Basic Financial Statements

Fiscal Year 2018-2019

City of Lindsay
Basic Financial Statements
For the year ended June 30, 2019

Table of Contents

Table of Contents

Bret Harmon, MPA
Interim City Manager & Director of Finance
City of Lindsay

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December 20, 2019

Honorable Mayor Kimball and City Council Members

City of Lindsay, California

The comprehensive annual financial report of the City of Lindsay (the City) for the year ended June 30, 2019, is hereby submitted in accordance with Section 3.15 of the City Charter and California state law. The ordinance requires the City issue a report on its financial position and activity annually. An independent firm of certified public accountants must audit this report annually. Pursuant to these requirements, we hereby issue this annual financial report of the City for the fiscal year ended June 30, 2019.

This report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, management of the City employs a comprehensive internal control framework to protect the City's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls provides reasonable, rather than absolute, assurance the financial statements are free from material misstatement. We assert, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Badawi & Associates, a licensed certified public accountant firm. The goal of the independent audit is to provide reasonable assurance the financial statements of the City for the fiscal year ended June 30, 2019, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor found the City's financial statements for fiscal year ended June 30, 2019 to present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City. The independent auditor's report is presented as the first component of the financial section of this report.

The City of Lindsay did not have any major federal projects or programs that met the $750,000 threshold to require a separate Single Audit report per the Federal Single Audit Act of 1984 and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance); therefore, the City is exempt from that reporting requirement for the fiscal year ended June 30, 2019. Audit findings previously denoted in that report will be included as a supplementary section, entitled Summary Schedule of Findings and Responses, that can be found at the end of this report.

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

Profile of the Government

The City of Lindsay incorporated in 1910, as a general law city of the State of California, and reclassified to a Charter City January 8, 1996, filed with the State of California in April 1996. Lindsay is in the middle of the state in the Central San Joaquin Valley. The Central Valley is a national and world leader in the agricultural industry, with dairy, citrus and deciduous crops the primary commodity around the Lindsay area. The City of Lindsay currently occupies an incorporated area of 2.41 square miles with an urban development boundary of 3.9 square miles and serves a population of 13,303 (2017) an increase of 13.1% since 2010.

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

The City of Lindsay provides a full range of services, including general administration, human resources, treasury, finance, and accounting; risk management; police and fire protection, animal control, and code enforcement; the construction, maintenance, and cleaning of streets and other infrastructure; planning, zoning, building inspection, and development services; and community services including city parks, a skate park, and adult and youth recreational activities. The Wellness & Aquatic Center, water, sewer, and wastewater treatment and collection, and solid waste disposal services are provided through enterprise funds; disposal and recycling services are contracted with Mid Valley Disposal. Transit services are contracted with the Tulare County Transit Authority, the City maintains the bus stop shelters. It also administers and/or oversees grant programs and Curb & Gutter.

Acknowledgements

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

Respectfully,

Bret Harmon, Interim City Manager & Director of Finance

Lindsay Residents

City Council

Mayor Kimball
Mayor Pro Tem Cortes
Councilmembers Watson, Flores and Sanchez

Executive

Interim City Manager B. Harmon
City Attorney M. Zamora

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

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BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lindsay, California (City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Address: 2855 Telegraph Avenue, Suite 312 Berkeley, CA 94705 • Phone: 510.768.8251 • Fax: 510.768.8249

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Regarding Going Concern

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 12 to the financial statements, the City has a significant deficit fund balance in its General Fund. In addition, the City continues to experience operating losses in the General Fund and Wellness Center Fund, and is having difficulties maintaining operating cash balances and paying for City expenditures. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Regarding Violations of Grant Requirements

As discussed in Note 15 to the financial statements, the City, in previous years, has expended certain federal and State grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. These matters which occurred in previous years remain unresolved and the possible outcome of these matters, which have been reported to appropriate federal officials, cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the financial statements for possible federal claims for refunds of those grant monies.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information, other postemployment benefit information, and budgetary comparison information on pages 5-17 and 87-90 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements on pages 93-94, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements on pages 93-94 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements on pages 93-94 are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Badawi & Associates

Badawi and Associates
Certified Public Accountants
Berkeley, California
December 20, 2019

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CITY OF LINDSAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

As management of the City of Lindsay (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. We encourage readers to consider the information in the Transmittal Letter and Management's Discussion & Analysis as they review the financial statements. The narratives give valuable context and insightful analysis. All amounts, unless otherwise indicated, are expressed in thousands of dollars ($000's). Unless noted otherwise, fiscal year refers to the fiscal year ended June 30, 2019.

BACKGROUND

The context of Lindsay's financial condition today begins in the mid-2000's when the City enjoyed a seemingly endless flow of grant awards. The grants were for housing, community development, economic development, and freeze relief. Management worked to execute their grand, innovative plans to enrich and expand the quality of life in the community while the economy was red hot and the City had more grant money than it could manage. Lindsay was the envy of many other communities relative to its ability to secure grant funding and to build.

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

Unfortunately, the growth did not last. The housing bubble burst, the State took away redevelopment funding, and grant money stopped flowing. The City could not maintain what it had built, let alone sustain ongoing growth. Within a few short years, Lindsay came to an economic standstill without the money it needed to complete or maintain what it had started. Compounding the situation were turnover in administration, reduction in staffing, combining of departments, shrinking revenues, escalating costs, and a series of audits by funding agencies. The City was not able to maintain its general operations or operations at McDermont or the Wellness & Aquatic Center without borrowing from other funds. Much of the damage was done by 2010-2011 when the City entered a period of austerity. Amplifying the strong contraction, ongoing operations at McDermont continued to pull funding from other funds until the middle of FY 2018 when the City outsourced its operations, effectively stopping the financial bleeding. Today's financial challenges are results of borrowing from other funds and aggressive growth without sustainability measures.

In February 2017, City Council declared a fiscal emergency, placed a successful 1% transactions and use tax measure on the June 2017 special election ballot, and initiated a recovery plan. Ever since then, the City has been taking proactive, meaningful steps to turn the City around. One step was to outsource the management and operations of McDermont Field House and dramatically reduced its staffing levels on January 1, 2018. Another was to adopt ordinances allowing the retail selling and wholesale cultivation of cannabis. The City anticipates these new taxable activities to generate modest revenues starting early 2020.

Even though the City is taking positive steps, the turnaround process will take years, if not decades. The most significant obstacles remaining are a negative fund balance in the general fund (which means the liabilities in the general fund are greater than the general fund's assets), escalating CalPERS pension costs, consequences of borrowing funds from other government agencies without a means to repay, and a lack of reserves in the City's utility funds for future capital improvement needs. These factors led the California

State Auditor's Office to classify the City of Lindsay in its top 10 list of cities at high financial risk. The City is functionally bankrupt meaning it can meet its current year obligations, but it does not have enough resources to build reserves or to repay what it borrowed. To maintain the City's progress in the right direction, staff have implemented and enhanced its internal controls to allow it to avoid a repeat of the past in addition to pursuing new revenues for the future.

FINANCIAL STATEMENT FUNCTIONALITY

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

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

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

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

The **statement of net position** presents information for the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position at a specific point in time. The reader can think of the statement of net position as a snapshot of the City on the last day of the fiscal year. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net position changed during the fiscal year. The reader may think of the statement of activities as the report that shows what happened between last year's statement of net position (a snapshot in time) and this year's statement of net position (another snapshot in time). The statement of activities shows changes in net position based on when events (a revenue or an expenditure) happened rather than reporting based solely on when the related cash transaction finishes. Sometimes the related cash transaction happens and is recorded at the same time as the revenue or expenditure, yet other times it happens afterward. Consequently, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned-but-unused vacation leave).

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

The government-wide financial statements have changed substantially from previous years due to the dissolution of the Lindsay Redevelopment Agency (LRA); all financial information relevant to the former LRA is now accounted for, as an integral part of these financial statements, in the Private-Purpose Trust Fund, a fiduciary fund established to manage the assets and debt of the former agency. The Water, Sewer, Refuse, Wellness Center, and McDermont Sports Complex Departments function for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government. The General Fund will absorb the McDermont Fund now that the City does not operate it.

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

- Governmental funds,
- Proprietary funds, and
- Fiduciary funds.

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

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

The City maintains nine individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Community Development, and Local Transportation Funds, all of which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains one proprietary fund type called Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center Funds. The City plans to absorb the McDermont Fund into the General Fund because the City no longer operates McDermont.

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

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

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

FINANCIAL HIGHLIGHTS

- The total assets and deferred outflows of resources of the City exceeded its total liabilities and deferred inflows of resources at the close of the Fiscal Year (FY) 2019 by $62,999 (*net position*). Of this amount, $(10,776) is unrestricted, $17,673 is restricted for specific purposes, and $56,102 is the net investment in capital assets.

- Compared to FY 2018, the City's total net position increased $2,268, or 3.7%, during FY 2019.

- The City leased-to-purchase a new ladder truck (fire truck) during FY 2019 over the next 10 years. This fire truck replaces the City's old ladder truck that failed to pass ladder safety inspection.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. Assets and liabilities are the two largest components used in determining net position. In the case of the City of Lindsay, assets exceeded liabilities by $60,871 at the close of the most recent fiscal year, which is an increase from FY 2018 of $2,899 or 5%. Liabilities stayed steady while a stronger cash position helped improve the City's current assets. The City encumbered $1,500 for street and other capital projects scheduled for Fall 2019.

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

Net Position provides a snapshot in time at the end of the fiscal year. Monitoring net position over time gives an indication of the general health of the City. In FY 2019, the City's net position increased from $60,731 to $62,999, indicating a stronger financial position. It is important to recognize that much of the net position is based on net investment in capital assets, which are not liquid (or easily converted to cash).

As the reader will see in the following table (City of Lindsay's Net Position) a portion of the City's total net position, $17,673, represents resources that are subject to external restrictions on how they may be used. The unrestricted net position, ($10,776), indicates the City has more liabilities than unrestricted assets. In other words, the City has borrowed restricted funds for general operations. The City is working with the agencies that placed the external restrictions on the restricted funds to negotiate a resolution to the overspending in the past. This is one of the most significant corrective actions the City has taken in FY 2019 to repair the financial damage done in prior years.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current and other assets	$ 19,002	$ 17,133	$ 968	$ 837	$ 19,970	$ 17,970
Capital assets	25,163	23,425	45,836	46,619	70,999	70,044
Total assets	44,165	40,558	46,804	47,456	90,969	88,014
DEFERRED OUTFLOWS						
Deferred outflows of resources	2,161	2,069	462	938	2,623	3,007
LIABILITIES						
Current liabilities	4,061	4,121	933	1,128	4,994	5,249
Noncurrent liabilities	10,874	8,883	14,230	15,910	25,104	24,793
Total liabilities	14,935	13,004	15,163	17,038	30,098	30,042
DEFERRED INFLOWS						
Deferred inflows of resources	406	182	89	66	495	248
NET POSITION						
Net investment in capital assets	22,926	23,211	33,176	33,564	56,102	56,775
Restricted	17,673	15,294	-	-	17,673	15,294
Unrestricted	(9,614)	(9,064)	(1,162)	(2,274)	(10,776)	(11,338)
Total net position	$ 30,985	$ 29,441	$ 32,014	$ 31,290	$ 62,999	$ 60,731

The next table (City of Lindsay's Change in Net Position) provides a picture of what happened during FY 2019.

Events in FY 2018. The City converted a series of advances from business-type activity funds to governmental activities funds to transfers. Converting the advances to transfers positively impacted the governmental activities funds and negatively impacted the business-type activities funds. This $3,141 conversion impacts the change comparison with FY 2019. The result is governmental activities net position change showing a lower level of change and business-type activities showing a higher level of change. Had the conversion to transfers not occurred in FY 2018, then the change in governmental activities in FY 2019 would have been $3,141 less and business-type activities would have been $3,141 more. It is important to note that the advances identified here are for money the general fund borrowed from other funds for operations in prior years. Recording the advances and then transfers in FY 2019 recognizes the outcome of overspending in the past rather than representing activity in FY 2019.

