

**Independent Auditors' Report
and
Comprehensive Annual Financial Statements**

FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

**CITY OF GUSTINE
CALIFORNIA**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Members
of the City Council
City of Gustine
Gustine, 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 City of Gustine, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Gustine'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 for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to City of Gustine'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 City of Gustine'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 and, where applicable, cash flows of City of Gustine, as of June 30, 2018, and the respective changes in financial position 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 supplementary information, as listed in the table of contents, 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 the 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 part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. Our report 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 the City of Gustine's basic financial statements. The supplementary information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing 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 information is fairly stated, in all material respects in relation to the 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 September 18, 2019, on our consideration of City of Gustine'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 the effectiveness of the City of Gustine's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 18, 2019

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

The following discussion provides readers of City of Gustine's (the City's) financial statements a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. Please read this document in conjunction with the accompanying Basic Financial Statements.

FISCAL YEAR 2018 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2018 include the following:

Entity-wide:

- The City's total assets were \$26,385,923 as of June 30, 2018. Of this total, \$13,438,286 were Governmental assets and \$12,947,637 were Business-type assets.
- Entity-wide Governmental revenues include program revenues of \$6,544,574 while Governmental expenses of \$6,006,934.
- Entity-wide Business-type program revenues, transfers, other revenue and interest revenue were \$3,234,146 while Business-type expenses were \$2,854,961.

Fund Level:

- Governmental Fund balances increased \$662,401 in fiscal year 2018.
- Business-Type Activities Fund balances increased \$323,268 in fiscal year 2018.

General Fund:

- General Fund revenues of \$2,346,449 represented an increase of \$396,944 from the prior year.
- General Fund expenditures of \$2,250,367 represented an increase of \$439,706 from the prior year.
- General Fund balance of \$1,063,349 as of June 30, 2018, was \$268,191 increase from fiscal year 2017's fund balance.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is divided into two parts:

- 1) Management's Discussion and Analysis (MD&A);
- 2) The Basic Financial Statements, which include the Entity-wide and the Fund Financial Statements, along with the Notes to these financial statements.

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the City's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Position for the year.

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

All of the City's activities are grouped into Governmental Activities and Business-type Activities, as explained below. The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities for the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the Entity-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Entity-wide Financial Statements

Entity-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

The Statement of Net Position and the Statement of Activities present information about the following:

- Governmental Activities – All of the City's basic services are considered to be governmental activities. These services are supported by general City revenues such as taxes and by specific program revenues such as user fees and charges.
- Business-type Activities – The City's enterprise activities of water and wastewater are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by Governmental Accounting Standards Board (GASB) Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year-to-year as a result of changes in the pattern of the City's activities.

In the City's case, there are 2 major governmental funds: the General Fund, and the Utility Tax Fund.

The City's Enterprise Funds are reported as Major Funds.

Fund Financial Statements include governmental and proprietary funds as discussed below.

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2018

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Proprietary Funds Financial Statements are prepared on the full accrual basis, as in the past, and include all of their assets and liabilities, current and long-term.

Comparisons of Budget and Actual financial information are presented only for the General Fund, as required by GASB Statement 34.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net position and changes in net position of the City as a whole. Tables 1 and 2 focus on the City's Governmental Statement of Net Position and Statement of Activities, while Tables 3 and 4 focus on the City's Business-type Statement of Net Position and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Position at June 30

	2018
Current assets	\$ 4,218,261
Land, not being depreciated	71,310
Capital assets, net of depreciation	9,148,715
Total assets	13,438,286
Deferred outflows	815,342
Current liabilities	158,722
Long-term liabilities	2,987,497
Total liabilities	3,146,219
Deferred inflows	41,827
Net position:	
Invested in capital assets, net of debt	9,220,025
Restricted	3,908,096
Unrestricted	(2,062,539)
Total net position	\$ 11,065,582

The City's governmental net position amounted to \$11,065,582 as of June 30, 2018 which is an increase of \$214,372 from fiscal year 2017. This difference is the Change in Net Position reflected in the Governmental Activities column of the Statement of Activities shown in Table 2.

The City's governmental net position as of June 30, 2018 comprised the following:

- Cash and investments of \$4,104,018 in the city treasury. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note D-1 to the financial statements.

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2018

- Other assets comprise current receivables of \$114,243.
- Capital assets of \$9,148,715, net of depreciation charges, which includes all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims and other amounts due currently, totaling \$158,722 and Long-term liabilities totaling \$2,987,497.
- Net position invested in capital assets, net of related debt, of \$9,220,025, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net position totaling \$3,908,096, which may be used only to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds were placed there by outsiders and cannot be changed by the City.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had (\$2,062,539) of unrestricted net position as of June 30, 2018.

GOVERNMENTAL ACTIVITIES

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2
Changes in Governmental Net Position

	<u>Governmental Activities 2018</u>
<u>Expenses</u>	
General government	\$ 304,244
Public safety	1,508,233
Transportation	578,169
Community development	103,564
Cultural and recreation	590,776
Debt services, principal and interest	<u>11,070</u>
Total expenses	<u>3,096,056</u>
<u>Revenues</u>	
Program revenues:	
Charges for services	532,970
From other agencies	<u>793,913</u>
Total program revenues	<u>1,326,883</u>

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2018

General revenues:	
Taxes	1,953,159
Other revenues	<u>30,386</u>
Total general revenues	<u>1,983,545</u>
Total revenues	<u>3,310,428</u>
Change in net position	<u>\$ 214,372</u>

As the Sources of Revenue Chart and Table 2 above show, \$1,326,883, or 40%, of the City's fiscal year 2018 governmental revenue, came from program revenues and \$1,983,545, or 60%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$532,970, which include permit revenues, fees and charges used to fund expenses incurred in providing services; and \$793,913 of contributions from other agencies which include streets, roads, housing, fire and police grants.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Business-type Activities

The Statement of Net Position and Statement of Activities present a summary of the City's Business-type Activities that are composed of the City's enterprise funds.

Table 3
Business-type Net Position at June 30

	<u>Business-type 2018</u>
Current assets	\$ 4,073,900
Land, not being depreciated	2,933,628
Capital assets, net of accumulated depreciation	<u>5,940,109</u>
Total assets	<u>12,947,637</u>
Deferred outflows	<u>149,254</u>
Current liabilities	53,695
Long-term debt outstanding	<u>3,095,780</u>
Total liabilities	<u>3,149,475</u>
Deferred inflows	<u>18,280</u>
Net position:	
Invested in capital assets	6,412,269
Unrestricted	<u>3,516,867</u>
Total net position	<u>\$ 9,929,136</u>

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2018

The net position of business-type activities increased by \$323,268 in fiscal year 2018.

Table 4
Changes in Business-Type Net Position

	<u>Business-Type Activities 2018</u>
<u>Expenses</u>	
Water	\$ 943,678
Sewer	1,227,579
Refuse	459,292
Storm Drain	50,186
Airport	<u>230,143</u>
Total expenses	<u>2,910,878</u>
 <u>Revenues</u>	
Program revenues:	
From other agencies	27,585
Charges for services	<u>3,161,333</u>
Total program revenues	<u>3,188,918</u>
General revenues:	
Interest income	<u>45,228</u>
Total general revenues	<u>45,228</u>
Total revenues	<u>3,234,146</u>
Change in net position	<u>\$ 323,268</u>

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues increased \$396,944 this fiscal year. Actual revenues were more than budgeted amounts. Tax revenues increased \$33,837 due to the business environment in the City.

General Fund expenditures were \$2,250,367, an increase of \$439,706 from the prior year. Expenditures were more than budgeted amounts.

As of June 30, 2018, the General Fund's fund balance totaled \$1,063,349. The unassigned portion of fund balance represents available liquid resources.

Utility Tax Fund

This fund accounts for Community Development projects and Cultural and recreational events by governmental taxes. In fiscal year 2018, the fund received \$252,907 in taxes.

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Other Governmental Funds

These funds are not presented separately in the basic financial statements.

Proprietary Funds

Water Fund

Revenues increased \$58,704 in fiscal year 2018, and expenses increased \$50,300.

Sewer Fund

Operating revenues decreased \$65,031. Expenses increased \$13,828.

Refuse Fund

Revenues increased \$5,353 in fiscal year 2018, and expenses increased \$4,051.

Storm Drain Fund

Revenues are very consistent. Revenues decreased \$102 in fiscal year 2018, while expenses increased \$3,135.

Airport Fund

Revenues increased \$4,680 in fiscal year 2018, and expenses increased \$40,277.

GENERAL FUND BUDGETARY HIGHLIGHTS

It is the City's policy to amend the budget as needed during the fiscal year after adoption of the budget. The amendments are approved by the City Council. The original budget was not modified during the fiscal year ended June 30, 2018.

CAPITAL ASSETS

GASB Statement 34 requires the City to record all its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2018, the City reported the cost of all its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2018 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 5 below:

City of Gustine
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2018

Table 5
Capital Assets at Year-end

	Balance at June 30, 2018
<u>Entity-wide Governmental and Business-type Activities</u>	
Land, not being depreciated	\$ 3,004,938
<u>Capital assets (net of accumulated depreciation)</u>	
Streets and roads	8,733,300
Buildings	5,949,385
Equipment	406,139
Governmental activity capital assets, net	\$ 18,093,762

Detail on capital assets and current year additions can be found in Note D-3.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB Statement 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note D-3 to the financial statements.

DEBT ADMINISTRATION

The City made all scheduled repayments of existing debt.

