

CITY OF WEED, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2018

City of Weed, California
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June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Weed, California

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Weed, California as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the budgetary comparison information on pages 34 and 36, the cost-sharing multiple employer defined benefit pension plan information on pages 38 and 39, and the single-employer defined benefit post-employment healthcare plan information on page 40, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Weed's basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 3, 2019, on my consideration of the City of Weed, California's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the City'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* in considering City of Weed, California's internal control over financial reporting and compliance.



Charles W. Pillon, CPA
Anderson, California

September 3, 2019

BASIC FINANCIAL STATEMENTS

City of Weed
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 478,693	\$ 618,017	\$ 1,096,710
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	- 181,371	181,371	181,371
Loans	1,755,700 -	-	1,755,700
Intergovernmental	301,950 133,452	133,452	435,402
Other	1,000 -	-	1,000
Interfund balances	882,815 (882,815)	-	-
Total current assets	<u>3,420,158</u>	<u>50,025</u>	<u>3,470,183</u>
Capital assets:			
Non-depreciable	6,498,827 5,377,298	5,377,298	11,876,125
Depreciable, net	8,951,935 11,033,284	11,033,284	19,985,219
Total capital assets	<u>15,450,762</u>	<u>16,410,582</u>	<u>31,861,344</u>
Total assets	<u>18,870,920</u>	<u>16,460,607</u>	<u>35,331,527</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	808,480 113,560	113,560	922,040
Deferred outflows from OPEB	16,651 4,747	4,747	21,398
Total deferred outflows of resources	<u>825,131</u>	<u>118,307</u>	<u>943,438</u>
LIABILITIES			
Accounts payable	173,168 112,426	112,426	285,594
Accrued liabilities	99,428 7,500	7,500	106,928
Deposits	- 74,359	74,359	74,359
Unearned revenues	283,360 -	-	283,360
Accrued interest payable	8,664 -	-	8,664
Total current liabilities	<u>564,620</u>	<u>194,285</u>	<u>758,905</u>
Noncurrent liabilities:			
Net pension liability	2,298,563 322,860	322,860	2,621,423
Net OPEB obligation	596,223 169,968	169,968	766,191
Due within one year	58,761 46,289	46,289	105,050
Due in more than one year	566,137 57,498	57,498	623,635
Total noncurrent liabilities	<u>3,519,684</u>	<u>596,615</u>	<u>4,116,299</u>
Total liabilities	<u>4,084,304</u>	<u>790,900</u>	<u>4,875,204</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pensions	<u>391,661</u>	<u>55,014</u>	<u>446,675</u>
NET POSITION			
Net investment in capital assets	14,934,534 16,343,040	16,343,040	31,277,574
Restricted	202,476 -	-	202,476
Unrestricted	83,076 (610,040)	(610,040)	(526,964)
Total net position	<u>\$ 15,220,086</u>	<u>\$ 15,733,000</u>	<u>\$ 30,953,086</u>

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

City of Weed
Statement of Activities
Year Ended June 30, 2018

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 935,040	\$ 49,274	\$ -	\$ -	\$ (885,766)	\$ -	\$ (885,766)
Public safety	2,055,445	93,956	336,510	-	(1,624,979)	-	(1,624,979)
Streets and roads	491,711	-	235,476	-	(256,235)	-	(256,235)
Community and economic development	297,908	-	18,793	-	(279,115)	-	(279,115)
Total governmental activities	3,780,104	143,230	590,779	-	(3,046,095)	-	(3,046,095)
Business-type activities:							
Water	1,096,988	744,269		730,741	-	378,022	378,022
Sewer	633,753	600,452		305,289	-	271,988	271,988
Solid waste	581,029	552,850	5,000	-	(23,179)	(23,179)	(23,179)
Total business-type activities	2,311,770	1,897,571	5,000	1,036,030	-	626,831	626,831
Total primary government	\$ 6,091,874	\$ 2,040,801	\$ 595,779	\$ 1,036,030	(3,046,095)	626,831	(2,419,264)
General revenues:							
Taxes:							
Property taxes				616,175	-	616,175	616,175
Sales and use taxes				1,345,890	-	1,345,890	1,345,890
Transient occupancy taxes				409,205	-	409,205	409,205
Other taxes				87,990	-	87,990	87,990
Investment earnings				33,105	-	33,105	33,105
Sale of capital assets				26,000	-	26,000	26,000
Other				45,786	-	45,786	45,786
Total general revenues				2,564,151	-	2,564,151	2,564,151
Change in net position				(481,944)	626,831	144,887	
Net position, beginning of year, as previously reported				15,781,175	14,946,388	30,727,563	
Prior period adjustment				(79,145)	159,781	80,636	
Net position, beginning of year, as restated				15,702,030	15,106,169	30,808,199	
Net position, end of the year				\$ 15,220,086	\$ 15,733,000	\$ 30,953,086	

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

**City of Weed
Balance Sheet
Governmental Funds
June 30, 2018**

	General Fund	Community and Economic Development Block Grant Fund	Special Revenue Fund	Boles Fire Fund	Total Governmental Funds
ASSETS					
Cash and investments	\$ -	\$ -	\$ 168,246	\$ 310,447	\$ 478,693
Receivables (net of allowance for doubtful accounts):					
Loans	425,447	1,330,253	-	-	1,755,700
Intergovernmental	298,410	-	3,540	-	301,950
Other	1,000	-	-	-	1,000
Due from other funds	876,782	6,033	-	-	882,815
Total assets	<u>\$ 1,601,639</u>	<u>\$ 1,336,286</u>	<u>\$ 171,786</u>	<u>\$ 310,447</u>	<u>\$ 3,420,158</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	134,806	36,360	1,605	397	\$ 173,168
Accrued liabilities	97,457	-	478	1,493	99,428
Accrued interest payable	8,664	-	-	-	8,664
Unearned revenue	-	-	-	283,360	283,360
Total liabilities	<u>240,927</u>	<u>36,360</u>	<u>2,083</u>	<u>285,250</u>	<u>564,620</u>
Fund balances:					
Nonspendable:					
Noncurrent receivables	<u>425,447</u>	<u>1,330,253</u>	<u>-</u>	<u>-</u>	<u>1,755,700</u>
Restricted for:					
Streets and roads	-	-	169,703	-	169,703
Public safety	3,066	-	-	-	3,066
Parks maintenance	4,510	-	-	-	4,510
Boles fire	-	-	25,197	25,197	25,197
Total	<u>7,576</u>	<u>-</u>	<u>169,703</u>	<u>25,197</u>	<u>202,476</u>
Unassigned	<u>927,689</u>	<u>(30,327)</u>	<u>-</u>	<u>-</u>	<u>897,362</u>
Total fund balance	<u>1,360,712</u>	<u>1,299,926</u>	<u>169,703</u>	<u>25,197</u>	<u>2,855,538</u>
Total liabilities and fund balance	<u>\$ 1,601,639</u>	<u>\$ 1,336,286</u>	<u>\$ 171,786</u>	<u>\$ 310,447</u>	<u>\$ 3,420,158</u>