Governmental activities. The City's governmental activities rely on several sources of revenue to finance ongoing operations. The most significant are (1) Other Taxes, which includes sales/transactions & use taxes, and (2) Capital Grants and Contributions, which are monies received from parties outside the City and are generally restricted for use in capital activities like the City's various transportation funding sources.

Significant changes in FY 2019 compared to FY 2018 are the decrease in Transfers (see commentary above) and increase in Measure O transactions and use tax. Governmental activities improved net position by $1,544 this year.

Business-type activities. Several significant events in FY 2018 affected the change comparison with FY 2019. First, in FY 2018, the business-type activity funds vacated advances from those funds to the general fund by converting them to transfers, which decreased the FY 2018 total revenues by ($3,141), as discussed above. The conversion to transfers was a one-time event, so the activity in FY 2019 Business-type activities decreased net position by $724 this year.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
PROGRAM REVENUES						
Charges in Services	$ 305	$ 463	$ 4,472	$ 5,031	$ 4,777	$ 5,494
Operating grants and contributions	984	829	-	-	984	829
Capital grants and contributions	2,151	1,564	-	-	2,151	1,564
GENERAL REVENUES						
Property taxes	358	346	-	-	358	346
Sales taxes	1,137	939	-	-	1,137	939
Measure O taxes	1,143	669	-	-	1,143	669
Utilities users' taxes	923	852	-	-	923	852
Other taxes	1,326	1,367	-	-	1,326	1,367
Miscellaneous	1,220	115	595	301	1,815	416
Transfers	(41)	3,141	41	(3,141)	-	-
Special items	(885)	-	885	-	-	-
TOTAL REVENUES	8,621	10,285	5,993	2,191	14,614	12,476
EXPENSES						
General government	1,291	1,499	-	-	1,291	1,499
Public safety	2,666	2,539	-	-	2,666	2,539
Parks and recreation	232	983	-	-	232	983
Public works	1,425	416	-	-	1,425	416
Streets and transportation	924	561	-	-	924	561
Community development	229	230	-	-	229	230
Interest on long-term debt	103	81	-	-	103	81
Water Fund	-	-	1,842	1,733	1,842	1,733
Sewer Fund	-	-	1,307	1,343	1,307	1,343
Refuse Fund	-	-	899	951	899	951
McDermont Fund	-	-	589	1,704	589	1,704
Wellness Center Fund	-	-	839	837	839	837
					-	-
TOTAL EXPENSES	6,870	6,309	5,476	6,568	12,346	12,877
NET POSITION						
Change in Net Position	1,751	3,976	517	(4,377)	2,268	(401)
Net position - beginning	29,441	12,022	31,290	34,181	60,731	46,203
Prior period adjustments	(207)	13,443	207	1,486	-	14,929
Net position - beginning (restated)	29,234	25,465	31,497	35,667	60,731	61,132
Net position - ending	$ 30,985	$ 29,441	$ 32,014	$ 31,290	$ 62,999	$ 60,731

CITY'S FUNDS FINANCIAL ANALYSIS

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

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

Another relatively new revenue source is SB1 funding for street and road projects. The City encumbered funds for street projects at the end of FY 2019 for sealing and rehabilitation projects in Fall 2019. The City was able to repave downtown, a major section of Tulare Road, and other projects with the funds it encumbered from 2019. The City now plans to do $1,500 - $1,800 in street projects per year using the street improvement fund, SB1 funds, and other transportation funding sources.

The City continues to manage its existing home loan portfolio. The City hopes to arrange for an outside entity to take over management of the existing home loan portfolio in the future. This change would help the City focus on its core purposes.

General Fund

The City constructed a roundabout at Westwood and Hermosa during FY 2019. The increase in Other Revenues and the increases in Capital Outlay correspond to the funding for and payment of the roundabout costs. Forty-nine percent of the roundabout project costs were reimbursed by Tulare County Association of Governments after the end of the fiscal year's accrual period or the Other Revenues and Capital Outlays would have been closer to equal. Outside the one-time event of constructing the roundabout, the City saw growth in Taxes as a result of Measure O being collected in all of FY 2019 and in only the latter part of FY 2018. The City anticipates continued growth in Other Taxes as it begins to collect cannabis retail tax in FY 2020.

General Fund	FY 2019	FY 2018	$ Change	% Change
Revenues				
Property taxes	$ 358	$ 346	$ 12	3%
Sales taxes	1,137	939	198	21%
Measure O taxes	1,143	669	474	71%
Utilities users' taxes	923	852	71	8%
Other taxes	1,251	1,300	(49)	-4%
Street improvement program	872	1,083	(211)	-19%
Licenses and permits	218	368	(150)	-41%
Intergovernmental	194	454	(260)	-57%
Charges for services	8	18	(10)	-56%
Fees and fines	169	159	10	6%
Interest revenue	9	-	9	n/a
Other revenues	1,224	129	1,095	849%
Total Revenues	7,506	6,317	1,189	19%
Expenditures				
Current				
General government	807	932	(125)	-13%
Public safety	2,596	2,519	77	3%
Parks and recreation	197	171	26	15%
Public works	532	557	(25)	-4%
Streets and transportation	250	258	(8)	-3%
Community development	181	35	146	417%
Debt Service				
Principal	79	18	61	339%
Interest and administrative charges	59	33	26	79%
Capital Outlay	2,743	363	2,380	656%
Total Expenditures	7,444	4,886	2,558	52%
Revenues Over (Under) Expenditures	$ 62	$ 1,431	$ (1,369)	-96%

Transportation Funds
The City did not spend $1,000 in Transportation Funds in FY 2019. It encumbered the funds for use in FY 2020 with major projects in the downtown area and elsewhere in the City. The City delayed the construction to FY 2020 to take advantage of lower costs due to economies of scale and to take advantage of conducive temperatures in the Fall.

Proprietary funds. As discussed above, the City converted advances from water, sewer, refuse and other funds to the general fund into transfers in FY 2018 and some in FY 2019. The general fund would not be able to repay the debt, so carrying the debt as an advance did not accurately represent the nature of the borrowing. As a result, the proprietary funds will need to rebuild the resources the funds need for capital projects.

The City's decision to outsource the management of McDermont has added stability to the general fund. The City plans to roll the McDermont Fund into the General Fund since it is no longer operating McDermont. The General Fund has already absorbed the responsibility to pay debt service on the building and to provide structural building maintenance as a landlord.

In FY 2020, the City increased refuse (solid waste) rates via a Prop 218 process. The new rates will help stabilize the Refuse fund and ensure full cost recovery for the service. The City must examine the need for rate increases to Water and Sewer to address service levels and capital projects.

Water
A few key events and actions have impacted the Water fund in FY 2019 and in FY 2020. In FY 2019, the City rehabilitated two filter banks at the water plant dramatically increasing the efficiency of the plant. In FY 2020, the City repaired Well 14, which was allowing air into the pump line and losing efficiency. The Fund operated at an operating loss in FY 2019. Salaries increased in FY 2019 as the City reviewed the allocation of employee salaries and benefits and found an charges to Water had been under allocated.

Water	FY 2019	FY 2018	$ Change	% Change
Operating Revenues				
Service Fees	$ 1,643	$ 1,628	$ 15	1%
Other revenues	(1)	79	(80)	-101%
Total Operating Revenues	1,643	1,707	(65)	-4%
Operating Expenses				
Current				
Salaries	331	284	47	17%
Benefits	333	306	27	9%
Materials, services, and supplies	837	798	39	5%
Depreciation and amortization	285	285	-	0%
Total Operating Expenses	1,786	1,673	113	7%
Operating Income (Loss)	$ (144)	$ 34	$ (178)	-522%

Sewer

The Sewer Fund had an operating income of $458 because of delays in capital projects.

Sewer	FY 2019	FY 2018	$ Change	% Change
Operating Revenues				
Service Fees	$ 1,587	$ 1,418	$ 169	12%
Total Operating Revenues	1,587	1,418	169	12%
Operating Expenses				
Current				
Salaries	135	178	(43)	-24%
Benefits	159	185	(26)	-14%
Materials, services, and supplies	441	401	40	10%
Depreciation and amortization	394	394	-	0%
Total Operating Expenses	1,129	1,158	(29)	-3%
Operating Income (Loss)	$ 458	$ 260	$ 198	76%

Refuse

The service was relatively unchanged in FY 2019. In FY 2020, the City increased rates by inflation. The contract service costs will increase proportionally.

Refuse	FY 2019	FY 2018	$ Change	% Change
Operating Revenues				
Service Fees	$ 961	$ 953	$ 8	1%
Other revenues	5	4	1	25%
Total Operating Revenues	966	957	9	1%
Operating Expenses				
Current				
Salaries	34	40	(6)	-15%
Benefits	45	45	-	0%
Materials, services, and supplies	820	867	(47)	-5%
Total Operating Expenses	899	952	(53)	-6%
Operating Income (Loss)	$ 67	$ 5	$ 62	1240%

Wellness & Aquatic Center

The Wellness & Aquatic Center welcomed a new major tenant in FY 2019. Omni Medical remodeled the north end of the building and will generate consistent rent revenues for the Center. The Lindsay Hospital District makes an annual contribution of $233 and the City transfers funds to cover the Center's operating loss. In FY 2020, the City and Lindsay Hospital District signed a new funding agreement to ensure ongoing operations at the Center.

Wellness & Aquatic Center	FY 2019	FY 2018	$ Change	% Change
Operating Revenues				
Service Fees	$ 276	$ 223	$ 53	24%
Total Operating Revenues	276	223	53	24%
Operating Expenses				
Current				
Salaries	180	170	10	6%
Benefits	101	116	(15)	-13%
Materials, services, and supplies	275	253	22	9%
Depreciation and amortization	197	197	-	0%
Total Operating Expenses	753	736	17	2%
Operating Income (Loss)	$ (477)	$ (513)	$ 36	-7%

CAPITAL ASSETS

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to $70,999 (net of accumulated depreciation) compared to $70,044 in FY 2018. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges. Note 5 details capital assets.

LONG-TERM DEBT & LIABILITIES ADMINISTRATION

Long-term debt. The City's long-term debt includes capital leases, settlement liabilities, and compensated absences in addition to bonds and certificates of participation. At the end of the current fiscal year, the City had total debt outstanding of $15,301. State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation for fiscal year 2019 per Tulare County Assessor. The City Charter Section 9.05A sets a 10% limitation. The current debt for the City complies with State and local statutes.

New debt. The City had two significant additions to its long-term debt in FY 2019. The first was the addition of its fire truck. The repayment will take 10 years. The truck original value is $726. The second was a settlement with Caltrans for audit findings related to an audit covering July 2008 through Dec. 2011. The City is to repay $349 over seven years. The first payment is due in February 2020.

Lindsay Olive Growers Pond Closure. The City is exploring opportunities for assistance in paying for the closure.

Debt constraints. Even though the City's current debt is within limits, the City's negative fund balances and uncertainty surrounding negotiations with other governments deter the private sector from lending to the City. The lack of access to borrowing negatively impacts the City's ability to start new capital projects.

