

**CITY OF ISLETON
ISLETON, CALIFORNIA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

**CITY OF ISLETON
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Isleton, California

Report on the Financial Statements

I have audited the accompanying financial statements of the City of Isleton, California which comprise the Statement of Net Position and Governmental Fund Balance Sheet, as of June 30, 2018, and the related Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance for the year then ended, and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Isleton, California 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 11, 2020, on my consideration of the City of Isleton's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 of Isleton's internal control over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 and the Required Supplementary Information as listed in the table of contents on page 30 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Isleton, California's basic financial statements. The fund financial statements and the accompanying supplementary information as listed in the table of contents 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to 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 my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Don Cole & Company
Sacramento, California

August 11, 2020

**CITY OF ISLETON
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2018**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Isleton 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. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, and to identify any material changes in the approved operating and capital budgets.

Financial Highlights – Primary Government

- The City's net position at the end of the year was \$1,252,529, a decrease of \$170,996 due to current year operations. The portion of the City's net position that were unrestricted and available to meet ongoing obligations to citizens and creditors totaled a deficit of \$1,177,840.
- The government net position decreased by \$124,511 due to operations and the business-type net position decreased by \$46,485 due to operations.
- Program revenues from governmental activities increased \$36,247 or 9.5%. Program revenues from business-type activities increased by \$17,190 or 3.3%.

Overview of the Financial Statements

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

Government-Wide Financial Statements. The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They are comprised of the *Statement of net position* and *Statement of activities and changes in net position*. The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or weakening. This statement, unlike previous financial statements prior to implementing GASB 34, combines and consolidates the governmental funds' current financial resources with capital assets and long-term obligations. The *Statement of activities and changes in net position* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., interest expense due but unpaid). Both of the above government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and roads, community development and recreation and parks. The business-type activities of the City include the municipal utility - wastewater collection and treatment.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds and proprietary funds. The fund financial statements provide detail information about each of the City's most significant funds, called *major funds*. The concept of major funds, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each *major fund* is presented individually, with all *nonmajor funds* summarized and presented in a single column.

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 statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The City has ten governmental funds, of which three are considered major funds for presentation purposes. Each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the City's major funds – the General Fund and the Transportation Development Fund.

Proprietary Funds. The City maintains proprietary 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 the wastewater collection and treatment.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* providing budgetary comparison schedules for the General Fund, and Transportation Development Fund.

Budgetary Highlights - Current Year Impacts. The City's budget was adopted and not amended during the year. This author does not have information to make statement on tax revenues for FY18 relative to budget, Charges For Services relative to budget, General government expenditures relative to budget, and the Public ways and facilities relative to budget.

Government-Wide Statements

Statement of Net Position 6/30/2018

	Government Activities		Business Type Activities		Total Primary Government	
	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
Current and other assets	\$ 478,200	\$ 842,188	\$ 479,243	\$ 498,216	\$ 957,443	\$ 1,340,404
Capital assets	<u>2,288,800</u>	<u>2,274,773</u>	<u>2,503,162</u>	<u>2,450,063</u>	<u>4,791,962</u>	<u>4,724,836</u>
Total assets	<u>\$ 2,767,000</u>	<u>\$ 3,116,961</u>	<u>\$ 2,982,405</u>	<u>\$ 2,948,279</u>	<u>\$ 5,749,405</u>	<u>\$ 6,065,240</u>
Total deferred outflow of resources	<u>\$ 48,748</u>	<u>\$ 45,881</u>	<u>\$ 104,371</u>	<u>\$ 98,266</u>	<u>\$ 153,119</u>	<u>\$ 144,147</u>
Current and other liabilities	\$ 128,560	\$ 716,054	\$ 91,553	\$ 121,625	\$ 220,113	\$ 837,679
Liabilities due after one year	<u>608,916</u>	<u>543,408</u>	<u>2,793,500</u>	<u>2,769,682</u>	<u>3,402,416</u>	<u>3,313,090</u>
Total liabilities	<u>\$ 737,476</u>	<u>\$ 1,259,462</u>	<u>\$ 2,885,053</u>	<u>\$ 2,891,307</u>	<u>\$ 3,622,529</u>	<u>\$ 4,150,769</u>
Total deferred inflow of resources	<u>\$ 856,470</u>	<u>\$ 806,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,470</u>	<u>\$ 806,089</u>
Net Position:						
Investment in capital assets net of related debt	2,288,800	2,274,773	(329,138)	(374,016)	1,959,662	1,900,757
Restricted	529,612	529,612	-	-	529,612	529,612
Unrestricted	<u>(1,596,610)</u>	<u>(1,707,094)</u>	<u>530,861</u>	<u>529,254</u>	<u>(1,065,749)</u>	<u>(1,177,840)</u>
Total net position	<u>\$ 1,221,802</u>	<u>\$ 1,097,291</u>	<u>\$ 201,723</u>	<u>\$ 155,238</u>	<u>\$ 1,423,525</u>	<u>\$ 1,252,529</u>

Capital Assets and Debt Administration

Capital assets net of depreciation as of June 30,

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
Capital assets, not being depreciated:						
Land	\$ 310,360	\$ 310,360	\$ 63,000	\$ 63,000	\$ 373,360	\$ 373,360
Total nondepreciable assets	<u>310,360</u>	<u>310,360</u>	<u>63,000</u>	<u>63,000</u>	<u>373,360</u>	<u>373,360</u>
Depreciable capital assets:						
Buildings and improvements	1,881,795	1,914,050	2,405,151	2,328,534	4,319,201	4,210,329
Equipment	<u>82,618</u>	<u>64,390</u>	<u>35,011</u>	<u>58,529</u>	<u>99,401</u>	<u>141,147</u>
Total depreciable assets	<u>1,964,413</u>	<u>1,978,440</u>	<u>2,440,162</u>	<u>2,387,063</u>	<u>4,418,602</u>	<u>4,351,476</u>
Total	<u>\$ 2,274,773</u>	<u>\$ 2,288,800</u>	<u>\$ 2,503,162</u>	<u>\$ 2,450,063</u>	<u>\$ 4,791,962</u>	<u>\$ 4,724,836</u>

Outstanding debt as of June 30,

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 16/17</u>	<u>FY 17/18</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
Installments payable	\$ 681,973	\$ 608,115	\$ -	\$ -	\$ 681,973	\$ 608,115
Compensated absences	801	801	-	-	801	801
Leases	-	-	-	30,579	-	30,579
Certificates of participation	-	-	952,300	933,500	952,300	933,500
Series 2012 Bonds	-	-	<u>1,860,000</u>	<u>1,880,000</u>	<u>1,880,000</u>	<u>1,860,000</u>
Total	<u>\$ 682,774</u>	<u>\$ 608,916</u>	<u>\$ 2,824,079</u>	<u>\$ 2,832,300</u>	<u>\$ 3,515,074</u>	<u>\$ 3,432,995</u>

Contacting the City

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City at 101 Second Street, Isleton, California 95641, telephone (916) 777-7771.

