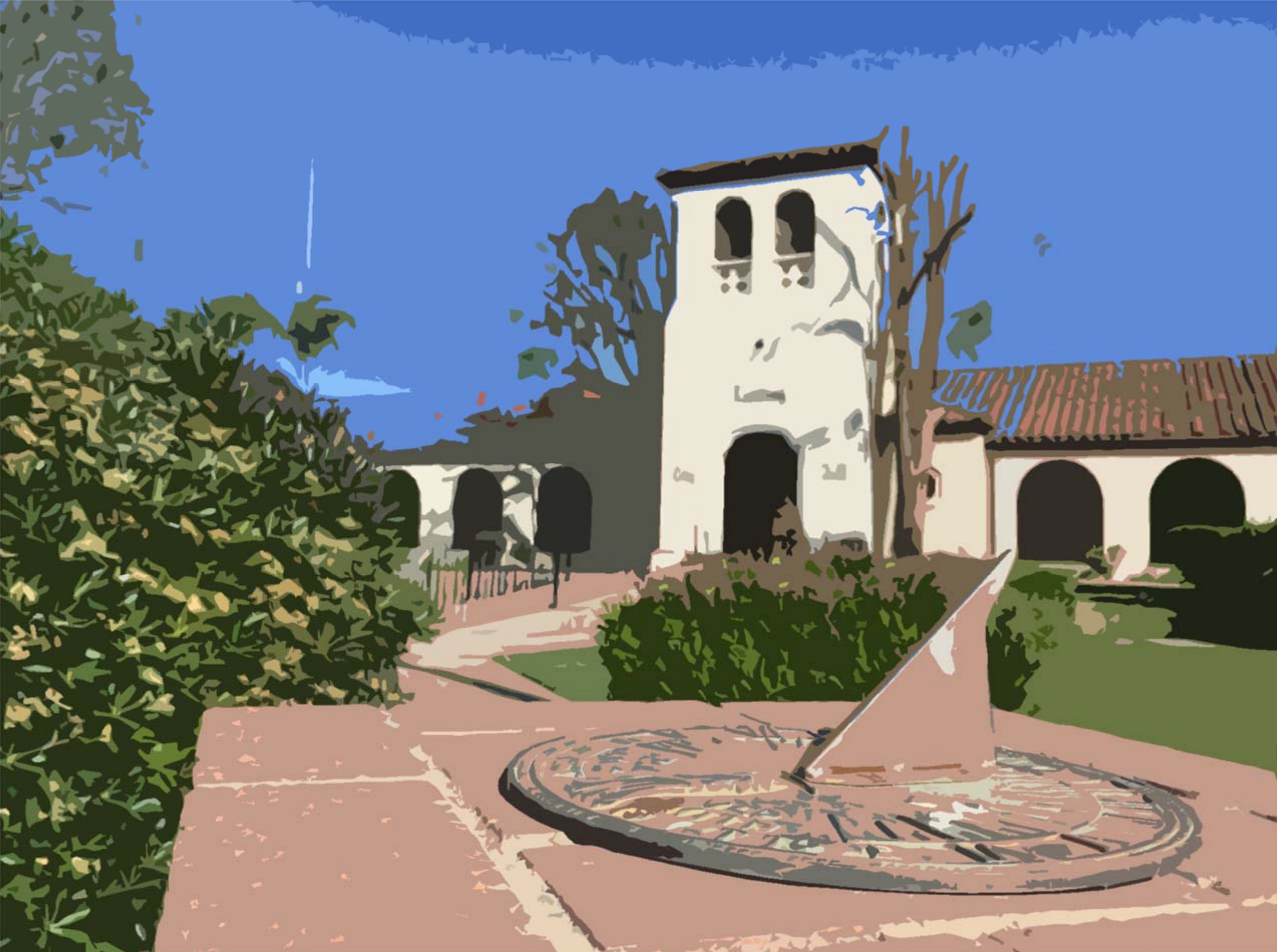

City of Lindsay

Basic Financial Statements

For Year Ended June 30, 2018

City of Lindsay
Basic Financial Statements
For the year ended June 30, 2018

Table of Contents

City of Lindsay
Basic Financial Statements
For the year ended June 30, 2018

Table of Contents

Bret Harmon, MPA
Director of Finance
City of Lindsay

251 E. Honolulu, P.O. Box 369
Lindsay, CA 93247
559.562.7102 x 8020
bharmon@lindsay.ca.us

April 17, 2019

Honorable Mayor Kimball, City Council Members and City Manager Zigler

City of Lindsay, California

The comprehensive annual financial report of the City of Lindsay (the City) for the year ended June 30, 2018, is hereby submitted in accordance with Section 3.15 of the City Charter and California state law. The ordinance requires the City issue a report on its financial position and activity annually. An independent firm of certified public accountants must audit this report annually. Pursuant to these requirements, we hereby issue this annual financial report of the City for the fiscal year ended June 30, 2018.

This report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, management of the City employs a comprehensive internal control framework 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 provides reasonable, rather than absolute, assurance the financial statements are free from material misstatement. We assert, 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 Badawi & Associates, a licensed certified public accountant firm. The goal of the independent audit is to provide reasonable assurance the financial statements of the City for the fiscal year ended June 30, 2018, 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 found the City's financial statements for fiscal year ended June 30, 2018 to 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. 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 $750,000 threshold to require a separate Single Audit report per the Federal Single Audit Act of 1984 and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance); therefore, the City is exempt from that reporting requirement for the fiscal year ended June 30, 2018. Audit findings previously denoted in that report will be included as a supplementary section, entitled Summary Schedule of Findings and Responses, that can be found at the end of this report.

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 inconjunction with it. The City's MD&A can be found immediately following the report of theindependent 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. Lindsayisinthemiddle of the state in the Central San Joaquin Valley. The Central Valley is 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 square miles and serves a population of 13,303 (2017) an increase of 13.1% since 2010.

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 policies 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; and community services including city parks, a skate park, and adult and youth recreational activities. The Wellness & Aquatic Center, 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 grant programs and Curb & Gutter.

Acknowledgements

The preparation of this document could not have been accomplished without the dedicated services of the entire staff of the Finance Department and staff members in the City Services department. I also express appreciation to the Mayor, City Council, and the City Manager for their support in planning and conducting the financial operations of the City in a responsible, thoughtful manner. A special thank you to Badawi & Associates for their professional, exceptional work.

Respectfully,

Bret Harmon, Director of Finance

Lindsay Residents

City Council

Mayor Kimball
Mayor Pro Tem Salinas
Councilmembers Cortes, Watson and Velasquez

Executive

City Manager Zigler
City Attorney Zamora

Department	**Public Safety**	**City Services**	**Finance**	**Recreation**	**Administration**
Director	Hughes	Camarena	Harmon	Davis	Zigler
Services	• Police • Fire • Code Enforcement • Animal Control	• Capital Projects • Engineering • Water • Sewer • Storm Drain • Refuse Mgmt. • Building Dept. • Streets • Alleys • Parks • City Facilities	• City Clerk • Finance • Accounting • Receipts • Payroll • Budget • Policies • Investments • Debt Mgmt.	• Wellness Center • Aquatic Center • Youth Programs • Senior Services • Sports Complex	• Human Resources • Planning

This page intentionally left blank

BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
of the City of Lindsay
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, California (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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.

Address: 180 Grand Avenue, Suite 1500 Oakland, CA 94612 • Phone: 510.768.8251 • Fax: 510.768.8249

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, 2018, 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

Regarding Going Concern

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 13 to the financial statements, the City has a significant deficit fund balance in its General Fund. In addition, the City continues to experience operating losses in the General Fund, McDermont Sports Complex Fund, and Wellness Center Fund, and is having difficulties maintaining operating cash balances and paying for City expenditures. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 13. 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.

Regarding Violations of Grant Requirements

As discussed in Note 16 to the financial statements, the City, in previous years, has expended certain federal and State grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. These matters which occurred in previous years remain unresolved and the possible outcome of these matters, which have been reported to appropriate federal officials, cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the financial statements for possible federal claims for refunds of those grant monies.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information, other postemployment benefit information, and budgetary comparison information on pages 5-12 and 81-84 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements on pages 87-88, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements on pages 87-88 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 nonmajor fund financial statements on pages 87-88 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the City adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2019, 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.

Badawi & Associates

Badawi and Associates
Certified Public Accountants
Oakland, California
April 17, 2019

This page intentionally left blank

CITY OF LINDSAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

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, 2018. We encourage readers to consider the information in the Transmittal Letter and Management's Discussion & Analysis as they review the financial statements. The narratives give valuable context and insightful analysis. All amounts, unless otherwise indicated, are expressed in thousands of dollars ($000's). Unless noted otherwise, fiscal year refers to the fiscal year ended June 30, 2018.

BACKGROUND

Understanding some of Lindsay's story over the last 20 years may help the reader give context to the information in this report. In the mid-to-late 2000's, the City enjoyed a seemingly endless flow of grant awards. The grants were for housing, community development, economic development and freeze relief. Lindsay was the envy of so many other communities. Management worked to execute their grand, innovative plans to enrich and expand the quality of life in the community while the economy was red hot and the City had more grant money than it could manage.

The City provided hundreds of grant-funded home loans at the peak of the housing boom, built low-to-moderate housing subdivisions, created the McDermont Field House (an 185,000 square foot athletic and entertainment center) out of an old packing plant, built the Wellness & Aquatic Center, and renovated its downtown. City staff were routinely invited to share Lindsay's secret with leaders of other communities in hopes of helping others to lift their own economies too.

Unfortunately, the growth did not last. The housing bubble popped, the State took away redevelopment funding, and grant money stopped flowing. The City could not maintain what it had built, let alone sustain ongoing growth. Within a few short years, Lindsay came to an economic standstill without the money it needed to complete or maintain what it had started. Compounding the situation were turnover in administration, reduction in staffing, combining of departments, shrinking revenues, escalating costs and a series of audits by funding agencies. The City was not able to maintain its general operations or operations at McDermont or the Wellness & Aquatic Center without borrowing from other funds.

In February 2017, City Council declared a fiscal emergency, placed a successful 1% transactions and use tax measure on the June 2017 special election ballot, and initiated a recovery plan. Ever since then, the City has been taking meaningful steps to turn the City around. Part of the process has been to classify borrowed funds as advances or transfers based on the likelihood the City can repay them. The City has outsourced the management and operations of McDermont Field House and dramatically reduced its staffing levels.

The turnaround process will take years, if not decades. However, the City is now operating with a clear view of where it is and what obstacles stand between it and fiscal sustainability. The most significant obstacles remain as a negative fund balance in the general fund (which means the liabilities in the general fund are greater than the general fund's assets), escalating CalPERS pension costs, consequences of borrowing funds from other government agencies without a means to repay, negative impacts from vacating (which means forgiving) money owed to the City's utilities, and a complete absence of cash reserves. The City is functionally bankrupt meaning it can meet its current year obligations, but it does not have enough resources to build reserves or to repay what it borrowed. To maintain the City's progress in the right direction, staff have implemented and enhanced its internal controls to allow it to avoid a repeat of the past.

FINANCIAL STATEMENT FUNCTIONALITY

This discussion and analyses are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include:

1. Government-wide financial statements — *high-level view*
2. Fund financial statements — *summary view*
3. Notes to the financial statements — *detailed view*

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements provide the broadest view of the City's financial condition.

The **statement of net position** presents information for the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position at a specific point in time. The reader can think of the statement of net position as a snapshot of the City on the last day of the fiscal year. 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 fiscal year. The reader may think of the statement of activities as the report that shows what happened between last year's statement of net position (a snapshot in time) and this year's statement of net position (another snapshot in time). The statement of activities shows changes in net position based on when events (a revenue or an expenditure) happened rather than reporting based solely on when the related cash transaction finishes. Sometimes the related cash transaction happens and is recorded at the same time as the revenue or expenditure, yet other times it happens afterward. Consequently, revenues and expenditures 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).

The government-wide financial statements distinguish functions principally supported by taxes and intergovernmental revenues (governmental activities) from other functions supported in full or in part by cost recoveries known as user fees and charges (business-type activities). The governmental activities of the City include general administration, public safety, parks and recreation, public works, streets, transportation, and community development. The business-type activities of the City include water, sewer, and refuse services, as well as the Lindsay Wellness & Aquatic Center and McDermont Field House Sports Complex. The Wellness & Aquatic Center and McDermont provide fee-based entertainment, facility rental, and recreational events and activities for the community and other Central 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 used to maintain control over specific resources 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. The City's funds 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 eight 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 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.

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 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.

FINANCIAL HIGHLIGHTS

- In past years, the City offset notes receivable in the community development fund with unearned revenue in the liability section of its balance sheet. In accordance with the City's implementation of GASB 65, the City revised the balance sheet to remove the unearned revenue offset. Consequently, the City's total governmental funds net position and fund balances increased by $13,883.

- The City's net position improved from $46,203 in FY 2017 to $60,731 in FY 2018, an increase of $14,528.

