

CITY OF MT. SHASTA
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

CITY OF MT. SHASTA

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CITY OF MT. SHASTA

CITY OFFICIALS
As of June 30, 2018

CITY COUNCIL

Kathy Morter	Mayor
Timothy Stearns	Council Member
Barbara Wagner	Council Member
Paul Engstrom	Council Member
John Stackfleth	Council Member

ADMINISTRATIVE OFFICERS

Bruce Pope	City Manager
Muriel Howarth Terrell	Finance Director
John Kennedy	City Clerk
Rhonda Boss-Monaghan	City Treasurer
Parish Cross	Chief of Police
Matt Melo	Fire Chief
Rod Bryan	Public Works Director
John Kenny	City Attorney



INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Mt. Shasta, California as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the budgetary comparison information on page 33 and cost-sharing multiple employer defined benefit pension plan information on pages 34 and 35 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.

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

The combining nonmajor fund financial statements on pages 36 and 37 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 nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2019, on our consideration of the City of Mt. Shasta, California'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 City of Mt. Shasta, California's internal control over financial reporting and compliance.



Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 6, 2019



BASIC FINANCIAL STATEMENTS

City of Mt. Shasta
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 2,796,332	\$ 1,802,922	\$ 4,599,254
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	242,837	242,837
Interest	4,818	9,524	14,342
Taxes, TOT and sales	375,179	-	375,179
Intergovernmental	165,846	502,448	668,294
Assessments and other	50,354	-	50,354
Total current assets	<u>3,392,529</u>	<u>2,557,731</u>	<u>5,950,260</u>
Noncurrent assets:			
Loans receivable	744,048	-	744,048
Non-depreciable capital assets	869,863	1,703,875	2,573,738
Depreciable capital assets, net	7,768,014	13,783,301	21,551,315
Total noncurrent assets	<u>9,381,925</u>	<u>15,487,176</u>	<u>24,869,101</u>
Total assets	<u>12,774,454</u>	<u>18,044,907</u>	<u>30,819,361</u>
DEFERRED OUTFLOWS			
Pension related deferred outflows	<u>1,029,835</u>	<u>140,924</u>	<u>1,170,759</u>
LIABILITIES			
Current liabilities:			
Accounts payable	203,219	246,329	449,548
Accrued liabilities	124,984	10,783	135,767
Deposits	-	96,423	96,423
Unearned revenue	84,652	-	84,652
Current portion of long-term debt	-	37,284	37,284
Current portion of compensated absences	122,445	23,266	145,711
Total current liabilities	<u>535,300</u>	<u>414,085</u>	<u>949,385</u>
Long-term liabilities:			
Long-term debt, net of current portion	-	990,412	990,412
Compensated absences, net of current portion	30,612	5,817	36,429
Net pension liability	3,208,916	451,409	3,660,325
Total long-term liabilities	<u>3,239,528</u>	<u>1,447,638</u>	<u>4,687,166</u>
Total liabilities	<u>3,774,828</u>	<u>1,861,723</u>	<u>5,636,551</u>
DEFERRED INFLOWS			
Pension related deferred inflows	<u>310,690</u>	<u>50,089</u>	<u>360,779</u>
NET POSITION			
Net investment in capital assets	8,637,877	14,459,480	23,097,357
Restricted	2,061,925	506,102	2,568,027
Unrestricted	(981,031)	1,308,437	327,406
Total net position	<u>\$ 9,718,771</u>	<u>\$ 16,274,019</u>	<u>\$ 25,992,790</u>

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

City of Mt. Shasta
Statement of Activities
Year Ended June 30, 2018

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
General administration	\$ 678,679	\$ 105,787	\$ 15,230	\$ -	\$ (557,662)	\$ -	\$ (557,662)
Public safety	1,844,515	243,031	139,416	-	(1,462,068)	-	(1,462,068)
Public works - administration	56,692	51,304	-	-	(5,388)	-	(5,388)
Public works - streets & roads	1,231,821	-	293,276	-	(938,545)	-	(938,545)
Public works - building & central garage	349,419	-	-	-	(349,419)	-	(349,419)
Community development	367,818	29,292	9,003	-	(329,523)	-	(329,523)
Library	184,151	-	-	-	(184,151)	-	(184,151)
Interest on long-term debt	409	-	-	-	(409)	-	(409)
Total governmental activities	<u>4,713,504</u>	<u>429,414</u>	<u>456,925</u>	<u>-</u>	<u>(3,827,165)</u>	<u>-</u>	<u>(3,827,165)</u>
Business-type activities:							
Water	917,835	592,373	-	647,603	-	322,141	322,141
Sewer	1,096,899	1,073,025	-	560,970	-	537,096	537,096
Garbage	625,714	641,450	-	-	-	15,736	15,736
Drainage	40,596	25,253	-	-	-	(15,343)	(15,343)
Total business-type activities	<u>2,681,044</u>	<u>2,332,101</u>	<u>-</u>	<u>1,208,573</u>	<u>-</u>	<u>859,630</u>	<u>859,630</u>
Total government	<u>\$ 7,394,548</u>	<u>\$ 2,761,515</u>	<u>\$ 456,925</u>	<u>\$ 1,208,573</u>	<u>(3,827,165)</u>	<u>859,630</u>	<u>(2,967,535)</u>
General revenues:							
Taxes:							
Property					533,365	-	533,365
Sales & use taxes					1,855,947	-	1,855,947
Transient occupancy tax					764,137	-	764,137
Other					222,539	-	222,539
Investment earnings					14,607	8,802	23,409
Total general revenues					<u>3,390,595</u>	<u>8,802</u>	<u>3,399,397</u>
Change in net position					<u>(436,570)</u>	<u>868,432</u>	<u>431,862</u>
Net position, beginning of the year, as originally stated					9,858,341	15,188,559	25,046,900
Prior period adjustment					297,000	217,028	514,028
Net position, beginning of the year, as restated					<u>10,155,341</u>	<u>15,405,587</u>	<u>25,560,928</u>
Net position, ending					<u>\$ 9,718,771</u>	<u>\$ 16,274,019</u>	<u>\$ 25,992,790</u>

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

City of Mt. Shasta
Balance Sheet- Governmental Funds
and
Reconciliation of Total Governmental Fund Balance to the Statement of Net Position - Governmental Activities
June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 1,102,110	\$ 1,694,222	\$ 2,796,332
Receivables (net of allowance for bad debts, where applicable):			
Loans	-	744,048	744,048
Interest	2,447	2,371	4,818
Taxes, TOT and sales	331,342	43,837	375,179
Intergovernmental	94,064	71,782	165,846
Special assessments	26,729	-	26,729
Prepaid expenses	23,625	-	23,625
Due from other funds	45,434	-	45,434
Total assets	\$ 1,625,751	\$ 2,556,260	\$ 4,182,011
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 142,750	\$ 60,469	\$ 203,219
Accrued liabilities	124,984	-	124,984
Due to other funds	-	45,434	45,434
Unearned revenue	79,515	5,137	84,652
Total liabilities	347,249	111,040	458,289
Fund balance:			
Nonspendable	25,000	-	25,000
Restricted	-	2,061,925	2,061,925
Committed	119,262	-	119,262
Assigned	-	387,950	387,950
Unassigned	1,134,240	(4,655)	1,129,585
Total fund balance	1,278,502	2,445,220	3,723,722
Total liabilities and fund balance	\$ 1,625,751	\$ 2,556,260	\$ 4,182,011
Total governmental fund balance, as above			\$ 3,723,722
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the balance sheet			8,637,877
Pension liabilities are not due and payable in the current period and therefore are not reported on the balance sheet			(3,208,916)
Compensated absences are not due and payable in the current period and therefore not reported in the balance sheet			(153,057)
Deferred outflows and inflows are not receivable or due and payable in the current period and therefore are not reported on the balance sheet			719,145
Net position of governmental activities			\$ 9,718,771