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

City of Weed
Reconciliation of the Balance Sheet - Governmental Funds to the
Government-Wide Statement of Net Position
For The Year Ended June 30, 2018

Total fund balances included in the Balance Sheet - Governmental Funds	\$ 2,855,538
Assets recorded within the Statement of Net Position not reported in the funds:	
Nondepreciable capital assets	6,498,827
Depreciable capital assets	16,038,090
Accumulated depreciation	<u>(7,086,154)</u> 8,951,936
Deferred inflows (outflows) recorded within the statement of net position not reported in the funds:	
Deferred inflows of resources relating to pensions	(391,661)
Deferred outflows of resources relating to pensions	808,480
Deferred outflows of resources relating to OPEB	16,651
Liabilities recorded within the Statement of Net Position not reported in the funds:	
Compensated absences	(108,670)
Net pension liability	(2,298,563)
Net OPEB obligation	(596,223)
Long-term debt	<u>(516,228)</u>
Total net position of governmental activities	<u><u>\$ 15,220,087</u></u>

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

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

	General Fund	Community and Economic Development Block Grant Fund	Special Revenue Fund	Boles Fire Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 616,175	\$ -	\$ -	\$ -	\$ 616,175
Sales and use taxes	1,345,890	-	-	-	1,345,890
Transient occupancy taxes	327,365	-	81,840	-	409,205
Franchise and other taxes	87,990	-	-	-	87,990
Licenses and permits	32,715	-	-	-	32,715
Fines, forfeitures and penalties	6,135	-	-	-	6,135
Intergovernmental revenues	262,605	18,793	235,476	73,905	590,779
Charges for services	104,380	-	-	-	104,380
Use of money and property	11,765	21,340	-	-	33,105
Other	45,781	-	-	-	45,781
Total revenues	<u>2,840,801</u>	<u>40,133</u>	<u>317,316</u>	<u>73,905</u>	<u>3,272,155</u>
EXPENDITURES					
Current:					
General government	891,146	-	-	-	891,146
Police protection	1,540,642	-	-	-	1,540,642
Fire protection	354,832	-	-	101,076	455,908
Streets and roads	125,194	-	140,020	-	265,214
Community and economic development	91,523	35,518	92,465	-	219,506
Public transportation	-	-	69,382	-	69,382
Capital outlay	544,167	-	-	-	544,167
Debt service:					
Principal	29,044	-	-	-	29,044
Interest	14,282	-	-	-	14,282
Total expenditures	<u>3,590,830</u>	<u>35,518</u>	<u>301,867</u>	<u>101,076</u>	<u>4,029,291</u>
Excess of revenues over (under) expenditures	<u>(750,029)</u>	<u>4,615</u>	<u>15,449</u>	<u>(27,171)</u>	<u>(757,136)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from capital lease financing	482,457	-	-	-	482,457
Sale of capital assets	26,000	-	-	-	26,000
Operating transfers in (out)	(6,328)	-	6,328	-	-
Total other financing sources	<u>502,129</u>	<u>-</u>	<u>6,328</u>	<u>-</u>	<u>508,457</u>
Excess of revenues and other financing uses over (under) expenditures	<u>(247,900)</u>	<u>4,615</u>	<u>21,777</u>	<u>(27,171)</u>	<u>(248,679)</u>
FUND BALANCE					
Beginning of year, as previously reported	1,366,721	1,295,311	147,926	52,368	2,862,326
Prior period adjustment	241,891	-	-	-	241,891
Beginning of year, as restated	<u>1,608,612</u>	<u>1,295,311</u>	<u>147,926</u>	<u>52,368</u>	<u>3,104,217</u>
End of the year	<u>\$ 1,360,712</u>	<u>\$ 1,299,926</u>	<u>\$ 169,703</u>	<u>\$ 25,197</u>	<u>\$ 2,855,538</u>

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

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

Total net change in fund balance included in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds \$ (248,679)

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.

Capital outlay	544,167
Depreciation expense	<u>(425,239)</u>
	118,928

The issuance of long-term debt (i.e. leases) provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Principal payments on debt	29,044
Proceeds from capital lease financing	(482,457)

In governmental funds, pension costs are recognized when employer contributions are made. In the Statement of Activities, pension costs are recognized on the accrual basis. 147,980

In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. (48,826)

Some transactions 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.

Compensated absences expense	2,061
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Other, rounding	<u>5</u>
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Change in net position of governmental activities	<u>\$ (481,944)</u>
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City of Weed
Statement of Net Position
Proprietary Funds
June 30, 2018

