

CITY OF ETNA, CALIFORNIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Etna, California

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Etna, California as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 City of Etna, California as of June 30, 2017, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the budgetary comparison information on pages 34 through 38, the cost-sharing multiple employer defined benefit pension plan information on pages 39 and 40 and the schedule of changes in the City's Total OPEB Liability and related ratios on page 41 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 my 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 us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

The combining non-major fund financial statements on pages 42 and 43 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 12, 2018, on my consideration of the City of Etna, California's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Etna, California's internal control over financial reporting and compliance.

Charles W Pillon, CPA

Charles W Pillon, CPA
Redding, California
September 12, 2018

BASIC FINANCIAL STATEMENTS

City of Etna
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 317,920	\$ 637,903	\$ 955,823
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	59,997	59,997
Loans	2,381,641	-	2,381,641
Intergovernmental	403,482	-	403,482
Assessments and other	76,673	-	76,673
Total current assets	3,179,716	697,900	3,877,616
Restricted assets:			
Receivables, special assessments, net	-	469,755	469,755
Capital assets:			
Non-depreciable	469,000	216,414	685,414
Depreciable, net	3,347,647	2,004,300	5,351,947
Total capital assets, net	3,816,647	2,220,714	6,037,361
Deferred Outflows:			
Pension related deferred outflows	86,027	27,006	113,033
Total assets	\$ 7,082,390	\$ 3,415,375	\$ 10,497,765
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 120,301	\$ 24,954	\$ 145,255
Unearned revenue, special assessments	-	469,755	469,755
Unearned revenue, grants	-	8,341	8,341
Deposits	-	6,695	6,695
Accrued liabilities	15,411	-	15,411
Due to (from) other funds	(866)	866	-
Special assessment debt with government commitment due within one year	-	6,700	6,700
Notes and bonds payable, due within one year	-	11,000	11,000
Total current liabilities	134,846	528,311	663,157
Long-term debt:			
Compensated absences, due in more than one year	15,971	4,572	20,543
Special assessment debt with government commitment due in more than one year	-	292,700	292,700
Notes and bonds payable, due in more than one year	-	80,000	80,000
OPEB liability	96,911	41,534	138,445
Net pension liability	217,004	44,327	261,331
Total long-term debt	329,886	463,133	793,019
Total liabilities	464,732	991,444	1,456,176
<u>DEFERRED INFLOWS</u>			
Pension related deferred inflows	51,529	22,416	73,945
<u>NET POSITION</u>			
Net investment in capital assets	3,816,647	2,220,714	6,037,361
Unrestricted	2,749,482	180,801	2,930,283
Total net position	\$ 6,566,129	\$ 2,401,515	\$ 8,967,644

The accompanying notes are an integral part of these financial statements.

City of Etna
Statement of Activities
For The Year Ended June 30, 2017

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
General government	\$ 276,909	\$ 16,884	\$ -	\$ -	\$ (260,025)	\$ -	\$ (260,025)
Public works	89,286	-	44,405	-	(44,881)	-	(44,881)
Public safety	562,230	396,710	137,056	102,533	74,069	-	74,069
Recreation services	123,237	16,114	-	-	(107,123)	-	(107,123)
Community development	71,068	-	-	356,158	285,090	-	285,090
Total governmental activities	<u>1,122,730</u>	<u>429,708</u>	<u>181,461</u>	<u>458,691</u>	<u>(52,870)</u>	<u>-</u>	<u>(52,870)</u>
Business-type activities:							
Water	140,833	202,429	-	-	-	61,596	61,596
Sewer	198,619	198,248	-	-	-	(371)	(371)
Total business-type activities	<u>339,452</u>	<u>400,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,225</u>	<u>61,225</u>
Total primary government	<u>\$ 1,462,182</u>	<u>\$ 830,385</u>	<u>\$ 181,461</u>	<u>\$ 458,691</u>	<u>(52,870)</u>	<u>61,225</u>	<u>8,355</u>
General revenues:							
Taxes:							
Property					168,107	-	168,107
Sales					85,941	-	85,941
Investment earnings					28,772	1,985	30,757
Other					74,194	1,320	75,514
Transfers					(28,829)	28,829	-
Total general revenues and transfers					<u>328,185</u>	<u>32,134</u>	<u>360,319</u>
Change in net position					275,315	93,359	368,674
Net position, beginning					6,243,246	2,281,328	8,524,574
Prior period adjustment					47,568	26,828	74,396
Net position, beginning restated					<u>6,290,814</u>	<u>2,308,156</u>	<u>8,598,970</u>
Net position, ending					<u>\$ 6,566,129</u>	<u>\$ 2,401,515</u>	<u>\$ 8,967,644</u>

The accompanying notes are an integral part of these financial statements.

City of Etna
Balance Sheet
and
Reconciliation of Total Governmental Fund Balance to the Statement of Net Assets - Governmental Activities
Governmental Funds
June 30, 2017

	Special Revenue Funds						Total Governmental Funds	
	General Fund	Community Development Project Income Fund	Economic Development Project Income Fund	COPS Fund	STIP Project Fund	Other Governmental Funds		
ASSETS								
Cash and investments	\$ 120,570	\$ 1,111	\$ 32,581	\$ 31,349	\$ -	\$ 132,309	\$ 317,920	
Receivables (net of allowance for bad debts, where applicable); Loans	22,259	1,899,903	459,479	-	-	-	2,381,641	
Intergovernmental	41,494	-	-	4,214	356,158	1,616	403,482	
Assessments and other	76,673	-	-	-	-	-	76,673	
Due from other funds	375,674	-	-	-	-	-	375,674	
Total assets	\$ 636,670	\$ 1,901,014	\$ 492,060	\$ 35,563	\$ 356,158	\$ 133,925	\$ 3,555,390	
LIABILITIES								
Liabilities:								
Accounts payable	\$ 92,295	\$ 9,898	\$ -	\$ 15,224	\$ -	\$ 2,884	\$ 120,301	
Accrued liabilities	15,411	-	-	-	-	-	15,411	
Due to other funds	-	16,862	-	2,028	355,918	-	374,808	
Total liabilities	107,706	26,760	-	17,252	355,918	2,884	510,520	
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue - capital grants	-	-	-	-	356,158	-	356,158	
FUND BALANCES								
Non-spendable:								
Noncurrent receivables	22,259	1,899,903	459,479	-	-	-	2,381,641	
Restricted for:								
Fire equipment	138,624	-	-	-	-	-	138,624	
Police	1,574	-	-	18,311	-	-	19,885	
Street and roads	-	-	-	-	-	129,632	129,632	
Water	-	-	-	-	-	1,409	1,409	
Unassigned	366,507	(25,649)	32,581	-	(355,918)	-	17,521	
Total fund balance	528,964	1,874,254	492,060	18,311	(355,918)	131,041	2,688,712	
Total liabilities, deferred inflows of resources and fund balance	\$ 636,670	\$ 1,901,014	\$ 492,060	\$ 35,563	\$ 356,158	\$ 133,925	\$ 3,555,390	
 Total governmental fund balance, as above								\$ 2,688,712
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and therefore not reported in the balance sheet								3,816,647
Deferred outflows are not payable or expensed in the current period and therefore are not reported on the balance sheet								86,027
Deferred revenue - unavailable, revenue not received within ninety days from the end of the fiscal year, are reported in the balance sheet for government funds but are reported as revenue in the Statement of Activities.								356,158
Pension liabilities are not due and payable in the current period and therefore are not reported on the balance sheet								(217,004)
Long-term compensated absences in governmental activities are not due and payable in the current period and therefore are not reported in the balance sheet								(15,971)
OPEB liabilities are not due and payable in the current period and therefore are not reported on the balance sheet								(96,911)
Deferred inflows are not receivable or due and payable in the current period and therefore are not reported on the balance sheet								(51,529)
Net position of governmental activities								\$ 6,566,129

The accompanying notes are an integral part of these financial statements.