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

City of Mt. Shasta
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 533,365	\$ -	\$ 533,365
Sales and use taxes	1,600,085	422,720	2,022,805
Transient occupancy tax	764,137	-	764,137
Assessments	-	82,930	82,930
Franchises	72,426	-	72,426
Licenses and permits	33,361	-	33,361
Intergovernmental revenues	15,320	447,352	462,672
Charges for services	214,952	-	214,952
Fines, forfeitures and penalties	15,352	-	15,352
Use of money and property	5,772	8,835	14,607
Other and administrative	49,934	10,393	60,327
Total revenues	3,304,704	972,230	4,276,934
EXPENDITURES			
Current:			
City council	30,248	-	30,248
City administration	136,750	-	136,750
City clerk	11,822	-	11,822
Finance and personnel	181,917	-	181,917
City attorney	44,737	-	44,737
Fire protection	550,626	-	550,626
Police protection	818,302	70,532	888,834
Public safety dispatching	248,892	-	248,892
Animal regulation - code enforcement	40,199	-	40,199
Planning	102,418	-	102,418
Public works - administration	56,692	-	56,692
Public works - streets & roads	284,559	173,835	458,394
Public works - building & grounds	302,908	-	302,908
Public transportation	-	159,861	159,861
Insurance	137,710	-	137,710
Community development	121,242	246,576	367,818
Library	-	184,151	184,151
Other	218,284	-	218,284
Capital outlay	59,260	516,984	576,244
Debt service:			
Interest	-	409	409
Total expenditures	3,346,566	1,352,348	4,698,914
Excess (deficiency) of revenues over (under) expenditures	(41,862)	(380,118)	(421,980)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	157,290	13,249	170,539
Operating transfers out	-	(170,539)	(170,539)
Total other financing sources (uses)	157,290	(157,290)	-
Net change in fund balance	115,428	(537,408)	(421,980)
FUND BALANCE			
Beginning of the year, as originally stated	927,507	2,921,195	3,848,702
Prior period adjustment	235,567	61,433	297,000
Beginning of the year, as restated	1,163,074	2,982,628	4,145,702
End of the year	\$ 1,278,502	\$ 2,445,220	\$ 3,723,722

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

City of Mt. Shasta
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance-Governmental Funds
 to the Statement of Activities-Governmental Activities
 For The Year Ended June 30, 2018

Change in fund balance, governmental funds	\$ (421,980)
Amount reported for governmental activities in the Statement of Activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expense (\$576,244) exceeds depreciation expense (\$761,322) in the current period.	(185,078)
Government funds do not report the loss on disposal of assets as an expenditure, but it is reported in the Statement of Activities	(33,251)
Government funds do not report the change in compensated absences as revenue or expenditure, but it is reported in the Statement of Activities	(14,622)
Governmental funds do not report the changes of unfunded pension obligations but it is reported in the Statement of Activities	<u>218,361</u>
Change in net position, governmental activities	<u><u>\$ (436,570)</u></u>

City of Mt. Shasta
Statement of Net Position
Proprietary Funds
June 30, 2018

	Water	Sewer	Garbage	Drainage	Total Enterprise Funds
ASSETS					
Current assets:					
Cash and investments	\$ 1,004,822	\$ 391,927	\$ 272,211	\$ 133,962	\$ 1,802,922
Receivables (net of allowances for bad debts, where applicable):					
Trade accounts	60,891	119,013	62,758	175	242,837
Intergovernmental	171,667	330,781	-	-	502,448
Interest	2,378	6,235	612	299	9,524
Total current assets	<u>1,239,758</u>	<u>847,956</u>	<u>335,581</u>	<u>134,436</u>	<u>2,557,731</u>
Noncurrent assets:					
Non-depreciable capital assets	588,617	1,115,258	-	-	1,703,875
Depreciable capital assets, net	7,288,530	5,726,459	-	768,312	13,783,301
Total noncurrent assets	<u>7,877,147</u>	<u>6,841,717</u>	<u>-</u>	<u>768,312</u>	<u>15,487,176</u>
Total assets	<u>9,116,905</u>	<u>7,689,673</u>	<u>335,581</u>	<u>902,748</u>	<u>18,044,907</u>
DEFERRED OUTFLOWS					
Pension related deferred outflows	69,131	69,891	-	1,902	140,924
LIABILITIES					
Current liabilities:					
Accounts payable	67,040	162,798	16,491	-	246,329
Accrued liabilities	4,884	5,799	-	100	10,783
Deposits	21,158	75,265	-	-	96,423
Current portion of long-term debt	-	37,284	-	-	37,284
Current portion of compensated absences	8,174	15,092	-	-	23,266
Total current liabilities	<u>101,256</u>	<u>296,238</u>	<u>16,491</u>	<u>100</u>	<u>414,085</u>
Long-term liabilities:					
Long-term debt, net of current portion	-	990,412	-	-	990,412
Compensated absences, net of current port	2,044	3,773	-	-	5,817
Net pension liability	221,442	223,878	-	6,089	451,409
Total long-term liabilities	<u>223,486</u>	<u>1,218,063</u>	<u>-</u>	<u>6,089</u>	<u>1,447,638</u>
Total liabilities	<u>324,742</u>	<u>1,514,301</u>	<u>16,491</u>	<u>6,189</u>	<u>1,861,723</u>
DEFERRED INFLOWS					
Pension related deferred inflows	24,572	24,842	-	675	50,089
NET POSITION					
Net investment in capital assets	7,877,147	5,814,021	-	768,312	14,459,480
Restricted	-	467,463	-	38,639	506,102
Unrestricted	959,575	(61,063)	319,090	90,835	1,308,437
Total net position	<u>\$ 8,836,722</u>	<u>\$ 6,220,421</u>	<u>\$ 319,090</u>	<u>\$ 897,786</u>	<u>\$ 16,274,019</u>

