

CITY OF MARYSVILLE, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2018

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CITY OF MARYSVILLE, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2018

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CITY OF MARYSVILLE, CALIFORNIA

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INDEPENDENT AUDITOR'S REPORT

To the City Council
Marysville, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, 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

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

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

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

Opinions

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

To the City Council
City of Marysville, California

Other Matters

Required Supplementary Information

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

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Richardson & Company, LLP

August 6, 2019

BASIC FINANCIAL STATEMENTS

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CITY OF MARYSVILLE, CALIFORNIA
GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 3,740,834	\$ 1,246,174	\$ 4,987,008
Accounts receivable	220,238	398,935	619,173
Interest receivable	6,043	7,805	13,848
Loans receivable	1,823,629		1,823,629
Due from other governments	1,467,924	1,115	1,469,039
Prepaid expenses		39,290	39,290
Restricted cash	742,757	1,884,103	2,626,860
Total current assets	<u>8,001,425</u>	<u>3,577,422</u>	<u>11,578,847</u>
Noncurrent assets:			
Advances to other funds		496,005	496,005
Capital assets, net of accumulated depreciation			
Non-depreciable	6,057,051	24,685,973	30,743,024
Depreciable	8,140,307	3,065,914	11,206,221
Total capital assets, net of accumulated depreciation	<u>14,197,358</u>	<u>27,751,887</u>	<u>42,445,250</u>
Total assets	<u>22,198,783</u>	<u>31,825,314</u>	<u>54,024,097</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	<u>3,600,016</u>	<u>215,506</u>	<u>3,815,522</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,229,978	154,447	1,384,425
Salaries and benefits payable	374,843	9,361	384,204
Interest payable	385,920	58,600	444,520
Deposits and other payables	10,435		10,435
Deferred revenue	474,749		474,749
Long-term debt, due within one year	338,722	713,957	1,052,679
Total current liabilities	<u>2,814,647</u>	<u>936,365</u>	<u>3,751,012</u>
Long-term liabilities:			
Long-term debt, due after one year	8,191,652	22,564,751	30,756,403
Long-term compensated absences	221,946	15,484	237,430
Other post employment benefits payable	36,489		36,489
Net pension liability	13,685,635	769,330	14,454,965
Total long-term liabilities	<u>22,135,722</u>	<u>23,349,565</u>	<u>45,485,287</u>
Total liabilities	<u>24,950,369</u>	<u>24,285,930</u>	<u>49,236,299</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	<u>1,862,227</u>	<u>154,653</u>	<u>2,016,880</u>
Total deferred inflows of resources	<u>1,862,227</u>	<u>154,653</u>	<u>2,016,880</u>
NET POSITION			
Net investment in capital assets	5,666,984	4,473,179	10,140,163
Restricted net position	3,393,676	1,884,103	5,277,779
Unrestricted net position	<u>(10,074,457)</u>	<u>1,242,955</u>	<u>(8,831,502)</u>
Total net position	<u>\$ (1,013,797)</u>	<u>\$ 7,600,237</u>	<u>\$ 6,586,440</u>

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

CITY OF MARYSVILLE, CALIFORNIA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	Program Revenues			Governmental Activities	Business-type Activities	Total
	Expenses	Charges for Services	Operating Grants and Contributions			
Governmental Activities:						
General government	\$ 2,390,013	\$ 808,579	\$ 53,775		\$ (1,527,659)	\$ (1,527,659)
Public safety	6,820,286	175,670	1,393,727	\$ 126,703	(5,124,186)	(5,124,186)
Streets and public works	1,323,899	159,453	700,937	60,539	(402,970)	(402,970)
Parks and recreation	501,887	55,315			(446,572)	(446,572)
Interest on long term debt and issuance	670,159				(670,159)	(670,159)
Total governmental activities	<u>11,706,244</u>	<u>1,199,017</u>	<u>2,148,439</u>	<u>187,242</u>	<u>(8,171,546)</u>	<u>(8,171,546)</u>
Business-type activities:						
Wastewater	1,305,964	2,988,492			\$ 1,682,528	1,682,528
Interest on long-term debt	613,699				(613,699)	(613,699)
Total business-type activities	<u>1,919,663</u>	<u>2,988,492</u>			<u>1,068,829</u>	<u>1,068,829</u>
Total government	<u>\$ 13,625,907</u>	<u>\$ 4,187,509</u>	<u>\$ 2,148,439</u>	<u>\$ 187,242</u>	<u>(8,171,546)</u>	<u>1,068,829</u>
General revenues:						
Taxes:						
Sales and use taxes				4,466,697		4,466,697
Property taxes				1,103,220		1,103,220
Transient occupancy tax				120,603		120,603
Franchise fees				553,778		553,778
Gas taxes				270,904		270,904
Motor vehicle in-lieu				874,866		874,866
Investment income				8,888	28,134	37,022
Rental income				226,711		226,711
Miscellaneous revenues				266,648	54,029	320,677
Gain on sale of fixed assets				6,294		6,294
Transfers:						
Transfers				428,527	(428,527)	-
Total general revenues				<u>8,327,136</u>	<u>(346,364)</u>	<u>7,980,772</u>
Changes in net position				155,590	722,465	878,055
Net position, beginning of year, as previously reported				(640,959)	7,158,697	6,517,738
Prior period adjustment				(528,428)	(280,925)	(809,353)
Net position, as restated				<u>(1,169,387)</u>	<u>6,877,772</u>	<u>5,708,385</u>
Net position, end of year				<u>\$ (1,013,797)</u>	<u>\$ 7,600,237</u>	<u>\$ 6,586,440</u>

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

CITY OF MARYSVILLE, CALIFORNIA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2018

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
ASSETS				
Cash and investments	\$ 2,278,573	\$ 1,000,085	\$ 462,176	\$ 3,740,834
Accounts receivable, net	212,387		7,851	220,238
Interest receivable	3,566	1,852	625	6,043
Loans receivable	996		1,822,633	1,823,629
Due from other governments	868,514	19,882	579,528	1,467,924
Due from other funds	358,591			358,591
Restricted cash	742,757			742,757
	<u>4,465,384</u>	<u>1,021,819</u>	<u>2,872,813</u>	<u>8,360,016</u>
TOTAL ASSETS				
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 406,795	\$ 597,767	\$ 225,416	\$ 1,229,978
Deposits and other payables	10,435			10,435
Salaries and benefits payable	354,402		20,441	374,843
Due to other funds		37,651	320,940	358,591
Deferred revenue	433,248	41,501		474,749
Total liabilities	<u>1,204,880</u>	<u>676,919</u>	<u>566,797</u>	<u>2,448,596</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	75,261			75,261
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>75,261</u>			<u>75,261</u>
Fund balances:				
Nonspendable	996		1,822,633	1,823,629
Restricted	742,757	344,900	804,704	1,892,361
Unassigned	2,441,490		(321,321)	2,120,169
TOTAL FUND BALANCE	<u>3,185,243</u>	<u>344,900</u>	<u>2,306,016</u>	<u>5,836,159</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 4,465,384</u>	<u>\$ 1,021,819</u>	<u>\$ 2,872,813</u>	<u>\$ 8,360,016</u>

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

CITY OF MARYSVILLE, CALIFORNIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2018

Total Governmental Fund Balances	\$ 5,836,159
Amounts reported for governmental activities in the statement of net are different because:	
Pension contributions subsequent to the valuation measurement date and other items will reduce the pension liability in the future and are reported as deferred outflows of resources on the statement of net position.	3,600,016
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,197,358
Certain receivables are not available to pay current period expenditures and therefore are deferred in the governmental funds	75,261
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	
Long-term debt	(8,530,374)
Compensated absences	(221,946)
OPEB payable	(36,489)
Net pension liability	(13,685,635)
Employee pension differences to be recognized in the future as pension expense are reported as deferred inflows of resources on the statement of net position.	(1,862,227)
Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not reported in the governmental funds.	<u>(385,920)</u>
Net Position of Governmental Activities	<u><u>\$ (1,013,797)</u></u>

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

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

	General Fund	Capital Projects Fund	Aggregate Nonmajor Governmental Funds	Totals
REVENUES:				
Taxes and assessments	\$ 1,148,562			\$ 1,148,562
Sales and use taxes	4,466,697			4,466,697
Motor vehicle in lieu tax	874,866			874,866
Franchise tax	553,778			553,778
Licenses, permits and fees	475,965			475,965
Intergovernmental revenues	192,779	\$ 60,539	\$ 1,150,530	1,403,848
Reimbursements	759,178	126,703		885,881
Charges for services	692,078		70,737	762,815
Use of money and property	239,042	5,047	1,900	245,989
Program income			8,432	8,432
Other revenues	200,004			200,004
Insurance proceeds	324,915			324,915
Total revenues	<u>9,927,864</u>	<u>192,289</u>	<u>1,231,599</u>	<u>11,351,752</u>
EXPENDITURES:				
Current:				
General government	1,569,113		202,876	1,771,989
Public safety	5,675,951			5,675,951
Streets and public works	606,019	130,958	504,886	1,241,863
Parks and recreation	462,344			462,344
Debt Service:				
Principal retirement	360,523			360,523
Interest and fiscal charges	468,166	32,365		500,531
Capital outlay	193,168	1,769,846	265,591	2,228,605
Total expenditures	<u>9,335,284</u>	<u>1,933,169</u>	<u>973,353</u>	<u>12,241,806</u>
Excess (deficiency) of revenues over (under) expenditures	<u>592,580</u>	<u>(1,740,880)</u>	<u>258,246</u>	<u>(890,054)</u>
OTHER FINANCING SOURCES (USES):				
Issuance of long term debt		2,050,897		2,050,897
Costs of issuance		(91,000)		(91,000)
Proceeds from sale of assets	10,794			10,794
Transfers in	619,983	148,320	339,877	1,108,180
Transfers out	(54,218)		(625,435)	(679,653)
Total other financing sources (uses)	<u>576,559</u>	<u>2,108,217</u>	<u>(285,558)</u>	<u>2,399,218</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,169,139	367,337	(27,312)	1,509,164
Fund balance - beginning of year	<u>2,016,104</u>	<u>(22,437)</u>	<u>2,333,328</u>	<u>4,326,995</u>
Fund balance - end of year	<u>\$ 3,185,243</u>	<u>\$ 344,900</u>	<u>\$ 2,306,016</u>	<u>\$ 5,836,159</u>

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

CITY OF MARYSVILLE, CALIFORNIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 1,509,164

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.