	Enterprise			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
ASSETS				
Current assets:				
Cash and investments	\$ -	\$ 453,349	\$ 164,668	\$ 618,017
Receivables (net of allowances for bad debts, where applicable):				
Trade accounts	73,080	49,920	58,371	181,371
Intergovernmental	70,419	63,033	-	133,452
Due from other funds	-	5,148	-	5,148
Total current assets	<u>143,499</u>	<u>571,450</u>	<u>223,039</u>	<u>937,988</u>
Capital assets:				
Non-depreciable	871,156	4,506,142	-	5,377,298
Depreciable, net	<u>7,763,408</u>	<u>3,269,876</u>	<u>-</u>	<u>11,033,284</u>
Total capital assets, net	<u>8,634,564</u>	<u>7,776,018</u>	<u>-</u>	<u>16,410,582</u>
Total assets	<u>8,778,063</u>	<u>8,347,468</u>	<u>223,039</u>	<u>17,348,570</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pensions	67,772	45,788	-	113,560
Deferred outflows from OPEB	2,022	2,725	-	4,747
Total deferred outflows of resources	<u>69,794</u>	<u>48,513</u>	<u>-</u>	<u>118,307</u>
LIABILITIES				
Current liabilities:				
Accounts payable	73,678	18,703	20,045	112,426
Accrued liabilities	5,190	2,310	-	7,500
Deposits	74,359	-	-	74,359
Due to other funds	887,963	-	-	887,963
Total current liabilities	<u>1,041,190</u>	<u>21,013</u>	<u>20,045</u>	<u>1,082,248</u>
Noncurrent liabilities:				
Net pension liability	192,682	130,178	-	322,860
Net OPEB obligation	72,413	97,555	-	169,968
Due within one year	20,942	21,070	4,277	46,289
Due in more than one year	24,356	25,892	7,250	57,498
Total noncurrent liabilities	<u>310,393</u>	<u>274,695</u>	<u>11,527</u>	<u>596,615</u>
Total liabilities	<u>1,351,583</u>	<u>295,708</u>	<u>31,572</u>	<u>1,678,863</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pensions	32,832	22,182	-	55,014
NET POSITION				
Net investment in capital assets	8,600,793	7,742,247	-	16,343,040
Unrestricted	<u>(1,137,351)</u>	<u>335,844</u>	<u>191,467</u>	<u>(610,040)</u>
Total net position	<u>\$ 7,463,442</u>	<u>\$ 8,078,091</u>	<u>\$ 191,467</u>	<u>\$ 15,733,000</u>

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

City of Weed
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For The Year Ended June 30, 2018

	Enterprise			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
REVENUES				
User fees and charges	\$ 744,269	\$ 600,452	\$ 552,850	\$ 1,897,571
OPERATING EXPENSES				
Cost of power	48,468	69,610	-	118,078
Maintenance, operations, and administration	821,975	421,168	581,029	1,824,172
Depreciation	224,926	141,356	-	366,282
Total operating expenses	<u>1,095,369</u>	<u>632,134</u>	<u>581,029</u>	<u>2,308,532</u>
Operating income (loss)	(351,100)	(31,682)	(28,179)	(410,961)
OTHER REVENUES (EXPENSES)				
Intergovernmental revenues	730,741	305,289	5,000	1,041,030
Interest expense	(1,619)	(1,619)	-	(3,238)
Total other revenues (expenses)	<u>729,122</u>	<u>303,670</u>	<u>5,000</u>	<u>1,037,792</u>
Income before operating transfers	378,022	271,988	(23,179)	626,831
Change in net position	<u>378,022</u>	<u>271,988</u>	<u>(23,179)</u>	<u>626,831</u>
NET POSITION				
Beginning of year, as previously reported	7,013,041	7,718,701	214,646	14,946,388
Prior period adjustment	72,379	87,402	-	159,781
Beginning of year, as restated	<u>7,085,420</u>	<u>7,806,103</u>	<u>214,646</u>	<u>15,106,169</u>
End of the year	<u><u>\$ 7,463,442</u></u>	<u><u>\$ 8,078,091</u></u>	<u><u>\$ 191,467</u></u>	<u><u>\$ 15,733,000</u></u>

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

City of Weed
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2018

	Enterprise			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from customers	\$ 741,780	\$ 616,936	\$ 555,135	\$ 1,913,851
Payments to suppliers	(555,235)	(316,880)	(578,165)	(1,450,280)
Payments to or on behalf of employees	(254,693)	(161,449)	-	(416,142)
Net cash provided (used) by operating activities	<u>(68,148)</u>	<u>138,607</u>	<u>(23,030)</u>	<u>47,429</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>				
Intergovernmental revenues	-	-	5,000	5,000
Net cash provided by non-capital financing activities	-	-	5,000	5,000
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Intergovernmental revenues	836,427	242,256	-	1,078,683
Purchase of capital assets	(737,616)	(109,314)	-	(846,930)
Principal payments on capital debt	(29,044)	(29,044)	-	(58,088)
Interest payments on capital debt	(1,619)	(1,619)	-	(3,238)
Net cash provided (used) by capital and related financing activities	<u>68,148</u>	<u>102,279</u>	<u>-</u>	<u>170,427</u>
Net increase (decrease) in cash	-	240,886	(18,030)	222,856
Cash and investments, beginning of the year	-	212,463	182,698	395,161
Cash and investments, end of year	<u>\$ -</u>	<u>\$ 453,349</u>	<u>\$ 164,668</u>	<u>\$ 618,017</u>
Reconciliation of operating income (loss) to cash provided by operating activities				
Operating income (loss)	\$ (351,100)	\$ (31,682)	\$ (28,179)	\$ (410,961)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation and amortization	224,926	141,356	-	366,282
(Increase) decrease in:				
Accounts receivable	(5,814)	16,484	2,285	12,955
Deferred outflows from pensions	(28,518)	(18,834)	-	(47,352)
Deferred outflows from OPEB	(88)	(119)	-	(207)
Due from other funds	-	(5,148)	-	(5,148)
Increase (decrease) in:				
Accounts payable	(9,777)	931	37	(8,809)
Accrued liabilities	1,637	728	-	2,365
Deposits	3,325	-	-	3,325
Due to other funds	51,537	-	-	51,537
Compensated absences	(12,589)	(6,632)	2,827	(16,394)
Net pension liability	58,211	37,841	-	96,052
Net OPEB obligation	6,018	8,108	-	14,126
Deferred inflows from pensions	(5,916)	(4,426)	-	(10,342)
Net cash provided (used) by operating activities	<u>\$ (68,148)</u>	<u>\$ 138,607</u>	<u>\$ (23,030)</u>	<u>\$ 47,429</u>

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Weed, California (hereafter "the City") is legally incorporated under California municipal law and is governed by a five-member City Council. The City provides the following services: public safety, streets and roads, water, sewer, and solid waste services, community development and general administrative services.

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

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

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

B. Basis of Presentation

The financial statement presentation required by GASB Statements Nos. 34, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the City's overall financial position and results of operations while maintaining the presentation of the financial position, results of operations and cash flows, as applicable, of the City's major funds.

Government-wide Financial Statements:

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

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

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

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

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

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

The funds of the City are described below:

Major Governmental Funds:

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

The Community Development Block Grant (CDBG) and Economic Development Block Grant (EDBG) Fund accounts for the financing of home rehabilitation, as financed by monies passed through the State by the federal government.

The Special Revenue Fund accounts for gas tax revenues and various community development projects.