- The City's total governmental funds reported a combined ending fund balances of $13,176 at the close of FY 2017-2018. That is a significant improvement from ($5,061) at the close of FY 2016-2017.

- The City reclassified some advances to the general fund to transfers to the general fund to properly designate funds the general fund was unable to repay as transfers. Consequently, the general fund's FY 2017-2018 fund balance improved to ($5,668) from FY 2016-2017 fund balance of ($9,438).

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. Assets and liabilities are the two largest components used in determining net position. In the case of the City of Lindsay, assets exceeded liabilities by $57,972 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 residents; 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 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.

Net Position provides a snapshot in time at the end of the fiscal year. Monitoring net position over time gives an indication of the general health of the City. In FY 2017-2018, the City's net position increased from $46,203 to $60,731, indicating a stronger financial position. It is important to recognize that much of the net position is based on net investment in capital assets, which are not liquid (or easily converted to cash).

As the reader will see in the following table (City of Lindsay's Net Position) a portion of the City's total net position, $15,294, represents resources that are subject to external restrictions on how they may be used. The unrestricted net position, ($11,338), indicates the City has more liabilities than unrestricted assets. In other words, the City has borrowed restricted funds for general operations. The City is working with the agencies that placed the external restrictions on the restricted funds to negotiate a resolution to the overspending in the past. This is one of the most significant corrective actions the City has taken in FY 2017-2018 and in FY 2018-2019 to repair the financial damage done in prior years.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current and other assets	$ 17,133	$ 13,368	$ 837	$ 3,173	$ 17,970	$ 16,541
Capital assets	23,425	23,840	46,619	47,751	70,044	71,591
Total assets	40,558	37,208	47,456	50,924	88,014	88,132
DEFERRED OUTFLOWS						
Deferred outflows of resources	2,069	1,930	938	866	3,007	2,796
LIABILITIES						
Current liabilities	4,121	18,585	1,128	787	5,249	19,372
Noncurrent liabilities	8,883	8,241	15,910	16,692	24,793	24,933
Total liabilities	13,004	26,826	17,038	17,479	30,042	44,305
DEFERRED INFLOWS						
Deferred inflows of resources	182	290	66	130	248	420
NET POSITION						
Net investment in capital assets	23,211	22,187	33,564	34,275	56,775	56,462
Restricted	15,294	4,377	-	-	15,294	4,377
Unrestricted	(9,064)	(14,542)	(2,274)	(94)	(11,338)	(14,636)
Total net position	$ 29,441	$ 12,022	$ 31,290	$ 34,181	$ 60,731	$ 46,203

The next table (City of Lindsay's Change in Net Position) provides a picture of what happened during FY 2017-2018.

Governmental activities. Governmental activities improved net position by $3,977 this year.

Business-type activities. Business-type activities decreased net position by ($4,377) this year.

In 2016-2017, the City vacated advances from the general fund to McDermont, which accounts for most of the decline in net position for governmental funds and increase in business type activity. This year (FY 2017-2018, the business-type activity funds vacated advances from those funds to the general fund by converting them to transfers. That was the major contributor to increases in net position in governmental activities and decreases in net position in business-type activities.

Another important note centers on the City's Street Improvement Project Fund (SIP), which is included in the governmental activities fund. SIP revenue is a voter-approved tax on its water, sewer and refuse funds (business-type activities) on a percentage basis. After the City closed the FY 2016-2017 records and before finalizing the FY 2017-2018 records, the City self-identified an error in the calculation table for the SIP. The City had been over-allocating revenue to the SIP. The City had to make a prior year adjustment to correct the over-allocation. As a result, the ending balance in 2017 does not match the beginning balance in 2018. The difference is the correction to prior year fund balance. The 2017 data is presented in the table below to maintain continuity between last year's audit report and this audit report. See Note 17 Prior Period Adjustments for more details.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
PROGRAM REVENUES						
Charges in Services	$ 463	$ 321	$ 5,031	$ 5,763	$ 5,494	$ 6,084
Operating grants and contributions	829	1,099	-	-	829	1,099
Capital grants and contributions	1,564	1,888	-	-	1,564	1,888
GENERAL REVENUES						
Property taxes	346	329	-	-	346	329
Other taxes	3,827	2,893	-	-	3,827	2,893
Miscellaneous	115	183	301	221	416	404
Transfer of assets to other gov'ts	-	-	-	-	-	-
Transfers	3,141	(17,299)	(3,141)	17,299	-	-
TOTAL REVENUES	10,285	(10,586)	2,191	23,283	12,476	12,697
EXPENSES						
General government	1,499	1,616	-	-	1,499	1,616
Public safety	2,539	2,586	-	-	2,539	2,586
Parks and recreation	983	200	-	-	983	200
Public works	416	610	-	-	416	610
Streets and transportation	561	382	-	-	561	382
Community development	230	415	-	-	230	415
Interest on long-term debt	81	93	-	-	81	93
Water Fund	-	-	1,733	1,478	1,733	1,478
Sewer Fund	-	-	1,343	1,291	1,343	1,291
Refuse Fund	-	-	951	932	951	932
McDermont Fund	-	-	1,704	2,866	1,704	2,866
Wellness Center Fund	-	-	837	650	837	650
					-	-
TOTAL EXPENSES	6,309	5,902	6,568	7,217	12,877	13,119
NET POSITION						
Change in Net Position	3,976	(16,488)	(4,377)	16,066	(401)	(422)
Net position - beginning	12,022	27,510	34,181	18,947	46,203	46,457
Prior period adjustments	13,443	1,000	1,486	(832)	14,929	168
Net position - beginning (restated)	25,465	28,510	35,667	18,115	61,132	46,625
Net position - ending	$ 29,441	$ 12,022	$ 31,290	$ 34,181	$ 60,731	$ 46,203

CITY'S FUNDS FINANCIAL ANALYSIS

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. 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.

Measure O, the City's voter-approved 1% transactions and use tax, took effect in October 1, 2017. The City received its first revenue from Measure O in December 2017. The new tax measure, which is classified as other taxes above, helps the City stop operating with an annual spending deficit in the general fund. It prevented the City from reducing its public safety force. Measure O is a vital part of the City's recovery strategy. Measure O is a general tax without a sunset, so the City will be able to rely on its ongoing support to the community.

The state legislature passed SB1 to increase local funding for transportation projects. The City received its initial payments under the allocation formula in FY 2016-2017. SB1 funding will continue to be a valuable resource as the City completes street projects.

The City placed its home loan program on hold while it negotiates the future of the housing program with California's department of housing and community development. The negotiations are ongoing, so the City will not authorize any new loans. It continues to manage the existing loan portfolio.

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 City made two significant changes in its proprietary funds in FY 2017-2018. The first was to outsource the management and operations of McDermont to McDermont Ventures Inc. (MVI). The decision will save the City between $400,000 and $700,000 per year going forward. The general fund assumed the repayment of the debt service on McDermont and structural maintenance while MVI is responsible for all other expenses.

The second significant change was converting the advances from water, sewer, refuse and other funds to the general from into transfers. The general fund would not be able to repay the debt, so carrying the debt as an advance did not accurately represent the nature of the borrowing. As a result, the proprietary funds will need to rebuild the capital the funds need for capital projects.

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, 2018, amounts to $70,044 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges. Note 5 details capital assets.

Measure O made it possible for the City to do a lease purchase of a new fire truck. This will replace the City's ladder truck that failed testing. The new truck is a needed improvement to the City's fleet.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $14,751. State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation $199,554 for fiscal year 2018 per Tulare County Assessor). The City Charter Section 9.05A sets a 10% limitation. The current debt limitation for the City is $19,955, which complies with State and local statutes.

Because of the City's negative fund balances and uncertainty surrounding negotiations with other governments, the private sector does not consider the City a viable candidate for additional borrowing. The lack of access to borrowing will constrain the City's ability to start new capital projects.

BUDGET VERSUS ACTUAL

There were some instances where the variance between budgeted and actual amounts were significant in FY 2017-2018. One instance is the $329 received in intergovernmental revenues more than budgeted. The City received an unbudgeted HRPP Grant for park projects. The City used the funds to convert the City's executive golf course to a soccer complex. Another noteworthy line item is the transfers in to the general fund. The City did not budget to vacate the advances to the general fund by converting them to transfers. The Council authorized the conversion to transfers by resolution.

GENERAL DISCUSSION

The City of Lindsay is only in the first stages of its economic and fiscal recovery. The road ahead is long and daunting. The general fund's negative fund balance is roughly equal to one year's total general fund revenue. Management is working to find a realistic solution to the funds the City owes to HCD and other entities. The City will continue as a going concern until the City is able to find a workable solution.

The City is controlling its expenses, identifying and enhancing revenue sources and systematically dealing with the lingering, damaging effects of decisions made a decade ago.

Management is committed to the recovery process.

INFORMATION REQUESTS

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 Director of Finance, P.O. Box 369, City of Lindsay, CA 93247 (559) 562-7102.

BASIC
FINANCIAL STATEMENTS

This page intentionally left blank

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page intentionally left blank

City of Lindsay
Statement of Net Position
June 30, 2018

	Primary Government Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,634,012	$ 404,565	$ 3,038,577
Accounts receivable, net	137,142	432,155	569,297
Interest receivable	99	-	99
Due from other governments	468,223	-	468,223
Notes receivable	13,893,781	-	13,893,781
Total current assets	17,133,257	836,720	17,969,977
Capital assets			
Nondepreciable	939,111	1,052,067	1,991,178
Depreciable, net	22,485,351	45,567,569	68,052,920
Net capital assets	23,424,462	46,619,636	70,044,098
Total assets	40,557,719	47,456,356	88,014,075
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	2,068,214	937,389	3,005,603
Deferred outflows from OPEB	781	232	1,013
Total deferred outflows of resources	2,068,995	937,621	3,006,616
LIABILITIES			
Current liabilities:			
Cash overdraft	-	126,168	126,168
Accounts and other payables	235,033	349,571	584,604
Accrued wages	120,274	57,374	177,648
Accrued interest	9,163	170,165	179,328
Refundable deposits	52,230	12,190	64,420
Long-term obligations - other			
Due to other governments	733,910	-	733,910
Advances from Successor Agency	2,815,536	-	2,815,536
Long-term debt - current portion	155,274	412,259	567,533
Total current liabilities	4,121,420	1,127,727	5,249,147
Non-current liabilities:			
Long-term debt	1,499,560	12,684,185	14,183,745
Net OPEB Liability	1,082,907	357,734	1,440,641
Net pension liability	6,300,192	2,868,288	9,168,480
Total noncurrent liabilities	8,882,659	15,910,207	24,792,866
Total liabilities	13,004,079	17,037,934	30,042,013
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pensions	145,431	55,390	200,821
Deferred inflows from OPEB	36,419	10,774	47,193
Total deferred inflows of resources	181,850	66,164	248,014
NET POSITION			
Net investment in capital assets	23,210,015	33,564,495	56,774,510
Restricted	15,294,454	-	15,294,454
Unrestricted	(9,063,684)	(2,274,616)	(11,338,300)
Total net position	$ 29,440,785	$ 31,289,879	$ 60,730,664

See accompanying Notes to Basic Financial Statements

City of Lindsay
Statement of Activities
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Total
Primary Government:					
Governmental activities:					
General Government	$ 1,499,483	$ 3,324	$ 293,241	$ -	$ 296,565
Public Safety	2,539,144	107,823	196,768	-	304,591
Parks and recreation	983,302	79,095	-	-	79,095
Public works	416,247	-	-	-	-
Streets and transportation	560,890	-	-	1,564,271	1,564,271
Community development	229,857	272,372	339,235	-	611,607
Interest on long-term debt	80,325	-	-	-	-
Total governmental activities	6,309,248	462,614	829,244	1,564,271	2,856,129
Business-type activities:					
Water Fund	1,732,947	1,706,850	-	-	1,706,850
Sewer Fund	1,343,166	1,417,550	-	-	1,417,550
Refuse Fund	951,418	957,245	-	-	957,245
McDermont Sports Complex Fund	1,704,284	726,916	-	-	726,916
Wellness Center Fund	837,004	222,784	-	-	222,784
Total business-type activities	6,568,819	5,031,345	-	-	5,031,345
Total primary government	$ 12,878,067	$ 5,493,959	$ 829,244	$ 1,564,271	$ 7,887,474

General Revenues and transfers:

Taxes:

Property taxes

Sales taxes

Utilities Uses Tax

Other taxes

Sales of assets

Other income

Unrestricted investments earnings

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of year

Prior period adjustment

Net position - beginning of year, as restated

Net position - end of year

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (1,202,918)	$ -	$ (1,202,918)
(2,234,553)	-	(2,234,553)
(904,207)	-	(904,207)
(416,247)	-	(416,247)
1,003,381	-	1,003,381
381,750	-	381,750
(80,325)	-	(80,325)
(3,453,119)	-	(3,453,119)
-	(26,097)	(26,097)
-	74,384	74,384
-	5,827	5,827
-	(977,368)	(977,368)
-	(614,220)	(614,220)
-	(1,537,474)	(1,537,474)
$ (3,453,119)	$ (1,537,474)	$ (4,990,593)
345,700	-	345,700
939,735	-	939,735
852,637	-	852,637
2,034,597	-	2,034,597
-	-	-
75,512	285,752	361,264
39,683	14,768	54,451
3,140,754	(3,140,754)	-
7,428,618	(2,840,234)	4,588,384
3,975,499	(4,377,708)	(402,209)
12,022,244	34,181,107	46,203,351
13,443,042	1,486,480	14,929,522
25,465,286	35,667,587	61,132,873
$ 29,440,785	$ 31,289,879	$ 60,730,664

