reports the following major governmental funds:

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

- The *Community Development Fund* accounts for all financial transactions having to do with the Community Development Block Grant Program and First-Time Homebuyers Program of the Federal Department of Housing and Urban Development for low-interest housing rehabilitation and mortgage assistance loans.

- The *Local Transportation Fund* accounts for Transportation Development Act funds for the development and support of public transportation needs.

The City reports the following major proprietary funds:

- The *Water Fund* accounts for the activities of the water distribution system.

- The *Sewer Fund* accounts for the activities of the sewage pumping stations, treatment plant, and laboratory.

- The *Refuse Fund* accounts for the activities of the refuse collection and recycling.

- The *McDermont Sports Complex Fund* accounts for the activities of the McDermont Field House Sports and Recreation Center (McDermont Sports Complex).

- The *Wellness Center Fund* accounts for the activities of the Wellness Center and Aquatic Center.

Additionally, the City reports the following fiduciary fund type:

- The *Private-Purpose Trust Fund* is used to account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this general rule are the fleet management and the risk management charges to the enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include:

1) charges to customers or applicants for goods, services, or privileges provided;
2) operating grants and contributions; and
3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>** (Continued)

C. <u>Measurement Focus, Basis of Accounting, and Financial Statement Presentation</u> (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the utility system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Revenue – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis of accounting when the exchange takes place. On a modified accrual basis of accounting, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned Revenue**

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements from federal and state projects and programs received before eligibility requirements are met are recorded as unearned revenue. On the governmental funds financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

**Deferred Outflows of Resources and Inflows of Resources**

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate schedule for deferred outflows of resources. Deferred outflows of resources are defined as a consumption of net position by the City that is applicable to a future reporting period.

In addition to liabilities, the Statement of Net Position will sometimes report a separate schedule for deferred inflows of resources. Deferred inflows of resources are defined as an acquisition of net position by the City that is applicable to a future reporting period. The City is reporting deferred pension in this category.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

D. Budgetary Information

Annual budgets are legally required to be, and are, adopted by the City Council for all funds and provide for operations, debt service, and capital expenditures of the City. Budgetary accounting controls do not include the use of encumbrances.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgets for the governmental funds are presented in the accompanying basic financial statements on a basis consistent with accounting principles generally accepted in the United States of America.

E. Restricted Assets

Restricted assets are the result of Urban Development Action Grants received in prior years that were allowed to remain in the City for additional revolving loans.

F. Cash, Cash Equivalents, and Investments

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. City investment policy authorizes investment in the State of California Local Agency Investment Fund to a maximum of $10,000,000, and certificates of deposit and U.S. Governmental Securities with maturities not exceeding five years.

California banks and savings and loan associations are required to secure a city's deposits by pledging government securities as collateral. The fair value of the pledged securities must equal at least 110 percent of a city's deposits. The City Treasurer, at his or her discretion, may waive the 110 percent collateral requirement for deposits that are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). It is the City's policy to waive the collateral requirement in order to receive a higher interest yield on its deposits. It is also the City's policy not to deposit more than $250,000 in a savings and loan association or a small bank.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. Cash, Cash Equivalents, and Investments (Continued)

California law allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150 percent of a city's total deposits. It is the City's policy not to accept this form of collateral.

G. Accounts Receivable

The enterprise funds use the reserve method of accounting for bad debts. Delinquent accounts that are closed have a lien placed upon the property.

H. Inventory and Prepaids

Governmental funds inventories are valued at average cost using the first-in/first-out (FIFO) method and are recorded as expenditures when consumed rather than when purchased. Business-type funds inventories are stated at cost using the FIFO method and consist of expendable materials and supplies.

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

Fund balance is reserved for inventories and prepaids, if any, to indicate that a portion of fund balance is not available for appropriation and not expendable, available financial resources.

Inventory in proprietary funds is comprised of supplies for resale and are slated at the lower of cost or market on a FIFO basis.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Buildings and improvements | 50 |
| Public domain infrastructure | 50 |
| System infrastructure | 30 |
| Vehicles | 5 |
| Office equipment | 5 |
| Computer equipment | 5 |

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. Investment in Property

The investment in property is recorded at cost and evaluated annually for impairment.

K. Compensated Absences

Accumulated vested unpaid employee vacation and compensatory time-off benefits are recognized as liabilities of the City. Governmental funds recognize the current portion of the liabilities at year-end, while the non-current portion of these liabilities is recognized in the general long-term debt account group. Proprietary funds record the full liability as the vested benefits to the employees accrue.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the City since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that the sick leave is taken.

L. Self-Insurance

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The purpose of this group is to minimize the expense for liability and workers' compensation insurance for the cities of the central San Joaquin Valley of California. The City is self-insured up to $125,000 through the CSJVRMA and outside insurance is purchased by the CSJVRMA to extend the coverage to $10,000,000.

M. Property Taxes

Tulare County is responsible for the assessment, collection, and apportionment of property taxes for all taxing jurisdictions. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and March 1. Unsecured property taxes are payable in one installment on or before August 31. Property taxes are accounted for in the General Fund, the Private-Purpose Trust Fund (formally the City's Redevelopment Agency), the Redevelopment Agency Capital Projects Fund, and the Redevelopment Agency Low and Moderate Income Housing Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities.

The City is permitted by Article XIIIA of the State of California Constitution (Proposition 13) to levy a maximum tax of 1% of assessed value, plus other increases as approved by the voters.

N. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

O. Use of Estimates

City management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, and reported revenue and expenditures. Actual results could vary from the estimates that management uses.

P. Postemployment Benefits Other than Pensions

The City accounts for health insurance premiums on a pay as you go basis.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Q. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable** - Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- **Restricted** - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the City itself, using the City's highest level of decision-making authority (the City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** - Amounts the City *intends* to use for a specific purpose. Intent can be expressed by the City at either the highest level of decision-making authority or by an official or body to which the City delegates the authority. This is also the classification for residual funds in the City's special revenue funds.
- **Unassigned** - The residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The City strives to achieve and maintain unrestricted fund balance in the General Fund sufficient to cover approximately 6 months of working capital at the close of each fiscal year, which exceeds the recommended level (approximately 60 days working capital) promulgated by the Government Finance Officers Association (GFOA).

R. Current Governmental Accounting Standards Board Statements – Implemented Pronouncements

For the fiscal year ended June 30, 2015, the City implemented the following GASB standards:

**GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014, or for City financial statements for the fiscal year ended June 30, 2015. The provisions of this statement were implemented in the current financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

R. Current Governmental Accounting Standards Board Statements – Implemented Pronouncements (Continued)

**GASB Statement No. 69** – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The implementation of this statement did not change the accounting or affect the City's financial statements.

**GASB Statement No. 71** – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The provisions of this statement will be applied simultaneously with the provisions of GASB Statement 68.

S. Future Governmental Accounting Standards Board Statements

In addition, GASB issued the following statements during the year:

**GASB Statement No. 72** – *Fair Value Measurement and Application.* The provisions of GASB Statement No. 72 are effective for financial statements beginning June 15, 2015. The City has not fully judged the effect of the implementation of GASB Statement No. 72 as of the date of the basic financial statements.

**GASB Statement No. 73 –** *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The City has not fully judged the effect of the implementation of GASB Statement No. 73 as of the date of the basic financial statements.

**GASB Statement No. 74** – *Financial Reporting for Postemployment Benefits Other than Pension Pla*ns. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The City has not fully judged the effect of the implementation of GASB Statement No. 74 as of the date of the basic financial statements.

**GASB Statement No. 75 –** *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The City has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

**GASB Statement No. 76 –** *Hierarchy of Accounting Principles Generally Accepted in the United States of America for State and Local Governments*. The provisions of this statement are effective for fiscal years beginning after June 15, 2015. The City has not fully judged the effect of the implementation of GASB Statement No. 76 as of the date of the basic financial statements.

**GASB Statement No. 77 –** *Tax Abatement Disclosures*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The City has not fully judged the effect of the implementation of GASB Statement No. 77 as of the date of the basic financial statements.

**GASB Statement No. 78 –** *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The requirements of this statement are effective for fiscal years beginning after December 15, 2015. The City has not fully judged the effect of the implementation of GASB Statement No. 78 as of the date of the basic financial statements.

**NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>** (Continued)

S. <u>Future Governmental Accounting Standards Board Statements</u> (Continued)

**GASB Statement No. 79** – *Certain External Investment Pools and Pool Participants.* The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The City has not fully judged the effect of the implementation of GASB Statement No. 79 as of the date of the basic financial statements.

**GASB Statement No. 80** – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged. The City has not fully judged the effect of the implementation of GASB Statement No. 80 as of the date of the basic financial statements.

**GASB Statement No. 81** – *Irrevocable Split-Interest Agreements.* The requirements of this statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged. The City has not fully judged the effect of the implementation of GASB Statement No. 81 as of the date of the basic financial statements.

**GASB Statement No. 82** – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The City has not fully judged the effect of the implementation of GASB Statement No. 82 as of the date of the basic financial statements.

**NOTE 2 – <u>CASH, CASH EQUIVALENTS, AND INVESTMENTS</u>**

*Cash, cash equivalents, and investments*

Cash, cash equivalents, and investments are reported in the accompanying financial statements as follows:

| | Governmental Funds | Enterprise Funds | Private-Purpose Trust Fund | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 740,004 | $ 2,719,054 | $ - | $ 3,459,058 |
| Cash overdraft | - | (2,909,308) | (127,251) | (3,036,559) |
| Total cash and cash equivalents | $ 740,004 | $ (190,254) | $ (127,251) | $ 422,499 |

Cash, cash equivalents, and investments as of June 30, 2015, consist of the following:

| | |
|---|---|
| Deposits with fiscal institutions | $ 322,331 |
| Investments - Local Agency Investment Fund (LAIF) | 100,168 |
| Total cash and cash equivalents | $ 422,499 |

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

*Investments authorized by the California Government Code and the City's investment policy*

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury Securities | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Bankers Acceptances | 270 days | 30% | 30% |
| Certificates of Deposit | 5 years | None | 10% |
| Passbook Deposits | N/A | None | None |
| Repurchase Agreements | 1 year | 30% | None |
| Mutual Funds | N/A | 15% | None |
| Money Market Mutual Funds | N/A | 25% | 10% |
| Commercial Paper | 180 days | 30% | None |
| Local Agency Investment Fund (LAIF) | On demand | None | None |

*Disclosures relating to interest rate risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

| | | Remaining Maturity (in months) | | | |
|---|---|---|---|---|---|
| Investment Type | Total | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months |
| LAIF | $ 100,168 | $ 100,168 | $ - | $ - | $ - |
| Total | $ 100,168 | $ 100,168 | $ - | $ - | $ - |

*Investments with fair values highly sensitive to interest rate fluctuations*

The City's investment policy does not permit investment in securities that are highly sensitive to interest rate fluctuations.

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

*Disclosures relating to credit risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the City's investment policy or debt agreements, and the actual rating as of year-end for each investment type.

| Investment Type | Amount | Minimum Legal Rating | AAA | Aa | Not Rated |
|---|---|---|---|---|---|
| LAIF | $ 100,168 | N/A | $ - | $ - | $ 100,168 |
| Total | $ 100,168 | | $ - | $ - | $ 100,168 |

*Concentration of credit risk*

The investment policy of the City contains certain limitations on the amount that can be invested in any one issuer. The City did not have investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) at June 30, 2015.

*Custodial credit risk*

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

> The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2015, the City's deposits with financial institutions did not exceed FDIC limits and were held in collateralized accounts.

*Investment in State Investment Pool*

The City is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City'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, which are recorded on an amortized cost basis.

## NOTE 3 – INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2015, are as follows:

| | Due from Other Funds | Due to Other Funds |
|---|---|---|
| General Fund | $ - | $ 4,721,892 |
| Community Development Fund | 3,478,832 | - |
| Local Transportation Fund | 700,000 | - |
| Gas Tax Fund | 100,000 | - |
| Transit Fund | 21,892 | - |
| Water Fund | 540,000 | - |
| Private-Purpose Trust Fund | - | 118,832 |
| | $ 4,840,724 | $ 4,840,724 |

## NOTE 4 – TRANSFERS IN AND OUT

The purpose of the majority of transfers is to reimburse a fund which has made expenditures on behalf of another fund. Transfers between funds during the fiscal year ended June 30, 2015, were as follows:

| | Purpose | Transfers In | Transfers Out |
|---|---|---|---|
| Governmental Activities: | | | |
| General Fund | Tulare County Transit Authority - Principal and Interest | $ 1,323,425 | $ - |
| General Fund | Transfer to Other Funds | - | 1,325,810 |
| Community Development Fund | Capital Improvement | 538,213 | 330,348 |
| Local Transportation Fund | Streets Projects - Local Transportation Funds | - | 158,518 |
| Gas Tax Fund | Streets Projects - Surface Transportation Program | 9,898 | 110,000 |
| Total Governmental Activities | | 1,871,536 | 1,924,676 |
| Business-Type Activities: | | | |
| Wellness Center Fund | To Apply to Aquatic Center Expenses | - | 11,313 |
| Refuse Fund | To Eliminate Fund Deficit | 78,154 | - |
| Refuse Fund | Transfers to Other Funds | - | 18,120 |
| Water Fund | To Transfer Capital Asset Expenditures | 71,660 | - |
| Water Fund | Transfers to Other Funds | - | 56,456 |
| Sewer Fund | Transfers to Other Funds | - | 10,785 |
| Total Business-Type Activities | | 149,814 | 96,674 |
| Total Transfers | | $ 2,021,350 | $ 2,021,350 |

## NOTE 5 – ADVANCES TO AND FROM OTHER FUNDS

Interfund advances from and to other fund balances at June 30, 2015, are as follows:

| | Advances To | Advances From |
|---|---|---|
| General Fund | $ 13,476,016 | $ 2,849,628 |
| Community Development Fund | 34,092 | 5,142 |
| McDermont Sports Complex Fund | - | 13,476,016 |
| Private-Purpose Trust Fund | 2,820,678 | - |
| | $ 16,330,786 | $ 16,330,786 |

The advances from the General Fund were used to help build the McDermont Sports Complex and revenue earned at the complex will be used to pay back the advance.