City of Etna
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2017

	Special Revenue Funds						Total Governmental Funds
	General Fund	Community Development Project Income Fund	Economic Development Project Income Fund	COPS Fund	STIP Project Fund	Other Governmental Funds	
REVENUES							
Property taxes	\$ 168,107	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 168,107
Sales and use taxes	85,941	-	-	-	-	-	85,941
Licenses and permits	14,125	-	-	-	-	-	14,125
Intergovernmental revenues	46,232	-	-	129,324	-	44,405	219,961
Charges for services	412,025	-	-	2,883	-	-	414,908
Fines, forfeitures and penalties	675	-	-	-	-	-	675
Use of money and property	9,143	11,174	7,865	-	-	590	28,772
Other	89,051	-	-	661	-	-	89,712
Total revenues	<u>825,299</u>	<u>11,174</u>	<u>7,865</u>	<u>132,868</u>	<u>-</u>	<u>44,995</u>	<u>1,022,201</u>
EXPENDITURES							
Current:							
City council	1,421	-	-	-	-	-	1,421
City clerk	122,258	-	-	-	-	-	122,258
Insurance	19,552	-	-	-	-	-	19,552
Police protection	114,013	-	-	110,869	-	-	224,882
Ambulance service	172,997	-	-	-	-	-	172,997
Fire protection	121,521	-	-	-	-	-	121,521
Government buildings	21,132	-	-	-	-	-	21,132
Public works	44,907	-	-	-	-	21,106	66,013
Community development	42,139	28,929	-	-	-	-	71,068
Parks, recreation and culture	86,467	-	-	-	-	-	86,467
Public transportation	-	-	-	-	-	17,217	17,217
Capital outlay	143,214	-	-	3,871	325,580	-	472,665
Total expenditures	<u>889,621</u>	<u>28,929</u>	<u>-</u>	<u>114,740</u>	<u>325,580</u>	<u>38,323</u>	<u>1,397,193</u>
Excess of revenues over (under) expenditures	<u>(64,322)</u>	<u>(17,755)</u>	<u>7,865</u>	<u>18,128</u>	<u>(325,580)</u>	<u>6,672</u>	<u>(374,992)</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers out	-	(28,829)	-	-	-	-	(28,829)
Total other financing sources (uses)	<u>-</u>	<u>(28,829)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,829)</u>
Excess of revenues and other sources over (under) expenditures and other sources (uses)	<u>(64,322)</u>	<u>(46,584)</u>	<u>7,865</u>	<u>18,128</u>	<u>(325,580)</u>	<u>6,672</u>	<u>(403,821)</u>
FUND BALANCE							
Beginning of the year	616,795	1,920,838	484,195	7,602	(30,338)	125,794	3,124,886
Prior period adjustment	(23,509)	-	-	(7,419)	-	(1,425)	(32,353)
Beginning of the year, restated	<u>593,286</u>	<u>1,920,838</u>	<u>484,195</u>	<u>183</u>	<u>(30,338)</u>	<u>124,369</u>	<u>3,092,533</u>
End of the year	<u>\$ 528,964</u>	<u>\$ 1,874,254</u>	<u>\$ 492,060</u>	<u>\$ 18,311</u>	<u>\$ (355,918)</u>	<u>\$ 131,041</u>	<u>\$ 2,688,712</u>

City of Etna
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance to the Statement of Activities
 Governmental Funds
 For The Year Ended June 30, 2017

Change in fund balance, governmental funds	\$ (403,821)				
Amounts reported for governmental activities in the statement of activities is different because:					
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	<table style="margin-left: auto; margin-right: 0;"> <tr> <td style="padding-right: 10px;">Capital outlay expenditure</td> <td style="text-align: right;">472,665</td> </tr> <tr> <td style="padding-right: 10px;">Depreciation</td> <td style="text-align: right;">(204,966)</td> </tr> </table>	Capital outlay expenditure	472,665	Depreciation	(204,966)
Capital outlay expenditure	472,665				
Depreciation	(204,966)				
Governmental funds do not report revenue for donated property, but it is reported in the Statement of Activities.	48,515				
Governmental funds do not report revenue that is not available to be used for current resources, but it is reported in the Statement of Activities.	356,158				
Governmental funds do not report the change in long-term compensated absences as an expenditure, but it is reported in the Statement of Activities.	(3,179)				
Governmental funds do not report the increase of OPEB liabilities as an expenditure, but it is reported in the Statement of Activities.	(10,445)				
Governmental funds report the decrease of unfunded pension obligations as a revenue, but it is reported in the Statement of Activities	<u>20,388</u>				
Change in net position of governmental activities	<u><u>\$ 275,315</u></u>				

City of Etna
Statement of Net Position
Proprietary Funds
June 30, 2017

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 326,124	\$ 311,779	\$ 637,903
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	32,889	27,108	59,997
Total current assets	<u>359,013</u>	<u>338,887</u>	<u>697,900</u>
Restricted assets:			
Receivables, special assessments, net	-	469,755	469,755
Capital assets:			
Non-depreciable	207,829	8,585	216,414
Depreciable, net	1,025,186	979,114	2,004,300
Total capital assets, net	<u>1,233,015</u>	<u>987,699</u>	<u>2,220,714</u>
Deferred Outflows:			
Pension related deferred outflows	13,800	13,206	27,006
Total assets	<u>1,605,828</u>	<u>1,809,547</u>	<u>3,415,375</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 10,852	\$ 14,102	24,954
Unearned revenue, special assessments	-	469,755	469,755
Unearned revenue, grants	8,341	-	8,341
Deposits	6,695	-	6,695
Due to other funds	433	433	866
Special assessment debt with government commitment, due within one year	-	6,700	6,700
Notes and bonds payable, due within one year	-	11,000	11,000
Total current liabilities	<u>26,321</u>	<u>501,990</u>	<u>528,311</u>
Long-term debt:			
Compensated absences, due longer than one year	2,368	2,204	4,572
Special assessment debt with government commitment, due longer than one year	-	292,700	292,700
Notes and bonds payable, due longer than one year	-	80,000	80,000
OPEB liability	20,767	20,767	41,534
Net pension liability	22,650	21,677	44,327
Total long-term debt	<u>45,785</u>	<u>417,348</u>	<u>463,133</u>
Total liabilities	<u>72,106</u>	<u>919,338</u>	<u>991,444</u>
<u>DEFERRED INFLOWS</u>			
Pension related deferred inflows	11,454	10,962	22,416
<u>NET POSITION</u>			
Net investment in capital assets	1,233,015	987,699	2,220,714
Unrestricted	289,253	(108,452)	180,801
Total net position	<u>\$ 1,522,268</u>	<u>\$ 879,247</u>	<u>\$ 2,401,515</u>

The accompanying notes are an integral part of these financial statements.