As of June 30, 2018, the City's debt comprised:

Table 6
Outstanding Debt

	June 30, 2018
<u>Entity-wide Governmental and Business-type Activities Debt:</u>	
U.S. Government loan:	
2012 USDA – City Hall Project, 3.75%, due 11/2051	\$ 879,000
USDA – Water System Imp., 3.75%, due 07/2052	734,000
Vierra Loan – property acquisition, 6.25%, due 01/2030	252,596
City National Bank – Water, 4.95%, due 06/2020	238,700
Citizen's Business Bank – Sewer, 4.98%, due 10/2025	568,080
State Water Resource Control Board Loan:	
Waste Water Treatment Plan, 2.4%, due 10/2020	82,092
Total	\$ 2,754,468

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this report should be directed to the City of Gustine, at, 352 Fifth Street, Gustine, CA 95322.

City of Gustine
STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 4,104,018	\$ 3,631,729	\$ 7,735,747
Receivables	114,243	442,171	556,414
Capital assets, not being depreciated:			
Land	71,310	2,933,628	3,004,938
Capital assets (net of accumulated depreciation):			
Buildings and improvements	277,984	5,671,401	5,949,385
Machinery and equipment	137,431	268,708	406,139
Road network	8,733,300	-	8,733,300
Total assets	<u>13,438,286</u>	<u>12,947,637</u>	<u>26,385,923</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>815,342</u>	<u>149,254</u>	<u>964,596</u>
Total deferred outflows of resources	<u>815,342</u>	<u>149,254</u>	<u>964,596</u>
LIABILITIES			
Accounts payable	158,722	53,695	212,417
Noncurrent liabilities:			
Due within one year	72,833	317,423	390,256
Due in more than one year	364,253	2,298,107	2,662,360
Aggregate net pension liability	<u>2,550,411</u>	<u>480,250</u>	<u>3,030,661</u>
Total liabilities	<u>3,146,219</u>	<u>3,149,475</u>	<u>6,295,694</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	<u>41,827</u>	<u>18,280</u>	<u>60,107</u>
Total deferred inflows of resources	<u>41,827</u>	<u>18,280</u>	<u>60,107</u>
NET POSITION			
Net investment in capital assets	9,220,025	6,412,269	15,632,294
Restricted for:			
Capital projects	2,398,354	-	2,398,354
Community development	1,316,990	-	1,316,990
Public safety	192,752	-	192,752
Unrestricted (deficit)	<u>(2,062,539)</u>	<u>3,516,867</u>	<u>1,454,328</u>
Total net position	<u>\$ 11,065,582</u>	<u>\$ 9,929,136</u>	<u>\$ 20,994,718</u>

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

City of Gustine
STATEMENT OF ACTIVITIES
June 30, 2018

Function/programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 304,244	\$ 88,856	\$ -	\$ -	\$ (215,388)	\$ -	\$ (215,388)
Public safety	1,508,233	72,820	217,411	-	(1,218,002)	-	(1,218,002)
Transportation	578,169	18,633	500,822	-	(58,714)	-	(58,714)
Community development	103,564	83,706	-	10,024	(9,834)	-	(9,834)
Cultural and recreation	590,776	268,955	65,656	-	(256,165)	-	(256,165)
Interest and other charges	11,070	-	-	-	(11,070)	-	(11,070)
Total governmental activities	3,096,056	532,970	783,889	10,024	(1,769,173)	-	(1,769,173)
Business-type activities:							
Water	943,678	1,050,141	-	-	-	106,463	106,463
Sewer	1,227,579	1,425,336	-	-	-	197,757	197,757
Refuse	459,292	489,384	-	-	-	30,092	30,092
Storm drain	50,186	42,549	-	-	-	(7,637)	(7,637)
Airport	230,143	153,923	27,585	-	-	(48,635)	(48,635)
Total business-type activities	2,910,878	3,161,333	27,585	-	-	278,040	278,040
Total primary government	\$ 6,006,934	\$ 3,694,303	\$ 811,474	\$ 10,024	(1,769,173)	278,040	(1,491,133)
General Revenues:							
Property taxes					624,959	-	624,959
Utility user taxes					241,944	-	241,944
Sales taxes					565,638	-	565,638
Business licenses/franchise fee					116,375	-	116,375
Other taxes					404,243	-	404,243
Unrestricted investment earnings					30,386	45,228	75,614
Total general revenues and transfers					1,983,545	45,228	2,028,773
Changes in net position					214,372	323,268	537,640
Net position - beginning					10,851,210	9,605,868	20,457,078
Net position - ending					\$ 11,065,582	\$ 9,929,136	\$ 20,994,718

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

City of Gustine
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	Major Funds		Non-major Governmental	Total Governmental
	General	Utility Tax	Funds	Funds
ASSETS				
Cash and investments	\$ 1,124,124	\$ 686,812	\$ 2,293,082	\$ 4,104,018
Receivables	93,466	11,495	9,282	114,243
Total assets	\$ 1,217,590	\$ 698,307	\$ 2,302,364	\$ 4,218,261
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 85,741	\$ -	\$ 72,981	\$ 158,722
Deposit and other liabilities	68,500	-	-	68,500
Total liabilities	154,241	-	72,981	227,222
Fund balances:				
Restricted for:				
Capital projects	437,705	-	1,960,649	2,398,354
Community development	332,102	698,307	286,581	1,316,990
Debt service	-	-	(17,847)	(17,847)
Law enforcement	192,752	-	-	192,752
Assigned for:				
Emergencies	49,996	-	-	49,996
Unassigned, reported in:				
General Fund	50,794	-	-	50,794
Total fund balances	1,063,349	698,307	2,229,383	3,991,039
Total liabilities and fund balances	\$ 1,217,590	\$ 698,307	\$ 2,302,364	\$ 4,218,261

Reconciliation of the Governmental Fund Balances to the Governmental Activities Net Position

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, are not reported in the funds.	9,220,025
Long-term liabilities, including certificates of participation, accrued compensated absences, and pensions, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,145,482)</u>
Net Position of Governmental Activities	<u>\$ 11,065,582</u>

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

City of Gustine
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	<u>Major Funds</u>		Non-Major	Total
	<u>General</u>	<u>Utility Tax</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
REVENUES				
Property taxes	\$ 535,018	\$ -	\$ 89,941	\$ 624,959
Sales taxes	565,638	-	-	565,638
Business licenses/franchise fee	116,375	-	-	116,375
Other taxes	16,186	241,944	-	258,130
Licenses and permits	49,248	-	2,350	51,598
Fines and forfeitures	14,529	-	-	14,529
Use of money and property	42,446	5,100	17,945	65,491
From other agencies	603,646	-	562,180	1,165,826
Charges for services	351,453	4,287	38,657	394,397
Other revenue	51,910	1,576	-	53,486
Total revenue	<u>2,346,449</u>	<u>252,907</u>	<u>711,073</u>	<u>3,310,429</u>
EXPENDITURES				
Current:				
General government	203,472	-	1,037	204,509
Public safety	1,426,887	-	1,554	1,428,441
Transportation	-	-	310,389	310,389
Community development	90,420	-	13,144	103,564
Cultural and recreation	529,588	53,542	2,591	585,721
Debt service				
Principal	-	-	4,333	4,333
Interest	-	-	11,070	11,070
Total expenditures	<u>2,250,367</u>	<u>53,542</u>	<u>344,118</u>	<u>2,648,027</u>
Excess (deficiency) of revenues over (under) expenditures	96,082	199,365	366,955	662,402
OTHER FINANCING SOURCES (USES)				
Transfers in	172,109	-	-	172,109
Transfers out	-	(172,109)	-	(172,109)
Total other financing sources (uses)	<u>172,109</u>	<u>(172,109)</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>268,191</u>	<u>27,256</u>	<u>366,955</u>	<u>662,402</u>
Fund balances-beginning	<u>795,158</u>	<u>671,051</u>	<u>1,862,429</u>	<u>3,328,638</u>
Fund balances-ending	<u>\$ 1,063,349</u>	<u>\$ 698,307</u>	<u>\$ 2,229,384</u>	<u>\$ 3,991,040</u>

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

City of Gustine
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances-total governmental funds	\$ 662,402
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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 depreciation exceeded capital outlays in the current period.	(312,058)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, including accrued compensated absences and pension expenses.	(140,304)
--	-----------

Governmental funds report debt principal payments as expenditures. However, in the statement of activities principal payments are reported as a reduction of long-term debt.	<u>4,333</u>
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Change in net position of governmental activities	<u>\$ 214,373</u>
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The accompanying notes are an integral part of these financial statements.