The advances to the General Fund were funds that were used to help with various Downtown projects and for land transactions that occurred between the former City of Lindsay Redevelopment Agency and the City.

## NOTE 6 – NOTES RECEIVABLE

The following are notes receivable recorded in various funds at June 30, 2015:

| | General Fund | Community Development Fund | Curb and Gutter Fund | Private-Purpose Trust Fund | Total |
|---|---|---|---|---|---|
| Individuals<br>7% unsecured notes with annual principal and interest payments of $5,002. | $ - | $ - | $ 2,102 | $ - | $ 2,102 |
| Business loans | 52,714 | - | - | - | 52,714 |
| Non-interest and below-market rate secured notes with deferred payments of monthly principal and interest. Collateralized by trust deeds on improved property. | - | 14,906,927 | - | 1,398,495 | 16,305,422 |
| | $ 52,714 | $ 14,906,927 | $ 2,102 | $ 1,398,495 | $ 16,360,238 |

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, was as follows:

| **Governmental activities:** | June 30, 2014 Balance | Prior Period Adjustment | Additions | Deletions | June 30, 2015 Balance |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ 771,699 | $ - | $ - | $ - | $ 771,699 |
| Construction in progress | 15,966 | - | 11,898 | (27,864) | - |
| Total capital assets, not being depreciated | 787,665 | - | 11,898 | (27,864) | 771,699 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 3,985,066 | - | - | - | 3,985,066 |
| Improvements other than buildings | 36,896,784 | - | 1,021,906 | - | 37,918,690 |
| Machinery and equipment | 3,169,169 | - | - | - | 3,169,169 |
| Total capital assets, being depreciated | 44,051,019 | - | 1,021,906 | - | 45,072,925 |
| Less accumulated depreciation for: | | | | | |
| Buildings | (1,077,535) | - | (73,021) | - | (1,150,556) |
| Improvements other than buildings | (16,699,378) | - | (764,312) | - | (17,463,690) |
| Machinery and equipment | (2,744,352) | (80,302) | (151,291) | - | (2,975,945) |
| Total accumulated depreciation | (20,521,265) | (80,302) | (988,624) | - | (21,590,191) |
| Total capital assets, being depreciated, net | 23,529,754 | (80,302) | 33,282 | - | 23,482,734 |
| Governmental activities capital assets, net | $ 24,317,419 | $ (80,302) | $ 45,180 | $ (27,864) | $ 24,254,433 |

| | June 30, 2014 Balance | Prior Period Adjustment | Additions | Deletions | June 30, 2015 Balance |
|---|---|---|---|---|---|
| **Business-type activities:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 683,671 | $ - | $ 13,588 | $ - | $ 697,259 |
| Construction in progress | 32,369 | - | 456,092 | (280,397) | 208,064 |
| Total capital assets, not being depreciated | 716,040 | - | 469,680 | (280,397) | 905,323 |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 43,488,000 | - | - | - | 43,488,000 |
| Improvements other than buildings | 22,202,546 | 81,138 | 280,397 | - | 22,564,081 |
| Machinery and equipment | 1,801,926 | (81,138) | 144,840 | - | 1,865,628 |
| Total capital assets, not being depreciated | 67,492,472 | - | 425,237 | - | 67,917,709 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (7,228,941) | - | (869,760) | | (8,098,701) |
| Improvements other than buildings | (8,424,974) | - | (445,675) | | (8,870,649) |
| Machinery and equipment | (1,542,734) | - | (52,204) | | (1,594,938) |
| Total accumulated depreciation | (17,196,649) | - | (1,367,639) | - | (18,564,288) |
| Total capital assets, being depreciated, net | 50,295,823 | - | (942,402) | - | 49,353,421 |
| Business-type activities capital assets, net | $ 51,011,863 | $ - | $ (472,722) | $ (280,397) | $ 50,258,744 |

**NOTE 7 – CAPITAL ASSETS** (Continued)

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

| | | |
|---|---|---|
| Governmental activities: | | |
| General government | $ | 988,624 |
| Total depreciation expense - governmental activities | $ | 988,624 |
| Business-type activities: | | |
| Water Fund | $ | 279,225 |
| Sewer Fund | | 388,068 |
| McDermont Sport Complex Fund | | 511,961 |
| Wellness Center Fund | | 188,385 |
| Total depreciation expense - business-type activities | $ | 1,367,639 |

**NOTE 8 – LONG-TERM DEBT**

Governmental Activities

**Certificates of Participation (COP)**

On October 1, 2008, the City entered into a COP with the United States Department of Agriculture Rural Development Agency (USDA RD) for Tulare Road in the amount of $1,600,000. The COP has annual principal and interest of approximately $120,000 a year at 4.5% through 2029. As of June 30, 2015, the balance of the COP was $1,250,907.

On May 12, 2010, the City entered into a COP with the USDA RD for the construction of the Library Project in the amount of $750,000. The COP has annual principal and interest payments of approximately $37,000 a year at 4.125% through 2040. As of June 30, 2015, the balance of the COP was $485,174.

Business-Type Activities

**Certificates of Participation**

On June 20, 2007, the City entered into a COP with USDA RD for the Wellness Center in the amount of $1,130,689. The total amount of the COP will be $3,000,000 if totally drawn. The Wellness Center Fund has annual principal and interest payments of approximately $129,000 a year at 4.25% through 2032. As of June 30, 2015, the balance of the COP was $2,146,012.

**Revenue Bonds Payable**

On June 1, 1993, the City refinanced with the California Statewide Communities Development Authority (CSCDA) an existing loan that assisted in financing construction of a project, which enables the City to meet safe drinking water standards. The bond amount of $197,054 at 7.125% has semi-annual principal and interest payments of $8,377 through June 1, 2019. The bond is secured by a first pledge of a lien on all of the pledged water revenues. As of June 30, 2015, the balance of the revenue bond was $57,433.

On November 5, 1999, the City entered into a revenue bond with the USDA RD for the Waste Water Treatment Plant Project for $7,000,000. The annual principal and interest payments of $323,470 at 3.25% are through November 27, 2039. As of June 30, 2015, the balance due was $5,477,298.

On December 11, 2000, the City entered into a revenue bond with the USDA RD for the Water Line Project for $2,440,000. The annual principal and interest payments of $109,874 at 3.25% are through December 11, 2040. As of June 30, 2015, the balance due was $1,870,616.

**NOTE 8 – LONG-TERM DEBT** (Continued)

Business-Type Activities (Continued)

**Revenue Bonds Payable** (Continued)

On June 22, 2004, the City entered into a revenue bond with the USDA RD for the Waste Water Project for $480,000. The annual principal and interest payments of $25,623 at 4.375% are through June 28, 2040. As of June 30, 2015, the balance due was $408,429.

On November 1, 2012, the City entered into a refunding bond with US Bank National Association for refunding of the City's $1,500,000 Mid Valley Services, Inc., promissory note dated November 19, 2009. The annual principal payments are due annually beginning on January 1, 2014. Interest ranging from 4.0% to 6.4% on the bonds is payable on January 1st and July 1st of each year, commencing on July 1, 2013. As of June 30, 2015, the balance due was $1,650,000.

The annual requirements to amortize all debt outstanding as of June 30, 2015, including interest, are as follows:

| | Governmental Activities | | |
|---|---|---|---|
| | Certificates of Participation | | |
| Year Ended June 30, | 2008 USDA RD Roads COP | 2010 USDA RD Library COP | Total |
| 2016 | $ 120,110 | $ 37,039 | $ 157,149 |
| 2017 | 119,801 | 37,018 | 156,819 |
| 2018 | 119,479 | 36,996 | 156,475 |
| 2019 | 119,143 | 36,973 | 156,116 |
| 2020 | 118,793 | 36,949 | 155,742 |
| 2021-2025 | 588,176 | 184,350 | 772,526 |
| 2026-2030 | 349,161 | 183,590 | 532,751 |
| 2031-2035 | - | 182,667 | 182,667 |
| 2036-2040 | - | 147,594 | 147,594 |
| | 1,534,663 | 883,176 | 2,417,839 |
| Less interest | (283,756) | (398,002) | (681,758) |
| | $ 1,250,907 | $ 485,174 | $ 1,736,081 |

| | Business-Type Activities | | | | | | |
|---|---|---|---|---|---|---|---|
| | Revenue Bonds Payable | | | | COPs | Lease Revenue | |
| Year Ended June 30, | 1993 CSCDA Refunding Bonds | 1999 USDA RD Waste Water | 2000 USDA RD Water Line | 2004 USDA RD Waste Water | 2007 USDA RD Wellness Center | 2012 Refunding Bonds | Total |
| 2016 | $ 16,754 | $ 323,470 | $ 109,874 | $ 25,623 | $ 129,334 | $ 193,700 | $ 798,755 |
| 2017 | 16,754 | 323,470 | 109,874 | 25,623 | 129,262 | 194,200 | 799,183 |
| 2018 | 16,754 | 323,470 | 109,874 | 25,623 | 129,187 | 194,475 | 799,383 |
| 2019 | 16,754 | 323,470 | 109,874 | 25,623 | 129,108 | 194,250 | 799,079 |
| 2020 | - | 323,470 | 109,874 | 25,623 | 129,027 | 198,213 | 786,207 |
| 2020-2024 | - | 1,617,350 | 549,370 | 128,115 | 643,787 | 985,938 | 3,924,560 |
| 2026-2030 | - | 1,617,350 | 549,370 | 128,115 | 641,162 | 394,063 | 3,330,060 |
| 2031-2035 | - | 1,617,350 | 549,370 | 128,115 | 637,931 | - | 2,932,766 |
| 2036-2040 | - | 1,613,807 | 570,692 | 128,115 | 633,952 | - | 2,946,566 |
| 2041-2045 | - | - | - | 74,693 | 629,052 | - | 703,745 |
| 2046-2049 | - | - | - | - | 374,538 | - | 374,538 |
| | 67,016 | 8,083,207 | 2,768,172 | 715,268 | 4,206,340 | 2,354,839 | 18,194,842 |
| Less interest | (9,583) | (2,605,909) | (897,556) | (306,839) | (2,060,328) | (704,839) | (6,585,054) |
| | $ 57,433 | $ 5,477,298 | $ 1,870,616 | $ 408,429 | $ 2,146,012 | $ 1,650,000 | $ 11,609,788 |

**NOTE 8 – LONG-TERM DEBT** (Continued)

Operating Lease

On March 20, 2012, the City entered into an agreement with Ray Morgan Company to lease four copier machines. The lease expires in June 2017.

The future minimum lease payments under the operating lease at June 30, 2015, were as follows:

| Operating Lease | |
|---|---|
| Year Ending June 30, | Amount |
| 2016 | $ 7,320 |
| 2017 | 5,490 |
| Total | $ 12,810 |

A schedule of changes in long-term debt for the year ended June 30, 2015, is shown below:

| Governmental Activities | Adjusted Balance July 1, 2014 | Additions/ Adjustments | Deductions | Balance June 30, 2015 | Due Within One Year |
|---|---|---|---|---|---|
| Certificates of Participation (COP) | | | | | |
| 2008 USDA RD Roads COP | $ 1,315,307 | $ - | $ 64,400 | $ 1,250,907 | $ 67,136 |
| 2010 USDA RD Library COP | 501,545 | - | 16,371 | 485,174 | 17,026 |
| Compensated Absences | 165,481 | 136,659 | 141,413 | 160,727 | 53,575 |
| Net Other Postemployment Benefits Obligation | 758,161 | 146,208 | 39,822 | 864,547 | - |
| Governmental Activities Long-Term Liabilities | $ 2,740,494 | $ 282,867 | $ 262,006 | $ 2,761,355 | $ 137,737 |

| Business-Type Activities | Adjusted Balance July 1, 2014 | Additions/ Adjustments | Deductions | Balance June 30, 2015 | Due Within One Year |
|---|---|---|---|---|---|
| Revenue Bonds | | | | | |
| 1993 CSCDA Refunding Bonds | $ 69,449 | $ - | $ 12,016 | $ 57,433 | $ 12,887 |
| 1999 USDA RD Waste Water Expansion | 5,618,177 | - | 140,879 | 5,477,298 | 145,458 |
| 2000 USDA RD Water Line Project | 1,918,150 | - | 47,534 | 1,870,616 | 49,079 |
| 2004 USDA RD Waste Water Project | 415,858 | - | 7,429 | 408,429 | 7,754 |
| 2012 Taxable Lease Revenue Refunding Bonds | 1,750,000 | - | 100,000 | 1,650,000 | 100,000 |
| Bond Issuance Discount | (43,507) | - | (3,481) | (40,026) | (3,481) |
| Total Revenue Bonds | 9,728,127 | - | 304,377 | 9,423,750 | 311,697 |
| Certificates of Participation (COP) | | | | | |
| 2007 USDA RD Wellness Center COP | 2,184,209 | - | 38,197 | 2,146,012 | 39,821 |
| Lindsay Olive Growers Pond Closure Cost Liability | 2,570,981 | - | - | 2,570,981 | - |
| Compensated Absences | 82,748 | 58,505 | 72,446 | 68,807 | 22,935 |
| Net Other Postemployment Benefits Obligation | 706,838 | 85,868 | 23,388 | 769,318 | - |
| Business-Type Activities Long-Term Liabilities | $ 15,272,903 | $ 144,373 | $ 438,408 | $ 14,978,868 | $ 374,453 |

**NOTE 9 – RETIREMENT PLANS**

Plan Descriptions

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

Funding Policy

Participants hired before January 1, 2011, (Classic 1$^{st}$ Tier) are required to contribute 4% (of the 8% employer paid member contribution (EPMC) - Misc / 9% EPMC - Safety) of their annual covered salary; participants hired after January 1, 2011, but before January 1, 2013, (Classic 2$^{nd}$ Tier), are required to contribute the entire EPMC per their employee group; Participants hired after January 1, 2013, are subject to the new California Public Employees' Pension Reform Act (PEPRA) regulations which sets the EPMC rates at 6.25% for Miscellaneous and 11.5% for Safety with no tax deferred option. The City makes the contributions required of City employees, per the previous statement, on their behalf and for their account. The City is required to contribute at an actuarially determined rate of annual covered payroll: The rate for the fiscal year ended June 30, 2015, was 22.59% for Classic non-safety employees, 20.40% for PEPRA employees, and 28.79% for Classic safety employees. The contribution of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2014-15, the City's annual pension cost was $759,093 and was equal to the City's required and actual contributions. The required contribution for fiscal year 2014-15 was determined as part of the June 30, 2013, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) 18% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20% for miscellaneous and safety plan members; and (c) 2% cost-of-living adjustment. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the plans' assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. The Miscellaneous Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2015, was 16 years for the Miscellaneous Plan and 14 years for the Safety Plan.