See accompanying Notes to Basic Financial Statements

This page intentionally left blank

FUND
FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

City of Lindsay
Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds				
	General Fund	Community Development Fund	Local Transportation Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 166,675	$ 45,898	$ 1,585,386	$ 836,053	$ 2,634,012
Accounts receivable, net	134,444	-	-	2,698	137,142
Interest receivable	-	99	-	-	99
Due from other governments	414,777	-	16,425	37,021	468,223
Notes receivable	733	13,882,844	-	10,204	13,893,781
Advances to other funds	-	2,583,360	-	-	2,583,360
Total assets	$ 716,629	$ 16,512,201	$ 1,601,811	$ 885,976	$ 19,716,617
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	138,320	83,563	-	13,150	235,033
Accrued wages	112,288	3,206	-	4,780	120,274
Due to other governments	733,910	-	-	-	733,910
Advances from other funds	2,583,360	-	-	-	2,583,360
Advances from Successor Agency	2,815,536	-	-	-	2,815,536
Refundable deposits	951	51,279	-	-	52,230
Total liabilities	6,384,365	138,048	-	17,930	6,540,343
Fund Balances:					
Restricted	-	16,374,153	1,601,811	868,046	18,844,010
Unassigned	(5,667,736)	-	-	-	(5,667,736)
Total fund balances	(5,667,736)	16,374,153	1,601,811	868,046	13,176,274
Total liabilities and fund balances	$ 716,629	$ 16,512,201	$ 1,601,811	$ 885,976	$ 19,716,617

See accompanying Notes to Basic Financial Statements

City of Lindsay
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds	$	13,176,274
Amounts reported for governmental activities in the Statement of Net Position were different from those reported in the Governmental Funds above because of the following:		
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:		
Non-depreciable		939,111
Depreciable, net		22,485,351
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.		(9,163)
In the Government-Wide Financial Statement certain differences between actuarial estimates and actual results for pension and OPEB are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.		1,887,145
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet:		
Net pension liability		(6,300,192)
Net OPEB Obligation		(1,082,907)
Long term liabilities - due within one year		(155,274)
Long term liabilities - due in more than one year		(1,499,560)
Net Position of Governmental Activities	$	29,440,785

See accompanying Notes to Basic Financial Statements

City of Lindsay

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2018

	Major Funds				
	General Fund	Community Development Fund	Local Transportation Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	$ 345,700	$ -	$ -	$ -	$ 345,700
Other taxes	4,843,089	-	-	85,771	4,928,860
Licenses and permits	368,164	-	-	-	368,164
Intergovernmental	453,627	8,960	207,469	481,256	1,151,312
Charges for services	18,448	-	-	-	18,448
Fees and fines	159,316	-	-	102	159,418
Interest revenue	167	32,665	293	488	33,613
Other revenues	128,894	7,484	-	-	136,378
Total revenues	6,317,405	49,109	207,762	567,617	7,141,893
EXPENDITURES:					
Current:					
General government	932,434	6,966	-	82,328	1,021,728
Public safety	2,519,455	-	-	-	2,519,455
Parks and recreation	171,510	-	-	-	171,510
Public works	557,190	-	-	-	557,190
Streets and transportation	258,226	59	21,704	280,900	560,889
Community development	35,456	157,268	-	-	192,724
Debt service:					
Principal	18,415	-	72,964	-	91,379
Interest and administrative charges	32,889	-	48,478	-	81,367
Capital outlay	362,625	-	-	15,995	378,620
Total expenditures	4,888,200	164,293	143,146	379,223	5,574,862
REVENUES OVER (UNDER) EXPENDITURES	1,429,205	(115,184)	64,616	188,394	1,567,031
OTHER FINANCING SOURCES (USES):					
Proceeds from capital leases	2,100	-	-	-	2,100
Transfers in	4,698,183	18,040	-	27,938	4,744,161
Transfers out	(1,568,407)	-	-	(35,000)	(1,603,407)
Total other financing sources (uses)	3,131,876	18,040	-	(7,062)	3,142,854
Net change in fund balances	4,561,081	(97,144)	64,616	181,332	4,709,885
FUND BALANCES (DEFICITS):					
Beginning of year	(9,438,491)	2,176,682	1,537,195	663,124	(5,061,490)
Prior period adjustments	(790,326)	14,294,615	-	23,590	13,527,879
Beginning of year, as restated	(10,228,817)	16,471,297	1,537,195	686,714	8,466,389
End of year	$ (5,667,736)	$ 16,374,153	$ 1,601,811	$ 868,046	$ 13,176,274

See accompanying Notes to Basic Financial Statements

City of Lindsay
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities
For the year ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	$	4,709,885
Amounts reported for governmental activities in the Statement of Activities were different because:		
Governmental funds reported asset acquisitions as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.		519,563
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds.		(934,669)
Accrued compensated leave payable was an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.		(19,468)
OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(73,738)
Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.		
Long-term debt repayments		91,379
Current year employer pension contributions are recorded as expenditures in the governmental funds, however, these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position. Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however, pension expense is not recognized in the governmental funds. This is the net amount of the pension contribution and pension expense		(318,495)
Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the change in accrued interest from the prior year.		1,042
Change in Net Position of Governmental Activities	$	3,975,499

See accompanying Notes to Basic Financial Statements

City of Lindsay
Statement of Net Position
Proprietary Funds
June 30, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
ASSETS			
Current assets:			
Cash and equivalents	$ 217,271	$ -	$ -
Accounts receivable, net	161,822	115,239	93,331
Total current assets	379,093	115,239	93,331
Non-current assets:			
Capital assets:			
Construction in progress	354,808	-	-
Land	68,377	230,143	-
Buildings and improvements	5,104,547	6,800,531	-
Infrastructure	9,137,056	12,896,903	-
Equipment	21,356	180,700	-
Less accumulated depreciation	(6,126,385)	(9,575,224)	-
Total non-current assets	8,559,759	10,533,053	-
Total assets	8,938,852	10,648,292	93,331
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	241,688	155,627	43,166
Deferred outflows from OPEB	119	63	19
Total deferred outflows	241,807	155,690	43,185
LIABILITIES			
Current liabilities:			
Cash overdraft	-	82,428	43,740
Accounts and other payables	229,769	8,778	74,548
Accrued wages	26,434	11,838	2,473
Accrued interest	32,864	95,296	-
Refundable deposits	9,114	-	-
Compensated absences payable - current portion	6,451	3,955	1,473
Bonds and other long-term debt - current portion	68,133	168,923	-
Total current liabilities	372,765	371,218	122,234
Non-current liabilities:			
Net OPEB liability	132,147	106,848	28,890
Net pension liability	746,592	479,984	132,572
Compensated absences payable	8,681	8,029	2,990
Bonds and other long-term debt	1,666,472	7,812,780	-
Total non-current liabilities	2,553,892	8,407,641	164,452
Total liabilities	2,926,657	8,778,859	286,686
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pensions	8,211	6,189	2,123
Deferred inflows from OPEB	5,557	2,913	896
Total deferred inflows of resources	13,768	9,102	3,019
NET POSITION			
Net investment in capital assets	6,825,154	2,551,350	-
Unrestricted	(584,920)	(535,329)	(153,189)
Total net position	$ 6,240,234	$ 2,016,021	$ (153,189)

See accompanying Notes to Basic Financial Statements

	Enterprise Funds	
McDermont Sports Complex Fund	Wellness Center Fund	Total Proprietary Funds
$ 186,004	$ 1,290	$ 404,565
-	61,763	432,155
186,004	63,053	836,720
-	-	354,808
217,413	181,326	697,259
22,987,873	8,631,783	43,524,734
-	824,260	22,858,219
1,740,545	48,571	1,991,172
(5,761,649)	(1,343,298)	(22,806,556)
19,184,182	8,342,642	46,619,636
19,370,186	8,405,695	47,456,356
418,683	78,225	937,389
-	31	232
418,683	78,256	937,621
-	-	126,168
19,551	16,925	349,571
-	16,629	57,374
9	41,996	170,165
-	3,076	12,190
-	3,208	15,087
115,000	45,116	397,172
134,560	126,950	1,127,727
-	89,849	357,734
1,266,272	242,868	2,868,288
-	6,516	26,216
1,193,896	1,984,821	12,657,969
2,460,168	2,324,054	15,910,207
2,594,728	2,451,004	17,037,934
37,254	1,613	55,390
-	1,408	10,774
37,254	3,021	66,164
17,875,286	6,312,705	33,564,495
(718,399)	(282,779)	(2,274,616)
$ 17,156,887	$ 6,029,926	$ 31,289,879

City of Lindsay

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the year ended June 30, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
OPERATING REVENUES:			
Service fees	$ 1,627,742	$ 1,417,550	$ 953,043
Other revenues	79,108	-	4,202
Total operating revenues	1,706,850	1,417,550	957,245
OPERATING EXPENSES:			
Salaries	283,712	178,124	39,739
Benefits	306,157	184,653	45,046
Materials, services, and supplies	797,629	400,590	866,633
Depreciation and amortization	284,833	394,220	-
Total operating expenses	1,672,331	1,157,587	951,418
OPERATING INCOME (LOSS)	34,519	259,963	5,827
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental	-	-	-
Other income	2,612	1,965	-
Interest earnings	601	748	-
Interest expense	(60,616)	(185,579)	-
Total nonoperating revenues (expenses)	(57,403)	(182,866)	-
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	(1,906,796)	(2,354,466)	(401,921)
Total transfers	(1,906,796)	(2,354,466)	(401,921)
Change in net position	(1,929,680)	(2,277,369)	(396,094)
NET POSITION:			
Beginning of year	7,872,533	4,027,866	35,707
Prior period adjustments	297,381	265,524	207,198
Beginning of year, as restated	8,169,914	4,293,390	242,905
End of year	$ 6,240,234	$ 2,016,021	$ (153,189)

See accompanying Notes to Basic Financial Statements

Enterprise Funds		
McDermont Sports Complex Fund	Wellness Center Fund	Total Proprietary Funds
$ 726,916	$ 222,784	$ 4,948,035
-	-	83,310
726,916	222,784	5,031,345
335,913	169,500	1,006,988
257,391	115,505	908,752
490,330	253,267	2,808,449
535,306	196,635	1,410,994
1,618,940	734,907	6,135,183
(892,024)	(512,123)	(1,103,838)
-	233,721	233,721
-	47,454	52,031
13,419	-	14,768
(85,344)	(102,097)	(433,636)
(71,925)	179,078	(133,116)
720,635	801,794	1,522,429
-	-	(4,663,183)
720,635	801,794	(3,140,754)
(243,314)	468,749	(4,377,708)
16,676,648	5,568,353	34,181,107
723,553	(7,176)	1,486,480
17,400,201	5,561,177	35,667,587
$ 17,156,887	$ 6,029,926	$ 31,289,879

City of Lindsay
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers	$ 2,010,920	$ 1,677,979	$ 1,144,309
Payments to employees	(504,217)	(310,918)	(71,583)
Payments to suppliers	(580,944)	(397,210)	(864,724)
Net cash provided by (used in) operating activities	925,759	969,851	208,002
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Grant income	-	-	-
Other income	3,213	2,713	-
Transfers in	-	-	-
Transfers out	(1,906,796)	(2,354,466)	(401,921)
Net cash provided by (used in) noncapital financing activities	(1,903,583)	(2,351,753)	(401,921)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	-	-	-
Capital expenditures	(258,045)	-	-
Payment of advances to other funds	1,582,000	1,582,000	140,000
Cash receipts of advances from other funds	-	-	-
Interest paid on long-term debt	(59,483)	(189,454)	-
Principal payments on long-term debt	(78,922)	(170,475)	(3,375)
Net cash provided by (used in) capital and related financing activities	1,185,550	1,222,071	136,625
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	207,726	(159,831)	(57,294)
CASH AND CASH EQUIVALENTS - Beginning of year	9,545	77,403	13,554
CASH AND CASH EQUIVALENTS - End of year	$ 217,271	$ (82,428)	$ (43,740)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	$ 34,519	$ 259,963	$ 5,827
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	284,833	394,220	-
Changes in assets, deferred outflows and inflows of resources, and liabilities:			
(Increase) decrease in accounts receivable	299,566	260,429	187,064
(Increase) decrease in deferred outflows of resources - deferred pension	(23,439)	(14,229)	(3,636)
Increase (decrease) in accounts and other payables	216,685	3,380	1,909
Increase (decrease) in accrued wages	9,626	4,086	(826)
Increase (decrease) in refundable deposits	4,504	-	-
Increase (decrease) in compensated absences payable	10,576	8,974	3,805
Increase (decrease) in net OPEB liability	11,252	5,898	1,815
Increase (decrease) in net pension liability	102,120	61,993	15,842
Increase (decrease) in deferred inflows of resources - deferred pension	(24,483)	(14,863)	(3,798)
Net cash provided by (used in) operating activities	$ 925,759	$ 969,851	$ 208,002

