

CITY OF ISLETON, CALIFORNIA

Audited Financial Statements, Supplemental Information
and Compliance Reports

June 30, 2021

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CITY OF ISLETON, CALIFORNIA

Audited Financial Statements, Supplemental Information and Compliance Reports

June 30, 2021

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INDEPENDENT AUDITOR’S REPORT

To the City Council
Isleton, 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 Isleton, California as of and for the year ended June 30, 2021, 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Qualified
Measure A Fund	Unmodified
Supplemental Law Enforcement Fund	Unmodified
Sewer Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

To the City Council
City of Isleton, California

Basis for Qualified Opinion on Governmental Activities and General Fund

Management has not been able to provide sufficient information to demonstrate that the General Fund (part of Governmental Activities) has the ability to repay the Redevelopment Successor Agency within a reasonable period of time. Accounting principles generally accepted in the United States of America require that if repayment is not expected within a reasonable period of time, that the interfund balance should be reported as a transfer in to the General Fund for the amount that is not expected to be repaid within a reasonable amount of time. The balance of the General Fund from the Redevelopment Agency was \$1,109,966 at June 30, 2021.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities and General Fund” paragraph, the financial statements referred to above present fairly, in all respects, the financial position of the Governmental Activities and General Fund of the City of Isleton, as of June 30, 2021, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund other than the General Fund, and the aggregate remaining fund information of the City of Isleton as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Uncertainty

As discussed in Note L to the financial statements, the City’s General Fund has a negative fund balance and a large amount of past due vendor invoices. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Required Supplementary Information

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

Management has omitted the management 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

To the City Council
City of Isleton, California

reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not effected 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 July 6, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Richardson & Company, LLP

July 6, 2023

BASIC FINANCIAL STATEMENTS

CITY OF ISLETON

GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current assets:			
Cash and investments	\$ 940,605	\$ 167,407	\$ 1,108,012
Accounts receivable	37,153	122,687	159,840
Taxes receivable	223,130		223,130
Due from other governmental agencies	67,337	4,608	71,945
Prepaid expenses	5,915		5,915
Internal balances	(64,796)	64,796	-
Total current assets	<u>1,209,344</u>	<u>359,498</u>	<u>1,568,842</u>
Noncurrent assets:			
Restricted cash		153,116	153,116
Capital assets, net			
Non-depreciable	227,860	63,000	290,860
Depreciable, net	1,759,080	2,247,633	4,006,713
Total capital assets, net	<u>1,986,940</u>	<u>2,310,633</u>	<u>4,297,573</u>
Total assets	<u>3,196,284</u>	<u>2,823,247</u>	<u>6,019,531</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	120,531	9,837	130,368
Accrued expenses	15,968	39,051	55,019
Unearned revenue	20,000		20,000
Long-term liabilities, due within one year	245,890	67,400	313,290
Total current liabilities	<u>402,389</u>	<u>116,288</u>	<u>518,677</u>
Long-term liabilities:			
Long-term liabilities, due after one year			
Installments payable	561,031		561,031
Bonds payable		2,709,600	2,709,600
Leases payable	5,042		5,042
Advances from Redevelopment Successor Agency	1,109,966		1,109,966
Total long-term liabilities	<u>1,676,039</u>	<u>2,709,600</u>	<u>4,385,639</u>
Total liabilities	<u>2,078,428</u>	<u>2,825,888</u>	<u>4,904,316</u>
NET POSITION:			
Invested in capital assets, net of related debt	1,977,111	(466,367)	1,510,744
Restricted for public works	680,933		680,933
Restricted for debt service		153,116	153,116
Unrestricted	(1,540,188)	310,610	(1,229,578)
Total net position	<u>\$ 1,117,856</u>	<u>\$ (2,641)</u>	<u>\$ 1,115,215</u>

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

CITY OF ISLETON

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

	Program Revenues					Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
GOVERNMENTAL ACTIVITIES:						
General government	\$ 440,784	\$ 338,350	\$ 27,215	\$ (75,219)		\$ (75,219)
Public safety	532,537	35,766	175,638	(321,133)		(321,133)
Parks and recreation	11,071	350		(10,721)		(10,721)
Public ways and facilities	493,355		257,059	(236,296)		(236,296)
Community development	39,481		26,560	(12,921)		(12,921)
Interest on long-term debt	9,089			(9,089)		(9,089)
Total governmental activities	<u>1,526,317</u>	<u>374,466</u>	<u>486,472</u>	<u>(665,379)</u>	<u>-</u>	<u>(665,379)</u>
BUSINESS-TYPE ACTIVITIES:						
Sewer	374,967	541,400	22,056		\$ 188,489	188,489
Interest on long-term debt	136,573				(136,573)	(136,573)
Total business-type activities	<u>511,540</u>	<u>541,400</u>	<u>22,056</u>	<u>-</u>	<u>51,916</u>	<u>51,916</u>
Total government	<u>\$ 2,037,857</u>	<u>\$ 915,866</u>	<u>\$ 508,528</u>	<u>(665,379)</u>	<u>51,916</u>	<u>(613,463)</u>
GENERAL REVENUES:						
Taxes:						
Sales and use taxes				522,761		522,761
Property taxes				233,521		233,521
Franchises				85,865		85,865
Gas taxes				39,358		39,358
Transient occupancy tax				1,930		1,930
Motor vehicle in-lieu				90,264		90,264
Investment income				4,875	10,009	14,884
Transfers - internal activity				(53,561)	53,561	-
Miscellaneous revenues				6,625	25	6,650
Total general revenues				<u>931,638</u>	<u>63,595</u>	<u>995,233</u>
Changes in net position				266,259	115,511	381,770
Net position, beginning of year - previously reported				1,134,106	(119,596)	1,014,510
Prior period adjustments				(282,509)	1,444	(281,065)
Net position, beginning of year				<u>851,597</u>	<u>(118,152)</u>	<u>733,445</u>
Net position, end of year				<u>\$ 1,117,856</u>	<u>\$ (2,641)</u>	<u>\$ 1,115,215</u>

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

CITY OF ISLETON

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2021

	Major Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Measure A		
ASSETS:				
Cash and investments	\$ 420,522	\$ 350,801	\$ 169,282	\$ 940,605
Accounts receivable	37,153			37,153
Taxes receivable	162,522	12,290	48,318	223,130
Due from other governmental agencies	67,337			67,337
Prepaid items	5,915			5,915
Due from other funds	125,931	179,847	38,747	344,525
Total assets	\$ 819,380	\$ 542,938	\$ 256,347	\$ 1,618,665
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 118,336		\$ 2,195	\$ 120,531
Installments payable	760,874			760,874
Accrued expenses	15,968			15,968
Unearned revenue	20,000			20,000
Due to other funds	218,164	\$ 2,169	113,988	334,321
Advances from other funds	75,000			75,000
Advances from the Successor Agency	1,109,966			1,109,966
Compensated absences	3,142			3,142
Total liabilities	2,321,450	2,169	116,183	2,439,802
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	90,986		45,521	136,507
Total deferred inflows of resources	90,986		45,521	136,507
FUND BALANCES:				
Restricted for public works		540,769	94,643	635,412
Unassigned	(1,593,056)			(1,593,056)
Total fund balances	(1,593,056)	540,769	94,643	(957,644)
Total liabilities, deferred inflows of resources and fund balances	\$ 819,380	\$ 542,938	\$ 256,347	\$ 1,618,665