Three Year Trend Information

| | Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed |
|---|---|---|---|
| Miscellaneous Plan | 6/30/2013 | $ 408,042 | 100% |
| | 6/30/2014 | $ 472,858 | 100% |
| | 6/30/2015 | $ 447,054 | 100% |
| Safety Plan | 6/30/2013 | $ 436,004 | 100% |
| | 6/30/2014 | $ 456,601 | 100% |
| | 6/30/2015 | $ 312,039 | 100% |

**NOTE 9 – RETIREMENT PLANS** (Continued)

Net Pension Liability and Actuarial Methods and Assumptions

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

| | |
|---|---|
| Actuarial Cost Method | Age-Entry Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.50% |
| Inflation Rate | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.5% (a) |
| Mortality Rate Table (b) | CalPERS Membership Data |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter |

(a) Net Pension Plan Investment and Administrative Expenses; includes inflation.
(b) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases and mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50% 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 Statement No. 68 section.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the agent multiple employer plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board of Administration action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

**NOTE 9 – RETIREMENT PLANS** (Continued)

Discount Rate (Continued)

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension 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. These geometric rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1-10 (a) | Real Return Years 11+ (b) |
|---|---|---|---|
| Global Equity | 47.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 12.00% | 6.83% | 6.95% |
| Real Estate | 11.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

**Miscellaneous Plan**

Changes in Net Pension Liability

The change in the Net Pension Liability recognized over the measurement period is as follows:

| **Miscellaneous Plan** | Total Pension Liability (1) | Increase in Plan Fiduciary Net Position (2) | Net Pension Liability/(Asset) (3)=(1) - (2) |
|---|---|---|---|
| **Balance at June 30, 2013 (a)** | $ 14,228,702 | $ 9,953,015 | $ 4,275,687 |
| **Net Changes during 2013-14** | 846,745 | 1,654,441 | (807,696) |
| **Balance at June 30, 2014 (a)** | $ 15,075,447 | $ 11,607,456 | $ 3,467,991 |

(a) The plan fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary, self-insurance, and other post-employment benefits expense. This may be different from the plan assets reported in the funding actuarial valuation report.

**NOTE 9 – RETIREMENT PLANS** (Continued)

**Miscellaneous Plan** (Continued)

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

| Miscellaneous Plan | Discount Rate - 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|---|---|---|
| Plans Net Pension Liability / (Asset) | $ 5,467,941 | $ 3,467,991 | $ 1,818,223 |

Recognition of Gains and Losses

Under GASB Statement No. 68, gains and losses related to changes in total pension liability and plan fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year in which the gain or loss occurs. The remaining amounts are categorized as deferred outflows of resources and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss. For differences between projected and actual earnings, it is a five year straight-line amortization. All other amounts are amortized using straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the 2014-15 measurement period is 2.8 years, which was obtained by dividing the total service years of 1,928 (the sum of remaining service lifetimes of the active employees) by 677 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**NOTE 9 – RETIREMENT PLANS** (Continued)

**Miscellaneous Plan** (Continued)

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

The City incurred a pension expense of $306,234 for the Plan. Note that no adjustments have been made for contributions subsequent to the measurement date. Adequate treatment of any contributions made after the measurement date is the responsibility of the employer. The City's share of the Miscellaneous Risk Pool pension expense for the Plan is developed in the table below.

| Pension Expense Component | Plan's Share |
|---|---|
| Service Cost | $ 302,747 |
| Interest on the Total Pension Liability | 1,059,186 |
| Recognized Differences between Expected and Actual Experience | - |
| Recognized Changes of Assumptions | - |
| Employee Contributions (a) | (113,519) |
| Projected Earnings on Pension Plan Investments | (741,874) |
| Recognized Differences between Projected and Actual Earnings | (199,325) |
| Other Changes in Fiduciary Net Position | - |
| Recognized Portion of Adjustment due to Differences in Proportions | (981) |
| **Subtotal: Expense Components** | 306,234 |
| Changes of Benefit Terms | - |
| **Pension Expense/(Income)** | $ 306,234 |

(a) This line represents the Plan's share of the risk pool's total employee contributions. This figure may not match the actual contributions made by employees participating in the plan.

As of June 30, 2014, the City had deferred outflows of resources related to pensions of $428,239 for contributions made subsequent to the measurement date. Deferred inflows of resources related to pensions were $800,045 which is the net difference between projected and actual earnings on the pension plan investments. Amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized in future pension revenue and expenses amortized annually at $(200,306), $(200,306), $(200,108), and $(199,325) over the next four fiscal years.

**PEPRA Plan**

Changes in Net Pension Liability

The change in the Net Pension Liability recognized over the measurement period is as follows:

| PEPRA Plan | Total Pension Liability (1) | Increase in Plan Fiduciary Net Position (2) | Net Pension Liability/(Asset) (3)=(1) - (2) |
|---|---|---|---|
| **Balance at June 30, 2013 (a)** | $ 1,066 | $ 804 | $ 262 |
| **Net Changes during 2013-14** | 63 | 134 | (71) |
| **Balance at June 30, 2014 (a)** | $ 1,129 | $ 938 | $ 191 |

(a) The plan fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary, self-insurance, and other post-employment benefits expense. This may be different from the plan assets reported in the funding actuarial valuation report.

**NOTE 9 – RETIREMENT PLANS** (Continued)

**PEPRA Plan** (Continued)

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

| PEPRA Plan | Discount Rate - 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|---|---|---|
| Plans Net Pension Liability / (Asset) | $ 341 | $ 191 | $ 67 |

Recognition of Gains and Losses

Under GASB Statement No. 68, gains and losses related to changes in total pension liability and plan fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year in which the gain or loss occurs. The remaining amounts are categorized as deferred outflows of resources and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss. For differences between projected and actual earnings, it is a five year straight-line amortization. All other amounts are amortized using straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the 2014-15 measurement period is 2.8 years, which was obtained by dividing the total service years of 1,928 (the sum of remaining service lifetimes of the active employees) by 677 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**NOTE 9 – RETIREMENT PLANS** (Continued)

**PEPRA Plan** (Continued)

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

The City incurred a pension expense of $(1,406) for the Plan. Note that no adjustments have been made for contributions subsequent to the measurement date. Adequate treatment of any contributions made after the measurement date is the responsibility of the employer. The City's share of the PEPRA Miscellaneous Risk Pool pension expense for the Plan is developed in the table below.

| **Pension Expense Component** | **Plan's Share** |
|---|---|
| Service Cost | $ 3,834 |
| Interest on the Total Pension Liability | 79 |
| Recognized Differences between Expected and Actual Experience | - |
| Recognized Changes of Assumptions | - |
| Employee Contributions (a) | (5,751) |
| Projected Earnings on Pension Plan Investments | (60) |
| Recognized Differences between Projected and Actual Earnings | (16) |
| Other Changes in Fiduciary Net Position | - |
| Recognized Portion of Adjustment due to Differences in Proportions | 508 |
| **Subtotal: Expense Components** | (1,406) |
| Changes of Benefit Terms | - |
| **Pension Expense/(Income)** | $ (1,406) |

(a) This line represents the Plan's share of the risk pool's total employee contributions. This figure may not match the actual contributions made by employees participating in the plan.

As of June 30, 2014, the City had deferred outflows of resources related to pensions of $18,815 for contributions made subsequent to the measurement date. Deferred inflows of resources related to pensions were $1,360 which is the net difference between projected and actual earnings on the pension plan investments. Amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized in future pension revenue and expenses amortized annually at $492, $492, $392, and $(16) over the next four fiscal years.

**Safety Plan**

Changes in Net Pension Liability

The change in the Net Pension Liability recognized over the measurement period is as follows:

| **Safety Plan** | Total Pension Liability (1) | Increase in Plan Fiduciary Net Position (2) | Net Pension Liability/(Asset) (3)=(1) - (2) |
|---|---|---|---|
| **Balance at June 30, 2013 (a)** | $ 12,082,213 | $ 8,622,499 | $ 3,459,714 |
| **Net Changes during 2013-14** | 586,161 | 1,297,659 | (711,498) |
| **Balance at June 30, 2014 (a)** | $ 12,668,374 | $ 9,920,158 | $ 2,748,216 |

(a) The plan fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary, self-insurance, and other post-employment benefits expense. This may be different from the plan assets reported in the funding actuarial valuation report.

**NOTE 9 – <u>RETIREMENT PLANS</u>** (Continued)

**Safety Plan** (Continued)

<u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</u>

| Safety Plan | Discount Rate - 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|---|---|---|
| Plans Net Pension Liability / (Asset) | $ 4,445,113 | $ 2,748,216 | $ 1,350,046 |

<u>Recognition of Gains and Losses</u>

Under GASB Statement No. 68, gains and losses related to changes in total pension liability and plan fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year in which the gain or loss occurs. The remaining amounts are categorized as deferred outflows of resources and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss. For differences between projected and actual earnings, it is a five year straight-line amortization. All other amounts are amortized using straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the 2014-15 measurement period is 2.8 years, which was obtained by dividing the total service years of 1,928 (the sum of remaining service lifetimes of the active employees) by 677 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members’ probability of decrementing due to an event other than receiving a cash refund.

**NOTE 9 – RETIREMENT PLANS** (Continued)

**Safety Plan** (Continued)

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

The City incurred a pension expense of $284,817 for the Plan. Note that no adjustments have been made for contributions subsequent to the measurement date. Adequate treatment of any contributions made after the measurement date is the responsibility of the employer. The City's share of the Safety Risk Pool pension expense for the Plan is developed in the table below.

| **Pension Expense Component** | **Plan's Share** |
|---|---|
| Service Cost | $ 321,372 |
| Interest on the Total Pension Liability | 894,600 |
| Recognized Differences between Expected and Actual Experience | - |
| Recognized Changes of Assumptions | - |
| Employee Contributions (a) | (110,302) |
| Projected Earnings on Pension Plan Investments | (638,570) |
| Recognized Differences between Projected and Actual Earnings | (170,892) |
| Other Changes in Fiduciary Net Position | - |
| Recognized Portion of Adjustment due to Differences in Proportions | (11,391) |
| **Subtotal: Expense Components** | 284,817 |
| Changes of Benefit Terms | - |
| **Pension Expense/(Income)** | $ 284,817 |

(a) This line represents the Plan's share of the risk pool's total employee contributions. This figure may not match the actual contributions made by employees participating in the plan.

As of June 30, 2014, the City had deferred outflows of resources related to pensions of $312,039 for contributions made subsequent to the measurement date. Deferred inflows of resources related to pensions were $715,464 which is the net difference between projected and actual earnings on the pension plan investments. Amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized in future pension revenue and expenses amortized annually at $(182,283), $(182,283), $(180,004), and $(170,894) over the next four fiscal years.

**NOTE 10 – HOUSING AND COMMUNITY DEVELOPMENT LOAN PROGRAM**

The City uses Housing and Community Development Block Grant funds to provide housing rehabilitation loans and HOME Investment Partnerships Program (HOME) grant funds to provide first-time homebuyer assistance loans and housing rehabilitation loans to eligible applicants. Rehabilitation loans are used to improve, rehabilitate, or replace residences. All loans are made to low and moderate income persons or landlords benefiting these same persons. The City accounts for this program in the Community Development Fund. This fund's primary assets consist of notes receivable from participants, which originated from U.S. Department of Housing and Urban Development (HUD) funds. Since HUD has a claim to any funds remaining when the program is terminated, a fund equity reserve has been recorded for monies received not used in program management in the Community Development Fund.

## NOTE 11 – JOINT VENTURE – SELF-INSURANCE PROGRAM

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA). CSJVRMA is a consortium of fifty-four (54) cities in the San Joaquin Valley, California, established under the provisions of California Government Code Section 6500, et seq. CSJVRMA provides risk coverage for its members through the pooling of risks and purchased insurance. This coverage extends to workers' compensation and general liability. CSJVRMA is governed by a board consisting of one board member appointed by each member agency and meets three to four times a year. The board has contracted with a management group to supervise and conduct CSJVRMA affairs.

The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

In the event of termination and after all claims have been settled, any excess or deficit will be divided among the agencies in accordance with an approved formula.

**General Liability Insurance:** Annual deposits are paid by member cities and are adjusted retrospectively to cover costs. The City is covered for the first $1,000,000 of each general liability claim. The City has the right to receive dividends or the obligation to pay assessments based on a formula, which among other expenses, charges the City's account for liability under $25,000. CSJVRMA participates in an excess pool that provides general liability coverage from $1,000,000 to $10,000,000.

