

**CITY OF HOLTVILLE**  
FINANCIAL STATEMENTS  
June 30, 2017

**CITY OF HOLTVILLE**  
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June 30, 2017

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the City Council  
City of Holtville  
Holtville, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holtville (City), California, as of and for the fiscal year ended June 30, 2017, 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 the basis of accounting described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holtville, California, as of June 30, 2017, and the respective changes in financial position and cash flows arising from cash transactions, where applicable thereof, for the fiscal year then ended, on the basis of accounting described in Note 1.

### *Basis of Accounting*

As discussed in Note 1 of the notes to the financial statements, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### *Financial Condition*

The reader's attention should be brought to Note 16, referring to the City's financial condition as of June 30, 2017.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis and the budgetary comparison schedules for the Community Development Block Grant Special Revenue Fund and the Home Grant Special Revenue Fund that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. Budgets were not adopted for the Community Development Block Grant Special Revenue Fund or the Home Grant Special Revenue Fund.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules of the General Fund on pages 47 and 48, Local Transit Authority Special Revenue Fund on page 49, and Local Transportation Special Revenue Fund on page 50 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.


### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holtville's basic financial statements. The combining nonmajor funds financial statements, nonmajor fund budgetary comparison schedules, and combining Private-purpose Trust Funds financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining nonmajor funds financial statements, nonmajor fund budgetary comparison schedules, and combining Private-purpose Trust Funds 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 financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



MOSS, LEVY & HARTZHEIM, LLP  
Culver City, California  
March 21, 2018

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## **BASIC FINANCIAL STATEMENTS**



**CITY OF HOLTVILLE**  
**STATEMENT OF NET POSITION**  
**ARISING FROM CASH TRANSACTIONS**  
**June 30, 2017**

	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Cash and investments	\$ 3,096,769	\$ 2,401,520	\$ 5,498,289
Cash and investments with fiscal agent		320,750	320,750
Restricted cash and investments		324,125	324,125
Loans receivable, net of allowance	<u>2,572,383</u>		<u>2,572,383</u>
Total Assets	<u>5,669,152</u>	<u>3,046,395</u>	<u>8,715,547</u>
<b>Liabilities:</b>			
Noncurrent liabilities:			
Due within one year	74,062	398,793	472,855
Due in more than one year	<u>427,958</u>	<u>8,591,541</u>	<u>9,019,499</u>
Total Liabilities	<u>502,020</u>	<u>8,990,334</u>	<u>9,492,354</u>
<b>Net Position:</b>			
Restricted for:			
Other purposes	4,294,021		4,294,021
Unrestricted	<u>873,111</u>	<u>(5,943,939)</u>	<u>(5,070,828)</u>
Total Net Position (Deficit)	<u>\$ 5,167,132</u>	<u>\$ (5,943,939)</u>	<u>\$ (776,807)</u>

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE**  
**STATEMENT OF ACTIVITIES**  
**ARISING FROM CASH TRANSACTIONS**  
**For the Fiscal Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 959,986	\$ 4,608	\$ -	\$ -
Public safety	1,916,670	8,281	776,466	
Public works	1,960,845	30,092	235,864	1,434,896
Community development	1,821	19,564	2,916	
<b>Total Governmental Activities</b>	<b>4,839,322</b>	<b>62,545</b>	<b>1,015,246</b>	<b>1,434,896</b>
<b>Business-type Activities:</b>				
Water	1,086,684	1,539,740		
Sewer	5,257,341	1,410,563		4,406,022
Solid waste	235,478	251,996		
<b>Total Business-type Activities</b>	<b>6,579,503</b>	<b>3,202,299</b>		<b>4,406,022</b>
<b>Total Primary Government</b>	<b>\$ 11,418,825</b>	<b>\$ 3,264,844</b>	<b>\$ 1,015,246</b>	<b>\$ 5,840,918</b>