City of Etna
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For The Year Ended June 30, 2017

	Enterprise Funds		
	Water	Sewer	Total
<u>REVENUES</u>			
User fees and charges	\$ 202,429	\$ 198,248	\$ 400,677
Total operating revenues	202,429	198,248	400,677
<u>OPERATING EXPENSES</u>			
Cost of power and water	3,827	7,777	11,604
Maintenance, operations and administration	95,715	107,106	202,821
Depreciation and amortization	41,291	65,292	106,583
Total operating expenses	140,833	180,175	321,008
Operating income (loss)	61,596	18,073	79,669
<u>OTHER REVENUES (EXPENSES)</u>			
Other revenue	691	629	1,320
Interest earned	882	1,103	1,985
Interest expense	-	(18,444)	(18,444)
Total other revenues (expenses)	1,573	(16,712)	(15,139)
Net income (loss) before transfers	63,169	1,361	64,530
<u>TRANSFERS</u>			
Transfers in (out)	28,829	-	28,829
	28,829	-	28,829
Change in net position	91,998	1,361	93,359
<u>NET POSITION</u>			
Beginning of the year	1,416,873	864,455	2,281,328
Prior period adjustment	13,397	13,431	26,828
Beginning of the year, restated	1,430,270	877,886	2,308,156
End of the year	\$ 1,522,268	\$ 879,247	\$ 2,401,515

The accompanying notes are an integral part of these financial statements.

City of Etna
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2017

	Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 187,341	\$ 201,915	\$ 389,256
Payments to suppliers	(36,958)	(53,353)	(90,311)
Payments to employees	(57,983)	(54,649)	(112,632)
Net cash provided by operating activities	92,400	93,913	186,313
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Other revenue	691	629	1,320
Net cash (used) provided by non-capital financing activities	691	629	1,320
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received	882	1,103	1,985
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(28,829)	-	(28,829)
Capital transfers from other funds	28,829	-	28,829
Principal payments on debt	-	(17,500)	(17,500)
Interest payments on debt	-	(18,444)	(18,444)
Net cash (used) by financing activities	-	(35,944)	(35,944)
Net increase in cash	93,973	59,701	153,674
CASH			
Beginning of the year	232,151	252,078	484,229
End of the year	\$ 326,124	\$ 311,779	\$ 637,903
Reconciliation of operating income to cash provided by operating activities:			
Operating income (loss)	\$ 61,596	\$ 18,073	\$ 79,669
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation and amortization	41,291	65,292	106,583
(Increase) decrease in accounts receivable	(16,363)	3,667	(12,696)
(Increase) in deferred outflows of resources related to pensions	(8,904)	(8,521)	(17,425)
Increase (decrease) in accounts payable	4,680	6,814	11,494
Increase in deposits	1,275	-	1,275
Increase in due to other governments	433	433	866
Increase in compensated absences	(148)	(114)	(262)
Increase in OPEB liability	2,238	2,238	4,476
(Decrease) in net pension liability	11,228	10,746	21,974
(Decrease) in deferred inflows of resources related to pensions	(4,926)	(4,715)	(9,641)
Net cash provided by operating activities	\$ 92,400	\$ 93,913	\$ 186,313

The accompanying notes are an integral part of these financial statements.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Etna, California (hereafter “the City”) operates under a City Clerk – City Council form of government and provides the following services: public safety, streets and roads, water and sewer, culture and recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The following is a summary of the more significant polices.

The City’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

The financial statements of the City include all of the financial activities of the City. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and statement of activities 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 are reported separately from business-type activities (such as water and sewer).

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 charges paid by recipients of goods and services offered by the program, and 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 are presented instead as general revenues.

When both restricted and unrestricted net assets are available, restricted resources are depleted first before the restricted resources are used.

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. 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

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category type; and

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

The funds of the City are described below:

Major Governmental Funds:

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

Community Development Project Income Fund: Accounts for the financing of home rehabilitation, as financed by monies passed through the State by the federal government.

Economic Development Project Income Fund: Accounts for the financing of businesses, as financed by monies passed through the State by the federal government.

COPS Fund: Accounts for police protection activities financed through COPS grants.

STIP Project Fund: Accounts for the construction and maintenance of the streets and roads of the City.

Major Proprietary Funds:

The Enterprise Funds (Water and Sewer) are used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund: Established to account for the operations of the City's water utility, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

Sewer Fund: Established to account for the operations of the City's sewer utility, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

Additionally, the City reports the following funds:

Proposition 50 Grant Fund: Accounts for the construction of a fish ladder at the City's water intake system.

Local Transportation Fund: Established to account for the construction and maintenance of the streets and roads of the City, as well as to provide mass transit, as financed from "Transportation Development Act" monies passed through the County of Siskiyou by the State.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gas Tax Fund: Established to account for the construction and maintenance of the streets and roads of the City as financed by gas taxes received from the State.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

In the government-wide statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate.

All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present resources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the year.

All proprietary (enterprise) funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting:

In the government-wide statements, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlays) are recorded when the related fund liability is incurred.

All proprietary funds utilize the accrual basis of accounting, as described above.

D. Assets, Liabilities, Net Assets or Fund Equity

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the City considers as cash equivalents all highly liquid investments with a maturity at the date of purchase of three months or less.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments:

The City is a voluntary participant in the California Local Agency Investment Fund ("LAIF"). LAIF is an external investment pool through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without the loss of interest. The fair value of the City's portion of LAIF is the same as its value of the pool shares. The regulatory oversight of LAIF rests with the Local Agency Investment Board.

Receivables:

In the fund financial statements, material receivables in governmental funds are the same as those in the government-wide statements, since they are both measurable and available. Interest 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 but not yet received. Allowances for uncollectible accounts receivable are based on historical trends, periodic aging of accounts receivable, and management's detailed analysis of the composition of accounts receivable.

Property Taxes:

The County of Siskiyou assesses, bills, and collects property taxes for the City. Assessed values are determined annually by the Siskiyou County Assessor as of January 1, and become a lien on such property January 1. Taxes are due November 1 and February 1 (secured), and July 1 (unsecured) and are delinquent if not paid by December 10 and April 10 (secured), and August 31 (unsecured). The County is permitted by the State Constitution (Article XIII A) to levy taxes at 1% of the full market value of the property (at the time of purchase) and can increase a property's assessed valuation by reappraisal due to new construction, change in ownership, or by increase in fair market value not to exceed a 2% each year. Property taxes collected by the County on behalf of the City but not remitted to the City by June 30 are accrued in revenue and included in other accounts receivable.

Interfund Receivables and Payables:

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These may include amounts relating to goods and services type transactions, and interfund loans.

Restricted Assets:

Certain resources set aside for the repayment of the City's sewer fund long-term debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants.

Capital Assets:

The accounting treatment over property, plant, equipment and infrastructure assets (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.