City of Gustine
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Enterprise Funds					Total
	Water	Sewer	Refuse	Storm Drain	Airport	
ASSETS						
Current assets:						
Cash and investments	\$ 385,171	\$ 3,123,395	\$ 30,026	\$ 83,567	\$ 9,570	\$ 3,631,729
Receivables	189,439	154,076	88,280	6,153	4,223	442,171
Total current assets	<u>574,610</u>	<u>3,277,471</u>	<u>118,306</u>	<u>89,720</u>	<u>13,793</u>	<u>4,073,900</u>
Noncurrent assets:						
Capital assets:						
Land	-	2,912,778	-	-	20,850	2,933,628
Buildings and improvements	3,762,629	7,536,552	2,540	-	1,538,042	12,839,763
Machinery and equipment	265,352	1,997,989	-	-	49,917	2,313,258
Less accumulated depreciation	<u>(1,955,167)</u>	<u>(6,595,726)</u>	<u>(127)</u>	<u>-</u>	<u>(661,892)</u>	<u>(9,212,912)</u>
Total capital assets (net of accumulated depreciation)	<u>2,072,814</u>	<u>5,851,593</u>	<u>2,413</u>	<u>-</u>	<u>946,917</u>	<u>8,873,737</u>
Total noncurrent assets	<u>2,072,814</u>	<u>5,851,593</u>	<u>2,413</u>	<u>-</u>	<u>946,917</u>	<u>8,873,737</u>
Total assets	<u>2,647,424</u>	<u>9,129,064</u>	<u>120,719</u>	<u>89,720</u>	<u>960,710</u>	<u>12,947,637</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension related deferred outflows	41,821	107,433	-	-	-	149,254
Total deferred outflows of resources	<u>41,821</u>	<u>107,433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>149,254</u>
LIABILITIES						
Current liabilities:						
Accounts payable	17,936	28,374	6,546	135	704	53,695
Accrued compensated absences	41,313	42,101	2,921	2,479	7,117	95,931
Deposits and other liabilities	58,131	-	-	-	-	58,131
Loans/notes payable-current	124,073	112,552	-	-	-	236,625
Certificates of participation payable-current	18,334	4,333	-	-	-	22,667
Total current liabilities	<u>259,787</u>	<u>187,360</u>	<u>9,467</u>	<u>2,614</u>	<u>7,821</u>	<u>467,049</u>
Noncurrent liabilities:						
Loans/notes payable	240,925	663,918	-	-	-	904,843
Certificates of participation payable	1,008,666	288,667	-	-	-	1,297,333
Net pension liability	134,567	345,683	-	-	-	480,250
Total noncurrent liabilities	<u>1,384,158</u>	<u>1,298,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,682,426</u>
Total liabilities	<u>1,643,945</u>	<u>1,485,628</u>	<u>9,467</u>	<u>2,614</u>	<u>7,821</u>	<u>3,149,475</u>
DEFERRED INFLOWS OF RESOURCES						
Pension related deferred inflows	5,122	13,158	-	-	-	18,280
Total deferred inflows of resources	<u>5,122</u>	<u>13,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,280</u>
NET POSITION						
Net investment in capital assets	680,816	4,782,123	2,413	-	946,917	6,412,269
Unrestricted (deficit)	359,362	2,955,588	108,839	87,106	5,972	3,516,867
Total net position	<u>\$ 1,040,178</u>	<u>\$ 7,737,711</u>	<u>\$ 111,252</u>	<u>\$ 87,106</u>	<u>\$ 952,889</u>	<u>\$ 9,929,136</u>

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

City of Gustine
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2018

	Business-Type Activities-Enterprise Funds					Totals
	Water	Sewer	Refuse	Storm Drain	Airport	
Operating revenues						
Charges for services	\$ 1,046,191	\$ 1,407,656	\$ 484,384	\$ 42,549	\$ 153,428	\$ 3,134,208
From other agencies	-	-	-	-	27,585	27,585
Other revenues	3,950	17,680	5,000	-	495	27,125
Total operating revenues	<u>1,050,141</u>	<u>1,425,336</u>	<u>489,384</u>	<u>42,549</u>	<u>181,508</u>	<u>3,188,918</u>
Operating expenses						
Salaries and benefits	470,304	471,698	25,998	17,262	32,374	1,017,636
Services, materials and supplies	277,457	422,668	433,167	32,924	137,318	1,303,534
Depreciation/amortization	140,384	280,923	127	-	60,451	481,885
Total operating expenses	<u>888,145</u>	<u>1,175,289</u>	<u>459,292</u>	<u>50,186</u>	<u>230,143</u>	<u>2,803,055</u>
Operating income (loss)	<u>161,996</u>	<u>250,047</u>	<u>30,092</u>	<u>(7,637)</u>	<u>(48,635)</u>	<u>385,863</u>
Nonoperating revenues (expenses):						
Interest income	5,461	38,852	223	621	71	45,228
Interest expense	(55,533)	(52,290)	-	-	-	(107,823)
Total nonoperating revenue (expense)	<u>(50,072)</u>	<u>(13,438)</u>	<u>223</u>	<u>621</u>	<u>71</u>	<u>(62,595)</u>
Income before contributions and transfers	111,924	236,609	30,315	(7,016)	(48,564)	323,268
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Change in net position	<u>111,924</u>	<u>236,609</u>	<u>30,315</u>	<u>(7,016)</u>	<u>(48,564)</u>	<u>323,268</u>
Total net position, beginning	928,254	7,501,102	80,937	94,122	1,001,453	9,605,868
Total net position, ending	<u>\$ 1,040,178</u>	<u>\$ 7,737,711</u>	<u>\$ 111,252</u>	<u>\$ 87,106</u>	<u>\$ 952,889</u>	<u>\$ 9,929,136</u>

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

City of Gustine
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2018

	Business-Type Activities-Enterprise Funds					Totals
	Water	Sewer	Refuse	Storm Drain	Airport	
CASH FLOW FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 1,045,694	\$ 1,367,251	\$ 476,472	\$ 42,469	\$ 154,359	\$ 3,086,245
Payments to suppliers	(275,755)	(450,145)	(426,565)	(32,736)	(137,772)	(1,322,973)
Payments to employees	(442,971)	(416,095)	(26,930)	(16,819)	(30,217)	(933,032)
Other operating revenues	3,950	17,680	5,000	-	28,080	54,710
Net cash provided/(used) by operating activities	<u>330,918</u>	<u>518,691</u>	<u>27,977</u>	<u>(7,086)</u>	<u>14,450</u>	<u>884,950</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on loans, bonds, and capital leases	(136,343)	(112,480)	-	-	-	(248,823)
Interest paid on loans, bonds, and capital leases	(55,533)	(52,290)	-	-	-	(107,823)
Purchase of capital assets	(4,356)	(4,356)	(2,540)	-	-	(11,252)
Total nonoperating revenue (expense)	<u>(196,232)</u>	<u>(169,126)</u>	<u>(2,540)</u>	<u>-</u>	<u>-</u>	<u>(367,898)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends on investments	5,461	38,852	223	621	71	45,228
Net cash provided by investing activities	<u>5,461</u>	<u>38,852</u>	<u>223</u>	<u>621</u>	<u>71</u>	<u>45,228</u>
Net increase/(decrease) in cash and cash equivalents	140,147	388,417	25,660	(6,465)	14,521	562,280
Cash and cash equivalents-beginning of year	245,024	2,734,978	4,366	90,032	(4,951)	3,069,449
Cash and cash equivalents-end of year	<u>\$ 385,171</u>	<u>\$ 3,123,395</u>	<u>\$ 30,026</u>	<u>\$ 83,567</u>	<u>\$ 9,570</u>	<u>\$ 3,631,729</u>
Reconciliation of operating income to net cash provided/(used) by operating activities:						
Operating income/(loss)	<u>\$ 161,996</u>	<u>\$ 250,047</u>	<u>\$ 30,092</u>	<u>\$ (7,637)</u>	<u>\$ (48,635)</u>	<u>\$ 385,863</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation/amortization expense	140,384	280,923	127	-	60,451	481,885
(Increase)/decrease in accounts receivable	(11,765)	(40,405)	(7,912)	(80)	931	(59,231)
(Increase)/decrease in deferred outflows - pension	(2,729)	(7,010)	-	-	-	(9,739)
Increase/(decrease) in accounts payable	1,702	(27,477)	6,602	188	(454)	(19,439)
Increase/(decrease) in accrued compensated absences	11,665	15,354	(932)	443	2,157	28,687
Increase/(decrease) in deposits	11,268	-	-	-	-	11,268
Increase/(decrease) in net pension liability	18,498	47,520	-	-	-	66,018
Increase/(decrease) in deferred outflows - pension	(101)	(261)	-	-	-	(362)
Total adjustments	<u>168,922</u>	<u>268,644</u>	<u>(2,115)</u>	<u>551</u>	<u>63,085</u>	<u>499,087</u>
Net cash provided/(used) by operating activities	<u>\$ 330,918</u>	<u>\$ 518,691</u>	<u>\$ 27,977</u>	<u>\$ (7,086)</u>	<u>\$ 14,450</u>	<u>\$ 884,950</u>

Noncash investing, capital, and financing activities:
During the year there were no noncash activities.

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

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of City of Gustine.

I–Summary of significant accounting policies

II–Reconciliation of government-wide and fund financial statements

III. Stewardship, compliance, and accountability

IV. Detailed notes on all funds

V. Other Information

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies

A. Reporting entity

The City of Gustine, California is a municipal corporation, operating as a general law city of the State of California and as such can exercise the powers specified by the constitution and laws of the State of California. The City is governed by an elected five-member City Council under the administration of an appointed City Manager. The City provides a full range of municipal services including police, fire, water, wastewater, storm drainage, solid waste, construction and maintenance of streets, planning and zoning, code enforcement, parks, recreation programs, and cultural activities.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function of a segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

In accordance with GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, the statement of net position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources - This amount represents outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources - This amount represents inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (continued)

The government-wide financial statements are reported using the "economic resources" measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Fiduciary fund financial statements are reported using the accrual basis of accounting but do not have a measurement focus since agency funds and private-purpose funds are the only fiduciary funds the City reports. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the "current financial resources" measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of "the end of the current fiscal period." Expenditures generally are recorded when a liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

The Utility Tax Fund is used to account for the collection of utility user taxes.

The City reported the following major proprietary funds:

The Water Fund is used to account for the operation and maintenance of the City's water treatment and distribution system. Revenues are primarily user charges. Rates are set periodically by the City Council.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment plant and collection facilities.

The Refuse Fund is used to account for residential and commercial garbage collection and disposal.

The Airport Fund is used to account for all airport grants as well as maintenance of the airport hangars.

The Storm Drain Fund is used to account for the operation related to the city's storm drain activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. The exception to this general rule is payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, refuse, airport and storm drain enterprise funds are charges to customers for sales and services. The water and sewer enterprise fund also recognize as operating revenue the fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets: All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed

D. Assets, liabilities, and net position or equity

1. Cash and investments

The City maintains a cash and investment pool that is available for use by all funds. This pool utilizes investments authorized by the Government Code and is further defined by the City's investment policy that is reviewed annually by the City Council.