**CITY OF ISLETON
BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

**CITY OF ISLETON
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 728,154	\$ 256,396	\$ 984,550
Receivables:			
Accounts	58,416	65,501	123,917
Taxes	55,618	-	55,618
Due from governmental funds	-	6,345	6,345
Restricted cash	-	169,974	169,974
Capital assets	4,325,318	3,615,059	7,940,377
Accumulated depreciation	<u>(2,050,545)</u>	<u>(1,164,996)</u>	<u>(3,215,541)</u>
Total assets	<u>\$ 3,116,961</u>	<u>\$ 2,948,279</u>	<u>\$ 6,065,240</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss	<u>\$ 45,881</u>	<u>\$ 98,266</u>	<u>\$ 144,147</u>
Total deferred outflows of resources	<u>\$ 45,881</u>	<u>\$ 98,266</u>	<u>\$ 144,147</u>
LIABILITIES:			
Payables:			
Accounts	\$ 193,121	\$ 19,191	\$ 212,312
Salaries and benefits	-	-	-
Interest	-	48,037	48,037
Due to business-type funds	6,345	-	6,348
Deferred revenue	442,730	-	442,730
Long-term debt:			
Due within one year	73,858	54,397	128,255
Due after one year	<u>543,408</u>	<u>2,769,682</u>	<u>3,313,090</u>
Total liabilities	<u>\$ 1,259,462</u>	<u>\$ 2,891,307</u>	<u>\$ 4,150,769</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred gain	<u>\$ 806,089</u>	<u>\$ -</u>	<u>\$ 806,089</u>
Total deferred inflows of resources	<u>\$ 806,089</u>	<u>\$ -</u>	<u>\$ 806,089</u>
NET POSITION:			
Invested in capital assets, net of related debt	\$ 2,274,773	\$ (374,016)	\$ 1,900,757
Restricted for low/moderate housing	529,612	-	529,612
Unrestricted	<u>(1,707,094)</u>	<u>529,254</u>	<u>(1,177,840)</u>
Total net position	<u>\$ 1,097,291</u>	<u>\$ 155,238</u>	<u>\$ 1,252,529</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 422,102	\$ 176,585	\$ 111,158	\$ (134,359)	\$ -	\$ (134,359)
Public safety	396,568	1,049	109,893	(285,626)	-	(285,626)
Parks & recreation	23,285	-	-	(23,285)	-	(23,285)
Public ways and facilities	281,408	17,922	-	(263,486)	-	(263,486)
Community development	-	-	-	-	-	-
Total governmental activities	<u>\$ 1,123,363</u>	<u>\$ 195,556</u>	<u>\$ 221,051</u>	<u>(706,756)</u>	<u>-</u>	<u>(706,756)</u>
Business-type activities						
Sewer	\$ 607,323	\$ 500,562	\$ -	-	(106,761)	(106,761)
Sewer Capital Recovery	-	31,480	-	-	31,480	31,480
Total business-type activities	<u>\$ 607,323</u>	<u>\$ 532,042</u>	<u>\$ -</u>	<u>-</u>	<u>(75,281)</u>	<u>(75,281)</u>
General revenues:						
Taxes:						
Property				261,367	-	261,367
Sales and use				169,449	-	169,449
Measure B				74,903	-	74,903
Franchise				26,543	-	26,543
Transient occupancy				195	-	195
Other:						
Use of money				251	10,197	10,448
Transfers - internal activity				19,064	(19,064)	-
Miscellaneous revenue				11,648	37,663	49,311
Total general revenues and other				<u>563,420</u>	<u>28,796</u>	<u>592,216</u>
Special items – write-off of liability				<u>18,825</u>	<u>-</u>	<u>18,825</u>
Change in net position				(124,511)	(46,485)	(170,996)
Net position, beginning of year				<u>1,221,802</u>	<u>201,723</u>	<u>1,423,525</u>
Net position, end of year				<u>\$ 1,097,291</u>	<u>\$ 155,238</u>	<u>\$ 1,252,529</u>

See accompanying notes to basic financial statement

**CITY OF ISLETON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Major					Nonmajor	Total Governmental Funds
	General Fund	Sacramento Transportation	Supplemental Law Enforcement	Redevelopment Agency	Redevelopment Low Income	Total Other Funds	
ASSETS:							
Cash and investments	\$ 102,052	\$ 473,183	\$ 332	\$ -	\$ 444	\$ 152,143	\$ 728,154
Receivables:							
Accounts	57,226	-	-	-	-	1,190	58,416
Taxes	54,875	-	-	-	-	743	55,618
Due from other funds	-	147,812	-	580,798	529,168	86,767	1,344,545
Restricted cash	-	-	-	-	-	-	-
Total assets	\$ 214,153	\$ 620,995	\$ 332	\$ 580,798	\$ 529,612	\$ 240,843	\$ 2,186,733
LIABILITIES AND FUND EQUITY							
Liabilities:							
Payables:							
Accounts	\$ 185,210	\$ 82	\$ -	\$ -	\$ -	\$ 7,829	\$ 193,121
Salaries & benefits	-	-	-	-	-	-	-
Installments	608,115	-	-	-	-	-	608,115
Deferred revenue	-	442,730	-	-	-	-	442,730
Due to other funds	<u>1,138,060</u>	<u>-</u>	<u>13,953</u>	<u>-</u>	<u>-</u>	<u>198,877</u>	<u>1,350,890</u>
Total liabilities	1,931,385	442,812	13,953	-	-	206,706	2,594,856
Fund Balances:							
Restricted	-	-	-	-	529,612	-	529,612
Unassigned	<u>(1,717,232)</u>	<u>178,183</u>	<u>(13,621)</u>	<u>580,798</u>	<u>-</u>	<u>34,137</u>	<u>(937,735)</u>
Total fund balances	(1,717,232)	178,183	(13,621)	580,798	529,612	34,137	(408,123)
Total liabilities and fund balance	\$ 214,153	\$ 620,995	\$ 332	\$ 580,798	\$ 529,612	\$ 240,843	\$ 2,186,733

See accompanying notes to basic financial statement

**CITY OF ISLETON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total fund balances, governmental funds \$ (408,123)

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

Amounts reported for governmental activities associated with the funding of the Isleton Financing Authority's purchase of the City's sewer system are not short term financial resources or uses and therefore are not reported as assets/liabilities in the governmental funds.

Deferred outflows of resources	45,881	
Deferred inflows of resources	(806,089)	(760,208)
		(760,208)

Amounts reported for governmental activities are not short term financial resources and therefore are not reported as assets in governmental funds.

Historical acquisition cost	4,325,318	
Accumulated depreciation	(2,050,545)	2,274,773
		2,274,773

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Compensated absences payable		(9,151)
		(9,151)

Total net position – governmental funds \$ 1,097,291

See accompanying notes to basic financial statements

**CITY OF ISLETON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Major					Nonmajor	Total Governmental Funds
	General Fund	Sacramento Transportation	Supplemental Law Enforcement	Redevelopment Agency	Redevelopment Low Income	Total Other Funds	
REVENUES							
Taxes	\$ 360,490	\$ -	\$ -	\$ -	\$ -	\$ 28,650	\$ 389,140
Measure B	74,903	-	-	-	-	-	74,903
Licenses and permits	86,336	-	-	-	-	-	86,336
Fines and penalties	1,049	-	-	-	-	-	1,049
Use of money	231	-	1	-	-	19	251
Charges for services	136,365	-	-	-	-	40,220	176,585
Intergovernmental	57,536	53,622	109,893	-	-	-	221,051
Miscellaneous	11,648	-	-	-	-	-	11,648
Total revenues	728,558	53,622	109,894	-	-	68,889	960,963
EXPENDITURES							
General government	378,797	52,105	-	-	-	25,462	456,364
Public safety	274,114	-	108,983	-	-	-	383,097
Parks & recreation	21,342	-	-	-	-	-	21,342
Public ways and facilities	163,846	-	-	-	-	72,053	235,899
Capital outlay	51,798	-	-	-	-	-	51,798
Total expenditures	889,897	52,105	108,983	-	-	97,515	1,148,500
Excess of revenues over (under) expenditures	(161,339)	1,517	911	-	-	(28,626)	(187,537)
OTHER FINANCING SOURCES (USES)							
Transfers in	13,601	-	10,000	-	-	-	23,601
Transfers out	-	(2,144)	-	-	-	(2,393)	(4,537)
Total other financing sources(uses)	13,601	(2,144)	10,000	-	-	(2,393)	19,064
Special items – write-off of liability	18,825	-	-	-	-	-	18,825
Net change in fund balance	(128,913)	(627)	10,911	-	-	(31,019)	(149,648)
Fund balance (deficit), beginning of year	(1,588,319)	178,810	(24,532)	580,798	529,612	65,156	(258,475)
Fund balance (deficit), end of the year	\$ (1,717,232)	\$ 178,183	\$ (13,621)	\$ 580,798	\$ 529,612	\$ 34,137	\$ (408,123)

See accompanying notes to basic financial statements

**CITY OF ISLETON
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2018**

Total net change in fund balance, governmental funds \$ (149,648)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in government funds because:

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital asset additions	51,798	
Depreciation	(65,825)	(14,027)

In governmental funds, long-term debt is measured by the amounts paid during the period. In the government-wide statement of activities, long-term debt is measured by the change in the liability. The difference between long-term debt paid and long-term debt earned is:

Change in compensated absences	(8,350)
--------------------------------	---------

Gains and losses as well as certain costs associated with the Isleton Financing Authority's sale of the City's sewer system are not short term financial resources or uses and therefore are not reported as revenues/expenditures in the governmental funds.