Governmental Activities	Balance June 30, 2018	Net Change During Year	Balance June 30, 2019	Due Within One Year
2008 USDA RD Roads COP	$ 1,041	$ (76)	$ 965	79
2008 USDA RD Roads COP	432	(19)	413	19
Capital lease - fire truck	-	666	666	62
Caltrans settlement	-	349	349	-
Compensated absences	182	18	200	67
Total Governmental Activities	1,655	938	2,593	227
Business-Type Activities				
2007 USDA Wellness Center COP	2,030	(45)	1,985	47
1993 CSCDA Refuding Bonds	16	(16)	-	-
1999 USDA RD Waste Water Expansion	5,027	(161)	4,866	165
2000 USDA RD Water Line Projects	1,719	(54)	1,665	56
2004 USDA RD Waste Water Project	384	(9)	375	9
2012 Taxable Lease Revenue	1,335	(115)	1,220	125
Bond Issuance Discount	(26)	3	(23)	-
Lindsay Olive Growers Pond Closure	2,571	-	2,571	-
Compensated absences	41	7	48	16
Total Business-Type Activities	13,097	(390)	12,707	418
Combined	$ 14,752	$ 548	$ 15,300	645

Advance from Successor Agency. The advance to the General Fund from the former Lindsay Redevelopment Agency (RDA) was used to help with various downtown projects and for land transactions between the City and the former RDA. The successor to the former RDA is the City's Successor Agency. Staff is investigating the legitimacy of the advance after discovering a letter from the Department of Finance removing any obligation to repay $1,710 of the advance. After the City completes its investigation, it will engage the Oversight Board to seek a resolution.

BUDGET & ACTUAL COMPARISON

The City experienced some significant variances from budget to actual in FY 2019, as identified below:

1. General Fund – Taxes: Due to higher gas prices and unexpected growth from new business, the City's local sales tax and Measure O transactions and use tax outperformed projections, which substantially contributed to a $342 positive variance.

2. Other Revenues: As explained early in this MD&A, the City constructed a roundabout at Westwood and Hermosa. This was a joint project among the City, Self Help Enterprises, and TCAG. The City received Self Help Enterprises' reimbursement payment for their share of the roundabout during FY 2019. As a result, Other Revenues exceeded budget by $1,036.

3. The City delayed some planned street projects until Fall 2020. The delay reduced the Capital Outlay by $818, which shows as a positive variance in the general fund (savings).

4. Other Financing Sources included proceeds from capital leases for the City's new fire truck, as discussed above. The unbudgeted proceeds were $726. The lease-to-purchase agreement is for 10 years.

5. An intergovernmental revenue (in the Local Transportation Fund) was delayed in FY 2018. The City received it after the end of the FY 2018 accrual period ended. As a result, the City's Intergovernmental revenue had a positive variance of $460. These funds were later transferred out to help pay for the roundabout, which caused a negative variance of $349 in the Local Transportation Fund's transfers out.

ECONOMIC FACTORS & NEXT YEAR'S BUDGET

Economic Factors. The current economic projections continue to project slow growth, yet the City is focused on meeting current demands, reversing negative fund balances, meeting debt service demands, and rebuilding infrastructure while managing budget constraints.

- Property tax, sales tax and Measure O tax are expected to remain stable.
- New cannabis retail tax will provide the City with new revenue in FY 2020. Wholesale cannabis tax will not benefit the City for a few years yet.
- The City and employee unions have new memorandums of understanding that control costs, increase employee share of retirement costs, and give the City flexibility to provide raises when the City has the resources to afford the increases.
- The Mission Estates property sold at tax sale in Fall 2019. This eventual development will generate additional property tax and drive additional retail sales. The buildout for the development is uncertain still.

Next Year's Budget. The FY 2020 budget balances all funds without the need for due to / due from transactions or new advances. The City plans on a robust road maintenance and rehabilitation schedule for the year using funds it collected over prior years and new revenue in the year. These will be the first major projects in several years.

Concerns in the budget include the insufficient reserves and projected revenues in the utility funds to cover the costs of necessary capital improvement projects.

GENERAL OUTLOOK

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

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

Management is committed to the recovery process.

INFORMATION REQUESTS

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, P.O. Box 369, City of Lindsay, CA 93247 (559) 562-7102.

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BASIC
FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Lindsay
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 4,265,602	$ 541,761	$ 4,807,363
Accounts receivable, net	140,038	426,614	566,652
Interest receivable	3,358	-	3,358
Due from other governments	1,164,291	-	1,164,291
Notes receivable	13,428,787	-	13,428,787
Total current assets	19,002,076	968,375	19,970,451
Capital assets			
Nondepreciable	2,763,598	1,652,638	4,416,236
Depreciable, net	22,399,151	44,183,084	66,582,235
Net capital assets	25,162,749	45,835,722	70,998,471
Total assets	44,164,825	46,804,097	90,968,922
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	2,110,029	446,748	2,556,777
Deferred outflows from OPEB	51,255	15,208	66,463
Total deferred outflows of resources	2,161,284	461,956	2,623,240
LIABILITIES			
Current liabilities:			
Cash overdraft	-	58,773	58,773
Accounts and other payables	139,873	204,766	344,639
Accrued wages	110,125	42,275	152,400
Accrued interest	8,185	201,603	209,788
Refundable deposits	26,764	7,270	34,034
Long-term obligations - other			
Due to other governments	733,910	-	733,910
Advances from Successor Agency	2,815,536	-	2,815,536
Long-term debt - current portion	227,116	418,292	645,408
Total current liabilities	4,061,509	932,979	4,994,488
Non-current liabilities:			
Long-term debt	2,365,875	12,289,273	14,655,148
Net OPEB Liability	1,211,810	395,982	1,607,792
Net pension liability	7,295,925	1,544,736	8,840,661
Total noncurrent liabilities	10,873,610	14,229,991	25,103,601
Total liabilities	14,935,119	15,162,970	30,098,089
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pensions	372,059	78,775	450,834
Deferred inflows from OPEB	34,333	10,154	44,487
Total deferred inflows of resources	406,392	88,929	495,321
NET POSITION			
Net investment in capital assets	22,925,797	33,176,062	56,101,859
Restricted	17,673,087	-	17,673,087
Unrestricted	(9,614,286)	(1,161,908)	(10,776,194)
Total net position	$ 30,984,598	$ 32,014,154	$ 62,998,752

See accompanying Notes to Basic Financial Statements

City of Lindsay
Statement of Activities
For the year ended June 30, 2019

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Primary Government:					
Governmental activities:					
General Government	$ 1,291,510	$ -	$ 776,288	$ 7,160	$ 783,448
Public Safety	2,665,582	119,214	208,017	-	327,231
Parks and recreation	231,863	62,532	-	-	62,532
Public works	1,424,880	-	-	-	-
Streets and transportation	924,159	-	-	2,144,037	2,144,037
Community development	229,435	122,689	-	-	122,689
Interest on long-term debt	102,738	-	-	-	-
Total governmental activities	6,870,167	304,435	984,305	2,151,197	3,439,937
Business-type activities:					
Water Fund	1,841,390	1,642,809	-	-	1,642,809
Sewer Fund	1,306,890	1,586,605	-	-	1,586,605
Refuse Fund	899,056	965,802	-	-	965,802
McDermont Sports Complex Fund	588,953	-	-	-	-
Wellness Center Fund	838,886	276,465	-	-	276,465
Total business-type activities	5,475,175	4,471,681	-	-	4,471,681
Total primary government	$ 12,345,342	$ 4,776,116	$ 984,305	$ 2,151,197	$ 7,911,618

General Revenues and transfers:

Taxes:

Property taxes

Sales taxes

Measure O taxes

Utilities users' tax

Other taxes

Sales of assets

Other income

Unrestricted investments earnings

Transfers

Special item:

Transfer of pension balances

Total general revenues and transfers

Change in net position

Net position - beginning of year

Prior period adjustment

Net position - beginning of year, as restated

Net position - end of year

See accompanying Notes to Basic Financial Statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (508,062)	$ -	$ (508,062)
(2,338,351)	-	(2,338,351)
(169,331)	-	(169,331)
(1,424,880)	-	(1,424,880)
1,219,878	-	1,219,878
(106,746)	-	(106,746)
(102,738)	-	(102,738)
(3,430,230)	-	(3,430,230)
-	(198,581)	(198,581)
-	279,715	279,715
-	66,746	66,746
-	(588,953)	(588,953)
-	(562,421)	(562,421)
-	(1,003,494)	(1,003,494)
$ (3,430,230)	$ (1,003,494)	$ (4,433,724)
358,297	-	358,297
1,136,941	-	1,136,941
1,142,618	-	1,142,618
923,901	-	923,901
1,325,509	-	1,325,509
-	-	-
1,155,054	593,008	1,748,062
64,660	1,824	66,484
(41,305)	41,305	-
(884,843)	884,843	-
5,180,832	1,520,980	6,701,812
1,750,602	517,486	2,268,088
29,440,785	31,289,879	60,730,664
(206,789)	206,789	-
29,233,996	31,496,668	60,730,664
$ 30,984,598	$ 32,014,154	$ 62,998,752

See accompanying Notes to Basic Financial Statements

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FUND
FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

City of Lindsay
Balance Sheet
Governmental Funds
June 30, 2019

	Major Funds				
	General Fund	Community Development Fund	Local Transportation Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,496,586	$ 406,996	$ 1,262,703	$ 1,099,317	$ 4,265,602
Accounts receivable, net	138,359	-	-	1,679	140,038
Interest receivable	1,509	435	1,414	-	3,358
Due from other governments	516,294	-	459,492	188,505	1,164,291
Notes receivable	-	13,423,623	-	5,164	13,428,787
Advances to other funds	-	2,583,360	-	-	2,583,360
Total assets	$ 2,152,748	$ 16,414,414	$ 1,723,609	$ 1,294,665	$ 21,585,436
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	88,001	(3,872)	700	55,044	139,873
Accrued wages	102,782	2,311	-	5,032	110,125
Due to other governments	733,910	-	-	-	733,910
Advances from other funds	2,583,360	-	-	-	2,583,360
Advances from Successor Agency	2,815,536	-	-	-	2,815,536
Refundable deposits	485	26,279	-	-	26,764
Total liabilities	6,324,074	24,718	700	60,076	6,409,568
Fund Balances:					
Restricted	-	16,389,696	1,722,909	1,234,589	19,347,194
Unassigned	(4,171,326)	-	-	-	(4,171,326)
Total fund balances	(4,171,326)	16,389,696	1,722,909	1,234,589	15,175,868
Total liabilities and fund balances	$ 2,152,748	$ 16,414,414	$ 1,723,609	$ 1,294,665	$ 21,585,436

See accompanying Notes to Basic Financial Statements

City of Lindsay
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position
June 30, 2019

Total Fund Balances - Total Governmental Funds	$	15,175,868
Amounts reported for governmental activities in the Statement of Net Position were different from those reported in the Governmental Funds above because of the following:		
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:		
Non-depreciable		2,763,598
Depreciable, net		22,399,151
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.		(8,185)
In the Government-Wide Financial Statement certain differences between actuarial estimates and actual results for pension and OPEB are deferred and amortized over a period of time, however, in the governmental funds no transactions are recorded.		1,754,892
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet:		
Net pension liability		(7,295,925)
Net OPEB Obligation		(1,211,810)
Long term liabilities - due within one year		(227,116)
Long term liabilities - due in more than one year		(2,365,875)
Net Position of Governmental Activities	$	30,984,598