Capital outlay	2,228,605
Depreciation expense	(506,038)

Governmental funds report proceeds from disposal of capital assets as revenues. However, in the government-wide statement of activities, only the gain or (loss) on the sale of capital assets is reported. This is the difference between the gain or (loss) and proceeds.

Proceeds from sale of capital assets	(10,794)
Gain on sale of capital assets	6,294

Some receivables are deferred in the governmental funds because the amounts do not represent current financial resources that are recognized under the accrual basis in the statement of activities.

Deferred revenue recognized	75,261
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. These are the amount by which repayments exceed proceeds.

Principal repayment	360,523
Issuance of bonds	(2,050,897)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not expenditures in the governmental funds.

Change in other post employment benefits payable	6,581
Change in long-term interest payable	(78,628)
Change in pension liability	(1,390,405)
Change in compensated absences	5,924
	<u>5,924</u>

Change in Net Position of Governmental Activities	<u>\$ 155,590</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues:				
Taxes and assessments	\$ 1,172,000	\$ 1,172,000	\$ 1,148,562	\$ (23,438)
Sales and use taxes	3,341,206	3,341,206	4,466,697	1,125,491
Motor vehicle in lieu tax	870,000	870,000	874,866	4,866
Franchise tax	496,000	496,000	553,778	57,778
Licenses, fees and permits	480,150	480,150	475,965	(4,185)
Use of money and property	197,300	197,300	239,042	41,742
Intergovernmental revenues	447,100	447,100	192,779	(254,321)
Reimbursements	391,941	391,941	759,178	367,237
Charges for services	675,000	675,000	692,078	17,078
Other revenue	67,200	67,200	200,004	132,804
Proceeds from insurance recovery			324,915	324,915
Total revenues	8,137,897	8,137,897	9,927,864	1,789,967
Expenditures:				
Current:				
General government	1,646,574	1,646,574	1,569,113	77,461
Public safety	5,275,614	5,304,114	5,675,951	(371,837)
Streets and public works	686,964	686,964	606,019	80,945
Parks and recreation	346,741	346,741	462,344	(115,603)
Debt Service:				
Principal retirement	175,000	175,000	360,523	(185,523)
Interest and other charges	468,406	468,406	468,166	240
Capital outlay				
Total expenditures	8,599,299	8,627,799	9,335,284	(707,485)
Excess (deficiency) of revenues over expenditures	(461,402)	(489,902)	592,580	1,082,482
Other financing sources (uses):				
Proceeds from sale of assets	30,000	30,000	10,794	(19,206)
Transfers in	677,854	677,854	619,983	(57,871)
Transfers out	(52,500)	(52,500)	(54,218)	(1,718)
Total other financing sources	655,354	655,354	576,559	(78,795)
Excess (deficiency) of revenues and other sources over expenditures and other uses	193,952	165,452	1,169,139	1,003,687
Fund balances - beginning of year			2,016,104	2,016,104
Fund balances - end of year	<u>\$ 193,952</u>	<u>\$ 165,452</u>	<u>\$ 3,185,243</u>	<u>\$ 3,019,791</u>

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

CITY OF MARYSVILLE, CALIFORNIA
STATEMENT OF NET POSITION
PROPRIETARY FUND - WASTEWATER FUND

June 30, 2018

ASSETS:

Current Assets:

Cash and investments	\$ 1,246,174
Accounts receivable, net	398,935
Interest receivable	7,805
Due from other governments	1,115
Prepaid expenses	39,290
Advances to other funds	496,005
Total current assets	2,189,324

Noncurrent Assets:

Restricted cash	1,884,103
Capital assets:	
Nondepreciable	24,685,973
Depreciable	3,065,914
Total capital assets, net of accumulated depreciation	27,751,887

Total assets	31,825,314
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DEFERRED OUTFLOWS OF RESOURCES:

Pension contributions subsequent to measurement date	215,506
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LIABILITIES:

Current Liabilities:

Accounts payable	154,447
Salaries and benefits payable	9,361
Interest payable	58,600
Long-term debt, due within one year	713,957
Total current liabilities	936,365

Long-term Liabilities:

Long-term debt, due after one year, net	22,564,751
Long-term compensated absences	15,484
Net pension liability	769,330
Total long-term liabilities	23,349,565
Total liabilities	24,285,930

DEFERRED INFLOWS OF RESOURCES:

Deferred inflows related to pensions	154,653
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NET POSITION:

Invested in capital assets, net of related debt	4,473,179
Restricted for debt service	1,884,103
Unrestricted	1,242,955
Total net position	\$ 7,600,237

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

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUND - WASTEWATER FUND

For the Year Ended June 30, 2018

Operating revenues:	
Service charges	\$ 2,988,492
Other revenues	<u>54,029</u>
Total operating revenues	<u>3,042,521</u>
Operating expenses:	
Salaries and expenses	353,989
Operations and maintenance	680,566
Depreciation and amortization expense	<u>271,409</u>
Total operating expenses	<u>1,305,964</u>
Income from operations	<u>1,736,557</u>
Non-operating revenues (expenses):	
Interest income	28,134
Interest expense	<u>(613,699)</u>
Total nonoperating expenses	<u>(585,565)</u>
Income before transfers	1,150,992
Other financing uses:	
Transfers in	
Transfers out	<u>(428,527)</u>
Total other financing uses	<u>(428,527)</u>
Change in net position	722,465
Net position, beginning of year, as previously reported	7,158,697
Prior period adjustment	<u>(280,925)</u>
Net position, beginning of year, as restated	<u>6,877,772</u>
Net position, end of year	<u><u>\$ 7,600,237</u></u>

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

CITY OF MARYSVILLE, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WASTEWATER FUND

For the Year Ended June 30, 2018

Cash Flows from Operating Activities:	
Cash received from customers	\$ 2,863,037
Cash paid to suppliers	(959,777)
Cash paid to employees and related benefits	(240,916)
Cash provided by operating activities	<u>1,662,344</u>
Cash Flows from Noncapital Financing Activities	
Tax assessments received	6,519
Advances to other funds	(6,957)
Transfers out	(428,527)
Cash provided by noncapital financing activities	<u>(428,965)</u>
Cash Flows from Capital and Related Financing Activities	
Capital expenditures	(409,634)
Debt principal paid	(911,365)
Interest paid	(637,070)
Cash used for capital and related financing activities	<u>(1,958,069)</u>
Cash Flows from Investing Activities	
Interest received	25,185
Cash used for investing activities	<u>25,185</u>
Decrease in cash and cash equivalents	
Cash and cash equivalents, beginning of year	<u>3,829,782</u>
Cash and cash equivalents, end of year	
	<u>\$ 3,130,277</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Statement of net position	
Cash and investments	\$ 1,246,174
Restricted cash and investments	<u>1,884,103</u>
Cash and cash equivalents	
	<u>\$ 3,130,277</u>
Reconciliation of operating income from operations to cash provided by operating activities:	
Operating income	\$ 1,736,557
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation and amortization	271,409
(Increase) decrease in assets:	
Accounts receivable	(179,484)
Prepaid expenses	(39,290)
(Decrease) increase in liabilities:	
Accounts payable	(239,921)
Accrued payroll liabilities	(12,886)
Accrued compensated absences	454
Pension obligation and related deferred inflows (outflows)	<u>125,505</u>
Cash provided by operating activities	<u>\$ 1,662,344</u>

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

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	Redevelopment Successor Agency Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments	\$ 374,732	\$ 367,734
Receivables:		
Accounts receivable		1,698
Interest receivable	995	699
Prepaid costs	69,849	8,236
Due from other governments		17,098
Restricted cash	39,032	
Depreciable capital assets, net	46,963	
	<u>531,571</u>	<u>\$ 395,465</u>
LIABILITIES		
Accounts payable		\$ 22,190
Interest payable	6,720	
Advances from other City funds	496,005	
Due to other governments		373,275
Long-term debt:		
Due within one year	64,000	
Due after one year	204,106	
	<u>770,831</u>	<u>\$ 395,465</u>
NET POSITION		
Held in trust for other purposes	<u>(239,260)</u>	
	<u>\$ (239,260)</u>	

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

CITY OF MARYSVILLE, CALIFORNIA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
REDEVELOPMENT SUCCESSOR AGENCY PRIVATE-PURPOSE TRUST FUND

June 30, 2018

ADDITIONS	
Property taxes	\$ 110,399
Use of money and property	<u>1,526</u>
TOTAL ADDITIONS	<u>111,925</u>
DEDUCTIONS	
Operations and maintenance	43,884
Depreciation expense	1,622
Debt Service:	
Interest and fiscal charges	<u>19,965</u>
TOTAL DEDUCTIONS	<u>65,471</u>
CHANGE IN NET POSITION	46,454
Net position, beginning of year	<u>(285,714)</u>
Net position, end of year	<u><u>\$ (239,260)</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Marysville (the City) was incorporated on February 5, 1851, under the laws and regulations of the State of California (the State). The City lies at the confluence of the Yuba and Feather Rivers at the foot of the Sierra Mountains and is located about 40 miles north of Sacramento. Marysville and neighboring Yuba City, commonly known as the “Twin Cities,” form a regional community of approximately 125,000 people. The City’s economic base is agriculture (rice, peaches, tomatoes, etc.), government (Beale Air Force Base and District 3 Office of Caltrans), and retail trade services.

The City operates under a City Manager-Council form of government and provides the following services: public safety (Police and Fire), highways and streets, sewer, culture-recreation, public improvements, planning and zoning, and general administration. The voters of the City of Marysville, California, give authority and responsibility for operations to the City Council. The City Council has the authority to employ administrative and support personnel to carry out its directives. The primary method used to monitor the performance of the City’s management is the financial budget, which is adopted annually by the City Council.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. In addition, the City applies all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements related to its proprietary operations. The more significant of these accounting policies are described below.

Reporting Entity: The City operates as a self-governing local government unit within the State. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. The City’s main funding sources include property taxes, sales taxes, other inter-governmental revenue from state and federal sources, user fees, and federal and state financial assistance.