Amortization of deferred expenses	<u>47,514</u>
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Change in net position – governmental activities	<u>\$ (124,511)</u>
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See accompanying notes to basic financial statements

**CITY OF ISLETON
COMBINING STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018**

	<u>Major Funds</u>		
	<u>Sewer</u>	<u>Total Other Funds</u>	<u>Total</u>
ASSETS:			
Cash and investments	\$ 230,543	\$ 25,853	\$ 256,396
Accounts receivable	65,501	-	65,501
Due from other funds	6,345	-	6,345
Restricted cash	169,974	-	169,974
Capital assets	3,615,059	-	3,615,059
Accumulated depreciation	<u>(1,164,996)</u>	<u>-</u>	<u>(1,164,996)</u>
Total assets	<u>\$ 2,922,426</u>	<u>\$ 25,853</u>	<u>\$ 2,948,279</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss	\$ 98,266	\$ -	\$ 98,266
Total deferred outflows of resources	<u>\$ 98,266</u>	<u>\$ -</u>	<u>\$ 98,266</u>
LIABILITIES AND FUND EQUITY:			
Liabilities:			
Payables:			
Accounts	\$ 19,191	\$ -	\$ 19,191
Interest	48,037	-	48,037
Due to other funds	-	-	-
Long-term debt:			
Certificate of participation	933,500	-	933,500
2012 Bonds	1,860,000	-	1,860,000
Leases	<u>30,579</u>	<u>-</u>	<u>30,579</u>
Total liabilities	<u>\$ 2,891,307</u>	<u>\$ -</u>	<u>\$ 2,891,307</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred gain	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position:			
Unrestricted	<u>\$ 129,385</u>	<u>\$ 25,853</u>	<u>\$ 155,238</u>
Total net position	<u>\$ 129,385</u>	<u>\$ 25,853</u>	<u>\$ 155,238</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGE IN FUND NET POSITION - PROPRIETARY FUNDS
 JUNE 30, 2018**

	<u>Major Funds</u>	Total Other Funds	<u>Total</u>
	<u>Sewer</u>		
Operating revenues:			
Charges for service	\$ 500,562	\$ 31,480	\$ 532,042
Fines and forfeitures	8,948	-	8,948
Other	<u>28,715</u>	-	<u>28,715</u>
Total operating revenues	<u>538,225</u>	<u>31,480</u>	<u>569,705</u>
Operating expenses:			
Salaries and benefits	105,506	-	105,506
Services and supplies	37,621	-	37,621
Maintenance and operations	92,385	-	92,385
General and administration	51,214	-	51,214
Depreciation/amortization	<u>133,682</u>	-	<u>133,682</u>
Total operating expenses	<u>420,408</u>	<u>-</u>	<u>420,408</u>
Operating income (loss)	<u>117,817</u>	<u>31,480</u>	<u>149,297</u>
Non-operating revenues (expenses):			
Use of money	10,149	48	10,197
Intergovernmental	-	-	-
Transfers in/(out)	7,164	(26,228)	(19,064)
Interest expense	<u>(186,915)</u>	<u>-</u>	<u>(186,915)</u>
Total non-operating revenues (expense)	<u>(169,602)</u>	<u>(26,180)</u>	<u>(195,782)</u>
Changes in net position	(51,785)	5,300	(46,485)
Net position, beginning of year	<u>181,170</u>	<u>20,553</u>	<u>201,723</u>
Net position, end of year	<u>\$ 129,385</u>	<u>\$ 25,853</u>	<u>\$ 155,238</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Major Funds</u>		<u>Total</u>
	<u>Sewer</u>	<u>Total Other Funds</u>	
Cash flows from operating activities			
Cash received from operating revenues	\$ 540,686	\$ 31,480	\$ 572,166
Cash paid to employees for services	(105,506)	-	(105,506)
Cash paid for operating expenses	<u>(164,454)</u>	<u>-</u>	<u>(164,454)</u>
Net cash provided by operating activities	<u>270,726</u>	<u>31,480</u>	<u>302,206</u>
Cash flows from non-capital financing activities			
Cash received from other funds	(8,636)	-	(8,636)
Transfer from/(to) other fund types	<u>7,164</u>	<u>(26,228)</u>	<u>(19,064)</u>
Net cash provided by non-capital financing activities	<u>(1,472)</u>	<u>(26,228)</u>	<u>(27,700)</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(74,478)	-	(74,478)
Payments on long-term debt	(8,221)	-	(8,221)
Interest and fiscal charges	<u>(186,915)</u>	<u>-</u>	<u>(186,915)</u>
Net cash provided (used) by capital and related financing activities	<u>(269,614)</u>	<u>-</u>	<u>(269,614)</u>
Cash flows from investing activities			
Use of money	<u>10,149</u>	<u>48</u>	<u>10,197</u>
Net cash provided by investing activities	<u>10,149</u>	<u>48</u>	<u>10,197</u>
Net increase (decrease) in cash and cash equivalents	9,789	5,300	15,089
Cash and cash equivalents – beginning of the year	<u>390,728</u>	<u>20,553</u>	<u>411,281</u>
Cash and cash equivalents – end of the year	<u>\$ 400,517</u>	<u>\$ 25,853</u>	<u>\$ 426,370</u>
Reconciliation of operating income to net cash			
Provided (used) by operating activities:			
Operating income	\$ 117,817	\$ 31,480	\$ 149,297
Adjustments to reconcile operating income to			
Net cash provided (used) by operating activities:			
Depreciation and amortization	133,682	-	133,682
(Increase) decrease in accounts receivable	2,461	-	2,461
Increase (decrease) in accounts payable	16,766	-	16,766
Net cash provided by operating activities	<u>\$ 270,726</u>	<u>\$ 31,480</u>	<u>\$ 302,206</u>

See accompanying notes to basic financial statements

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The accounting policies of the City conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The City operates under a Council Manager form of government and provides the following services: public safety, highways and streets, health and sanitation, culture-recreation, public improvements, planning and zoning, general administrative services, and sewer.

The government-wide financial statements include the City only (known as the primary government). There are no component or blended component units that are part of the City's operations.

C. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government, the City, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's business-type activities and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, liabilities, revenues and expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The City reports the following major governmental funds:

- General fund
- Sacramento Transportation
- Supplemental Law Enforcement fund
- Redevelopment Agency fund
- Redevelopment Agency – Low Income Housing fund

The City reports the following major proprietary funds:

- Sewer fund

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

The government-wide, proprietary, and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales tax, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its business-type activities and enterprise funds, the City has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the City's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption.

These budgets are revised by the City's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund in the required supplementary information.

F. Fair Value Measurements

The City uses a framework for defining and measuring fair value, in accordance with generally accepted accounting principles, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. There are three levels of inputs that may be used to measure fair value; Level 1 uses quoted prices and active markets for identical assets or liabilities when determining fair market value; Level 2 uses non active quoted prices for similar assets and liabilities that can be corroborated with market data; and Level 3 uses unobservable information with little or no market data. The City reports assets and liabilities using Level 1 inputs.