**Workers' Compensation:** The workers' compensation program includes pooling of retained losses plus excess insurance. Annual deposits are paid by member cities and are adjusted retrospectively on an annual basis to cover costs and reflect claims experience of both the individual member and the pool. The City is covered for the first $250,000 of each workers' compensation claim through CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula, which among other expenses, charges the City's account for workers' compensation losses under $250,000. CSJVRMA participates in an excess pool that provides workers' compensation coverage from $250,000 to $500,000 and purchases excess insurance above the statutory imit.

There have been no significant changes in insurance coverage as compared to last year, and settlements have not exceeded coverage in each of the past three fiscal years.

## NOTE 12 – POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

### Plan Description

The City provides continuation of medical, dental, and vision coverage to qualifying retiring employees as described below:

- **Access to coverage:** This coverage is available for employees who retire from the City and:
  - Meet the requirements for CalPERS service or disability retirement (i.e., retirement at age 50 or older with 5 years of CalPERS membership or an approved disability retirement);
  - Have completed 15 or more years of continuous service with the City; and
  - Have not yet reached age 65.

**NOTE 12 – POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN** (Continued)

Plan Description (Continued)

- **Benefits provided:** For qualifying retirees, the City will contribute 3.5% of the employee-only portion of medical, dental, and/or vision plan premiums for each year of City service, as follows:

| Continuous Years of City Service | Percent of Employee-Only Premium Paid | Continuous Years of City Service | Percent of Employee Only Premium Paid | Medical | Dental | Vision |
|---|---|---|---|---|---|---|
| | | | | $ 567.62 | $ 31.72 | $ 5.80 |
| Less than 15 | 0.0% | 22 | 77.0% | Rates are per month as of January 1, 2015 | | |
| 15 | 52.5% | 23 | 80.5% | | | |
| 16 | 56.0% | 24 | 84.0% | | | |
| 17 | 59.5% | 25 | 87.5% | | | |
| 18 | 63.0% | 26 | 91.0% | | | |
| 19 | 66.5% | 27 | 84.5% | | | |
| 20 | 70.0% | 28 | 98.0% | | | |
| 21 | 73.5% | 29 or more | 100.0% | | | |

  The retiree may choose to cover his or her dependents, but is responsible for paying 100% of the additional premium amounts for dependent coverage.

- There are currently 7 retirees receiving these health care benefits which account for current year $57,449 Explicit Subsidy + $18,079 Implicit Subsidy for $75,528 of the total current year benefit of $75,528 per the actuarial report (Future Retiree Implicit Subsidy is $1,071).

- The claims experience of active and retired members is co-mingled in setting premium rates for the plans in which City employees and retirees participate which results in an "implicit subsidy":

  - The valuation report performed by Bickmore Risk Services & Consulting includes cost analysis for an implicit subsidy – same premium rates for retirees as active employees which provide a lower premium rate for retiree(s) than if rated separately from younger and healthier active employees.
  - Paragraph 13.a of GASB Statement No. 45 generally requires an implicit subsidy of retiree premium rates be valued as an other postemployment benefits (OPEB) liability.

Funding Policy and Actuarial Assumptions

The City's funding policy for the plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the June 30, 2014 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued:

| | |
|---|---|
| Actuarial Accrued Liability | Past Years' Costs |
| *plus* the Normal Cost | Current Year's Costs |
| *plus* Present Value of Future Normal | Future Year's Costs |
| *equals* Present Value of Future Benefits | Total Benefit Costs |

**NOTE 12 – POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN** (Continued)

Funding Policy and Actuarial Assumptions (Continued)

In selecting an appropriate discount rate as part of the actuarial assumptions, GASB states that the discount rate should be based on the expected long-term yields of investments used to finance benefits. No OPEB trust has yet been established so there are no funds invested. The City approved calculation of liabilities on a pay-as-you-go basis used a 4.0% discount rate based on the non-funded status. Additional actuarial assumptions included a 3.25% projected annual salary increase, a 9% inflation rate, and a 9.5% health inflation increase. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liability. Actuarial calculations reflect a long-term perspective and actuarial calculations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014, the date of the actuarial valuation, is 30 years.

Note: The City will seek to eliminate this benefit for all new hires subsequent to July 1, 2013, which will substantially limit and eventually eliminate this liability, but until this is achieved the current and future calculations and assumptions are based on the current plan as-is.

The City did set aside, within its General Fund, the amount of $60,000 for payment of *explicit* costs for the fiscal year-end June 30, 2015, and will calculate, based on current and immediate participation, the explicit cost to be set aside within the annual City budget equal to one year's explicit subsidy benefit. Accounting principles generally accepted in the United States of America permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's contribution did not meet this requirement, the assets have been excluded from the actuarial study and calculation. This funding policy means that the City contributions are considered to be on a pay-as-you-go basis. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the annual required contribution and the pay-as-you-go contributions as presented below.

Summary of employer contributions for OPEB is as follows:

| Fiscal Year Ended | Annual Required Contribution (ARC) | Employer Actual Contribution* | Percentage of ARC Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|---|
| 6/30/2012 | $ 322,362 | $ 71,093 | 22% | $ 900,139 |
| 6/30/2013 | $ 355,664 | $ 61,569 | 17% | $ 1,196,436 |
| 6/30/2014 | $ 362,123 | $ 102,760 | 28% | $ 1,455,799 |
| 6/30/2015 | *$ 232,076* | *$ 63,210* | *27%* | *$ 1,633,865* |

** Includes the projected value of the current year's implicit subsidy of retiree premiums.*

*Italicized values above are estimates which may change if contributions are other than projected.*

**NOTE 12 – POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN** (Continued)

Funding Policy and Actuarial Assumptions (Continued)

OPEB cost for the year ended June 30, 2015, is as follows:

| | |
|---|---|
| Annual required contribution | $ 235,354 |
| Interest on net OPEB obligation | 58,232 |
| Adjustments to annual required contribution | (61,510) |
| Annual OPEB cost | 232,076 |
| Contributions made | (63,210) |
| Change in net OPEB obligation (asset) | 168,866 |
| Net OPEB obligation (asset) - beginning of year | 1,464,999 |
| Net OPEB obligation (asset) - end of year | $ 1,633,865 |

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

Service Employees International Union (SEIU) Settlement

In August of 2015 the City enacted a furlough program, which cost employees approximately 10% of their monthly check, to save costs due to cash flow issues. As a result of this furlough program, the SEIU brought suit to the City. The City settled with SEIU and agreed to pay 60% of the total furlough taken by employees in 2015 in the form of accumulated compensation time. Employees will be able to use the accumulated compensation time beginning January 1, 2017. The accumulated time cannot be cashed out by employees.

Street Improvement Fee

The City has established a street improvement fee for the Water, Sewer, and Refuse charges that is designed for street repairs, maintenance, and construction. The City will continue to collect this fee into the future. This fee will be transferred to the City's General Fund and then the General Fund will transfer the balance to the Refuse Fund. This is the method that will be used to bring the Refuse Fund into a positive position.

Remediation Liability

The City's Sewer Fund is responsible for the contamination of two water basins at the City's sewer plant. The preliminary cost of the clean up referred to as the Lindsay Olive Growers (LOG) Pond Closure liability is estimated at $2,570,981. This amount has been accrued as of June 30, 2015. However, additional amounts might be needed in the future in order to clean up the site, and the issue will be reviewed in fiscal year 2015-16 to ascertain if any additional amounts should be accrued.

Budgetary Concerns – Cash Overdraft

McDermont Sports Complex has a large cash deficit which is attributable to previous years' activity wherein revenues fell far short of expenditures. McDermont Sports Complex has a current year operating loss of $1,119,658. While the losses have been reduced under the new administration, that department continues to challenge the City's financial well being. It should be noted that approximately $100,000 of the deficit are funds expended on community recreation programs that in previous years had been accounted for within the General Fund. McDermont Sports Complex has done an excellent job in trimming costs; unfortunately, the revenues continue to fall short of operational costs, thus the note of concern. McDermont Sports Complex was able to reduce its expenditures by 11% in fiscal year 2014-15.

**NOTE 14 – RELATED PARTY TRANSACTIONS**

The City has entered into various loan agreements with City employees and relatives of City employees, under its First-Time Homebuyer and Micro-Loan Programs. The various loan types provided included Deferred Payment Loans (DPL), Deferred No Interest Loans (DNIL), No Interest Loans (NIL), and Below Market Interest Rate Loans (BMIR). Note, the amounts below increased from the prior year due to incomplete data in the prior year. Detail of these related party transactions is provided below:

| | June 30, 2015 |
|---|---|
| RELATED PARTY LOANS | |
| Employee Loans | |
| Deferred Payment Loans | $ 1,177,351 |
| Deferred No Interest Loans | 137,112 |
| No Interest Loans | 6,240 |
| Below Market Interest Rate Loans | 157,597 |
| Micro-Business Loans - McDermont | - |
| Total Employee Loans | 1,478,300 |
| Loans to Employees' Relatives | |
| Deferred Payment Loans | 881,723 |
| Deferred No Interest Loans | 125,664 |
| No Interest Loans | 16,130 |
| Below Market Interest Loans | 260,544 |
| Total Loans to Employees' Relatives | 1,284,061 |
| Total All Related Party Loans | $ 2,762,361 |

**NOTE 15 – SUBSEQUENT EVENTS**

In accordance with accounting standards generally accepted in the United States, subsequent events have been evaluated through August 12, 2016, the date in which the financial statements have been issued.

**NOTE 16 – PRIOR PERIOD ADJUSTMENTS**

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Net position at July 1, 2014, as previously stated | $ 30,791,587 | $ 22,742,794 |
| Reconcile revenue accounts | 32,139 | - |
| To correct due to/from accounts | 21,892 | - |
| Implementation of GASB Statement No. 68 | (5,672,902) | (1,464,725) |
| Correction of error - Miscalculation of prior year depreciation | (80,302) | - |
| Total prior period adjustment | (5,699,173) | (1,464,725) |
| Net position at July 1, 2014, as restated | $ 25,092,414 | $ 21,278,069 |

## NOTE 16 – PRIOR PERIOD ADJUSTMENTS (Continued)

| | Governmental Funds | | | | | |
|---|---|---|---|---|---|---|
| | General Fund | Community Development | Local Transportation Tax Fund | Transit Fund | Total | Fiduciary Fund |
| Fund balance at July 1, 2014, as previously stated | $ 6,643,764 | $ 1,476,335 | $ 536,914 | $ 6,415 | $ 8,663,428 | $ (15,162,319) |
| To Reclassify Capital Improvements Fund to Community Development | (27,858) | 27,858 | - | - | - | - |
| Reclassify RLF to Community Development | (1,043,574) | 1,043,574 | - | - | - | - |
| Reconcile revenue accounts | 32,139 | - | - | - | 32,139 | - |
| Implementation of GASB Statement No. 68 | - | - | - | - | - | (3,276) |
| To correct due to/from accounts | - | - | 9,898 | 11,994 | 21,892 | - |
| Total prior period adjustment | (1,039,293) | 1,071,432 | 9,898 | 11,994 | 54,031 | (3,276) |
| Fund balance at July 1, 2014, as restated | $ 5,604,471 | $ 2,547,767 | $ 546,812 | $ 18,409 | $ 8,717,459 | $ (15,165,595) |

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Water Fund | Sewer Fund | McDermont Sport Complex Fund | Refuse Fund | Wellness Center Fund | Total |
| Fund balance at July 1, 2014, as previously stated | $ 8,415,500 | $ 5,014,786 | $ 3,200,077 | $ (78,627) | $ 6,191,058 | $ 22,742,794 |
| Implementation of GASB Statement No. 68 | (314,047) | (239,406) | (728,616) | (61,663) | (120,993) | (1,464,725) |
| Fund balance at July 1, 2014, as restated | $ 8,101,453 | $ 4,775,380 | $ 2,471,461 | $ (140,290) | $ 6,070,065 | $ 21,278,069 |

## NOTE 17 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2015, expenditures exceeded appropriations in the individual major funds as follows:

| Fund | Appropriations Category | Excess Expenditures |
|---|---|---|
| General Fund | General government | $ 254,956 |
| | Public works | 102,735 |
| | Capital outlay | 52,670 |
| | Debt service: | |
| | Principal | 16,371 |
| | Interest and administrative charges | 41,011 |
| Community Development | Community development | 579,988 |
| Local Transportation Fund | Debt service: | |
| | Interest and administrative charges | 11 |
| | Capital outlay | 15,853 |

## NOTE 18 – GOING CONCERN

The accompanying financial statements have been prepared assuming the City will continue as a going concern.

As shown in the accompanying financial statements, the City incurred a net loss of $695,105 in the government-wide financial statements and shows a cash overdraft in various proprietary funds and $1,119,658 operating loss in the McDermont Sport Complex Fund during the year ended June 30, 2015. The City has also carried “due to and due from other funds” and “advance to and advance from” balances spreading over various years that cannot be paid back as the City’s funds lack the necessary financial resources to repay such balances. These create a substantial doubt about the City’s ability to continue as a going concern for the year following the date the financial statements are available to be issued. Management of the City has evaluated these conditions and has proposed a plan to increase collections on receivables. The ability of the City to continue as a going concern and meet its obligations as they become due is dependent on the City’s ability to develop and implement a plan that will successfully increase cash flows. The financial statements do not include any adjustments that might be necessary if the City is unable to continue as a going concern.

## NOTE 19 – FUND DEFICIT

The Refuse Fund presently has a total fund deficit. The deficit is expected to be repaid with future fund transfers.