See accompanying Notes to Basic Financial Statements

Enterprise Funds McDermont Sports Complex Fund	Enterprise Funds Wellness Center Fund	Total Proprietary Funds
$ 729,972	$ 189,946	$ 5,753,126
(602,206)	(252,493)	(1,741,417)
(488,702)	(247,234)	(2,578,814)
(360,936)	(309,781)	1,432,895
-	233,721	233,721
13,419	47,454	66,799
720,635	801,794	1,522,429
-	-	(4,663,183)
734,054	1,082,969	(2,840,234)
-	(22,000)	(22,000)
-	-	(258,045)
-	-	3,304,000
-	(611,833)	(611,833)
(85,344)	(97,645)	(431,926)
(126,769)	(40,419)	(419,960)
(212,113)	(771,897)	1,560,236
161,005	1,291	152,897
24,999	(1)	125,500
$ 186,004	$ 1,290	$ 278,397
$ (892,024)	$ (512,123)	$ (1,103,838)
535,306	196,635	1,410,994
3,056	(35,914)	714,201
(21,323)	(8,461)	(71,088)
1,628	6,033	229,635
(49,050)	2,544	(33,620)
-	3,076	7,580
(9,156)	7,556	21,755
-	2,850	21,815
92,900	36,861	309,716
(22,273)	(8,838)	(74,255)
$ (360,936)	$ (309,781)	$ 1,432,895

City of Lindsay
Statement of Fiduciary Net Position (Deficit)
Fiduciary Fund
June 30, 2018

	Private-Purpose Trust Fund
ASSETS	
Cash and cash equivalents	$ 946,031
Notes receivable	1,225,836
Land held for resale	1,695,000
Advances to the City	2,815,536
Other assets	201,226
Total assets	6,883,629
LIABILITIES	
Accounts payable	94
Accrued interest payable	204,499
Long-term debt:	
Due within one year	460,000
Due in more than one year	14,961,645
Total liabilities	15,626,238
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding of debt	461,890
Total deferred inflows of resources	461,890
NET POSITION (DEFICIT)	
Net position (deficit) held in trust	(9,204,499)
Total net position (deficit)	$ (9,204,499)

See accompanying Notes to Basic Financial Statements

City of Lindsay
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the year ended June 30, 2018

	Private-Purpose Trust Fund
ADDITIONS:	
Redevelopment Agency Property Tax Trust Fund	$ 1,971,618
Other income	17,193
Proceeds from sale of capital asset	273,552
Total additions	2,262,363
DEDUCTIONS:	
Administrative expenses	277,989
Interest on long-term debt	438,950
Total Deductions	738,028
Change in net position	1,524,335
NET POSITION (DEFICIT):	
Beginning of year	(12,130,530)
Prior period adjustments	1,401,696
Beiginning of year, restated	(10,728,834)
End of year	$ (9,204,499)

See accompanying Notes to Basic Financial Statements

This page intentionally left blank

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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 square miles and serves a population of 13,043 (2017) – an increase of 11% since 2010.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred inflows/outflows of resources, and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liabilities are incurred.

Certain types of transactions reported as program revenues for the City are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Advanced to/from other funds
- Transfers in/out

The City applies all applicable GASB pronouncements including all NCGA Statements and Interpretations currently in effect.

Governmental Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

The City reports the following funds as major governmental funds of the City.

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.

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.

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

Revenues are recorded when received in cash, except that revenues subject to accrual (generally those received 45 to 90 days after year-end) are recognized when due. The primary revenue sources that have been treated as susceptible to accrual by the City are property taxes, taxpayer-assessed tax revenues (sales taxes, transient occupancy taxes, franchise taxes, etc.), grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows for all proprietary funds.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center Funds as proprietary funds of the City.

Water Fund accounts for the activities of the water distribution system.

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

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

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

Wellness Center Fund accounts for the activities of the Wellness Center and Aquatic Center.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements consist of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The City has one private-purpose trust fund. The private-purpose trust fund accounts for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments (i.e. unclaimed property/escheat property). Fiduciary funds are accounted for using the accrual basis of accounting. The City reports the following fiduciary fund:

Private-Purpose Trust Fund accounts 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents, and Investments

The City pools cash and investments of all funds, except amounts held by fiscal agents. The Council invests on behalf of most funds of the City in accordance with the California State Government Code and the City's investment policy.

Investments are reported in the accompanying balance sheet at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. Managed funds not listed on an established market are reported at the estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

Participant's equity in an investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants annually. During the fiscal year ended June 30, 2018, the City had not entered into any legally binding guarantees to support the participant equity in the investment pool.

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents, and Investments, Continued

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

The City participates in an investment pool managed by the State of California entitled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For the purposes of the accompanying statement of cash flows, the City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

D. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. 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 $15,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at acquisition 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, equipment, and infrastructure 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
Vehicle	5
Office equipment	5
Computer equipment	5

F. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. 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.

H. Long-Term Debt

Government-Wide Financial Statements – Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable is reported net of the applicable bond premium or discount. Bond issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred.

Fund Financial Statements – The governmental fund financial statements do not present long-term debt. As such, long-term debt is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

Bond premiums and discounts are recognized during the current period as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Bond proceeds are reported as other financing sources.

Proprietary Fund and Fiduciary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

I. 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 liability and workers’ compensation expenses for cities in the central San Joaquin Valley. CSJVRMA provides statutory coverage for the City's workers' compensation risks. The City retains liability risks up to $25,000 and shares risk with the pool to $10,000,000.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. 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 and the Private-Purpose Trust Fund (formally the City's Redevelopment Agency). 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.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position (balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position (balance sheet) will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. 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.

M. Net Position

In the Government-Wide Financial Statements, net position are classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Net Position, Continued

Unrestricted – This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

N. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Fund Balance, Continued

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). However, as of June 30, 2018, the City had a deficit fund balance in its General Fund.

O. Pension

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

P. Other Post Employment Health Care Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Q. Use of Estimates

The preparation of the Basic Financial Statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amounts of revenues and expenses. Actual results could differ from these estimates and assumptions.

R. New Pronouncements

In 2018, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The City restated its beginning net position as part of implementation of this statement.

- *GASB Statement No. 81, Irrevocable Split-Interest Agreements* – The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the City for the current fiscal year.

- *GASB Statement No. 85, Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement.

- *GASB Statement No. 86, Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement did not apply to the City for the current fiscal year.

2. CASH AND INVESTMENTS

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

	Government-Wide Statement of Net Position		Fund Financials	
	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash, cash equivalents and investments	$ 2,634,012	$ 404,565	$ 946,031	$ 3,984,608
Cash overdrafts	-	(126,168)	-	(126,168)
Total	$ 2,634,012	$ 278,397	$ 946,031	$ 3,858,440

A. *Summary of Cash and Investments*

Cash, cash equivalents, and investments as of June 30, 2018, consist of the following:

Cash on hand	$ 700
Deposits with financial institution	3,253,783
Total cash on hand and deposits	3,254,483
Local Agency Investment Fund	417,953
Certificate of Deposits	186,004
Total investments	603,957
Total City Treasury	3,858,440
Total cash and investments	$ 3,858,440

B. *Deposits*

The carrying amount of the City's cash deposit was $3,253,783 at June 30, 2018. Bank balances before reconciling items were a positive amount of $3,805,742 at June 30, 2018. The City's cash deposit was fully insured up to $250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

The California Government Code (Code) Section 53652 requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. The Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

2. CASH AND INVESTMENTS, Continued

B. Deposits, Continued

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

C. Investments

Under the provisions of the City's investment policy, and in accordance with the Code, the following investments are authorized:

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

Investments are stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds for the year ended June 30, 2018:

Interest income	$	5,913
Unrealized loss on changes in fair value of investments		(783)
Total investment income	$	5,130

2. CASH AND INVESTMENTS, Continued

C. Investments, Continued

The City's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise. The portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. Generally the City's practice is to buy and hold investments until maturity dates. Consequently, the City's investments are carried at fair value.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2018, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

> Structured Notes – are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.
>
> Asset-Backed Securities – the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2018, the City had $417,953 invested in LAIF, which had invested 2.67% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.89% in the previous year. The LAIF fair value factor of 0.998126869 was used to calculate the fair value of the investments in LAIF.

D. Risk Disclosures

Interest Risk: Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio not to exceed three years.

Investments held in the City Treasury grouped by maturity date at June 30, 2018, are shown below:

		Remaining Maturity (in Months)			
Investment Type	**Total**	**12 Months or Less**	**13 - 24 Months**	**25 - 60 Months**	**More than 60 Months**
Certificates of Deposit	$ 186,004	$ 186,004	$ -	$ -	$ -
Local Agency Investment Fund	417,953	417,953	-	-	-
Total	$ 603,957	$ 603,957	$ -	$ -	$ -

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

E. Investment Valuation

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. *Recurring* fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investment fair value measurements at June 30, 2018, are described below:

		Fair Value Measurement Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Investments subject to leveling:				
Certificates of Deposit	$ 186,004	$ 186,004	$ -	$ -
Total	186,004	$ 186,004	$ -	$ -
Investments not subject to leveling:				
Local Agency Investment Fund	417,953			
Total Investments	$ 603,957			

3. INTERFUND TRANSACTIONS

A. Due To/From Other Funds

At June 30, 2018, the City had no due to/from other fund balances.

B. Transfers

The City had the following transfers between funds during the year ended June 30, 2018:

	Transfers In					
Transfers Out	General Fund	Community Development Fund	Nonmajor Funds	McDermont Sports Complex Fund	Wellness Center Fund	Total
General Fund	$ -	$ 18,040	$ 27,938	$ 720,635	$ 801,794	$ 1,568,407
Nonmajor Funds	35,000	-	-	-	-	35,000
Water Fund	1,906,796	-	-	-	-	1,906,796
Sewer Fund	2,354,466	-	-	-	-	2,354,466
Refuse Fund	401,921	-	-	-	-	401,921
Total	$ 4,698,183	$ 18,040	$ 27,938	$ 720,635	$ 801,794	$ 6,266,590

Transfers from the Water Fund, Sewer Fund, and Refuse Fund to the General Fund were to vacate advances not expected to be repaid. Transfers from the General Fund to the McDermont Sports Complex Fund and Wellness Center Fund were to resolve negative cash balances.

C. Advanced To/From Other Funds

At June 30, 2018, the City had the following advances to/from balances resulting from the conversion of prior years' due to/from transactions into advances pursuant to a resolution by the City Council.

	Advance From	
Advance To	Community Development Fund	Total
General Fund	$ 2,583,360	$ 2,583,360
Total	$ 2,583,360	$ 2,583,360

4. Loans and Notes Receivable

A. Notes Receivable

At June 30, 2018, the City's loans and notes receivable consisted of the following:

	General Fund	Community Development Fund	Curb and Gutter Fund	Private-Purpose Trust Fund	Total
Individuals					
7% unsecurred notes with annual principal and interest payments.	$ -	$ -	$ 10,204	$ -	$ 10,204
Business loans	733	-	-	-	733
Non-interest and below-market rate secured notes with deferred payments of monthly principal and interest. Collateralized by trust deeds on improved property.	-	13,882,844	-	1,225,836	15,108,680
Total	$ 733	$13,882,844	$ 10,204	$ 1,225,836	$15,119,617

B. 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). All of the loan types mentioned are allowed under the programs. However, as discussed in Note 15, some of the loans were not compliant with the programs requirements. Detail of these related party transactions is provided below:

	June 30, 2018
Related Party Loans	
Employee Loans	
Deferred Payment Loans	$ 937,771
Deferred No Interest Loans	110,706
No Interest Loans	4,140
Below Market Interest Rate Loans	70,901
Total Employee Loans	1,123,518
Loans to Employees' Relatives	
Deferred Payment Loans	773,950
Deferred No Interest Loans	115,993
No Interest Loans	12,630
Below Market Interest Loans	240,324
Total Loans to Employees' Relatives	1,142,897
Total Related Party Loans	$ 2,266,415

5. CAPITAL ASSETS

A. *Government-Wide Financial Statements*

Capital assets activity for the year ended June 30, 2018, was as follows.