G. Cash and Investments

Cash balances of the majority of City funds are pooled in order to maximize investment opportunities. Interest earned from investments purchased with pooled cash is allocated to each of the funds based on the fund's overall cash balance.

Certain proceeds of enterprise funds, revenue bonds, certificates of participation, and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is legally restricted. Restricted cash and investments are not available for general operational expenses.

For purposes of the statement of cash flows, the City considers all highly liquid investment instruments purchased with a maturity of ninety days or less to be cash and cash equivalents.

H. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, grants, and interest. Business-type activities report user fees and interest earnings as their major receivables.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Receivables (continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, grants, interest, and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. User fee receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks and similar items) are defined by the City as an asset with a cost greater than \$1,000 and a useful life of more than one year.

Equipment reported in the financial statements is reported at actual historical cost. Structures and improvements, land, and infrastructure have been stated at actual cost when available or estimated historical cost. Estimated historical cost was arrived at by a variety of methods. Contributed capital assets are recorded at estimated fair market value at the date of donation. Sewer funds assets are recorded at their fair market value.

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

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

In the government-wide financial statements, property, plant, and equipment are accounted for as capital assets.

GASB No. 34 requires most governmental agencies to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Buildings and Improvements	20-50
Machinery & equipment	3-20
Infrastructure	20-75

Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets (continued)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred expenses and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

K. Compensated Absences

The City's policy regarding vacation is to permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. The City includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

L. Deferred Outflows/Inflows of Resources

The objective of Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*.

M. Net Assets/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net position - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Assets/Fund Balances (continued)

In the governmental fund financial statements, restricted and unassigned segregate portions of fund balance. Restricted fund balances are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

As of June 30, 2018, restricted fund balance included:

- Redevelopment Low Income - to reflect the portion of assets which do not represent available, spendable resources.

N. Revenue Limit/Property Tax

The State of California's Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value, as defined by Article XIII A, and may be adjusted by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the county, cities, school districts, and other districts.

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates	November 1 (1 st installment) February 1 (2 nd installment)	July 1
Delinquent dates	December 10 (1 st installment) April 10 (2 nd installment)	August 31

O. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

P. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 2 CASH AND INVESTMENTS

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

Deposits	\$ 1,153,206
Local agency investment fund	<u>1,318</u>
Total Cash	<u>\$ 1,154,524</u>

Per the City's financial statements:

Primary government	\$ 984,550
Restricted cash	<u>169,974</u>
Total Cash	<u>\$ 1,154,524</u>

Deposits

The California Government Code requires California banks and savings and loan associations to collateralize a City's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of a City's deposits. California law also allows financial institutions to collateralize City deposits by pledging first trust deed mortgage notes having a value of 150 percent of a City's total deposits. The City may waive collateral requirements for deposits which are fully insured up to \$250,000 by Federal Deposit insurance.

At year end, the carrying amount of the City's cash deposits (including amount in checking accounts and money market accounts) was \$1,154,524 and the bank balance was \$1,194,884. The difference between the bank balance and the carrying amount represents outstanding checks, deposits in transit and undeposited funds.

Investments

California statutes authorize state agencies and Cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 - Financial Affairs.

The Government Code allows investments in the following instruments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration loans
- Certificate of Deposit placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial paper and medium term corporate notes
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements (Repos)
- Passbook Savings Account Demand Deposits
- Reverse Repurchase Agreements

All of the City's investments are with the Local Agency Investment Fund which is regulated by the California Government Code under the oversight of the Treasurer of the State of California.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 3 CAPITAL ASSETS AND DEPRECIATION

Governmental capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 310,360	\$ -	\$ -	\$ 310,360
Total nondepreciable assets	<u>310,360</u>	<u>-</u>	<u>-</u>	<u>310,360</u>
Depreciable capital assets:				
Buildings and improvements	2,881,129	28,278	-	2,909,407
Equipment	<u>1,082,031</u>	<u>23,520</u>	<u>-</u>	<u>1,105,551</u>
Total depreciable assets	<u>3,963,160</u>	<u>51,798</u>	<u>-</u>	<u>4,014,958</u>
Less: accumulated depreciation:				
Buildings and improvements	(967,079)	(60,533)	-	(1,027,612)
Equipment	<u>(1,017,641)</u>	<u>(5,292)</u>	<u>-</u>	<u>(1,022,933)</u>
Total accumulated depreciation	<u>(1,984,720)</u>	<u>(65,825)</u>	<u>-</u>	<u>(2,050,545)</u>
Net depreciable assets	<u>1,984,720</u>	<u>(14,027)</u>	<u>-</u>	<u>1,964,413</u>
Net governmental capital assets	<u>\$ 2,288,800</u>	<u>\$ (14,027)</u>	<u>\$ -</u>	<u>\$ 2,274,773</u>

Proprietary fund type capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 63,000	\$ -	\$ -	\$ 63,000
Total nondepreciable assets	<u>63,000</u>	<u>-</u>	<u>-</u>	<u>63,000</u>
Depreciable capital assets:				
Buildings and improvements	3,244,931	23,078	-	3,268,009
Equipment	<u>232,650</u>	<u>51,400</u>	<u>-</u>	<u>284,050</u>
Total depreciable assets	<u>3,477,581</u>	<u>74,478</u>	<u>-</u>	<u>3,552,059</u>
Less: accumulated depreciation:				
Buildings and improvements	(839,780)	(99,695)	-	(939,475)
Equipment	<u>(197,639)</u>	<u>(27,882)</u>	<u>-</u>	<u>(225,521)</u>
Total accumulated depreciation	<u>(1,037,419)</u>	<u>(127,577)</u>	<u>-</u>	<u>(1,164,996)</u>
Net depreciable assets	<u>2,440,162</u>	<u>(53,099)</u>	<u>-</u>	<u>2,387,063</u>
Net proprietary fund type capital assets	<u>\$ 2,503,162</u>	<u>\$ (53,099)</u>	<u>\$ -</u>	<u>\$ 2,450,063</u>

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 3 CAPITAL ASSETS AND DEPRECIATION (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 8,765
Public safety	11,884
Public ways and facilities	43,233
Recreation and culture	<u>1,943</u>
Total depreciation expense – governmental functions	<u>\$ 65,825</u>

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

Sewer depreciation	\$ 127,577
Sewer amortization	<u>6,105</u>
Total depreciation and amortization – business-type funds	<u>\$ 133,682</u>

Note 4 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

	<u>July 1, 2017</u>	<u>Amortization</u>	<u>June 30, 2018</u>
Deferred outflow of resources:			
Governmental activities	\$ 48,748	\$ (2,867)	\$ 45,881
Business-type activities	<u>104,371</u>	<u>(6,105)</u>	<u>98,266</u>
Total deferred expenses	<u>\$ 153,119</u>	<u>\$ (8,972)</u>	<u>\$ 144,147</u>
Deferred inflow of resources:			
Governmental	<u>\$ 856,470</u>	<u>\$ (50,381)</u>	<u>\$ 806,089</u>
Total deferred revenues	<u>\$ 856,470</u>	<u>\$ (50,381)</u>	<u>\$ 806,089</u>

Note 5 INSTALLMENTS PAYABLE

The City has elected to disclose the following accounts payable as installments payable:

<u>Vendor</u>	<u>Amount</u>
Sacramento County Treasurer (Reclamation District No. 407)	\$ 69,681
Employment Development Department	158,804
Sacramento County Sheriff's Department	306,250
Small Cities Organized Risk Effort	<u>73,380</u>
	<u>\$ 608,115</u>

Sacramento County Treasurer (Reclamation District No. 407) – In January 2018 the City entered into an agreement to pay its unpaid liabilities in installments. At the time of the agreement the unpaid liability was \$99,546.