See accompanying Notes to Basic Financial Statements

City of Lindsay
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2019

	Major Funds				
	General Fund	Community Development Fund	Local Transportation Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	$ 358,297	$ -	$ -	$ -	$ 358,297
Sales taxes	1,136,941	-	-	-	1,136,941
Measure O taxes	1,142,618	-	-	-	1,142,618
Utilities users' taxes	923,901	-	-	-	923,901
Other taxes	1,250,143	-	-	-	1,250,143
Street improvement program	872,016	-	-	72,482	944,498
Licenses and permits	217,921	-	-	-	217,921
Intergovernmental	193,779	-	1,136,566	794,040	2,124,385
Charges for services	8,009	-	-	-	8,009
Fees and fines	169,157	3,300	-	340	172,797
Interest revenue	8,598	25,625	5,794	3,078	43,095
Other revenues	1,223,850	-	-	462	1,224,312
Total revenues	7,505,230	28,925	1,142,360	870,402	9,546,917
EXPENDITURES:					
Current:					
General government	806,866	-	-	73,984	880,850
Public safety	2,595,845	-	-	-	2,595,845
Parks and recreation	196,586	-	-	-	196,586
Public works	532,450	-	-	-	532,450
Streets and transportation	250,430	21,000	8,578	295,119	575,127
Community development	181,168	(7,618)	-	-	173,550
Debt service:					
Principal	78,577	-	76,065	-	154,642
Interest and administrative charges	58,591	-	45,125	-	103,716
Capital outlay	2,743,045	-	12,483	56,756	2,812,284
Total expenditures	7,443,558	13,382	142,251	425,859	8,025,050
REVENUES OVER (UNDER) EXPENDITURES	61,672	15,543	1,000,109	444,543	1,521,867
OTHER FINANCING SOURCES (USES):					
Proceeds from capital leases	725,821	-	-	-	725,821
Transfers in	1,176,733	-	-	-	1,176,733
Transfers out	(261,027)	-	(879,011)	(78,000)	(1,218,038)
Total other financing sources (uses)	1,641,527	-	(879,011)	(78,000)	684,516
Net change in fund balances	1,703,199	15,543	121,098	366,543	2,206,383
FUND BALANCES (DEFICITS):					
Beginning of year	(5,667,736)	16,374,153	1,601,811	868,046	13,176,274
Prior period adjustments	(206,789)	-	-	-	(206,789)
Beginning of year, as restated	(5,874,525)	16,374,153	1,601,811	868,046	12,969,485
End of year	$ (4,171,326)	$ 16,389,696	$ 1,722,909	$ 1,234,589	$ 15,175,868

See accompanying Notes to Basic Financial Statements

City of Lindsay

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities

For the year ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	$	2,206,383
Amounts reported for governmental activities in the Statement of Activities were different because:		
Governmental funds reported asset acquisitions as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.		2,712,465
In the Government-Wide Statement of Activities, transfers of McDermont Sports Complex Fund's net pension liability and related balances to the General Fund are recorded as a special item, whereas in the governmental funds no special item is recorded.		(884,843)
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds.		(974,178)
Accrued compensated leave payable was an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.		(17,946)
OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(76,343)
Long-term debt proceeds provided current financial resources to governmental funds, but issuing debt increased debt in the Government-Wide Statement of Net Position. Repayment of long-term debt principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.		
Recognition of Caltrans settlement		(349,032)
Proceeds from long-term liabilities		(725,821)
Long-term debt repayments		154,642
Current year employer pension contributions are recorded as expenditures in the governmental funds, however, these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position. Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however, pension expense is not recognized in the governmental funds. This is the net amount of the pension contribution and pension expense		(295,703)
Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the change in accrued interest from the prior year.		978
Change in Net Position of Governmental Activities	$	1,750,602

See accompanying Notes to Basic Financial Statements

City of Lindsay
Statement of Net Position
Proprietary Funds
June 30, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
ASSETS			
Current assets:			
Cash and equivalents	$ 4,199	$ 405,049	$ 132,513
Accounts receivable, net	39,907	231,128	109,283
Total current assets	44,106	636,177	241,796
Non-current assets:			
Advances to other funds	-	-	-
Capital assets:			
Construction in progress	955,379	-	-
Land	68,377	230,143	-
Buildings and improvements	5,104,547	6,800,531	-
Infrastructure	9,137,056	12,896,903	-
Equipment	21,356	180,700	-
Less accumulated depreciation	(6,411,217)	(9,969,447)	-
Total non-current assets	8,875,498	10,138,830	-
Total assets	8,919,604	10,775,007	241,796
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	208,199	133,851	36,970
Deferred outflows from OPEB	7,893	4,196	959
Total deferred outflows	216,092	138,047	37,929
LIABILITIES			
Current liabilities:			
Cash overdraft	-	-	-
Accounts and other payables	43,548	18,421	136,296
Accrued wages	16,434	8,143	1,905
Accrued interest	31,557	92,261	-
Refundable deposits	7,270	-	-
Compensated absences payable - current portion	6,126	4,405	1,625
Bonds and other long-term debt - current portion	55,777	174,512	-
Total current liabilities	160,712	297,742	139,826
Non-current liabilities:			
Net OPEB liability	152,002	117,404	31,290
Net pension liability	719,898	462,822	127,832
Compensated absences payable	12,253	8,807	3,251
Bonds and other long-term debt	1,608,905	7,638,268	-
Total non-current liabilities	2,493,058	8,227,301	162,373
Total liabilities	2,653,770	8,525,043	302,199
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pensions	36,712	23,602	6,519
Deferred inflows from OPEB	5,235	2,742	857
Total deferred inflows of resources	41,947	26,344	7,376
NET POSITION			
Net investment in capital assets	7,210,816	2,326,050	-
Unrestricted	(770,837)	35,617	(29,850)
Total net position	$ 6,439,979	$ 2,361,667	$ (29,850)

See accompanying Notes to Basic Financial Statements

Enterprise Funds		
McDermont Sports Complex Fund	Wellness Center Fund	Total Proprietary Funds
$ -	$ -	$ 541,761
-	46,296	426,614
-	46,296	968,375
-	-	-
-	-	955,379
217,413	181,326	697,259
22,987,873	8,631,783	43,524,734
-	824,260	22,858,219
1,740,545	48,571	1,991,172
(6,270,444)	(1,539,933)	(24,191,041)
18,675,387	8,146,007	45,835,722
18,675,387	8,192,303	46,804,097
-	67,728	446,748
-	2,160	15,208
-	69,888	461,956
-	58,773	58,773
3	6,498	204,766
-	15,793	42,275
36,607	41,178	201,603
-	-	7,270
-	3,813	15,969
125,000	47,034	402,323
161,610	173,089	932,979
-	95,286	395,982
-	234,184	1,544,736
-	7,625	31,936
1,072,377	1,937,787	12,257,337
1,072,377	2,274,882	14,229,991
1,233,987	2,447,971	15,162,970
-	11,942	78,775
-	1,320	10,154
-	13,262	88,929
17,478,010	6,161,186	33,176,062
(36,610)	(360,228)	(1,161,908)
$ 17,441,400	$ 5,800,958	$ 32,014,154

City of Lindsay
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
OPERATING REVENUES:			
Service fees	$ 1,643,312	$ 1,586,605	$ 961,082
Other revenues	(503)	-	4,720
Total operating revenues	1,642,809	1,586,605	965,802
OPERATING EXPENSES:			
Salaries	331,186	135,370	33,989
Benefits	333,115	158,943	45,209
Materials, services, and supplies	836,859	441,219	819,858
Depreciation and amortization	284,832	394,223	-
Total operating expenses	1,785,992	1,129,755	899,056
OPERATING INCOME (LOSS)	(143,183)	456,850	66,746
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental	95,225	-	-
Other income	250,730	-	-
Interest earnings	91	1,031	702
Interest expense	(55,398)	(177,135)	-
Total nonoperating revenues (expenses)	290,648	(176,104)	702
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	(24,469)	(9,249)	-
Total transfers	(24,469)	(9,249)	-
SPECIAL ITEMS:			
Transfer of pension balances to General Fund	-	-	-
Total special items	-	-	-
Change in net position	122,996	271,497	67,448
NET POSITION:			
Beginning of year	6,240,234	2,016,021	(153,189)
Prior period adjustments	76,749	74,149	55,891
Beginning of year, as restated	6,316,983	2,090,170	(97,298)
End of year	$ 6,439,979	$ 2,361,667	$ (29,850)

See accompanying Notes to Basic Financial Statements

Enterprise Funds		
McDermont Sports Complex Fund	Wellness Center Fund	Total Proprietary Funds
$ -	$ 276,465	$ 4,467,464
-	-	4,217
-	276,465	4,471,681
-	179,985	680,530
-	100,719	637,986
-	275,134	2,373,070
508,795	196,635	1,384,485
508,795	752,473	5,076,071
(508,795)	(476,008)	(604,390)
-	233,721	328,946
-	13,332	264,062
-	-	1,824
(80,158)	(86,413)	(399,104)
(80,158)	160,640	195,728
174,627	86,400	261,027
(186,004)	-	(219,722)
(11,377)	86,400	41,305
884,843	-	884,843
884,843	-	884,843
284,513	(228,968)	517,486
17,156,887	6,029,926	31,289,879
-	-	206,789
17,156,887	6,029,926	31,496,668
$ 17,441,400	$ 5,800,958	$ 32,014,154

City of Lindsay
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers	$ 1,767,168	$ 1,471,659	$ 951,319
Payments to employees	(623,999)	(268,501)	(72,080)
Payments to suppliers	(1,023,080)	(431,576)	(758,110)
Net cash provided by (used in) operating activities	120,089	771,582	121,129
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Grant income	95,225	-	-
Other income	250,821	1,031	702
Transfers in	-	-	-
Transfers out	(24,469)	(9,249)	-
Net cash provided by (used in) noncapital financing activities	321,577	(8,218)	702
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital expenditures	(600,571)	-	-
Interest paid on long-term debt	(56,705)	(180,170)	-
Principal payments on long-term debt	(69,923)	(168,923)	-
Net cash provided by (used in) capital and related financing activities	(727,199)	(349,093)	-
SPECIAL ITEM:			
Transfer of pension balances to General Fund	-	-	-
Net cash provided by special items	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(285,533)	414,271	121,831
CASH AND CASH EQUIVALENTS - Beginning of year	289,732	(9,222)	10,682
CASH AND CASH EQUIVALENTS - End of year	$ 4,199	$ 405,049	$ 132,513
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	$ (143,183)	$ 456,850	$ 66,746
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	284,832	394,223	-
Changes in assets, deferred outflows and inflows of resources, and liabilities:			
(Increase) decrease in accounts receivable	126,203	(114,946)	(14,483)
(Increase) decrease in deferred outflows of resources - deferred pension	33,489	21,776	6,196
(Increase) decrease in deferred outflows of resources - deferred OPEB	(7,774)	(4,133)	(940)
Increase (decrease) in accounts and other payables	(186,221)	9,643	61,748
Increase (decrease) in accrued wages	(10,000)	(3,695)	(568)
Increase (decrease) in refundable deposits	(1,844)	-	-
Increase (decrease) in compensated absences payable	3,247	1,228	413
Increase (decrease) in net OPEB liability	19,855	10,556	2,400
Increase (decrease) in net pension liability	(26,694)	(17,162)	(4,740)
Increase (decrease) in deferred inflows of resources - deferred pension	28,501	17,413	4,396
Increase (decrease) in deferred inflows of resources - deferred OPEB	(322)	(171)	(39)
Net cash provided by (used in) operating activities	$ 120,089	$ 771,582	$ 121,129

See accompanying Notes to Basic Financial Statements

Enterprise Funds		
McDermont Sports Complex Fund	Wellness Center Fund	Total Proprietary Funds
$ -	$ 288,856	$ 4,479,002
(884,843)	(264,464)	(2,113,887)
(19,548)	(285,561)	(2,517,875)
(904,391)	(261,169)	(152,760)
-	233,721	328,946
-	13,332	265,886
174,627	86,400	261,027
(186,004)	-	(219,722)
(11,377)	333,453	636,137
-	-	(600,571)
(43,560)	(87,231)	(367,666)
(111,519)	(45,116)	(395,481)
(155,079)	(132,347)	(1,363,718)
884,843	-	884,843
884,843	-	884,843
(186,004)	(60,063)	4,502
186,004	1,290	478,486
$ -	$ (58,773)	$ 482,988
$ (508,795)	$ (476,008)	$ (604,390)
508,795	196,635	1,384,485
-	15,467	12,241
418,683	10,497	490,641
-	(2,129)	(14,976)
(19,548)	(10,427)	(144,805)
-	(836)	(15,099)
-	(3,076)	(4,920)
-	1,714	6,602
-	5,437	38,248
(1,266,272)	(8,684)	(1,323,552)
(37,254)	10,329	23,385
-	(88)	(620)
$ (904,391)	$ (261,169)	$ (152,760)