The Boles Fire Fund accounts for revenues and expenditures that have arisen from the fire that occurred on September 15, 2014.

Major Proprietary Funds:

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

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

The Solid Waste Fund was established to account refuse collection, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting

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

Measurement Focus:

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

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

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

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

Basis of Accounting:

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

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

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

D. Assets, Liabilities, Net Position or Fund Equity

Cash and Cash Equivalents:

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

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables:

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

Property Taxes:

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

Interfund Balances:

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

Capital Assets:

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

The cost of normal maintenance and repairs that do not add to the value or materially extend the useful life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

In the government-wide financial statements, property, plant, equipment and infrastructure assets with a cost, as defined below, of \$5,000 or more, and a useful life of 2-years or more, are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Utility plant	50 years
Buildings	40 years
Machinery and equipment	5 to 40 years
Infrastructure	20-50 years

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Unearned revenues:

Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Compensated Absences:

Vacation pay and compensated time off is vested to the employees as it accrues and is payable upon separation of service and therefore, have been accrued in the accompanying financial statements.

Net Pension Asset/Liability:

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

Other Postemployment Benefits Other Than Pensions (OPEB):

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

Long-Term Obligations:

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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which does not materially differ from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources:

Deferred outflows of resources are defined as the current consumption of net assets that is applicable to a future reporting period while deferred inflows of resources are defined as the current acquisition of net assets that is applicable to a future reporting period.

The deferred outflows of resources and deferred inflows of resources relate to the City's pension and other postemployment benefits other than pensions (OPEB).

Equity Classifications:

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

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

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

Unrestricted net position, all other net position is reported in this category.

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide financial statements.

Fund Balance Classification:

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

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

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified public safety, streets and roads, community development and parks maintenance fund balances as restricted for fund purposes.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2018.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City had no assigned resources as of June 30, 2018.

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

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

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

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

Expenditures/Expenses:

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, expenditures are classified by character (current, debt service or capital outlay) for governmental funds, and by operating or nonoperating classifications for proprietary funds. In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

F. Estimates

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

G. Budgets

The City adopts an annual budget for the fiscal year commencing the following July 1. Budgets are adopted on a basis consistent with generally accepted accounting principles, except for loan activity in the Community and Economic Development Block Grant Fund which is budgeted on an inflow and outflow of resources basis. The level of control, the level at which expenditures may not exceed budget, is the fund. Unused appropriations lapse at the end of the fiscal year. The City does not use encumbrance accounting.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Implementation of New Pronouncement

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

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

NOTE 2. CASH AND INVESTMENTS

The City follows the practice of pooling cash of all funds, unless the funds are required by law, debt covenant or other instrument to be held in a separate account. Interest income on pooled cash invested is allocated monthly to the various funds based on the same proportion that such funds bear to the total monies invested. Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Assets:		
Governmental activities	\$	478,693
Business-type activities		618,017
	\$	1,096,710
Consisting of:		
Deposits with financial institutions	\$	1,092,524
Local Agency Investment Fund (LAIF)		3,770
Cash on hand		416
	\$	1,096,710

Investments Authorized:

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 2. CASH AND INVESTMENTS (continued)

Disclosure Relating to Interest Rate Risk:

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

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturity Date</u>
Local Agency Investment Fund	<u>\$ 3,770</u>	<u>\$ 3,770</u>	193-day average

Disclosure Relating to Credit Risk:

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

Concentration of Credit Risk:

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

Custodial Credit Risk:

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

The City's balance in banks was \$1,138,566, all of which was covered by federal depository insurance, or the collateral requirements discussed in the preceding paragraph. The bank balance differs from the book balance because of outstanding checks and deposits in transit.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 2. CASH AND INVESTMENTS (continued)

Investment in State Investment Pool (LAIF):

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

NOTE 3. LOANS RECEIVABLE

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

Community development loan programs	\$ 1,804,764
Economic development loan programs	649,621
	2,454,385
Less: allowance for doubtful accounts	(698,685)
Loans receivable, net	\$ 1,755,700

NOTE 4. INTERFUND BALANCES AND TRANSFERS

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

	Due from Other Funds	Due to Other Funds	Net Due to/from Other Funds
Governmental Activities			
General Fund	\$ 876,782	\$ -	\$ 876,782
Community/Economic Development			
Block Grant Fund	6,033	-	6,033
Total Governmental Activities	882,815	-	882,815
Business-Type Activities			
Water Fund	-	887,963	(887,963)
Sewer Fund	5,148	-	5,148
Total Business Type Activities	5,148	887,963	(882,815)
Total Government Wide Statement	\$ 887,963	\$ 887,963	\$ -

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

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

	Transfers In	Transfers Out	Transfers
Governmental Activities			
General Fund	\$ -	\$ 6,328	\$ (6,328)
Special Revenue Fund	6,328	-	6,328
Total Governmental Activities	6,328	6,328	-

Transfers are to account for the operating activity that needed to be transferred to the correct fund.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows. Beginning balance have been restated based on the prior period adjustment described in Note 12.

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 6,498,827	\$ -	\$ -	\$ 6,498,827
Total nondepreciable capital assets	6,498,827	-	-	6,498,827
Depreciable capital assets				
Infrastructure	10,184,372	-	-	10,184,372
Buildings	2,448,357	-	-	2,448,357
Machinery and equipment	3,065,193	544,167	(204,000)	3,405,360
Total depreciable capital assets	15,697,922	544,167	(204,000)	16,038,089
Less accumulated depreciation for:				
Infrastructure	2,980,194	203,105	-	3,183,299
Buildings	1,303,868	47,019	-	1,350,887
Machinery and equipment	2,580,853	175,115	(204,000)	2,551,968
Total accumulated depreciation	6,864,915	425,239	(204,000)	7,086,154
Depreciable capital assets, net	8,833,007	118,928	-	8,951,935
Subtotal, governmental capital assets, net	15,331,834	118,928	-	15,450,762
Business-type activities:				
Nondepreciable capital assets				
Land	4,010,708	181,081	-	4,191,789
Construction in progress	519,660	665,849	-	1,185,509
Total nondepreciable capital assets	4,530,368	846,930	-	5,377,298
Depreciable capital assets				
Infrastructure	15,928,080	-	-	15,928,080
Buildings	301,374	-	-	301,374
Machinery and equipment	432,349	-	-	432,349
Total depreciable capital assets	16,661,803	-	-	16,661,803
Less accumulated depreciation for:				
Infrastructure	4,735,045	320,050	-	5,055,095
Buildings	270,794	2,750	-	273,544
Machinery and equipment	256,398	43,482	-	299,880
Total accumulated depreciation	5,262,237	366,282	-	5,628,519
Depreciable capital assets, net	11,399,566	(366,282)	-	11,033,284
Subtotal, business-type capital assets, net	15,929,934	480,648	-	16,410,582
Total, government-wide capital assets	\$ 31,261,768	\$ 599,576	\$ -	\$ 31,861,344