The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and either (a) the City has the ability to impose its will on the organization or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. These component units are reported on a blended basis. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The City’s reporting entity includes the following blended component unit:

Marysville Financing Authority

Redevelopment Successor Agency Private-Purpose Trust Fund: The City of Marysville Community Development Agency (the Agency) was formed as a separate legal entity under the Community Redevelopment Law. On December 29, 2011, the California Supreme Court upheld Assembly Bill

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IX 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. On January 17, 2012, the City Council elected to become Successor Agency for the redevelopment agency in accordance with the bill as part of City Resolution No. 2012-02. The successor agency is reported as the Redevelopment Successor Agency Private-Purpose Trust Fund, a fiduciary fund.

Basis of Presentation—Government-wide Financial Statements: The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes are recognized when the underlying sales transaction takes place. Grants and similar items are recognized as revenues when all eligibility requirements are met.

Basis of Presentation—Fund Financial Statements: The accounts of the City are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

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

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. For the City, the General Fund includes such activities as public safety, public works, parks and recreation, and economic development services.

Capital Projects Fund – The Capital Project Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

The City reports the following major enterprise fund:

Wastewater Enterprise Fund – The Wastewater Enterprise Fund is used to account for all revenues and expenses for operation maintenance and capital improvement funding of the Marysville Wastewater facilities.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The City has no debt service funds.

PROPRIETARY FUNDS

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Private-Purpose Trust – Private Purpose Trust funds are used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples include successor agencies for redevelopment agencies.

Agency Funds – Agency Funds account for assets held by the City in a purely custodial capacity. Agency Funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers or other funds for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents: The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including the City's investment in California Local Agency Investment Fund (LAIF). Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost.

Receivables and Payables: Sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and receivables and considered available if received within 90 days of year-end. Property taxes related to the current fiscal year are accrued as revenue and receivables and considered available if received within 60 days of year-end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net position. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and collectible. Unbilled utility revenue earned is recognized as revenue and accounts receivable in the enterprise funds.

Transactions between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Eliminations have not been made between or within the fund types.

The City has provided an allowance for doubtful accounts of \$96,538 at June 30, 2018 related to its wastewater operations estimated by the City to be uncollectible.

Property Taxes: The County of Yuba (the County) is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year end. Secured property taxes are levied on or before September 30 of each year. They become a lien on real property on March 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The term “unsecured” refers to taxes on personal property other than land and buildings. Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. The County apportions secured property tax revenue in accordance with the alternate methods of distribution, the “Teeter Plan,” as prescribed by Section 4717 of the California Revenue and Taxation code. Therefore, the City receives 100% of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible.

These taxes are accrued as intergovernmental receivables only if they are received from the County within 60 days after year-end for the governmental funds and are accrued when earned for government-wide presentation regardless of the timing of the related cash flows.

Capital Assets: Capital assets for governmental fund types of the City are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at their estimated fair market value on the date donated.

Public domain (infrastructure) capital assets consisting of certain improvements other than buildings, but including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have been capitalized prospectively beginning June 30, 2005.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not included in the current year’s additions to governmental or business-type capital assets. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	80 to 150 years
Machinery, equipment and vehicles	5 to 40 years

It is the policy of the City to capitalize all land, building, improvements, equipment, and eventually infrastructure assets, except assets costing less than \$5,000. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Costs of assets sold or retired and the resulting gain or loss is included in the operating statement of the related proprietary fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale. The proceeds reported in the governmental fund are eliminated and the gain or loss on sale is reported in the government-wide presentation.

Compensated Absences: It is the City’s policy to permit employees to accumulate earned but unused vacation. Vacation credits must be used during the next succeeding year. Vacation is accrued when incurred in the government-wide presentation and in the proprietary funds and reported as a liability. Amounts that are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations or retirements that are currently payable, are reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources represent a reconciling item between the fund and government-wide presentation. No expenditure is reported in the governmental fund financial statements for these amounts.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unused vacation is paid to employees upon termination after one year of service. The maximum accrual for all employees for vacation is one times the employees' annual vacation leave credits. There is no limit as to the accrual of sick leave. Sick leave is not payable upon termination, but may be converted to service credits under the City's defined benefit pension plan.

Long-term Obligations: Long-term debt of governmental funds are reported at face value in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, proceeds from borrowing are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Deferred Outflows and Inflows of Resources: In addition to liabilities, the statement of financial position reports a separate section for deferred outflows and deferred inflows of resources. *Deferred outflows of resources* represent a consumption of net position by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expenditure/expense) or an inflow of resources (revenue) until the earnings process is complete. The governmental funds report unavailable revenues for grants and other revenues when the amounts meet the asset recognition criteria under GASB 33 and were accrued as receivables, but the amounts were not received in the availability period. Deferred outflows and inflows of resources include amounts deferred related to the City's pension plan under GASB 68 as described in Note H.

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

Fund Equity: In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

Nonspendable Funds – Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Nonspendable balances are not expected to be converted to cash within the next operating cycle, which comprise prepaid items and long-term receivables.

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. These amounts cannot be used for any other purpose unless the City Council modifies or removes the fund balance commitment.

Assigned Funds – Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed.

Unassigned Funds – Unassigned fund balance is the residual classification of the City's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

Net Position: The government-wide financial statements utilize a net position presentation. Net position is categorized as investment in capital assets (net of related debt), restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the City not restricted for any project or other purpose.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of a resolution. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted, committed, assigned and unassigned resources as they are needed. The City's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Use of Estimates: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Information: The City Council annually adopts the budget resolution for all operating funds of the City. Budgetary control is legally maintained at the fund level. Department heads submit budget requests to the City Administrator. The Administrator prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budgets during the year. Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year. Amounts shown in the financial statements represent the original budgeted amounts and all supplemental appropriations. The supplemental appropriations were immaterial. The budgetary data is prepared on the modified accrual basis consistent with the related “actual” amounts. The City does not use encumbrance accounting.

Excess Expenditures Over Appropriations: The following funds had excess expenditures over appropriations.

Fund	Appropriations	Total Expenditures and Transfers Out	Excess Expenditures
Major Funds:			
General Fund	\$ 8,680,299	\$ 9,389,502	\$ 709,203
Capital Projects Fund	1,098,320	2,024,169	925,849
Nonmajor Special Revenue Funds:			
Gas Tax Fund	450,521	594,213	143,692
Community Development Block Grant (CDBG)	-	354,797	354,797
Home Program Income	-	92,307	92,307
2015 CDBG	-	359,151	359,151

The CDBG and Home Program Funds are not budgeted. Gas Tax expenditures exceeded appropriation due to the use of available fund balance.

New Pronouncements: In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in a irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. For governments that extinguished debt, whether through a legal extinguishment or through in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguishment debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in the notes to governmental financial statements and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. For notes to the financial statement there is a requirement that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the reporting periods beginning after June 15, 2018.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement enhances disclosures about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. Interest cost incurred before the end of a construction period will be recognized as an expense rather than being recorded as part of the cost of capital assets in a business-type activity or enterprise fund and interest cost incurred by a fund using the current financial resources measurement focus before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018.

The City is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds. Cash represents cash on hand, demand deposits in the bank and amounts invested in the State of California Local Agency Investment Fund (LAIF). Cash and investments at June 30, 2018 are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,740,834	\$ 1,246,174	\$ 742,466	\$ 5,729,474
Restricted cash	742,757	1,884,103	39,032	2,665,892
	<u>\$ 4,483,591</u>	<u>\$ 3,130,277</u>	<u>\$ 781,498</u>	<u>\$ 8,395,366</u>

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE B – CASH AND INVESTMENTS (Continued)

As of June 30, 2018, the City’s cash and investments consisted of the following:

Cash on hand	\$ 900
Deposits in financial institutions	4,321,389
California Local Agency Investment Fund	3,269,368
Held by bond trustee:	
Money market mutual fund	744,209
Repurchase agreement	<u>59,500</u>
Total cash and investments	<u><u>\$ 8,395,366</u></u>

Investment policy: California statutes authorize cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the City by the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
Local agency bonds	None	None	10%
Mortgage-back securities	None	20%	None
Bankers acceptances	180 days	40%	\$ 2,000,000
High grade commercial paper	270 days	15%	\$ 1,000,000
FDIC insured or fully collateralized time certificates of deposit	180 days	None	None
Negotiable certificates of deposit	5 years	30%	None
LAIF	N/A	\$ 30,000,000	\$ 20,000,000
CLASS	None	None	None
Medium term corporate notes	5 years	30%	\$ 1,000,000
Repurchase Agreements	365 days	20%	None
Money market fund	None	10%	None

The City complied with the provisions of California Government Code pertaining to the types of investments held, institutions in which deposits were made and security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. The 2001 Series A Lease Revenue debt agreement contains certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE B – CASH AND INVESTMENTS (Continued)

	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment In One Issuer</u>
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
Municipal obligations	None	None	10%
Bankers acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable certificates of deposit	None	None	None
Repurchase agreements *	N/A	None	None
Money market funds	5 years	30%	5%
Local Agency Investment Fund	365 days	20%	None
Investment Agreement *	None	None	None

*These investments require prior approval of the municipal bond issuer, Amback Assurance Corporation.

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

Information about the sensitivity of the fair values of the City's investments (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	Remaining Maturity (in months)			
	<u>Total</u>	<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>More Than 60 Months</u>
LAIF	\$ 3,269,368	\$ 3,269,368	\$ -	\$ -
Held by bond trustee:				
Money market mutual funds	744,209	744,209	-	-
Repurchase agreements	59,500	-	-	59,500
Total	<u>\$ 4,073,077</u>	<u>\$ 4,013,577</u>	<u>\$ -</u>	<u>\$ 59,500</u>

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The current rating of the money market mutual funds is AAA. LAIF does not have ratings assigned by a nationally recognized statistical organization. The repurchase agreement is held with the fiscal agent but not in the City's name.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE B – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk: The investment policy of the City contains no limitations on the amount that can be invested with any one issuer beyond that stipulated by the California Government Code. As of June 30, 2018, the repurchase agreement with a reported amount of \$59,500 represented more than 5% of the total investments (other than mutual funds and external investment pools) in any one issuer. The issuer of the repurchase agreement is Chase Manhattan Bank. The repurchase agreement represents the reserve fund for the 2001 Series A Lease Revenue Bonds.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code 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 provision for deposits: The California Governmental 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 at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2018, the carrying amount of the City's deposits was \$4,321,389 and the balance in financial institutions was \$4,350,252. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$4,100,252 was covered by the pledging financial institution with assets held in a common pool for the City and other governmental agencies.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$88,949,144,131 managed by the State Treasurer. Of that amount, 2.67% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. 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 the accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2018, these investments matured in an average of 193 days.