City of Lindsay
Statement of Fiduciary Net Position (Deficit)
Fiduciary Fund
June 30, 2019

		Private-Purpose Trust Fund
ASSETS		
Redevelopment Agency Property Tax Trust Fund		
Cash and cash equivalents	$	969,892
Notes receivable		1,133,752
Land held for resale		1,695,000
Advances to the City		2,815,536
Other assets		202,311
Total assets		6,816,491
LIABILITIES		
Accounts payable		3,557
Accrued interest payable		194,503
Long-term debt:		
Due within one year		480,000
Due in more than one year		13,409,502
Total liabilities		14,087,562
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding of debt		461,890
Total deferred inflows of resources		461,890
NET POSITION (DEFICIT)		
Net position (deficit) held in trust		(7,732,961)
Total net position (deficit)	$	(7,732,961)

See accompanying Notes to Basic Financial Statements

City of Lindsay
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the year ended June 30, 2019

		Private-Purpose Trust Fund
ADDITIONS:		
Redevelopment Agency Property Tax Trust Fund	$	2,020,281
Other income		17,632
Proceeds from sale of capital asset		55,410
Total additions		2,093,323
DEDUCTIONS:		
Administrative expenses		156,818
Interest on long-term debt		464,967
Total Deductions		621,785
Change in net position		1,471,538
NET POSITION (DEFICIT):		
Beginning of year		(9,204,499)
End of year	$	(7,732,961)

See accompanying Notes to Basic Financial Statements

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NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The City of Lindsay incorporated in 1910, as a general law city of the State of California, and reclassified to a Charter City January 8, 1996, filed with the State of California in April 1996. Lindsay is located in the middle of the state in the Central San Joaquin Valley. The Central Valley is considered to be a national and world leader in the agricultural industry, with dairy, citrus, and deciduous crops the primary commodity around the Lindsay area. The City of Lindsay currently occupies an incorporated area of 2.41 square miles with an urban development boundary of 3.9 square miles and serves a population of 13,358 (2019) – an increase of 14% since 2010.

B. Basis of Accounting and Measurement Focus

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

Government-Wide Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

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

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

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

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

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

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

Governmental Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

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

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

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

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

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

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

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

Proprietary Fund Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

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

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

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

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

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

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

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

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

Fiduciary Fund Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents, and Investments

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

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

Participant's equity in an investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants annually. During the fiscal year ended June 30, 2019, the City had not entered into any legally binding guarantees to support the participant equity in the investment pool.

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents, and Investments, Continued

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

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

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

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

D. Inventory and Prepaids

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than $15,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

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

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

Assets	Years
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure	30
Vehicle	5
Office equipment	5
Computer equipment	5

F. Unearned revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements from federal and state projects and programs received before eligibility requirements are met are recorded as unearned revenue.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Compensated Absences

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

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

H. Long-Term Debt

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

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

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

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

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

I. Self-Insurance

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The purpose of this group is to minimize liability and workers’ compensation expenses for cities in the central San Joaquin Valley. CSJVRMA provides statutory coverage for the City's workers' compensation risks. The City retains liability risks up to $25,000 and shares risk with the pool to $10,000,000.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Property Taxes

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

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

K. Deferred Outflows/Inflows of Resources

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

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

L. Encumbrances

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

M. Net Position

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Net Position, Continued

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

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

N. Fund Balance

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

Nonspendable - Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.

Restricted - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.

Committed - Amounts constrained to specific purposes by the City itself, using the City's highest level of decision-making authority (the City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned - Amounts the City *intends* to use for a specific purpose. Intent can be expressed by the City at either the highest level of decision-making authority or by an official or body to which the City delegates the authority. This is also the classification for residual funds in the City's special revenue funds.

Unassigned - The residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Fund Balance, Continued

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

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

The City strives to achieve and maintain unrestricted fund balance in the General Fund sufficient to cover approximately 6 months of working capital at the close of each fiscal year, which exceeds the recommended level (approximately 60 days working capital) promulgated by the Government Finance Officers Association (GFOA). However, as of June 30, 2019, the City had a deficit fund balance in its General Fund.

O. Pension

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

P. Other Post Employment Health Care Benefits (OPEB)

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

Valuation Date	July 1, 2017
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Q. Use of Estimates

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

R. New Pronouncements

In 2019, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- *GASB Statement No. 83, Certain Asset Retirement Obligations* – The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. There was no effect on net position as a result of implementation of this statement.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* – This statement defines debt for purposes of disclosure in the notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this statement did not apply to the City for the current fiscal year.

2. CASH AND INVESTMENTS

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

	Government-Wide Statement of Net Position		Fund Financials	
	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash, cash equivalents and investments	$ 4,265,602	$ 541,761	$ 969,892	$ 5,777,255
Cash overdrafts	-	(58,773)	-	(58,773)
Total	$ 4,265,602	$ 482,988	$ 969,892	$ 5,718,482

A. *Summary of Cash and Investments*

Cash, cash equivalents, and investments as of June 30, 2019, consist of the following:

Cash on hand	$ 700
Deposits with financial institution	3,098,041
Total cash on hand and deposits	3,098,741
Local Agency Investment Fund	2,427,434
Certificates of Deposit	192,307
Total investments	2,619,741
Total City Treasury	5,718,482
Total cash and investments	$ 5,718,482

B. *Deposits*

The carrying amount of the City's cash deposit was $3,098,041 at June 30, 2019. Bank balances before reconciling items were a positive amount of $3,632,249 at June 30, 2019. The City's cash deposit was fully insured up to $250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

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

2. CASH AND INVESTMENTS, Continued

B. Deposits, Continued

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

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

C. Investments

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

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

Investments are stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds for the year ended June 30, 2019:

Interest income	$ 56,673
Unrealized gain (loss) on changes in fair value of investments	4,155
Total investment income (loss)	$ 60,828

2. CASH AND INVESTMENTS, Continued

C. Investments, Continued

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

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2019, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes – are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities – the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2019, the City had $2,427,434 invested in LAIF, which had invested 2.87% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.67% in the previous year. The LAIF fair value factor of 1.001711790 was used to calculate the fair value of the investments in LAIF.

D. Risk Disclosures

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

Investments held in the City Treasury grouped by maturity date at June 30, 2019, are shown below:

		Remaining Maturity (in Months)		
Investment Type	**Total**	**12 Months or Less**	**13 - 24 Months**	**More than 24 Months**
Certificates of Deposit	$ 192,307	$ -	$ 192,307	$ -
Local Agency Investment Fund	2,427,434	2,427,434	-	-
Total	$ 2,619,741	$ 2,427,434	$ 192,307	$ -

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

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

E. Investment Valuation

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

Investment fair value measurements at June 30, 2019, are described below:

		Fair Value Measurement Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Investments subject to leveling:				
Certificates of Deposit	$ 192,307	$ 192,307	$ -	$ -
Total	192,307	$ 192,307	$ -	$ -
Investments not subject to leveling:				
Local Agency Investment Fund	2,427,434			
Total Investments	$ 2,619,741			

3. INTERFUND TRANSACTIONS

A. Due To/From Other Funds

At June 30, 2019, the City had no due to/from other fund balances.

B. Transfers

The City had the following transfers between funds during the year ended June 30, 2019:

	Transfers In			
Transfers Out	General Fund	McDermont Sports Complex Fund	Wellness Center Fund	Total
General Fund	$ -	$ 174,627	$ 86,400	$ 261,027
Local Transportation Fund	879,011	-	-	879,011
Non-Major Funds	78,000	-	-	78,000
Water Fund	24,469	-	-	24,469
Sewer Fund	9,249	-	-	9,249
McDermont Sports Complex Fund	186,004	-	-	186,004
Total	$ 1,176,733	$ 174,627	$ 86,400	$ 1,437,760

Transfers from the Local Transportation Fund to the General Fund were for reimbursement of street capital project costs. Transfers from the General Fund to the McDermont Sports Complex Fund and Wellness Center Fund were to resolve negative cash balances.

C. Advances To/From Other Funds

At June 30, 2019, the City had the following advances to/from balances resulting from the conversion of prior years' due to/from transactions into advances pursuant to a resolution by the City Council.

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

D. Advances From Successor Agency

The City has an advance from the Successor Agency balance resulting from prior years' downtown projects and land transactions between the City and the former RDA. The City is currently investigating the validity of the advance balance. If the City finds that the advance is invalid it plans to engage the oversight board to seek a resolution after completing its investigation. As of June 30, 2019 the advance balance was $2,815,536.

4. LOANS AND NOTES RECEIVABLE

A. *Notes Receivable*

At June 30, 2019, the City's loans and notes receivable consisted of the following:

	Community Development Fund	Curb and Gutter Fund	Private-Purpose Trust Fund	Total
Individuals				
7% unsecurred notes with annual principal and interest payments.	$ -	$ 5,164	$ -	$ 5,164
Non-interest and below-market rate secured notes with deferred payments of monthly principal and interest. Collateralized by trust deeds on improved property.	13,423,623	-	1,133,752	14,557,375
Total	$13,423,623	$ 5,164	$ 1,133,752	$14,562,539

B. *Related Party Transactions*

The City has entered into various loan agreements with City employees and relatives of City employees, under its First-Time Homebuyer and Micro–Loan Programs. The various loan types provided included Deferred Payment Loans (DPL), Deferred No Interest Loans (DNIL), No Interest Loans (NIL), and Below Market Interest Rate Loans (BMIR). All of the loan types mentioned are allowed under the programs. However, as discussed in Note 15, some of the loans were not compliant with the programs requirements. Detail of these related party transactions is provided below:

	June 30, 2019
Related Party Loans	
Employee Loans	
Deferred Payment Loans	$ 869,159
Deferred No Interest Loans	107,400
No Interest Loans	3,420
Below Market Interest Rate Loans	67,902
Total Employee Loans	1,047,881
Loans to Employees' Relatives	
Deferred Payment Loans	734,699
Deferred No Interest Loans	204,507
No Interest Loans	11,429
Below Market Interest Loans	97,703
Total Loans to Employees' Relatives	1,048,338
Total Related Party Loans	$ 2,096,219

5. CAPITAL ASSETS

A. *Government-Wide Financial Statements*

Capital assets activity for the year ended June 30, 2019, was as follows.