**General Revenues and Transfers:**

**Taxes:**

Secured and unsecured property taxes

Utility users tax

Sales and use tax

Franchise tax

Other tax

Motor vehicle in lieu - unrestricted

Use of money and property

Other

Contributions from private-purpose trust fund, unrestricted

Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

**Net Position (Deficit) at Beginning of Fiscal Year**

**Net Position (Deficit) at End of Fiscal Year**

See accompanying notes to basic financial statements

Net (Expense) Revenue and  
Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
\$ (955,378)	\$ -	\$ (955,378)
(1,131,923)		(1,131,923)
(259,993)		(259,993)
20,659		20,659
<u>(2,326,635)</u>		<u>(2,326,635)</u>
	453,056	453,056
	559,244	559,244
	16,518	16,518
	<u>1,028,818</u>	<u>1,028,818</u>
<u>(2,326,635)</u>	<u>1,028,818</u>	<u>(1,297,817)</u>
140,735		140,735
456,527		456,527
491,304		491,304
111,736		111,736
23,348		23,348
536,188		536,188
16,120	4,033	20,153
50,834		50,834
55,535		55,535
<u>250,000</u>	<u>(250,000)</u>	
<u>2,132,327</u>	<u>(245,967)</u>	<u>1,886,360</u>
(194,308)	782,851	588,543
<u>5,361,440</u>	<u>(6,726,790)</u>	<u>(1,365,350)</u>
<u>\$ 5,167,132</u>	<u>\$ (5,943,939)</u>	<u>\$ (776,807)</u>

**CITY OF HOLTVILLE**  
**STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES**  
**ARISING FROM CASH TRANSACTIONS -**  
**GOVERNMENTAL FUNDS**  
**June 30, 2017**

	General Fund	Special Revenue Funds	
		Community Development Block Grant Fund	Home Grant Fund
<b>Assets</b>			
Cash and investments	\$ 856,677	\$ 742,897	\$ 54,932
Due from other funds	589,330		
Loans receivable	91,749	966,333	4,601,204
Total assets	<u>\$ 1,537,756</u>	<u>\$ 1,709,230</u>	<u>\$ 4,656,136</u>
<b>Liabilities:</b>			
Due to other funds	\$ -	\$ -	\$ -
Total liabilities			
<b>Deferred Inflows of Resources:</b>			
Deferred revenue		859,628	4,601,204
Total deferred inflows of resources		859,628	4,601,204
Total liabilities and deferred inflows of resources		859,628	4,601,204
<b>Fund Balances:</b>			
Nonspendable	91,749	106,705	
Restricted		742,897	54,932
Unassigned	1,446,007		
Total fund balances (deficits)	<u>1,537,756</u>	<u>849,602</u>	<u>54,932</u>
Total liabilities and fund balances	<u>\$ 1,537,756</u>	<u>\$ 1,709,230</u>	<u>\$ 4,656,136</u>

See accompanying notes to basic financial statements

Special Revenue Funds		Other Governmental Funds	Total Governmental Funds
Local Transit Authority Fund	Local Transportation Fund		
\$ 1,021,451	\$ -	\$ 420,812	\$ 3,096,769
		320,000	589,330
			5,979,286
<u>\$ 1,021,451</u>	<u>\$ -</u>	<u>\$ 740,812</u>	<u>\$ 9,665,385</u>
\$ -	\$ 589,330	\$ -	\$ 589,330
	589,330		589,330
		320,000	5,780,832
		320,000	5,780,832
	589,330	320,000	6,370,162
1,021,451	(589,330)	420,812	198,454
			2,240,092
			856,677
<u>1,021,451</u>	<u>(589,330)</u>	<u>420,812</u>	<u>3,295,223</u>
<u>\$ 1,021,451</u>	<u>\$ -</u>	<u>\$ 740,812</u>	<u>\$ 9,665,385</u>

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**CITY OF HOLTVILLE**

**RECONCILIATION OF THE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION ARISING FROM CASH TRANSACTIONS  
June 30, 2017**