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

CITY OF ISLETON

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

June 30, 2021

Total Governmental Fund Balances	\$ (957,644)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	1,986,940
Certain receivables are not available to pay current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.	136,507
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	
Compensated absences	(38,118)
Lease liability	<u>(9,829)</u>
Net Position of Governmental Activities	<u>\$ 1,117,856</u>

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

CITY OF ISLETON

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

For the Year Ended June 30, 2021

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Measure A	Supplemental Law Enforcement		
REVENUES:					
Taxes	\$ 1,105,392			\$ 47,682	\$ 1,153,074
Licenses, fees and permits	162,509				162,509
Intergovernmental revenues	129,690	\$ 71,497	\$ 175,638		376,825
Charges for services	5,614				5,614
Fines, forfeitures and penalties	715				715
Use of money and property	4,875				4,875
Other revenue	6,018				6,018
Total revenues	<u>1,414,813</u>	<u>71,497</u>	<u>175,638</u>	<u>47,682</u>	<u>1,709,630</u>
EXPENDITURES:					
Current:					
General government	426,024				426,024
Public safety	340,812		175,638		516,450
Parks and recreation	9,128				9,128
Public ways and facilities	276,499	16,046		145,086	437,631
Community development	39,481				39,481
Debt Service:					
Principal retirement	4,544				4,544
Interest and fiscal charges	9,089				9,089
Total expenditures	<u>1,105,577</u>	<u>16,046</u>	<u>175,638</u>	<u>145,086</u>	<u>1,442,347</u>
Net change in fund balances	309,236	55,451	-	(97,404)	267,283
Fund balances, beginning of year, as previously reported	(1,894,302)	152,597		1,381,967	(359,738)
Restatement	(7,990)	332,721		(1,189,920)	(865,189)
Fund balances, beginning of year	<u>(1,902,292)</u>	<u>485,318</u>	<u>-</u>	<u>192,047</u>	<u>(1,224,927)</u>
Fund balances, end of year	<u>\$ (1,593,056)</u>	<u>\$ 540,769</u>	<u>\$ -</u>	<u>\$ 94,643</u>	<u>\$ (957,644)</u>

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

CITY OF ISLETON

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, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 267,283
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, 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.	
Depreciation expense	(75,405)
Transfers out to Sewer Fund for capital asset previously misclassified	(53,561)
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. This is the amount by which repayments exceed proceeds.	
Lease liability	4,544
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 recognized this year	136,507
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 compensated absences	<u>(13,109)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 266,259</u></u>

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

CITY OF ISLETON

STATEMENT OF NET POSITION
 PROPRIETARY FUND - SEWER FUND

June 30, 2021

ASSETS:

Current assets:

Cash and investments	\$ 167,407
Accounts receivable, net	122,687
Due from other governmental agencies	4,608
Due from other funds	13,160
Advances to other funds	<u>75,000</u>
Total current assets	<u>382,862</u>

Noncurrent assets:

Restricted cash	153,116
Capital assets, net:	
Nondepreciable	63,000
Depreciable, net	<u>2,247,633</u>
Total capital assets, net	<u>2,310,633</u>

Total assets	<u>2,846,611</u>
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LIABILITIES:

Current liabilities:

Accounts payable	9,837
Accrued interest payable	39,051
Due to other funds	23,364
Long-term liabilities, due within one year	<u>67,400</u>
Total current liabilities	<u>139,652</u>

Long-term liabilities:

Certificate of participation	849,600
Series 2019 Bonds	<u>1,860,000</u>
Total long-term liabilities	<u>2,709,600</u>

Total liabilities	<u>2,849,252</u>
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NET POSITION:

Invested in capital assets, net of related debt	(466,367)
Restricted for debt service	153,116
Unrestricted	<u>310,610</u>
Total net position	<u>\$ (2,641)</u>

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

CITY OF ISLETON

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

For the Year Ended June 30, 2021

OPERATING REVENUES:	
Charges for services	\$ 541,400
Miscellaneous	25
Total operating revenues	<u>541,425</u>
OPERATING EXPENSES:	
Salaries and benefits	104,014
Services and supplies	11,243
Maintenance and operations	115,541
General and administration	74,809
Depreciation expense	69,360
Total operating expenses	<u>374,967</u>
Operating income (loss)	<u>166,458</u>
NONOPERATING REVENUES (EXPENSES):	
Intergovernmental grants	22,056
Rental and interest income	10,009
Interest expense	(136,573)
Total nonoperating revenues (expenses)	<u>(104,508)</u>
OTHER FINANCING SOURCES (USES):	
Transfers in	<u>53,561</u>
Change in net position	115,511
Net position, beginning of year, as previously reported	(119,596)
Restatement	1,444
Net position, beginning of year	<u>(118,152)</u>
Net position, end of year	<u>\$ (2,641)</u>

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

CITY OF ISLETON

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND - SEWER FUND

For the Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 569,455
Cash paid to suppliers	(289,239)
Cash paid to employees and related benefits	(104,014)
Net cash provided by operating activities	<u>176,202</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Intergovernmental revenues received	89,690
Repayments received on advances to other funds	12,500
Cash provided by noncapital financing activities	<u>102,190</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Debt principal paid	(76,994)
Debt interest paid	(136,572)
Net cash used for capital and related financing activities	<u>(213,566)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Rental and interest income received	10,009
Net cash provided by investing activities	<u>10,009</u>
Net increase in cash and cash equivalents	74,835
Cash and cash equivalents, beginning of year	<u>245,688</u>
Cash and cash equivalents, end of year	<u>\$ 320,523</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:	
Cash and cash equivalents	\$ 167,407
Restricted cash and cash equivalents	<u>153,116</u>
Cash and cash equivalents, end of year	<u>\$ 320,523</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net income from operations	\$ 166,458
Adjustments to reconcile net income from operations to cash provided by operating activities:	
Depreciation	69,360
(Increase) decrease in assets:	
Accounts receivable, net	13,312
Due from other funds	4,514
(Decrease) increase in liabilities:	
Accounts payable	(87,646)
Due to other funds	<u>10,204</u>
Net cash provided by operating activities	<u>\$ 176,202</u>

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

CITY OF ISLETON

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

June 30, 2021

ASSETS	
Cash and investments	\$ 444
Advances to other City funds	1,109,966
Capital assets, net of accumulated depreciation	
Non-depreciable	<u>82,500</u>
 TOTAL ASSETS	 <u>1,192,910</u>
LIABILITIES	
Due to other governments	<u>1,110,410</u>
 TOTAL LIABILITIES	 <u>1,110,410</u>
NET POSITION	
Held in trust for other purposes	<u>82,500</u>
 TOTAL NET POSITION	 <u>\$ 82,500</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Isleton was incorporated in 1874, under the laws and regulations of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety, sewer, culture-recreation, public improvements, planning and zoning, and general administrative services. The voters of the City of Isleton, 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 principles. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity: The City operates as a self-governing local government unit within the state of California. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. Voters elect a City Council that passes laws and determines broad policies. The Council also oversees the operations of the City and approves all budgets, fund transfers and fund balance reserves. 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.

These basic financial statements present the financial status of the City and its component units, which are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. 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 component units:

Isleton Financing Authority: The Financing Authority issues debt on behalf of the City. The debt is backed by the City's General Fund. The Financing Authority is governed by the City Council and is reported as a blended component unit.