## NOTE 20 – FUND BALANCE

| | General Fund | Community Development Fund | Local Transportation Fund | Other Governmental Funds | Total |
|---|---|---|---|---|---|
| **Fund balances:** | | | | | |
| **Nonspendable:** | | | | | |
| Receivables | $ 392,434 | $ 99 | $ 101,011 | $ 10,995 | $ 504,539 |
| Prepaid expense | 59,953 | - | - | - | 59,953 |
| Advances | 10,626,388 | - | - | - | 10,626,388 |
| **Restricted for:** | | | | | |
| Note receivable | 52,714 | - | - | 4,502 | 57,216 |
| Road construction and maintenance | - | - | 434,124 | 28,573 | 462,697 |
| **Committed to:** | | | | | |
| Road construction and maintenance | - | - | 250,000 | - | 250,000 |
| Debt service | - | 73,566 | 122,129 | - | 195,695 |
| McDermont Sports Complex | 287,908 | - | - | - | 287,908 |
| Construction projects | 30,000 | 810,564 | - | - | 840,564 |
| Refuse Fund | - | 75,238 | - | - | 75,238 |
| Curb and gutter | - | - | - | 19,332 | 19,332 |
| **Assigned to:** | | | | | |
| General Fund | - | 2,483,448 | - | - | 2,483,448 |
| Special assessments | - | - | - | 13,477 | 13,477 |
| Gas tax | - | - | - | 586,225 | 586,225 |
| **Unassigned:** | (6,327,693) | - | - | - | (6,327,693) |
| Total fund balances | $ 5,121,704 | $ 3,442,915 | $ 907,264 | $ 663,104 | $ 10,134,987 |

## NOTE 21 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the City that previously had reported a redevelopment agency blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the county or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the Lindsay City Council adopted a resolution affirming that the City would serve as the successor agency to the former Lindsay Redevelopment Agency (the Agency).

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations, or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

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

**NOTE 21 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY** (Continued)

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

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

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as legal entities as of February 1, 2012.

After the date of dissolution, as allowed under Section 341716(a) of the Bill, the City elected to transfer the housing assets and functions previously performed by the former Redevelopment Agency (RDA). The remaining assets, liabilities, and activities of the dissolved RDA are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

Successor Agency Long-Term Debt

In accordance with the provisions of the Bill and the court case, the obligations of the former redevelopment agency became vested with the funds established for the successor agency upon the date of dissolution, February 1, 2012. Tax increment revenue is pledged to fund the debts of the Successor Agency Trust subject to the reapportionment of such revenues as provided by the Bill.

The debt of the Successor Agency Trust as of June 30, 2015, is as follows:

| | Successor Agency Trust | |
|---|---|---|
| Year Ending June 30, | Principal | Interest |
| 2016 | $ 320,000 | $ 564,935 |
| 2017 | 395,000 | 495,056 |
| 2018 | 410,000 | 483,206 |
| 2019 | 430,000 | 466,806 |
| 2020 | 1,685,000 | 729,578 |
| 2021-2025 | 6,250,000 | 2,643,179 |
| 2026-2030 | 3,095,000 | 1,362,269 |
| 2031-2035 | 3,670,000 | 776,625 |
| 2036-2040 | 1,685,000 | 101,800 |
| Sub-total | 17,940,000 | 7,623,454 |
| Add: Original issue premium | - | - |
| Total | $ 17,940,000 | $ 7,623,454 |

## NOTE 21 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Successor Agency Long-Term Debt (Continued)

**Tax Allocation Bonds Payable**

On June 1, 2015, the Agency refunded the 2005, 2007, and 2008 tax allocation bonds in the amounts of $3,925,000, $6,895,000, and $3,270,000, respectively, with the refunding issue of 2015 in the amount of $13,000,000. The bonds have principal payments each August 1 through 2037 and accrue interest at 3.0% – 5.0%, which is payable semiannually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2015, the balance on the bonds was $13,000,000.

**Notes Payable**

On March 30, 2004, the Agency entered into a loan agreement with the California Housing Finance Agency (CalHFA) for the purpose of assisting the Agency in operating a local housing program through the CalHFA HELP program. The loan is in the amount of $1,250,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 10 years from date of the note. As of June 30, 2015, there remained an unpaid balance due on the CalHFA HELP loan of $1,250,000. On July 30, 2013, the Successor Agency obtained an amendment to the original loan extending the unpaid balance due date to March 30, 2019.

On August 7, 2007, the Agency entered into a loan agreement with CalHFA for the purpose of assisting the Agency in operating a local housing program through the CalHFA Residential Development Loan Program (RDLP). The loan is in the amount of $3,690,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 5 years from date of the note. As of June 30, 2015, there remained an unpaid balance due on the CalHFA loan of $3,690,000. On July 30, 2013, the Successor Agency obtained an amendment to the original loan extending the unpaid balance due date to May 7, 2021.

Changes in Long-Term Liabilities

Successor Agency long-term liabilities activity for the fiscal year ended June 30, 2015, was as follows:

| Successor Agency Trust Activities: | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | | | | | |
| 2005 Tax Allocation Bond | $ 3,925,000 | $ - | $ (3,925,000) | $ - | $ - |
| 2007 Tax Allocation Bond | 6,895,000 | - | (6,895,000) | - | - |
| 2008 Tax Allocation Bond | 3,270,000 | - | (3,270,000) | - | - |
| 2009 Tax Allocation Bond | 1,000,000 | - | (1,000,000) | - | - |
| 2015 Tax Allocation Refunding Bond | - | 13,000,000 | - | 13,000,000 | 320,000 |
| Subtotal bonds payable | 15,090,000 | 13,000,000 | (15,090,000) | 13,000,000 | 320,000 |
| Add: bond premiums | 178,293 | - | (178,293) | - | |
| Total bonds payable | 15,268,293 | 13,000,000 | (15,268,293) | 13,000,000 | 320,000 |
| Notes payable | | | | | |
| CalHFA - RDLP Loan | 3,690,000 | - | - | 3,690,000 | - |
| CalHFA - HELP Loan | 1,250,000 | - | - | 1,250,000 | - |
| COL Housing Program Loan | 377,237 | - | (377,237) | - | - |
| Total notes payable | 5,317,237 | - | (377,237) | 4,940,000 | - |
| Total Successor Agency Trust Activities | $ 20,585,530 | $ 13,000,000 | $ (15,645,530) | $ 17,940,000 | $ 320,000 |

# REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LINDSAY**
**STATEMENT OF REVENUES, EXPENDITURES, AND**
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**
**GENERAL FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget |
| REVENUES | | | | |
| Property taxes | $ 368,835 | $ 368,835 | $ 525,930 | $ 157,095 |
| Other taxes | 1,711,175 | 1,711,175 | 3,498,003 | 1,786,828 |
| Licenses and permits | 167,500 | 167,500 | 312,030 | 144,530 |
| Intergovernmental | 869,500 | 869,500 | 162,417 | (707,083) |
| Charges for services | - | - | 37,328 | 37,328 |
| Fees and fines | 82,500 | 82,500 | 113,390 | 30,890 |
| Interest revenue | - | - | 2,783 | 2,783 |
| Other revenue | 144,650 | 144,650 | 99,113 | (45,537) |
| Total revenues | 3,344,160 | 3,344,160 | 4,750,994 | 1,406,834 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 746,495 | 746,495 | 1,001,451 | (254,956) |
| Public safety | 2,488,546 | 2,488,546 | 2,445,639 | 42,907 |
| Parks and recreation | 248,785 | 248,785 | 195,951 | 52,834 |
| Public works | 350,856 | 350,856 | 453,591 | (102,735) |
| Streets and transportation | 219,628 | 219,628 | 95,221 | 124,407 |
| Debt service: | | | | |
| Principal | - | - | 16,371 | (16,371) |
| Interest and administrative charges | - | - | 41,011 | (41,011) |
| Capital outlay | 937,417 | 937,417 | 990,087 | (52,670) |
| Total expenditures | 4,991,727 | 4,991,727 | 5,239,322 | (247,595) |
| Excess (deficiency) of revenues over (under) expenditures | (1,647,567) | (1,647,567) | (488,328) | 1,159,239 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of land | - | - | 7,946 | 7,946 |
| Transfers in | - | - | 1,323,425 | 1,323,425 |
| Transfers out | - | - | (1,325,810) | (1,325,810) |
| Total other financing sources (uses) | - | - | 5,561 | 5,561 |
| Net change in fund balance | $ (1,647,567) | $ (1,647,567) | (482,767) | $ 1,164,800 |
| Fund balance - beginning | | | 6,643,764 | |
| Prior period adjustment | | | (1,039,293) | |
| Fund balance - ending | | | $ 5,121,704 | |

**CITY OF LINDSAY**
**SCHEDULE OF REVENUES, EXPENDITURES, AND**
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**
**COMMUNITY DEVELOPMENT FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget |
| REVENUES | | | | |
| Note collections | $ - | $ - | $ 652,576 | $ 652,576 |
| Intergovernmental | - | - | 525,355 | 525,355 |
| Interest revenue | - | - | 89,266 | 89,266 |
| Other revenue | - | - | 74 | 74 |
| Total revenues | - | - | 1,267,271 | 1,267,271 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community development | - | - | 579,988 | (579,988) |
| Capital outlay | - | - | - | - |
| Total expenditures | - | - | 579,988 | (579,988) |
| Excess (deficiency) of revenues over (under) expenditures | - | - | 687,283 | 687,283 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 538,213 | 538,213 |
| Transfers out | - | - | (330,348) | (330,348) |
| Total other financing sources (uses) | - | - | 207,865 | 207,865 |
| Net change in fund balance | $ - | $ - | 895,148 | $ 895,148 |
| Fund balance - beginning | | | 1,476,335 | |
| Prior period adjustment | | | 1,071,432 | |
| Fund balance - ending | | | $ 3,442,915 | |

* Note that a formal budget for the Community Development Fund was not established for fiscal year 2015. Community Development Block Grant (CDBG) program income was frozen during fiscal year 2013 and the City's housing department was out-sourced to Self-Help Enterprises which precluded the need for the establishment of a community development operations budget.

# CITY OF LINDSAY
## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
## LOCAL TRANSPORTATION FUND
## FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget |
| REVENUES | | | | |
| Intergovernmental | $ 655,000 | $ 655,000 | $ 683,150 | $ 28,150 |
| Interest revenue | - | - | 371 | 371 |
| Total revenues | 655,000 | 655,000 | 683,521 | 28,521 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community development | 85,274 | 85,274 | 26,558 | 58,716 |
| Debt service: | | | | |
| Principal | 64,400 | 64,400 | 64,400 | - |
| Interest and administrative charges | 57,729 | 57,729 | 57,740 | (11) |
| Capital outlay | - | - | 15,853 | (15,853) |
| Total expenditures | 207,403 | 207,403 | 164,551 | 42,852 |
| Excess (deficiency) of revenues over (under) expenditures | 447,597 | 447,597 | 518,970 | 71,373 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (122,129) | (122,129) | (158,518) | (36,389) |
| Total other financing sources (uses) | (122,129) | (122,129) | (158,518) | (36,389) |
| Net change in fund balance | $ 325,468 | $ 325,468 | 360,452 | $ 34,984 |
| Fund balance - beginning | | | 536,914 | |
| Prior period adjustment | | | 9,898 | |
| Fund balance - ending | | | $ 907,264 | |

**CITY OF LINDSAY**
**REQUIRED SUPPLEMENTARY INFORMATION**
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**JUNE 30, 2015**

### Schedule of the City's Proportionate Share of the Net Pension Liability

| | Miscellaneous | PEPRA Miscellaneous | Safety |
|---|---|---|---|
| Proportion of the Net Pension Liability | 0.05573% | 0.00000% | 0.04417% |
| Proportionate Share of the Net Pension Liability | $ 3,467,991 | $ 191 | $ 2,748,216 |
| Covered-Employee Payroll | $ 1,558,140 | $ 28,685 | $ 1,211,810 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll | 222.57% | 0.67% | 226.79% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 77.00% | 83.08% | 78.31% |
| Plan's Proportionate Share of Aggregate Employer Contributions | $ 313,885 | $ 25 | $ 280,851 |

### Schedule of the City's Contributions

| | Miscellaneous | PEPRA Miscellaneous | Safety |
|---|---|---|---|
| Contractually Required Contribution (Actuarially Determined) | $ 351,972 | $ 5,851 | $ 348,935 |
| Contributions in Relation to the Actuarially Determined Contributions | (351,972) | (5,851) | (348,935) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - |
| Covered-Employee Payroll | $ 1,558,140 | $ 28,685 | $ 1,211,810 |
| Contributions as a Percentage of Covered-Employee Payroll | 22.59% | 20.40% | 28.79% |

* Amounts presented above were determined as of June 30. Additional years will be presented as they become available.