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Fund balances of governmental funds	\$	3,295,223
Amounts reported for governmental activities in the statement of net position are different because:		
Certain loans receivable are not available to pay for current period expenditures and, therefore are offset by deferred revenue in the governmental funds.		
Deferred revenue		5,780,832
Allowance for an uncollectible loan has been set up in the amount of \$3,406,903 for a certain loan receivable.		
		(3,406,903)
Long-term debt and compensated absences have not been included in the governmental funds.		
Compensated absences		(52,004)
Settlement agreement		(249,502)
Claims payable		(200,514)
		<hr/>
Net position of governmental activities	\$	<u>5,167,132</u>

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE****STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID, AND  
CHANGES IN FUND BALANCE ARISING FROM CASH TRANSACTIONS -  
GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2017

	General Fund	Special Revenue Funds	
		Community Development Block Grant Fund	Home Grant Fund
<b>Revenues Collected:</b>			
Taxes	\$ 1,104,804	\$ -	\$ -
Licenses, permits, and impact fees	1,820		
Fines and penalties	1,022		
Investment earnings	14,219	113	14
Intergovernmental	1,312,654		
Charges for current services	59,703		
Other revenues collected	53,750		
Contributions from private-purpose trust fund	55,535		
Program income		289,826	51,851
Total revenues collected	<u>2,603,507</u>	<u>289,939</u>	<u>51,865</u>
<b>Expenditures Paid:</b>			
General government	743,213		
Public safety	1,911,062		
Public works	558,733		104
Community development		1,826	
Capital outlay		58	
Total expenditures paid	<u>3,213,008</u>	<u>1,884</u>	<u>104</u>
Excess of revenues collected over (under) expenditures paid	<u>(609,501)</u>	<u>288,055</u>	<u>51,761</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	634,462	57,225	2,962
Transfers out	<u>(127,723)</u>	<u>(83,982)</u>	
Total other financing sources (uses)	<u>506,739</u>	<u>(26,757)</u>	<u>2,962</u>
Net changes in fund balances	(102,762)	261,298	54,723
Fund balances (deficits), July 1, 2016	<u>1,640,518</u>	<u>588,304</u>	<u>209</u>
Fund balances (deficits), June 30, 2017	<u>\$ 1,537,756</u>	<u>\$ 849,602</u>	<u>\$ 54,932</u>

See accompanying notes to basic financial statements



Special Revenue Funds			
Local Transit Authority Fund	Local Transportation Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 118,846	\$ 1,223,650
			1,820
			1,022
1,087		687	16,120
675,266	759,630		2,747,550
			59,703
	330		54,080
			55,535
			341,677
676,353	759,960	119,533	4,501,157
			743,213
		10,668	1,921,730
			558,837
			1,826
	1,401,200	2,222	1,403,480
	1,401,200	12,890	4,629,086
676,353	(641,240)	106,643	(127,929)
	404,219	23,799	1,122,667
(535,962)		(125,000)	(872,667)
(535,962)	404,219	(101,201)	250,000
140,391	(237,021)	5,442	122,071
881,060	(352,309)	415,370	3,173,152
\$ 1,021,451	\$ (589,330)	\$ 420,812	\$ 3,295,223

**CITY OF HOLTVILLE**

**RECONCILIATION OF THE STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,  
AND CHANGES IN FUND BALANCES ARISING FROM CASH TRANSACTIONS -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
ARISING FROM CASH TRANSACTIONS**

For the Fiscal Year Ended June 30, 2017

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Net change in fund balances - total governmental funds \$ 122,071

Amounts reported for governmental activities in the statement of activities differ because:

Certain notes receivable are reported in the governmental funds as expenditures and then offset by an unearned revenue as they are not available to pay current expenditures. Likewise, when the note is collected, it is reflected in revenue. This is the net change between notes receivable collected and issued. (106,143)