Fair Value Measurement: The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The City has a repurchase agreement of \$59,500 at June 30, 2018. The fair values of the repurchase agreement are estimated using a discounted cash flow calculation that applies interest rates currently being offered on the certificates to a schedule of aggregated contractual maturities on such time deposits, which are Level 2 inputs. The City's investment in the money market mutual fund is considered Level 2 because the value is calculated using amortized cost of the securities held in the fund, not the market value.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE C – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2018 were as follows:

<u>Due to Other Funds</u>	<u>Due from Other Funds General Fund</u>
Capital Projects Fund	\$ 37,651
Nonmajor Funds:	
CDBG Principal and Interest	312,880
Home Program Income	<u>8,060</u>
	<u>\$ 358,591</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers during the year ended June 30, 2018 were as follows:

<u>Transfers out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental 2015</u>		
			<u>CDBG</u>	<u>LAFCO</u>	
Major Governmental Funds:					
General		\$ 50,000		\$ 4,218	\$ 54,218
Nonmajor Governmental Funds:					
Gas Tax	\$ 89,327				89,327
Transporation and Transit		98,320			98,320
COPS/SLESF	100,000				100,000
CDBG Principal and Interest			\$ 335,659		335,659
Home Program Income	2,129				2,129
Enterprise Fund:					
Sewer	428,527				428,527
	<u>\$ 619,983</u>	<u>\$ 148,320</u>	<u>\$ 335,659</u>	<u>\$ 4,218</u>	<u>\$ 1,108,180</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expand them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE C – INTERFUND TRANSACTIONS (Continued)

Interfund long-term advances at June 30, 2018 were as follows:

Fund	Advances to Other Funds	Advances From Other Funds
Enterprise Funds:		
Wastewater Fund	\$ 496,005	
Fiduciary Funds - Private-Purpose Trust:		
Redevelopment Successor Agency		\$ 496,005
	\$ 496,005	\$ 496,005

Advance from Wastewater Enterprise Fund: During the year ended June 30, 2000, the City’s Wastewater Enterprise Fund advanced to the Agency \$500,000 to be used for improvements at the baseball field. On December 6, 2013, the State of California approved this amount as eligible for tax revenues deposited into the Redevelopment Property Tax Trust Fund created by the State to receive all taxes due to the dissolved Agency. Interest accrues at the LAIF interest rate and will be added to the advance balance annually when approved by the State. No payments were made during the fiscal year ended June 30, 2018 due to a lack of monies in the Trust Fund.

NOTE D – LOANS RECEIVABLE

The following is a summary of the various types of loans receivable outstanding as of June 30, 2018:

General Fund – The City made loans to its employees for computer purchases. These loans have an interest rate of 6% and have varying due dates.

CDBG Principal and Interest Special Revenue Fund – The City participates in a CDBG Revolving Loan program. The program is federally funded and provides assistance to private parties and for-profit businesses to carry out economic development. Loans have been provided to qualifying businesses located within the City. Interest rates vary depending on the terms of the loan and interest may be deferred until the related property is refinanced or sold. Accrued but unpaid interest is added to the loan balance. Interest rates range from zero to 10%.

HOME Program Income Fund – The City has made various loans to qualifying participants within the City as part of the Federal First Time Home Buyers Program (HOME), which are owner occupied housing rehabilitation programs. Interest rates vary depending on the terms of the loan and interest is deferred until the loan is refinanced or sold and may be waived under certain conditions if the loan is carried to full term. Also, the City utilizes proceeds received from pay-offs under the Housing Revolving Loan Fund to reloan to qualifying participants. The interest rate on the loans is 3% to 3.75%.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE D – LOANS RECEIVABLE (Continued)

Activity in loans receivable for the year ended June 30, 2018 is as follows:

	Balance at July 1, 2017	Additions	Payments Received	Balance at June 30, 2018
Major Governmental Funds:				
General Fund:				
Employees - computers	\$ -	\$ 2,018	\$ (1,022)	\$ 996
Nonmajor Governmental Funds:				-
CDBG Principal and Interest				-
Special Revenue Fund:				-
Block grant loans	1,187,697		(18,670)	1,169,027
HOME Program Income Fund:				-
HOME loans	563,197	150,493	(60,084)	653,606
	<u>\$ 1,750,894</u>	<u>\$ 152,511</u>	<u>\$ (79,776)</u>	<u>\$ 1,823,629</u>

NOTE E – CAPITAL ASSETS

Governmental capital assets activity for the year ended June 30, 2018 was as follows:

	Balance at June 30, 2017 Restated	Additions	Retirements	Balance at June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 6,057,051			\$ 6,057,051
Total capital assets, not being depreciated	6,057,051	-	-	6,057,051
Capital assets, being depreciated:				
Infrastructure	3,082,273	\$ 412,033		3,494,306
Buildings	3,949,845	870,615		4,820,460
Machinery and equipment	2,201,793	30,499		2,232,292
Vehicles	2,845,543	915,458	\$ (30,000)	3,731,001
Total capital assets, being depreciated	12,079,454	2,228,605	(30,000)	14,278,059
Less accumulated depreciation for:				
Infrastructure	(309,365)	(75,539)		(384,904)
Buildings	(2,287,252)	(63,132)		(2,350,384)
Machinery and equipment	(1,377,849)	(108,576)		(1,486,425)
Vehicles	(1,682,748)	(258,791)	25,500	(1,916,039)
Total accumulated depreciation	(5,657,214)	(506,038)	25,500	(6,137,752)
Capital assets being depreciated, net	6,422,240	1,722,567	(4,500)	8,140,307
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 12,479,291</u>	<u>\$ 1,722,567</u>	<u>\$ (4,500)</u>	<u>\$ 14,197,358</u>

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE E – CAPITAL ASSETS (Continued)

Depreciation expense for governmental capital assets was charged to functions as follows:

General government	\$ 43,338
Public safety	341,121
Streets and public works	82,036
Parks and recreation	<u>39,543</u>
Total governmental activities depreciation expense	<u>\$ 506,038</u>

Business-type capital assets activities for the year ended June 30, 2018 was as follows:

	June 30, 2017 <u>Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance at June 30, 2018
Capital assets, not being depreciated:					
Intangible asset - Right to Capacity	\$ 12,300,000				\$ 12,300,000
Construction in progress	12,083,822	\$ 302,151			12,385,973
Total capital assets, not being depreciated	<u>24,383,822</u>	<u>302,151</u>			<u>24,685,973</u>
Capital assets, being depreciated:					
Sewer plant	6,805,519	88,186			6,893,705
Buildings	1,483,400				1,483,400
Machinery and equipment	1,285,131	19,297			1,304,428
Vehicles	310,101				310,101
Equipment under capital lease	570,426				570,426
Total capital assets, being depreciated	<u>10,454,577</u>	<u>107,483</u>			<u>10,562,060</u>
Less accumulated depreciation for:					
Sewer plant	(4,107,859)	(223,051)			(4,330,910)
Buildings	(1,435,258)	(2,630)			(1,437,888)
Machinery and equipment	(1,149,087)	(12,697)			(1,161,784)
Vehicles	(298,637)	(4,510)			(303,147)
Equipment under capital lease	(233,896)	(28,521)			(262,417)
Total accumulated depreciation	<u>(7,224,737)</u>	<u>(271,409)</u>			<u>(7,496,146)</u>
Capital assets being depreciated, net	<u>3,229,840</u>	<u>(163,926)</u>			<u>3,065,914</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 27,613,662</u>	<u>\$ 138,225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,751,887</u>

Depreciation expense for business-type capital assets was charged to functions as follows:

Wastewater	<u>\$ 271,409</u>
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CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE F – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due Within One Year
Governmental Activities:					
Certificates of participation 2011	\$ 6,840,000		\$ (175,000)	\$ 6,665,000	\$ 185,000
Ford Lease September 2017		\$ 803,219	(175,728)	627,491	146,236
Ford Lease May 2018		43,009	(9,795)	33,214	7,486
Cert of Participation 2017 Series A		1,027,762		1,027,762	
Cert of Participation 2017 Series B		176,907		176,907	
	6,840,000	2,050,897	(360,523)	8,530,374	338,722
Compensated absences	227,870	661	(6,585)	221,946	
Net pension liability	12,275,582	1,410,053		13,685,635	
OPEB	43,070		(6,581)	36,489	
Governmental activities long-term liabilities	<u>\$ 19,386,522</u>	<u>\$ 3,461,611</u>	<u>\$ (373,689)</u>	<u>\$ 22,474,444</u>	<u>\$ 338,722</u>
Business-Type Activities:					
Lease revenue bonds, 2001 Series A	\$ 184,294		\$ (32,400)	\$ 151,894	\$ 36,000
Sewer revenue bonds, 2012 Series A	12,260,000		(230,000)	12,030,000	230,000
Linda County Water District	10,503,558		(371,588)	10,131,970	375,305
State Water Resources Loan	174,223		(174,223)	-	
Obligation under capital lease	142,762		(70,110)	72,652	72,652
Add: unamortized bond premium	925,236		(33,044)	892,192	
Total long-term debt	<u>24,190,073</u>		<u>(911,365)</u>	<u>23,278,708</u>	<u>713,957</u>
Compensated absences	15,030	\$ 454		15,484	
Net pension liability	661,561	107,769		769,330	
Business-type activities long-term liabilities	<u>\$ 24,866,664</u>	<u>\$ 108,223</u>	<u>\$ (911,365)</u>	<u>\$ 24,063,522</u>	<u>\$ 713,957</u>

Long-term debt of the City's governmental activities consists of the following as of June 30, 2018:

\$7,000,000 Taxable Certificates of Participation 2011:

Issued on September 26, 2011 by the City of Marysville to refund the prior 2006 Taxable Certificates of Participation of the City of Marysville Public Financing Authority. The stated interest rates are 6.25% to 7.25%. Principal payments ranging from \$160,000 to \$615,000 are due annually beginning October 1, 2017 through October 1, 2036 and interest payments ranging from \$44,588 to \$484,552 are due semi-annually on April 1 and October 1 beginning October 1, 2012 through October 1, 2036. The term certificates mature as follows: \$1,875,000, October 1, 2029; and, \$3,500,000 mature on October 1, 2036. To provide for repayment of the bonds, the City intends to lease, on a long-term basis, the baseball park and a development project.