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 5. CAPITAL ASSETS (continued)

Depreciation and amortization expense were charged to functions/programs as follows:

Governmental activities	
General government	\$ 63,127
Public safety	127,920
Streets and roads	225,172
Community and economic development	9,020
Total depreciation expense - governmental activities	\$ 425,239

Business-type activities:	
Water fund	\$ 224,926
Sewer fund	141,356
Total depreciation expense - business-type activities	\$ 366,282

NOTE 6. RISK MANAGEMENT

The City participates in the following public entity risk pools:

The Small Cities Organized Risk Effort (S.C.O.R.E.) covers general liability claims in an amount up to \$500,000. The City has a deductible or uninsured liability of up to \$25,000 per claim. Once the City's deductible is met S.C.O.R.E. becomes responsible for payment of all claims up to the limit

The California Joint Risk Management Authority covers general liability claims that exceed S.C.O.R.E. coverage up to a maximum of \$5,000,000. The premium for this coverage is included with the annual payments made to S.C.O.R.E.

The Small Cities Organized Risk Effort covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

There have been no significant reductions of coverage or insurance settlements that exceed insurance coverage for the past three years.

S.C.O.R.E. is governed by a board consisting of representatives from member municipalities. The board controls the operations of the risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 7. NONCURRENT LIABILITIES

The following is a summary of long-term liability activity during the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Compensated absences	\$ 110,731	\$ -	\$ 2,061	\$ 108,670	\$ -
Capital leases	62,814	482,457	29,043	516,228	58,761
Total governmental activities	\$ 173,545	\$ 482,457	\$ 31,104	\$ 624,898	\$ 58,761
Business-type activities:					
Compensated absences:					
Water fund	\$ 24,116	\$ -	\$ 12,589	\$ 11,527	\$ 4,277
Sewer fund	19,823	-	6,632	13,191	4,405
Solid Waste fund	8,700	2,827	-	11,527	4,277
Total compensated absences	52,639	2,827	19,221	36,245	12,959
Capital leases:					
Water fund	62,815	-	29,044	33,771	16,665
Sewer fund	62,815	-	29,044	33,771	16,665
Total capital leases	125,630	-	58,088	67,542	33,330
Total business-type activities	\$ 178,269	\$ 2,827	\$ 77,309	\$ 103,787	\$ 46,289

Capital Leases:

In 2013, the City entered into a lease agreement for financing of equipment valued at \$92,818. The debt matured June 30, 2018.

In 2016, the City entered into a lease agreement for financing of equipment valued at \$237,462. That equipment has been capitalized and is begin depreciated over its estimated useful life. This lease agreement qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease payments are as follows:

Capital lease (1)		
Interest rate	2.65%	
Maturity date	February 15, 2020	
Year Ended June 30,	Principal	Interest
2019	49,994	2,685
2020	51,319	1,360
	\$ 101,313	\$ 4,045

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 7. NONCURRENT LIABILITIES (Continued)

In August 2017, the City entered into a lease agreement for financing of a new fire engine valued at \$478,457. That equipment has been capitalized and is begin depreciated over its estimated useful life. This lease agreement qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease payments are as follows:

Capital lease (2)			
Interest rate	2.95%		
Maturity date	August 15, 2027		
Year Ended June 30,	Principal	Interest	
2019	\$ 42,097	\$ 14,445	
2020	43,357	13,184	
2021	44,655	11,886	
2022	45,992	10,549	
2023	47,369	9,172	
2024-2028	258,987	23,720	
	<hr/>	<hr/>	
	\$ 482,457	\$ 82,956	

Pursuant to the early implementation of *Governmental Accounting Standards Board (GASB) Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"*, the amount of the City's unused line of credit is required to be disclosed. On October 12, 2017, the City, through Resolution 23-2017, extended a \$200,000 line of credit with Scott Valley Bank to be used for the rehabilitation of Vista Drive. This line of credit was taken out to cover the City's match for the costs of the project. The line of credit will bear interest of 2.25% on any outstanding principle balance. At June 30, 2018, the entire line of credit balance was unused.

NOTE 8. PENSION PLAN

Plan Descriptions

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

Benefits Provided

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 8. PENSION PLAN (Continued)

Funding Policy

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

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

	Miscellaneous	
	Classic	PEPRA
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates 2016-17	7.000%	6.250%
Required employer contribution rates 2016-17	6.709%	6.237%
Safety		
	Classic	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of eligible compensation	1.426% to 2%	1.426% to 2%
Required employee contribution rates 2016-17	7%	9.50%
Required employer contribution rates 2016-17	11.530%	9.069%

Contributions

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 8. PENSION PLAN (continued)

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

Miscellaneous	Safety
<u>\$ 98,219</u>	<u>\$ 134,836</u>

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

As of June 30, 2018, the City reported a net pension liability of \$2,621,423 for its proportionate share of the net pension liability. The breakdown of the net pension liability between the plans is:

Proportionate Share	
of Net Pension Liability	
Miscellaneous	\$ 1,315,356
Safety	<u>1,306,067</u>
Total Net Pension Liability	<u>\$ 2,621,423</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability 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. At June 30, 2017, the City's proportion was:

Miscellaneous	
Proportion - June 30, 2017	0.03171%
Safety	
Proportion - June 30, 2017	0.02245%

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of \$163,877. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 273,500	\$ -
Differences between actual and expected experience	17,461	33,617
Difference between projected and actual earnings on pension plan investments	106,660	-
Change in assumptions	479,634	36,678
Change in employer's proportion	44,785	173,487
Differences between the employer's proportionate share of contributions	-	202,892
Total	<u>\$ 922,040</u>	<u>\$ 446,674</u>

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 8. PENSION PLAN (continued)

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

Year Ended 30-Jun	\$	
2018	(127,373)	
2019	240,634	
2020	151,517	
2021	(62,908)	
2022	-	
Thereafter	-	