Employment Development Department – In February 2018 the City entered into an agreement to pay its unpaid liabilities in installments. At the time of the agreement the unpaid liability was \$174,804 plus accrued interest, as applicable.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 5 INSTALLMENTS PAYABLE (continued)

Sacramento County Sheriff's Department – In June 2018 the City Council adopted the Sacramento County Sheriff Quittance Plan. At December 2018 the unpaid liability was \$370,153.

Small Cities Organized Risk Effort – In December 2018 the City Council adopted a payment schedule for assessments outstanding. At the time of the agreement the unpaid assessments were \$81,533.

The annual installment payment requirements as of June 30, 2018 are as follows:

Year ending June 30,	Sacramento County Treasurer	Employment Development Department	Sacramento County Sheriff	Small Cities Organized Risk Effort	Total
2019	\$ 9,955	\$ 12,000	\$ 43,750	\$ 8,153	\$ 73,858
2020	9,955	12,000	43,750	8,153	73,858
2021	9,955	12,000	43,750	12,230	77,935
2022	9,954	12,000	43,750	12,230	77,934
2023	9,954	12,000	43,750	16,307	82,011
2024-2028	19,908	60,000	87,500	16,307	183,715
2029-2032	-	38,804	-	-	38,804
Total	<u>\$ 69,681</u>	<u>\$ 158,804</u>	<u>\$ 306,250</u>	<u>\$ 73,380</u>	<u>\$ 608,115</u>

Note 6 LONG-TERM DEBT

A. GOVERNMENTAL FUNDS

Compensated Absences

Accumulated employee vacation leave and earned sick leave represents a liability to the city contingent upon an employee's termination. A liability for these amounts is reported in the governmental funds. Accumulated employee vacation leave and sick leave at June 30, 2018 amounts to \$801.

B. ENTERPRISE FUNDS

2004 Certificates of Participation

Public Property Financing Corporation of California Certificates of Participation, City of Isleton Sewer Project Series 2004, dated November 18, 2004, in the amount of \$1,113,500, payable in annual installments of \$1,000 to \$59,000, with an interest rate of 4.5% and maturity on May 1, 2044.

Series 2012 Wastewater Refunding Revenue Bonds

Isleton Public Financing Authority Series 2018 Wastewater Refunding Revenue Bonds, dated May 16, 2018, in the amount of \$1,950,000, payable in annual installments of \$139,893 to \$169,969, with an interest rate of 6.5% to 7.75% and maturity on September 1, 2042.

Backhoe Lease

The City entered into a leasing agreement with Community First National Bank for the purchase of a backhoe, dated July 11, 2017, in the amount of \$40,000, payable in annual installments of \$11,017, with an interest rate of 3.99% and maturity on July 11, 2021.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 6 LONG-TERM DEBT (continued)

C. CHANGES IN LONG-TERM DEBT

Debt paid during the year 2017-17 and the related balance at June 30, 2018, is presented as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>	<u>Due in One Year</u>
GOVERNMENTAL FUNDS					
Compensated absences	\$ 801	\$ 8,350	\$ -	\$ 9,151	\$ -
Total governmental funds	<u>\$ 801</u>	<u>\$ 8,350</u>	<u>\$ -</u>	<u>\$ 9,151</u>	<u>\$ -</u>
ENTERPRISE FUNDS					
Certificates of participation	\$ 952,300	\$ -	\$ (18,800)	\$ 933,500	\$ 19,600
Series 2012 Bonds	1,880,000	-	(20,000)	1,860,000	25,000
Leases	-	40,000	(9,421)	30,579	9,797
Total enterprise funds	<u>\$ 2,832,300</u>	<u>\$ 40,000</u>	<u>\$ (48,221)</u>	<u>\$ 2,824,079</u>	<u>\$ 54,397</u>

D. FUTURE DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity including principal and interest for the enterprise certificate of participation as of June 30, 2018 are as follows:

<u>Year ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$ 42,008	\$ 19,600	\$ 61,608
2020	41,125	20,500	61,625
2021	40,203	21,400	61,603
2022	39,240	22,400	61,640
2023	28,232	23,400	61,632
2024-2028	174,384	133,800	308,184
2029-2033	141,444	166,700	308,144
2034-2038	100,400	207,800	308,200
2039-2043	49,248	258,900	308,148
2044	<u>2,655</u>	<u>59,000</u>	<u>61,655</u>
Total	<u>\$ 668,939</u>	<u>\$ 933,500</u>	<u>\$ 1,602,439</u>

The annual debt service requirements to maturity including principal and interest for enterprise bonds as of June 30, 2018 are as follows:

<u>Year ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$ 141,025	\$ 25,000	\$ 166,025
2020	139,238	30,000	169,238
2021	137,287	30,000	167,287
2022	135,338	30,000	165,338
2023	133,225	35,000	168,225
2024-2028	623,462	215,000	838,462
2029-2033	520,219	325,000	845,219
2034-2038	368,125	470,000	838,125
2039-2043	<u>143,375</u>	<u>700,000</u>	<u>843,375</u>
Total	<u>\$ 2,341,294</u>	<u>\$ 1,860,000</u>	<u>\$ 4,201,294</u>

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 6 LONG-TERM DEBT (continued)

D. FUTURE DEBT SERVICE REQUIREMENTS (continued)

The annual debt service requirements to maturity including principal and interest for enterprise leases as of June 30, 2018 are as follows:

Year ending June 30,	Interest	Principal	Total
2019	\$ -	\$ -	\$ -
2020	1,220	9,797	11,017
2021	829	10,188	11,017
2022	<u>423</u>	<u>10,594</u>	<u>11,017</u>
Total	<u>\$ 2,472</u>	<u>\$ 30,579</u>	<u>\$ 33,051</u>

Note 7 DEFICIT FUND BALANCES

The following funds had deficits in fund balances or retained earnings at June 30, 2018:

Major governmental funds:	
General Fund	1,717,232
Supplemental Law Enforcement	13,621
Other governmental funds:	
Development Deposits	166,728

Note 8 INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables (due from other funds) and payables (due to other funds), as appropriate, and are subject to elimination upon consolidation.

Interfund receivable and payable balances were comprised of the following as of June 30, 2018:

	Due from <u>other funds</u>	Due to <u>other funds</u>
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ -	\$ 1,138,060
Sacramento Transportation	147,812	-
Supplemental Law Enforcement	-	13,953
Redevelopment Agency	580,798	-
Redevelopment – Low Income	<u>529,168</u>	<u>-</u>
Total major governmental funds	<u>1,257,778</u>	<u>1,152,013</u>
OTHER GOVERNMENTAL FUNDS		
Gas Tax	-	5,000
Local Transportation	86,000	-
Developers	-	193,877
Lighting and Landscaping	-	-
Assessment District	<u>767</u>	<u>-</u>
Total other governmental funds	<u>86,767</u>	<u>198,877</u>
Total governmental funds	<u>1,344,545</u>	<u>1,350,890</u>
MAJOR BUSINESS-TYPE FUNDS		
Sewer	<u>6,345</u>	<u>-</u>
Total major business-type funds	<u>6,345</u>	<u>-</u>
Total City	<u>\$ 1,350,890</u>	<u>\$ 1,350,890</u>

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 8 INTERFUND TRANSACTIONS (continued)

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges to appropriate benefiting fund, and reduces its related costs as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund transfers in and out were comprised of the following for the year ending June 30, 2018:

	Transfers <u>In</u>	Transfers <u>Out</u>
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 13,601	\$ -
Supplemental Law Enforcement	10,000	-
Sacramento Transportation	<u>-</u>	<u>2,144</u>
Total major governmental funds	<u>23,601</u>	<u>2,144</u>
OTHER GOVERNMENTAL FUNDS		
Gas Tax	-	1,150
Local Transportation	-	171
Developers	<u>-</u>	<u>1,072</u>
Total other governmental funds	<u>-</u>	<u>2,393</u>
Total governmental funds	<u>23,601</u>	<u>4,537</u>
MAJOR BUSINESS-TYPE FUNDS		
Sewer	<u>26,228</u>	<u>19,064</u>
OTHER BUSINESS-TYPE FUNDS		
Capital Recovery	<u>-</u>	<u>26,228</u>
Total business-type funds	<u>26,228</u>	<u>45,292</u>
Total City	<u>\$ 49,829</u>	<u>\$ 49,829</u>

Note 9 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. Obligations and liabilities of these risk pools are the City's responsibility.