\$ 6,665,000

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE F – LONG-TERM LIABILITIES (Continued)

Obligation under capital lease:

The City and Ford Motor Credit Company, LLC amended the above lease terms to include an additional vehicle. Amendment dated June 25, 2018 for the acquisition of one 2018 Ford Police Interceptor Utility vehicle. Due in annual installments of \$9,795 beginning June 25, 2018 and ending June 25, 2022, including interest at 6.95%. The cost of the asset was \$43,009 and accumulated depreciation was \$6,341 at June 30, 2018.

\$ 33,214

Obligation under capital lease:

The City entered into a purchase option lease agreement with Ford Motor Credit Company, LLC dated September 20, 2017 for the acquisition of 19 2017 Ford Police Interceptor Utility vehicles. Due in annual installments of \$175,728 beginning September 20, 2017 and ending September 20, 2021, including interest at 4.70%. The cost of the asset was \$803,219 and accumulated depreciation was \$114,142 at June 30, 2018.

627,491

\$1,027,762 Clean Renewable Energy Bonds (CREB), Series A:

On September 1, 2017, the Marysville Financing Authority issued bonds and entered into a lease agreement with the City to finance its clean renewable energy projects consisting of solar photovoltaic energy systems at the City Hall and Police Department, City Fire Department, and City Corporation Yard. Principal payments ranging from \$2,985 to \$134,966 are due annually on September 1 through September 1, 2038 and interest payments, at a rate of 5.62%, ranging from \$420 to \$28,880 are due semiannually on March 1 and September 1 through September 1, 2038. To provide for repayment of the bonds, the City has leased three parcels of land bordered by or near F and 15th Streets to the Marysville Financing Authority under a leaseback agreement.

1,027,762

\$176,907 Clean Renewable Energy Bonds (CREB), Series B:

On September 1, 2017, the Marysville Financing Authority issued bonds and entered into a lease agreement with the City to finance its clean renewable energy projects consisting of solar photovoltaic energy systems at the City Hall and Police Department, City Fire Department, and City Corporation Yard. Principal payments ranging from \$190 to \$31,292 are due annually on September 1 through September 1, 2031 and interest payments at a rate of 5.42% ranging from \$483 to \$4,794 are due semiannually on March 1 and September 1 through September 1, 2031. To provide for repayment of the bonds, the City has leased three parcels of land bordered by or near F and 15th Streets to the Marysville Financing Authority under a leaseback agreement.

176,907

\$ 8,530,374

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE F – LONG-TERM LIABILITIES (Continued)

Long-term debt of the City's business-type activities consists of the following as of June 30, 2018:

\$2,725,000 Lease Revenue Bonds, 2001 Series A:

Issued on July 20, 2001 to refinance the two outstanding debt issues of the City issued in 1992: Certificates of Participation (1992 Capital Improvement Financing Project) and Marysville Community Development Agency 1992 Tax Allocation Refunding bonds. The bonds were issued by the Association of Bay Area Governments (the Authority) with three other cities for a total bond issuance of \$15,110,000. The City's bonds are due beginning July 1, 2002 through July 1, 2021 and have stated interest rates from 3.25% to 5.25%. Principal payments ranging from \$110,000 to \$200,000 are due annually on July 1 through July 1, 2021 and interest payments ranging from \$2,750 to \$46,354 are due semi-annually on January 1 and July 1 through July 1, 2021. To provide for repayment of the bonds, the City has leased the city hall to the Authority under a leaseback agreement. The refinancing involved both business-type activities and fiduciary activities. The liability has been allocated based on the debt service requirements of the respective bond issues refinanced: \$151,895 business-type activities and \$268,106 fiduciary activities.

\$ 151,894

\$13,135,000 Sewer Revenue Bonds, 2012 Series A:

Issued on November 9, 2012 to finance the acquisition and construction of certain improvements and facilities for the Sewer System. The serial bonds with principal payments of \$215,000 to \$315,000 are due beginning November 1, 2013 through November 1, 2027 with term bonds maturing on November 1 of 2023, 2032, 2038 and 2045. The serial bonds have stated interest rates of 0.55% to 3% and the term bonds have interest rates of 4.00% and 5.00%. Repayment is secured by a pledge and lien of the net revenues of the sewer system.

12,030,000

Linda County Water District Agreement:

Dated September 19, 2012 for the City share of the added capacity resulting from the improvements to the wastewater facilities and pipeline owned and maintained by the water district. The total project costs were estimated to be \$34,168,332 for increased capacity of 5.0 million gallons per day (MGD) of which the City was allocated 1.8 MGD and \$12,300,600 of the project costs. Annual payments of \$476,625 are due beginning January 1, 2013 through January 1, 2042, including interest at 1%.

10,131,970

Obligation under capital lease:

Dated June 1, 2014 for the acquisition of a vacuum truck for the Sewer Enterprise Fund. Due in annual installments of \$75,287 beginning December 1, 2014 and ending December 1, 2018, including interest at 3.627%. The value of the vehicle leased was \$344,640 with accumulated amortization of \$68,928 as of June 30, 2018.

72,652

\$ 22,386,516

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE F – LONG-TERM LIABILITIES (Continued)

Principal and interest payments on debt are due as follows:

Year Ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 338,722	\$ 560,087	\$ 713,957	\$ 651,653
2020	356,306	541,125	660,058	638,715
2021	376,070	521,121	672,449	628,084
2022	403,212	499,951	681,278	616,907
2023	244,218	477,338	655,544	603,881
2024-2028	1,635,619	2,111,167	3,487,786	2,813,535
2029-2033	2,379,243	1,473,614	3,924,727	2,378,898
2034-2038	2,782,020	505,106	4,552,599	1,756,276
2039-2043	14,964	420	4,853,118	981,440
2044-2045			2,185,000	167,625
Totals	<u>\$ 8,530,374</u>	<u>\$ 6,689,929</u>	<u>\$ 22,386,516</u>	<u>\$ 11,237,014</u>

The Wastewater Fund has pledged a portion of its net revenue to repay \$13,135,000 for the Sewer Revenue Bonds to finance certain sewer system improvements. Total principal and interest remaining on the bonds through 2023 is \$21,933,183. For fiscal year 2018, the principal and interest paid by the Wastewater fund for these loans was \$775,638. The City has not been in compliance with its debt coverage related to the Sewer Revenue Bonds for the past two years. The City completed a rate study in June 2019 to move toward increased rates in October 2019 to meet the coverage ratio.

NOTE G – NET POSITION/FUND BALANCE

The following are the purposes for which net positions are restricted:

	Governmental Activities	Business-Type Activities
Public safety	\$ 241,334	
Public works		
Capital projects	344,900	
Other	129,817	
Debt service	742,757	\$ 1,884,103
Community development	1,934,868	
	<u>\$ 3,393,676</u>	<u>\$ 1,884,103</u>

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE G – NET POSITION/FUND BALANCE (Continued)

The following are the components of the Governmental Funds fund balances:

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances:				
Nonspendable:				
Long-term receivables	\$ 996			\$ 996
Loans receivable			\$ 1,822,633	1,822,633
Total Nonspendable	<u>996</u>		<u>1,822,633</u>	<u>1,823,629</u>
Restricted for:				
Public safety			241,334	241,334
Public works				
Capital projects		\$ 344,900		344,900
Other			129,814	129,814
Debt service	742,757			742,757
Community development			433,556	433,556
Total Restricted	<u>742,757</u>	<u>344,900</u>	<u>804,704</u>	<u>1,892,361</u>
Unassigned/Unrestricted	2,441,490		(321,321)	2,120,169
Total Unassigned	<u>2,441,490</u>	<u>-</u>	<u>(321,321)</u>	<u>2,120,169</u>
Total fund balances	<u>\$ 3,185,243</u>	<u>\$ 344,900</u>	<u>\$ 2,306,016</u>	<u>\$ 5,836,159</u>

Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. At June 30, 2018, the City had a Rate Stabilization Fund of \$800,000 reported in the Wastewater Fund.

NOTE H – PENSION PLANS

Plan Descriptions: All qualified permanent and probationary employees are eligible to participate in the City’s cost-sharing multiple-employer defined benefit pension plan (the Plan or PERF C) administered by the California Public Employees’ Retirement System (CalPERS). PERF C consists of a miscellaneous risk pool and a safety risk pool and the following rate plans:

- City Miscellaneous Plan Classic Tier 1
- City Miscellaneous Plan Classic Tier 2
- City Miscellaneous PEPRA Tier 3
- Safety Police Plan Classic Tier 1
- Safety Police Plan PEPRA Tier 3
- Safety Fire Plan Classic Tier 1
- Safety Fire Plan Classic Tier 2

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE H – PENSION PLANS (Continued)

Although one pension plan exists, CalPERS provides the information separately for the Miscellaneous and Safety Risk Pools and the information is presented separately where available. Benefit provisions under the Plan is 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 at www.calpers.ca.gov.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

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

	City Miscellaneous Classic Tier 1	City Miscellaneous Classic Tier 2	City Miscellaneous PEPRA Tier 3	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 55	2.0% @ 62	
Benefit vesting schedule	5 years service	5 years service	5 years service	
Benefit payments	monthly for life	monthly for life	monthly for life	
Final average compensation period	One Year	Three Year	Three Year	
Retirement age	50 - 63	50 - 63	52 - 67	
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.426% to 2.418%	1.0% to 2.5%	
Required employee contribution rates	7.00%	7.00%	6.25%	
Required employer contribution rates	8.921%	8.418%	6.533%	
	Safety Police Classic Tier 1	Safety Police PEPRA Tier 3	Safety Fire Classic Tier 1	Safety Fire Classic Tier 2
	January 1, 1965 to May 5, 2010	On or after May 5, 2010	On or after January 1, 2013	On or after January 1, 2013
Benefit formula (at full retirement)	3.0% @ 50	2.7% @ 57	2.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Final average compensation period	Three Year	Three Year	Three Year	Three Year
Retirement age	50	50 - 57	50 - 55	50-57
Monthly benefits, as a % of eligible compensation	3.00%	2.0% to 2.7%	1.0% to 2.5%	2.0% to 2.7%
Required employee contribution rates	9.00%	11.50%	9.00%	11.50%
Required employer contribution rates	18.615%	11.990%	14.971%	11.990%

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE H – PENSION PLANS (Continued)

The Miscellaneous Plan & Safety is closed to new participants that were not CalPERS participants prior to January 1, 2013 under the Public Employees’ Pension Reform Act of 2013 (PEPRA). Any new participants that were not previously CalPERS participants would be required to join the PEPRA Miscellaneous Plan.