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

City of Mt. Shasta
Statement of Revenues, Expenses and Changes in Net position
Proprietary Funds
For The Year Ended June 30, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Drainage</u>	<u>Total Enterprise Funds</u>
<u>OPERATING REVENUES</u>					
User fees and charges	\$ 592,373	\$ 1,073,025	\$ 641,450	\$ 25,253	\$ 2,332,101
<u>OPERATING EXPENSES</u>					
Cost of power and water	10,314	106,168	-	-	116,482
Maintenance, operations and administration	579,319	692,885	625,714	18,273	1,916,191
Depreciation and amortization	328,202	260,668	-	22,323	611,193
Total operating expenses	<u>917,835</u>	<u>1,059,721</u>	<u>625,714</u>	<u>40,596</u>	<u>2,643,866</u>
Operating income (loss)	<u>(325,462)</u>	<u>13,304</u>	<u>15,736</u>	<u>(15,343)</u>	<u>(311,765)</u>
<u>NON OPERATING REVENUES (EXPENSES)</u>					
Investment income	3,227	2,808	1,849	918	8,802
Interest expense	-	(37,178)	-	-	(37,178)
Total non operating revenues (expenses)	<u>3,227</u>	<u>(34,370)</u>	<u>1,849</u>	<u>918</u>	<u>(28,376)</u>
Income before capital contributions	<u>(322,235)</u>	<u>(21,066)</u>	<u>17,585</u>	<u>(14,425)</u>	<u>(340,141)</u>
Capital contributions	<u>647,603</u>	<u>560,970</u>	<u>-</u>	<u>-</u>	<u>1,208,573</u>
Change in net position	<u>325,368</u>	<u>539,904</u>	<u>17,585</u>	<u>(14,425)</u>	<u>868,432</u>
<u>NET POSITION</u>					
Beginning of the year, as originally stated	8,453,163	5,574,980	248,205	912,211	15,188,559
Prior period adjustment	58,191	105,537	53,300	-	217,028
Beginning of the year, as restated	<u>8,511,354</u>	<u>5,680,517</u>	<u>301,505</u>	<u>912,211</u>	<u>15,405,587</u>
End of the year	<u>\$ 8,836,722</u>	<u>\$ 6,220,421</u>	<u>\$ 319,090</u>	<u>\$ 897,786</u>	<u>\$ 16,274,019</u>

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

City of Mt. Shasta
Statement of Cash Flows
For The Year Ended June 30, 2018

	Water	Sewer	Garbage	Drainage	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 603,779	\$ 1,061,387	\$ 641,573	\$ 25,242	\$ 2,331,981
Payments to suppliers	(545,037)	(559,442)	(625,613)	(10,921)	(1,741,013)
Payments to employees (including employee benefits)	(172,116)	(173,009)	-	(7,713)	(352,838)
Net cash provided (used) by operating activities	<u>(113,374)</u>	<u>328,936</u>	<u>15,960</u>	<u>6,608</u>	<u>238,130</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants	930,592	475,788	-	-	1,406,380
Purchase of fixed assets	(670,885)	(569,402)	-	-	(1,240,287)
Principal payments on debt	-	(36,109)	-	-	(36,109)
Interest payments on debt	-	(37,178)	-	-	(37,178)
Net cash provided (used) by capital and related financing activities	<u>259,707</u>	<u>(166,901)</u>	<u>-</u>	<u>-</u>	<u>92,806</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	<u>3,227</u>	<u>2,808</u>	<u>1,849</u>	<u>918</u>	<u>8,802</u>
Net increase in cash	149,560	164,843	17,809	7,526	339,738
CASH					
Beginning of the year	<u>855,262</u>	<u>227,084</u>	<u>254,402</u>	<u>126,436</u>	<u>1,463,184</u>
End of the year	<u>\$ 1,004,822</u>	<u>\$ 391,927</u>	<u>\$ 272,211</u>	<u>\$ 133,962</u>	<u>\$ 1,802,922</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:					
Operating income (loss)	\$ (325,462)	\$ 13,304	\$ 15,736	\$ (15,343)	\$ (311,765)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:					
Depreciation and amortization	328,202	260,668	-	22,323	611,193
(Increase) decrease in trade accounts receivable	2,094	(12,503)	123	(11)	(10,297)
(Increase) in deferred outflows of resources related to pensions	(33,708)	(34,079)	-	(928)	(68,715)
Increase (decrease) in accounts payable	(110,603)	88,565	101	-	(21,937)
(Decrease) in accrued liabilities	(2,733)	(8,430)	-	(9)	(11,172)
Increase in deposits	9,312	865	-	-	10,177
(Decrease) in compensated absences	(1,457)	(666)	-	-	(2,123)
Increase in pension liability	27,899	28,207	-	767	56,873
(Decrease) in deferred inflows of resources related to pensions	(6,918)	(6,995)	-	(191)	(14,104)
Net cash provided (used) by operating activities	<u>\$ (113,374)</u>	<u>\$ 328,936</u>	<u>\$ 15,960</u>	<u>\$ 6,608</u>	<u>\$ 238,130</u>

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

City of Mt. Shasta
Statement of Fiduciary Net Position
Agency Funds
June 30, 2018

	Beautification Endowment Fund	Public Works Reimbursable Fund	Total Agency Funds
<u>ASSETS</u>			
Cash and investments	\$ 3,095	\$ 18,101	\$ 21,196
<u>LIABILITIES</u>			
Agency obligations	\$ 3,095	\$ 18,101	\$ 21,196

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City operates under City Manager - City Council form of government and provides the following services: public safety, streets and roads, library, water, sewer, sanitation and drainage, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental entities.

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

B. Basis of Presentation

The financial statement presentation required by GASB provides a comprehensive, entity -wide perspective of the City's overall financial position and results of operations while maintaining the presentation of the financial position, results of operations and cash flows, as applicable, of the City's major funds.

Government-wide Financial Statements:

The statement of net position and statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities are reported separately from business-type activities (such as water, sewer, garbage and drainage).

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements:

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

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

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

The funds of the City are described below:

Major Governmental Fund:

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

Major Proprietary Funds:

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

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

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

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

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

Additionally, the City reports the following non-major funds:

Business Improvement Fund: Accounts for proceeds from special business improvement area tax funded through downtown City businesses that primarily provides parking.

Fire Assessment Fund: Established to account for fire suppression equipment acquisition, as financed by fire suppression assessments levied on property owners, as well as from monies provided by the general fund.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Development Impact Fund: Established to account for the collection of impact fees that are to ensure that new development projects contribute their share to the orderly development of infrastructure necessary to accommodate the anticipated growth of the community.

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

Transportation Project Fund: Established to account for transportation projects funded through various funding sources. In the current year, this fund is recognizing the Safe Routes to School and Bicycling Transportation projects.

COPS Fund: Accounts for State public safety grant funded through the State of California.

Community Public Safety Enhancement Fund: Accounts for the community enhancement program which contributes to public safety which is run through the police department and funded from public donations.

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

Springhill Assessment Fund: Accounts for sewer main line trunk extension funded by property owners.

Community Development Project Income Fund: Accounts for the financing of home rehabilitation, job creation and retention, community public works and planning activities to support community and economic development as financed by monies passed through the State by the federal government.

Economic Enhancement Fund: Established to account from excess CDBG program income that would not be used for CDBG regulated expenditures. The de-federalized dollars are intended to be used to provide economic development within the City.