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined for Miscellaneous Classic and PEPRA, and Safety Classic and PEPRA plans using the following actuarial assumptions:

June 30, 2018	
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Mortality rate table	Derived using CalPERS' membership data for all Funds
Post retirement	Contract COLA up to 2.75% until purchasing power protection
Benefit increase	Allowance floor on purchasing power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increases, mortality, and retirement rates. The Experience Study Report can be found on the CalPERS website under forms and publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan 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 employer rate 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 stress test results are presented in a detailed report, GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2017 based on June 30, 2016 Valuations, that can be obtained from the CalPERS website.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 8. PENSION PLAN (continued)

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, 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. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

In determining the long-term expected rate of return, CalPERS considered 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 Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (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 the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	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%

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

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 8. PENSION PLAN (continued)

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

The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Classic Plans	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 2,160,436	\$ 2,043,625
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 1,315,316	\$ 1,306,067
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 614,444	\$ 703,149

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City administers a single-employer defined-benefit post-employment healthcare plan. Benefits continue to the surviving spouses.

Benefits Provided

On retirement from CalPERS, employees that have reached age 50 with 5 years of City service can retire and elect any CalPERS medical plan. The City pays the PEMHCA Unequal Minimum amount towards the cost of coverage. In 2017, the City will pay \$70.40 per month for retired safety officers and \$40.25 per month for other retirees. These amounts will increase over time to the PEMHCA Minimum for employees. The PEMHCA minimum amount for employees is \$128 per month for 2017 and \$133 per month for 2018. PEMHCA amounts are adjusted on an annual basis.

Employees covered by benefit terms

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

Category	Count
Active employees:	26
Inactive employees, spouses, or beneficiaries currently receiving benefit payments:	3
Inactive employees entitled to but not yet receiving benefit payment:	0

Contributions:

Benefits are partially paid by retirees. The City contributes the PEMHCA amount as benefits come due.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Net OPEB Liability

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

Actuarial Assumptions

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

Inflation: 2.625%

Salary increases: 2.875%.

Healthcare cost trend rates: 7.00% in the first year, trending down to 3.84% over 57 years.

Mortality rates are the same as CalPERS.

Discount Rate

The discount rate used to measure the total OPEB liability is 3.56%. The City's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the measurement date.

Changes in the Net OPEB Liability

	<u>Increases (Decreases)</u>	<u>Net OPEB Liability</u>
Balance as of report date June 30, 2017	\$ 702,512	
Changes for the year:		
Service cost	57,453	
Interest	26,690	
Changes in benefit terms	-	
Differences between expected and actual experience	-	
Changes of assumptions	-	
Benefit payments	(1,280)	
Implicit rate subsidy fulfilled	(19,184)	
Administrative expenses	-	
Net changes	<u>63,679</u>	
Balance as of report date June 30, 2018	\$ 766,191	

Sensitivity of the net OPEB liability to changes in the discount rate. The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) follows:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	2.56%	3.56%	4.56%
Net OPEB obligation (asset)	\$ 864,167	\$ 766,191	\$ 682,980

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

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

	1% Decrease	Trend Rate	1% Increase
	6.00%	7.00%	8.00%
Decreasing to	Decreasing to	Decreasing	
2.84%	3.84%	to 4.84%	
Net OPEB obligation (asset)	\$ 717,120	\$ 766,191	\$ 823,903

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

For the year ended June 30, 2018, the City recognized an OPEB expense of \$84,143. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	-	-
City contributions subsequent to the measurement date	21,398	-
Total	\$ 21,398	\$ -

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

Report Year Ending June 30:	Amount
2019	\$ -
2020	-
2021	-
2022	-
2023	-
Remaining	-

NOTE 10. CONTINGENCIES

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

The City is also a party to several legal actions. Should the outcome be unfavorable to the City, it does not expect the financial effects will be material to the financial position of the City.

NOTE 11. OVEREXPENDITURE OF BUDGET

The excess expenditures over appropriations, describes a budgetary violation that occurred for the year under audit. For the year ended June 30, 2018, expenditures exceeded appropriations in the Special Revenue Fund by \$214,367 as the City's budget did not include projects for streets and roads.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2018

NOTE 12. PRIOR PERIOD ADJUSTMENTS

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

Governmental Funds:

Sales tax revenue in the General Fund was not recorded on the modified accrual basis of accounting due to not accruing the sales tax for the months of May – June 2017 at June 30, 2017. The effect of this correction is reported as an increase to beginning fund balance/net position of \$241,891 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Governmental Funds, as well as the Statement of Activities – Governmental Activities.

Governmental and Business-type Activities:

Deferred outflows of resources related to pensions as of June 30, 2017 was incorrect due to not recording the pension contributions made subsequent to the measurement date. The effect of this correction is reported as an increase to beginning net position of \$209,710 on the Statement of Activities – Governmental Activities and an increase in beginning net position of \$13,841 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds – Water Fund, as well as the Statement of Activities – Business-Type Activities, and an increase to beginning net position of \$9,504 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds – Sewer Fund, as well as the Statement of Activities – Business-Type Activities.

Deferred outflows of resources related to OPEB and the Net OPEB Liability as of June 30, 2017 was restated due to adopting the new governmental accounting standard, GASB 75, as stated in Footnote #1, item H to the financial statements. The effect of this restatement is reported as a decrease to beginning net position of \$530,746 on the Statement of Activities – Governmental Activities and a decrease in beginning net position of \$64,461 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds – Water Fund, as well as the Statement of Activities – Business-Type Activities, and a decrease to beginning net position of \$86,841 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds – Sewer Fund, as well as the Statement of Activities – Business-Type Activities.

Construction in progress as of June 30, 2017 was understated for engineering costs incurred on construction projects that were previously recorded as expenses in the proprietary funds' Statement of Revenues, Expenses, and Changes in Fund Balances. The effect of this correction is reported as an increase in beginning net position of \$109,450 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds – Water Fund, as well as the Statement of Activities – Business-Type Activities, and an increase to beginning net position of \$164,739 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds – Sewer Fund, as well as the Statement of Activities – Business-Type Activities.

Accounts payable as of June 30, 2017 was incorrectly reported for an amount thought to be owed to a lessor under a capital lease financing arrangement. The effect of this correction is reported as an increase in beginning net position of \$13,549 on the Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds – Water Fund, as well as the Statement of Activities – Business-Type Activities.