	July 1, 2018 Balance	Additions	Reductions	June 30, 2019 Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 771,699	$ -	$ -	$ 771,699
Construction in progress	167,412	1,824,487	-	1,991,899
Total capital assets, not being depreciated	939,111	1,824,487	-	2,763,598
Capital assets, being depreciated				
Buildings	3,985,066	-	-	3,985,066
Infrastructure	39,627,905	55,473	-	39,683,378
Machinery and equipment	3,323,053	832,505	-	4,155,558
Total capital assets, being depreciated	46,936,024	887,978	-	47,824,002
Less accumulated depreciation for:				
Buildings	(1,368,734)	(71,935)	-	(1,440,669)
Infrastructure	(19,852,493)	(818,562)	-	(20,671,055)
Machinery and equipment	(3,229,446)	(83,681)	-	(3,313,127)
Total accumulated depreciation	(24,450,673)	(974,178)	-	(25,424,851)
Total capital assets, being depreciated, net	22,485,351	(86,200)	-	22,399,151
Governmental activities capital assets, net	$ 23,424,462	$ 1,738,287	$ -	$ 25,162,749
Business-type activities				
Capital assets, not being depreciated				
Land	$ 697,259	$ -	$ -	$ 697,259
Construction in progress	354,808	600,571	-	955,379
Total capital assets, not being depreciated	1,052,067	600,571	-	1,652,638
Capital assets, being depreciated				
Buildings	43,524,734	-	-	43,524,734
Infrastructure	22,858,219	-	-	22,858,219
Machinery and equipment	1,991,172	-	-	1,991,172
Total capital assets, being depreciated	68,374,125	-	-	68,374,125
Less accumulated depreciation for:				
Buildings	(10,709,513)	(870,495)	-	(11,580,008)
Infrastructure	(10,236,260)	(457,165)	-	(10,693,425)
Machinery and equipment	(1,860,783)	(56,825)	-	(1,917,608)
Total accumulated depreciation	(22,806,556)	(1,384,485)	-	(24,191,041)
Total capital assets, being depreciated, net	45,567,569	(1,384,485)	-	44,183,084
Business-type activities capital assets, net	$ 46,619,636	$ (783,914)	$ -	$ 45,835,722

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense by program for capital assets for the year ended June 30, 2019, was as follows:

	Governmental		Business-Type
General government	$ 20,668	Water Fund	$ 284,833
Community development	55,885	Sewer Fund	393,949
Public safety	69,737	Refuse Fund	-
Public works	792,611	McDermont Sports Complex Fund	508,795
Library	35,277	Wellness Center Fund	196,635
Total depreciation expense	$ 974,178	**Total depreciation expense**	$ 1,384,212

6. LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2019, is shown below.

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Governmental Activities					
Certificates of Participation (COP)					
2008 USDA RD Roads COP	$ 1,040,817	$ -	$ (76,065)	$ 964,752	$ 79,298
2010 USDA RD Library COP	432,026	-	(19,152)	412,874	19,152
Total COP	1,472,843	-	(95,217)	1,377,626	98,450
Capital lease - fire truck	-	725,821	(59,425)	666,396	62,021
Caltrans settlement liability	-	349,032	-	349,032	-
Compensated Absences	181,991	131,574	(113,628)	199,937	66,645
Total Governmental Activities	1,654,834	1,206,427	(268,270)	2,592,991	227,116
Business-Type Activities					
Certificates of Participation (COP)					
2007 USDA RD Wellness Center COP	2,029,937	-	(45,116)	1,984,821	47,034
Revenue Bonds					
1993 CSCDA Refunding Bonds	15,902	-	(15,902)	-	-
1999 USDA RD Waste Water Expansion	5,026,589	-	(160,106)	4,866,483	165,309
2000 USDA RD Water Line Project	1,718,703	-	(54,021)	1,664,682	55,777
2004 USDA RD Waste Water Project	384,133	-	(8,817)	375,316	9,203
2012 Taxable Lease Revenue Refunding Bonds	1,335,000	-	(115,000)	1,220,000	125,000
Bond Issuance Discount	(26,104)	-	3,481	(22,623)	-
Total COP and Revenue Bonds	10,484,160	-	(395,481)	10,088,679	402,323
Lindsay Olive Growers Pond Closure	2,570,981	-	-	2,570,981	-
Compensated Absences	41,303	48,397	(41,795)	47,905	15,969
Total Business-Type Activities	$ 13,096,444	$ 48,397	$ (437,276)	$ 12,707,565	$ 418,292

6. LONG-TERM DEBT, Continued

A. *Governmental Activities*

Certificates of Participation (COP)

On October 1, 2008, the City entered into a COP with the United States Department of Agriculture Rural Development Agency (USDA RD) for Tulare Road in the amount of $1,600,000. The COP has annual principal and interest approximately $120,000 a year at 4.5% through 2029. As of June 30, 2019, the balance of the COP was $964,752.

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

Year Ended June 30	Principal	Interest	Total
2020	79,298	39,845	119,143
2021	82,668	36,125	118,793
2022	86,182	32,247	118,429
2023	89,844	28,204	118,048
2024	93,663	23,989	117,652
2025-2029	533,097	50,111	583,208
Total	$ 964,752	$ 210,521	$ 1,175,273

On May 12, 2010, the City entered into a COP with the USDA RD for the construction of the Library Project in the amount of $750,000. The COP has annual principal and interest payments of approximately $37,000 a year at 4.125% through 2040. As of June 30, 2019, the balance of the COP was $412,874.

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

Year Ended June 30	Principal	Interest	Total
2020	19,918	17,031	36,949
2021	20,714	16,209	36,923
2022	21,543	15,355	36,898
2023	22,405	14,466	36,871
2024	23,301	13,542	36,843
2025-2029	131,253	52,501	183,754
2030-2034	159,690	23,176	182,866
2035-2038	14,050	-	14,050
Total	$ 412,874	$ 152,280	$ 565,154

6. LONG-TERM DEBT, Continued

A. *Governmental Activities, Continued*

Capital Leases

On January 25, 2018, the City entered into a master purchase agreement with PNC Equipment Finance for purchase of a fire truck. The total amount financed by the bank was approximately $725,819 with interest rate of 4.37%. The payments will be made over a 10-year period. As of June 30, 2019, the balance of the lease was $666,396.

The annual debt service requirements for the lease are as follows:

Year Ended June 30	Principal	Interest	Total
2020	62,021	29,121	91,142
2021	64,732	26,411	91,143
2022	67,560	23,582	91,142
2023	70,513	20,630	91,143
2024	73,594	17,549	91,143
2025-2029	327,976	36,597	364,573
Total	$ 666,396	$ 153,890	$ 820,286

Caltrans Settlement Liability

On October 7, 2019, the City reached a settlement with the California Department of Transportation (Caltrans) in the total amount of $349,032 for repayment of improperly accounted for funds provided by Caltrans in connection with construction projects from the 2000s. Pursuant to the settlement, the City agreed to a 7-year repayment plan based on the apportionment of fuel tax revenues from the State to the City, with annual payments calculated to approximately 10 percent of those fuel tax apportionments. As of June 30, 2019, the balance of the Caltrans settlement liability was $349,032.

B. *Business-type Activities*

Certification of Participation (COP)

On June 20, 2007, the City entered into a COP with USDA RD for the Wellness Center in the amount of $1,130,689. The total amount of the COP will be $3,000,000 if totally drawn. The Wellness Center Fund has annual principal and interest payments of approximately $129,000 a year at 4.25% through 2048. As of June 30, 2019, the balance of the COP was $1,984,821.

6. LONG-TERM DEBT, Continued

B. Business-Type Activities, Continued

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

Year Ended June 30	Principal	Interest	Total
2020	47,034	81,993	129,027
2021	49,033	79,909	128,942
2022	51,117	77,737	128,854
2023	53,289	75,472	128,761
2024	55,554	73,474	129,028
2025-2029	315,257	328,288	643,545
2030-2034	388,192	252,254	640,446
2035-2039	477,999	158,631	636,630
2040-2044	547,346	43,347	590,693
Total	$ 1,984,821	$ 1,171,105	$ 3,155,926

Revenue Bonds Payable

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

On November 5, 1999, the City entered into a revenue bond with the USDA RD for the Waste Water Treatment Plant Project for $7,000,000. The annual principal and interest payments of $323,470 at 3.25% are through November 27, 2039. As of June 30, 2019, the balance due was $4,866,483.

6. LONG-TERM DEBT, Continued

B. Business-Type Activities, Continued

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

Year Ended June 30	Principal	Interest	Total
2020	165,309	158,161	323,470
2021	170,682	152,788	323,470
2022	176,229	147,241	323,470
2023	181,956	141,514	323,470
2024	187,870	135,600	323,470
2025-2029	1,035,004	582,346	1,617,350
2030-2034	1,214,485	402,865	1,617,350
2035-2039	1,425,092	192,259	1,617,351
2040-2044	309,856	10,070	319,926
Total	$ 4,866,483	$ 1,922,844	$ 6,789,327

On December 11, 2000, the City entered into a revenue bond with the USDA RD for the Water Line Project for $2,440,000. The annual principal and interest payments of $109,874 at 3.25% are through December 11, 2040. As of June 30, 2019, the balance due was $1,664,682.

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

Year Ended June 30	Principal	Interest	Total
2020	55,777	54,097	109,874
2021	57,590	52,284	109,874
2022	59,462	50,412	109,874
2023	61,394	48,480	109,874
2024	63,389	46,485	109,874
2025-2029	349,221	200,149	549,370
2030-2034	409,780	139,590	549,370
2035-2039	480,841	68,529	549,370
2040-2044	127,228	-	127,228
Total	$ 1,664,682	$ 660,026	$ 2,324,708

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities, Continued*

Revenue Bonds Payable, Continued

On June 22, 2004, the City entered into a revenue bond with the USDA RD for the Waste Water Project for $480,000. The annual principal and interest payments of $25,623 at 4.375% are through June 28, 2044. As of June 30, 2019, the balance due was $375,316.

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

Year Ended June 30	Principal	Interest	Total
2020	9,203	16,420	25,623
2021	9,606	16,017	25,623
2022	10,026	15,597	25,623
2023	10,464	15,159	25,623
2024	10,922	14,701	25,623
2025-2029	62,211	65,904	128,115
2030-2034	77,064	51,051	128,115
2035-2039	95,462	32,653	128,115
2040-2044	90,358	9,957	100,315
Total	$ 375,316	$ 237,459	$ 612,775

On November 1, 2012, the City entered into a refunding bond with US Bank National Association for refunding of the City's $1,500,000 Mid Valley Services, Inc., promissory note dated November 19, 2009. The annual principal payments are due annually beginning on January 1, 2014. Interest ranging from 4.0% to 6.4% on the bonds is payable on January 1st and July 1st of each year, commencing on July 1, 2013. As of June 30, 2019, the balance due was $1,220,000.

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

Year Ended June 30	Principal	Interest	Total
2020	125,000	73,213	198,213
2021	130,000	66,338	196,338
2022	140,000	58,863	198,863
2023	145,000	50,813	195,813
2024	155,000	42,113	197,113
2025-2027	525,000	66,875	591,875
Total	$ 1,220,000	$ 358,215	$ 1,578,215

6. LONG-TERM DEBT, Continued

C. Compensated Leaves Payable

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

The City accrues the liability for compensated leave as it is earned by employees. The amount of compensated leaves payable outstanding was $247,841 as of June 30, 2019.

The amount due within one year of $66,645 for Governmental Activities and $15,968 for Business-Type Activities represents the estimated amount for anticipated retirees. The City typically uses the General Fund to liquidate the liability for compensated absences for governmental funds.

7. CITY EMPLOYEES' RETIREMENT PLAN

Plan Description

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

Benefit Provided

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

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

Benefit Provided, Continued

The rate plan provisions and benefits in effect at June 30, 2019 are summarized as follows:

	Miscellaneous	Miscellaneous PEPRA
Hire Date	1/1/1960	1/1/2013
Benefit formla	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	55 w/5 year service credit	62 w/5 year service credit
Benefit payment	2.7% Avg. highest 12 mos	2.0% Avg. highest 36 mos
Retirement age	55	62
Monthly benefits, as a % of annual salary	2.7%	2.0%
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates	12.212%	6.842%
Required unfunded liability payment	$492,817	$2,857

	Safety	Safety PEPRA
Hire Date	1/1/1960	1/1/2013
Benefit formla	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	55 w/5 year service credit	57 w/5 year service credit
Benefit payment	3.0% Avg. highest 12 mos	2.7% Avg. highest 36 mos
Retirement age	55	57
Monthly benefits, as a % of annual salary	3.0%	2.7%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	18.677%	12.141%
Required unfunded liability payment	$288,775	$494

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

In 2018 and 2019, miscellaneous and safety Plan employees agreed to pay an additional three and five percentage points, respectively, towards the City's contributions to the Plan. The City has not updated its contract with CalPERS to reflect these changes.

The City's contributions to the Plan for the measurement period ended June 30, 2018 were $1,021,760.

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

As of June 30, 2019, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of $8,840,661.