Redevelopment Successor Agency Private-Purpose Trust Fund: The City of Isleton 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 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. On March 14, 2012, the City Council elected to become Successor Agency for the redevelopment agency in accordance with the bill as part of City Resolution 2012-05. Based upon the nature of the successor agency's custodial role, it is reported as a fiduciary fund private-purpose trust fund.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund 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 for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function 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 and 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 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, proprietary funds, and fiduciary funds, if any, even though the last is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements and fiduciary fund statements, with the exception of agency funds, which have no measurement focus. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are 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 90 days of the end of the current fiscal period, with the exception of property taxes and grant revenue. Property taxes are considered to be available if they are collected within 60 days of the current fiscal period, while grant revenue is considered to be available if collected within 180 days of the current fiscal period. Amounts received after the availability period are reported as unavailable revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Major revenues that are determined to be susceptible to accrual include property taxes and assessments, sales taxes, franchise taxes, charges for services, intergovernmental revenues, and earnings on investments. Sales taxes collected and held by the state at year end on behalf of the government are also

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time. Entitlements and shared revenues (government mandated nonexchange transactions) are recognized when the City has satisfied all applicable eligibility requirements and if the amounts are measurable. If the grant funds are received before the revenue recognition criteria are satisfied, the unearned amounts are reported as unearned revenue.

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

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.

Measure A Fund – The Measure A Fund is used to account for financial resources used for the maintenance or construction of bike trails and roads.

Supplemental Law Enforcement Fund – The Supplemental Law Enforcement Fund is used to account for financial resources used for law enforcement.

The City reports the following major enterprise fund:

Sewer Fund – The Sewer Fund is used to account for the operations of the City's sewer services.

The City reports the following major fiduciary fund:

Redevelopment Agency Fund – The Redevelopment Agency fund is used to account for financial resources used for the successor agency to the redevelopment agency and for the low income housing portion of the redevelopment agency.

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 (not including private purpose trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

PROPRIETARY FUNDS

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

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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: Cash balances of the majority of City funds are pooled in order to maximize investment opportunities. Interest earned from investments purchased with pooled cash is allocated to each of the funds based on the fund's overall cash balance.

Certain proceeds of enterprise funds, revenue bonds, certificates of participation, and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is legally restricted. Restricted cash and investments are not available for general operational expenses.

For purposes of the statement of cash flows, the City considers all highly liquid investment instruments purchased with a maturity of ninety days or less to be cash and cash equivalents.

Receivables and Payables: In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, grants, and interest. Business-type activities report user fees and interest earnings as their major receivables.

Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. User fee receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Property Taxes: The County of Sacramento (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 January 1 of each year. They become a lien on real property on January 1. 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

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. These taxes are secured by liens on the property being taxed.

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 recognized as intergovernmental revenues only if they are received from the County within 60 days after year end for the governmental funds and are recognized 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 funds, 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 acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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 July 1, 2003.

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	20 to 50 years
Machinery & Equipment	3 to 20 years
Infrastructure	20 to 75 years

It is the policy of the City to capitalize assets with a cost greater than \$5,000 to \$100,000, depending on the item and a useful life of at least two years. 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: The City's policy regarding vacation is to permit employees to accumulate earned but unused vacation leave. Vacation is accrued when earned in the government-wide presentation and in the proprietary funds and reported as a fund 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 ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations: Long-term liabilities 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 assets by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net assets 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 and were accrued as receivables, but the amounts were not received in the availability period.

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

Nonspendable Funds – includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted Funds – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors of amounts constrained due to constitutional provisions or enabling legislation.

Committed Funds – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the 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 – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance maybe assigned by the City Manager with City Council approval.

Unassigned Funds – includes balances within the fund balance which has not been classified within the above mentioned categories.

Net Position: the government-wide financial statements present net position. Net position is categorized as the net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position – all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

The following funds had deficits in fund balances or net position at June 30, 2021:

Major governmental funds:	
General Fund	\$ 1,593,056
Major enterprise funds:	
Sewer Fund	2,641

Interfund Receivables and Payables: During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds". Advances between funds, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

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. 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, except as indicated below. The City does not use encumbrance accounting.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund	Appropriations	Total Expenditures and Transfers Out	Excess Expenditures
Major Governmental Funds:			
General Fund	\$ 961,627	\$ 1,105,577	\$ 143,950
Nonmajor Governmental Funds:			
Gas Tax	25,000	47,475	22,475
Lighting and Landscaping Assessment District	24,000	31,280	7,280

The General Fund expenditures exceeded the budget due to conservative revenue budgets that were not up to date. The General Fund had more tax, license, and permit revenue than anticipated to cover increased expenditures in the Fire and Building departments. Both the Gas Tax and Lighting and Landscaping Assessment District exceeded appropriation due to use of available fund balance.

New Pronouncements: In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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, 2020.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This Statement addresses a number of practice issues identified during the implementation of certain GASB Statements, including 1) the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-03, *Leases*, for interim financial statements; 2) reporting of intra-entity transfers between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan; 3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and 68, as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; 4) the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; 5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; 6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; 7) reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and 8) terminology used to refer to derivative instruments. This Statement is applicable for items 1) and 7) above upon its issuance and is effective for the other items above for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement addresses issues related to public-private and public-public partnership arrangements (PPPs). PPPs are arrangements in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This statement requires that PPPs that meet the definition of a lease apply guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement No. 87, as amended. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements that include an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement is effective for reporting periods beginning after June 15, 2022.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections, an Amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for each type of accounting change, including changes in accounting principles, changes in accounting estimates and changes to or within the financial reporting entity, and error corrections. This Statement requires changes in accounting principles and error corrections to be reported retroactively by restating prior periods; requires changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period; and requires changes in accounting estimates to be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of new pronouncements in absence of specific transition provisions in the new pronouncement. This Statement also requires the aggregate amount of adjustments to and restatements of beginning net position, fund balance or fund net position, as applicable, to be displayed by reporting unit in the financial statements. Furthermore, this Statement requires information presented in required supplementary information or supplementary information to be restated for error corrections, if practicable, but not for changes in accounting principles. The provisions of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or paid in cash or settled through noncash means and leave that has been used but not paid in cash or settled through noncash means. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in the liability for compensated absences. This Statement requires that a liability for certain types of compensated absences, including parental leave, military leave and jury duty leave, not be recognized until the leave commences. Certain salary related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. Governments are allowed to disclose the net change in the liability if identified as such in the footnotes to the financial statements. The provisions of this Statement are effective for years beginning after December 15, 2023.

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, 2021 are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 940,605	\$ 167,407	\$ 444	\$ 1,108,456
Restricted cash		153,116		153,116
	<u>\$ 940,605</u>	<u>\$ 320,523</u>	<u>\$ 444</u>	<u>\$ 1,261,572</u>

As of June 30, 2021, the City's cash and investments consisted of the following:

Deposits in financial institutions	\$ 1,106,579
California Local Agency Investment Fund	1,877
Held by bond trustee:	
Money market mutual fund	<u>153,116</u>
Total cash and investments	<u>\$ 1,261,572</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.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE B – CASH AND INVESTMENTS (Continued)

	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
Local agency bonds	5 years	None	10%
Mortgage-back securities	5 years	20%	None
Bankers acceptances	180 days	40%	30%
High grade commercial paper	270 days	25%	None
Negotiable certificates of deposit	5 years	30%	None
LAIF	N/A	None	None
Medium-term corporate notes	5 years	30%	None
Repurchase Agreements	365 days	None	None
Money market mutual funds	None	20%	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.