Highly liquid market investments with maturities of 1 year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for the securities for which market quotations are readily available.

Authorized investments include deposits in the State of California administered Local Agency Investment Fund, insured certificates of deposits, collateralized certificates of deposits, commercial paper, bankers acceptances, medium term notes, money market mutual funds and securities backed by the U.S. Government. All investments are stated at fair value.

Interest income earned as a result of pooling is distributed to the appropriate funds based on month end cash balances in each fund. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

For purposes of the statement of cash flows, the City considers short term and highly liquid investments (including restricted assets) to be cash and cash equivalents.

The City invests its excess cash principally in U.S. Government Securities, U.S. Treasuries and the State of California Local Agency Investment Fund (LAIF). Investments in the LAIF are available for withdrawal on demand.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (continued)

The City is also required to deposit funds with fiscal agents under the provisions of Revenue Bonds, Contracts and/or Lease Agreements. These funds are invested by the fiscal agent in instruments generally more restrictive than the City's investment policy.

2. Receivables

Billed but unpaid services provided to individuals or non-governmental entities are recorded as "receivables." Services provided to other governmental entities are recorded as "due from other governments." The City's utility enterprise funds include an estimated amount for services rendered but not yet billed as of June 30, 2018, determined by prorating the July 2018 bi-monthly billing.

The City has not experienced any material write-off of receivables; and therefore, an "allowance for bad debts" is not included on the City's balance sheets or statements of net position.

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roadways), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000, and an estimated useful life of at least three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date donated.

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

Donated assets include developer donated land as well as the improvements on the land including streets, curbs and gutters, sidewalks, street lighting and landscaping. No developer donated assets are included in the total amount of capital grants and contributions on the government-wide statement of activities for the year ended June 30, 2018.

Property, plant and equipment of the primary government is depreciated over the estimated useful lives using the straight-line method, half-year convention. Estimated useful lives are as follows:

Distribution Systems	50 years
Roadways	50 years
Buildings	20-40 years
Vehicles	5-20 years
Other Equipment	3-10 years

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (continued)

4. Compensated absences

The liability for vested leave (vacation, compensated time off, holiday) earned but not used in governmental funds is expensed and established as a liability and is reported in the government-wide statement of net position in the governmental activities column. Vested leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue. No liability is recorded for non-vesting leave such as sick leave.

5. Long-term liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement 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 when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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 not withheld from the actual debt proceeds received are reported as debt service expenditures. Discounts withheld from the debt proceeds are reported as other financing uses.

6. Pensions

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

The following timeframes are used for pension reporting:

<u>CalPERS</u>	
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (continued)

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

7. Fund balances

In the fund financial statements, governmental funds report components of fund balance based on constraints on the specific purposes for which amounts can be spent. "Nonspendable" fund balance is not in a spendable form or has a requirement to maintain intact. "Restricted" fund balance has externally enforceable limitations on its use such as restrictions from outside parties such as creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. "Committed" fund balance is constrained by limits imposed by the government's highest level of decision-making and can only be removed or modified by a formal action by that authority. "Assigned" fund balance is limited by City Council, the City Manager or the designated department head as delegated by City Council. "Unassigned" fund balance is the residual net resources. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

The City will spend the funds restricted for their purpose within those funds first followed by assigned funds for their intended purposes prior to spending any unassigned funds.

The Utility Users Tax fund is the City's only major special revenue fund. This fund accounts for the collection of revenues from the utility users tax and the use of those funds.

8. Net Position

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

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted - This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (continued)

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City's policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

9. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

10. Implementation of New GASB Pronouncements

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. This pronouncement did not have a material effect on the financial statements of the City.

GASB has issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This pronouncement did not have a material effect on the financial statements of the City.

GASB has issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). This pronouncement did not have a material effect on the financial statements of the City.

GASB has issued Statement No. 85, *Omnibus 2018*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement also addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This pronouncement did not have a material effect on the financial statements of the City.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (continued)

GASB has issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This pronouncement did not have a material effect on the financial statements of the City.

Upcoming Governmental Accounting Standards Implementation

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. Application of this Statement is effective for the City's fiscal year ending June 30, 2019.

GASB has issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Application of this Statement is effective for the City's fiscal year ending June 30, 2020.

GASB has issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this Statement is effective for the City's fiscal year ending June 30, 2020.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE I – Summary of Significant Accounting Policies (concluded)

GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant 51 termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. Application of this Statement is effective for the City's fiscal year ending June 30, 2019.

GASB has issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Application of this Statement is effective for the City's fiscal year ending June 30, 2020.

GASB has issued Statement No. 90, *Majority Equity Interests*. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This Statement also provides guidance for reporting a component unit if a government acquires a 100 percent equity interest in that component unit. Application of this Statement is effective for the City's fiscal year ending June 30, 2020.

NOTE II – Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets are not current financial resources and therefore are not reported in the funds." The details of this \$9,220,025 difference are as follows:

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE II—Reconciliation of Government-wide and Fund Financial Statements (continued)

Capital assets	\$	24,152,336
Less accumulated depreciation		<u>(14,932,311)</u>
Net adjustment to increase fund balance-total governmental funds to arrive at <i>net position-governmental activities</i>	\$	<u>9,220,025</u>

One element of that reconciliation explains that "long-term liabilities, including notes/loans payable and pension related amounts are not due and payable in the current period and therefore are not reported in the funds." The details of this (\$2,145,482) difference are as follows:

Accrued compensated absences	\$	75,586
Notes/loans payable		293,000
Pension related amounts:		
Net pension liability-governmental activities	\$	2,550,411
Deferred inflows of resources-excess investment earnings		34,010
Deferred outflows of resources-contributions		(815,342)
Deferred inflows of resources-difference between actual and portion allocated to measurement period		<u>7,817</u>
Net pension related amounts		<u>1,776,896</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at <i>net position-governmental activities</i>	\$	<u>2,145,482</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains "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."

The details of this \$(312,058) difference are as follows:

Capital asset additions	\$	15,877
Depreciation expense		<u>(327,935)</u>
Net adjustment to decrease <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net position - governmental activities</i>	\$	<u>(312,058)</u>

City of Gustine
NOTES TO FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2018

NOTE II – Reconciliation of Government-wide and Fund Financial Statements (concluded)

Other elements of that reconciliation state that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of the \$(140,304) and \$4,333 differences are as follows:

Accrued compensated absences	\$	7,793
Pension expense		<u>(148,097)</u>
Net adjustment to increase <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net position - governmental activities</i>	\$	<u>(140,304)</u>
Principal payment on bonds payable	\$	<u>4,333</u>
Net adjustment to increase <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net position - governmental activities</i>	\$	<u>4,333</u>

NOTE III - Stewardship, Compliance, and Accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

Development of the draft City budget is a collaborative process between the department heads of all departments of the City, the Finance Director and the City Manager. Each spring, each department head meets individually with the City Manager and Finance Director to review and update needs for routine expenditures and forecast new or one-time expenses to include in the upcoming fiscal budget. The City Manager and Finance Director work to forecast revenue based upon past performance and known circumstances in the community and the economy, as well as any projections available from the state or federal government.

The appropriated budget includes the funds the City Manager anticipates spending from in the coming fiscal year. The City Manager does not normally include in the budget document any funds where activity is not expected. The City Manager takes unexpected expenditures that arise after approval of the budget, or in funds not in the budget, to the Council for approval at its meetings throughout the fiscal year. The City Manager may make transfers of appropriations between departments and accounts within a specific fund within the budgeted totals for the fund. The City Manager has the ultimate decision on what goes into the budget presented to the Council for approval.

The Council reviews the draft budget document as early as practical in the spring, normally during a regularly scheduled meeting. The Council must approve a budget prior to July 1 each year. When crucial information vital to the budget is not available to a quality that staff deems reliable enough to cover the entire fiscal year, the Council then approves a preliminary budget that staff operates under until the Council approves the revised and updated budget at a later meeting.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2018

NOTE III - Stewardship, Compliance, and Accountability (concluded)

B. Deficit fund equity

At June 30, 2018, deficit unrestricted net assets was reported for governmental activities in the amount of \$(5,427,660). The deficit is result of GASB 68 implementation for reporting net pension liabilities in the government-wide financial statement.

NOTE IV - Detailed Notes on All Funds

A. Cash and investments

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

Cash and investments	\$ <u>7,735,747</u>
Total cash and investments	\$ <u>7,735,747</u>

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

Cash on hand	\$ 192
Demand deposit with financial institutions-Demand Deposits	<u>7,735,555</u>
Total cash and investments	<u>\$ 7,735,747</u>

Investments Authorized by the California Government Code. The table below identifies the investment types that are authorized for public funds of the City by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in one issuer</u>	<u>Minimum Rating</u>
Local Agency Investment Fund (LAIF)	N/A	None	None	None
Local agency bonds	5 years	None	None	None
U.S. Treasury obligations	5 years	None	None	None
U.S. agency obligations	5 years	None	None	None
Repurchase agreements	1 year	None	None	None
Reverse repurchase and securities lending agreements	92 days	20% of base value	None	None
Mutual funds	N/A	20%	10%	Aaa
Money market mutual funds	N/A	20%	10%	Aaa
Collateralized bank deposits	5 years	None	None	None
Mortgage pass-through securities	5 years	20%	None	AA
Bankers acceptance	180 days	40%	30%	None
Commercial paper	270 days	25%	10%	A1/P1
Negotiable certificates of deposit	5 years	30%	None	None
Medium term bank notes / corp bonds	5 years	30%	None	A
Time Deposits	5 years	None	None	None
Joint Powers Authority Pool	N/A	None	None	None
County pooled investment	N/A	None	None	None

Investments Authorized by Debt Agreements. Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in one issuer</u>	<u>Minimum Rating</u>
Local Agency Investment Fund	N/A	None	None	None
Qualified Mutual Funds	N/A	None	None	None
Money Market Accounts	N/A	None	None	None
U.S. Treasury obligations	5 years	None	None	None
U.S. agency obligations	5 years	None	None	None

City of Gustine
NOTES TO FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

Disclosures Relating to Interest Rate Risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided in the table below that shows the distribution of the City's investment by maturity.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
Local Agency Investment Fund (LAIF)	\$ 5,937,304	N/A
Total	<u>\$ 5,937,304</u>	

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations. The City's investments (including investments held by bond trustees) do not include any investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated in the information provided above.