	July 1, 2017 Balance	Additions	Reductions	June 30, 2018 Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 771,699	$ -	$ -	$ 771,699
Construction in progress	-	167,412	-	167,412
Total capital assets, not being depreciated	771,699	167,412	-	939,111
Capital assets, being depreciated				
Buildings	3,985,066	-	-	3,985,066
Infrastructure	39,275,754	352,151	-	39,627,905
Machinery and equipment	3,323,053	-	-	3,323,053
Total capital assets, being depreciated	46,583,873	352,151	-	46,936,024
Less accumulated depreciation for:				
Buildings	(1,296,324)	(72,410)	-	(1,368,734)
Infrastructure	(19,040,701)	(811,792)	-	(19,852,493)
Machinery and equipment	(3,178,979)	(50,467)	-	(3,229,446)
Total accumulated depreciation	(23,516,004)	(934,669)	-	(24,450,673)
Total capital assets, being depreciated, net	23,067,869	(582,518)	-	22,485,351
Governmental activities capital assets, net	$ 23,839,568	$ (415,106)	$ -	$ 23,424,462
Business-type activities				
Capital assets, not being depreciated				
Land	$ 697,259	$ -	$ -	$ 697,259
Construction in progress	96,763	258,045	-	354,808
Total capital assets, not being depreciated	794,022	258,045	-	1,052,067
Capital assets, being depreciated				
Buildings	43,524,734	-	-	43,524,734
Infrastructure	22,858,219	-	-	22,858,219
Machinery and equipment	1,969,173	21,999	-	1,991,172
Total capital assets, being depreciated	68,352,126	21,999	-	68,374,125
Less accumulated depreciation for:				
Buildings	(9,839,018)	(870,495)	-	(10,709,513)
Infrastructure	(9,779,095)	(457,165)	-	(10,236,260)
Machinery and equipment	(1,777,719)	(83,064)	-	(1,860,783)
Total accumulated depreciation	(21,395,832)	(1,410,724)	-	(22,806,556)
Total capital assets, being depreciated, net	46,956,294	(1,388,725)	-	45,567,569
Business-type activities capital assets, net	$ 47,750,316	$ (1,130,680)	$ -	$ 46,619,636

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense by program for capital assets for the year ended June 30, 2018, was as follows:

	Governmental			Business-Type	
General government	$	30,777	Water Fund	$	284,833
Community development		37,133	Sewer Fund		393,950
Public safety		19,690	Refuse Fund		-
Public works		811,792	McDermont Sports Complex Fund		535,306
Library		35,277	Wellness Center Fund		196,635
Total depreciation expense	$	934,669	**Total depreciation expense**	$	1,410,724

6. LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018, is shown below.

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Governmental Activities					
Certificates of Participation (COP)					
2008 USDA RD Roads COP	$ 1,113,781	$ -	$ (72,964)	$ 1,040,817	$ 76,065
2010 USDA RD Library COP	450,441	-	(18,415)	432,026	19,152
Total COP	1,564,222	-	(91,379)	1,472,843	95,217
Compensated Absences	162,523	147,868	(128,400)	181,991	60,057
Total Governmental Activities	1,726,745	147,868	(219,779)	1,654,834	155,274
Business-Type Activities					
Certificates of Participation (COP)					
2007 USDA RD Wellness Center COP	2,064,678	-	(34,741)	2,029,937	45,116
Revenue Bonds					
1993 CSCDA Refunding Bonds	30,724	-	(14,822)	15,902	15,902
1999 USDA RD Waste Water Expansion	5,181,655	-	(155,066)	5,026,589	160,106
2000 USDA RD Water Line Project	1,771,025	-	(52,322)	1,718,703	52,231
2004 USDA RD Waste Water Project	392,581	-	(8,448)	384,133	8,817
2012 Taxable Lease Revenue Refunding Bonds	1,445,000	-	(110,000)	1,335,000	115,000
Bond Issuance Discount	(29,584)	-	3,480	(26,104)	-
Total COP and Revenue Bonds	10,856,079	-	(371,919)	10,484,160	397,172
Lindsay Olive Growers Pond Closure	2,570,981	-	-	2,570,981	-
Compensated Absences	67,589	50,747	(77,033)	41,303	15,087
Total Business-Type Activities	$ 13,494,649	$ 50,747	$ (448,952)	$ 13,096,444	$ 412,259

6. LONG-TERM DEBT, Continued

A. *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 approximately $120,000 a year at 4.5% through 2029. As of June 30, 2018, the balance of the COP was $1,040,817.

The annual debt service requirements for the 2008 USDA RD Roads COP are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 76,065	$ 43,414	$ 119,479
2020	79,298	39,845	119,143
2021	82,668	36,125	118,793
2022	86,182	32,247	118,429
2023	89,844	28,204	118,048
2024-2028	509,848	74,100	583,948
2029	116,912	-	116,912
Total	$ 1,040,817	$ 253,935	$ 1,294,752

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, 2018, the balance of the COP was $432,026.

The annual debt service requirements for the 2010 USDA RD Library COP are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 19,152	$ 17,821	$ 36,973
2020	19,918	17,031	36,949
2021	20,714	16,209	36,923
2022	21,543	15,355	36,898
2023	22,405	14,466	36,871
2024-2028	126,205	57,707	183,912
2029-2033	153,548	29,510	183,058
2034-2038	48,541	8,336	56,877
Total	$ 432,026	$ 176,435	$ 608,461

6. LONG-TERM DEBT, Continued

B. *Business-type Activities*

Certification of Participation (COP)

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 2048. As of June 30, 2018, the balance of the COP was $2,029,937.

The annual debt service requirements for the 2007 USDA RD Wellness Center COP are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 45,116	$ 83,992	$ 129,108
2020	47,034	81,993	129,027
2021	49,033	79,909	128,942
2022	51,117	77,737	128,854
2023	53,289	75,472	128,761
2024-2028	302,405	339,873	642,278
2029-2033	372,366	266,939	639,305
2034-2038	458,512	177,132	635,644
2039-2043	564,588	66,548	631,136
2044-2048	86,477	-	86,477
Total	$ 2,029,937	$ 1,249,595	$ 3,279,532

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, 2018, the balance of the revenue bond was $15,902.

The annual debt service requirements for the 1993 CSCDA bond are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 15,902	$ 852	$ 16,754
Total	$ 15,902	$ 852	$ 16,754

6. LONG-TERM DEBT, Continued

B. Business-Type Activities, Continued

Revenue Bonds Payable, Continued

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, 2018, the balance due was $5,026,589.

The annual debt service requirements for 1999 USDA RD Waste Water expansion bond are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 160,106	$ 163,364	$ 323,470
2020	165,309	158,161	323,470
2021	170,682	152,788	323,470
2022	176,229	147,241	323,470
2023	181,956	141,514	323,470
2024-2028	1,002,425	614,925	1,617,350
2029-2033	1,176,257	441,093	1,617,350
2034-2038	1,380,233	237,117	1,617,350
2039-2040	613,392	30,006	643,398
Total	$ 5,026,589	$ 2,086,209	$ 7,112,798

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, 2018, the balance due was $1,718,703.

The annual debt service requirements for 2000 USDA RD Water Line Project bond are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 52,231	$ 57,643	$ 109,874
2020	55,777	54,097	109,874
2021	57,590	52,284	109,874
2022	59,462	50,412	109,874
2023	61,394	48,480	109,874
2024-2028	338,229	211,141	549,370
2029-2033	396,881	152,489	549,370
2034-2038	465,705	83,665	549,370
2039-2041	231,434	9,799	241,233
Total	$ 1,718,703	$ 720,010	$ 2,438,713

6. LONG-TERM DEBT, Continued

B. 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, 2044. As of June 30, 2018, the balance due was $384,133.

The annual debt service requirements for 2004 USDA RD Waste Water Project are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 8,817	$ 16,806	$ 25,623
2020	9,203	16,420	25,623
2021	9,606	16,017	25,623
2022	10,026	15,597	25,623
2023	10,464	15,159	25,623
2024-2028	59,603	68,512	128,115
2029-2033	73,833	54,282	128,115
2034-2038	91,461	36,654	128,115
2039-2043	111,120	14,818	125,938
Total	$ 384,133	$ 254,265	$ 638,398

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, 2018, the balance due was $1,335,000.

The annual service debt service requirements for 2012 Taxable Lease Revenue Refunding Bonds are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 115,000	$ 79,250	$ 194,250
2020	125,000	73,213	198,213
2021	130,000	66,338	196,338
2022	140,000	58,863	198,863
2023	145,000	50,813	195,813
2024-2027	680,000	108,988	788,988
Total	$ 1,335,000	$ 437,465	$ 1,772,465

6. LONG-TERM DEBT, Continued

C. Compensated Leaves Payable

Employees accrue vacation, annual leave, earned time off, and holiday leave up to certain maximums, based on the employee's bargaining unit.

The City accrues the liability for compensated leave as it is earned by employees. The amount of compensated leaves payable outstanding was $223,293 as of June 30, 2018.

The amount due within one year of $60,057 for Governmental Activities and $15,087 for Business-Type Activities represents the estimated amount for anticipated retirees. The City typically uses the General Fund to liquidate the liability for compensated absences for governmental funds.

7. CITY EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous risk pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefit Provided

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

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

Benefit Provided, Continued

The rate plan provisions and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous	Miscellaneous PEPRA
Hire Date	1/1/1960	1/1/2013
Benefit formla	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	55 w/5 year service credit	62 w/5 year service credit
Benefit payment	2.7% Avg. highest 12 mos	2.0% Avg. highest 36 mos
Retirement age	55	62
Monthly benefits, as a % of annual salary	2.7%	2.0%
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates	11.675%	6.533%
Required unfunded liability payment	$439,228	$514

	Safety	Safety PEPRA
Hire Date	1/1/1960	1/1/2013
Benefit formla	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	55 w/5 year service credit	57 w/5 year service credit
Benefit payment	3.0% Avg. highest 12 mos	2.7% Avg. highest 36 mos
Retirement age	55	57
Monthly benefits, as a % of annual salary	3.0%	2.7%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	17.875%	11.990%
Required unfunded liability payment	$241,899	$343

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

The City's Contributions to the Plan for the measurement period ended June 30, 2017 were $1,042,266.

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

As of June 30, 2018, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of $9,168,480.

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

The City's net pension liability for the Plan is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportionate of the net pension liability was based on the City's plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The City's proportionate share of the net pension liability for each Plan as of June 30, 2016 and 2017 were as follows:

Proportion - June 30, 2016	0.09544%
Proportion - June 30, 2017	0.09245%
Change - Increase (Decrease)	-0.00299%

For the year ended June 30, 2018, the City recognized pension expense of $1,560,169. At June 30, 2018, the City reported deferred outflow of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,021,760	$ -
Changes of assumptions	1,331,962	101,859
Different between expected and actual experience	-	43,577
Changes in employer's proportion	129,724	55,385
Differences between the employer's contributione and the employer's proportionate share of contributions	226,023	-
Net differences between projected and actual earning on plan investments	296,134	-
Total	$ 3,005,603	$ 200,821

$1,021,760 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:		
2019	$	510,038
2020		889,182
2021		558,447
2022		(174,645)

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return (1)	7.15%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan administrative expenses

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

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These 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%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100%		

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

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

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

1% Decrease		6.15%
Net Pension Liability	$	13,563,592
Current Discount Rate		7.15%
Net Pension Liability	$	9,168,480
1% Increase		8.15%
Net Pension Liability	$	5,550,714

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2018 the City reported no amount payable for outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

8. 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.

9. 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 limit.

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.

10. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

A. *Plan Description*

The City administers the City's retired employees' healthcare plan, a single employer defined benefit health care plan. The plan provides continuation of medical, dental, and vision coverage to qualifying retiring employees. City resolutions and agreements assign the authority to establish and amend benefit provisions to the City. A separate OPEB trust account has not been established by the City for the plan.

10. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN, Continued

B. *Employees Covered*

As of the July 1, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the Retiree Health Plan:

Active employees	38
Inactive employees or beneficiaries currently receiving benefits	4
Total	42

C. *Contribution*

The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on a projected pay-as-you-go financing requirements, with additional amounts to prefund benefits determined annually by the City Council. For the fiscal year ended June 30, 2018, the City contributed $31,041 (including implicit subsidy) and zero to prefund benefits. Plan members receiving benefits contributed no amounts to the total premiums. The General Fund has typically been used to liquidate OPEB liabilities for governmental funds.

D. *Net OPEB Liability*

The City's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017 using the following actuarial methods and assumptions:

Actuarial Assumtions:	
Discount Rate	3.90%
Inflation	2.25%
Salaries Increases	3.00%
Mortality [1]	Based on RP-2014 Employee and Healthy Annuitant Mortality Tables
Healthcare Cost Trend Rates	5.00% to 8.00%

(1) Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables for males or females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014-2029, 50% of MP-2016 for years 2030-2049, and 20% of MP-2016 for 2050 and thereafter.

10. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN, Continued

E. Discount Rate

The discount rate used to measure the total OPEB liability was 3.90%. The City's OPEB plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high quality 20-year municipal bonds, as of the valuation date.