In the government-wide financial statements, property, plant, equipment and infrastructure assets, with a cost as defined below, of \$1,000 or more, are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. 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.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	30 to 40 years
Equipment, furnishings and vehicles	5 to 10 years
Infrastructure	30 to 50 years

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. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences:

Vacation pay and compensated time off is vested to the employees as it accrues and is payable upon separation of service. Sick leave does not vest to the employees and is paid only when sick leave is taken. Only vacation pay and compensated time off have been accrued in the accompanying financial statements.

Pensions:

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

Other Postemployment Benefits Other Than Pensions (OPEB):

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

Unearned Revenue:

Unearned grant revenue represents monies received from various grantors that has not yet been expended by the City and is not earned (as revenue) until it is properly expended.

Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City's nonspendable reserves consisted of monies set aside for noncurrent receivables.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified police, fire, streets and roads, public transportation, community development and parks and fund balances as restricted for fund purposes. Monies set aside for capital improvements are also classified as a restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2017.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City did not have any assigned resources as of June 30, 2017.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses:

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by character (current, debt service or capital outlay) for governmental funds, and by operating or nonoperating classifications for proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Budgets

The City adopts an annual budget for the fiscal year commencing the following July 1. Budgets are adopted on a basis consistent with generally accepted accounting principles. The level of control (the level at which expenditures may not exceed budget) is the fund. Unused appropriations lapse at the end of the fiscal year. The City does not use encumbrance accounting.

H. Implementation of New Pronouncement

GASB has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75). GASB 75 replaced GASB 45 for fiscal years beginning after June 15, 2017, for employers that sponsor OPEB plans, with earlier implementation encouraged. The provisions in GASB 75 are similar to the provisions of GASB 68 for pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for postemployment benefits that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For postemployment benefits plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services.

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

NOTE 2 CASH AND INVESTMENTS

The City follows the practice of pooling cash of all funds, unless the funds are required by law, debt covenant or other instrument to be held in a separate account. Interest income on pooled cash invested is allocated monthly to the various funds based on the same proportion that such funds bear to the total monies invested.

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

Statement of net assets:	
Current cash and investments	<u>\$ 955,823</u>
Consisting of the following:	
Cash on hand	\$ 192
Deposits with financial institutions	292,649
Investment in LAIF	<u>662,982</u>
	<u>\$ 955,823</u>

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 2 CASH AND INVESTMENTS (Continued)

Investments Authorized:

The City manages its pooled idle cash investments under the guidelines of the State of California Government Code Section 53601 which specifically authorizes investments in the following instruments: treasury bills, treasury notes, federal agency securities, bankers' acceptances, nonnegotiable certificates of deposit, commercial paper, negotiable certificates of deposit, and repurchase agreements. All investments activities are conducted with financial institutions approved by the City Council.

Disclosure Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value in market interest rates. As of year-end, the weighted average maturity, as well as the estimated fair value of each investment are shown in the table, below.

	Cost	Fair Value	Maturity Date
Local Agency Investment Fund	\$ 662,982	\$ 662,982	194 day average

Disclosure Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF and Certificated of Deposits with banks do not have such a rating.

Concentration of Credit Risk:

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer or reporting unit that represent 5 percent or more of total City investments.

Custodial Credit Risk:

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. Under California Government Code Section 53655, the placement of securities in a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Cash deposits with financial institutions are covered by federal deposit insurance up to \$250,000. At June 30, 2017, all deposits with financial institutions were fully insured.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 2 CASH AND INVESTMENTS (Continued)

The City's balance in banks was \$323,545, all of which was covered by federal depository insurance, or the collateral requirements discussed in the preceding paragraph. The bank balance differs from the book balance of \$292,649 because of outstanding checks and deposits-in-transit.

Investment in State Investment Pool (LAIF):

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 RECEIVABLES

The following is the composition of loans receivable at June 30, 2017:

	<u>General Fund</u>	<u>Community Development Project Income Fund</u>	<u>Economic Development Project Income Fund</u>	<u>Total</u>
Mortgage loans	\$ 31,799	\$ 2,178,853	\$ 490,118	\$ 2,700,770
Less allowance for bad debts	<u>(9,540)</u>	<u>(278,950)</u>	<u>(30,639)</u>	<u>(319,129)</u>
Total	<u>\$ 22,259</u>	<u>\$ 1,899,903</u>	<u>\$ 459,479</u>	<u>\$ 2,381,641</u>
Related party loans	\$ -	\$ 383,083	\$ 5,391	\$ 388,474
Less allowance for bad debts	<u>-</u>	<u>-</u>	<u>(5,391)</u>	<u>(5,391)</u>
Total	<u>\$ -</u>	<u>\$ 383,083</u>	<u>\$ -</u>	<u>\$ 383,083</u>

All of the loans are due from homeowners and businesses within the City of Etna. Amounts due from related parties are on the same terms as loans to other borrowers.

The following is the composition of trade accounts receivable, net of allowance for doubtful accounts, at June 30, 2017:

<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>\$ 32,889</u>	<u>\$ 27,108</u>	<u>\$ 59,997</u>

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 4 DUE TO / DUE FROM OTHER FUNDS AND OPERATING TRANSFERS IN / OUT

The following is a summary of the interfund receivables and payables at June 30, 2017:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 375,674	\$ -
STIP Project Fund	-	355,918
Community Project Income Fund	-	16,862
COPS Fund	-	2,028
Water and Sewer Funds	-	866
Total	\$ 375,674	\$ 375,674

The above amounts are to cover negative cash balances in the respective funds' pooled cash accounts, and will be repaid by transferring monies from other cash accounts or from future revenues.

The following is a summary of operating transfers in / out for the year ended June 30, 2017:

	Transfer In To:	
Transfer Out From:	Water Fund	Total Transfers Out
Community Development Project Income Fund	\$ 28,829	\$ 28,829
Total Transfers In	\$ 28,829	\$ 28,829

Operating transfers to the Water Fund from the Community Development Project Income Fund were for capital asset purchases.

NOTE 5 CAPITAL ASSETS

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$129,007
Public works	649
Public safety	55,757
Recreation services	19,553
Total depreciation expense – governmental activities	\$204,966
Business-type activities:	
Water Fund	\$41,291
Sewer Fund	65,292
Total depreciation expense – business-type activities	\$106,583

Capital asset activity for the year ended June 30, 2017 was as follows:

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 5 CAPITAL ASSETS (Continued)