Disclosures Relating to Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type Rating</u>	<u>Amount</u>	<u>Minimum Rating Required</u>	<u>Ratings as of Year End</u>			
			<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
LAIF	\$ 5,937,304	N/A	—	—	—	\$ 5,937,304
Total	<u>\$ 5,937,304</u>		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,937,304</u>

Concentration of Credit Risk. The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There was no investment in any one issuer (other than mutual funds, and external investment pools) that represents 5% or more of total City investments.

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 custodial credit risk for investments is the risk that, in the event of the failure of the broker or dealer to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

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 deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 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.

As of June 30, 2018, \$969,734 held with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State Investment Pool. The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2018 included a portion of the pooled funds invested in Structured Notes and Assets-Backed Securities. These investments included the following:

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

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

As of June 30, 2018, the City had \$5,937,304 invested in LAIF, which had invested 1.89% of the pool investment funds in Structured Notes and Asset-Backed Securities and 0.78% of pool investment funds in Short-term Asset-Backed Commercial Paper.

The fair value of the City's position in the LAIF pool is the same as the value of the pool shares.

The Pooled Money Investment Board provides oversight to the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The Pooled Money Investment Board is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. The investment program is not registered with the Securities and Exchange Commission as an investment company.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

Certain funds have elected to participate in the pooled investment program even though they have the authority to make their own investments. Others may be required by legislation to participate in the program; as a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is voluntary.

B. Property taxes

Secured property taxes become a lien on the property as of January 1 and are levied in two equal installments the first due November 1 and delinquent on December 11, and the second due February 1 and delinquent April 11. Property taxes on unsecured property are due on the lien date of March 1 and become delinquent on September 1. The County of Merced is responsible for the assessment, collection and apportionment for all jurisdictions within the County, including the City of Gustine.

C. Receivables

Receivables as of June 30, 2018 for the City's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Utility Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 73,638	\$ 11,495	\$ -	\$ 85,133
Accounts	19,828	-	9,282	29,110
Total	<u>\$ 93,466</u>	<u>\$ 11,495</u>	<u>\$ 9,282</u>	<u>\$ 114,243</u>

	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Storm Drain</u>	<u>Airport</u>	<u>Total Enterprise</u>
Interest	\$ -	\$ 25,420	\$ -	\$ -	\$ -	\$ 25,420
Accounts	189,439	128,656	88,280	6,153	4,223	416,751
Total	<u>\$ 189,439</u>	<u>\$ 154,076</u>	<u>\$ 88,280</u>	<u>\$ 6,153</u>	<u>\$ 4,223</u>	<u>\$ 442,171</u>

D. Interfund receivables, payables and transfers

Interfund balances for the purpose of the government-wide financial statements have been eliminated. The composition of interfund balances in the fund level statements as of June 30, 2018, is as follows:

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	Program Support	\$ 172,109
Total transfers			<u>\$ 172,109</u>

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

E. Capital Assets

Summary of change in capital assets for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 71,310	\$ -	\$ -	\$ 71,310
Capital assets, being depreciated:				
Buildings and improvements	2,842,889	1,716	-	2,844,605
Machinery and equipment	1,222,260	14,161	-	1,236,421
Road network	<u>20,000,000</u>	<u>-</u>	<u>-</u>	<u>20,000,000</u>
Total capital assets being depreciated	<u>24,065,149</u>	<u>15,877</u>	<u>-</u>	<u>24,081,026</u>
Less accumulated depreciation for				
Buildings and improvements	(2,557,940)	(8,681)	-	(2,566,621)
Machinery and equipment	(1,046,436)	(52,554)	-	(1,098,990)
Road network	<u>(11,000,000)</u>	<u>(266,700)</u>	<u>-</u>	<u>(11,266,700)</u>
Total accumulated depreciation	<u>(14,604,376)</u>	<u>(327,935)</u>	<u>-</u>	<u>(14,932,311)</u>
Total capital assets, being depreciated, net	<u>9,460,773</u>	<u>(312,058)</u>	<u>-</u>	<u>9,148,715</u>
Governmental activities capital assets, net	<u>\$ 9,532,083</u>	<u>\$ (312,058)</u>	<u>\$ -</u>	<u>\$ 9,220,025</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,933,628	\$ -	\$ -	\$ 2,933,628
Capital assets, being depreciated:				
Buildings and improvements	12,828,511	11,252	-	12,839,763
Machinery and equipment	<u>2,313,258</u>	<u>-</u>	<u>-</u>	<u>2,313,258</u>
Total capital assets being depreciated	<u>15,141,769</u>	<u>11,252</u>	<u>-</u>	<u>15,153,021</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,790,850)	(377,512)	-	(7,168,362)
Machinery and equipment	<u>(1,940,177)</u>	<u>(104,373)</u>	<u>-</u>	<u>(2,044,550)</u>
Total accumulated depreciation	<u>(8,731,027)</u>	<u>(481,885)</u>	<u>-</u>	<u>(9,212,912)</u>
Total capital assets, being depreciated, net	<u>6,410,742</u>	<u>(470,633)</u>	<u>-</u>	<u>5,940,109</u>
Business-type activities capital assets, net	<u>\$ 9,344,370</u>	<u>\$ (470,633)</u>	<u>\$ -</u>	<u>\$ 8,873,737</u>

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

Depreciation/amortization expense was charged to functions as follows:

Governmental activities depreciation expense:

General Government	\$	1,996
Public Safety		38,943
Transportation		267,780
Cultural and recreation		19,216
Total governmental activities depreciation expense	\$	<u>327,935</u>

Business-type activities depreciation expense:

Water	\$	140,384
Sewer		280,923
Refuse		127
Airport		60,451
Total business-type activities depreciation expense	\$	<u>481,885</u>

F. Long-term debt

Summary of change in long-term debt for the year ended June 30, 2018 was as follows:

	Balance			Balance 6/30/2018	Classification	
	7/1/2017	Additions	Reductions		Due in one year	Due in more than one year
Governmental Activities:						
Certificates of participation	\$ 297,333	\$ -	\$ (4,333)	\$ 293,000	\$ 4,333	\$ 288,667
Total certificates of participation	297,333	-	(4,333)	293,000	4,333	288,667
Deposits and other liabilities:						
Insurance trust	4,993	8,269	(8,408)	4,854	4,854	-
Wages and payroll payable	68,032	1,752,564	(1,756,950)	63,646	63,646	-
Total deposits and other liabilities	73,025	1,760,833	(1,765,358)	68,500	68,500	-
Compensated absences	83,379	-	(7,793)	75,586	-	75,586
Net pension liability	2,270,167	280,244	-	2,550,411	-	2,550,411
Total governmental activities	<u>\$ 2,723,904</u>	<u>\$2,041,077</u>	<u>\$ (1,777,484)</u>	<u>\$ 2,987,497</u>	<u>\$ 72,833</u>	<u>\$ 2,914,664</u>

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

	Balance			Balance 6/30/2018	Classification	
	7/1/2017	Additions	Reductions		Due in one year	Due in more than one year
Business-type Activities:						
Loans/notes payable	\$ 1,367,624	\$ -	\$ (226,156)	\$ 1,141,468	\$ 236,625	\$ 904,843
Certificates of participation	1,342,667	-	(22,667)	1,320,000	22,667	1,297,333
Deposits and other liabilities:						
Customers' deposits	46,863	49,168	(37,900)	58,131	58,131	-
Compensated absences	67,244	28,687	-	95,931	-	95,931
Net pension liability	414,232	66,018	-	480,250	-	480,250
Total business-type Activities	<u>\$ 3,238,630</u>	<u>\$ 143,873</u>	<u>\$ (286,723)</u>	<u>\$ 3,095,780</u>	<u>\$ 317,423</u>	<u>\$ 2,778,357</u>

Governmental activities long-term debt

1. Certificates of participation

2011 COP-City Hall Project (1/3)

On November 1, 2011, the City agreed to issue certificates of participation in the amount of \$950,000. The proceeds from this issue were used to finance a portion of the cost of construction and remodeling associated with the city hall project. The certificates are being repaid one-third each by Water Enterprise, Sewer Enterprise and the General Fund. The certificates have an interest rate of 3.75% and the final payment is scheduled for November 1, 2051. The governmental activity's balance outstanding as of June 30, 2018 was \$293,000.