Special Projects Grant Fund: Established to account for the environmental assessments of Brownfield Sites funded through the U.S. Environmental Protection Agency.

Library Fund: Established to account for the operation of the City's Library which is funded through an additional .25% sales tax on sales within the city limits of Mt. Shasta.

Other Special Revenue Fund: Includes activity in the Beautification Projects, FEMA, and Fire Training funds.

Agency Funds:

Accounts for assets held by the City as a trustee or as an agent for individuals or other government units. Agency funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The City has two funds that are agency funds. The Beautification Endowment Fund accounts for donations from the public for city wide beautification projects. The Public Works Reimbursable Fund accounts for deposits from city residents for future public works projects.

C. Measurement Focus and Basis of Accounting:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus:

In the government-wide statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate.

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

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

Fiduciary (agency) funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting:

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

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

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, including fees, fines and forfeitures, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenues include all taxes.

D. Assets, Liabilities, Net Position or Fund Equity

Cash and Cash Equivalents:

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

Investments:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables:

In the fund financial statements, material receivables in governmental funds are the same as those in the government-wide statements, since they are both measurable and available. Interest earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end but not yet received. Allowances for uncollectible accounts receivable are based on historical trends, periodic aging of accounts receivable, and management's detailed analysis of the composition of accounts receivable. Management has determined all receivables are fully collectable.

Property Taxes:

The County of Siskiyou assesses, bills, and collects property taxes for the City. The County remits the property taxes to the City when the taxes are collected and the allocation has been determined. Property taxes attach as an enforceable lien as of January 1st and are due November 1 and February 1 (secured), and July 1 (unsecured).

The City participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan." The *California Revenue and Taxation Code* allows counties to distribute secured real property, assessment, and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments and related penalties and interest during a fiscal year will revert to Siskiyou County. The Teeter Plan payment is included in property tax revenue.

Interfund Receivables and Payables:

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These may include amounts relating to goods and services type transactions, and interfund loans. Short-term activities are reported as due to/due from other funds. Long-term interfund loans are shown as advances to or advances from other funds in the government-wide financial statements.

Capital Assets:

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

In the government-wide financial statements, property, plant, equipment and infrastructure assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. Items with a cost of \$5,000 or more are accounted for as capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund.

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, net of interest earned on the invested proceeds over the same period.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Utility plants	7 to 50 years
Buildings and improvements	5 to 35 years
Equipment, furnishings and vehicles	3 to 35 years
Infrastructure	10 to 40 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences:

Vacation and accrued compensatory time off pay is vested to the employees as it accrues and is payable upon separation of service. Sick leave does not vest to the employees and is paid only when sick leave is taken. Therefore, only vacation and accrued compensatory time off pay has been accrued in the accompanying financial statements for proprietary and government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. However, if material, a liability is recognized for that portion of accumulated sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position includes 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) which will only be recognized as an outflow of resources (expense/expenditures) in the future. In addition to liabilities, the statement of net position includes 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 would only be recognized as an inflow of resources (revenue) at that time.

For the City's pension plans, City contributions subsequent to the measurement date, differences between expected and actual experience, differences due to changes in assumptions, differences due to differences in proportions, differences between projected and actual earnings on plan investments and differences between projected and actual contributions are reported as deferred outflows/inflows of resources in the government-wide statement of net position. City contributions subsequent to the measurement date will be amortized during the next fiscal year. Differences between expected and actual experience, changes in assumptions, differences in proportion, and differences between projection and actual contributions are amortized over the estimated service lives of the plan participants. Difference between projected and actual earnings on pension plan investments will be amortized over a five-year period.

Long-Term Liabilities:

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period the debt is issued.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the governmental funds financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Pension Liability:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to this liability, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by 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.

Unearned Revenue:

Unearned revenue consists of public works reimbursables, parking fees and business licenses paid in advance by the City's customers.

Equity Classifications:

In the government-wide financial statements, equity is classified as net position and displayed as follows:

Net investment in capital assets, which consists of capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvements of those assets.

Restricted net position, which consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations or other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted net position, which consists of all other net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

The government wide statement of net position reports \$2,061,925 of restricted net position, of which \$214,392 is restricted by enabling legislation.

Fund Balance Classifications:

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

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) legally or contractually required to be maintained intact or (b) not in spendable form.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as a debt covenant), grantors, contributors, or laws or regulation of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegation of this responsibility to the City Manager through the budgetary process.

Unassigned: This classification includes residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

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

Expenditures/Expenses:

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

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

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

F. Estimates

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

G. Budgets

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

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 2 CASH AND INVESTMENTS

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

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position	\$ 4,599,254
Statement of Fiduciary Net Position	<u>21,196</u>
Total cash and investments	<u>\$ 4,620,450</u>
Consisting of the following:	
Cash on hand	\$ 300
Deposits with financial institutions	2,978,561
LAIF	<u>1,641,589</u>
	<u>\$ 4,620,450</u>

Investments Authorized:

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

Interest Rate Risk:

While the City's investment policy does not address interest rate risk, the City manages its exposure to interest rate risks through reliance on the managers of the Local Agency Investment Fund (LAIF) for its investment in those funds and the Finance Director and City Treasurer for the City's investment in money market accounts and certificates of deposit.

Credit Risk:

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

Concentration of Credit Risk:

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

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 2 CASH AND INVESTMENTS (Continued)

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code has provisions for financial institutions that limit custodial credit risk for deposits. Financial institutions are required to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's financial institutions also have insurance through the Federal Depository Insurance Corporation (FDIC). The City's investment policy has no additional provisions for limiting custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name.

The City's balance in banks was \$2,748,848, all of which was covered by federal depository insurance, or the collateral requirements discussed in the preceding paragraph. The bank balance differs from the book balance of \$2,978,561 because of outstanding checks.

Equity in Pooled Cash and Investment

The City invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through LAIF, a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the City's position in the pool is materially equivalent to the value of pool shares. LAIF is an unrated external investment pool.

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2018, 2.67% of LAIF's investment portfolio was invested in structured notes and other asset backed securities. In addition, PIMA's weighted average maturities was 0.68 years at June 30, 2018. (Copies of a report of LAIF's investments may be obtained from the State Treasurer's Office; Local Agency Investment Fund; P.O. Box 942809; Sacramento, CA 94209-0001.)

NOTE 3 RECEIVABLES

The following is the composition of loans receivable at June 30, 2018:

	Community Development Program Income Fund
Mortgage loans	\$ 744,048
Less allowance for bad debts	-
Total	\$ 744,048

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

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

The following is a summary of the interfund receivables and payables at June 30, 2018:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 45,434	\$ -
Transportation Project Fund	-	20,434
Business Improvement Fund	-	25,000
Total	\$ 45,434	\$ 45,434

The General Fund receivables consist of a parking lot loan to the Business Improvements and the remaining receivables consist of a cash advance.