F. Changes in the Total OPEB Liability

The changes in the net OPEB liability for the OPEB plan are as follows:

	Total OPEB Liability
Balance at June 30, 2017	$ 1,391,268
Service cost	79,370
Interest on the total OPEB liability	52,405
Differences between actual and expected exerience	1,127
Changes in assumptions	(52,488)
Benefits paid to retirees	(31,041)
Net changes	49,373
Balance at June 30, 2018	$ 1,440,641

G. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the measurement period ended June 30, 2018:

1% Decrease	2.90%
Net OPEB liability	$ 1,623,896
Current Discount Rate	3.90%
Net OPEB liability	$ 1,440,641
1% Increase	4.90%
Net OPEB liability	$ 1,280,512

10. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN, Continued

H. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate for the measurement period ended June 30, 2018:

1% Decrease		4.00% to 7.00%
Net OPEB liability	$	1,230,882
Current Discount Rate		5.00% to 8.00%
Net OPEB liability	$	1,440,641
1% Increase		6.00% to 9.00%
Net OPEB liability	$	1,696,907

I. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of $126,594. At June 30, 2018, the City reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	1,013	$	-
Changes in assmptions		-		47,193
Total	$	1,013	$	47,193

There were no amounts reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Year Ending June 30	Deferred Outflows of Resources		Deferred Inflows of Resources	
2019	$	114	$	5,295
2020		114		5,295
2021		114		5,295
2022		114		5,295
2023		114		5,295
2024-2027		443		20,718
Total	$	1,013	$	47,193

11. 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 were able to use the accumulated compensation time beginning January 1, 2017. The accumulated time cannot be cashed out by employees.

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, 2018. 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 2018-19 to ascertain if any additional amounts should be accrued.

Contingencies relating to Proposition 218 Noncompliance

Prior to July 1, 2017, the City's General Fund had borrowed against utility funds that are restricted by Proposition 218 to be used for the purpose of providing such utility services. The City subsequently formalized such borrowing by approving interfund loan agreements that specified repayment terms for these borrowings. The City has now subsequently passed a resolution forgiving these loans, and is now noncompliant with Proposition 218. As a result of the noncompliance, there are contingencies relating to potential future lawsuits by rate payers or rate payer advocates.

12. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, expenditures exceeded appropriations in the individual major funds as follows:

Fund	Excess Expenditures
Local Transportation Fund	$ 130,246

13. GOING CONCERN

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

The City continues to suffer from a significant deficit fund balance in the General Fund. In addition, the General Fund has a significant advance which represents borrowing from other funds. There are serious doubts about the General Fund ability to repay the advances payable without having a significant impact on the City's operation. McDermont Sports Complex Fund and the Wellness Fund continue to experience operating losses. 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.

In 2017, the City Council recognized the severity of its financial condition by declaring a fiscal emergency and pursuing a transactions and use tax revenue measure. The successful passing of Measure O brings needed revenue to the City going forward. The City also implemented cost-saving measures by reducing staffing and outsourcing the management of McDermont Sports Complex. Management is making every effort to live within its means, to repay borrowed funds and to build a reserve for the future.

14. FUND BALANCE

	General Fund	Community Development Fund	Local Transportation Fund	Nonmajor Governmental Funds	Total
Fund Balances:					
Restricted for:					
Road construction and maintenance	$ -	$ -	$ 1,601,811	$ 442,558	$ 2,044,369
Community Development	-	16,374,153	-	-	16,374,153
Curb and gutter	-	-	-	14,816	14,816
Transit	-	-	-	7,238	7,238
Special assessments	-	-	-	74,344	74,344
Gas tax	-	-	-	329,090	329,090
Unassigned	(5,667,736)	-	-	-	(5,667,736)
Total fund balances	$ (5,667,736)	$ 16,374,153	$ 1,601,811	$ 868,046	$ 13,176,274

15. 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.

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 Agency. The remaining assets, liabilities, and activities of the dissolved Agency are reported in the Successor Agency fiduciary fund (private- purpose trust fund) in the financial statements of the City.

15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, Continued

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.

Successor Agency long-term debt activity for the year ended June 30, 2018 was as follows:

Successor Agency Trust Activities	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Due Within One Year	Due More than One Year
Bonds payable						
2015 Tax Allocation Refunding Bond	$ 12,680,000	$ -	$ (395,000)	$ 12,285,000	$ 410,000	$ 11,875,000
Total bonds payable	12,680,000	-	(395,000)	12,285,000	410,000	11,875,000
Notes payable						
CalHFA - RDLP Loan	4,168,695	-	(1,032,050)	3,136,645	50,000	3,086,645
CalHFA - HELP Loan	435,736	-	(435,736)	-	-	-
Total notes payable	4,604,431	-	(1,467,786)	3,136,645	50,000	3,086,645
Total Successor Agency Trust Activities	$ 17,284,431	$ -	$(1,862,786)	$ 15,421,645	$ 460,000	$ 14,961,645

A. *Tax Allocation Bonds Payable*

On June 1, 2015, the Successor 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 Successor Agency from properties in the project area. As of June 30, 2018, the balance on the bonds was $12,285,000.

15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, Continued

A. *Tax Allocation Bonds Payable, Continued*

The annual debt service requirements for 2015 Tax Allocation Refunding Bond are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 410,000	$ 483,206	$ 893,206
2020	430,000	466,806	896,806
2021	435,000	449,606	884,606
2022	465,000	427,856	892,856
2023	485,000	404,606	889,606
2024-2028	2,790,000	1,678,350	4,468,350
2029-2033	3,305,000	1,167,688	4,472,688
2034-2038	3,965,000	486,975	4,451,975
Total	$ 12,285,000	$ 5,565,093	$ 17,850,093

B. *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. On August 21, 2015, the Successor Agency obtained a second amendment to the original loan extending the unpaid balance due date to August 21, 2025 with 0% interest; no future interest accrual. The remaining unpaid balance on the CalHFA - HELP loan was fully repaid during the year ended June 30, 2018.

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. On August 21, 2015, the Successor Agency obtained a third amendment to the original loan extending the unpaid balance due date to May 7, 2021 with 0% interest; no future interest accrual. As of June 30, 2018, there remained an unpaid balance due on the CalHFA - RDLP loan of $3,136,645.

15. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, Continued

B. Notes Payable, Continued

The annual debt service requirements for CalHFA – RDLP loan are as follows:

Year Ended June 30	Principal	Interest	Total
2019	$ 50,000	$ -	$ 50,000
2020	50,000	-	50,000
2021	3,036,645	-	3,036,645
Total	$ 3,136,645	$ -	$ 3,136,645

16. NON-COMPLIANCE WITH GRANTS RULES AND REGULATIONS

A. HUD

The City provides home and business loans using grant funds from the Housing and Urban Development (HUD) department, specifically Community Development Block Grants (CDBG) and HOME Program grant funds through the California Housing and Community Development Department, a sub-division of HUD. The City is working to rectify three distinct issues related to grant funds from HUD via HCD. The following notes, for ease in reading, classify all home and business loan funds originating with HUD as HCD program funds because the City's direct contact and source for these funds is HCD.

Issue #1 (Ongoing): Borrowing of grant funds for the City's general operations. Between 2008 and 2018, the City experienced annual deficits in its General Fund, McDermont Sports Complex Fund and the Wellness Center Fund. In order to fund the overspending, the City borrowed grant funds from HCD programs through due to/from transactions at the end of each year. This was common practice between fiscal year 2003 and fiscal year 2009, but the transactions were not reversed, compounding and confusing the actual balances. In fiscal year 2015, the City reversed the transactions and established temporary transactions. These transactions were reversed each year, but the funds were not repaid. As a result, the cash balances in the General Fund, McDermont Sports Complex Fund and the Wellness Center Fund continued to increase in the negative direction. In 2017, the City formally recognized the borrowing by establishing advances to/from to account for the funds due to HCD programs. City Council approved the creation of the advances with a repayment schedule via Resolution 17-44 in 2017.

In 2018, the City Council amended the repayment schedule via Resolution 18-23. The City will repay $2,060,000 (the entire amount borrowed from HCD programs) to HCD funds from the General Fund over a 10-year period beginning December 30, 2023. The City will pay an interest rate of 0.754%, which corresponds to the rate the City received from LAIF in 2017. The City did not have permission from HCD to borrow the funds for general purposes. Current administration, once it discovered the extent of the borrowing, shared the information with HCD. In 2019, the City and HCD have started exchanging legal documents in preparation for a negotiation.

16. NON-COMPLIANCE WITH GRANTS RULES AND REGULATIONS Continued

A. HUD, Continued

Issue #2 (Corrected): Home Loans to City employees and relatives of employees. Prior to May 2011, the City did not have a formal loan committee to review home and business loans thru the HCD program funding. During the administration that ended November 9, 2010, the City authorized home loans to some City employees and relatives of employees who did not qualify for the program. The following administration requested the District Attorney investigate to determine if there was criminal wrongdoing. The District Attorney found no criminal wrongdoing. The City then (1) created a loan committee to review each loan prior to funding and (2) contracted with Self Help Enterprises to manage the loan application process to ensure full transparency and program compliance. As a result, there have been no new issues. The City complies with all new related-party transactions. The City considers this matter to no longer be an issue. The reference to this past issue is contained in this disclosure note to give context to the reader.

Issue #3 (Ongoing): The City and HCD are currently negotiating a settlement for repayment of freeze relief funds. In 2005, the City experienced a devastating freeze, which damaged the orange crops that are vital to the economy. HCD sent the City freeze relief funds, which the City used to put people to work with permission from HCD. After the City spent the money as approved by HCD, HCD reversed its permission and demanded the City repay $900,000 in the freeze relief funds. Due to a fire that destroyed important records associated with the use of the freeze relief funds and turnover at HCD, the City does not have a complete record to demonstrate its compliance with HCD authorized uses. The City is currently negotiating with representatives with HCD for the purpose of either vacating the demanded amount or reducing it to a manageable level. Because the City does not yet know the outcome of these negotiations, it cannot determine the potential financial impact on the City.

B. Caltrans

Issue #1 (Ongoing): Caltrans provides state funding for construction projects. The City did multiple projects in the 2000’s. Caltrans alleges the City did not properly account for Downtown project and the Safe Routes to School project, and it demands repayment of approximately $1,000,000. The City has been in negotiations with Caltrans. The City has learned a settlement offer from Caltrans is forthcoming. Without the settlement offer, the City is unable to predict the financial impact the negotiations with Caltrans will have on the City’s future financial condition.

17. PRIOR PERIOD ADJUSTMENTS

The City recorded prior period adjustments to: (1) eliminate the previously reported net OPEB obligation and to recognize deferred outflows and inflows of resources and net OPEB liabilities; (2) to correct prior years error in calculation of Street Improvement Program revenue and return amount overallocated to the Water Fund, Sewer Fund and Refuse Fund; (3) to eliminate unearned revenue related to outstanding loans receivable principal; and (4) adjust the outstanding balance of the CalHFA RDLP loan as of June 30, 2017.

Government-wide Statements

		Prior Period Adjustments					
	Net Position as Previously Reported	Receivables	Deferred Outflows of Resources	Unearned Revenue	Net OPEB Liability	Deferred Inflows of Resources	Net Position as Restated
Governmental Activities	$ 12,022,244	$ (791,059)	$ -	$ 14,318,938	$ (84,837)	$ -	$ 25,465,286
Business-type Activities	$ 34,181,107	$ 791,059	$ 232	$ -	$ 705,963	$ (10,774)	$ 35,667,587

Fund Financial Statements

		Prior Period Adjustments					
	Fund Balance as Previously Reported	Receivables	Deferred Outflows of Resources	Unearned Revenue	Net OPEB Liability	Deferred Inflows of Resources	Fund Balance as Restated
Governmental Funds							
General Fund	$ (9,438,491)	$ (791,059)	$ -	$ 733	$ -	$ -	$ (10,228,817)
Community Development Fund	$ 2,176,682	$ -	$ -	$ 14,294,615	$ -	$ -	$ 16,471,297
Nonmajor Governmental Funds	$ 663,124	$ -	$ -	$ 23,590	$ -	$ -	$ 686,714

17. PRIOR PERIOD ADJUSTMENTS, Continued

	Net Position as Previously Reported	Prior Period Adjustments: Receivables	Capital Assets	Deferred Outflows of Resources	Unearned Revenue	Net OPEB Liability	Deferred Inflows of Resources	Net Position as Restated
Enterprise Funds								
Water Fund	$ 7,872,533	$ 307,639	$ -	$ 119	$ -	$ (4,820)	$ (5,557)	$ 8,169,914
Sewer Fund	$ 4,027,866	$ 273,952	$ -	$ 63	$ -	$ (5,578)	$ (2,913)	$ 4,293,390
Refuse Fund	$ 35,707	$ 209,468	$ -	$ 19	$ -	$ (1,393)	$ (896)	$ 242,905
McDermont Sports Complex Fund	$ 16,676,648	$ -	$ -	$ -	$ -	$ 723,553	$ -	$ 17,400,201
Wellness Center Fund	$ 5,568,353	$ -	$ -	$ 31	$ -	$ (5,799)	$ (1,408)	$ 5,561,177
Fiduciary Funds								
Private-Purpose Trust Fund	$ (12,130,530)	$ -	$ (10,000)	$ -	$ 1,411,636	$ -	$ -	$ (10,728,894)

REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETS AND BUDGETARY ACCOUNTING

A. Budgetary Control and Budgetary Accounting

The City Council is required to adopt an annual budget resolution by July 1st of each fiscal year for the General Fund, special revenue, capital projects, debt service, and enterprise funds. These budgets are adopted and presented for reporting purposes on a basis consistent with generally accepted accounting principles. The City did not adopt a budget for the Community Development Fund.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is the department level. The City Council made several supplemental budgetary appropriations throughout the fiscal year.