**CITY OF LINDSAY**
**REQUIRED SUPPLEMENTARY INFORMATION**
**OTHER POSTEMPLOYMENT BENEFITS (OPEB)**
**SCHEDULE OF FUNDING PROGRESS**
**JUNE 30, 2015**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 7/1/2014 | $ - | $ 2,063,929 | $ 2,063,929 | 0% | $ 2,766,980 | 74.59% |

# SUPPLEMENTARY INFORMATION

# CITY OF LINDSAY
# COMBINING BALANCE SHEET
# NON-MAJOR GOVERNMENTAL FUNDS
# JUNE 30, 2015

| | Special Revenue | | | Capital Projects | |
|---|---|---|---|---|---|
| | Special Assessment Districts | Gas Tax | Transit | Curb and Gutter | Total Non-Major Governmental Funds |
| Assets | | | | | |
| Cash and cash equivalents | $ 16,202 | $ 503,218 | $ 6,699 | $ 22,675 | $ 548,794 |
| Accounts receivable - net | - | - | - | 1,159 | 1,159 |
| Due from other funds | - | 100,000 | 21,892 | - | 121,892 |
| Due from other governments | 10,955 | - | - | - | 10,955 |
| Notes receivable | - | - | - | 2,102 | 2,102 |
| Total assets | $ 27,157 | $ 603,218 | $ 28,591 | $ 25,936 | $ 684,902 |
| Liabilities | | | | | |
| Accounts and other payables | $ 2,040 | $ 12,993 | $ 18 | $ - | $ 15,051 |
| Accrued wages | 645 | 4,000 | - | - | 4,645 |
| Unearned revenue | - | - | - | 2,102 | 2,102 |
| Total liabilities | 2,685 | 16,993 | 18 | 2,102 | 21,798 |
| Fund balances | | | | | |
| Nonspendable | 10,995 | - | - | - | 10,995 |
| Restricted | - | - | 28,573 | 4,502 | 33,075 |
| Committed | - | - | - | 19,332 | 19,332 |
| Assigned | 13,477 | 586,225 | - | - | 599,702 |
| Unassigned | - | - | - | - | - |
| Total fund balances | 24,472 | 586,225 | 28,573 | 23,834 | 663,104 |
| Total liabilities and fund balances | $ 27,157 | $ 603,218 | $ 28,591 | $ 25,936 | $ 684,902 |

**CITY OF LINDSAY**
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**
**AND CHANGES IN FUND BALANCES**
**NON-MAJOR GOVERNMENTAL FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | Special Revenue | | | Capital Projects | |
|---|---|---|---|---|---|
| | Special Assessment Districts | Gas Tax | Transit | Curb and Gutter | Total Non-Major Governmental Funds |
| REVENUES | | | | | |
| Note collections | $ - | $ - | $ - | $ 7,842 | $ 7,842 |
| Other taxes | 66,834 | - | - | - | 66,834 |
| Intergovernmental | - | 477,032 | - | - | 477,032 |
| Interest revenue | - | 279 | - | - | 279 |
| Other revenue | - | - | 266 | - | 266 |
| Total revenues | 66,834 | 477,311 | 266 | 7,842 | 552,253 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 29,440 | - | - | 8,982 | 38,422 |
| Parks and recreation | 25,014 | - | - | - | 25,014 |
| Streets and transportation | - | 314,483 | - | - | 314,483 |
| Total expenditures | 54,454 | 314,483 | - | 8,982 | 377,919 |
| Excess (deficiency) of revenues over (under) expenditures | 12,380 | 162,828 | 266 | (1,140) | 174,334 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | - | 9,898 | - | 9,898 |
| Transfers out | - | (110,000) | - | - | (110,000) |
| Total other financing sources (uses) | - | (110,000) | 9,898 | - | (100,102) |
| Net change in fund balances | 12,380 | 52,828 | 10,164 | (1,140) | 74,232 |
| Fund balances - beginning | 12,092 | 533,397 | 6,415 | 24,974 | 576,878 |
| Prior period adjustment | - | - | 11,994 | - | 11,994 |
| Fund balances - ending | $ 24,472 | $ 586,225 | $ 28,573 | $ 23,834 | $ 663,104 |

BROWN
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PUBLIC
ACCOUNTANTS

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BROWN ARMSTRONG
*Certified Public Accountants*

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

To the Honorable Mayor and City Council
City of Lindsay, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lindsay (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 12, 2016.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies, described in the accompanying summary schedule of findings and responses, to be material weaknesses: 2015-01 through 2015-08.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no deficiencies to be significant deficiencies; all deficiencies described in the accompanying summary schedule of findings and responses are assessed as material weaknesses.

## Compliance and Other Matters

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

## The City's Response to Findings

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

## Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
August 12, 2016

**2015-01: Notes Receivable**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

During our year-end audit procedures, we noted that, as of the date of fieldwork, the year-end reconciliation of notes receivable to the City of Lindsay's (the City) general ledger had not yet been completed. We noted that multiple material adjustments were required to arrive at the accurate and complete notes receivable balances as of June 30, 2015.

Cause of Condition:

During our walkthrough of the notes receivable process and testing, we noted the City does not reconcile notes receivable in a timely manner and was unable to reconcile certain differences.

Effect of Condition:

Although the City makes adjustments to bring notes receivable to its true balance, not reconciling notes receivable on a consistent, timely basis throughout the year allows errors to accumulate and delays the year-end closing and audit process.

Recommendation:

We recommend that the City reconcile notes receivable on a monthly basis, or at the very least quarterly, in order to mitigate errors found at year-end and improve the year-end closing procedures.

Management's Response:

Notes receivable have been updated and are now followed by two staff members. With the assistance of a new Finance Director, additional training in this area has already been implemented and the goal is to have proper record keeping and consistent reconciliations of said statements. The reconciliations are reviewed by the Finance Director quarterly, and monthly reconciliations are completed per the advice of the independent audit team.

**2015-02: Segregation of Duties**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

While performing our audit procedures over cash, we noted that cash reconciliations were not being completed in a timely manner as the Finance Director was the only City personnel with adequate accounting knowledge required to complete the reconciliations. We also noted during the financial reporting process that the Finance Director handled most of the year-end closing procedures, including calculating and posting year-end accruals, preparation of final trial balance figures, reconciling due to/from and transfers in/out, and implementing new Governmental Accounting Standards Board (GASB) Statements.

Cause of Condition:

City staff lacks adequate knowledge of governmental accounting to ensure the accounting records are correctly stated for preparation of the financial statements. Currently, the Finance Director is the only City personnel with knowledge of governmental accounting.

Effect of Condition:

The Finance Director is able to prepare cash reconciliations and conduct financial closing procedures with little oversight. This may result in the misstatement of financial information due to improper postings of journal entries or improper financial closing procedures. In addition, lack of governmental accounting knowledge by City personnel has resulted in late filing of the Comprehensive Annual Financial Report (CAFR).

Recommendation:

We recommend that the City either hire individuals with governmental accounting knowledge to aid the Finance Director in completing financial reporting duties or train current staff to obtain a basic understanding of governmental accounting. To improve segregation of duties, cash reconciliations should be prepared by an individual other than the Finance Director, limiting the Finance Director's role to review and approval of reconciliations. In addition, journal entries should be approved by someone other than the preparer of the entry.

Management's Response:

The newly hired Finance Director brought previous staff familiar with cash reconciliation from another department to go backwards every month until properly reconciled. In addition, a depository account, in which only City funds received from all sources will be deposited, has been established. The goal is that only deposits are made in one account, and the exact amount of expenses will be transferred to the current General Fund Account which has been an issue with reconciliations. It is the intent of staff and the Finance Director to monitor the current General Fund Account to reconcile to zero while the depository account will retain only the monies received by the City which will be reconciled easily each month. By having two separate accounts, the chances of errors and improper reconciliation will be significantly reduced. In addition, temporary workers will be brought in to Finance to handle front counter operations while a full scale technology upgrade to Utility Billing Software is implemented, which will ultimately free up staff time in other capacities to further segregate the duties currently overlapped by a few individuals due to time constraints.

**2015-03: Financial Reporting**

Criteria:

The City should design and implement internal controls over the financial reporting process to ensure the following: 1) that the general ledger undergoes adequate procedures to ensure the proper application of fiscal year cut-off, 2) that the general ledger fiscal year period is closed and related financial statement supporting schedules are prepared in a timely manner allowing for a more efficient audit, and 3) that the final trial balance figures are subject to sufficient management review so that balances are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

During our fieldwork, we noted that the City did not have year-end closing procedures in place which would have allowed the financial statements to be issued in a timely manner. We noted that the closing procedures currently in place did not include a sufficient review of the information before it was provided to the external auditors. Based upon our audit, we noted there were several post-close adjustments made by the City. Adjustments made by management considered to be material to the financial statements were related to beginning fund balance/net position for prior period adjustments, accounts payable, accounts receivable, notes receivable, unearned revenue, capital assets, long-term debt, and revenue and expenditure/expense accounts. Also, during our testing of year-end cutoff procedures and over financial statement account balances, we proposed audit adjustments to properly state the year-end account balances of certain accounts in accordance with GAAP. All adjustments that were proposed during the current year audit were presented to management and subsequently posted to the financial statements.

Cause of Condition:

Internal controls have not been suitably designed and implemented over the financial reporting process to ensure timely closure of the general ledger and sufficient management supervision of this process that would result in reliable and materially correct ending account balances in accordance with GAAP. In addition, the City has not implemented training programs for staff with financial reporting responsibilities.

Effect of Condition:

Untimely closing and lack of financial statement preparation procedures resulted in final fieldwork for the City's audit being postponed. As a result, material adjustments were proposed and posted to the City's financial statements for the year ended June 30, 2015.

Recommendation:

We recommend that the City implement stronger policies and procedures to ensure that a comprehensive closing of the general ledger is performed in a timely manner and that sufficient resources and adequate oversight are available to oversee the City's year-end closing procedures and preparation of the financial statement supporting schedules. We also recommend that the City strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements. Lastly, we recommend the City invest in training and cross-training programs for those employees with financial reporting responsibilities.

Management's Response:

With the newly hired Finance Director, a fiscal year roll up procedure has been placed in force. The policy is to encourage the City management and department managers to refrain from any spending 15 days prior to fiscal year close. This is to ensure that all payments will be properly coded, paid, and reconciled in a quick order post fiscal year. Further, particular expense needs of the City and staff are put on hold until the end of the fiscal year. This ensures that all checks are properly sent and hopefully cashed in a timely manner to effect a cleaner and more expedited closing process. Staff is hindered by other departments grant requirements, and new policies have been implemented with project management to ensure projects and grants are recognized and completed well in advance of the fiscal year close. Staff is encouraged to attend, and have been to, multiple California Public Employees Retirement System (CalPERS) trainings, and ongoing support for educational learning is provided to staff on an ongoing basis.

**2015-04: Reconciling Accounts to Supporting Documentation – Accounting Controls**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

The City does not reconcile its general ledger accounts to supporting documents. In order to make the interim and annual financial statements meaningful, we recommend the City reconcile the general ledger accounts for cash accounts, accounts receivable, and notes receivable to supporting documentation on a monthly or routine basis. During our audit, we identified numerous adjustments to general ledger assets and liabilities that impacted the operating results of the City.

Cause of Condition:

Management has not reviewed its policies and procedures to ensure that the general ledger accounts are supported on a monthly basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

Effect of Condition:

The absence of performing monthly and/or routine reconciliations provides an opportunity for errors to accumulate and these errors may go undetected. The benefit of monthly reconciliations is that errors do not accumulate, but can be identified and attributed to a particular period (month), which makes it easier to perform future reconciliations. Because the procedures recommended below were not in place during the year ended June 30, 2015, this finding is considered a material weakness because a material misstatement of the financial statements would have occurred and not been prevented or detected by the City's existing internal controls.

Recommendation:

We recommend management establish monthly and/or routine reconciliation policies and procedures, including the performance of the following functions:

- Cash should be reconciled from the bank statement balance to the general ledger balance on a monthly basis to determine that all cash transactions have been recorded properly, and to discover banking errors. The proper recordation of cash activity will provide for the fair presentation of the financial statements.

- An aging schedule for accounts receivable should be generated from the City's financial system on a monthly basis. Anything deemed uncollectable per the aging schedule should be written off. The proper recordation of uncollectable accounts receivable balances will provide for fair presentation of the accounts receivable balance per the year-end financial statements.

- Notes receivable should be reconciled from the payment history reports month-end balance to the notes receivable schedules kept by City personnel on a monthly basis to ensure that all note holder payments are properly recorded. The proper recordation of note holder payments will provide for fair presentation of the notes receivable balance per the year-end financial statements.

Management's Response:

The newly hired Finance Director brought previous staff familiar with cash reconciliation from another department to go backwards every month until properly reconciled. In addition, a depository account, in which only City funds received from all sources will be deposited, has been established. The goal is that only deposits are made in one account, and the exact amount of expenses will be transferred to the current General Fund Account which has been an issue with reconciliations. It is the intent of staff and the Finance Director to monitor the current General Fund Account to reconcile to zero while the depository account will retain only the monies received by the City which will be reconciled easily each month. By having two separate accounts, the chances of errors and improper reconciliation will be significantly reduced.

**2015-05: Cash and Cash Equivalents**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

While performing our audit procedures over cash and cash equivalents, we noted the City was not performing cash reconciliations to the general ledger on a timely basis.

Cause of Condition:

The City Finance Department is short-staffed and did not have an accountant that could reconcile cash accounts on a monthly basis.

Effect of Condition:

By not regularly performing cash reconciliations, errors or discrepancies are allowed to accumulate and create difficulty in reconciling accounts. Regular reconciliations would address discrepancies as they arise and aid in preparing year-end reconciliations.

Recommendation:

We recommend the City perform cash reconciliations for all accounts on a monthly basis.

Management's Response:

The newly hired Finance Director brought previous staff familiar with cash reconciliation from another department to go backwards every month until properly reconciled. In addition, a depository account, in which only City funds received from all sources will be deposited, has been established. The goal is that only deposits are made in one account, and the exact amount of expenses will be transferred to the current General Fund Account which has been an issue with reconciliations. It is the intent of staff and the Finance Director to monitor the current General Fund Account to reconcile to zero while the depository account will retain only the monies received by the City which will be reconciled easily each month. By having two separate accounts, the chances of errors and improper reconciliation will be significantly reduced. Further, the newly hired Finance Director is reviewing the current software solution for a potential change to another Financial Management software through Microsoft Dynamics GP which will have more robust features to complete proper reconciliations as well as integrate a more user friendly utility billing software through Harris Technologies which will integrate with the digital meter reader hardware not currently operational under the current software structure. This will reduce further errors, and will provide a means to perform reconciliations in a more efficient and effective manner.

**2015-06: Utility Billings**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

During our test of controls over the City's utility billing process, we noted four instances out of the 40 billings tested where the City did not properly record and/or used unauthorized billing rates for water, refuse, and/or sewer services.