Small Cities Organized Risk Effort (SCORE) covers general liability up to \$500,000 per occurrence. The City has no deductible for general liability but is charged back through a retrospective adjustment up to \$25,000 per occurrence. The City has a deductible or uninsured liability of up to \$25,000 per claim for employer practices liability. Once the City deductible is met SCORE becomes responsible for payments of all claims up to the limit. The California Joint Powers Risk Management Authority (CJPRMA) provides coverage above SCORE to \$40,000,000 per occurrence with a sub-limit of \$6,000,000 for employment practices liability.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 9 RISK MANAGEMENT (continued)

The City's contributions with each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements for the risk pool may be obtained from S.C.O.R.E., c/o Alliant Insurance Services, Inc., 1792 Tribute Road, Suite 450, Sacramento, CA 95815.

Note 10 COMMITMENTS AND CONTINGENCIES

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

In the natural course of events, the City can be named in lawsuits resulting in legal action against the City from normal operations. No amounts are provided in the accompanying financial statements for such contingencies.

Note 11 SPECIAL ITEMS

Special items are significant transactions within the control of management that are unusual in nature or infrequent in occurrence. City management has determined that a previously reported accounts payable balance of \$18,825 has no supporting documentation. The City further asserts the liability is over six years old as of the date of this report and that it has not received any request for payment of the outstanding balance over the prior three years. The City has elected to write-off the liability in the current fiscal year.

Note 12 SUBSEQUENT EVENTS

Management of the City has evaluated the events subsequent to June 30, 2018 for disclosure and has determined that as of August 11, 2020 there are no material subsequent events that should be disclosed. If events requiring disclosure have occurred between the balance sheet date and the date the financial statements were available to be issued they would be disclosed here.

**CITY OF ISLETON
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

**CITY OF ISLETON
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 562,591	\$ 562,591	\$ 360,490	\$ (202,101)
Measure B	125,235	125,235	74,903	(50,332)
Licenses and permits	76,916	76,916	86,336	9,420
Fines and penalties	15,525	15,525	1,049	(14,476)
Use of money	-	-	231	231
Charges for services	103,500	103,500	136,365	32,865
Intergovernmental	-	-	57,536	57,536
Miscellaneous	60,088	60,088	11,648	(48,440)
Total revenues	<u>943,855</u>	<u>943,855</u>	<u>728,558</u>	<u>(215,297)</u>
EXPENDITURES				
General government	516,000	516,000	378,797	137,203
Public safety	401,000	401,000	274,114	126,886
Parks & recreation	10,000	10,000	21,342	(11,342)
Public ways and facilities	309,000	309,000	163,846	145,154
Community development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	51,798	(51,798)
Total expenditures	<u>1,236,000</u>	<u>1,236,000</u>	<u>889,897</u>	<u>346,103</u>
Excess of revenues over (under) expenditures	<u>(292,145)</u>	<u>(292,145)</u>	<u>(161,339)</u>	<u>130,806</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	13,601	13,601
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	13,601	13,601
Special items	-	-	18,825	18,825
Net change in fund balance	<u>\$ (292,145)</u>	<u>\$ (292,145)</u>	<u>\$ (128,913)</u>	<u>\$ 163,232</u>

**CITY OF ISLETON
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2018**

**CITY OF ISLETON
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2018**

	<u>Gas Tax</u>	<u>Local Transportation</u>	<u>Developers Deposits</u>	<u>Lighting and Landscaping Assessment District</u>	<u>Total</u>
ASSETS:					
Cash and investments	\$ 16,574	\$ 107,296	\$ 28,273	\$ -	\$ 152,143
Accounts receivable	-	-	1,190	-	1,190
Taxes receivable	743	-	-	-	743
Due from other funds	<u>-</u>	<u>86,000</u>	<u>-</u>	<u>767</u>	<u>86,767</u>
Total assets	<u>\$ 17,317</u>	<u>\$ 193,296</u>	<u>\$ 29,463</u>	<u>\$ 767</u>	<u>\$ 240,843</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 5,515	\$ -	\$ 2,314	\$ -	\$ 7,829
Deposits payable	-	-	-	-	-
Due to other funds	<u>5,000</u>	<u>-</u>	<u>193,877</u>	<u>-</u>	<u>198,877</u>
Total liabilities	<u>10,515</u>	<u>-</u>	<u>196,191</u>	<u>-</u>	<u>206,706</u>
Fund Balances:					
Unassigned	<u>6,802</u>	<u>193,296</u>	<u>(166,728)</u>	<u>767</u>	<u>34,137</u>
Total fund balances	<u>6,802</u>	<u>193,296</u>	<u>(166,728)</u>	<u>767</u>	<u>34,137</u>
Total liabilities and fund balances	<u>\$ 17,317</u>	<u>\$ 193,296</u>	<u>\$ 29,463</u>	<u>\$ 767</u>	<u>\$ 240,843</u>

**CITY OF ISLETON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Gas Tax</u>	<u>Local Transportation</u>	<u>Developers Deposits</u>	<u>Lighting and Landscaping Assessment District</u>	<u>Total</u>
REVENUES					
Taxes	\$ 25,041	\$ -	\$ -	\$ 3,609	\$ 28,650
Use of money	-	-	19	-	19
Charges for services	-	-	40,220	-	40,220
Intergovernmental	-	-	-	-	-
Other revenues	-	-	-	-	-
Total revenues	<u>25,041</u>	<u>-</u>	<u>40,239</u>	<u>3,609</u>	<u>68,889</u>
EXPENDITURES					
General government	-	-	25,462	-	25,462
Public ways and facilities	<u>27,355</u>	<u>43,449</u>	<u>-</u>	<u>1,249</u>	<u>72,053</u>
Total expenditures	<u>27,355</u>	<u>43,449</u>	<u>25,462</u>	<u>1,249</u>	<u>97,515</u>
Excess of revenues over (under) expenditures	<u>(2,314)</u>	<u>(43,449)</u>	<u>14,777</u>	<u>2,360</u>	<u>(28,626)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	<u>(1,150)</u>	<u>(171)</u>	<u>(1,072)</u>	<u>-</u>	<u>(2,393)</u>
Total other financing sources (uses)	<u>(1,150)</u>	<u>(171)</u>	<u>(1,072)</u>	<u>-</u>	<u>(2,393)</u>
Net change in fund balance	(3,464)	(43,620)	13,705	2,360	(31,019)
Fund balance (deficit), beginning of year	<u>10,266</u>	<u>236,916</u>	<u>(180,433)</u>	<u>(1,593)</u>	<u>65,156</u>
Fund balance, end of the year	<u>\$ 6,802</u>	<u>\$ 193,296</u>	<u>\$ (166,728)</u>	<u>\$ 767</u>	<u>\$ 34,137</u>

**CITY OF ISLETON
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR PROPRIETARY FUNDS
 JUNE 30, 2018**

	<u>Sewer Capital Reserve</u>	<u>Sewer Capital Recovery</u>	<u>Total</u>
ASSETS:			
Cash and investments	\$ 524	\$ 25,329	\$ 25,853
Accounts receivable	-	-	-
Capital assets	-	-	-
Accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 524</u>	<u>\$ 25,329</u>	<u>\$ 25,853</u>
LIABILITIES AND FUND EQUITY:			
Liabilities:			
Payables:			
Accounts	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Long-term debt:			
Certificate of participation	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position:			
Unrestricted	<u>524</u>	<u>25,329</u>	<u>25,853</u>
Total liabilities and net position	<u>\$ 524</u>	<u>\$ 25,329</u>	<u>\$ 25,853</u>