	June 30, 2016	Additions and Transfers	Retirements and Transfers	June 30, 2017
Governmental activities				
<u>Capital assets, not being depreciated</u>				
Land	\$ 469,000	\$ -	\$ -	\$ 469,000
<u>Capital assets, being depreciated</u>				
Buildings and improvements	1,926,229	17,500	-	1,943,729
Equipment, furnishings and vehicles	1,152,324	147,524	-	1,299,848
Infrastructure	2,899,585	356,158	-	3,255,743
Total capital assets, being depreciated	<u>5,978,138</u>	<u>521,182</u>	<u>-</u>	<u>6,499,320</u>
<u>Less accumulated depreciation for</u>				
Buildings and improvements	752,079	46,259	-	798,338
Equipment, furnishings and vehicles	927,392	83,805	-	1,011,197
Infrastructure	1,267,236	74,902	-	1,342,138
Total accumulated depreciation	<u>2,946,707</u>	<u>204,966</u>	<u>-</u>	<u>3,151,673</u>
Total capital assets, being depreciated, net	<u>3,031,431</u>	<u>316,216</u>	<u>-</u>	<u>3,347,647</u>
Subtotal, governmental activities	<u>3,500,431</u>	<u>316,216</u>	<u>-</u>	<u>3,816,647</u>
Business-type activities				
<u>Capital assets, not being depreciated</u>				
Land	187,585	-	-	187,585
Construction in progress	-	28,829	-	28,829
Total capital assets, not being depreciated	<u>187,585</u>	<u>28,829</u>	<u>-</u>	<u>216,414</u>
<u>Capital assets, being depreciated</u>				
Utility plant	5,124,871	-	-	5,124,871
Buildings and improvements	89,065	-	-	89,065
Equipment, furnishings and vehicles	135,315	-	-	135,315
Total capital assets, being depreciated	<u>5,349,251</u>	<u>-</u>	<u>-</u>	<u>5,349,251</u>
<u>Less accumulated depreciation for</u>				
Utility plant	3,038,140	105,162	-	3,143,302
Buildings and improvements	64,913	1,421	-	66,334
Equipment, furnishings and vehicles	135,315	-	-	135,315
Total accumulated depreciation	<u>3,238,368</u>	<u>106,583</u>	<u>-</u>	<u>3,344,951</u>
Total capital assets, being depreciated, net	<u>2,110,883</u>	<u>(106,583)</u>	<u>-</u>	<u>2,004,300</u>
Subtotal, business-type activities	<u>2,298,468</u>	<u>(77,754)</u>	<u>-</u>	<u>2,220,714</u>
Total, government-wide	<u>\$5,798,899</u>	<u>\$ 238,462</u>	<u>\$ -</u>	<u>\$6,037,361</u>

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 6 LONG TERM DEBT

The following is a summary of long-term debt activity during the year ended June 30, 2017:

	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Portion</u>
Business-type activities					
Sewer Fund:					
1983 Revenue Bond	102,000	-	(11,000)	91,000	11,000
	<u>\$ 102,000</u>	<u>\$ -</u>	<u>\$ (11,000)</u>	<u>\$ 91,000</u>	<u>\$ 11,000</u>

The terms of the debt, as well as future debt service requirements, are as follows:

Sewer Fund			
<u>1983 Sewer Revenue Bonds</u>			
Original issue amount		\$270,000	
Rate of interest		5.00%	
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended June 30, :			
2018	11,000	4,275	15,275
2019	12,000	3,700	15,700
2020	12,000	3,100	15,100
2021	13,000	2,475	15,475
2022	14,000	1,800	15,800
2023-2024	29,000	1,475	30,475
Total	<u>\$ 91,000</u>	<u>\$ 16,825</u>	<u>\$ 107,825</u>

B. Special Assessment Debt with Government Commitment

In 2000, debt was issued to pay for sewer system improvements. This debt is to be repaid with a special assessment levied against property owners within the City. The City is not directly responsible for servicing this debt; it only acts as a conduit for the property owners, facilitating the collection of the special assessments and making principal and interest payments. However, the debt instrument calls for the City to make up any shortages in collections of the special assessments if needed to pay the scheduled principal and interest payments. Because of this, the City must report the debt and related accounts in its financial statements, as follows:

Special assessments receivable reflects the total amount of uncollected special assessments, whether currently due or due in the future.

To offset the above receivable, deferred revenue is recorded in the same amount. The revenue is recognized as the assessments are collected.

Special assessment debt with government commitment reflects the amount of the outstanding bonds.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 6 LONG TERM DEBT (Continued)

Activity for special assessment debt with government commitment was as follows:

Balance, June 30, 2016		\$	305,900
Additions			-
Reductions			<u>(6,500)</u>
Balance, June 30, 2017			<u>299,400</u>
Less: Current Portion			<u>(6,700)</u>
Portion due in more than one year			<u>\$ 292,700</u>

The terms of the debt and the future debt service requirements are as follows:

<u>Year Ended June 30, :</u>	USDA		
	\$405,000		
	4.50%		
	Principal	Interest	Total
2018	6,700	13,322	20,022
2019	7,000	13,014	20,014
2020	7,400	12,690	20,090
2021	7,600	12,353	19,953
2022	8,000	12,001	20,001
2023-2027	45,800	54,136	99,936
2028-2032	57,200	42,593	99,793
2033-2037	71,000	28,229	99,229
2038-2042	<u>88,700</u>	<u>10,339</u>	<u>99,039</u>
Total	<u>\$ 299,400</u>	<u>\$ 198,677</u>	<u>\$ 498,077</u>

C. Compensated absences

Compensated absences activity for the year ended June 30, 2017 is summarized as follows:

	June 30, 2016	Additions	Reductions	June 30, 2017	Current Portion
Governmental activities:					
General Fund	<u>\$17,056</u>	<u>\$ -</u>	<u>\$ 1,085</u>	<u>\$15,971</u>	<u>\$ -</u>
Business-type activities:					
Water	2,516	-	148	2,368	-
Sewer	<u>2,318</u>	<u>-</u>	<u>114</u>	<u>2,204</u>	<u>-</u>
Total business-type activities	<u>4,834</u>	<u>-</u>	<u>262</u>	<u>4,572</u>	<u>-</u>
Total	<u>\$21,890</u>	<u>\$ -</u>	<u>\$ 1,347</u>	<u>\$20,543</u>	<u>\$ -</u>

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

D. OPEB Liability

See Note 8 for a detailed description of Other Post-Employment and Post-Employment Benefits (OPEB).

OPEB liability activity for the year ended June 30, 2017 is summarized as follows:

	June 30, 2016	Prior Period Adjustment	June 30, 2016 As Restated	Additions	Reductions	June 30, 2017
Governmental activities:						
General Fund	<u>\$183,079</u>	<u>\$ (96,613)</u>	<u>\$86,466</u>	<u>\$ 10,445</u>	<u>\$ -</u>	<u>\$96,911</u>
Business-type activities:						
Water	37,390	(18,861)	18,529	2,238	-	20,767
Sewer	<u>37,390</u>	<u>(18,861)</u>	<u>18,529</u>	<u>2,238</u>	<u>-</u>	<u>20,767</u>
Total business-type activities	<u>74,780</u>	<u>(37,722)</u>	<u>37,058</u>	<u>4,476</u>	<u>-</u>	<u>41,534</u>
Total	<u>\$257,859</u>	<u>\$ (134,335)</u>	<u>\$123,524</u>	<u>\$ 14,921</u>	<u>\$ -</u>	<u>\$138,445</u>

NOTE 7 PENSION PLAN

A. General Information about the Pension Plans

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

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

Funding Policy –The passage of California State Assembly Bill 340 created the Public Employees' Pension Reform Act (PEPRA). PEPRA implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of a new member as per PEPRA. Employees enrolled in the Plan prior to January 1, 2013, are now referred to as Classic Plan members. Under PEPRA formula the City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 7 PENSION PLAN (continued)

	<u>Miscellaneous</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates 2016-17	7.000%	6.250%
Required employer contribution rates 2016-17	6.709%	6.237%