Cause of Condition:

Many discrepancies arose amidst the implementation of the new accounting system. The City was short staffed and controls were not in place to address and correct discrepancies.

Effect of Condition:

The City is not properly recording and/or applying authorized billing rates across all customer accounts, which results in the under and over collection of utility billing revenue.

Recommendation:

We recommend that the City properly reconcile the meter read list to the total amount consumed and charged recorded in the Customer Consumption Summary Report and the Standard Billings Journal in order to avoid future discrepancies. Furthermore, we recommend the City identify those customers who are being charged unauthorized billing rates for water, refuse, and/or sewer services and make the necessary corrections in the City's billing software.

Management's Response:

Staff is continually monitoring the users and billing for Water, Refuse, and Sewer. There have been increases in these rates that have not been passed on to residents or users of these services for which the City is paying. A utility billing specialist is monitoring all accounts and proper aging schedules are used to help pinpoint various accounts that might be misstated. Further, a new utility billing software is being reviewed by management as a means to have clean record keeping procedures, the ability to use the electronic meter reading system currently purchased in City Services, and increase available reporting options for such services through the software. Staff is also reviewing methods to provide payment sources to its residents that will be easier to track and complete through current channels as well as its potential connectivity to new software.

**2015-07: Due To/From**

Criteria:

In accordance with Governmental Accounting Standards, transfers of funds using due to/from are intended to be short-term in nature. A due to/from remaining outstanding over an entity's operating cycle is essentially a loan and should be classified as such.

Condition:

While performing our audit of due to/from, we noted that the total $4.8 million due to/from balance was composed of transactions outstanding for more than one year. Further, we noted that $4.7 million of the outstanding balance was attributable to amounts owed to other funds by the City's General Fund. Due to the City being a going concern, we believe that there is a low probability this $4.7 million will be paid back to the corresponding funds.

Cause of Condition:

Due to the City's cash flow issues, prior management would transfer funds from one fund to another in order to avoid showing negative cash balances. However, this was usually done without the intention of the funds being paid back. Due to a current shortage of funds, the City has been unable to fix these transfers made by prior management.

Effect of Condition:

Allowing due to/from transactions to last more than one year creates misleading fund balances. Due to/from transactions are indented to be short-term in nature, and therefore, transfers which exceed one year are long-term.

Recommendation:

We recommend that the City transfer funds using due to/from only if the funds are expected to be paid back within one year. We also recommend that the City take the necessary steps to reclassify, reverse, or pay-down the outstanding $4.8 million due to/from balance composed of transactions outstanding for more than one year. We also recommend that the City seek legal advice from the City's legal counsel, or permission from the original funding source and State Controller's Office, to see if it can write off advances to/from other funds as these will most likely not be repaid since the City does not have the financial resources to repay such amounts.

Management's Response:

The newly hired Finance Director is working on presenting a sales tax initiative and Proposition (Prop) 218 agreement to present to the City Council for fiscal year 2016 / 2017, with hopes to increase revenues to the General Fund. It is the Finance Director's intent to bring to light the General Fund discrepancies in future City Council meetings once a clear direction of accounting options are properly made and clearly defined for the City Council to understand. The ideal concept is to create a long-term note payable from funds to the General Fund to which the General Fund will pay the funds back over time at a set interest rate which has not yet been determined or known if it is feasibly possible. The Finance Director is reviewing all possible options for support to the General Fund and will present to the City Council the best options for support to the General Fund going forward. All contingencies must be reviewed prior to the City Council presentation in case a sales tax or Prop 218 is not passed, and whether the accounting procedures related to the General Fund long-term notes are not an acceptable option to complete. Further, this finding has been on every audit since 2008 when these balances began to carry forward. Staff has completed requirements exactly as auditors have requested each year. Information relating to these findings have also been presented to the City Council throughout those years, and going forward the Due to/Due From will be properly accounted for.

**2015-08: Advances To/From**

Criteria:

In accordance with Governmental Accounting Standards, advances to/from other funds are expected to be repaid and used for specified purposes.

Condition:

While performing audit procedures over advances to/from, we noted that the total $16.3 million advances to/from balance was composed of transactions outstanding for numerous years and are not expected to be repaid. Advances to/from funds were made that were intended to be used for other purposes.

Cause of Condition:

Due to the City's cash flow issues, prior management would advance funds from one fund to another in order to avoid showing negative cash balances. However, due to a current shortage of funds, the City has been unable to fix these improper advances made by prior management.

Effect of Condition:

Allowing advances to/from transactions to remain on the balance sheet creates misleading fund balances. Advances to/from transactions are intended to be repaid and used for specified purposes. As the City has cash flow issues, these advances are not expected to be repaid.

Recommendation:

We recommend that the City advance funds to/from other funds only if the funds are expected to be paid back and are used for specified purposes. We also recommend that the City seek legal advice from the City's legal counsel, or permission from the original funding source and State Controller's Office, to see if it can write off advances to/from other funds as these will most likely not be repaid since the City does not have the financial resources to repay such amounts.

Management's Response:

The main cause of the large advances occurred due to the building of the McDermont Field House in 2008. As McDermont Field House continues operations, each year has a different set of financial responsibilities to operate successfully. Like most businesses of this size and scope, profitability has been an issue for many years. Since the adoption of new marketing practices, streamlined expenses, and lower capital improvement costs, McDermont Field House is beginning to show small profits. It is expected that the revenue cycle at McDermont will continue to improve as the venue increases awareness of events and brings other revenue generating events with yearly renewals. Going forward, it is expected that the funds generated by the McDermont Field House will continue to supplement the City finances and begin repaying an amount determined to be sustainable back to the General Fund. Accounting research is being conducted by the newly hired Finance Director to establish a repayment schedule that would be in line with the revenue production of the McDermont Field House without significantly impacting the operations of the venue. In effect, it is determined that the best course of action would be to establish a set of loans with a particular term between all funds in question to best serve the completion of this audit finding. Finance staff continues to explore the various possibilities of these loan structures that would make financial sense to both the City and the McDermont Field House within proper accounting methods.

# CITY OF LINDSAY
# SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
# FOR THE FISCAL YEAR ENDED JUNE 30, 2015

## 2014-01: Notes Receivable

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

During our year-end audit procedures, we noted that, as of the date of fieldwork, the year-end reconciliation of notes receivable to the City of Lindsay's (the City) general ledger had not yet been completed. We noted that multiple material adjustments were required to arrive at the accurate and complete notes receivable balances as of June 30, 2014.

Cause of Condition:

During our walkthrough of the notes receivable process and testing, we noted the City does not reconcile notes receivable in a timely manner.

Effect of Condition:

Although the City makes adjustments to bring notes receivable to its true balance, not reconciling notes receivable on a consistent, timely basis throughout the year allows errors to accumulate and delays the year-end closing and audit process.

Recommendation:

We recommend that the City reconcile notes receivable on a monthly basis, or at the very least quarterly, in order to mitigate errors found at year-end and improve the year-end closing procedures.

Management's Response:

With the addition of the Management Analyst position in fiscal year (FY) 15, we have been able to create spreadsheets to assist with the reconciliation process. All Loan Portfolios – Business and Home Loans – are now reconciled quarterly and are balanced, with all adjustments to the accounts receivable and deferred revenue lines of the general ledger posted for each fund. As of this date (3-20-15), all Community Loan Funds are balanced to the last complete quarter of 12-31-14. The portfolios shall be updated and maintained, with reconciliations and general ledger adjustments occurring the week following the end of the previous month.

Current Year Status:

Notes receivable have been updated and are now followed by two staff members. With the assistance of a new Finance Director, additional training in this area has already been implemented and the goal is to have proper record keeping and consistent reconciliations of said statements. The reconciliations are reviewed by the Finance Director quarterly, and monthly reconciliations are completed per the advice of the independent audit team.

**2014-02: Segregation of Duties**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

While performing our audit procedures over cash, we noted that cash reconciliations were not being completed in a timely manner as the Finance Director was the only City personnel with adequate accounting knowledge required to complete the reconciliations. We also noted during the financial reporting process that the Finance Director handled most of the year-end closing procedures, including calculating and posting year-end accruals, preparation of final trial balance figures, reconciling due to/from and transfers in/out, and implementing new Governmental Accounting Standards Board (GASB) Statements.

Cause of Condition:

City staff lack adequate knowledge of governmental accounting to ensure the accounting records are correctly stated for preparation of the financial statements. Currently, the Finance Director is the only City personnel with knowledge of governmental accounting.

Effect of Condition:

The Finance Director is able to prepare cash reconciliations and conduct financial closing procedures with little oversight. This may result in the misstatement of financial information due to improper postings of journal entries or improper financial closing procedures. In addition, lack of governmental accounting knowledge by City personnel has resulted in late filing of the Comprehensive Annual Financial Report (CAFR).

Recommendation:

We recommend that the City either hire individuals with governmental accounting knowledge to aid the Finance Director in completing financial reporting duties or train current staff to obtain a basic understanding of governmental accounting. To improve segregation of duties, cash reconciliations should be prepared by an individual other than the Finance Director, limiting the Finance Director's role to review and approval of reconciliations. In addition, journal entries should be approved by someone other than the preparer of the entry.

Management's Response:

Staff did implement a better system for segregation of duties last FY and have a different staff member enter and post all journal entries than the person that created it; however, we will be more diligent in ensuring each staff member remember to "wet" initial the document to provide proof of segregation. Training is on-going to improve the accounting knowledge of other staff members in addition to the Finance Director. We did add the position of Management Analyst in FY15 which we expect to improve both our reconciliation and reporting procedures. Unfortunately, the salary offered was not competitive enough to attract anyone with extensive municipal accounting experience so we have to train on all levels and the time frame is longer than we would like. However, the educational requirement did provide us with a candidate who is technically qualified and is proving to be a great addition to the department, particularly to shore up these areas.

Current Year Status:

The newly hired Finance Director brought previous staff familiar with cash reconciliation from another department to go backwards every month until properly reconciled. In addition, a depository account, in which only City funds received from all sources will be deposited, has been established. The goal is that only deposits are made in one account, and the exact amount of expenses will be transferred to the current General Fund Account which has been an issue with reconciliations. It is the intent of staff and the Finance Director to monitor the current General Fund Account to reconcile to zero while the depository account will retain only the monies received by the City which will be reconciled easily each month. By having two separate accounts, the chances of errors and improper reconciliation will be significantly reduced.

**2014-03: Financial Reporting**

Criteria:

The City should design and implement internal controls over the financial reporting process to ensure the following: 1) that the general ledger undergoes adequate procedures to ensure the proper application of fiscal year cut-off, 2) that the general ledger fiscal year period is closed and related financial statement supporting schedules are prepared in a timely manner allowing for a more efficient audit, and 3) that the final trial balance figures are subject to sufficient management review so that balances are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

During our fieldwork, we noted that the City did not have year-end closing procedures in place which would have allowed the financial statements to be issued in a timely manner. We noted that the closing procedures currently in place did not include a sufficient review of the information before it was provided to the external auditors. Based upon our audit, we noted there were several post-close adjustments made by the City. Adjustments made by management considered to be material to the financial statements were related to beginning fund balance/net position for prior period adjustments, accounts payable, accounts receivable, notes receivable, unearned revenue, capital assets, long-term debt, and revenue and expenditure/expense accounts. Also, during our testing of year-end cutoff procedures and over financial statement account balances, we proposed audit adjustments to properly state the year-end account balances of certain accounts in accordance with GAAP. All adjustments that were proposed during the current year audit were presented to management and subsequently posted to the financial statements.

Cause of Condition:

Internal controls have not been suitably designed and implemented over the financial reporting process to ensure timely closure of the general ledger and sufficient management supervision of this process that would result in reliable and materially correct ending account balances in accordance with GAAP. In addition, the City has not implemented training programs for staff with financial reporting responsibilities.

Effect of Condition:

Untimely closing and lack of financial statement preparation procedures resulted in final fieldwork for the City's audit being postponed. As a result, material adjustments were proposed and posted to the City's financial statements for the year ended June 30, 2014.

Recommendation:

We recommend that the City implement stronger policies and procedures to ensure that a comprehensive closing of the general ledger is performed in a timely manner and that sufficient resources and adequate oversight are available to oversee the City's year-end closing procedures and preparation of the financial statement supporting schedules. We also recommend that the City strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements. Lastly, we recommend the City invest in training and cross-training programs for those employees with financial reporting responsibilities.

Management's Response:

Staff has implemented the auditor's recommendations regarding quarterly reconciliations which will tremendously help with the year-end closing process. With many of the problems of previous years resolved, or at least thoroughly reviewed with the appropriate agencies – CalTrans, SCO, DOF, CalPERS – and settlements proposed, we have been able to spend more time on training and cross-training within the department. We are currently developing a written year-end closing procedures manual that will assign specific portions of the year-end closing procedures to various staff members, which will ensure the previously mentioned segregation of duties as well as alleviate overburdening a single individual with all the required transactions. These written procedures manual will include a checklist and timeline for completion. Staff intends to have FY15 closed out and ready for audit by September 18th (the accrual period runs July 1st thru August 31st) with a target date for audit completion of 12-31-2015.

Current Year Status:

With the newly hired Finance Director, a fiscal year roll up procedure has been placed in force. The policy is to encourage the City management and department managers to refrain from any spending 15 days prior to fiscal year close. This is to ensure that all payments will be properly coded, paid, and reconciled in a quick order post fiscal year. Further, particular expense needs of the City and staff are put on hold until the end of the fiscal year. This ensures that all checks are properly sent and hopefully cashed in a timely manner to effect a cleaner and more expedited closing process. Staff is hindered by other departments grant requirements, and new policies have been implemented with project management to ensure projects and grants are recognized and completed well in advance of the fiscal year close. Staff is encouraged to attend, and have been to, multiple California Public Employees Retirement System (CalPERS) trainings, and ongoing support for educational training is provided to staff on an ongoing basis.