Budgeted appropriations for various governmental funds become effective each July 1. The City Council may amend the budget during the fiscal year. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

City of Lindsay
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the year ended June 30, 2018

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

B. Budgetary Comparision Schedules

The following are the budget comparison schedules for the General Fund and Local Transporation Fund.

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Property taxes	$ 357,100	$ 357,100	$ 345,700	$ (11,400)
Other taxes	4,538,400	4,538,400	4,843,089	304,689
Licenses and permits	281,800	281,800	368,164	86,364
Intergovernmental	124,600	124,600	453,627	329,027
Charges for services	6,500	6,500	18,448	11,948
Fees and fines	157,100	157,100	159,316	2,216
Interest revenue	700	700	167	(533)
Other revenues	152,100	152,100	128,894	(23,206)
Total revenues	5,618,300	5,618,300	6,317,405	699,105
EXPENDITURES:				
Current:				
General Government	1,113,900	1,113,900	932,434	181,466
Public safety	2,472,600	2,472,600	2,519,454	(46,854)
Parks and recreation	208,500	208,500	171,510	36,990
Public works	568,000	568,000	557,190	10,810
Streets and transportation	152,100	152,100	258,226	(106,126)
Community development	50,300	50,300	35,456	14,844
Debt service:				
Principal	18,419	18,419	18,415	4
Interest and administrative charges	46,381	46,381	32,889	13,492
Capital outlay	696,200	696,200	362,625	333,575
Total expenditures	5,326,400	5,326,400	4,888,199	438,201
REVENUES OVER (UNDER) EXPENDITURES	291,900	291,900	1,429,206	1,137,306
OTHER FINANCING SOURCES (USES):				
Sale of land	9,300	9,300	-	(9,300)
Proceeds from capital leases	-	-	2,100	2,100
Transfers in	2,856,000	2,856,000	4,698,183	1,842,183
Transfers out	(1,387,900)	(1,387,900)	(1,568,408)	(180,508)
Total other financing sources (uses)	3,131,875	1,477,400	3,131,875	1,654,475
Net change in fund balances	$ 3,423,775	$ 1,769,300	4,561,081	$ 2,791,781
FUND BALANCES (DEFICITS):				
Beginning of year			(9,438,491)	
Prior period adjustments			(790,326)	
End of year			$ (5,667,736)	

City of Lindsay
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Local Transportation Fund
For the year ended June 30, 2018

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

B. Budgetary Comparision Schedules, Continued

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 700,500	$ 700,500	$ 207,469	$ (493,031)
Interest revenue	200	200	293	93
Total revenues	700,700	700,700	207,762	(492,938)
EXPENDITURES:				
Current:				
Streets and transportation	12,900	12,900	21,704	(8,804)
Debt service:				
Principal	-	-	72,964	(72,964)
Interest and administrative charges	-	-	48,478	(48,478)
Total expenditures	12,900	12,900	143,146	(130,246)
REVENUES OVER (UNDER) EXPENDITURES	687,800	687,800	64,616	(623,184)
OTHER FINANCING SOURCES (USES):				
Transfers out	(500,000)	(500,000)	-	500,000
Total other financing sources (uses)	-	(500,000)	-	500,000
Net change in fund balances	$ 687,800	$ 187,800	64,616	$ (123,184)
FUND BALANCES (DEFICITS):				
Beginning of year			1,537,195	
End of year			$ 1,601,811	

2. DEFINED BENEFIT PENSION PLANS

A. Schedule of the City's Proportionate Share of the Net Pension Liability – Last 10 Years

Fiscal year:	2018	2017	2016	2015
Measurement date	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.09245%	0.09544%	0.09929%	0.09999%
Proportionate share of the net pension liability	$ 9,168,480	$ 8,258,639	$ 6,695,057	$ 6,216,207
Covered payroll	$ 2,907,772	$ 2,689,271	$ 2,799,950	$ 2,769,950
Proportionate share of the net pension liability as a percentage of covered payroll	315.31%	307.10%	239.11%	224.42%
Plan's share of fiduciary net position as a percentage of total net pension liability	73.31%	74.06%	78.40%	79.82%

* Fiscal year 2015 was the 1st year of implementation, therefore there are fewer than 10 years shown.

B. Schedule of Contributions - Last 10 Years

Fiscal year:	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 1,021,760	$ 1,207,603	$ 726,038	$ 700,907
Contractually in relation to the actuarially determined contributions	(1,021,760)	(1,207,603)	(726,038)	(700,907)
Contributions deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	2,572,760	2,907,772	2,689,271	2,799,950
Contributions as a percentage of covered payroll	39.71%	41.53%	27.00%	25.03%

* Fiscal year 2015 was the 1st year of implementation, therefore there are fewer than 10 years shown.

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. Schedule of Changes in the City's Net OPEB Liability and Related Ratios

Fiscal Year:	2018
Changes in the year:	
Service cost	$ 79,370
Interest on the total pension liability	52,405
Differences between actual and expected experience	1,127
Changes in assumptions	(52,488)
Benefits paid to retirees	(31,041)
Net changes	49,373
Total OPEB Liability - beginning of the year	1,391,268
Total OPEB Liability - end of the year	$ 1,440,641
Covered employee payroll	2,560,757
City's total OPEB Liability as a percentage of covered employee payroll	56.26%

SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Assessment Districts Fund account for the activities of the special assessment housing districts in the City. Property owners in these districts pay additional property tax to fund special landscaping and other services in the district.

Gas Tax Fund accounts for transportation funding from the State's gas tax. It includes funds for construction, maintenance, engineering, congestion relief and road rehabilitation. The City uses Gas Tax funds on streets and transportation projects.

Transit Fund accounts for revenues from bus fare token. The City does not operate the bus system in Lindsay, but does sell bus fare tokens. Transit Funds are used in conjunction with transit projects.

CAPITAL PROJECT FUND

Curb and Gutter Fund is part of Sewer Fund. It accounts for funds for some street and sidewalk repairs.

City of Lindsay
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2018

	Special Revenue			Capital Projects	
	Special Assessment Districts	Gas Tax	Transit	Curb and Gutter	Total Non-Major Governmental Funds
ASSETS					
Cash and cash equivalents	$ 68,560	$ 758,341	$ 7,238	$ 1,914	$ 836,053
Accounts receivable, net	-	-	-	2,698	2,698
Due from other governments	9,502	27,519	-	-	37,021
Notes receivable	-	-	-	10,204	10,204
Total assets	$ 78,062	$ 785,860	$ 7,238	$ 14,816	$ 885,976
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	3,718	9,432	-	-	13,150
Accrued wages	-	4,780	-	-	4,780
Total liabilities	3,718	14,212	-	-	17,930
Fund Balances:					
Restricted	74,344	771,648	7,238	14,816	868,046
Total fund balances	74,344	771,648	7,238	14,816	868,046
Total liabilities and fund balances	$ 78,062	$ 785,860	$ 7,238	$ 14,816	$ 885,976

City of Lindsay
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2018

	Special Revenue			Capital Projects	
	Special Assessment Districts	Gas Tax	Transit	Curb and Gutter	Total Non-Major Governmental Funds
REVENUES:					
Other taxes	$ 85,771	$ -	$ -	$ -	$ 85,771
Intergovernmental	-	481,256	-	-	481,256
Fees and fines	-	-	102	-	102
Interest revenue	-	488	-	-	488
Total revenues	85,771	481,744	102	-	567,617
EXPENDITURES:					
Current:					
General Government	82,328	-	-	-	82,328
Streets and transportation	-	280,900	-	-	280,900
Capital outlay	-	15,995	-	-	15,995
Total expenditures	82,328	296,895	-	-	379,223
REVENUES OVER (UNDER) EXPENDITURES	3,443	184,849	102	-	188,394
OTHER FINANCING SOURCES (USES):					
Transfers in	27,938	-	-	-	27,938
Transfers out	-	-	-	(35,000)	(35,000)
Total other financing sources (uses)	27,938	-	-	(35,000)	(7,062)
Net change in fund balances	31,381	184,849	102	(35,000)	181,332
FUND BALANCES (DEFICITS):					
Beginning of year	42,963	586,799	7,136	26,226	663,124
Prior period adjustments	-	-	-	23,590	23,590
End of year	$ 74,344	$ 771,648	$ 7,238	$ 14,816	$ 868,046

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 Members of the City Council
of the City of Lindsay
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, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 17, 2019.

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 first paragraph of this section 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 schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2018-001 to 2018-003 in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2018-004 in the accompanying schedule of findings and responses to be a significant deficiency.

To the Honorable Mayor and Members of the City Council
of the City of Lindsay
Lindsay, California
Page 2

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-002.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Badawi & Associates

Badawi & Associates, CPAs
Oakland, California
April 17, 2019

FINDINGS - FINANCIAL STATEMENTS AUDIT

2018-001 – Deficit Fund Balance in the General Fund and the Ability of the City to Continue as a Going Concern (Material Weakness)

Criteria:
General purpose local governments, regardless of size, at a minimum should maintain a fund balance in the general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than 1to 2 months of regular general fund operating expenditures.

Condition:
The General Fund had a deficit fund balance of $(5,667,736) as of June 30, 2018. The General Fund owed internally to the Community Development Fund in the amount of $2,583,360. These interfund loans were made so that the General Fund could sustain its basic operations.

The McDermont Sports Complex Fund and Wellness Center Fund continue to experience operating losses. Operating losses for the year ended June 30, 2018 for the McDermont Sports Complex Fund and Wellness Center Fund were $(892,024) and $(512,123).

The multiple afore mentioned conditions have raised substantial doubt about the City's ability to continue as a going concern, as described further in Note 16.

Cause:
The City has either overspent its budget in the past or the budget was not balanced which led to the overspending and the deficit fund balance situation.

Effect:
Deficiency in fund balances and decrease in revenues have created a budget shortfall that will require significant cost cutting measures to reach a budget that will recoup the negative fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation:
We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund and other funds to recoup the deficit fund balance as well as provide continued financing for City operations.

Management Response:

The City agrees with and has been consistently and relentlessly acting on this recommendation. Actions taken in FY 2016-2017 and 2017-2018 are making a difference in 2018-2019 and will in upcoming years. Steps along the revenue recovery path include: (1) full implementation of Measure O, which is now generating monthly revenue; (2) City Council approving the manufacturing of cannabis in the heavy industrial area; (3) City Council considering retail cannabis locations; (4) the settling of a frivolous lawsuit that impeded general retail development; and (5) the City management team investigating additional revenue opportunities.

While addressing revenue needs, the City simultaneously conducted extensive cost cutting actions in 2017-2018, including the outsourcing of the management and operations of the McDermont Sports Complex on January 1, 2018, which saves the City all expenses above debt service and structural maintenance for the facility. The City is controlling its expenses. The City reduced the general fund deficit by nearly 50% in 2017-2018. The City is moving toward fiscal sustainability. It will take time to recover from the deficit it faces. Management anticipates this finding to continue until the City realizes the full benefit of all of its changes and finishes negotiating with other government entities to reduce the demands on the City.

2018-002 –Noncompliance with Laws, Regulations, Contract and Grants (Material Weakness)

Criteria:
Restricted resources such as grant funds and utility rate payer monies restricted by California Proposition 218 are to be used only for their legally intended purpose. In addition, any borrowings by other funds from these restricted resources are usually not allowed unless it is very short term in nature and if it does occur, it should be recognized by the City and a repayment plan should be put in place.

Condition:
During our audit we noted that there were several incidents of non-compliance as follow:

- Borrowing of grant funds for the City's general operations. Between 2008 and 2017, the City experienced annual deficits in its General Fund, McDermont Sports Complex Fund and the Wellness Center Fund. In order to fund the overspending, the City borrowed grant funds from Housing and Community Development (HCD) programs which amounted to $2,583,360 as of June 30, 2018.
- Prior to 2011, the City authorized home loans through the HCD program to some City employees and relatives of employees who did not qualify for the program. The loans amounted to $1,008,741 as of June 30, 2018.
- Prior to 2011, HCD grant funds not spent in accordance with grant agreement. The State believe that the City spent $900,000 not in accordance with the grant guidelines.
- Prior to 2011, The City did not properly account for Downtown project and the Safe Routes to School project funded by Caltrans for approximately $1,000,000.
- Prior to July 1, 2017, the City's General Fund had borrowed against utility funds that are restricted by Proposition 218 to be used to cover the cost of providing such utility services and benefit the rate payer. The City subsequently formalized such borrowing by approving interfund loan agreements that specified repayment terms for each borrowing. The City now has subsequently passed a resolution forgiving these loans, and is now noncompliant with Proposition 218. In effect, the restricted rate payer moneys were used to pay for activities other than their intended purposes.