The following is a summary of operating transfers in/out for the year ended June 30, 2018:

	Transfer Out From:				
Transfer In To:	Gas Tax Fund	CDBG Fund	Economic Engancement Fund	COPS Fund	Total Transfers In
General Fund	\$ 87,290	\$ -	\$ -	\$ 70,000	\$ 157,290
Economic Development Block Grant Fund	-	2,749	-	-	2,749
Other Special Revenue Fund	-	-	10,500	-	10,500
Total Transfers Out	\$ 87,290	\$ 2,749	\$ 10,500	\$ 70,000	\$ 170,539

All of the transfers were to pay for a fund's share of a project or activity that occurred in another fund.

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	June 30, 2017	Additions and Transfers	Retirements and Transfers	June 30, 2018
Governmental activities				
<u>Capital assets, non-depreciable</u>				
Land	\$ 747,310	\$ -	\$ -	\$ 747,310
Construction in progress	13,918	111,385	(2,750)	122,553
Total capital assets, non-depreciable	<u>761,228</u>	<u>111,385</u>	<u>(2,750)</u>	<u>869,863</u>
<u>Capital assets, depreciable</u>				
Infrastructure	23,142,128	\$ 152,443	-	23,294,571
Buildings and improvements	737,331	52,951	-	790,282
Equipment, furnishings and vehicles	3,096,370	262,215	(39,901)	3,318,684
Total capital assets, depreciable	<u>26,975,829</u>	<u>467,609</u>	<u>(39,901)</u>	<u>27,403,537</u>
<u>Less accumulated depreciation for</u>				
Buildings and improvements	553,501	15,727	-	569,228
Equipment, furnishings and vehicles	2,524,375	132,030	(6,650)	2,649,755
Infrastructure	15,802,975	613,565	-	16,416,540
Total accumulated depreciation	<u>18,880,851</u>	<u>761,322</u>	<u>(6,650)</u>	<u>19,635,523</u>
Total capital assets, depreciable, net	<u>8,094,978</u>	<u>(293,713)</u>	<u>(33,251)</u>	<u>7,768,014</u>
Subtotal, governmental activities	<u>8,856,206</u>	<u>(182,328)</u>	<u>(36,001)</u>	<u>8,637,877</u>
Business-type activities				
<u>Capital assets, non-depreciable</u>				
Land	260,008	4,780	-	264,788
Construction in progress	2,032,035	1,101,291	(1,694,239)	1,439,087
Total capital assets, non-depreciable	<u>2,292,043</u>	<u>1,106,071</u>	<u>(1,694,239)</u>	<u>1,703,875</u>
<u>Capital assets, depreciable</u>				
Infrastructure	19,651,007	1,708,176	(45,399)	21,313,784
Buildings and improvements	577,150	120,279	-	697,429
Equipment, furnishings and vehicles	874,052	-	-	874,052
Total capital assets, depreciable	<u>21,102,209</u>	<u>1,828,455</u>	<u>(45,399)</u>	<u>22,885,265</u>
<u>Less accumulated depreciation for</u>				
Infrastructure	7,855,579	561,023	(45,399)	8,371,203
Buildings and improvements	201,338	13,038	-	214,376
Equipment, furnishings and vehicles	479,253	37,132	-	516,385
Total accumulated depreciation	<u>8,536,170</u>	<u>611,193</u>	<u>(45,399)</u>	<u>9,101,964</u>
Total capital assets, depreciable, net	<u>12,566,039</u>	<u>1,217,262</u>	<u>-</u>	<u>13,783,301</u>
Subtotal, business-type activities	<u>14,858,082</u>	<u>2,323,333</u>	<u>(1,694,239)</u>	<u>15,487,176</u>
Total, government-wide	<u>\$ 23,714,288</u>	<u>\$ 2,141,005</u>	<u>\$ (1,730,240)</u>	<u>\$ 24,125,053</u>

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 5 CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 18,532
Public safety	82,713
Public works – streets and roads	613,566
Public works – building & central garage	<u>46,511</u>
Total depreciation expense – governmental activities	<u>\$ 761,322</u>
Business-type activities:	
Water	\$ 328,202
Sewer	260,668
Drainage	<u>22,323</u>
Total depreciation expense – business-type activities	<u>\$ 611,193</u>

NOTE 6 LONG-TERM DEBT

The following is a summary of long-term debt activity for the fiscal year ended June 30, 2018:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Business-type activities:					
Revenue bonds	\$ 1,063,805	\$ -	\$ 36,109	\$ 1,027,696	\$ 37,284
Total business-type activities	\$ 1,063,805	\$ -	\$ 36,109	\$ 1,027,696	\$ 37,284

The debt covenant requires the City to be covered at 110% and as of June 30, 2018, is approximately at 94% coverage. The City, therefore is not in compliance with all significant financial debt coverage.

REVENUE BONDS PAYABLE:

On July 1, 2008 an agreement was executed between California Infrastructure and Economic Development Bank and the City of Mt. Shasta for a loan of \$1,750,000. The loan is to be repaid over 30 years at an interest rate of 3.25% per annum. An interest-only period was in effect through July 31, 2009 with the first principal payment due August 1, 2009. The loan was for the construction of approximately 3,100 feet of 24 to 30 inch sewer main interceptor through Siskiyou Lake Highlands Subdivision, a residential area of the county. The project included constructing new and/or replacing an existing 12 inch interceptor main, the acquisition of permanent and construction easements, and the replacement of landscaping.

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 6 LONG-TERM DEBT (Continued)

Debt service requirements for principal and interest for Business-type activities bonds and loans payable for future years is as follows:

Year Ended June 30,	Sewer Loan		
	Principal	Interest	Total
2019	\$ 37,284	\$ 35,877	\$ 73,161
2020	38,495	34,534	73,029
2021	39,746	33,147	72,893
2022	41,038	31,715	72,753
2023	42,372	30,237	72,609
2024-2028	233,434	127,145	360,579
2029-2033	272,915	82,393	355,308
2034-2038	322,412	29,636	352,048
Total	\$ 1,027,696	\$ 404,684	\$ 1,432,380

NOTE 7 COMPENSATED ABSENCES

Compensated absence activity for the year ended June 30, 2018 is summarized as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Governmental activities	\$ 138,435	\$ 109,356	\$ (94,734)	\$ 153,057	\$ 122,445
Business-type activities:					
Water Fund	11,675	6,532	(7,989)	10,218	8,174
Sewer Fund	19,531	12,699	(13,365)	18,865	15,092
Business-type activities	31,206	19,231	(21,354)	29,083	23,266
Total	\$ 169,641	\$ 128,587	\$ (116,088)	\$ 182,140	\$ 145,711

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 8 PENSION PLANS

A. General Information about the Pension Plans

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

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

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

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

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates 2017-18	7.000%	6.555%
Required employer contribution rates 2017-18	8.377%	6.555%

	<u>Safety</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of eligible compensation	2.00%	2.0% to 2.7%
Required employee contribution rates 2017-18	9.000%	12.082%
Required employer contribution rates 2017-18	14.785%	12.082%

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 8 PENSION PLANS (continued)

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

For the year ended June 30, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous	Safety
Contributions - employer	\$ 198,632	\$ 161,298
Contributions - employee	71,182	78,000