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. The City’s investment in LAIF and the money market mutual fund has an average maturity of less than a year.

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 City’s only investment is in LAIF, which is not rated. The City also maintains a debt service reserve in a money market mutual fund that is not rated.

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, 2021, the carrying amount of the City’s deposits was \$1,106,579 and the balance in financial institutions was \$1,167,981. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$917,981 was covered by the pledging financial institution with assets held in a common pool for the City and other governmental agencies.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE B – CASH AND INVESTMENTS (Continued)

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 \$193,463,490,765, which is managed by the State Treasurer. Of that amount, 2.31% 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.

NOTE C – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2021 were as follows:

Due to Other Funds	Due from Other Funds				Total
	General Fund	Measure A Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	
Major Governmental Funds					
General		\$ 179,847	\$ 38,317		\$ 218,164
Measure A				\$ 2,169	2,169
Nonmajor Governmental Funds					
Gas Tax				3,112	3,112
Local Transportation	\$ 102,997				102,997
Lightening and Landscaping Assessment District				7,879	7,879
Enterprise Fund:					
Sewer	22,934		430		23,364
	<u>\$ 125,931</u>	<u>\$ 179,847</u>	<u>\$ 38,747</u>	<u>\$ 13,160</u>	<u>\$ 357,685</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, 2021 were as follows:

Transfers Out	Transfers In Sewer Enterprise Fund
Government-wide	\$ 53,561
	<u>\$ 53,561</u>

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE C – INTERFUND TRANSACTIONS (Continued)

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 expend 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.

During the year ended June 30, 2021, \$53,561 of prior sewer improvements were reported under government-wide capital assets rather than under the Sewer fund capital assets. A correction was made in fiscal year 2020/2021 to move that capital asset, resulting in transfers in the Sewer fund exceeding transfers out of the governmental funds by \$53,561 in the fund statements.

Interfund long-term advances at June 30, 2021 were as follows:

Fund	Advances to Other Funds	Advances From Other Funds
General Fund		\$ 1,184,966
Sewer Enterprise Fund	\$ 75,000	
Fiduciary Fund - Private-Purpose Trust: Redevelopment Successor Agency	1,109,966	
	<u>\$ 1,184,966</u>	<u>\$ 1,184,966</u>

Advance from Sewer Enterprise Fund: During the year ended June 30, 2015, the City’s Sewer Enterprise Fund advanced to the City’s General Fund \$100,000 to be used to pay City staff and engineering consulting work. On January 8, 2019, the City approved an interfund payment plan requiring the General Fund to make eight annual payments of \$12,500 starting on July 1, 2019 and ending July 1, 2026. A payment of \$12,500 was made during the fiscal year ended June 30, 2021.

Advance from Redevelopment Successor Agency Fund: The Redevelopment Successor Agency Fund previously made several advances totaling to \$1,109,966 to the City’s General Fund to cover operating costs. These advances were not approved by the State of California, and the City currently has no plans to make repayments. Such advances are required to be recorded as a transfer if there is no repayment plan in place.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE D – CAPITAL ASSETS

Governmental capital assets activity for the year ended June 30, 2021 was as follows:

	Restated Balance at June 30, 2020	Additions	Deletions	Transfers	Balance at June 30, 2021
Capital assets, not being depreciated:					
Land	\$ 227,860				\$ 227,860
Total nondepreciable assets	<u>227,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>227,860</u>
Depreciable capital assets:					
Buildings and improvements	2,941,009				2,941,009
Equipment	1,144,166			\$ (67,799)	1,076,367
Total depreciable assets	<u>4,085,175</u>	<u>-</u>	<u>-</u>	<u>(67,799)</u>	<u>4,017,376</u>
Less accumulated depreciation:					
Buildings and improvements	(1,151,438)	\$ (63,222)			(1,214,660)
Equipment	(1,045,691)	(12,183)		14,238	(1,043,636)
Total accumulated depreciation	<u>(2,197,129)</u>	<u>(75,405)</u>		<u>14,238</u>	<u>(2,258,296)</u>
Net depreciable assets	<u>1,888,046</u>	<u>(75,405)</u>	<u>-</u>	<u>(53,561)</u>	<u>1,759,080</u>
Net governmental capital assets	<u>\$ 2,115,906</u>	<u>\$ (75,405)</u>	<u>\$ -</u>	<u>\$ (53,561)</u>	<u>\$ 1,986,940</u>

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

General governmental	\$ 9,925
Public safety	13,000
Public ways and facilities	50,537
Recreation and culture	1,943
Total depreciation expense - governmental functions	<u>\$ 75,405</u>

Proprietary fund type capital asset activity for the fiscal year ended June 30, 2021 was as follows:

	Balance at June 30, 2020	Additions	Deletions	Transfers	Balance at June 30, 2021
Capital assets, not being depreciated:					
Land	\$ 63,000				\$ 63,000
Total nondepreciable assets	<u>63,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,000</u>
Depreciable capital assets:					
Buildings and improvements	3,268,009			\$ 67,799	3,335,808
Equipment	384,856				384,856
Total depreciable assets	<u>3,652,865</u>	<u>-</u>	<u>-</u>	<u>67,799</u>	<u>3,720,664</u>
Less accumulated depreciation:					
Buildings and improvements	(1,140,273)	\$ (53,348)		(14,238)	(1,207,859)
Equipment	(249,160)	(16,012)			(265,172)
Total accumulated depreciation	<u>(1,389,433)</u>	<u>(69,360)</u>		<u>(14,238)</u>	<u>(1,473,031)</u>
Net depreciable assets	<u>2,263,432</u>	<u>(69,360)</u>	<u>-</u>	<u>53,561</u>	<u>2,247,633</u>
Net proprietary fund type capital assets	<u>\$ 2,326,432</u>	<u>\$ (69,360)</u>	<u>\$ -</u>	<u>\$ 53,561</u>	<u>\$ 2,310,633</u>

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE E – INSTALLMENTS PAYABLE

Because the City was delinquent with a number of vendors, installment agreements were entered into to establish a payment plan. These unpaid balances are recorded as installments payable and consist of the following:

<u>Vendor</u>	<u>Amount</u>
Sacramento County Sheriff's Department	\$ 386,611
Employment Development Department	176,864
Small Cities Organized Risk Effort	147,627
Reclamation District No.407	<u>49,772</u>
	<u><u>\$ 760,874</u></u>

Reclamation District No. 407 – In January 2016 the City entered into an agreement to pay its unpaid liabilities for maintaining the City’s roads and streets in installments. At the time of the agreement the unpaid liability was \$99,546. Annual payments of \$9,954.58 plus interest at the Sacramento County investment pool rate are due annually on June 1. No payments were made during fiscal year 2019/20.

Employment Development Department – In February 2020 the City entered into an agreement to pay its unpaid liabilities in installments. At the time of the agreement the unpaid liability was \$174,804 plus accrued interest, as applicable. The agreement was amended September 2, 2020 increasing the balance and reducing the yearly payment to \$3,000. Beginning February 10, 2022, the yearly payments will be increased to \$9,000.