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 the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the employer contributions made to the Plan were as follows for the year ended June 30, 2018:

	Normal Cost	UAL Amortization	Total
City Miscellaneous Risk Pool	\$ 92,200	\$ 177,562	\$ 269,762
Safety Risk Pool	185,866	666,844	852,710
	<u>\$ 278,066</u>	<u>\$ 844,406</u>	<u>\$ 1,122,472</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 for its proportionate share of the net pension liability as follows:

	Proportionate Share of Net Pension Liability/Asset
City Miscellaneous Risk Pool	\$ 4,368,711
Safety Risk Pool	10,086,254
Total Net Pension Liability	<u>\$ 14,454,965</u>

The City’s net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is 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. The City’s proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2017 was as follows:

	Miscellaneous Plan	Safety Plan
Proportion - June 30, 2017	0.10814%	0.17725%
Proportion - June 30, 2018	0.11082%	0.16880%
Change - Increase (Decrease)	0.00268%	-0.00845%

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE H – PENSION PLANS (Continued)

For the year ended June 30, 2018, the City recognized a pension expense of \$338,061 for the Miscellaneous Plan and \$791,796 for its Safety Plan. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the Plan combined from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>City Miscellaneous Risk Pool</u>		
Pension contributions subsequent to measurement date	\$ 269,762	
Change in assumptions	703,828	\$ 53,667
Net differences between projected and actual earnings on plan investments	159,176	
Difference between actual and allocated contributions		494,961
Difference between expected and actual experience	5,673	81,269
Adjustment due to differences in proportions	85,327	248,313
Total	<u>\$ 1,223,766</u>	<u>\$ 878,210</u>
<u>Safety Risk Pool</u>		
Pension contributions subsequent to measurement date	\$ 852,710	
Change in assumptions	1,255,468	\$ 96,323
Net differences between projected and actual earnings on plan investments	273,741	
Difference between actual and allocated contributions		689,731
Difference between expected and actual experience	86,569	22,571
Adjustment due to differences in proportions	123,268	330,045
Total	<u>\$ 2,591,756</u>	<u>\$ 1,138,670</u>
Total - all risk pools	<u>\$ 3,815,522</u>	<u>\$ 2,016,880</u>

The \$1,122,472 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	City Miscellaneous Risk Pool	Safety Risk Pool	Total
2019	\$ (227,453)	\$ (106,707)	\$ (334,160)
2020	252,626	539,766	792,392
2021	145,127	327,493	472,620
2022	(94,506)	(160,176)	(254,682)
2023	-	-	-
Thereafter	-	-	-
	<u>\$ 75,794</u>	<u>\$ 600,376</u>	<u>\$ 676,170</u>

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE H – PENSION PLANS (Continued)

Actuarial Assumptions: The total pension liabilities in the actuarial valuations for the Plan were determined using the following actuarial assumptions:

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%
Payroll Growth	3.0%
Projected Salary Increase	3.2% - 12.2% (1)
Mortality	Derived using CalPERS Membership Data for all Funds

(1) Depending on entry age and service

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2018 were based on the 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can found on the CalPERS website.

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

In fiscal year 2016-2017, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

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

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

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE H – PENSION PLANS (Continued)

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40)%	(0.90)%
Total	<u>100.0%</u>		

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

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

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

	City Miscellaneous Risk Pool	Safety Risk Pool	Total
1% Decrease	6.15%	6.15%	6.15%
Net Pension Liability	\$ 6,688,718	\$ 14,233,801	\$ 20,922,519
Current Discount Rate	7.15%	7.15%	7.15%
Net Pension Liability	\$ 4,368,711	\$ 10,086,254	\$ 14,454,965
1% Increase	8.15%	8.15%	8.15%
Net Pension Liability	\$ 2,447,240	\$ 6,695,841	\$ 9,143,081

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 I – POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description: One City employee and his spouse are the only persons currently eligible for post-retirement health benefits. The City has computed the post-employment benefits using the alternative measurement method. The liability has not been funded nor has a trustee been appointed. The benefit provisions are established in the form of a binding contract with the employee. The plan currently does not issue stand-alone financial statements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE I – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Total OPEB Liability: The City’s total OPEB liability of \$36,489 was measured using the Alternative Measurement Method as of June 30, 2018. Changes in the total OPEB liability are as follows:

Annual required contribution	\$ 1,428
Interest on net OPEB obligation	64
Benefit payments	<u>(8,073)</u>
Decrease in net OPEB obligation	(6,581)
Total OPEB liability, July 1	<u>43,070</u>
Total OPEB liability, June 30	<u>\$ 36,489</u>

Actuarial Assumptions and Other Inputs: The total OPEB liability was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	4.50 percent
Healthcare trend rate	3 percent per year
Retirees' share of benefit-related costs	None
Remaining life expectancy	11 years

NOTE J – LEASE COMMITMENTS

The City had operating leases for copiers. The minimum lease payments are as follows:

Year Ending June 30:	Copier leases by department			Total
	Police	Admin	Fire	
2019	\$ 4,836	\$ 5,136	\$ 1,332	\$ 11,304
2020	4,836	5,136	1,332	11,304
2021	4,836	5,136	1,332	11,304
2022	4,433	4,708	1,332	10,473
2023	-	-	555	555
Totals	<u>\$ 18,941</u>	<u>\$ 20,116</u>	<u>\$ 5,883</u>	<u>\$ 44,940</u>

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE K – INSURANCE

The City is a member of the Northern California Cities Self Insurance Fund (NCCSIF) along with twenty other northern California cities. The NCCSIF is a joint powers authority (JPA) organized in accordance with Article I, Chapter 5, Division 7, Title I of the California Government Fund Programs. The purpose is to create a common pool of funds to be used to meet obligations of the parties to provide workers' compensation benefits for their employees and to provide excess liability insurance. The NCCSIF provides claims processing administrative services, risk management services and actuarial studies. A member from each city governs the NCCSIF. The City of Marysville council members do not have significant oversight responsibility, since they evenly share all factors of responsibility with the other cities. The City does not retain the risk of loss. However, ultimate liability for payment of claims and insurance premiums resides with member cities. The NCCSIF is empowered to make supplemental assessments as needed to eliminate deficit positions of member cities. If the JPA becomes insolvent, the City is responsible only to the extent of any deficiency in its equity balance.

Coverage	SCORE	Excess	Banking Layer/ Deductible
Liability	\$ 500,000	\$ 39,500,000	\$ 50,000
Employers liability	500,000	4,500,000	100,000
Property	1,000,000,000	-	5,000
Boiler and machinery	100,000,000	-	2,500
Mobile equipment	3,685,982	-	2,000
Workers Compensation liability	500,000	-	100,000
Crime	3,000,000	-	5,000

The NCCSIF establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims settlement expenses) that have been reported but not settled, plus estimates of claims that have been incurred but not reported. Because actual claims costs depend on various factors, the claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision of inflation is implicit in the calculation of estimated future claims costs. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Settlements have not exceeded the insurance coverage for the past three fiscal years. There have not been any significant reductions in insurance coverage over the prior year. The audited financial statements of the JPA are available at the NCCSIF's office.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE K – INSURANCE (Continued)

The City’s insurance coverage and the respective coverage providers are as follows:

Amount	Coverage Provider	Payment Source
<i>LIABILITY CLAIMS:</i>		
\$0 - 25,000	Self-insured	Banking layer
25,001 - 500,000	Northern California Cities Self-Insurance Fund	Shared risk pool
500,001 - \$24,500,000	California Joint Powers Risk Management Authority	Shared risk pool
<i>WORKERS' COMPENSATION:</i>		
\$0 - 100,000	Self-insured	Banking layer
100,001 - 500,000	Northern California Cities Self-Insurance Fund	Shared risk pool
300,001 - \$150,000,000	California Joint Powers Risk Management Authority	Shared risk pool

NOTE L – COMMITMENTS AND CONTINGENCIES

The City participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors. The audits by the grantors for the year ended June 30, 2018, have not yet been conducted. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the City’s legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the City.

The City had the following significant unexpended contractual commitments as of June 30, 2018:

Wastewater Pump Station and Force Main Project	\$ 2,781,000
12th and J Street Project	804,968
Riverfront Bathrooms Renovation	<u>251,000</u>
Total commitments	<u><u>\$ 3,836,968</u></u>

NOTE M – SUCCESSOR AGENCY TRUST FOR FORMER MARYSVILLE

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, as amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

Under the provisions of AB 1484, the City may elect to become the Housing Successor and retain the housing assets. The City elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City’s Low Mod Income Housing Asset Special Revenue Fund. The activities of the Housing Successor are reported in the Low Mod Income Housing Assets Special Revenue Fund as the City has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE M – SUCCESSOR AGENCY TRUST FOR FORMER MARYSVILLE (Continued)

The City also elected to become the Successor Agency and on February 1, 2012, the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight board to oversee the activities of the Successor Agency and one was established in April 2012. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of seven members, including one member of the City Council, one former Redevelopment Agency employee appointed by the Mayor and the remaining members are appointed by external agencies with an interest in Successor Agency assets. Pursuant to Senate Bill 107, on July 1, 2018, a single consolidated County Oversight Board was established for the four city Oversight Boards.

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency, including paying debt service payments of existing Redevelopment Agency debt agreements. Currently, the last of the obligations of the former Redevelopment Agency will terminate in 2022.

The following disclosures of the Successor Agency as of June 30, 2018 are required by debt continuing disclosure requirements.

Successor agency capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance at June 30, 2017	Additions	Retirements	Transfers	Balance at June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 29,120				\$ 29,120
Capital assets, being depreciated:					
Buildings	48,663				48,663
Less: accumulated depreciation					
Buildings	(29,198)	\$ (1,622)			(30,820)
FIDUCIARY					
CAPITAL ASSETS, NET	<u>\$ 48,585</u>	<u>\$ (1,622)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,963</u>

Long-term Liabilities

The following is a summary of changes in the Successor Agency's long-term liabilities for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Lease revenue bonds, 2001 Series A	<u>\$ 325,706</u>	<u>\$ -</u>	<u>\$ (57,600)</u>	<u>\$ 268,106</u>	<u>\$ 64,000</u>

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE M – SUCCESSOR AGENCY TRUST FOR FORMER MARYSVILLE (Continued)

Lease Revenue Bonds, 2001 Series A: As previously described, these bonds were issued to refinance the Marysville Community Agency 1992 Tax Allocation Refunding Bonds, along with the City’s 1992 Certificates of Participation. Details on this debt issuance can be found in Note F.