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

As of June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 2,029,717
Safety	1,630,608
Total Net Pension Liability	\$ 3,660,325

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2018, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2018 was as follows:

	Miscellaneous
Proportion - June 30, 2017	0.05107%
Proportion - June 30, 2018	0.05149%
Change - Increase (Decrease)	0.00042%

	Safety
Proportion - June 30, 2017	0.02704%
Proportion - June 30, 2018	0.02729%
Change - Increase (Decrease)	0.00025%

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 8 PENSION PLANS (continued)

For the year ended June 30, 2018, the City recognized net pension expense of \$56,148. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 21,817	\$ 44,004
Changes in assumptions	614,880	47,016
Change in employer's proportion	44,244	83,411
Difference between employer's actual contributions and employer's proportionate share of contributions	-	186,348
Net differences between projected and actual earnings on plan investments	136,813	-
Pension contributions made subsequent to the measurement date	353,005	-
Total	\$ 1,170,759	\$ 360,779

The amount of \$353,005 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the miscellaneous and safety plans, respectively, will be recognized as reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plans will be recognized as pension expense as follows:

Year Ended June 30	
2018	6,623
2019	323,284
2020	207,776
2021	(80,710)
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined for Miscellaneous Classic and PEPRAs, Safety Police and Safety Fire plans using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	20	20

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

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

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 8 PENSION PLANS (continued)

Change in Assumptions: For the year ended June 30, 2018, a discount rate of 7.15% was used for the calculation of the pension liability. The rate that had been used in the previous year was 7.65%

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations. CalPERS will continue to check the materiality of the difference in calculation until such time the methodology is changed.

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

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

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

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 8 PENSION PLANS (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 each Plan, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 3,143,787	\$ 2,545,382
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 2,029,717	\$ 1,630,608
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 1,107,024	\$ 882,826

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

Payable to the Pension Plan

At June 30, 2018, the Local government reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 10 FUND BALANCE / NET POSITION

The following table provides details of the Fund Balance classifications used in the Balance Sheet of the governmental funds:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Nonspendable due to form:</u>			
General government: due from other funds	25,000	-	25,000
Nonspendable fund balance	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>
<u>Restricted for:</u>			
Police protection	\$ -	\$ 189,496	\$ 189,496
Fire protection	-	33,728	33,728
Sewer assesement	-	137,087	137,087
Community development	-	1,268,386	1,268,386
Streets & roads	-	316,506	316,506
Library	-	116,722	116,722
Restricted fund balance	<u>\$ -</u>	<u>\$ 2,061,925</u>	<u>\$ 2,061,925</u>
<u>Committed for:</u>			
General government: capital assets	\$ 119,262	\$ -	\$ 119,262
Committed fund balance	<u>\$ 119,262</u>	<u>\$ -</u>	<u>\$ 119,262</u>
<u>Assigned for:</u>			
Library capital projects	\$ -	\$ 387,950	\$ 387,950
Assigned fund balance	<u>\$ -</u>	<u>\$ 387,950</u>	<u>\$ 387,950</u>
<u>Unassigned:</u>			
General government	\$ 1,134,240	\$ (4,655)	\$ 1,129,585
Unassigned fund balance	<u>\$ 1,134,240</u>	<u>\$ (4,655)</u>	<u>\$ 1,129,585</u>

The restricted net position in Water and Sewer Funds are restricted for capital system improvements.

NOTE 11 INSURANCE

The City belongs to a joint authority called Small Cities Organized Risk Effort (SCORE). The cities in SCORE are involved in a program whereby they share risk for general liability, workers compensation, and employment practices to limits of \$25,000,000 for general liability, \$100,000,000 for workers compensation, and \$1,000,000 for employment practices. Each City has a self-insured retention (SIR) of \$25,000 in a banking plan. Losses above the SIR are covered under the program risk sharing provisions up to \$500,000 for liability, or \$150,000 for workers compensation. Beyond these limits, coverage is provided by larger joint powers authorities: *California Joint Powers Risk Management Authority (CJPRMA)*, *Local Agencies Excess Workers Compensation Excess Joint Powers Authority (LAWCX)*, and *Employment Risk Management Authority (ERMA)* through a combination of self-insurance and/or reinsurance to the maximum limits. There has been no significant reduction in any of the insurance coverages from the prior year.

City of Mt. Shasta
Notes to the Financial Statements
June 30, 2018

NOTE 11 INSURANCE (Continued)

The City uses the "general fund" method to account for the costs of self-insurance. While the ultimate amount of the costs of self-insurance through June 30, 2018, is dependent on future developments, City management believes that the aggregate premiums paid to the JPA are adequate to cover the City's losses through June 30, 2018, including incurred but not reported claims (IBNRs). Settled claims resulting from these programs have not exceeded insurance coverage in each of the past three fiscal years. Claims paid for the workers' compensation and general liability programs for the fiscal year ended June 30, 2018, were \$9,438 and \$478, respectively. As of June 30, 2018, SCORE reported that the City had a surplus in the workers' compensation program of \$126,547 and in the general liability program of \$58,070. The City has not recorded these amounts in the financial statements.

NOTE 12 CONTINGENT LIABILITIES

The City is involved in certain claims and lawsuits. In the opinion of the City's management, it is unlikely that these claims and lawsuits will have a material adverse effect on the accompanying financial statements.

The City has received federal and state grants for specific purposes that are subject to reviews by the grantor agencies. Such reviews could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although City management expects such amounts, if any to be immaterial.

The Sewer Fund has deposits collected in prior years for prepaid sewer connections. The landowners who purchased connections before March 31, 1991 do not have to pay the difference between the prepaid connection cost and the current cost of construction. Therefore, the City will be liable for any costs over the amount that was prepaid. As of June 30, 2018 there are 105 connections that were purchased before March 31, 1991. The dollar amount of the potential excess costs to be incurred by the City is undeterminable.

NOTE 13 DEFICIT FUND BALANCE

The Transportation Project Fund and the Other Special Revenue Fund had a deficit fund balance at June 30, 2018 of \$1,817 and \$2,838, respectively. The City expects this to be resolved with normal operations.

NOTE 14 PRIOR PERIOD ADJUSTMENT

During the current year, the City identified errors in the previously issued financial statements, resulting in prior period adjustments as follows:

Sales taxes and library taxes had not been accrued in the prior year, which caused revenues and receivables to be understated. The effect of this correction is reported as an increase to beginning fund balance on the Statement of Revenues, Expenses, and Changes in Fund Balances – Governmental Funds in the amount of \$235,567 in the general fund and \$61,433 in the Library Fund. The total of \$297,000 is also reported as an increase to beginning net position on the Statement of Activities – Governmental Activities. The effect on the prior years' change in net positions is undetermined and the affect on the current year change in net position is immaterial.