Sacramento County Sheriff’s Department – In June 2017 the City Council adopted the Sacramento County Sheriff Quittance Plan whereby the City would repay the County over eight years at \$43,750 per year. The City is currently in dispute with the County Sheriff’s Office over services provided and no payments were made during fiscal year 2020/21.

Small Cities Organized Risk Effort – In December 2020 the City Council adopted a payment schedule for assessments outstanding. At the time of the agreement the unpaid assessments were \$81,533. Beginning in fiscal year 2022/23, annual payments of \$43,089 are required. No payments were made during fiscal year 2019/20 and \$22,595 of payments were made in fiscal year 2020/21.

The annual installment payment requirements as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	<u>Sacramento County Treasurer</u>	<u>Employment Development Department</u>	<u>Sacramento County Sheriff</u>	<u>Small Cities Organized Risk Effort</u>	<u>Total</u>
2022	\$ 19,909	\$ 5,500	\$ 131,250	\$ 43,184	\$ 199,843
2023	9,955	9,000	43,750	43,089	105,794
2024	9,954	9,000	43,750	43,089	105,793
2025	9,954	9,000	43,750	18,265	80,969
2026		9,000	43,750		52,750
2027-2031		45,000	80,361		125,361
2032-2036		45,000			45,000
2037-2041		45,000			45,000
2042		364			364
Total	<u>\$ 49,772</u>	<u>\$ 176,864</u>	<u>\$ 386,611</u>	<u>\$ 147,627</u>	<u>\$ 760,874</u>

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE F – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2021 was as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021	Due Within One Year
Governmental Funds:					
Installments payable	\$ 553,637	\$ 242,287	\$ (35,050)	\$ 760,874	\$ 199,843
Lease	14,373		(4,544)	9,829	4,787
Compensated absences	25,009	16,251 *		41,260	41,260
Total governmental funds	<u>\$ 593,019</u>	<u>\$ 258,538</u>	<u>\$ (39,594)</u>	<u>\$ 811,963</u>	<u>\$ 245,890</u>
Enterprise Funds:					
Certificates of Participation	\$ 893,400		\$ (21,400)	\$ 872,000	\$ 22,400
Series 2019 Bonds	1,950,000		(45,000)	1,905,000	45,000
Leases	10,594		(10,594)	-	
Total enterprise funds	<u>\$ 2,853,994</u>	<u>\$ -</u>	<u>\$ (76,994)</u>	<u>\$ 2,777,000</u>	<u>\$ 67,400</u>

*The change in the compensated absences liability is presented as a net change.

Long-term debt of the City's governmental funds consisted of the following as of June 30, 2021:

Truck Lease: The City entered into a purchase option lease agreement with Community First National Bank for the purchase of a Ford F250 truck, dated August 9, 2018, due in annual installments of \$5,312, beginning February 20, 2019 and ending February 20, 2023, including interest at 5.34%. The cost of the asset was \$27,781 and accumulated depreciation was \$11,390 as of June 30, 2021. Should the City default on lease payments or any covenants of the lease agreement, the Lessor can demand full payment of the outstanding lease payments, retake possession of equipment, or require the City to return the equipment, with the City being liable for any damage to the equipment.

Long-term debt of the City's enterprise funds consisted of the following as of June 30, 2021:

2004 Certificates of Participation: Issued on November 18, 2004 to finance the acquisition and construction of certain improvements and facilities for the Sewer System. Principal payments ranging from \$1,000 to \$59,000 are due annually through May 1, 2044, and interest payments at a rate of 4.50% ranging from \$1,328 to \$32,069 are due semiannually on May 1 and November 1 through May 1, 2044. Should the City default on payments or any covenants of the agreement, the principal portion as well the interest therefore accrued to the date of payment shall be immediately due and payable.

Series 2019 Taxable Wastewater Revenue Refunding Bonds: Issued April 11, 2019 to refund the City of Isleton Public Financing Authority, Series 2012 Wastewater Revenue Refunding Bonds. The term bonds with principal payments of \$45,000 to \$140,000 are due annually through September 1, 2024, 2033, and 2042. The term bonds have stated interest rates of 3.750% to 5.25%. Repayment is secured by a pledge and lien of the net revenues of the sewer system. Should the City default on payments or any covenants of the agreement, the principal portion as well the interest therefore accrued to the date of payment shall be immediately due and payable.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE F – LONG-TERM LIABILITIES (Continued)

Backhoe Lease: The City entered into a purchase option lease agreement with Community First National Bank for the purchase of a backhoe, dated July 11, 2017. Due in annual installments of \$11,017, through July 11, 2021, including interest rate at 3.99%. The cost of the asset was \$51,400 and accumulated depreciation was \$17,990 as of June 30, 2021. Should the City default on lease payments or any covenants of the lease agreement, the Lessor can demand full payment of the outstanding lease payments, retake possession of equipment, or require the City to return the equipment, with the City being liable for any damage to the equipment.

The annual debt service requirements to maturity including principal and interest for the governmental truck lease as of June 30, 2021 is as follows:

Year ending June 30	Truck Lease		
	Principal	Interest	Total
2022	\$ 4,787	\$ 525	\$ 5,312
2023	5,042	270	5,312
Totals	<u>\$ 9,829</u>	<u>\$ 795</u>	<u>\$ 10,624</u>

The annual debt service requirements to maturity including principal and interest for the enterprise Certificate of Participation and Series 2019 Bonds as of June 30, 2021 are as follows:

Year ending June 30	Certificate of Participation			Series 2019 Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 22,400	\$ 39,240	\$ 61,640	\$ 45,000	\$ 94,519	\$ 139,519
2023	23,400	38,232	61,632	50,000	92,737	142,737
2024	24,500	37,179	61,679	50,000	90,863	140,863
2025	25,500	36,076	61,576	55,000	88,893	143,893
2026	26,700	34,929	61,629	60,000	86,362	146,362
2027-2031	152,700	155,498	308,198	345,000	383,187	728,187
2032-2036	190,300	117,908	308,208	445,000	284,225	729,225
2037-2041	237,100	71,070	308,170	580,000	152,251	732,251
2042-2046	169,400	15,471	184,871	275,000	14,569	289,569
Totals	<u>\$ 872,000</u>	<u>\$ 545,603</u>	<u>\$ 1,417,603</u>	<u>\$ 1,905,000</u>	<u>\$ 1,287,606</u>	<u>\$ 3,192,606</u>

Pledged Revenues: The City has pledged future Sewer Fund revenues, net of specified operating expenses, to repay the Series 2019 Wastewater Refunding Bonds issued in April 2019 with total proceeds of \$2,005,000. Proceeds from the bonds were used to refinance a previous Series Refunding Bonds used to acquire and refinance a portion of the City’s existing wastewater enterprise. The bonds are payable solely from sewer customer net revenues and is payable through September 2042. Total principal and interest remaining to be paid on the bonds was \$3,192,606 at June 30, 2021. Total cash basis principal and interest payments on the bonds during the year ended June 30, 2021 were \$141,206 and net revenues were \$254,552, respectively. The City was in compliance with the debt service coverage ratio for the year ended June 30, 2021.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE G – INSURANCE

The City is a member of the Small Cities Organized Risk Effort (SCORE) with other northern California cities. SCORE is a joint powers authority organized in accordance with Article 1, 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 liability insurance. SCORE provides claims processing administrative services, risk management services and actuarial studies. A member from each city governs SCORE. The City of Isleton 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. SCORE is empowered to make supplemental assessments as needed to eliminate deficit positions of member cities. If SCORE becomes insolvent, the City is responsible only to the extent of any deficiency in its equity balance. SCORE 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 for 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.