**2014-04: Reconciling Accounts to Supporting Documentation – Accounting Controls**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

The City does not reconcile its general ledger accounts to supporting documents. In order to make the interim and annual financial statements meaningful, we recommend the City reconcile the general ledger accounts for cash accounts, accounts receivable, and notes receivable to supporting documentation on a monthly or routine basis. During our audit, we identified numerous adjustments to general ledger assets and liabilities that impacted the operating results of the City.

Cause of Condition:

Management has not reviewed its policies and procedures to ensure that the general ledger accounts are supported on a monthly basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

Effect of Condition:

The absence of performing monthly and/or routine reconciliations provides an opportunity for errors to accumulate and these errors may go undetected. The benefit of monthly reconciliations is that errors do not accumulate, but can be identified and attributed to a particular period (month), which makes it easier to perform future reconciliations. Because the procedures recommended below were not in place during the year ended June 30, 2014, this finding is considered a material weakness because a material misstatement of the financial statements would have occurred and not been prevented or detected by the City's existing internal controls.

Recommendation:

We recommend management establish monthly and/or routine reconciliation policies and procedures, including the performance of the following functions:

- Cash should be reconciled from the bank statement balance to the general ledger balance on a monthly basis to determine that all cash transactions have been recorded properly, and to discover banking errors. The proper recordation of cash activity will provide for the fair presentation of the financial statements.

- An aging schedule for accounts receivable should be generated from the City's financial system on a monthly basis. Anything deemed uncollectable per the aging schedule should be written off. The proper recordation of uncollectable accounts receivable balances will provide for fair presentation of the accounts receivable balance per the year-end financial statements.

- Notes receivable should be reconciled from the payment history reports month-end balance to the notes receivable schedules kept by City personnel on a monthly basis to ensure that all note holder payments are properly recorded. The proper recordation of note holder payments will provide for fair presentation of the notes receivable balance per the year-end financial statements.

Management's Response:

As previously mentioned, the notes receivable issue has been resolved and all accounts are reconciled to the general ledger and supporting documents for each fund, with adjustments balanced to the General Ledger as of 12-31-14 (for this date of 3-20-15) with the next reconciliation date for the quarter JAN-MAR 2015 to occur the first month of April as soon as all revenues are posted. Staff has created reconciliation spreadsheets for these programs that will be included as part of the Quarterly Update reporting process to the City Council.

The cash accounts are being reconciled monthly and all but 2 accounts are reconciled through 2-28-15 as of this date (3-20-15) with all cash adjustments posted to the general ledger and supported by the bank statements. Training someone who understands this procedure has been challenging, while trying to maintain the segregation of duties – i.e., the person that posts the revenues and signs the checks cannot be the same person that reconciles the accounts, but the current staff configuration is meeting this requirement.

The conversion to the upgraded financial system did not go as smoothly as we had planned and it took longer to work out the bugs than we anticipated. We are still coming across issues that take precedent over the reconciliation of the aging accounts receivable on a monthly basis. It is currently done on an annual basis when we have a full year's history of billings vs. collections. In FY16 we will create procedures for quarterly reconciliations of the aging accounts receivable with requests to council for any items deemed uncollectible and subject to write off in accordance with the City's *Uncollectible Receivables* policy which asserts a receivable must be "deemed uncollectible for a period of six months or longer," before it is subject to write-off. The last "write-off" of uncollectible accounts occurred in FY12.

Current Year Status:

The newly hired Finance Director brought previous staff familiar with cash reconciliation from another department to go backwards every month until properly reconciled. In addition, a depository account, in which only City funds received from all sources will be deposited, has been established. The goal is that only deposits are made in one account, and the exact amount of expenses will be transferred to the current General Fund Account which has been an issue with reconciliations. It is the intent of staff and the Finance Director to monitor the current General Fund Account to reconcile to zero while the depository account will retain only the monies received by the City which will be reconciled easily each month. By having two separate accounts, the chances of errors and improper reconciliation will be significantly reduced.

**2014-05: Cash and Cash Equivalents**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

While performing our audit procedures over cash and cash equivalents, we noted the City was not performing cash reconciliations to the general ledger on a timely basis.

Cause of Condition:

The City Finance Department is short-staffed and did not have an accountant that could reconcile cash accounts on a monthly basis.

Effect of Condition:

By not regularly performing cash reconciliations, errors or discrepancies are allowed to accumulate and create difficulty in reconciling accounts. Regular reconciliations would address discrepancies as they arise and aid in preparing year-end reconciliations.

Recommendation:

We recommend the City perform cash reconciliations for all accounts on a monthly basis.

Management's Response:

Staff corrected this problem in FY15, which we had stated previously we would do, with the addition of a staff member with a higher level of accounting experience. Council approved the new position in the FY15 budget and we have made significant improvements over past years. The cash accounts are being reconciled monthly and all but 2 accounts are reconciled through 2-28-15 as of this date (3-20-15) with all cash adjustments posted to the general ledger and supported by the bank statements. Training someone who understands this procedure has been challenging, while trying to maintain the segregation of duties – i.e., the person that posts the revenues and signs the checks cannot be the same person that reconciles the accounts, but the current staff configuration is meeting this requirement. In FY16, we will begin to utilize the bank reconciliation feature that is available with the software upgrade we purchased last year – we have not yet had any training on this feature.

Current Year Status:

The newly hired Finance Director brought previous staff familiar with cash reconciliation from another department to go backwards every month until properly reconciled. In addition, a depository account, in which only City funds received from all sources will be deposited, has been established. The goal is that only deposits are made in one account, and the exact amount of expenses will be transferred to the current General Fund Account which has been an issue with reconciliations. It is the intent of staff and the Finance Director to monitor the current General Fund Account to reconcile to zero while the depository account will retain only the monies received by the City which will be reconciled easily each month. By having two separate accounts, the chances of errors and improper reconciliation will be significantly reduced. Further, the newly hired Finance Director is reviewing the current software solution for a potential change to another Financial Management software through Microsoft Dynamics GP which will have more robust features to complete proper reconciliations as well as integrate a more user friendly utility billing software through Harris Technologies which will integrate with the digital meter reader hardware not currently operational under the current software structure. This will reduce further errors, and will provide a means to perform reconciliations in a more efficient and effective manner.

**2014-06: Due To/From**

Criteria:

In accordance with Governmental Accounting Standards, transfers of funds using due to/from are intended to be short-term in nature. A due to/from remaining outstanding over an entity's operating cycle is essentially a loan and should be classified as such.

Condition:

While performing our audit of due to/from, we noted that the total $4.5 million due to/from balance was composed of transactions outstanding for more than one year. Further, we noted that $4.1 million of the outstanding balance was attributable to amounts owed to other funds by the City's General Fund. Due to the City not being a going concern as of June 30, 2013, and City funding shortages, we believe that there is a low probability this $4.1 million will be paid back to the corresponding funds.

Cause of Condition:

Due to the City's cash flow issues, prior management would transfer funds from one fund to another in order to avoid showing negative cash balances. However, this was usually done without the intention of the funds being paid back. Due to a current shortage of funds, the City has been unable to fix these improper transfers made by prior management.

Effect of Condition:

Allowing due to/from transactions to last more than one year creates misleading fund balances. Due to/from transactions are intended to be short-term in nature, and therefore, transfers which exceed one year are long-term.

Recommendation:

We recommend that the City transfer funds using due to/from only if the funds are expected to be paid back within one year. We also recommend that the City take the necessary steps to reclassify, reverse, or pay-down the outstanding $4.5 million due to/from balance composed of transactions outstanding for more than one year.

Management's Response:

Staff whole-heartedly concurs with this finding and the recommendation set forth. We will be preparing a schedule to relieve the Due To/From amounts for any transactions that occurred prior to June 30, 2011, as current staff has not used this accounting function, with the exception of a temporary use in FY12 that was immediately reversed per acceptable GAAP standards. The schedule will be presented to Council for approval, with no interest sought between funds, and with the accounting action to be completed prior to June 30, 2015. By reversing these balances from prior years, we will effectively correct all fund balance amounts within each fund.

Current Year Status:

The newly hired Finance Director is working on presenting a sales tax initiative and Proposition (Prop) 218 agreement to present to the City Council for fiscal year 2016 / 2017, with hopes to increase revenues to the General Fund. It is the Finance Director's intent to bring to light the General Fund discrepancies in future City Council meetings once a clear direction of accounting options are properly made and clearly defined for the City Council to understand. The ideal concept is to create a long-term note payable from funds to the General Fund to which the General Fund will pay the funds back over time at a set interest rate which has not yet been determined or known if it is feasibly possible. The Finance Director is reviewing all possible options for support to the General Fund and will present to the City Council the best options for support to the General Fund going forward. All contingencies must be reviewed prior to the City Council presentation in case a sales tax or Prop 218 is not passed, and whether the accounting procedures related to the General Fund long-term notes are not an acceptable option to complete.

Further, this finding has been on every audit since 2008 when these balances began to carry forward. Staff has completed requirements exactly as auditors have requested each year. Information relating to these findings have also been presented to the City Council throughout those years, and going forward the Due to/Due From will be properly accounted for.

**2014-07: Advances To/From**

Criteria:

In accordance with Governmental Accounting Standards, advances to/from other funds are expected to be repaid and used for specified purposes.

Condition:

While performing audit procedures over advances to/from, we noted that the total $16.3 million advances to/from balance was composed of transactions outstanding for numerous years and are not expected to be repaid. Advances to/from funds were made that were intended to be used for other purposes.

Cause of Condition:

Due to the City's cash flow issues, prior management would advance funds from one fund to another in order to avoid showing negative cash balances. However, due to a current shortage of funds, the City has been unable to fix these improper advances made by prior management.

Effect of Condition:

Allowing advances to/from transactions to remain on the balance sheet creates misleading fund balances. Advances to/from transactions are intended to be repaid and used for specified purposes. As the City has cash flow issues, these advances are not expected to be repaid.

Recommendation:

We recommend that the City advance funds to/from other funds only if the funds are expected to be paid back and are used for specified purposes. We also recommend that the City seek legal advice from the City's legal counsel, or permission from the original funding source and State Controller's Office, to see if it can write off advances to/from other funds as these will most likely not be repaid since the City does not have the financial resources to repay such amounts.

Management's Response:

The main cause of the large advances occurred due to the building of the McDermont Field House in 2008. As McDermont Field House continues operations, each year has a different set of financial responsibilities to operate successfully. Like most businesses of this size and scope, profitability has been an issue for many years. Since the adoption of new marketing practices, streamlined expenses, and lower capital improvement costs, McDermont Field House is beginning to show small profits. It is expected that the revenue cycle at McDermont will continue to improve as the venue increases awareness of events and brings other revenue generating events with yearly renewals. Going forward, it is expected that the funds generated by the McDermont Field House will continue to supplement the City finances and begin repaying an amount determined to be sustainable back to the General Fund. Accounting research is being conducted by the newly hired Finance Director to establish a repayment schedule that would be in line with the revenue production of the McDermont Field House without significantly impacting the operations of the venue. In effect, it is determined that the best course of action would be to establish a set of loans with a particular term between all funds in question to best serve the completion of this audit finding. Finance staff continues to explore the various possibilities of these loan structures that would make financial sense to both the City and the McDermont Field House within proper accounting methods.

Current Year Status:

Management continues to work on ideas and solutions to pay back the previous year advances incurred to fund various construction projects.

**2014-08: Utility Billing Receipts**

Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, and compliance with applicable laws and regulations.

Condition:

During our test of controls procedures over the City's utility billing process, we noted three instances out of the 40 billings tested where the City was using unauthorized billing rates for either refuse or sewer services.

Cause of Condition:

In two instances, we noted the City was applying a senior discount for disposal services when senior discounts are no longer authorized. We also noted one instance where the City charged the incorrect rate of $7.36 rather than the hotel/motel and hospital rate of $7.27.

Effect of Condition:

The City is not properly applying authorized billing rates across all customer accounts, which results in the under and over collection of utility billing revenue.

Recommendation:

We recommend that the City identify those customers who are being charged unauthorized billing rates for water, refuse, and sewer services and make the necessary corrections in the City's billing software.

Management's Response:

Staff ran a report to check the billing codes in our system 3/20/15, the results are as follows:

- Water: 2,855 active water accounts being billed (includes 232 for PageMoor Tract); 23 billing codes used depending on size of meter, property type, etc.; -0- irregularities.
- Refuse: 2,647 active refuse accounts being billed; 32 billing codes used depending on size of container, frequency, property type, etc.; -0- irregularities. However, during the initial auditor internal controls testing phase in October 2014, there were about 40 accounts that were discovered to still have the senior discount code which was billing at $2 *less* than the regular refuse code; the senior discount rate was discontinued in 2010. All accounts are now carrying the correct codes. The City will not seek to bill for the additional amounts not collected.
- Sewer: 2,627 active sewer accounts (this includes 118 for El Rancho/Toneyville); 29 billing codes used depending on property type, etc.; 6 irregularities all related to a single commercial code that we traced back to billing of 8/01/2008. The increase of 7/01/2008 had been input incorrectly in the system. Staff determined the overcharge amounted to $2.80 per month for a period of 76 months. As this was a flat rate code, the credit due to each account could be determined quickly with the amounts applied to each account that experienced an overcharge – all related to hotels or multiple units. The combined total of the overcharge for all six (6) accounts during the 76-month period amounted to $888.44. The credit has been applied to each individual account and the billing code corrected for the 4/01/15 billing which is for charges incurred in March 2015.

Current Year Status:

Staff is continually monitoring the users and billing for Water, Refuse, and Sewer. There have been increases in these rates that have not been passed on to residents or users of these services in which the City is paying for. A utility billing specialist is monitoring all accounts and proper aging schedules are used to help pinpoint various accounts that might be misstated.