	<u>Safety</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 50	2.0% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of eligible compensation	2.00%	2.0% to 2.7%
Required employee contribution rates 2016-17	7.000%	N/A
Required employer contribution rates 2016-17	11.530%	N/A

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

For the year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Contributions - employer	<u>\$ 16,797</u>	<u>\$ 18,952</u>

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

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

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 89,135
Safety	172,196
Total Net Pension Liability	<u>\$ 261,331</u>

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 7 PENSION PLAN (continued)

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

	<u>Miscellaneous</u>
Proportion - June 30, 2016	0.00257%
	<u>Safety</u>
Proportion - June 30, 2016	0.00496%

For the year ended June 30, 2017, the City recognized pension expense of \$14,902. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 40,382	\$ -
Change of assumptions	-	12,459
Differences between expected and actual experience	596	1,701
Change in employer's proportion and differences between the employer's proportionate share of contributions	9,199	59,785
Net differences between projected and actual earnings on plan investments	62,856	-
Total	\$ 113,033	\$ 73,945
Net deferred outflows		\$ 39,088

\$40,382 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	
30-Jun	
2017	\$ (27,206)
2018	(19,736)
2019	29,326
2020	16,327
2021	-
Thereafter	-

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 7 PENSION PLAN (continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined for Miscellaneous and Safety plans using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.65% (2)	7.65% (2)
Mortality	20	20

- (1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF), including PERF C. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

GASB 68, paragraph 68 states that the long term expected rate of return should be determined net of pension-plan investment expense, but without reduction for pension plan administrative expenses. The discount rate remains at 7.65% (net of administrative expenses) from the 2015 report. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year.

CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 7 PENSION PLAN (continued)

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

The long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

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

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

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

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 7 PENSION PLAN (continued)

<u>Classic Plans</u>	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 187,021	\$ 274,893
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 89,135	\$ 172,196
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 8,238	\$ 87,892

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

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description. The City administers an Agent Multiple-Employer defined-benefit post-employment healthcare plan. Dependents are eligible to enroll.

Benefits Provided. Retirees are eligible to enroll in the CalPERS PERS Choice plan and receive contributions if they retire at Age 50+ and have 5+ years of City service.

The City provides the PEMHCA minimum for each subscriber, regardless of elected coverage tier.

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

<u>Category</u>	<u>Count</u>
Active employees:	8
Inactive employees, spouses, or beneficiaries currently receiving benefit payments:	2
Inactive employees entitled to but not yet receiving benefit payment:	0

Contributions. The City pays benefits as they come due.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

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

Inflation: 2.75%

Salary increases: Base salary increases in year one: 2.875%. Base salary increases in subsequent years: 2.875%. Additional merit-based increases based on CalPERS.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Investment rate of return: 3.50%

Healthcare cost trend rates: 7.00% in the first year, trending down to 3.84% over 58 years.

Mortality rates were based on CalPERS tables.

The discount rate used to measure the total OPEB liability was 3.50%. the City's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

Contributions. The City pays benefits as they come due.

Changes in the Net OPEB Liability

	<u>Increases (Decreases)</u>
	<u>Net OPEB Liability</u>
Balance as of Report Date June 30, 2016	\$ 123,524
Changes for the year:	
Service cost	12,752
Interest	4,725
Benefit payments, including refunds of employee contributions	(2,537)
Implicit rate subsidy fulfilled	(19)
Administrative expenses	-
Net changes	14,921
Balance as of Reoprt Date June 30, 2017	\$ 138,445

Sensitivity of the net OPEB liability to changes in the discount rate. The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) follows:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	2.50%	3.50%	4.50%
Net OPEB liability (asset)	\$ 160,745	\$ 138,445	\$ 122,345

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.00%) or one percentage point higher (8.00%) than current healthcare cost trend rates follows:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
	6.00% Decreasing to 2.84%	7.00% Decreasing to 3.84%	8.00% Decreasing to 4.84%
Net OPEB liability (asset)	\$ 113,566	\$ 138,445	\$ 174,558

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2017, the City recognized an OPEB expense of \$17,477. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
City contributions subsequent to the measurement date	-	-
Total	\$ -	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2018	\$ -
2019	-
2020	-
2021	-
2022	-

NOTE 9 – SELF-INSURANCE

The City is self-insured for general liability claims up to \$2,500 per occurrence. The City belongs to Small Cities Organized Risk Effort (SCORE) which provides liability coverage of \$500,000 per occurrence through liability self-funded layers. The California Joint Powers Risk Management Authority provides \$10,000,000 liability coverage in excess of the liability limit of SCORE.

NOTE 10 – FUND BALANCE

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 10 – FUND BALANCE (continued)

Restricted—Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by City Council.

Unassigned—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 5). As discussed in Note 1, restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by Council or the Assignment has been changed by the Mayor. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

General Fund

The General Fund has Unassigned Fund Balance of \$366,507, Restricted Fund Balances of \$138,624 and \$1,574 consisting of funds restricted for fire equipment and police, respectively and Non-spendable Fund Balance of \$22,259 consisting of noncurrent receivables at June 30, 2017.

Other Major Funds

The Community Development Project Income Fund has Non-spendable Fund Balance of \$1,899,903 consisting of noncurrent receivables and \$(25,649) of unassigned fund balance, at June 30, 2017.

The Economic Development Project Income Fund has Non-spendable Fund Balance of \$459,479 consisting of noncurrent receivables and \$32,581 of unassigned fund balance, at June 30, 2017.

The COPS Fund has Restricted Fund Balance of \$18,311, restricted for police activity, at June 30, 2017.

The STIP Project Fund has an unassigned deficit fund balance of \$355,918 at June 30, 2017. This is due to the timing of revenue recognized for fund accounting purposes and will be received during the next year.

Other Funds:

Other governmental (nonmajor) funds have Restricted Fund Balance of \$131,041 at June 30, 2017.

NOTE 11 OVEREXPENDITURE OF BUDGET

For the year ended June 30, 2017 the following funds overexpended the approved budget by the following amounts:

Fund	Amount
General Fund	\$ 179,628
COPS Fund	7,445
STIP Project Fund	325,580
Total	\$ 512,653

City Etna, California
Notes To Basic Financial Statements
June 30, 2017

NOTE 13 CONTINGENCIES

The City participates in several Federal and State assisted grant programs that are subject to audit by the Grantors. Although the ultimate outcome of such audits cannot be determined at this time, the City believes that such audits will not have a material adverse effect on the City.

The City is involved in litigation arising from the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters, will not have a material effect on the City's financial condition or results of operations.