**CITY OF ISLETON
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGE IN FUND NET POSITION – NONMAJOR PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018**

	Sewer Capital Reserve	Sewer Capital Recovery	Total
Operating revenues:			
Charges for service	\$ -	\$ 31,480	\$ 31,480
Total operating revenues	<u>-</u>	<u>31,480</u>	<u>31,480</u>
Operating expenses:			
Salaries and benefits	-	-	-
Services and supplies	-	-	-
Maintenance and operations	-	-	-
General and administration	-	-	-
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>
Operating income (loss)	<u>-</u>	<u>31,480</u>	<u>31,480</u>
Non-operating revenues (expenses):			
Use of money	-	48	48
Intergovernmental	-	-	-
Transfers in/(out)	-	(26,228)	(26,228)
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating revenues (expense)	<u>-</u>	<u>(26,180)</u>	<u>(26,180)</u>
Changes in net position	-	5,300	5,300
Net position, beginning of year	<u>524</u>	<u>20,029</u>	<u>20,553</u>
Net position, end of year	<u>\$ 524</u>	<u>\$ 25,329</u>	<u>\$ 25,853</u>

**CITY OF ISLETON
STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Sewer Capital Reserve</u>	<u>Sewer Capital Recovery</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from operating revenues	\$ -	\$ 31,480	\$ 31,480
Cash paid to employees for services	-	-	-
Cash paid for operating expenses	-	-	-
Net cash provided by operating activities	<u>-</u>	<u>31,480</u>	<u>31,480</u>
Cash flows from non-capital financing activities			
Cash received from other funds	-	-	-
Transfer from/(to) other fund types	-	<u>(26,228)</u>	<u>(26,228)</u>
Net cash provided by non-capital financing activities	<u>-</u>	<u>(26,228)</u>	<u>(26,228)</u>
Cash flows from capital and related financing activities			
Purchase of fixed assets	-	-	-
Payments on long-term debt	-	-	-
Interest and fiscal charges	-	-	-
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Use of money	-	<u>48</u>	<u>48</u>
Net cash provided by investing activities	<u>-</u>	<u>48</u>	<u>48</u>
Net increase (decrease) in cash and cash equivalents	-	5,300	5,300
Cash and cash equivalents – beginning of the year	<u>524</u>	<u>20,029</u>	<u>20,553</u>
Cash and cash equivalents – end of the year	<u>\$ 524</u>	<u>\$ 25,329</u>	<u>\$ 25,853</u>
Reconciliation of operating income to net cash Provided (used) by operating activities:			
Operating income	\$ -	\$ 31,480	\$ 31,480
Adjustments to reconcile operating income to Net cash provided (used) by operating activities:			
Depreciation	-	-	-
Debt forgiveness	-	-	-
(Increase) decrease in accounts receivable	-	-	-
Increase (decrease) in accounts payable	-	-	-
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 31,480</u>	<u>\$ 31,480</u>

CITY OF ISLETON
ISLETON, CALIFORNIA
JUNE 30, 2018

CITY COUNCIL

	<u>Position</u>	<u>Term Expires</u>
Eric Pene	Mayor	December, 2018
Elizabeth Samano	Vice Mayor	December, 2018
Dean Dockery	Member	December, 2018
Glenn Giovannoni	Member	December, 2018
Robert Janovitz	Member	December, 2018

CITY ADMINISTRATOR
Charles Bergson

CITY CLERK
Yvonne Zepeda

CITY TREASURER
Pamela Bulahan

**CITY OF ISLETON
OTHER REPORTS
JUNE 30, 2018**

**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**

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Isleton, California

I 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, the aggregate remaining fund information, the fiduciary funds and the component units of City of Isleton, 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 my report thereon dated August 11, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be a material weakness as item number 18-03 through 18-04.

A significant deficiency in internal control is a deficiency, or 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. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies as items number 18-01 through 18-02.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Isleton, California's financial statements are free of material misstatement, I performed tests its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and materially effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my 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 responses as item numbers 18-05 through 18-06.

City of Isleton's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Don Cole & Company
Sacramento, California

August 11, 2020

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED
JUNE 30, 2018**

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2018**

My examination disclosed the following conditions we considered serious enough to bring to your attention:

18-01. BUDGET

Finding: In reviewing actual expenditures versus the budgeted expenditures of the General Fund it was noted that there are significant disparities between the actual amounts and the budget amounts. Revenues in the current year were 28.4% lower than budgeted and expenditures were 28.0% lower than budgeted. Good fiscal management requires the continued monitoring of actual expenditures versus budgeted amounts to better anticipate changing circumstances and make timely necessary adjustments to the budget and spending plans.

Recommendation: I recommended that a procedure be implemented wherein there is a periodic review of actual performance and budgeted performance. This will allow for needed adjustments to the budget and spending plan and provided improved control over city finances.

City response: The City Manager in 2017 found no documented budget nor was there a financial advisor upon entering this position. Given that the revenues and expenditure are essentially equally distant from the actual, this is indicative that management has control on expenditures and is adjusting the budget revenues and expenditures as data and financial pattern are established.

18-02. POLICIES AND PROCEDURES

Finding: It was noted that the City does not have written procedures for performing many of the current financial processes.

Recommendation: It is recommended that the City develop written policies and procedures for all current financial processes.

City response: The City has retained a new consulting finance advisor is this advisor is preparing written policies for all financial processes. These will be in place by 01 January 2021.

18-03. ACCURACY OF FINANCIAL REPORTING

Finding: Shortcomings in the accounting system are demonstrated by the following:

- a) Bank reconciliations are not being performed accurately and on a timely basis:
 - i. The fire department equipment account shows an unreconciled deposit in transit of \$6,229.97 as well as an unreconciled outstanding check in the same amount.
 - ii. \$11,000 deposit was recorded both in the general fund main checking account and in the fire department equipment account.
 - iii. The measure A checking account shows \$3,130.56 as a deposit in transit for 11 months.
 - iv. The fire department equipment account does not reconcile - \$115 understated.
 - v. The sewer fund account does not reconcile - \$166 overstated.
 - vi. The sewer fund reserve account does not reconcile - \$1,770 understated.
 - vii. The LAIF accounts in the general fund and redevelopment-low income fund do not reconcile to the statements.

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2018**

18-03. ACCURACY OF FINANCIAL REPORTING (continued)

- b) QuickBooks was unable to produce an aging of the general fund's accounts receivable that agreed with the trial balance. The general fund trial balance shows the accounts receivable balance to be \$21,895.60. QuickBooks produced a general fund accounts receivable aging as of June 30, 2018 on 7/5/19 that totaled \$21,737.84, then the same aging on 7/15/19 totaled \$21,627.84 – the difference between the two agings was due to The Hair Loom balance of \$110 being dropped off the second aging.
- c) The general fund accounts receivable trial balance and aging included a customer balance of unknown origin labelled "Isleton Audit" in the amount of \$17,206.27.
- d) Accruals are not accounted for correctly:
 - i. Current year property taxes received subsequent to the fiscal year end were not recorded as revenue and a receivable.
 - ii. End of the year expenditures were not accrued in the current year.
 - iii. The City's current year reversal of prior year accruals were improperly recorded.
- e) Vendor invoices are not being recorded correctly resulting in various vendors with negative balances in the aging of accounts payable.
- f) Installments payable are not being accounted for correctly:
 - i. Beginning installments payable balances didn't equal the prior year ending balances.
 - ii. Certain installment payable payments made were incorrectly recorded in accounts payable.
 - iii. Certain installment payable payments made were incorrectly recorded as a current year expenditure.
 - iv. Adjustments made to installments payable were unwarranted.
 - v. Current year expenditures were incorrectly added to installments payable.
- g) The Sewer fund's purchase of a backhoe was not accounted for correctly:
 - i. The down payment of the Sewer fund purchase of a backhoe was recorded as an expense.
 - ii. The total value of the Sewer fund backhoe was not recorded.
 - iii. The lease associated with the Sewer fund's purchase of a backhoe wasn't recorded.
 - iv. The first payment of the backhoe lease was recorded as an expense rather than as a reduction of the lease obligation.
- h) Payments made in accordance with the memorandum of understanding between the Sewer fund and the Local Transportation, Measure A funds for the purpose of renting the Sewer fund's backhoe were not accounted for correctly:
 - i. Payments received by the Sewer fund from the Local Transportation fund were improperly recorded by the Sewer fund as a miscellaneous revenue rather than as current year use of money revenue.
 - ii. Payments received by the Sewer fund from the Measure A fund were improperly recorded by the Sewer fund as a reduction of the asset account "due from other funds" rather than as current year use of money revenue.
 - iii. Payments made by the Measure A fund to the Sewer fund were improperly recorded by the Measure A fund as an increase of the asset account "due from other funds" rather than as current year expenditure.