The pledged revenues for these bonds represent tax revenues deposited into the Redevelopment Property Tax Trust Fund administered by the County of Yuba Auditor-Controller’s Office, less property tax administration fees and tax sharing payments made to other local agencies as required under Community Redevelopment Law (net pledged tax increment revenues). A portion of the net pledged tax increment revenues reported above are not intended to represent the amount received by the Agency and reported in the Successor Agency Private-Purpose Trust Fund. Although the Agency does not receive all of the net pledged tax increment revenues, additional revenues would be available to the Agency in the future, if necessary, to make debt service payments.

Future debt service for Successor Agency at June 30, 2017 is as follows:

Year Ending June 30,	Lease Revenue Bonds, 2001 Series A	
	Principal	Interest
2019	\$ 64,000	\$ 11,840
2020	64,000	8,640
2021	70,400	5,280
2022	69,706	1,760
2023-2027	-	-
2028-2032	-	-
2033-2037	-	-
2038-2042	-	-
	<u>268,106</u>	<u>27,520</u>
Due within one year	<u>(64,000)</u>	
Total	<u>\$ 204,106</u>	<u>\$ 27,520</u>

State Approval of Enforceable Obligations: The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semiannually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE N – RESTATEMENT

During the year ended June 30, 2018, the City changed the useful lives on some of its capital assets. As a result, governmental activities net position was reduced by \$528,428 and business-type activities and Wastewater Fund net position was reduced by \$280,925 as of July 1, 2017 to reflect this change retroactively.

CITY OF MARYSVILLE, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE O – SUBSEQUENT EVENTS

In November 2018, the City entered into a loan agreement in an amount not to exceed \$2,000,000 between the City and Linda County Water District to complete the construction of the Linda Main Connection, of which \$750,000 was deducted from the loan due to a prior payment from the master agreement made in September 2012. The City received the remaining \$1,250,000 in loan proceeds from the Water District on November 14, 2018.

In June 2019, the City Council approved a resolution to refund the 2011 Certificates of Participation with a principal balance outstanding of \$6,480,000. The refinancing of this debt is to reduce interest rates on the existing debt of 6.25% to 7.44% to an anticipated rate of 4.35%.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF MARYSVILLE

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.11082%	0.10814%	0.10273%	0.08314%
Proportionate share of the net pension liability	\$ 4,368,711	\$ 3,756,736	\$ 2,818,412	\$ 2,724,272
Covered payroll - measurement period	\$ 1,209,884	\$ 1,172,974	\$ 1,228,822	\$ 1,243,549
Proportionate share of the net pension liability as a percentage of covered payroll	361.09%	320.27%	229.36%	219.07%
Plan fiduciary net position as a percentage of the total pension liability	74.10%	76.05%	81.56%	82.70%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and to 7.15% in 2018.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 269,762	\$ 247,565	\$ 209,655	\$ 130,826
Contributions in relation to the actuarially determined contributions	(269,762)	(247,565)	(209,655)	(130,826)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll - fiscal year	\$ 1,217,647	\$ 1,209,884	\$ 1,172,974	\$ 1,228,822
Contributions as a percentage of covered payroll	22.15%	20.46%	17.87%	10.65%
Valuation date:	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

	Market Value	Market Value	Market Value	15-year smoothed market
Actuarial cost method				
Amortized method				
Remaining amortization period				
Asset valuation method				
Inflation	2.75%	2.75%	2.75%	2.75%
Salary increases				
Payroll growth	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.50% ⁽¹⁾	7.50% ⁽¹⁾	7.50% ⁽¹⁾	7.50% ⁽¹⁾
Mortality	⁽³⁾	⁽²⁾	⁽²⁾	⁽²⁾

Notes to Schedule:

⁽¹⁾ Net of administrative expenses, includes inflation.

⁽²⁾ Probabilities of retirement and mortality are based on CalPERS' 2010 Experience Study for the period from 1997 to 2007.

⁽³⁾ Probabilities of retirement and mortality are based on CalPERS' 2014 Experience Study for the period from 1997 to 2011.

Omitted years: The year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, the information prior to this date were not presented.

CITY OF MARYSVILLE

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - SAFETY PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.16880%	0.17725%	0.18427%	0.14064%
Proportionate share of the net pension liability	\$ 10,086,254	\$ 9,180,407	\$ 7,592,673	\$ 6,728,712
Covered payroll - measurement period	\$ 1,395,874	\$ 1,366,046	\$ 1,011,871	\$ 996,792
Proportionate share of the net pension liability as a percentage of covered payroll	722.58%	672.04%	750.36%	675.04%
Plan fiduciary net position as a percentage of the total pension liability	65.97%	68.30%	73.23%	76.23%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and to 7.15% in 2018.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - SAFETY PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 852,710	\$ 657,260	\$ 663,213	\$ 322,800
Contributions in relation to the actuarially determined contributions	(852,710)	(657,260)	(663,213)	(322,800)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll - fiscal year	\$ 1,485,180	\$ 1,395,874	\$ 1,366,046	\$ 1,011,871
Contributions as a percentage of covered payroll	57.41%	47.09%	48.55%	31.90%
Valuation date:	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method		Entry age normal		
Amortized method		Level percentage of payroll, closed		
Remaining amortization period		Varies, not more than 30 years		
Asset valuation method	Market Value	Market Value	Market Value	15-year smoothed market
Inflation	2.75%	2.75%	2.75%	2.75%
Salary increases		Varies by Entry Age and Service		
Payroll growth	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.50% ⁽¹⁾	7.50% ⁽¹⁾	7.50% ⁽¹⁾	7.50% ⁽¹⁾
Mortality	⁽³⁾	⁽²⁾	⁽²⁾	⁽²⁾

Notes to Schedule:

⁽¹⁾ Net of administrative expenses, includes inflation.

⁽²⁾ Probabilities of retirement and mortality are based on CalPERS' 2010 Experience Study for the period from 1997 to 2007.

⁽³⁾ Probabilities of retirement and mortality are based on CalPERS' 2014 Experience Study for the period from 1997 to 2011.

Omitted years: The year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, the information prior to this date were not presented.

COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS

CITY OF MARYSVILLE
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2018

	Gas Tax Fund	Narcotics Enforcement Fund	Asset Seizure Fund	Sidewalk Fund	Transportation and Transit Fund
ASSETS					
Cash and investments	\$ 83,848	\$ 1,199	\$ 298	\$ 13,554	\$ 503
Receivables:					
Accounts receivable	6,323			1,528	
Interest receivable	303	3	1	31	151
Loans receivable					
Due from other governments	52,805				
TOTAL ASSETS	\$ 143,279	\$ 1,202	\$ 299	\$ 15,113	\$ 654
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,791				
Accrued payroll liabilities	20,441				
Due to other funds					
TOTAL LIABILITIES	29,232				
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue					
TOTAL DEFERRED INFLOWS OF RESOURCES					
Fund balances:					
Nonspendable					
Restricted	114,047	\$ 1,202	\$ 299	\$ 15,113	\$ 654
Unassigned					
TOTAL FUND BALANCES	114,047	1,202	299	15,113	654
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 143,279	\$ 1,202	\$ 299	\$ 15,113	\$ 654

Revolving Loan Funds			Law Enforcement		
CDBG Principal and Interest Fund	HOME Program Income Fund	2015 CDBG Fund	COPS/SLESF Grant Fund	LAFCO Fund	Totals
		\$ 192,971	\$ 169,803		\$ 462,176
					7,851
\$ (255)	\$ (126)		517		625
1,169,027	653,606		69,513		1,822,633
		457,210			579,528
<u>\$ 1,168,772</u>	<u>\$ 653,480</u>	<u>\$ 650,181</u>	<u>\$ 239,833</u>	<u>-</u>	<u>\$ 2,872,813</u>
		\$ 216,625			\$ 225,416
					20,441
\$ 312,880	\$ 8,060				320,940
<u>312,880</u>	<u>8,060</u>	<u>216,625</u>			<u>566,797</u>
1,169,027	653,606				1,822,633
		433,556	\$ 239,833		804,704
(313,135)	(8,186)				(321,321)
<u>855,892</u>	<u>645,420</u>	<u>433,556</u>	<u>239,833</u>	<u>-</u>	<u>2,306,016</u>
<u>\$ 1,168,772</u>	<u>\$ 653,480</u>	<u>\$ 650,181</u>	<u>\$ 239,833</u>	<u>-</u>	<u>\$ 2,872,813</u>

Continued

CITY OF MARYSVILLE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2018

	Gas Tax Fund	Narcotics Enforcement Fund	Asset Seizure Fund	Sidewalk Fund	Transportation and Transit Fund
REVENUES					
Intergovernmental revenue	\$ 399,545				
Charges for services	70,737				
Use of money and property	1,041	\$ 8	\$ 2	\$ 79	\$ 653
Program income					
TOTAL REVENUES	471,323	8	2	79	653
EXPENDITURES					
Current:					
General government					
Public safety					
Streets and public works	504,886				
Capital outlay					
TOTAL EXPENDITURES	504,886	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	(33,563)	8	2	79	653
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers out	(89,327)				(98,320)
TOTAL OTHER FINANCING SOURCES AND USES	(89,327)	-	-	-	(98,320)
NET CHANGE IN FUND BALANCES	(122,890)	8	2	79	(97,667)
FUND BALANCES (DEFICIT)					
Beginning of year	236,937	1,194	297	15,034	98,321
End of year	\$ 114,047	\$ 1,202	\$ 299	\$ 15,113	\$ 654