The annual debt service requirements for the government activities share of city hall project certificates of participation payable outstanding at June 30, 2018, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,333	\$ 10,906	\$ 15,239
2020	4,667	10,737	15,404
2021	4,667	10,563	15,230
2022	5,000	10,381	15,381
2023	5,000	10,194	15,194
2024-2028	28,333	47,919	76,252
2029-2033	34,000	42,087	76,087
2034-2038	41,667	35,031	76,698
2039-2043	50,000	26,438	76,438
2044-2048	59,333	16,225	75,558
2049-2052	56,000	4,287	60,287
Total	<u>\$ 293,000</u>	<u>\$ 224,768</u>	<u>\$ 517,768</u>

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

Business-type activities long-term debt

1. Notes/loans payable

Notes/loans payable at June 30, 2018, consisted of the following:

	Balance			Balance 6/30/2018	Classification	
	7/1/2017	Additions	Reductions		Due in one year	Due in more than one year
1999 State Water Resource Control Board (SWRCB)	\$ 121,835	\$ -	\$ (39,743)	\$ 82,092	\$ 40,618	\$ 41,474
2004 Water infrastructure note	349,500	-	(110,800)	238,700	116,400	122,300
2006 Sewer system note	629,274	-	(61,194)	568,080	64,260	503,820
2010 Vierra loan	267,015	-	(14,419)	252,596	15,347	237,249
Total notes/loan payable	<u>\$ 1,367,624</u>	<u>\$ -</u>	<u>\$ (226,156)</u>	<u>\$ 1,141,468</u>	<u>\$ 236,625</u>	<u>\$ 904,843</u>

1999 State Water Resource Control Board (SWRCB) - Sewer system improvements

In September 1999, the City entered into a loan agreement with the State Water Resource Control Board to borrow \$802,463. The proceeds were used to finance improvements to the City's municipal sewer system. The loan has an interest rate of 2.20% and the final payment is scheduled for January 29, 2020. The balance outstanding as of June 30, 2018 was \$82,092.

The annual debt service requirements for the SWRCB loan payable outstanding at June 30, 2018, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 40,618	\$ 1,806	\$ 42,424
2020	41,474	912	42,386
Total	<u>\$ 82,092</u>	<u>\$ 2,718</u>	<u>\$ 84,810</u>

2004 Water System Note Payable

In March 2004 the City entered in to an infrastructure loan agreement with City National Bank in the amount of \$1,368,300. The proceeds from this issue were used to refund a prior note payable that was used to finance water infrastructure improvements. The note has an interest rate of 4.95% and the final payment is scheduled for June 16, 2020. The balance outstanding as of June 30, 2018 was \$238,700.

The annual debt service requirements for the water system note payable outstanding at June 30, 2018, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 116,400	\$ 10,393	\$ 126,793
2020	122,300	4,559	126,859
Total	<u>\$ 238,700</u>	<u>\$ 14,952</u>	<u>\$ 253,652</u>

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

2006 Sewer System Note Payable

On September 20, 2006, the City entered into a loan agreement with Citizens Business Bank in the amount of \$1,154,500. The proceeds from this issue were used to refund a prior note payable that was used to finance sewer system improvements. The note has an interest rate of 4.95% and the final payment is scheduled for October 17, 2025. The balance outstanding as of June 30, 2018 was \$568,080.

The annual debt service requirements for the business-type activity's share of city hall project certificates of participation payable outstanding at June 30, 2018, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 64,260	\$ 27,335	\$ 91,595
2020	67,481	24,114	91,595
2021	70,862	20,733	91,595
2022	74,414	17,181	91,595
2023	78,143	13,452	91,595
2024-2026	212,920	16,067	228,987
Total	\$ 568,080	\$ 118,882	\$ 686,962

2010 Vierra Loan Payable

In February 2010 the City entered into a note payable in the amount of \$350,000. The proceeds from the note were used to purchase property for the water and sewer enterprises. The note payable has an interest rate of 6.25% and the final payment is scheduled for January 2030. The note is being repaid with monthly payments of \$2,558. The balance outstanding as of June 30, 2018 was \$252,596.

The annual debt service requirements for the note payable outstanding at June 30, 2018, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 15,347	\$ 15,352	\$ 30,699
2020	16,334	14,365	30,699
2021	17,384	13,315	30,699
2022	18,502	12,197	30,699
2023	19,692	11,007	30,699
2024-2028	119,172	34,323	153,495
2029-2030	46,165	2,442	48,607
Total	\$ 252,596	\$ 103,001	\$ 355,597

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

2. Certificates of participation

Certificates of participation at June 30, 2018, consisted of the following:

	Balance			Classification		
	<u>7/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2018</u>	<u>Due in one year</u>	<u>Due in more than one year</u>
2011 USDA City hall (2/3)	\$ 594,667	\$ -	\$ (8,667)	\$ 586,000	\$ 8,667	\$ 577,333
2012 USDA Water system	748,000	-	(14,000)	734,000	14,000	720,000
Total Certificates of participation	<u>\$ 1,342,667</u>	<u>\$ -</u>	<u>\$ (22,667)</u>	<u>\$ 1,320,000</u>	<u>\$ 22,667</u>	<u>\$ 1,297,333</u>

2011 USDA Certificates of Participation - City Hall Project (2/3)

On November 1, 2011, the City agreed to issue certificates of participation in the amount of \$950,000. The proceeds from this issue were used to finance a portion of the cost of construction and remodeling associated with the city hall project. The certificates are being repaid one-third each by Water Enterprise, Sewer Enterprise and the General fund. The certificates have an interest rate of 3.75% and the final payment is scheduled for November 1, 2051. The business-type activity's balance outstanding as of June 30, 2018 was \$586,000.

The annual debt service requirements for the business-type activity's share of city hall project certificates of participation payable outstanding at June 30, 2015, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 8,667	\$ 21,812	\$ 30,479
2020	9,333	21,475	30,808
2021	9,333	21,125	30,458
2022	10,000	20,762	30,762
2023	10,000	20,388	30,388
2024-2028	56,667	95,837	152,504
2029-2033	68,000	84,175	152,175
2034-2038	83,333	70,062	153,395
2039-2043	100,000	52,875	152,875
2044-2048	118,667	32,450	151,117
2049-2052	<u>112,000</u>	<u>8,575</u>	<u>120,575</u>
Total	<u>\$ 586,000</u>	<u>\$ 449,536</u>	<u>\$ 1,035,536</u>

2012 USDA certificates of participation-Water system improvements

On June 1, 2012, the City agreed to issue certificates of participation in the amount of \$800,000. The proceeds from this issue were used to finance improvements to the City's municipal water system. The certificates have an interest rate of 2.75% and the final payment is scheduled for July 1, 2052. The balance outstanding as of June 30, 2018 was \$734,000.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

The annual debt service requirements for the water system improvement certificates of participation payable outstanding at June 30, 2018, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 14,000	\$ 19,992	\$ 33,992
2020	14,000	19,608	33,608
2021	14,000	19,223	33,223
2022	15,000	18,824	33,824
2023	15,000	18,411	33,411
2024-2028	78,000	85,745	163,745
2029-2033	87,000	74,401	161,401
2034-2038	95,000	61,916	156,916
2039-2043	106,000	48,125	154,125
2044-2048	141,000	31,144	172,144
2049-2053	155,000	10,821	165,821
Total	<u>\$ 734,000</u>	<u>\$ 408,210</u>	<u>\$ 1,142,210</u>

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

G. Public Employees Retirement System

Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Deferred outflows of resources:			
Pension contribution after measurement date:			
Miscellaneous	\$ 73,889	\$ 41,551	\$ 115,440
Safety	193,093	-	193,093
Change in assumptions:			
Miscellaneous	42,075	91,172	133,247
Safety	225,066	-	225,066
Difference between expected and actual experience:			
Miscellaneous	120,102	-	120,102
Safety	12,426	-	12,426
Difference in projected and actual earnings on pension investments:			
Miscellaneous	29,403	16,531	45,934
Safety	53,150	-	53,150
Differences between City's contributions and proportionate share of contributions			
Miscellaneous	-	-	-
Safety	66,138	-	66,138
Total deferred outflows of resources	\$ 815,342	\$ 149,254	\$ 964,596
Net pension liabilities:			
Miscellaneous	\$ 854,180	\$ 480,250	\$ 1,334,430
Safety	1,696,231	-	1,696,231
Total net pension liabilities	\$ 2,550,411	\$ 480,250	\$ 3,030,661
Deferred inflows of Resources:			
Difference between expected and actual experience			
Miscellaneous	\$ 13,964	\$ 7,851	\$ 21,815
Safety	-	-	-
Adjustments due to differences in proportions			
Miscellaneous	-	-	-
Safety	9,312	-	9,312
Differences between City's contributions and proportionate share of contributions			
Miscellaneous	18,550	10,430	28,980
Safety	-	-	-
Total deferred inflows of resources	\$ 41,826	\$ 18,281	\$ 60,107
Pension expenses:			
Miscellaneous	\$ 173,349	\$ 97,463	\$ 270,812
Safety	249,568	-	249,568
Total pension expenses	\$ 422,917	\$ 97,463	\$ 520,380

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

General Information about the Pension Plan

Plan Description

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Benefit Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic miscellaneous member becomes eligible for Service Retirement upon attainment of age 55 with at least 5 years of credited service. PEPPRA miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. A classic safety member becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service. PEPPRA safety members become eligible for service retirement upon attainment of age 57 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 or 12 consecutive months' full-time equivalent monthly pay. Retirement benefits for classic miscellaneous employees are calculated as 2.5% of the average final 36 months compensation. Retirement benefits for PEPPRA miscellaneous employees are calculated as 2.0% of the average final 36 months compensation. Retirement benefits for classic safety employees are calculated as 3.0% of the average final 36 months compensation. Retirement benefits for PEPPRA safety employees are calculated as 2.7% of the average final 36 months compensation.

Participant is eligible for non-industrial disability retirement if becomes disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees. The City provides industrial disability retirement benefit to safety employees. The industrial disability retirement benefit is a monthly allowance equal to 50 percent of final compensation.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2 percent.