The City's net pension liability for the Plan is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The City's proportionate of the net pension liability was based on the City's plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2018 were as follows:

Proportion - June 30, 2017	0.09245%
Proportion - June 30, 2018	0.09174%
Change - Increase (Decrease)	-0.00071%

For the year ended June 30, 2019, the City recognized pension expense of $1,499,425. At June 30, 2019, the City reported deferred outflow of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,128,405	$ -
Changes of assumptions	947,011	190,690
Different between expected and actual experience	248,618	39,810
Changes in employer's proportion	30,931	220,334
Differences between the employer's contributione and the employer's proportionate share of contributions	151,108	-
Net differences between projected and actual earning on plan investments	50,704	-
Total	$ 2,556,777	$ 450,834

$1,128,405 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

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

Fiscal Year Ending June 30:	
2020	855,664
2021	492,413
2022	(298,945)
2023	(71,594)

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return (1)	7.15%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan administrative expenses

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2017 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

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

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

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

Asset Class (a)	New Strategic Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	-0.92
Total	100.00 %		

(a) In the System's CAFR, Fixed Income is included in Global Debt Securities;
Liquidity is included in Short-Term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.00% used for this period.

(c) An expected inflation of 2.92% used for this period.

7. CITY EMPLOYEES' RETIREMENT PLAN, Continued

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

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

1% Decrease		6.15%
Net Pension Liability	$	13,424,395
Current Discount Rate		7.15%
Net Pension Liability	$	8,840,661
1% Increase		8.15%
Net Pension Liability	$	5,070,216

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

Payable to the Pension Plan

At June 30, 2019 the City reported no amount payable for outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

8. HOUSING AND COMMUNITY DEVELOPMENT LOAN PROGRAM

The City uses Housing and Community Development Block Grant funds to provide housing rehabilitation loans and HOME Investment Partnerships Program (HOME) grant funds to provide first-time homebuyer assistance loans and housing rehabilitation loans to eligible applicants. Rehabilitation loans are used to improve, rehabilitate, or replace residences. All loans are made to low and moderate income persons or landlords benefiting these same persons. The City accounts for this program in the Community Development Fund. This fund's primary assets consist of notes receivable from participants, which originated from U.S. Department of Housing and Urban Development (HUD) funds.

9. JOINT VENTURE – SELF-INSURANCE PROGRAM

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

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

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

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

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

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

10. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

A. *Plan Description*

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

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

B. Employees Covered

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

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

C. Contribution

The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on a projected pay-as-you-go financing requirements, with additional amounts to prefund benefits determined annually by the City Council. For the fiscal year ended June 30, 2019, the City contributed $37,872 (including implicit subsidy) and zero to prefund benefits. Plan members receiving benefits contributed no amounts to the total premiums. The General Fund has typically been used to liquidate OPEB liabilities for governmental funds.

D. Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017 using the following actuarial methods and assumptions:

Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.25%
Salaries Increases	3.00%
Mortality (1)	Based on RP-2014 Employee and Healthy Annuitant Mortality Tables
Healthcare Cost Trend Rates	5.00% to 8.00%

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

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

E. Discount Rate

The discount rate used to measure the total OPEB liability was 3.50%. 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.

F. Changes in the Total OPEB Liability

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

	Total OPEB Liability
Balance at June 30, 2018	$ 1,440,641
Service cost	76,602
Interest on the total OPEB liability	58,378
Differences between actual and expected experience	(2,879)
Changes in assumptions	72,921
Benefits paid to retirees	(37,872)
Net changes	167,150
Balance at June 30, 2019	$ 1,607,791

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

The following presents the net OPEB liability of the City if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the measurement period ended June 30, 2019:

1% Decrease	2.50%
Net OPEB Liability	$ 1,810,427
Current Discount Rate	3.50%
Net OPEB Liability	$ 1,607,791
1% Increase	4.50%
Net OPEB Liability	$ 1,429,519

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

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

The following presents the net OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate for the measurement period ended June 30, 2019:

1% Decrease	4.00% to 7.00%
Net OPEB Liability	$ 1,368,004
Current Discount Rate	5.00% to 8.00%
Net OPEB Liability	$ 1,607,791
1% Increase	6.00% to 9.00%
Net OPEB Liability	$ 1,902,077

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

For the year ended June 30, 2019, the City recognized OPEB expense of $136,866. At June 30, 2019, the City reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 899	$ 2,589
Changes in assumptions	65,564	41,898
Total	$ 66,463	$ 44,487

There were no amounts reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Year Ending June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2020	$ 7,471	$ 5,585
2021	7,471	5,585
2022	7,471	5,585
2023	7,471	5,585
2024	7,471	5,585
2025-2028	29,108	16,562
Total	$ 66,463	$ 44,487

11. COMMITMENTS AND CONTINGENCIES

Remediation Liability

The City's Sewer Fund is responsible for the contamination of two water basins at the City's sewer plant. The preliminary cost of the clean-up referred to as the Lindsay Olive Growers (LOG) Pond Closure liability is estimated at $2,570,981. This amount has been accrued as of June 30, 2019. However, additional amounts might be needed in the future in order to clean up the site, and the issue will be reviewed in fiscal year 2019-20 to ascertain if any additional amounts should be accrued.

Contingencies relating to Proposition 218 Noncompliance

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

12. GOING CONCERN

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

The City continues to suffer from a significant deficit fund balance in the General Fund. In addition, the General Fund has a significant advance which represents borrowing from other funds. There are serious doubts about the General Fund ability to repay the advances payable without having a significant impact on the City's operation. The Wellness Fund continues to experience operating losses. The ability of the City to continue as a going concern and meet its obligations as they become due is dependent on the City's ability to develop and implement a plan that will successfully increase cash flows. The financial statements do not include any adjustments that might be necessary if the City is unable to continue as a going concern.

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

13. FUND BALANCE

Detailed classifications of the City's fund balances as of June 30, 2019 are stated below.

	General Fund	Community Development Fund	Local Transportation Fund	Nonmajor Governmental Funds	Total
Fund Balances:					
Restricted for:					
Road construction and maintenance	$ -	$ -	$ 1,722,909	$ 694,342	$ 2,417,251
Community development	-	16,389,696	-	-	16,389,696
Curb and gutter	-	-	-	15,278	15,278
Transit	-	-	-	7,578	7,578
Special assessments	-	-	-	72,842	72,842
Gas tax	-	-	-	444,549	444,549
Unassigned	(4,171,326)	-	-	-	(4,171,326)
Total	$ (4,171,326)	$ 16,389,696	$ 1,722,909	$ 1,234,589	$ 15,175,868

14. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

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

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

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

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

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

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

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

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

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

Successor Agency Long-Term Debt

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

Successor Agency long-term debt activity for the year ended June 30, 2019 was as follows:

Successor Agency Trust Activities	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019	Due Within One Year	Due More than One Year
Bonds payable						
2015 Tax Allocation Refunding Bond	$ 12,285,000	$ -	$ (410,000)	$ 11,875,000	$ 430,000	$ 11,445,000
Total bonds payable	12,680,000	-	(410,000)	11,875,000	430,000	11,445,000
Notes payable						
CalHFA - RDLP Loan	3,136,645	-	(1,122,143)	2,014,502	50,000	1,964,502
Total notes payable	3,136,645	-	(1,122,143)	2,014,502	50,000	1,964,502
Total Successor Agency Trust Activities	$ 15,816,645	$ -	$(1,532,143)	$ 13,889,502	$ 480,000	$ 13,409,502

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

A. *Tax Allocation Bonds Payable*

On June 1, 2015, the Successor Agency refunded the 2005, 2007, and 2008 tax allocation bonds in the amounts of $3,925,000, $6,895,000, and $3,270,000, respectively, with the refunding issue of 2015 in the amount of $13,000,000. The bonds have principal payments each August 1 through 2037 and accrue interest at 3.0% – 5.0%, which is payable semiannually. The bonds are payable solely from pledged tax revenues allocated and paid to the Successor Agency from properties in the project area. As of June 30, 2019, the balance on the bonds was $11,875,000.

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

Year Ended June 30	Principal	Interest	Total
2020	430,000	466,806	896,806
2021	435,000	449,606	884,606
2022	465,000	427,856	892,856
2023	485,000	404,606	889,606
2024	510,000	380,356	890,356
2025-2029	2,895,000	1,589,531	4,484,531
2030-2034	3,420,000	1,032,925	4,452,925
2035-2038	3,235,000	330,200	3,565,200
Total	$ 11,875,000	$ 5,081,886	$ 16,956,886

B. *Notes Payable*

On August 7, 2007, the Agency entered into a loan agreement with CalHFA for the purpose of assisting the Agency in operating a local housing program through the CalHFA Residential Development Loan Program (RDLP). The loan is in the amount of $3,690,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 5 years from date of the note. On August 21, 2015, the Successor Agency obtained a third amendment to the original loan extending the unpaid balance due date to May 7, 2021 with 0% interest; no future interest accrual. As of June 30, 2019, there remained an unpaid balance due on the CalHFA - RDLP loan of $2,014,502.

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

Year Ending June 30,	Principal	Interest	Total
2020	$ 50,000	$ -	$ 50,000
2021	1,964,502	-	1,964,502
Total	$ 2,014,502	$ -	$ 2,014,502

15. NON-COMPLIANCE WITH GRANTS RULES AND REGULATIONS

A. HUD

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

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

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

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

15. NON-COMPLIANCE WITH GRANTS RULES AND REGULATIONS Continued

A. HUD, Continued

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

B. Caltrans

Issue #1 (Corrected): Caltrans provides state funding for construction projects. The City did multiple projects in the 2000's. Caltrans alleged the City did not properly account for Downtown project and the Safe Routes to School project, and it demanded repayment of approximately $1,000,000. Following negotiations, in 2019 the City accepted a settlement offer from Caltrans for repayment in the amount of $349,032 to be paid in equal installments over a 7-year term (see Note 6). The City believes this settlement reduced the demanded amount to a manageable level.

16. PRIOR PERIOD ADJUSTMENTS

The City recorded a prior period adjustment to correct prior year's error in calculation of Street Improvement Program revenue and return amount overallocated to the Water Fund, Sewer Fund and Refuse Fund as of June 30, 2018.

Government-wide Statements

		Prior Period Adjustments		
	Net Position as Previously Reported	Cash	Receivables	Net Position as Restated
Governmental Activities	$ 29,440,785	$ (200,268)	$ (6,521)	$ 29,233,996
Business-type Activities	$ 31,289,879	$ 200,268	$ 6,521	$ 31,496,668

16. PRIOR PERIOD ADJUSTMENTS, Continued

Fund Financial Statements

	Fund Balance as Previously Reported	Prior Period Adjustments: Cash	Prior Period Adjustments: Receivables	Fund Balance as Restated
Governmental Funds				
General Fund	$ (5,667,736)	$ (200,269)	$ (6,520)	$ (5,874,525)
Enterprise Funds				
Water Fund	$ 6,240,234	$ 72,641	$ 4,108	$ 6,316,983
Sewer Fund	$ 2,016,021	$ 73,206	$ 943	$ 2,090,170
Refuse Fund	$ (153,189)	$ 54,421	$ 1,470	$ (97,298)

18. SPECIAL ITEMS

During the year ended June 30, 2019, City management determined that the McDermont Sports Complex Fund's allocated share of net pension liability and related balances were more properly those of the General Fund's as there have been no City employees staffing the McDermont Sports Complex since fiscal year 2017-18 and no plans for the fund to cover pension costs related to previous years' employees. The City recognized the transfer of pension related balances as a special item on the accompanying Statement of Activities.