Utility billings had not been accrued in the prior year which caused revenues and receivables to be understated. The effect of this correction is reported as an increase to beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds in the amount of \$58,191 in the water fund, \$105,537 in the sewer fund, and \$53,300 in the garbage fund. The total of \$217,028 is also reported as an increase to beginning net position on the Statement of Activities – Business-Type Activities. The effect on the prior year change in net position is an increase of \$58,191, \$105,537, and \$53,300 in the water, sewer, and garbage funds, respectively. The effect on the change in net position for the current year is immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

City of Mt. Shasta
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Property taxes	\$ 490,000	\$ 490,000	\$ 533,365	\$ 43,365
Sales and use taxes	1,430,700	1,426,500	1,600,085	173,585
Transient occupancy tax	710,000	710,000	764,137	54,137
Franchises	69,000	69,000	72,426	3,426
Licenses and permits	34,550	34,550	33,361	(1,189)
Intergovernmental revenues	9,700	9,700	15,320	5,620
Charges for services	33,650	35,350	214,952	179,602
Fines, forfeitures and penalties	30,000	30,000	15,352	(14,648)
Use of money and property	1,400	1,400	5,772	4,372
Other	517,500	533,619	49,934	(483,685)
Total revenues	<u>3,326,500</u>	<u>3,340,119</u>	<u>3,304,704</u>	<u>(35,415)</u>
EXPENDITURES				
Current:				
City council	19,569	32,168	30,248	1,920
City administration	194,971	195,371	136,750	58,621
City clerk	6,979	8,979	11,822	(2,843)
Finance and personnel	366,124	369,424	181,917	187,507
City attorney	27,000	29,500	44,737	(15,237)
Fire protection	536,455	550,455	550,626	(171)
Police protection	815,221	825,221	818,302	6,919
Public safety dispatching	236,318	257,318	248,892	8,426
Animal regulation	42,531	44,531	40,199	4,332
Planning	117,958	123,653	102,418	21,235
Public works - administration	105,209	113,553	56,692	56,861
Public works - street & roads	286,842	287,842	284,559	3,283
Public works - building & grounds	207,225	243,225	302,908	(59,683)
Insurance	122,620	122,620	137,710	(15,090)
Community development	123,688	123,688	121,242	2,446
Other	232,350	324,270	218,284	105,986
Capital outlay	42,000	72,771	59,260	13,511
Total expenditures	<u>3,483,060</u>	<u>3,724,589</u>	<u>3,346,566</u>	<u>378,023</u>
Excess of revenues over (under) expenditures	<u>(156,560)</u>	<u>(384,470)</u>	<u>(41,862)</u>	<u>342,608</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>152,000</u>	<u>152,000</u>	<u>157,290</u>	<u>5,290</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (4,560)</u>	<u>\$ (232,470)</u>	<u>\$ 115,428</u>	<u>\$ 347,898</u>

City of Mt. Shasta
 Schedule of the City's Proportionate Share of the Net Pension Liability
 As of June 30, 2018
 Last 10 Years (1)

Safety Plan	6/30/2014 (1)	6/30/2015 (1)	6/30/2016 (1)	6/30/2017 (1)
Plan's proportion of the net pension liability	0.02513%	0.02468%	0.02704%	0.02729%
Plan's proportionate share of the net pension liability	\$942,673	\$1,016,891	\$1,400,398	\$1,630,608
Plan's covered-employee payroll (2)	\$472,048	\$485,650	\$684,381	\$703,550
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	199.70%	209.39%	204.62%	231.77%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	82.12%	81.20%	76.32%	75.06%
Plan's proportionate share of aggregate employer contributions (3,4)	\$147,231	\$147,231	\$147,231	\$169,353
Miscellaneous Plan	6/30/2014 (1)	6/30/2015 (1)	6/30/2016 (1)	6/30/2017 (1)
Plan's proportion of the net pension liability	0.05444%	0.04995%	0.05107%	0.05149%
Plan's proportionate share of the net pension liability	\$1,345,361	\$1,370,317	\$1,773,993	\$2,029,717
Plan's covered-employee payroll (2)	\$923,716	\$1,018,799	\$1,027,593	\$1,046,326
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	145.65%	134.50%	172.64%	193.99%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	80.19%	80.87%	76.31%	74.94%
Plan's proportionate share of aggregate employer contributions (3,4)	\$147,231	\$200,399	\$212,788	\$229,661

(1) GASB 68 requires historical information only for measurement periods for which GASB 68 is applicable.

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

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

(4) GASB 68 does not require that we display this data for employers participating in cost-sharing plans, but we show it here because we use it in the calculation of the Plan's pension expense.

City of Mt. Shasta
Schedule of City's Pension Contributions
As of June 30, 2018
Last 10 Years (1)

Safety Plan	Fiscal Year 2013-14 (1)	Fiscal Year 2014-15 (1)	Fiscal Year 2015-16 (1)	Fiscal Year 2016-17 (1)
Actuarially determined contribution	85,330	105,329	109,327	149,230
Contributions in relation to the actuarially determined contribution	(85,330)	(105,329)	(109,327)	(149,230)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll (2)	\$ 472,018	\$ 485,650	\$ 684,381	\$ 703,550
Contributions as a percentage of covered-employee payroll	18.08%	21.69%	15.97%	21.21%
Miscellaneous Plan	Fiscal Year 2013-14 (1)	Fiscal Year 2014-15 (1)	Fiscal Year 2015-16 (1)	Fiscal Year 2016-17 (1)
Actuarially determined contribution	120,254	160,146	169,978	177,661
Contributions in relation to the actuarially determined contribution	(120,254)	(160,146)	(169,978)	(177,661)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll (2)	\$ 923,716	\$ 1,018,799	\$ 1,027,593	\$ 1,046,326
Contributions as a percentage of covered-employee payroll	13.02%	15.72%	16.54%	16.98%

(1) GASB 68 requires historical information only for measurement periods for which GASB 68 is applicable.