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

Coverage	SCORE	Excess	Banking Layer/ Deductible
Liability	\$ 500,000	\$ 39,500,000	\$ 25,000
Employers liability	1,000,000		
Property	500,000,000		5,000
Boiler and machinery	100,000,000		10,000
Mobile equipment	7,000,000		10,000
Workers Compensation liability	250,000	4,750,000	50,000

There have been no significant reductions in insurance coverage from coverage in the prior fiscal year. Also, settlements have not exceeded the insurance coverage for the past three fiscal years. The audited financial statements of SCORE are available from SCORE at www.scorejpa.org.

NOTE H – COMMITMENTS AND CONTINGENCIES

Grant Contingency: The City participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors. No audits by the grantors have occurred in the current fiscal year. The amount, if any, 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.

Legal Contingency: 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.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE H – COMMITMENTS AND CONTINGENCIES (Continued)

COVID: On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the City's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the taxpayers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition and operations is uncertain. The possible effects include a reduction in the City's sales taxes, property taxes and special assessments, which are some of the City's largest revenue sources.

NOTE I – SUCCESSOR AGENCY TRUST FOR FORMER ISLETON

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 did not elect to become the Housing Successor and on February 1, 2012, certain housing assets were to be transferred to the Sacramento County Auditor-Controller for disposition. However, the City never transferred housing assets over to the County and continued to report the activities of the Low Mod Income Housing Assets under a City special revenue fund through June 30, 2021.

The City elected to become the Successor Agency and on February 1, 2012, the Redevelopment Agency's remaining assets were to be distributed to 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 March 2017. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of eight members, including one employee of the City, 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 Agency did not have any additions and deductions to report for the year ending June 30, 2021, so there is no Statement of Changes in Fiduciary Net Position presented for the Agency at June 30, 2021. The City had previously reported the activities in two governmental funds, one for Redevelopment Agency and the other specifically for Redevelopment Low Income housing. Currently, the last of the obligations of the former Redevelopment Agency will terminate once the City pays back the advance to the Successor Agency and all remaining Redevelopment funds are transmitted to the State and any Low- and Moderate-Income Housing funds to the Sacramento County Auditor-Controller.

The Successor Agency owns land at a cost of \$82,500.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE J – SUBSEQUENT EVENTS

On December 10, 2020, the City entered into a purchase option lease agreement with First Capital Equipment Leasing Corporation for the purchase of a Rosenbauer Type I Fire Pumper. The vehicle was not yet delivered to the City as of June 30, 2021. Annual payments of \$46,190 are due beginning December 10, 2021 and ending December 10, 2030, including interest at 2.98%. Should the City default on lease payments or any covenants of the lease agreement, the Lessor can demand full payment of the outstanding lease payments, retake possession of equipment, or require the City to return the equipment, with the City being liable for any damage to the equipment.

NOTE K – PRIOR PERIOD ADJUSTMENTS

During the 2021 audit, the City determined that previously reported deferred inflows and deferred outflows balances relating to the 2009 sale and sale-leaseback of the City sewer system represented an intra-entity transaction and do not need to be reported in the City financials. Corrections were made in the current year, which resulted in the beginning net position for governmental activities increasing by \$665,180 and the beginning net position for business-type activities and the Sewer Fund decreasing by \$86,056.

During the fiscal year 2015, the Sewer Enterprise Fund made an interfund loan in an amount of approximately \$100,000 to the City's General Fund to support the City's general operations. On January 8, 2019, the City approved an eight-year payment plan for the General Fund to repay the loan. It was discovered during the 2021 audit that the City had not originally recorded the interfund loan on the balance sheet and likely reported the loan as transfers in and out in each respective fund in 2015. Corrections were made in the current year to reclassify the loan balance as an advance, which resulted in an decrease of \$87,500 in the beginning net position for governmental activities and beginning fund balance for the General Fund, and an increase of the same amount in the beginning net position for business-type activities and the Sewer Fund.

During fiscal year 2018, the City received its old Measure A funds previously held in a fiduciary capacity by the Sacramento Transportation Authority. The City recorded the full balance as unearned revenue at the time. Because the Measure A funds were already allocated to the City in prior years and are considered non-exchange revenues, corrections were made during the 2021 audit to reclassify the remaining balance as restricted funds in the Measure A fund. These corrections resulted in an increase of \$332,721 in the beginning net position for governmental activities and in the beginning fund balance for the Measure A fund.

During the fiscal year 2013, the City paid excess cash to the Local Transportation Fund (LTF) from its General Fund, resulting in non-LTF cash being reported in the fund. The City had recognized this cash in the Local Transportation Fund in 2013 when the amount should have been reported as due to the General Fund instead. The total amount misreported in the Local Transportation Fund has fluctuated since then as the City continued paying LTF expenses from the General Fund without reimbursing the General Fund. During the 2021 audit, the City restated its balances to properly show the amount that is due from the Local Transportation Fund to the General Fund. This restatement resulted in General Fund beginning fund balance and due from other funds balance to both increase by \$79,510 and for Local Transportation Fund beginning fund balance to decrease and due to other funds balance to increase by \$79,510.

CITY OF ISLETON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2021

NOTE K – PRIOR PERIOD ADJUSTMENTS (Continued)

During the 2021 audit, the City reclassified the Redevelopment Agency and Redevelopment Low Income (RDA) funds previously reported as governmental funds to be reported as a private-purpose trust fund for the Isleton Redevelopment Successor Agency. This reclassification resulted in beginning net position for governmental activities and beginning fund balance for nonmajor governmental funds to both decrease by \$1,110,410.

In addition to the fund reclassification, the City also reclassified a parking lot owned by the Successor Agency from its own capital assets balances to the new successor agency private-purpose trust fund. This reclassification resulted in beginning net position for governmental activities to decrease by \$82,500 and beginning net position for the Redevelopment Successor Agency Private-Purpose Trust Fund to increase by \$82,500.

The changes to net position and fund balances at July 1, 2020 are summarized as follows:

	Governmental Activities	Business-type Activities	Redevelopment Successor Agency Private-Purpose Trust Fund
Net position, beginning of year - previously reported	\$ 1,134,106	\$ (119,596)	
Eliminate intra-entity sale	665,180	(86,056)	
Interfund advance not previously recorded	(87,500)	87,500	
Measure A revenue accrual	332,721		
RDA fund reclassification	(1,110,410)		
RDA capital assets reclassification	(82,500)		\$ 82,500
Net position, beginning of year	<u>\$ 851,597</u>	<u>\$ (118,152)</u>	<u>\$ 82,500</u>

	General	Sacramento Transportation	Local Transportation	Sewer Enterprise Fund	Redevelopment Agency Funds
Fund balance, beginning of year - previously reported	\$ (1,894,302)	\$ 152,597	\$ 212,556	\$ (119,596)	\$ 1,110,410
Eliminate intra-entity sale				(86,056)	
Interfund advance not previously recorded	(87,500)			87,500	
Measure A revenue accrual		332,721			
Non-LTF interfund balance	79,510		(79,510)		
RDA fund reclassification					(1,110,410)
Fund balance, beginning of year	<u>\$ (1,902,292)</u>	<u>\$ 485,318</u>	<u>\$ 133,046</u>	<u>\$ (118,152)</u>	<u>\$ -</u>