REQUIRED SUPPLEMENTARY INFORMATION

City of Weed
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Property taxes	\$ 638,457	\$ 638,457	\$ 616,175	\$ (22,282)
Sales and use taxes	1,376,063	1,376,063	1,345,890	(30,173)
Transient occupancy taxes	339,195	339,195	327,365	(11,830)
Franchise and other taxes	91,285	91,285	87,990	(3,295)
Licenses and permits	23,397	23,397	32,715	9,318
Fines, forfeitures and penalties	5,000	5,000	6,135	1,135
Intergovernmental revenues	331,075	331,075	262,605	(68,470)
Charges for services	221,080	221,080	104,380	(116,700)
Use of money and property	14,448	14,448	11,765	(2,683)
Other	600	600	45,781	45,181
Total revenues	3,040,600	3,040,600	2,840,801	(199,799)
<u>EXPENDITURES</u>				
Current:				
General government	1,457,931	1,457,931	891,146	566,785
Police protection	1,418,927	1,418,927	1,540,642	(121,715)
Fire protection	191,104	191,104	354,832	(163,728)
Streets and roads	192,103	192,103	125,194	66,909
Community and economic development	-	-	91,523	(91,523)
Capital outlay	420,419	420,419	544,167	(123,748)
Debt service:				
Principal	202,777	202,777	29,044	173,733
Interest	-	-	14,282	(14,282)
Total expenditures	3,883,261	3,883,261	3,590,830	292,431
Excess of revenues over expenditures	(842,661)	(842,661)	(750,029)	92,632
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from capital lease financing	-	-	482,457	482,457
Operating transfers in (out)	-	-	(6,328)	(6,328)
Total other financing sources	-	-	476,129	476,129
Excess of revenues and other financing sources over (under) expenditures	(842,661)	(842,661)	(273,900)	568,761
<u>FUND BALANCES</u>				
Beginning of year, as previously reported	1,366,721	1,366,721	1,366,721	-
Prior period adjustment	241,891	241,891	241,891	-
Beginning of year, as restated	1,608,612	1,608,612	1,608,612	-
End of the year	\$ 765,951	\$ 765,951	\$ 1,334,712	\$ 568,761

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

**City of Weed
Budgetary Comparison Schedule
Community/Economic Development Block Grant Fund
For The Year Ended June 30, 2018**

The City of Weed did not adopt a budget for the Community/Economic Development Block Grant Fund for the year ended June 30, 2018.

City of Weed
Budgetary Comparison Schedule
Special Revenue Fund
For The Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Transient occupancy taxes	\$ 81,500	\$ 81,500	\$ 81,840	\$ 340
Intergovernmental	103,491	103,491	235,476	131,985
Total revenues	<u>184,991</u>	<u>184,991</u>	<u>317,316</u>	<u>132,325</u>
<u>EXPENDITURES</u>				
Current:				
Streets and roads	-	-	140,020	(140,020)
Community and economic development	87,500	87,500	92,465	(4,965)
Public transportation	-	-	69,382	(69,382)
Total expenses	<u>87,500</u>	<u>87,500</u>	<u>301,867</u>	<u>(214,367)</u>
Excess of revenues over expenditures	<u>97,491</u>	<u>97,491</u>	<u>15,449</u>	<u>(82,042)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in (out)	(92,405)	(92,405)	6,328	98,733
Total other financing sources (uses)	<u>(92,405)</u>	<u>(92,405)</u>	<u>6,328</u>	<u>98,733</u>
Excess of revenues and other financing sources over (under) expenditures	<u>5,086</u>	<u>5,086</u>	<u>21,777</u>	<u>16,691</u>
<u>FUND BALANCES</u>				
Beginning of the year	<u>147,926</u>	<u>147,926</u>	<u>147,926</u>	<u>-</u>
End of the year	<u>\$ 153,012</u>	<u>\$ 153,012</u>	<u>\$ 169,703</u>	<u>\$ 16,691</u>

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

**City of Weed
Budgetary Comparison Schedule
Boles Fire Fund
For The Year Ended June 30, 2018**

The City of Weed did not adopt a budget for the Boles Fire Fund for the year ended June 30, 2018.

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

City of Weed
A Cost Sharing Defined Benefit Pension Plan
As of June 30, 2018
Last 10 Years (1)

City of Weed Employee's Retirement System - Schedule of the City's Proportionate Share of the Net Pension Liability

	Safety Plan			
	6/30/2017 (1)	6/30/2016 (1)	6/30/2015 (1)	6/30/2014 (1)
City's proportion of the net pension liability (asset)	0.02186%	0.02245%	0.02138%	0.02769%
City's proportion share of the net pension liability (asset)	\$ 1,306,067	\$ 1,162,769	\$ 880,956	\$ 1,038,621
City's covered payroll (2)	\$ 499,800	\$ 473,771	\$ 431,323	\$ 424,149
City's proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	261.32%	245.43%	204.25%	244.87%
City's proportionate share of the fiduciary net pension liability as a percentage of the plan's total pension liability	75.22%	76.33%	81.83%	78.22%
City's proportionate share fo aggregate employer contributions (3)	\$ 136,844	\$ 129,577	\$ 135,017	\$ 105,596
	Miscellaneous Plan			
	6/30/2017 (1)	6/30/2016 (1)	6/30/2015 (1)	6/30/2014 (1)
City's proportion of the net pension liability (asset)	0.03337%	0.03171%	0.02712%	0.03512%
City's proportion share of the net pension liability (asset)	\$ 1,315,356	\$ 1,101,426	\$ 744,095	\$ 867,926
City's covered payroll (2)	\$ 949,434	\$ 935,964	\$ 830,182	\$ 831,326
City's proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	138.54%	117.68%	89.63%	104.40%
City's proportionate share of the fiduciary net pension liability as a percentage of the plan's total pension liability	78.59%	80.70%	86.43%	83.80%
City's proportionate share fo aggregate employer contributions (3)	\$ 182,696	\$ 171,458	\$ 163,930	\$ 121,381

Notes to the Schedules

Valuation Date: 6/30/2016

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

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

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

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

City of Weed
A Cost Sharing Defined Benefit Pension Plan
As of June 30, 2018
Last 10 Years (1)