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2018**

18-03. ACCURACY OF FINANCIAL REPORTING (continued)

- i) The City is not accounting for its policing activity properly:
 - i. The City did not record its Citizens' Option for Public Safety grant revenue or its Prop 172 Allocation revenue.
 - ii. The City did not record its current year's Sacramento County Sheriff's Department expenditures.
- j) Debt service on the enterprise funds' long-term debt is not being accounted for correctly:
 - i. The payment on the Sewer fund's Series 2012 Bonds were made by the USDA Sewer Project fund, therefore the Sewer fund's long-term debt was not reduced.
 - ii. The payment on the Sewer fund's Series 2012 Bonds were made by the USDA Sewer Project fund, therefore the Sewer fund's current year interest expense was not recorded.
 - iii. The payment on the Sewer fund's Series 2012 Bonds were made by the USDA Sewer Project fund resulting in the improper recording of the payment as an expense in the USDA Sewer Project fund.
 - iv. USDA Sewer Project interest expense on its Certificates of Participation were expensed to the improper account.
- k) Certain Measure B sales taxes were not recorded in the proper account.
- l) Unearned Measure A funds received were improperly recorded as current year revenue.
- m) Certain reoccurring costs are allocated in an inconsistent manner.
- n) Current year "transfers in" didn't equal current year "transfers out."
- o) Current year indirect cost allocations were out of balance.
- p) The City made an undocumented transfer of \$10,000 from the Sewer fund to the Supplemental Law Enforcement fund.
- q) The City is using the USDA Sewer Project fund (an element of the Sewer fund) as a debt service fund.
- r) The City's current accounting system is not suitable for the needs of the City.

Recommendation: I recommend the City purchase an accounting system suitable for a multi-fund entity. I further recommend that bank reconciliations are performed accurately and on a timely basis. Further I recommend the level of supervision for the accounting and financial reporting functions for the City be evaluated to determine that personnel in these positions possess adequate knowledge and understanding of governmental financial reporting.

City response: During this time frame, Fiscal Year 2017-18 and the couple years leading up to this fiscal year, City accounting was handled by five personnel and including a consulting accountant. Beginning in 2018, the City retained a professional public accountant to oversee the finance function. This accountant has addressed all matters contained in this section and establish financial practices and procedures. The finding in 18-03 are presently being address and corrected. It is expected that this item will be completed by 01 January 2021.

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2018**

18-04. ACCESS TO THE ACCOUNTING SYSTEM

Finding: Shortcomings in the internal control over access to the accounting system is demonstrated by the following:

- a) The City Manager has access to the accounting system.
- b) The Sewer receivables/billing clerk has access to the accounting system.
- c) The City Manager has asked the receivable/billing clerk to write checks.

Recommendation: I recommend the City limit access to its accounting system to authorized personnel only. A sound internal control structure would restrict the City Manager's and receivable/billing clerk's access to the accounting system.

City response: A) The City Manager access to accounting is for information only. B) The Sewer receivables/billing clerk has been removed from access to the accounting system. C) In December 2017 the City Manager discovered that the receivables/billing clerk and the public works director were writing City checks. The City Manager removed this authority from both in early January 2108 and restricted check writing to the City Manager, City Treasurer and one member of City Council.

18-05. MEASURE B COMPLIANCE

Finding: Section 12 Expenditure Plan, item C. of Measure B states "the Council shall appoint a committee consisting of no fewer than five individuals to review and report on the receipt of revenue and expenditure of funds from the tax authorized by this ordinance." As of June 30, 2018, no committee has been appointed.

Recommendation: I recommend the Council appoint a committee as required by Section 12 item C.

City response: After the passage of Measure B, the City solicited oversight committee members for Measure B funds for over two years and did not get applicants to empanel a committee. The City was able to empanel and activate the oversight committee in August 2019. This committee has met three times since forming.

18-06. USDA SEWER PROJECT EXPENDITURES

Finding: It was noted by the preceding auditors that amounts claimed for reimbursement on the USDA sewer project were not reconciled to fund 412 of the primary accounting records of the City. It was further noted in testing of disbursements for this project that \$85,703 was paid to the City General fund to reimburse for the previous year's expenses, however, no support or documentation was provided to substantiate that amount.

Recommendation: It is recommended that all grant accounting be reconciled to the primary accounting records of the City and that all amounts charged to this project be properly supported. In addition, I recommend that unless proper documentation is provided for the \$85,703 transferred to the General fund, that the amount be returned to the USDA sewer project fund.

City response: The City Manager has requested the records from the USDA to establish the proper expenditure of these funds. This request was made in 2018. The USDA representative advised in 2018 that should they not be able to access and provide the records, they will recommend that the City consider this expenditure paid and removed from City records. There has been multiple USDA representatives servicing Isleton over the past couple of years. Staff will continuing to pursue this inquiry to rectification.

**CITY OF ISLETON
STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2018**

17-01. BUDGET

Finding: In reviewing actual expenditures versus the budgeted expenditures of the General Fund it was noted that there are significant disparities between the actual amounts and the budget amounts. Expenditures in the current year were 29.2% lower than budgeted. Good fiscal management requires the continued monitoring of actual expenditures versus budgeted amounts to better anticipate changing circumstances and make timely necessary adjustments to the budget and spending plans.

Recommendation: I recommended that a procedure be implemented wherein there is a periodic review of actual performance and budgeted performance. This will allow for needed adjustments to the budget and spending plan and provided improved control over city finances.

Status: The 2017/18 budgeted revenues were 28.4% lower than budgeted and expenditures in the current year were 28.0% lower than budgeted.

17-02. POLICIES AND PROCEDURES

Finding: It was noted that the City does not have written procedures for performing many of the current financial processes.

Recommendation: It is recommended that the City develop written policies and procedures for all current financial processes.

Status: Repeat current year.

17-03. ACCURACY OF FINANCIAL REPORTING

Finding: Shortcomings in the accounting system are demonstrated by the following:

- a) Bank reconciliations are not being performed on a timely basis.

Recommendation: I recommend the level of supervision for the accounting and financial reporting functions for the City be evaluated to determine that personnel in these positions possess adequate knowledge and understanding of governmental financial reporting.

Status: Repeat current year,

17-04. USDA SEWER PROJECT EXPENDITURES

Finding: It was noted by the preceding auditors that amounts claimed for reimbursement on the USDA sewer project were not reconciled to fund 412 of the primary accounting records of the City. It was further noted in testing of disbursements for this project that \$85,703 was paid to the City General fund to reimburse for the previous year's expenses, however, no support or documentation was provided to substantiate that amount.

Recommendation: It is recommended that all grant accounting be reconciled to the primary accounting records of the City and that all amounts charged to this project be properly supported. In addition, I recommend that unless proper documentation is provided for the \$85,703 transferred to the General fund, that the amount be returned to the USDA sewer project fund.

Status: Repeat current year.