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

SUPPLEMENTARY INFORMATION

City of Mt. Shasta
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2018

	Business Improvement Fund	Fire Assessment Fund	Development Impact Fund	Local Transportation Fund	Transportation Project Fund	COPS Fund	Community Public Safety Enhancement Fund	Gas Tax Fund	Springhill Assessment Fund	Community Development Block Grant Fund	Economic Enhancement Fund	Special Projects Grant Fund	Library Fund	Other Special Revenue Fund	Total
ASSETS															
Cash	\$ 52,091	\$ 23,365	\$ 21,586	\$ 252,983	\$ -	\$ 164,708	\$ 29,239	\$ 195,049	\$ 136,775	\$ 200,637	\$ 109,512	\$ 28,463	\$ 477,851	\$ 1,963	\$ 1,694,222
Receivables:															
Loans	-	-	-	-	-	-	-	-	-	744,048	-	-	-	-	744,048
Interest	119	-	49	-	-	-	-	544	312	268	-	-	1,079	-	2,371
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	43,837	-	43,837
Intergovernmental	-	10,363	-	-	21,267	-	-	6,761	-	-	27,482	5,909	-	-	71,782
Total assets	\$ 52,210	\$ 33,728	\$ 21,635	\$ 252,983	\$ 21,267	\$ 164,708	\$ 29,239	\$ 202,354	\$ 137,087	\$ 944,953	\$ 136,994	\$ 34,372	\$ 522,767	\$ 1,963	\$ 2,556,260
LIABILITIES AND FUND BALANCES															
Liabilities:															
Accounts payable	\$ 132	\$ -	\$ -	\$ 285	\$ 2,650	\$ 4,451	\$ -	\$ 11,459	\$ -	\$ 5,385	\$ 3,910	\$ 9,301	\$ 18,095	\$ 4,801	\$ 60,469
Due to other funds	25,000	-	-	-	20,434	-	-	-	-	-	-	-	-	-	45,434
Unearned revenue	5,137	-	-	-	-	-	-	-	-	-	-	-	-	-	5,137
Total liabilities	30,269	-	-	285	23,084	4,451	-	11,459	-	5,385	3,910	9,301	18,095	4,801	111,040
Fund balance (deficit):															
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted	21,941	33,728	21,635	252,698	-	160,257	29,239	190,895	137,087	939,568	133,084	25,071	116,722	-	2,061,925
Assigned	-	-	-	-	-	-	-	-	-	-	-	-	387,950	-	387,950
Unassigned	-	-	-	-	(1,817)	-	-	-	-	-	-	-	-	(2,838)	(4,655)
Total fund balances	21,941	33,728	21,635	252,698	(1,817)	160,257	29,239	190,895	137,087	939,568	133,084	25,071	504,672	(2,838)	2,445,220
Total liabilities and fund balances	\$ 52,210	\$ 33,728	\$ 21,635	\$ 252,983	\$ 21,267	\$ 164,708	\$ 29,239	\$ 202,354	\$ 137,087	\$ 944,953	\$ 136,994	\$ 34,372	\$ 522,767	\$ 1,963	\$ 2,556,260

City of Mt. Shasta
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Year Ended June 30, 2018

	Business Improvement Fund	Fire Assessment Fund	Development Impact Fund	Local Transportation Fund	Transportation Project Fund	COPS Fund	Community Public Safety Enhancement Fund	Gas Tax Fund	Springhill Assessment Fund	Community Development Block Grant Fund	Economic Enhancement Fund	Special Projects Grant Fund	Library Fund	Other Special Revenue Fund	Total
REVENUES															
Sales and use taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 166,858	\$ -	\$ -	\$ -	\$ -	\$ 255,862	\$ -	\$ 422,720
Assessments	12,633	68,990	1,307	-	-	-	-	-	-	-	-	-	-	-	82,930
Intergovernmental revenues	-	-	-	202,207	21,267	139,416	-	12,694	-	9,003	-	62,765	-	-	447,352
Use of money and property	367	313	150	1,292	-	-	-	1,810	967	696	-	-	3,240	-	8,835
Other revenue	-	-	-	-	-	-	10,393	-	-	-	-	-	-	-	10,393
Total revenues	13,000	69,303	1,457	203,499	21,267	139,416	10,393	181,362	967	9,699	-	62,765	259,102	-	972,230
EXPENDITURES															
Current:															
Police protection	-	-	-	-	-	52,357	18,175	-	-	-	-	-	-	-	70,532
Public works - streets & roads	-	-	-	-	-	-	-	173,835	-	-	-	-	-	-	173,835
Public transportation	-	-	-	84,545	-	-	-	-	-	-	-	75,316	-	-	159,861
Community development	5,743	-	-	-	-	-	-	-	-	208,137	15,243	-	-	17,453	246,576
Library	-	-	-	-	-	-	-	-	-	-	-	-	184,151	-	184,151
Capital outlay	-	207,449	-	147,454	23,640	27,028	-	65,268	-	-	-	-	46,145	-	516,984
Debt Service:															
Interest	409	-	-	-	-	-	-	-	-	-	-	-	-	-	409
Total expenditures	6,152	207,449	-	231,999	23,640	79,385	18,175	239,103	-	208,137	15,243	75,316	230,296	17,453	1,362,348
Excess (deficiency) of revenues over (under) expenditures	6,848	(138,146)	1,457	(28,500)	(2,373)	60,031	(7,782)	(57,741)	967	(198,438)	(15,243)	(12,551)	28,806	(17,453)	(380,118)
OTHER FINANCING SOURCES (USES)															
Operating transfers in	-	-	-	-	-	-	-	-	-	-	2,749	-	-	10,500	13,249
Operating transfers out	-	-	-	-	-	(70,000)	-	(87,290)	-	(2,749)	(10,500)	-	-	-	(170,539)
Total other financing sources (uses)	-	-	-	-	-	(70,000)	-	(87,290)	-	(2,749)	(7,751)	-	-	10,500	(157,290)
Net change in fund balance	6,848	(138,146)	1,457	(28,500)	(2,373)	(9,969)	(7,782)	(145,031)	967	(201,187)	(22,994)	(12,551)	28,806	(6,953)	(537,408)
FUND BALANCE															
Beginning of the year, as originally stated	15,093	171,874	20,178	281,198	556	170,226	37,021	335,926	136,120	1,140,755	156,078	37,622	414,433	4,115	2,921,195
Prior period adjustment	-	-	-	-	-	-	-	-	-	-	-	-	61,433	-	61,433
Beginning of the year, as restated	15,093	171,874	20,178	281,198	556	170,226	37,021	335,926	136,120	1,140,755	156,078	37,622	475,866	4,115	2,982,628
End of the year	\$ 21,941	\$ 33,728	\$ 21,635	\$ 252,698	\$ (1,817)	\$ 160,257	\$ 29,239	\$ 190,895	\$ 137,087	\$ 939,568	\$ 133,084	\$ 25,071	\$ 504,672	\$ (2,838)	\$ 2,445,220

OTHER SCHEDULES AND REPORTS



**INDEPENDENT AUDITORS' 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 City Council
City of Mt. Shasta, 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 City of Mt. Shasta as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Mt. Shasta, California's basic financial statements, and have issued our report thereon dated January 6, 2019.

Internal Control Over Financial Reporting

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

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

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs, that we consider to be a material weakness (2018-001).

Compliance and Other Matters

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

City of Mt. Shasta, California's Response to Findings

City of Mt. Shasta, California's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Mt. Shasta, California'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.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 6, 2019



City of Mt. Shasta, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Findings - Financial Statement Audit

2018 - 001

Audit Adjustments

Condition: During our audit of the current year, we identified several audit adjustments that were material to the financial statements and which were required in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. While other year-end adjustments were identified by the City's internal control, these adjustments were not identified through internal controls.

Criteria: All City financial documents should be final and reconciled before the audit begins. All adjustments necessary for financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles should be identified and posted by the City.

Cause: The City did not identify or did not post material closing or correcting entries for the year under audit.

Effect: Financial statements which are not in conformity with generally accepted accounting principles could have been prepared and distributed

Recommendation: We recommend that management take steps to ensure that all adjustments necessary to prepare financial statements in accordance with generally accepted accounting principles be identified and posted prior to the start of the audit.

Response: City of Mt. Shasta, California agrees with the finding and recommended procedures will be implemented.

Summary of Prior Audit Findings

None.