NOTE 14 PRIOR PERIOD ADJUSTMENTS

The City recorded adjustments to the prior audited financial statements during the current year audit. The table below summarizes the description and amounts of the adjustments, as well as the corresponding effect on fund balance and or net position:

	Increase (Decrease)
1. Prior period adjustment for unpaid and unaccrued FY1516 SCORE insurance	\$ (41,807)
2. Prior period adjustments to deferred outflows and inflows related to pensions	(18,132)
3. Prior period adjustment to Net OPEB Liability due to change in standard to GASB 75	134,335
Net impact on the Fund Balance, Net Position	\$ 74,396

IMPACT ON:

<u>GOVERNMENTAL ACTIVITIES</u>	Fund Balance	Net Position
July1, 2016- as previously reported	\$ 3,124,886	\$ 6,243,246
Prior Period Adjustment	(32,353)	47,568
July, 1, 2016- as restated	\$ 3,092,533	\$ 6,290,814

BUSINESS-TYPE ACTIVITIES

	Water Fund	Sewer Fund	Government- Wide Business-Type Activities
Net Position- July1, 2016- as previously reported	\$ 1,416,873	\$ 864,455	\$ 2,281,328
Prior Period Adjustment	13,397	13,431	26,828
Net Position- July, 1, 2016- as restated	\$ 1,430,270	\$ 877,886	\$ 2,308,156

REQUIRED SUPPLEMENTARY INFORMATION

City of Etna
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Property taxes	\$ 161,700	\$ 161,700	\$ 168,107	\$ 6,407
Sales and use taxes	62,500	62,500	85,941	23,441
Licenses and permits	12,000	12,000	14,125	2,125
Intergovernmental revenues	14,000	14,000	46,232	32,232
Charges for services	423,214	423,214	412,025	(11,189)
Fines, forfeitures and penalties	1,500	1,500	675	(825)
Use of money and property	9,315	9,315	9,143	(172)
Other	11,000	11,000	89,051	78,051
Total revenues	695,229	695,229	825,299	130,070
<u>EXPENDITURES</u>				
Current:				
City council	5,650	5,650	1,421	4,229
City clerk	109,724	109,724	122,258	(12,534)
Insurance	22,778	22,778	19,552	3,226
Police protection	108,766	108,766	114,013	(5,247)
Ambulance service	174,099	174,099	172,997	1,102
Fire protection	131,804	131,804	121,521	10,283
Government buildings	23,667	23,667	21,132	2,535
Public works	34,682	34,682	44,907	(10,225)
Community development	27,688	27,688	42,139	(14,451)
Parks, recreation and culture	62,135	62,135	86,467	(24,332)
Capital outlay	9,000	9,000	143,214	(134,214)
Total expenditures	709,993	709,993	889,621	(179,628)
Excess of revenues (under) expenditures	(14,764)	(14,764)	(64,322)	(49,558)
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in (out)	68,901	68,901	-	(68,901)
Excess of revenues and other sources over (under) expenditures and other uses	\$ 54,137	\$ 54,137	\$ (64,322)	\$ (118,459)

City of Etna
 Budgetary Comparison Schedule
 Community Development Project Income Fund
 For The Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Use of money and property	\$ 200	\$ 200	\$ 11,174	\$ 10,974
Total revenues	<u>200</u>	<u>200</u>	<u>11,174</u>	<u>10,974</u>
<u>EXPENDITURES</u>				
Current:				
Community development	<u>332,026</u>	<u>332,026</u>	<u>28,929</u>	<u>303,097</u>
Excess of revenues over expenditures	(331,826)	(331,826)	(17,755)	314,071
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers (out)	<u>50,000</u>	<u>50,000</u>	<u>(28,829)</u>	<u>(78,829)</u>
Excess of revenues and other sources (under) expenditures and other uses	<u>\$ (281,826)</u>	<u>\$ (281,826)</u>	<u>\$ (46,584)</u>	<u>\$ 235,242</u>

City of Etna
 Budgetary Comparison Schedule
 Economic Development Project Income Fund
 For The Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Use of money and property	\$ -	\$ -	\$ 7,865	\$ 7,865
<u>EXPENDITURES</u>				
Current:				
Economic development	-	-	-	-
Excess of revenues over expenditures	-	-	7,865	7,865
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers (out)	-	-	-	-
Excess of revenues and other sources (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,865</u>	<u>\$ 7,865</u>

City of Etna
 Budgetary Comparison Schedule
 COPS Fund
 For The Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ 100,000	\$ 100,000	\$ 129,324	\$ 29,324
Charges for services	5,000	5,000	2,883	(2,117)
Other	-	-	661	661
Total revenues	<u>105,000</u>	<u>105,000</u>	<u>132,868</u>	<u>27,868</u>
<u>EXPENDITURES</u>				
Current:				
Police protection	107,295	107,295	110,869	(3,574)
Capital outlay	-	-	3,871	(3,871)
Total expenditures	<u>107,295</u>	<u>107,295</u>	<u>114,740</u>	<u>(7,445)</u>
Excess of revenues over expenditures	(2,295)	(2,295)	18,128	35,313
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers (out)	<u>3,000</u>	<u>3,000</u>	<u>(439)</u>	<u>(3,439)</u>
Excess of revenues and other sources (under) expenditures and other uses	<u>\$ 705</u>	<u>\$ 705</u>	<u>\$ 17,689</u>	<u>\$ 31,874</u>

City of Etna
 Budgetary Comparison Schedule
 STIP Project Fund
 For The Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
<u>EXPENDITURES</u>				
Current:				
Capital outlay	-	-	325,580	(325,580)
Excess of revenues over expenditures	-	-	(325,580)	(325,580)
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers (out)	-	-	-	-
Excess of revenues and other sources (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (325,580)</u>	<u>\$ (325,580)</u>

City of Etna
 Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 As of June 30, 2017
 Last 10 Years (1)

SCHEDULE OF THE LOCAL GOVERNMENT'S
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Safety Plan	6/30/2014	6/30/2015	6/30/2016
Plan's proportion of the net pension liability	0.00618%	0.00464%	0.00496%
Plan's proportionate share of the net pension liability	\$152,807	\$127,292	\$172,196
Plan's covered-employee payroll (2)	\$88,272	\$98,443	\$79,008
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	173.11%	129.31%	217.95%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	78.80%	82.32%	77.24%
Plan's proportionate share of aggregate employer contributions (3) (4)	\$16,076	\$20,159	\$20,191
Miscellaneous Plan	6/30/2014	6/30/2015	6/30/2016
Plan's proportion of the net pension liability	0.00291%	0.00164%	0.00257%
Plan's proportionate share of the net pension liability	\$71,844	\$44,949	\$89,135
Plan's covered-employee payroll	\$131,427	\$157,661	\$193,785
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	54.66%	28.51%	46.00%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	90.68%	94.27%	87.74%
Plan's proportionate share of aggregate employer contributions (3) (4)	\$18,894	\$25,588	\$23,756

Footnotes to RSI Schedule

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different from total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

(3) The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

(4) This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

City of Etna
 Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 For The Year Ended June 30, 2017
 Last 10 Years (1)

SCHEDULE OF CONTRIBUTIONS

Safety Plan	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
Actuarially determined contribution (2)	19,788	14,461	20,519
Contributions in relation to the actuarially determined contribution (2)	<u>(19,788)</u>	<u>(17,485)</u>	<u>(18,952)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (3,024)</u>	<u>\$ 1,567</u>
Covered employee payroll (3)	\$ 88,272	\$ 98,443	\$ 79,008
Contributions as a percentage of covered-employee payroll	22.42%	14.69%	25.97%
Miscellaneous Plan	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
Actuarially determined contribution (2)	8,999	733	13,706
Contributions in relation to the actuarially determined contribution (2)	<u>(8,999)</u>	<u>(12,318)</u>	<u>(16,797)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (11,585)</u>	<u>\$ (3,091)</u>
Covered employee payroll (3)	\$ 131,427	\$ 157,661	\$ 193,785
Contributions as a percentage of covered-employee payroll	6.85%	0.46%	7.07%

Notes to RSI Schedule

Changes of Benefit Terms: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a. Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes of Assumptions: There were no changes of assumptions.