NOTE L – FINANCIAL CONDITION

The City's General Fund has a deficit balance of \$1,678,481 at June 30, 2021. The General Fund also owes the Redevelopment Successor Agency \$1,109,966 and has established payment plans on past due vendor invoices totaling \$760,874. In addition to those past due invoices, the General Fund had \$84,055 of vendor invoices past due more than 90 days at June 30, 2021. Continuing operating deficits and negative fund balance in the General Fund could cause a significant strain on the City to cover these deficits.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ISLETON

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

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 500,000	\$ 500,000	\$ 1,105,392	\$ 605,392
Licenses, fees and permits	125,000	125,000	162,509	37,509
Intergovernmental revenues	261,574	261,574	129,690	(131,884)
Charges for services	100,000	100,000	5,614	(94,386)
Fines, forfeitures and penalties			715	715
Use of money and property			4,875	4,875
Other revenue			6,018	6,018
Total revenues	<u>986,574</u>	<u>986,574</u>	<u>1,414,813</u>	<u>428,239</u>
EXPENDITURES				
Current:				
General government	442,000	442,000	426,024	15,976
Public safety	230,000	230,000	340,812	(110,812)
Parks and recreation	6,000	6,000	9,128	(3,128)
Public ways and facilities	192,627	192,627	276,499	(83,872)
Community development	81,000	81,000	39,481	41,519
Debt Service:				
Principal retirement			4,544	(4,544)
Interest and fiscal charges	10,000	10,000	9,089	911
Total expenditures	<u>961,627</u>	<u>961,627</u>	<u>1,105,577</u>	<u>(143,950)</u>
Net change in fund balance	24,947	24,947	309,236	284,289
Fund balance, beginning of year	<u>(1,902,292)</u>	<u>(1,902,292)</u>	<u>(1,902,292)</u>	
Fund balance, end of year	<u>\$ (1,877,345)</u>	<u>\$ (1,877,345)</u>	<u>\$ (1,593,056)</u>	<u>\$ 284,289</u>

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

CITY OF ISLETON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - SACRAMENTO TRANSPORTATION FUND

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 40,000	\$ 40,000	\$ 71,497	\$ 31,497
Total revenues	40,000	40,000	71,497	31,497
EXPENDITURES				
Current:				
Public ways and facilities	40,000	40,000	16,046	23,954
Total expenditures	40,000	40,000	16,046	23,954
Net change in fund balance	-	-	55,451	55,451
Fund balance, beginning of year	485,318	485,318	485,318	
Fund balance, end of year	\$ 485,318	\$ 485,318	\$ 540,769	\$ 55,451

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

CITY OF ISLETON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (BUDGETARY BASIS) - SUPPLEMENTAL LAW ENFORCEMENT FUND

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 176,000	\$ 176,000	\$ 175,638	(362)
Total revenues	<u>176,000</u>	<u>176,000</u>	<u>175,638</u>	<u>(362)</u>
EXPENDITURES				
Current:				
Public safety	<u>176,000</u>	<u>176,000</u>	<u>175,638</u>	<u>362</u>
Total expenditures	<u>176,000</u>	<u>176,000</u>	<u>175,638</u>	<u>362</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS

CITY OF ISLETON

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2021

	Special Revenue			Total
	Gas Tax	Local Transportation	Lighting and Landscaping Assessment District	
ASSETS:				
Cash and investments		\$ 169,282		\$ 169,282
Taxes receivable	\$ 2,797	45,521		48,318
Due from other funds	17,843	430	\$ 20,474	38,747
Total assets	\$ 20,640	\$ 215,233	\$ 20,474	\$ 256,347
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable			\$ 2,195	\$ 2,195
Due to other funds	\$ 3,112	\$ 102,997	7,879	113,988
Total liabilities	3,112	102,997	10,074	116,183
Deferred Inflows of Resources				
Unavailable revenue		45,521		45,521
Total Deferred Inflows of Resources	-	45,521	-	45,521
FUND BALANCES:				
Restricted for public works	17,528	66,715	10,400	94,643
Total fund balances	17,528	66,715	10,400	94,643
Total liabilities and fund balances	\$ 20,640	\$ 215,233	\$ 20,474	\$ 256,347

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

CITY OF ISLETON

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

For the Year Ended June 30, 2021

	Special Revenue				Total
	Gas Tax	Local Transportation	Lighting and Landscaping Assessment District	Redevelopment Agency Funds	
REVENUES:					
Taxes	\$ 39,358		\$ 8,324		\$ 47,682
Total revenues	<u>39,358</u>	<u>-</u>	<u>8,324</u>	<u>-</u>	<u>47,682</u>
EXPENDITURES:					
Public ways and facilities	47,475	\$ 66,331	31,280		145,086
Total expenditures	<u>47,475</u>	<u>66,331</u>	<u>31,280</u>	<u>-</u>	<u>145,086</u>
Net change in fund balances	(8,117)	(66,331)	(22,956)	-	(97,404)
Fund balances, beginning of year, as previously reported	25,645	212,556	33,356	\$ 1,110,410	1,381,967
Restatement		(79,510)		(1,110,410)	(1,189,920)
Fund balances, beginning of year	<u>25,645</u>	<u>133,046</u>	<u>33,356</u>	<u>-</u>	<u>192,047</u>
Fund balances, end of year	<u>\$ 17,528</u>	<u>\$ 66,715</u>	<u>\$ 10,400</u>	<u>\$ -</u>	<u>\$ 94,643</u>

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

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COMPLIANCE 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 Isleton, California
Isleton, 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 Isleton, California (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 6, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2021-001 to 2021-003 that we consider to be material weaknesses.

To the City Council
City of Isleton, California

Compliance and Other Matters

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

City of Isleton's Response to Findings

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

Purpose of this Report

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

Richardson & Company, LLP

July 6, 2023

CITY OF ISLETON, CALIFORNIA

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2021

CURRENT YEAR FINDINGS

Finding 2021-001 – 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 46 adjustments being 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. The City needs to ensure that the accounts payable aging report matches the general ledger at least annually.
- Procedures for accounting for long-term debt and related accounts needs to be established, including maintaining supporting documentation for all debt agreements.
- Procedures for recording full accrual adjustments for government-wide reporting at year-end.
- Determination of the current portion of compensated absences and the amount to reflect in the governmental funds.
- Reconciliation of all accounts receivable balances to the subsidiary receivable system or other supporting documentation. 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.
- Procedures during the year to ensure proper record keeping and documentation of transactions.

Criteria: Internal controls over financial reporting should be in place to ensure the City has the ability to initiate, record, process, support, and report financial data consistent with the assertions of management in the financial statements. Due staff turnover after closing 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.

CITY OF ISLETON, CALIFORNIA

SCHEDULE OF FINDINGS (CONTINUED)

For the Year Ended June 30, 2021

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. The City also lacks record-keeping and documentation procedures.

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. There are also balances that the City is unable to provide supporting documentation for.

Recommendation: We recommend that the City develop internal control procedures to create a responsible structure for accurate financial reporting. During the year, the City should attach supporting documentation to entries made. 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: City plans to adopt a Finance Department and Human Resources Policies and Procedures Manual. Adoption of this document will be by the end of the year.

Note that report says most of these items have been addressed. The City accrues and holds receivables for multiple years. Thirty-five receivables is a low number. Holding receivable is standard practice in municipal operations, e.g. for code enforcement activities, land development, capital acquisition activities.