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REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETS AND BUDGETARY ACCOUNTING

A. Budgetary Control and Budgetary Accounting

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

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

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

City of Lindsay
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the year ended June 30, 2019

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

B. Budgetary Comparision Schedules

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Property taxes	$ 369,400	$ 369,400	$ 358,297	$ (11,103)
Sales taxes	857,100	857,100	1,136,941	279,841
Measure O taxes	884,500	884,500	1,142,618	258,118
Utilities users' taxes	834,800	834,800	923,901	89,101
Other taxes	1,293,200	1,293,200	1,250,143	(43,057)
Street improvement program	1,113,100	1,113,100	872,016	(241,084)
Licenses and permits	273,200	273,200	217,921	(55,279)
Intergovernmental	102,300	102,300	193,779	91,479
Charges for services	19,700	19,700	8,009	(11,691)
Fees and fines	173,400	173,400	169,157	(4,243)
Interest revenue	900	900	8,598	7,698
Other revenues	187,700	187,700	1,223,850	1,036,150
Total revenues	6,109,300	6,109,300	7,505,230	1,395,930
EXPENDITURES:				
Current:				
General Government	942,512	942,512	806,866	135,646
Public safety	2,774,318	2,774,318	2,595,845	178,473
Parks and recreation	229,071	229,071	196,586	32,485
Public works	522,001	522,001	532,450	(10,449)
Streets and transportation	460,456	460,456	250,430	210,026
Community development	42,785	42,785	181,168	(138,383)
Debt service:				
Principal	258,800	258,800	78,577	180,223
Interest and administrative charges	98,250	98,250	58,591	39,659
Capital outlay	3,561,400	3,561,400	2,743,045	818,355
Total expenditures	8,889,593	8,889,593	7,443,558	1,446,035
REVENUES OVER (UNDER) EXPENDITURES	(2,780,293)	(2,780,293)	61,672	2,841,965
OTHER FINANCING SOURCES (USES):				
Proceeds from capital leases	-	-	725,821	725,821
Transfers in	784,900	784,900	1,176,733	391,833
Transfers out	(86,300)	(86,300)	(261,027)	(174,727)
Total other financing sources (uses)	1,641,527	698,600	1,641,527	942,927
Net change in fund balances	$ (1,138,766)	$ (2,081,693)	1,703,199	$ 3,784,892
FUND BALANCES (DEFICITS):				
Beginning of year			(5,667,736)	
Prior period adjustments			(206,789)	
End of year			$ (4,171,326)	

City of Lindsay
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Local Transportation Fund
For the year ended June 30, 2019

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

B. Budgetary Comparision Schedules, Continued

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 677,000	$ 677,000	1,136,566	$ 459,566
Interest revenue	400	400	5,794	5,394
Total revenues	677,400	677,400	1,142,360	464,960
EXPENDITURES:				
Current:				
Streets and transportation	-	-	8,578	(8,578)
Debt service:				
Principal	-	-	76,065	(76,065)
Interest and administrative charges	-	-	45,125	(45,125)
Capital outlay	-	-	12,483	(12,483)
Total expenditures	-	-	142,251	(142,251)
REVENUES OVER (UNDER) EXPENDITURES	677,400	677,400	1,000,109	322,709
OTHER FINANCING SOURCES (USES):				
Transfers out	(530,000)	(530,000)	(879,011)	(349,011)
Total other financing sources (uses)	(879,011)	(530,000)	(879,011)	(349,011)
Net change in fund balances	$ (201,611)	$ 147,400	121,098	$ (26,302)
FUND BALANCES (DEFICITS):				
Beginning of year			1,601,811	
End of year			$ 1,722,909	

2. DEFINED BENEFIT PENSION PLANS

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

Fiscal year:	2019	2018	2017	2016	2015
Measurement date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.09174%	0.09245%	0.09544%	0.09929%	0.09999%
Proportionate share of the net pension liability	$ 8,840,661	$ 9,168,480	$ 8,258,639	$ 6,695,057	$ 6,216,207
Covered payroll	$ 2,572,760	$ 2,907,772	$ 2,689,271	$ 2,799,950	$ 2,769,950
Proportionate share of the net pension liability as a percentage of covered payroll	343.63%	315.31%	307.10%	239.11%	224.42%
Plan's share of fiduciary net position as a percentage of total net pension liability	75.26%	73.31%	74.06%	78.40%	79.82%

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

B. Schedule of Contributions - Last 10 Years

Fiscal year:	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 1,128,405	$ 1,021,760	$ 1,207,603	$ 726,038	$ 700,907
Contractually in relation to the actuarially determined contributions	(1,128,405)	(1,021,760)	(1,207,603)	(726,038)	(700,907)
Contributions deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 2,385,716	2,572,760	2,907,772	2,689,271	2,799,950
Contributions as a percentage of covered payroll	47.30%	39.71%	41.53%	27.00%	25.03%

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

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Fiscal Year:	2019	2018
Changes in the year:		
Service cost	$ 76,602	$ 79,370
Interest on the total pension liability	58,378	52,405
Differences between actual and expected experience	(2,879)	1,127
Changes in assumptions	72,921	(52,488)
Benefits paid to retirees	(37,872)	(31,041)
Net changes	167,150	49,373
Total OPEB Liability - beginning of the year	$ 1,440,641	$ 1,391,268
Total OPEB Liability - end of the year	$ 1,607,791	$ 1,440,641
Covered employee payroll	$ 2,637,580	$ 2,560,757
City's total OPEB Liability as a percentage of covered employee payroll	60.96%	56.26%

SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

CAPITAL PROJECT FUND

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

City of Lindsay
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2019

	Special Revenue			Capital Projects	
	Special Assessment Districts	Gas Tax	Transit	Curb and Gutter	Total Non-Major Governmental Funds
ASSETS					
Cash and cash equivalents	$ 84,527	$ 997,660	$ 7,578	$ 9,552	$ 1,099,317
Accounts receivable, net	-	1,117	-	562	1,679
Due from other governments	373	188,132	-	-	188,505
Notes receivable	-	-	-	5,164	5,164
Total assets	$ 84,900	$ 1,186,909	$ 7,578	$ 15,278	$ 1,294,665
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	12,058	42,986	-	-	55,044
Accrued wages	-	5,032	-	-	5,032
Total liabilities	12,058	48,018	-	-	60,076
Fund Balances:					
Restricted	72,842	1,138,891	7,578	15,278	1,234,589
Total fund balances	72,842	1,138,891	7,578	15,278	1,234,589
Total liabilities and fund balances	$ 84,900	$ 1,186,909	$ 7,578	$ 15,278	$ 1,294,665

City of Lindsay
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2019

	Special Revenue			Capital Projects	
	Special Assessment Districts	Gas Tax	Transit	Curb and Gutter	Total Non-Major Governmental Funds
REVENUES:					
Other taxes	$ 72,482	$ -	$ -	$ -	$ 72,482
Intergovernmental	-	794,040	-	-	794,040
Fees and fines	-	-	340	-	340
Interest revenue	-	3,078	-	-	3,078
Other revenues	-	-	-	462	462
Total revenues	72,482	797,118	340	462	870,402
EXPENDITURES:					
Current:					
General Government	73,984	-	-	-	73,984
Streets and transportation	-	295,119	-	-	295,119
Capital outlay	-	56,756	-	-	56,756
Total expenditures	73,984	351,875	-	-	425,859
REVENUES OVER (UNDER) EXPENDITURES	(1,502)	445,243	340	462	444,543
OTHER FINANCING SOURCES (USES):					
Transfers out	-	(78,000)	-	-	(78,000)
Total other financing sources (uses)	-	(78,000)	-	-	(78,000)
Net change in fund balances	(1,502)	367,243	340	462	366,543
FUND BALANCES (DEFICITS):					
Beginning of year	74,344	771,648	7,238	14,816	868,046
End of year	$ 72,842	$ 1,138,891	$ 7,578	$ 15,278	$ 1,234,589

BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lindsay, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 2019.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2019-001 and 2019-002 in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as items 2019-03 and 2019-04 in the accompanying schedule of findings and responses to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-002.

City's Response to Findings

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

Purpose of this Report

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

Badawi & Associates

Badawi and Associates
Certified Public Accountants
Berkeley, California
December 20, 2019

FINDINGS - FINANCIAL STATEMENTS AUDIT

2019-001 – Deficit Fund Balance in the General fund and the Ability of the City to Continue as a Going Concern (Material Weakness)

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

Condition:
The General Fund had a deficit fund balance of $(4,171,236) as of June 30, 2019. The General Fund owed internally to the Community Development Fund in the amount of $2,583,360. This interfund loan was made in prior years so that the General Fund could sustain its basic operations.

The Wellness Center Fund continues to experience operating losses. Operating losses for the year ended June 30, 2019 for the Wellness Center Fund was $(476,008).

The multiple aforementioned conditions have raised substantial doubt about the City's ability to continue as a going concern, as further described in Note 12 to the Basic Financial Statements.

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

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

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

Management Response:
First, the City's recovery is going to take many years. The City has opened the City to retail cannabis. It is also exploring options for other commercial and industrial development. It will take a multi-pronged approach and successful negotiations to resolve the lingering deficit. Second, it is important for the reader, particularly those not versed in financial reports, to understand the loss at McDermont and the Wellness Center are not cash losses. These losses are due to depreciation not what most would think of when they read the word operations.

2019-002 – Noncompliance with Laws, Regulations, Contract and Grants (Material Weakness)

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

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

- Borrowing of grant funds for the City's general operations. Between 2008 and 2017, the City experienced annual deficits in its General Fund, McDermont Sports Complex Fund and the Wellness Center Fund. In order to fund the overspending, the City borrowed grant funds from Housing and Community Development (HCD) programs which amounted to $2,583,360 as of June 30, 2019.
- Prior to 2011, the City authorized home loans through the HCD program to some City employees and relatives of employees who did not qualify for the program. The loans amounted to $1,008,741 as of June 30, 2019.
- Prior to 2011, HCD grant funds not spent in accordance with grant agreement. The State believe that the City spent $900,000 not in accordance with the grant guidelines.
- Prior to July 1, 2017, the City's General Fund had borrowed against utility funds that are restricted by Proposition 218 to be used to cover the cost of providing such utility services and benefit the rate payer. The City subsequently formalized such borrowing by approving interfund loan agreements that specified repayment terms for each borrowing. The City now has subsequently passed a resolution forgiving these loans, and is now noncompliant with Proposition 218. In effect, the restricted rate payer moneys were used to pay for activities other than their intended purposes.

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

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

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

Management Response:
As the condition section outlines, the overspending happened years in the past. Council, Management, and Finance recognized the borrowing as loans to record which funds borrowed from which funds in years past. The borrowing in prior years was too great for the City to be able to repay and to continue to provide public safety and basic services to the community today, so Council authorized the conversion of the advances to transfers to record the reality of the City's financial situation. It would have been unethical and a misrepresentation of reality to keep the advances on the financial reports if there was no realistic possibility of those advances being repaid.

Converting the loans to transfers violated Proposition 218 but not doing it would have been a misrepresentation of the City's financials. Having to choose, the Council chose transparency and integrity by converting the loans to transfers.

2019-003 – Restatement of Previously Issued Financial Statements (Significant Deficiency)

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

Condition:
The City recorded a prior period adjustment to correct an in calculation of Street Improvement Program revenue.

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

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

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

Management Response:
There was a programming error in a calculation table for many years. Staff caught the error and immediately addressed it with Council. It required a prior period adjustment to be transparent and accurate. The City recognizes the importance of internal controls. This is an example of internal controls identifying an error and correcting it.

2019-004 – Control Over Accounts Receivable (Significant Deficiency)

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

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

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

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

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

Management Response:
The City addressed this issue with its accounting software vendor. The City pursued a system upgrade to resolve the issue but found the upgrade too expensive by more than $100,000. The City will investigate options.

PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS AUDIT

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

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

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

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

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

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

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

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

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

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

Status:
Not implemented, see 2019-001.

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

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

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

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

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

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

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

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

Status:
Not implemented, see 2019-002.

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

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

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

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

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

Recommendation:
We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures

to ensure that all non-routine and nonsystematic transactions are accounted for, the appropriate accounting standards are applied, and transactions are accounted for in the proper period.

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

Status:
Not implemented, see 2019-003.

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

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

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

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

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

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

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

Status:
Not implemented, see 2019-004.