Footnotes to RSI Schedule

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make a contribution equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in the paragraph 120 of GASB 68, therefor are not considered separately financed specific liabilities.

(3) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different from total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-

City of Etna
 Agent Multiple-Employer Defined Benefit Post-Employment Healthcare Plan
 As of June 30, 2017
 Last 10 Years (1)

SCHEDULE OF THE LOCAL GOVERNMENT'S
 CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

Measurement Date: 6/30/2017
 Report Date: 6/30/2017

Total OPEB Liability

Normal cost	\$	12,752
Interest		4,725
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments		(2,537)
Implicit rate subsidy fulfilled		(19)
Net Change in OPEB Liability		<u>14,921</u>
Total OPEB liability - beginning of year		<u>123,524</u>
Total OPEB liability - end of year		<u><u>138,445</u></u>

Covered-Employee Payroll	\$	<u><u>288,288</u></u>
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City's net OPEB liability as a percentage of covered-employee payroll		<u><u>48.02%</u></u>
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Notes to RSI Schedule

The City adopted GASB 75 for the fiscal year ending June 30, 2017

Footnotes to RSI Schedule

(1) Historical information is required only for measurement periods for which GASB 75 is applicable.

SUPPLEMENTARY INFORMATION

City of Etna
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2017

Special Revenue Funds				
	Proposition 50 Grant Fund	Local Transportation Fund	Gas Tax Fund	Total
<u>ASSETS</u>				
Cash	\$ 1,409	\$ 19,679	\$ 111,221	\$ 132,309
Receivables; Intergovernmental	-	(130)	1,746	1,616
Total assets	<u>\$ 1,409</u>	<u>\$ 19,549</u>	<u>\$ 112,967</u>	<u>\$ 133,925</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 2,884	\$ 2,884
Total liabilities	-	-	2,884	2,884
Fund balances:				
Restricted for:				
Streets and Roads	-	19,549	110,083	129,632
Water	1,409	-	-	1,409
Total fund balances	1,409	19,549	110,083	131,041
Total liabilities and fund balances	<u>\$ 1,409</u>	<u>\$ 19,549</u>	<u>\$ 112,967</u>	<u>\$ 133,925</u>

City of Etna
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Year Ended June 30, 2017

	Special Revenue Funds			Total
	Proposition 50 Fund	Local Transportation Fund	Gas Tax Fund	
<u>REVENUES</u>				
Intergovernmental revenues	\$ -	\$ 23,910	\$ 20,495	\$ 44,405
Use of money and property	-	23	567	590
Total revenues	<u>-</u>	<u>23,933</u>	<u>21,062</u>	<u>44,995</u>
<u>EXPENDITURES</u>				
Current:				
Public works	-	-	21,106	21,106
Public transportation	-	17,217	-	17,217
Total expenditures	<u>-</u>	<u>17,217</u>	<u>21,106</u>	<u>38,323</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>6,716</u>	<u>(44)</u>	<u>6,672</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other sources (uses)	-	6,716	(44)	6,672
<u>FUND BALANCE</u>				
Beginning of the year	1,409	12,833	111,552	125,794
Prior period adjustment	-	-	(1,425)	(1,425)
Beginning of the year, restated	<u>1,409</u>	<u>12,833</u>	<u>110,127</u>	<u>124,369</u>
End of the year	<u>\$ 1,409</u>	<u>\$ 19,549</u>	<u>\$ 110,083</u>	<u>\$ 131,041</u>

OTHER REPORTS AND SCHEDULES

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

To the City Council
City of Etna, 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, and the aggregate remaining fund information of City of Etna as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Etna, California's basic financial statements, and have issued my report thereon dated September 12, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Etna, California'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 City of Etna, California's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Etna, California's internal control.

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

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Findings 2017-1 through 2017-3).

Compliance and Other Matters

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

Response to Findings

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

Charles W Pillon, CPA

Charles W Pillon, CPA
Redding, California
September 12, 2018

CITY OF ETNA
Schedule of Findings and Responses
For the Year Ended June 30, 2017

FINDINGS – FINANCIAL STATEMENT AUDIT

2017- 1

Lack of segregation of duties

Condition: The City does not have adequate segregation of duties for cash receipts, cash disbursements, payroll, account reconciliations, and financial statement preparation.

Criteria: Good internal control design requires that there be segregation of duties between those responsible for cash receipts, cash disbursements, payroll, account reconciliations, and financial statement preparation.

Cause: The City Clerk performs most of the above functions.

Effect: Errors or misstatements may occur and not be found in a timely fashion.

Questioned costs: None

Recommendation: The City should consider developing a system of internal control where there is adequate segregation of duties.

Response: Due to the size of the City, it is not feasible or cost efficient to hire additional employees. Members of the council do review all cash disbursements, and the Treasurer the check signer and reviews bank reconciliation after the City Clerk prepares it.

2017 - 2

Personnel are not knowledgeable about GAAP (Generally Accepted Accounting Principles)

Condition: Management relies upon the auditor to recommend footnote disclosures for financial statements and to prepare for approval and record adjusting entries to convert the City's financial statements from the cash basis of accounting to the accrual basis of accounting.

Criteria: Statement of Auditing Standards, states that the auditor may not be part of the City's internal control system. Someone in the City should be knowledgeable in generally accepted accounting principles and capable of preparing financial statements in conformity with generally accepted accounting principles.

Cause: The City does not have either an employee educated in generally accepted accounting principles or an accounting firm engaged to prepare financial statements in conformity with generally accepted accounting principles.

Effect: Errors or misstatements may occur and not be detected.

Recommendation: The City should consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or educating an employee in generally accepted accounting principles.

Response: The City did hire an accountant but the full transition did not take place until the 2017-18 fiscal year.

CITY OF ETNA
Schedule of Findings and Responses
For the Year Ended June 30, 2017

2017 - 3

Bank reconciliations are not being prepared in a timely manner

Condition: Bank Reconciliations are not done timely and reconciling items are not addressed.

Criteria: Reconciliations need to be done in a timely manner and reconciling items need to be noted.

Cause: Bank reconciliation procedures are not being followed.

Effect: Cash accounts may not be accurate and lack of controls over cash may cause error or misappropriation.

Recommendation: All bank reconciliations should be completed within 30 days of receiving the bank statement. All reconciling items need to be addressed and noted on the bank reconciliation.

Response: Due to the late transition of the accountant described in Finding 2016-2, bank reconciliations did not get done in a timely manner. This has been corrected for the fiscal year ending June 30, 2018.

PRIOR YEAR FINDINGS

Findings 2017-1 through 2017-3 are carryover findings from the prior year.

2016 - 3

Budgets are not prepared for all governmental funds

Condition: Budgets were not prepared for all governmental fund types.

Recommendation: All funds should have a budget prepared, and the budget to actual amounts should be monitored by the Council on a regular basis.

Status: The City fully implemented this recommendation.