Cause:
The City has violated Proposition 218 and several grant agreements to cover its operating deficits.

Effect:
The effect cannot be determined at this point as the City is in discussion with the granting agencies to resolve the matter and it is undeterminable whether lawsuits will be filed to recover the rate payer monies. It is likely that the City will have to refund some of the funds back to the granting agencies.

Recommendation:
We recommend that the City institute controls to ensure compliance with laws and regulation and to settle the outstanding issues with the granting agencies.

Management Response:

The City agrees with the recommendation. The City is actively working to settle the outstanding issues with the granting agencies. The City has implemented practices and policies to prevent noncompliance since the time of these issues, many of which are from the late 2000's and 2011. The City anticipates this finding to continue until the City and the various granting agencies are able to settle each issue. The City understands this recovery process may take years to complete.

2018-003 – Restatement of Previously Issued Financial Statements (Material Weakness)

Criteria:
The City is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition:
The City recorded prior period adjustments to correct various accounting errors such as error in calculation of Street Improvement Program revenue, elimination of unearned revenue related to outstanding loans receivable principal, and to adjust outstanding loan balances.

Cause:
The City's internal controls over financial reporting did not identify the misstatements in a timely manner resulting in the restatement.

Context and Effect:
The City's previously issued financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

Recommendation:
We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all non-routine and nonsystematic transactions are accounted for, the appropriate accounting standards are applied, and transactions are accounted for in the proper period.

Management Response:

The City agrees with the recommendation. The City has demonstrated a willingness to self-identify and correct errors it finds to ensure its financial reporting is accurate. It will continue to improve its processes to ensure ongoing compliance.

2018-004 – Control Over Accounts Receivable (Significant Deficiency)

Criteria:
A good internal control system over accounts receivable requires that certain reports such as aging accounts receivable be produced and reviewed to track delinquent account and to ensure all receivables are valid and collectible.

Condition:
During our audit we noted that the City was unable to produce an aging accounts receivable report that could be matched to the general ledger.

Cause:
The accounting system does not enable the City to generate an aging accounts receivable report that matches to the general ledger.

Effect:
Accounts receivable could be misstated and the City's ability to track delinquent accounts may be impacted.

Recommendation:
We recommend that the City develop procedures to generate an aging accounts receivable report that matches with the general ledger.

Management Response:

As noted above, a limitation in the City's accounting software does not allow it to produce the required report from its utility billing system. The City is analyzing budgeting options to identify funding to upgrade and update its system to alleviate this issue.

PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS AUDIT

2017-001 – Deficit Fund Balance in the General Fund, McDermont Sports Complex Fund and the Wellness Center Fund and the Ability of the City to Continue as a Going Concern (Material Weakness)

Criteria:
General purpose local governments, regardless of size, at a minimum should maintain a fund balance in the general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than 1to 2 months of regular general fund operating expenditures.

Condition:
The General Fund had a deficit fund balance of $(9,438,491) as of June 30, 2017. The General Fund owed internally to the Community Development Fund, Local Transportation Fund, the Water Fund, the Sewer Fund and the Refuse Fund in the amounts of $2,078,356, $1,440,000, $1,582,000, $1,582,000 and $140,000, respectively. These interfund loans were made so that the General Fund could sustain its basic operations.

The McDermont Sports Complex Fund had a negative unrestricted net position of $(1,347,981) as of June 30, 2017. In addition, the fund continues to experience operating losses. Operating losses for the fiscal year ended June 30, 2017 was $1,131,188.

The Wellness Center Fund had a negative unrestricted net position balance of $(829,457) as of June 30, 2017. In addition, the fund continues to experience operating losses. Operating losses for the fiscal year ended June 30, 2017 was $322,971.

The multiple afore mentioned conditions have raised substantial doubt about the City's ability to continue as a going concern, as described further in Note 16.

Cause:
The City has either overspend its budget in the past or the budget was not balanced which led to the overspending and the deficit fund balance situation.

Effect:
Deficiency in fund balances and decrease in revenues have created a budget shortfall that will require significant cost cutting measures to reach a budget that will recoup the negative fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation:
We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund and other funds to recoup the deficit fund balance as well as provide continued financing for City operations.

Management Response:

In the past, the City did not maintain sufficient controls on spending. The audit findings are accurate in representing the financial deficits in the General Fund, McDermont Sports Complex Fund and the Wellness Center Fund. The City agrees with the finding and the recommendations. In 2017, the City Council recognized the severity of its financial condition by declaring a fiscal emergency and pursuing a sales tax revenue measure. The successful passing of Measure O brings needed revenue to the City going forward. The City also implemented cost-saving measures by reducing staffing and outsourcing the management of McDermont Sports Complex. The City established advances to / from with repayment schedules to manage the repayment of the monies borrowed from funds listed in this finding. Management is making every effort to live within its means, to repay borrowed funds and to build a reserve for the future.

Status:

Not implemented, see 2018-001.

2017-002 –Non-Compliance with Laws, Regulations, Contract and Grants (Material Weakness)

Criteria:
Restricted resources such as grant funds are to be used only for their legally intended purpose. In addition, any borrowings by other funds from these restricted resources are usually not allowed unless it is very short term in nature and if it does occur, it should be recognized by the City and a repayment plan should be put in place.

Condition:
During our audit we noted that there were several incidents of non-compliance as follow:

- Borrowing of grant funds for the City's general operations. Between 2008 and 2017, the City experienced annual deficits in its general fund, McDermont Field House and the Wellness & Aquatic Center. In order to fund the overspending, the City borrowed grant funds from Housing and Community Development (HCD) programs which amounted to $2,078,356 as of June 30, 2017.
- Prior to 2011, the City authorized home loans through the HCD program to some City employees and relatives of employees who did not qualify for the program. The loans amounted to $1,008,741 as of June 30, 2017.
- Prior to 2011, HCD grant funds not spent in accordance with grant agreement. The State believe that the City spent $900,000 not in accordance with the grant guidelines.
- Prior to 2011, The City did not properly account for Downtown project and the Safe Routes to School project funded by Caltrans for approximately $1,000,000.

Cause:
The City has violated several grant agreements to cover its operating deficits.

Effect:
The effect cannot be determined at this point as the City is in discussion with the granting agencies to resolve the matter. It is likely that the City will have to refund some of the funds back to the granting agencies.

Recommendation:
We recommend that the City institute controls to ensure compliance with laws and regulation and to settle the outstanding issues with the granting agencies.

Management Response:

This finding has two parts: (1) borrowing program income funds to cover operating deficits and (2) spending funds not in accordance with grant agreements. It is important to note most of these have been addressed in prior audits.

Borrowing grant funds:
In the past, the City did borrow program income funds (not the same as grant funds) for the City's general operations. During the fiscal year 2017-2018, the City recognized the extent of the borrowing program income and formally adopted a repayment plan. These program income funds are first in line for repayment.

Spending funds:
The City is in on-going discussions/negotiations with HCD and Caltrans. The City expects a settlement with both in fiscal year 2018-2019. The City disputes the amount to HCD as HCD approved the way the City spent the grant funds at the time of use. In later years, HCD retroactively reversed its approval, which placed the City in a state of non-compliance. To compound the problem, many important timecards associated with the approved-then-years-later-denied use of grant funds were lost in a fire at the Proteus offices. The City is working to finally resolve the issue with HCD.

The Caltrans issue is currently in negotiations. The City has implemented policies and procedures that have proved effective since these issues arose years ago.

The issue with the home loans goes back to the 2000's, has been thoroughly investigated by the district attorney and has been discussed with the granting agency. Neither the district attorney nor the granting agency determined there was need for corrective action. This issue is more than a decade old. The City no longer operates the home loan programs as it did when two executives controlled the lending decisions. The City now uses a loan committee to decide whether to approve an application. Until the City stopped lending, Self Help Enterprises provided the loan preparation process, which helped the City maintain a very transparent operation. The City has already taking all the necessary steps to ensure the loan program operates as intended. The City is in compliance with the lending standards and requirements now.

Status:

Not implemented, see 2018-002.

2017-003 – Restatement of Previously Issued Financial Statements

Criteria:
The City is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition:
The City recorded prior period adjustments to correct various accounting errors such as allocation of pension amounts between governmental and business type activities, move cash to the correct funds, accrue wages and correct some accounts. A summary of all prior period adjustments can be found in the table below

Cause:
The City's internal controls over financial reporting did not identify the misstatements in a timely manner resulting in the restatement.

Context and Effect:
The City's previously issued financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

Recommendation:
We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all non-routine and nonsystematic transactions are accounted for, the appropriate accounting standards are applied, and transactions are accounted for in the proper period.

Management Response:

The City has been working to correct issues from the past. The City is expanding its year-end closing procedures to ensure all non-routine and non-systematic transactions are accounted for in the proper periods.

Status:

Not implemented, see 2018-003.

2017-004 – Recordkeeping of Capital Assets (Significant Deficiency)

Criteria:
A good internal control system over capital assets requires that City maintain detail records of all its capital assets to be able to support amounts reported on the financial statements and to ensuring safeguarding of assets and timely payment on long-term debt.

Condition:
We noted during the audit that the City did not maintain adequate records for capital assets to enable it to exercise control over those activities. Instead, the City is relying on loosely maintained spreadsheets that did not include detail of certain asset classes such as machinery and equipment and infrastructure.

Cause:
The City did not keep accurate and complete records of its capital assets.

Effect:
Capital assets may be misstated and/or not properly or timely accounted for.

Recommendation:
We recommend that the City implement a tracking system and to conduct an inventory of its capital assets.

Management Response:

The City used to have a capital asset management system, which functioned only on an older version of the Microsoft Windows Operating System. Regrettably, the system was lost a few years ago along with the records. The City has unsuccessfully attempted to recreate the records. The City plans to conduct a capital assets inventory audit in fiscal year 2018-2019 to manage capital assets in the future.

Status:

Implemented.

2017-005 – Control Over Expenditures and Accounts Payable (Significant Deficiency)

Criteria:
A good internal control system over expenditures and accounts payable requires that certain tasks such as creating new vendors, inputting invoices, and processing checks be segregated and not performed by the same individual. In addition, changes to the master file should be reviewed and reconciled by a qualified individual independent from the accounts payable process.

Condition:
During our audit we noted that the Accounts Payable Clerk is responsible for setting up new vendors in the system. There is no independent review of changes made to the vendor master files. In addition, we noted that the reviewer of the accounts payable do not keep track of the sequence numbers of the checks reviewed

Cause:
Duties in the accounts payable system is not properly segregated to ensure good checks and balances are in place.

Effect:
Errors in accounts payable may not be detected timely. In addition, unauthorized payments to vendors or payments to unauthorized vendors may not be detected timely.

Recommendation:
We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that changes to the vendor master files are properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

Management Response:

The City appreciates the auditor's thoroughness in reviewing its accounts payable operations and systems. The City will adjust its procedures relative to control over expenditures and accounts payable to ensure the appropriate segregation of duties.

Status:

Implemented.

2017-006 – Control over Payroll and Related Liabilities (Significant Deficiency)

Criteria:
A good internal control system over payroll requires that certain tasks such as creating new employees, inputting pay rates, and processing payroll be segregated and not performed by the same individual. In addition, payroll should be reviewed and reconciled by a qualified individual independent from the payroll process.

Condition:
During our audit we noted that there was mainly one person who was responsible for setting up new employees, making and updating all changes in the payroll system as well as processing payroll.

Cause:
Duties in the payroll system is not properly segregated to ensure good checks and balances are in place.

Effect:
Payroll amounts may be misstated due to errors not detected during the review process. In addition, incorrect or unauthorized pay rates may be used and not detected timely.

Recommendation:
We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that payroll is properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

Management Response:

The City appreciates the auditor's thoroughness in reviewing its payroll operations. The City divided duties in fiscal year 2017-2018 between payroll processing and the human resources department. Human Resources is responsible for entering all pay and position changes in the payroll processing system. Finance enters the hours and generates the payroll checks/direct deposits. By segregating the duties, the City has rectified this significant deficiency.

Status:

Implemented.

2017-007 – Control Over Accounts Receivable (Significant Deficiency)

Criteria:
A good internal control system over accounts receivable requires that certain reports such as aging accounts receivable be produced and reviewed to track delinquent account and to ensure all receivables are valid and collectible.

Condition:
During our audit we noted that the City was unable to produce an aging accounts receivable reports.

Cause:
The accounting system does not enable the City to generate a report for a date in the past and the City did not generate those reports on the last day of the fiscal year.

Effect:
Accounts receivable could be misstated and the City's ability to track delinquent accounts may be impacted.

Recommendation:
We recommend that the City improve and strengthen its procedures for review and reconciliation of accounts receivable and to ensure that an aging accounts receivable reports is produced at least quarterly and reviewed and reconciled to the accounting records.

Management Response:

The City agrees with the need to generate static reports on an annual-if-not-quarterly basis. Changing the process indeed will improve and strengthen the procedures, which will allow for more timely and valuable reconciliation of the accounts receivable. The City will make the changes at the end of fiscal year 2017-2018.

Status:

Not implemented, see 2018-004.