Employees Covered by Benefit Terms

At June 30, 2018 the following employees were covered by the benefit terms:

	Plans		
	Miscellaneous	Safety	Safety (PEPRA)
Active employees	15	8	2
Transferred and terminated employees	18	13	0
Retired Employees and Beneficiaries	18	25	0
Total	51	46	2

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") 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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change as plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Also on August 31, 2012 the California Legislature passed AB 340, the Public Employees' Pension Reform Act of 2013 (PEPRA). As part of this reform, "new members" hired starting January 1, 2013 will have to pay their required employee contribution. Since their benefit level is much lower than the 'classic members' their contribution rate is also lower. PEPRA defines "new member" as an employee hired on or after January 1, 2013 who falls into one of the following:

1. Has no prior membership in any California public retirement system,
2. Has prior membership with another California public retirement system that has no reciprocity with CalPERS; or
3. Has an established membership with CalPERS prior January 1, 2013 and is re-hired by a different CalPERS employer after a break in service of greater than six months.

For the measurement date year ended June 30, 2018, the plan's contribution and the proportionate share of aggregate employer contributions of the cost-sharing plan made for each plan was as follows:

	Miscellaneous	Safety	Total
Contributions-employer	\$ 115,440	\$ 193,093	\$ 308,533

City of Gustine
NOTES TO FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

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 share for each plan as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Proportionate share of net pension liability	\$ 1,334,430	\$ 1,696,231	\$ 3,030,661

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 the Plans is measured as of June 30, 2017, 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 following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2016). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2017). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (fiscal year 2016).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

The City's proportionate share of the net pension liability for each plan as of June 30, 2017 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion June 30, 2017	0.03385%	0.02839%

For the measurement year ended June 30, 2017, the City recognized pension expense credit of (\$89,386). At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plan		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 115,440	\$ -
Difference between expected and actual experience	187,620	(21,815)
Changes of assumptions	65,731	-
Net difference between projected and actual earnings on pension plan investments	45,934	-
Employer contributions in excess/(under) proportionate share of contributions	-	(28,980)
Adjustments due to difference in proportions	-	-
Total	\$ 414,725	\$ (50,795)
Safety Plan		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 193,093	\$ -
Difference between expected and actual experience	12,426	-
Changes of assumptions	225,066	-
Net difference between projected and actual earnings on pension plan investments	53,150	-
Employer contributions in excess/(under) proportionate share of contributions	66,138	-
Adjustments due to difference in proportions	-	(9,312)
Total	\$ 549,873	\$ (9,312)

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

	Aggregate Total	
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 308,533	\$ -
Difference between expected and actual experience	200,046	(21,815)
Changes of assumptions	290,797	-
Net difference between projected and actual earnings on pension plan investments	99,084	-
Employer contributions in excess/(under) proportionate share of contributions	66,138	(28,980)
Adjustments due to difference in proportions	-	(9,312)
Total	\$ 964,598	\$ (60,107)

The \$308,533 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2017, the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2016 and the June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.00% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2%

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (continued)

Discount Rate

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated 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 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 geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.80%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

¹ An expected inflation of 2.5% used for this period.

² An expected inflation of 3.0% used for this period.

The discount rate used to measure the total pension liability was 7.15% for the plans. 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% 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% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 Section.

The long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.00% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. The difference was deemed immaterial to the Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE IV - Detailed Notes on All Funds (concluded)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net position liability for the 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:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan	\$ 2,003,930	\$ 1,334,430	\$ 779,938
Safety Plan	\$ 2,501,540	\$ 1,696,231	\$ 1,037,931
Total	\$ 4,505,470	\$ 3,030,661	\$ 1,817,869

Pension Plan Fiduciary Net Position

Detailed information about the Plans' fiduciary net position is available in the separately issued CalPERS financial report.

Payable to the Pension Plan

At June 30, 2018, the City had no outstanding amounts owed to the pension plan for contributions for the year ended June 30, 2018.

NOTE V - Other Information

A. Self insurance

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each worker's compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$10,000 and workers' compensation losses under \$10,000. The CSJVRMA participates in an excess pool, which provides generally liability coverage from \$1,000,000 to \$10,000,000. The CSJVRMA participates in an excess pool, which provides Worker's Compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

The CSJVRMA is a consortium of fifty-four (54) cities in San Joaquin Valley, California. It was established under provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The annual financial report may be obtained from the consortium's executive office at 6371 Auburn Blvd., Citrus Heights, California 95621.

City of Gustine
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

NOTE V - Other Information

B. Contingent liabilities

The City participates in a number of federal, state and local grant programs. These programs are subject to financial and compliance audits by the granters or their representatives. The audits of these programs for earlier years and the year ended June 30, 2018 have not been completed in all cases; accordingly, final determination of the City's compliance with applicable grant requirements may be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City believes any such claims would be immaterial to the City's financial position at June 30, 2018. Receipt of these grant revenues is not assured in the future.

City of Gustine
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance over/(under) budget
REVENUES				
Property taxes	\$ 447,600	\$ 447,600	\$ 535,018	\$ 87,418
Sales taxes	451,000	451,000	565,638	114,638
Business licenses/franchise fee	116,500	116,500	116,375	(125)
Other taxes	11,500	11,500	16,186	4,686
Licenses and permits	68,500	68,500	49,248	(19,252)
Fines and forfeitures	1,500	1,500	14,529	13,029
Use of money and property	92,000	92,000	42,446	(49,554)
From other agencies	511,274	511,274	603,646	92,372
Charges for services	82,950	82,950	351,453	268,503
Other revenue	96,850	96,850	51,910	(44,940)
Total revenue	<u>1,879,674</u>	<u>1,879,674</u>	<u>2,346,449</u>	<u>466,775</u>
EXPENDITURES				
City council	20,349	20,349	14,974	(5,375)
City manager	33,341	33,341	30,786	(2,555)
Elections	6,000	6,000	-	(6,000)
Finance	76,277	76,277	20,066	(56,211)
City attorney	38,500	38,500	53,861	15,361
City clerk	14,135	14,135	16,048	1,913
General government buildings	84,127	84,127	120,720	36,593
Police	1,413,523	1,413,523	1,326,790	(86,733)
Fire	38,871	38,871	34,946	(3,925)
Animal control	79,917	79,917	66,297	(13,620)
Planning	21,932	21,932	90,420	68,488
Parks	62,289	62,289	261,551	199,262
Recreation	91,015	91,015	213,908	122,893
Total expenditures	<u>1,980,276</u>	<u>1,980,276</u>	<u>2,250,367</u>	<u>270,091</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(100,602)</u>	<u>(100,602)</u>	<u>96,082</u>	<u>196,684</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	104,092	104,092	172,109	68,017
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>104,092</u>	<u>104,092</u>	<u>172,109</u>	<u>68,017</u>
Net changes in fund balances	<u>3,490</u>	<u>3,490</u>	<u>268,191</u>	<u>264,701</u>
Fund balances-beginning	<u>795,158</u>	<u>795,158</u>	<u>795,158</u>	<u>-</u>
Fund balances-ending	<u>\$ 798,648</u>	<u>\$ 798,648</u>	<u>\$ 1,063,349</u>	<u>\$ 264,701</u>

City of Gustine
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MISCELLANEOUS PLAN
 June 30, 2018
 Last Ten Fiscal Years*

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u> ¹
Plan's proportion of the net pension liability	0.003385%	0.03313%	0.03338%	0.01068%
Plan's proportionate share of the net pension liability	\$ 1,334,430	\$ 1,150,988	\$ 915,891	\$ 664,842
Plan's covered-employee payroll ²	\$ 475,226	\$ 597,534	\$ 648,819	\$ 703,971
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll	280.80%	192.62%	141.16%	94.44%
Plan's fiduciary net position	\$ 3,532,999	\$ 3,266,119	\$ 3,377,164	\$ 3,377,164
Plan's fiduciary net position as a percentage of the total pension liability	72.58%	73.94%	78.67%	83.55%
Plan's proportionate share of aggregate employer contributions ^{3,4}	\$ 160,869	\$ 197,981	\$ 216,602	\$ 91,324

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only years since 2015 are shown.

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

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

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

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

City of Gustine
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SAFETY PLAN
 June 30, 2018
 Last Ten Fiscal Years*

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u> ¹
Plan's proportion of the net pension liability	0.002839%	0.002961%	0.006224%	0.002110%
Plan's proportionate share of the net pension liability	\$ 1,696,231	\$ 1,533,409	\$ 1,273,669	\$ 1,313,009
Plan's covered-employee payroll ²	\$ 340,207	\$ 457,156	\$ 363,612	\$ 512,526
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll	498.59%	335.42%	350.28%	256.18%
Plan's fiduciary net position	\$ 4,059,384	\$ 3,807,982	\$ 4,070,834	\$ 3,829,922
Plan's fiduciary net position as a percentage of the total pension liability	70.53%	71.29%	76.17%	74.47%
Plan's proportionate share of aggregate employer contributions ^{3,4}	\$ 96,578	\$ 135,350	\$ 226,308	\$ 108,430

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only years since 2015 are shown.

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

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

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

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

City of Gustine
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
SCHEDULE OF CONTRIBUTIONS
MISCELLANEOUS PLAN
 June 30, 2018
 Last Ten Fiscal Years*

	2016-17	2015-16	2014-15	2013-14 ¹
Contractually determined contribution (actuarially determined)	\$ 115,440	\$ 106,481	\$ 107,670	\$ 79,133
Contributions in relation to the actuarially determined contributions ²	<u>(115,440)</u>	<u>(106,481)</u>	<u>(107,670)</u>	<u>(79,133)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll ^{3,4}	\$ 475,226	\$ 597,534	\$ 648,819	\$ 703,971
Contributions as a percentage of covered-employee payroll ³	24.29%	17.82%	16.59%	11.24%

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

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than 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.

⁴ Payroll from prior year (\$683,467) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2011 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.

Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	

Retirement age	7.15%, net of pension plan investment and administrative expenses, including inflation The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
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Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.
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* Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

City of Gustine
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
SCHEDULE OF CONTRIBUTIONS
SAFETY PLAN
 June 30, 2018
 Last Ten Fiscal Years*

	2016-17	2015-16	2014-15	2013-14 ¹
Contractually determined contribution (actuarially determined)	\$ 193,093	\$ 183,489	\$ 150,134	\$ 163,974
Contributions in relation to the actuarially determined contributions ²	<u>(193,093)</u>	<u>(183,489)</u>	<u>(150,134)</u>	<u>(163,974)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll ^{3, 4}	\$ 340,207	\$ 457,156	\$ 363,612	\$ 512,526
Contributions as a percentage of covered- employee payroll ³	56.76%	40.14%	41.29%	31.99%

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

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than 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.

⁴ Payroll from prior year (\$497,598) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date:

6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.15%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

City of Gustine
COMBINING BALANCE SHEETS
SPECIAL REVENUE FUNDS
 June 30, 2018

	CDBG	Gas Tax Sidewalk Maintenance	Re- development Housing	Borrelli Asmt District	Southport Asmt District	Separate Impact Fees	Measure V	GO Bond	Total Non-Major SRF
ASSETS									
Cash and investments	\$ 377,944	\$ 726,798	\$ (91,363)	\$ (36,502)	\$ 20,969	\$ 1,007,920	\$ 305,163	\$ (17,847)	\$ 2,293,082
Cash with agents-restricted	-	-	-	-	-	-	-	-	-
Receivables	-	9,282	-	-	-	-	-	-	9,282
Due from other governments	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Total assets	\$ 377,944	\$ 736,080	\$ (91,363)	\$ (36,502)	\$ 20,969	\$ 1,007,920	\$ 305,163	\$ (17,847)	\$ 2,302,364
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ -	\$ 5,687	\$ -	\$ 10,496	\$ 342	\$ 2,701	\$ 53,755	\$ -	\$ 72,981
Due to other governments	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-
Deposit and other liabilities	-	-	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-	-	-
Total liabilities	-	5,687	-	10,496	342	2,701	53,755	-	72,981
Fund balances:									
Nonspendable:									
Assets held for resale	-	-	-	-	-	-	-	-	-
Long-term receivables	-	-	-	-	-	-	-	-	-
Restricted for:									
Capital projects	-	730,393	-	(46,998)	20,627	1,005,219	251,408	-	1,960,649
Community development	377,944	-	(91,363)	-	-	-	-	-	286,581
Debt service	-	-	-	-	-	-	-	(17,847)	(17,847)
Law enforcement	-	-	-	-	-	-	-	-	-
Assigned for:									
Services, material and supplies	-	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-	-
Emergencies	-	-	-	-	-	-	-	-	-
Unassigned, reported in:									
General fund	-	-	-	-	-	-	-	-	-
Total fund balances	\$ 377,944	\$ 730,393	\$ (91,363)	\$ (46,998)	\$ 20,627	\$ 1,005,219	\$ 251,408	\$ (17,847)	\$ 2,229,383
Total liabilities and fund balances	\$ 377,944	\$ 736,080	\$ (91,363)	\$ (36,502)	\$ 20,969	\$ 1,007,920	\$ 305,163	\$ (17,847)	\$ 2,302,364

City of Gustine
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2018

	CDBG	Transportation		Redevelopment		Borrelli		Southport		Separate		GO		Total
		Sidewalk	Maintenance	Housing	Asmt	District	Asmt	District	Asmt	District	Impact	Fees	Measure V	
REVENUES														
Property taxes			\$ -	\$ 89,941	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,941
Licenses and permits			2,350	-	-	-	-	-	-	-	-	-	-	2,350
Use of money and property	2,807	5,397	-	-	(168)	157	7,484	2,266	17,944	1				17,944
From other agencies			313,806	-	-	-	-	248,374	562,180					562,180
Charges for services			-	-	-	3,877	20,024	-	38,657					38,657
Total revenue	2,807	321,553	89,941	89,941	14,588	4,034	27,508	250,640	711,072	1				711,072
EXPENDITURES														
Current:														
General government							1,037		1,037					1,037
Public Safety							1,554		1,554					1,554
Transportation			223,675		17,021	1,562	13,742	54,389	310,389					310,389
Community development	13,144								13,144					13,144
Cultural and recreation							2,591		2,591					2,591
Debt Service:														
Principal													4,333	4,333
Interest													11,070	11,070
Capital outlays														
Total expenditures	13,144	223,675		17,021	1,562	18,924	15,403	54,389	344,118					344,118
Excess (deficiency) of revenues over (under) expenditures	(10,337)	97,878	89,941	(2,433)	2,472	8,584	(15,402)	196,251	366,954					366,954
OTHER FINANCING SOURCES (USES)														
Transfers in														
Transfers out														
Total other financing sources (uses)														
Net changes in fund balances	(10,337)	97,878	89,941	(2,433)	2,472	8,584	(15,402)	196,251	366,954					366,954
Fund balances-beginning	388,281	632,515	(181,304)	(44,565)	18,155	996,635	(2,445)	55,157	1,862,429					1,862,429
Fund balances-ending	\$ 377,944	\$ 730,393	\$ (91,363)	\$ (46,998)	\$ 20,627	\$ 1,005,219	\$ (17,847)	\$ 251,408	\$ 2,229,383					\$ 2,229,383

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

To the Honorable Members
of the City Council
City of Gustine
Gustine, California

We have audited the basic financial statements of City of Gustine as of and for the year ended June 30, 2018, and have issued our report thereon dated September 18, 2019. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Gustine's internal control over financial reporting as a basis for designing our auditing procedures, for the purpose of expressing our opinion on City of Gustine's financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Gustine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Gustine's internal control over financial reporting.

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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Gustine's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

To the Honorable Members of the City Council
City of Gustine- Page 2

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 City of Gustine's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gustine's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 18, 2019

CITY OF GUSTINE

**CITY COUNCIL
&
MANAGEMENT REPORT**

**For the Year Ended
JUNE 30, 2018**

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R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Members
of the City Council
City of Gustine
Gustine, California

In planning and performing our audit of the basic financial statements of City of Gustine for the fiscal year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of City of Gustine's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist City of Gustine in implementing the recommendations.

This report is intended solely for the information and use of management and City Council of City of Gustine and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank City of Gustine's staff for its cooperation during our audit.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 18, 2019

R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Members
of the City Council
City of Gustine
Gustine, California

We have audited the basic financial statements of City of Gustine for the year ended June 30, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 7, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of City of Gustine. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Gustine are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by City of Gustine during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole. The most sensitive estimate(s) affecting the basic financial statements were:

- Accrual and disclosure of compensated absences;
- Capital asset lives and depreciation expense;
- Actuarial assumptions for pension plan disclosure;
- Accrual and disclosure of leases;
- Fair value of investments and financial instruments.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements (Audit Adjustments)

Professional standards require us to accumulate all known and likely misstatements (audit adjustments) identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The 1 audit adjustment detected as a result of audit procedures and corrected by management was material to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 17, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to City of Gustine's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Gustine's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Budgetary Comparison Schedule for the General Fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of management and City Council of City of Gustine and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

City of Gustine
CITY COUNCIL & MANAGEMENT REPORT
For the Year Ended June 30, 2018

Current Year Observations

1) Check Signing

Observation:

During the course of our audit we noted that certain employees in the finance department can print signed checks.

Recommendation:

We recommend City of Gustine (the City) consider changing their accounting software so one employee can not print a signed check without another employee entering an approval code.

2) Fund 60 Water UB Overpayment

Observation:

During the course of our audit we noted the City's fund 60 utility billing overpayment account has not been reconciled to the supporting documents.

Recommendation:

We recommend the City consider reconciling the utility overpayment account to related supporting documents.

3) Vendor Invoice Approval

Observation:

During the course of our audit we noted that on certain vendor invoices, related department head approval was not documented.

Recommendation:

We recommend department head approval of vendor invoices be documented by signing or initialing the vendor invoice.

Prior Year Observations

1) Employee Dishonesty Insurance

Observation:

During the course of the audit we noted that the City's assets may not be insured against the risk of acts of employee dishonesty.

Recommendation:

We recommended the City review their insurance coverages and consider purchasing insurance to protect against the risk of acts of employee dishonesty and fraud.

Status:

This recommendation has been implemented.

City of Gustine
CITY COUNCIL & MANAGEMENT REPORT
For the Year Ended June 30, 2018

2) Payroll Tax Return Reconciliation

Observation:

During the course of our audit we noted the City does not reconcile salary and tax amounts on the quarterly payroll tax returns to the general ledger.

Recommendation:

We recommended the City reconcile salary and tax amounts on the quarterly payroll tax returns to the general ledger on a quarterly basis.

Status:

This recommendation has not been implemented.

3) City Pool Cash Receipts and Concession Inventory

Observation:

During the course of the audit we noted that the City pool daily receipts summary sheet does not document the pool manager's review. We also noted there are no formal perpetual inventory records for pool and special events concession items.

Recommendation:

We recommended the City have the pool manager document their review of the daily receipts by signing the daily summary sheet. We also recommended the City consider manually tracking daily purchases and sales of concession items and have the pool and special events managers document their review of the inventory sheets by signing the sheet.

Status:

This recommendation has not been implemented.

4) Electronic Payments

Observation:

During the course of our audit we noted the City's electronic payments are not formally approved.

Recommendation:

We recommended the City consider creating an approval sheet that is signed off by two check signers prior to payment for all electronic or ACH payments. Also an ACH disbursement list should be added to the warrant list to be approved at each City Council meeting.

Status:

This recommendation has not been implemented.