Finding 2021-002 – Redevelopment Agency – Material Weakness

Condition: The City intermingled the balances of the former Isleton Redevelopment Agency with its own balances. The following were noted in our audit.

- The City elected to become the Successor Agency in 2012 but continued to report the Agency's balances as its own balances under a special revenue fund. The balances should have been transferred to a private-purpose trust fund in 2012.
- The City did not elect to become the Housing Successor in 2012 and should have transferred the remaining balance of Low and Moderate Income Housing funds to the Sacramento County Auditor-Controller. However, the City never transferred the funds to the County and continued to report the Housing balances under its own special revenue fund.
- The City made several improper transfers of Redevelopment funds to its General Fund over the years and lacks documentation over authorizations of such transfers.

Criteria: The City has been overstating its assets in the financial statements.

Cause: The City lacks the funds to return the Redevelopment funds improperly loaned to its General Fund. City officials have not adequately addressed recommendations from the State Controller and Grand Jury over the years regarding handling of the Redevelopment Agency funds and assets.

Effect: The City is in violation of California Health and Safety Code sections 34175(b), 34177(d) and € , and 34181(a) and (c) relating to the disposal of former Redevelopment assets and funds.

CITY OF ISLETON, CALIFORNIA

SCHEDULE OF FINDINGS (CONTINUED)

For the Year Ended June 30, 2021

Recommendation: We recommend the City budget to pay back amounts owed to the Successor Agency, and develop a plan to turn over the remaining assets of these former Redevelopment Agency funds to the State and County.

City's Response: The City acknowledges this debt and has initiated a plan to work with the crediting agencies for resolution. The City has created the Isleton Redevelopment Discharge Plan (IRDP). All the RDA physical assets have already been rendered to the City for public use. The process for debt relief has been initiated by the City in cooperation with the Sacramento County Oversight Committee. City staff has met with the Sac County Oversight Committee management staff in July 2023 to present this Plan for debt resolution and the County has indicated its support. All of the crediting agencies have been contracted and have agreed to resolution by forgiveness, reduction and repayment, or repayment. The next step is to secure these agreements in letter form. The completion date is July 1, 2024.

The City, at this time, does not have the depth of staff to separate the record of sewer bills and the deposit of sewer bill payments. Multiple management employees separately review the timing and amounts of monthly billings. The Finance department will continue to monitor monthly sewer billing totals to insure no issues arise.

Finding 2021-003 – 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.
- Land and property acquired from the Redevelopment Agency were not reclassified to a separate fiduciary fund for the successor agency. The land was easily identified but there was no supporting documentation for the building as it was demolished years ago.
- Depreciation was not calculated and recorded for the year.

Criteria: An accurate list of capital assets needs to be maintained to support amounts reported in the financial statements.

Cause: A capital asset inventory has not been completed and compared to the listing of capital assets.

Effect: The capital assets, net of accumulated depreciation, reflected in the City's general ledger is likely misstated.

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 period basis. Capital additions and deletions should be recorded at year-end and depreciation should be calculated on the capital asset listing.

City's Response: The City is committing to review Capital Assets once a fiscal year and finance will engage in discussions with department managers to ensure all changes discards and sales of old assets are recorded.

CITY OF ISLETON, CALIFORNIA
SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2021

Finding 20-01 – Policies and Procedures

Finding: It was noted that the City does not have written procedures for performing many of the current financial processes.

Recommendation: It is recommended that the City develop written policies and procedures for all current financial processes.

Status: Draft policies and procedures were developed in 2021.

Finding 20-02 – Accuracy of Financial Reporting

Finding: Shortcomings in the accounting system are demonstrated by the following:

- a) Bank reconciliations are not being performed accurately and on a timely basis:
 - i. The Local Agency Investment Fund (LAIF) accounts in the general fund and redevelopment low income fund do not reconcile to the statements.
 - ii. The General Fund checking account has two deposits in transit greater than five months old.
- b) Installments payable are not being account for correctly:
 - i. Current year expenditures were incorrectly added to installments payable.
 - ii. Payables in excess of the City’s agreements with the vendors were improperly recorded in installments payable.
- c) The City’s current accounting system is not suitable for the needs of the City.
- d) The General Fund accounts receivable contains thirty-five receivables outstanding for more than one year.
- e) The City did not properly record its new enterprise fund capital asset purchases in accordance with accrual accounting when it recorded the purchase as an expense.
- f) The City recorded permit fees prior to the business opening.
- g) The City recorded one grant revenue transaction twice.
- h) Revenues and expenditures were recorded in the wrong fund.
- i) The City misreported its payroll on the Form 941 – Employer’s Quarterly Federal Tax Returns.
- j) One employee’s accumulated accrued leave was not transferred to the new payroll service.
- k) One employee has accumulated accrued leave at a rate below the City’s accrued leave policy.

Recommendation: Recommended the City purchase an accounting system suitable for a multi-fund entity. Recommended that activity in the LAIF accounts be recorded accurately and on a timely basis. Further, recommended that the installment payable activity be properly recorded in conformity with the vendor agreements, that capital asset additions to the Sewer Fund be recorded in accordance with accrual accounting, and a greater degree of oversight of the accounting function to assure that revenues, expenditures/expenses and liabilities are recorded properly.

Status: Most of these items have been addressed. Any remaining items are addressed in the management letter.

Finding 20-03 – Access to the Accounting System

Finding: Shortcomings in the internal control over access to the accounting system is demonstrated by the following:

- a) The City Manager has access to the accounting system.
- b) The Sewer receivables/billing clerk has access to the accounting system.

CITY OF ISLETON, CALIFORNIA
SCHEDULE OF FINDINGS (CONTINUED)

For the Year Ended June 30, 2021

Recommendation: Recommend the City limit access to its accounting system to authorized personnel only. A sound internal control structure would restrict the City Manager's and receivable/billing clerk's access to the accounting system.

Status: This issue has been resolved.

Finding 20-04 – Measure B Compliance

Finding: Section 12 Expenditure Plan, Item C. of Measure B states “the Council shall appoint a committee consisting of no fewer than five individuals to review and report on the receipt of revenue and expenditure of funds from the tax authorized by this ordinance.” As of June 30, 2020, no committee has been appointed.

Recommendation: Recommended the Council appoint a committee as required by Section 12 item C.

Status: The oversight committee was formed in August 2020 and has met several times.

Finding 20-05 – USDA Sewer Project Expenditures

Finding: It was noted by the preceding auditors that amounts claimed for reimbursement on the USDA sewer project were not reconciled to fund 412 of the primary accounting records of the City. It was further noted in testing of disbursements for this project that \$85,703 was paid to the City General Fund to reimburse for the previous year's expenses, however, no support or documentation was provided to substantiate that amount.

Recommendation: It is recommended that all grant accounting be reconciled to the primary accounting records of the City and that all amounts charged to this project be properly supported. In addition, I recommend that unless proper documentation is provided for the \$85,703 transferred to the General Fund, the amount be returned to the USDA sewer project fund.

Status: The City Manager has requested the records from the USDA to establish the proper expenditure of these funds. This request was made in 2020. The USDA representative advised in 2020 that should they not be able to access and provide the records, they will recommend that the City consider this expenditure paid and removed from City records. There has been multiple USDA representatives servicing Isleton over the past couple of years. Staff will continue to pursue this inquiry to recertification.