Revolving Loan Funds			Law Enforcement		
CDBG Principal and Interest Fund	HOME Program Income Fund	2015 CDBG Fund	COPS/SLESF Grant Fund	LAFCO Fund	Totals
	\$ 80,631	\$ 457,210	\$ 213,144		\$ 1,150,530
					70,737
\$ (243) 8,432	(869)		1,229		1,900
					8,432
8,189	79,762	457,210	214,373		1,231,599
19,138	90,178	93,560			202,876
					504,886
		265,591			265,591
19,138	90,178	359,151	-	-	707,762
(10,949)	(10,416)	98,059	214,373	-	258,246
(335,659)	(2,129)	335,659	(100,000)	\$ 4,218	339,877
(335,659)	(2,129)	335,659	(100,000)	4,218	(625,435)
(346,608)	(12,545)	433,718	114,373	4,218	(285,558)
					(27,312)
1,202,500	657,965	(162)	125,460	(4,218)	2,333,328
\$ 855,892	\$ 645,420	\$ 433,556	\$ 239,833	\$ -	\$ 2,306,016

Continued

CITY OF MARYSVILLE

Combining Statement of Assets and Liabilities
Agency Funds

June 30, 2018

	Levee Commission Fund	Mary Aaron Museum Fund	Totals
ASSETS			
Cash and investments	\$ 355,153	\$ 12,581	\$ 367,734
Receivables:			
Accounts receivable	1,698		1,698
Interest receivable	671	28	699
Prepaid costs	8,236		8,236
Due from other governments	17,098		17,098
	<u>\$ 382,856</u>	<u>\$ 12,609</u>	<u>\$ 395,465</u>
TOTAL ASSETS			
LIABILITIES			
Accounts payable	\$ 21,831	\$ 359	\$ 22,190
Due to other agencies	361,025	12,250	373,275
	<u>\$ 382,856</u>	<u>\$ 12,609</u>	<u>\$ 395,465</u>
TOTAL LIABILITIES			

OTHER REPORTS

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

City Council
City of Marysville, California
Marysville, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marysville, California (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 6, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control described in the accompanying schedule of findings as Findings 2018-001 to 2018-003 that we consider to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

To the Board of Directors
City of Marysville, CA

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Marysville's Response to Findings

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

Purpose of this Report

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

Richardson & Company, LLP

August 6, 2019

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2018

CURRENT YEAR FINDINGS

Finding 2018-001 – Internal Controls over Financial Reporting and Year-End Closing Procedures – Material Weakness

Condition: The design and implementation of internal controls is crucial to the effective operation of city government and for accurate financial reporting. Turnover in personnel, the shortage of qualified support staff and resources dedicated to the close-out of the general ledger and preparing for the audit has resulted in 103 adjustments being identified during the audit process and has delayed completion of the audit. The large number of adjustments identified during the course of the audit indicates that the City does not have internal controls in place to prevent or detect misstatements on a timely basis. Areas where accounts and transactions were not adequately reconciled and evaluated for proper recording prior to the start of the audit fieldwork and areas that require improvement included the following:

- Procedures to ensure interfund transactions, including due to and from other funds, advances to and from other funds and transfers in and out, excluding those with agency funds, are in balance.
- Procedures for properly reflecting accounts payable at year-end, including evaluation of those under a construction contract which may include expenses incurred in more than one fiscal period.
- Procedures for accounting for long-term debt and related accounts needs to be established including: calculation and recording of interest payable on long-term debt, maintaining supporting documentation for the amounts recorded for and amortization of premiums and discounts related to all debt issuances of the City, and procedures for recording debt proceeds received by the City.
- Procedures for evaluating when entries should be posted to fund balance and whether fund balance/net position/restrictions and investment in capital assets are properly reflected.
- Determination of the current portion of compensated absences and the amount to reflect in the governmental funds.
- Calculation of accrued interest on loans receivable.
- Reconciliation of all accounts receivable balances to the subsidiary receivable system or other supporting documentation, including reconciliations of the utility billing system to the general ledger throughout the year and at year-end. The determination of utility billing receivables need to be based on amounts actually billed by the service provider to ensure revenue is recorded on the accrual basis. Evaluation of the need for an allowance for doubtful accounts for utility billings and other receivables also needs to be performed at least annually.
- Procedures for ensuring revenue received in advance of qualifying expenditures are properly deferred.
- Procedures for ensuring all balances on the general ledger can be supported by an analysis or document.
- Procedures for tracking grant expenditures to ensure revenue is accrued to the extent of reimbursable expenditures incurred and evaluation of proper accounting treatment of transactions as earned, unearned, or unavailable revenue.

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF FINDINGS (Continued)

For the Year Ended June 30, 2018

Criteria: Internal controls over financial reporting should be in place to ensure the City has the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Due to new staff being assigned to close the books and the lack of a complete closing checklist, the Finance Department staff did not identify and record all year-end closing entries prior to the start of the audit.

Cause: The City has had turnover in the accounting staff and does not have sufficient qualified resources to properly reconcile general ledger accounts and close the City's books.

Effect: A number of audit adjustments needed to be posted to properly report balances in the City's financial statements. The volume of entries also increases the risk of error in preparing the financial statements.

Recommendation: We recommend that the City develop internal control procedures to create a responsible structure for accurate financial reporting. Procedures should be in place to prepare the required reconciliations at year-end and throughout the year and post entries needed to close the books prior to the start of the audit. We believe that the year-end closing process could proceed more quickly and smoothly by developing a comprehensive closing procedures checklist. The City needs to ensure that all balance sheet accounts are reviewed and reconciled to supporting schedules prior to the beginning of the audit. The City needs to ensure it has sufficient qualified staff so that the books can be closed timely and accurately.

City's Response: The City of Marysville concurs with this finding. We will be using these recommendations/comments to develop an internal control procedure structure and to create a year-end closing process to insure quick and smooth progress to the audit and throughout our fiscal year. This work will be done by the Finance Department with services as needed from outside consultants to guarantee that the sufficient qualified staff are in place to produce, develop, and implement the necessary changes. This process will begin in the beginning of FY 2019-20 and we anticipate the project completed by the end of FY 2019-20 in time for the FY 2019-20 audit.

Finding 2018-002 – Capital Asset Accounting – Material Weakness

Condition: A number of items were noted in our audit of the City's capital assets.

- The City's capital asset listing contains items that based on the acquisition dates appear to be no longer in service. Examples include vehicles dating back to 2007 and earlier.
- Vehicles and other items were assigned useful lives for depreciation purposes that were much longer than the item would be expected to last. Examples include vehicles with 15 to 40 year lives.
- The acquisition date on a leased vehicle does not coincide with the origination date of the lease.
- The three properties acquired from the Redevelopment Agency need to be recorded at their fair value at the acquisition date. These properties are currently reflected with a zero value.
- The City has recorded land with a value of \$4.5 million in the general ledger that is not listed on the capital asset list, so it is not clear what parcels of land the City owns that makes up this amount.

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF FINDINGS (Continued)

For the Year Ended June 30, 2018

- City Hall is reported as acquired in 1939 for a cost of \$1.3 million, which appears high. Any remodel work should be shown on a separate line item and depreciated starting with the date the remodel was completed over the estimated life of the improvements.

Criteria: An accurate list of capital assets needs to be maintained to support amounts reported in the financial statements. Useful lives assigned to assets need to approximate the length of time the asset is expected to be usable. Capital asset inventories should be performed periodically to determine whether assets need to be removed from the list.

Cause: A capital asset inventory has not been completed recently and compared to the listing of capital assets. Useful lives assigned to capital assets are also not being reviewed.

Effect: The capital assets, net of accumulated depreciation, reflected in the City's general ledger is likely misstated, although an adjustment was made during the audit to revise the useful lives on many of the capital assets, which increased accumulated depreciation.

Recommendation: Procedures need to be established to ensure the capital asset list is up-to-date. Periodic inspections of assets need to be performed to ensure that recorded assets exist. Reconciliations of the subsidiary ledger to the general ledger need to be performed on a periodic basis. The list also needs to be reviewed for useful lives assigned to capital assets to ensure they are consistent with the City's capitalization policy.

City's Response: Again, the City of Marysville concurs with this finding. We currently complete a physical inventory of our assets yearly to our insurance company records with our various City Departments. However, this yearly update has not been compared to the City's capital asset inventory listing recorded for the audit. The Finance Department has begun working with Department Heads and Supervisors to complete a physical inventory from the known audited capital asset listing for needed accuracy, additions, or possible deletions. The Finance Department is also in the end stages from moving our inventory list from QuickBooks to our financial system for better reporting and tracking. There is also a planned review of our current Capital Asset Policy to review accuracy and best practice standards. After this is completed, the current useful lives assigned to capital assets will be reviewed and corrected as necessary to the policy. We anticipate this process to be completed by the end of FY 2019-20.

Finding 2018-003 – Payroll Processing Segregation of Duties – Material Weakness

Condition: The Senior Accountant has the ability to set up new employees in the payroll system, process payroll and also make adjustments to payroll accounts in the general ledger, which is a lack of segregation of duties.

Criteria: Duties need to be properly segregated or other compensating controls need to be put in place to minimize the risk of misstatement due to error or fraud.

Cause: The City's small staff size prevents having an ideal segregation of duties and there is not a review function in place to compensate for this lack of segregation of duties.

Effect: This situation creates a risk of misstatement due to error or fraud.

CITY OF MARYSVILLE, CALIFORNIA

SCHEDULE OF FINDINGS (Continued)

For the Year Ended June 30, 2018

Recommendation: The City should ensure that new employees or changes to employee information, such as pay rates and direct deposit account numbers, is input by someone who does not process payroll, or at least be reviewed by someone that does not process payroll. Also, the payroll registers should be reviewed prior to the payroll being processed.

City's Response: This is a correct finding for FY 2017-18 and through November of 2018. In December of 2018, the Senior Accountant became the Interim Finance Director and the Accountant became the Interim Senior Accountant. At that time the City began the process of segregation of duties of the payroll system. The current system in place is as follows. The Interim Senior Accountant inputs new employees, signs up employee benefits, makes payroll changes, processes payroll, and processes payroll vendors. A check list has been developed that allows the Interim Senior Accountant to enter the date when benefits are signed up and the Staff Accountant reviews and signs off on all benefits after they are processed to guarantee accuracy and completion. The Finance Director reviews and signs all Personal Action Forms that change an employee's position, pay, address, or status, reviews and authorizes the payroll register before it is finalized for correct pay rates and deductions, and reviews all direct deposit account numbers before authorizing them with our bank. The Finance Director also reviews the payments paid to payroll vendors before they are processed. The City is currently working on hiring an outside payroll company to process payroll in the future and to switch to a bi-weekly payroll from a monthly payroll. We anticipate this process to take around six months. We also recently hired an HR company to help with the review and update of our personnel rules, MOU's, and improvement of current segregation of duties.