City of Weed Employee's Retirement System - Schedule of the City's Contributions

	Safety Plan			
	6/30/2017 (1)	6/30/2016 (1)	6/30/2015 (1)	6/30/2014 (1)
Actuarially determined contribution (2)	\$ 134,836	\$ 122,833	\$ 113,167	\$ 89,799
Contributions in relation to the actuarially determined contributions	(134,836)	(48,389)	(36,638)	(89,799)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 74,444</u>	<u>\$ 76,529</u>	<u>\$ -</u>
City's covered-employee payroll (3)	\$ 499,800	\$ 473,771	\$ 431,323	\$ 424,149
Contributions as a percentage of covered-employee payroll	26.98%	25.93%	21.69%	21.17%
	Miscellaneous Plan			
	6/30/2017 (1)	6/30/2016 (1)	6/30/2015 (1)	6/30/2014 (1)
Actuarially determined contribution (2)	\$ 98,219	\$ 82,281	\$ 69,271	\$ 65,290
Contributions in relation to the actuarially determined contributions	(98,219)	(59,538)	(22,771)	(65,290)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 22,743</u>	<u>\$ 46,500</u>	<u>\$ -</u>
City's covered-employee payroll (3)	\$ 949,434	\$ 935,964	\$ 830,182	\$ 831,326
Contributions as a percentage of covered-employee payroll	10.35%	8.79%	7.23%	7.85%

Notes to the Schedules

Valuation Date: 6/30/2016

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

(2) GASB 68 assumes that employers contribute an amount equal to the actuarially determined contribution. However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contribution. CalPERS determined that employer obligations referred to as "side funds" do not conform to the circumstances described in the paragraph 120 of GASB 68, therefore CalPERS does not consider them separately financed specific liabilities.

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

Change in Benefit Terms: None

Change in Assumptions: In 2017, the accounting discount rate decreased from 7.65 percent to 7.15 percent.

City of Weed
Single-Employer Defined Benefit Post-employment Healthcare Plan
As of June 30, 2018
Last 10 Years (1)

Schedule of Changes in the City's Total OPEB Liability and Related Ratios

	Measurement Date: June 30, 2017
	Report Date: June 30, 2018
<u>Total/Net OPEB Obligation (Liability)</u>	
Service cost	\$ 57,453
Interest	26,690
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(1,280)
Implicit rate subsidy fulfilled	<u>(19,184)</u>
Net change in Total OPEB obligation	63,679
Total/Net OPEB Obligation - Beginning of Year, as restated	<u>702,512</u>
Total/Net OPEB Obligation - End of Year	<u>\$ 766,191</u>
 Covered-Employee Payroll	 \$ 1,402,379
City's Net OPEB Obligation as a Percentage of Covered-Employee Payroll	54.64%

Notes to schedule:

The City adopted GASB 75 for the fiscal Year Ending June 30, 2018.

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

OTHER SCHEDULES AND REPORTS

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

To the City Council
City of Weed, California

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Weed as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Weed, California's basic financial statements, and have issued my report thereon dated September 3, 2019.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs, that I consider to be a material weakness (**Finding 2018-001**) and a significant deficiency (**Finding 2018-002**).

Compliance and Other Matters

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

City of Weed, California's Response to Findings

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

Purpose of this Report

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



Charles W. Pillon, CPA
Anderson, California

September 3, 2019

City of Weed, California
Schedule of Findings, Responses and Corrective Action Plans
For the Year Ended June 30, 2018

SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of City of Weed, were prepared in accordance with GAAP.
2. One material weakness and one significant deficiency relating to the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Weed, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Findings - Financial Statement Audit

2018 - 001

Material Audit Adjustments

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

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

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

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

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

Views of Responsible Officials and Planned Corrective Action: City of Weed, California agrees with the finding and recommended procedures will be implemented.

2018-002

Significant Violation of Budgeted Appropriations Governmental Funds

Condition: For the year ended June 30, 2018, expenditures exceeded appropriations for several governmental funds, the City did not prepare an annual budget for all funds of the City, and the City is not approving a budget at a sufficient expenditure level of detail (i.e. by expenditure line item) to make the budget fiscally useful and meaningful.

Criteria: The City's Governmental Funds are not allowed to expend funds in excess of that which has been legally appropriated through the actions of the City Council, as well as what is available in fund balance reserves, as approved by the City Council. In addition, State laws and regulations require annual budgets to be prepared for all individual major governmental funds of the City and for those charged with governance to manage the fiscal affairs of the City pursuant to the budget.

City of Weed, California
Schedule of Findings, Responses and Corrective Action Plans
For the Year Ended June 30, 2018

2018-002 (continued)

Cause: The budget violations were primarily due to over expenditures on costs that were either not budgeted for or the City did not prepare budget amendments as legally required. In some cases, the City did not prepare budgets. In addition, the City's budget is approved at a total revenue and expenditures level which can not provide enough detail to effectively manage the various departments and funds. Lastly, the City doesn't have a policy for amending the budget throughout the fiscal year.

Effect: Actual expenditures that exceed the legally appropriated budget, as amended, is in violation of State and local laws and regulations. Lack of appropriate detail and timely budget vs. actual results makes management at the department and fund levels very difficult.

Recommendation: The City should ensure that all expenditures made in any governmental fund are not exceeding budgeted amounts, and if they will exceed the budget, get approval from the City Council before incurring the expenditure. Also, I recommend that the City prepare appropriately detailed annual budgets for all of its governmental funds and review budget vs. actual results at least on a quarterly basis.

Views of Responsible Officials and Planned Corrective Action: The City of Weed, California agrees with the finding. The budget for FY 2017-2019 anticipated the City continuing to contract for Fire Services from Cal-Fire. Following the adoption of the budget the City elected to terminate that contract and hire a full-time Fire Chief and Deputy Fire Chief thus modifying expenditures from operations and maintenance to personnel and increasing costs significantly. As an offset the City obtained a grant to pay for the additional expenditures. However, the City did not have a policy in place to amend the budget to recognize such material changes in expenses or to recognize and appropriate funds received in a fiscal year that were not anticipated in the budget. The City took appropriate action to correct this deficiency by adopting Financial Policy 105 in July 2018 requiring budget amendments periodically, but not more often than once a quarter.

Summary of Prior Audit Findings

2017-001 Audit Adjustments

Condition: During the predecessor auditor's audit of the prior year, they identified several audit adjustments that were material to the financial statements, and which were required in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles.

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

Current Status: As stated in **Finding 2018-001**, this recommendation has still not been implemented.