The amount below, included in the Statement of Activities, does not provide (require) the use of current financial resources and, therefore, is not reported as revenue or expenditure in governmental funds (net change):

Decrease in claims payable 30,772  
Increase in settlement agreement (249,502)

Compensated absence increased (earned) reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This is the net change in compensated absences for the current period. 8,494

Change in net position of governmental activities \$ (194,308)

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE**  
**PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF ASSETS, LIABILITIES, AND NET POSITION**  
**ARISING FROM CASH TRANSACTIONS**  
**June 30, 2017**

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ 455,366	\$ 1,946,154	\$ -	\$ 2,401,520
Cash and investments with fiscal agent	320,750			320,750
Restricted cash and investments	220,278	103,847		324,125
Due from other funds		64,472		64,472
Total assets	996,394	2,114,473		3,110,867
<b>LIABILITIES</b>				
Current Liabilities:				
Due to other funds			64,472	64,472
Compensated absences	3,857	3,936		7,793
Current portion of long-term liabilities	309,000	82,000		391,000
Total current liabilities	312,857	85,936	64,472	463,265
Long-Term Liabilities:				
Compensated absences	34,715	35,427		70,142
Bonds payable	4,337,399	4,184,000		8,521,399
Total long-term liabilities	4,372,114	4,219,427		8,591,541
Total liabilities	4,684,971	4,305,363	64,472	9,054,806
<b>NET POSITION (DEFICIT)</b>				
Unrestricted	(3,688,577)	(2,190,890)	(64,472)	(5,943,939)
Total net position (deficit)	\$ (3,688,577)	\$ (2,190,890)	\$ (64,472)	\$ (5,943,939)

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE****PROPRIETARY FUNDS****COMBINING STATEMENT OF REVENUES COLLECTED, EXPENSES PAID, AND CHANGES IN NET POSITION  
ARISING FROM CASH TRANSACTIONS**

For the Fiscal Year Ended June 30, 2017

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>Operating Revenues Collected:</b>				
Charges for services	\$ 1,539,740	\$ 1,410,563	\$ 251,996	\$ 3,202,299
Total operating revenues collected	1,539,740	1,410,563	251,996	3,202,299
<b>Operating Expenses Paid:</b>				
Salaries and wages	264,914	324,893		589,807
Payroll expenses	94,930	95,893		190,823
Training, safety, and clothing	12,080	15,707		27,787
Materials, supplies, and services	502,211	265,345	235,478	1,003,034
Total operating expenses paid	874,135	701,838	235,478	1,811,451
Operating income arising from cash transactions	665,605	708,725	16,518	1,390,848
<b>Non-Operating Revenues Collected (Expenses Paid):</b>				
Investment earnings	543	3,490		4,033
Interest expense	(212,549)	(86,120)		(298,669)
Capital outlay		(4,469,383)		(4,469,383)
Total non-operating revenues collected (expenses paid)	(212,006)	(4,552,013)		(4,764,019)
Income (loss) arising from cash transactions before transfers and capital contributions	453,599	(3,843,288)	16,518	(3,373,171)
Capital grants received		4,406,022		4,406,022
<b>Transfers:</b>				
Transfers out	(25,000)	(225,000)		(250,000)
Changes in net position	428,599	337,734	16,518	782,851
Net position (deficit), beginning of the fiscal year	(4,117,176)	(2,528,624)	(80,990)	(6,726,790)
Net position (deficit), end of the fiscal year	\$ (3,688,577)	\$ (2,190,890)	\$ (64,472)	\$ (5,943,939)

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE**  
**PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**ARISING FROM CASH TRANSACTIONS**  
**For the Fiscal Year Ended June 30, 2017**

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>Cash Flows from Operating Activities:</b>				
Receipts from user charges	\$ 1,539,740	\$ 1,410,563	\$ 251,996	\$ 3,202,299
Interfund loan receipts (disbursements)	43,249	16,518	(16,518)	43,249
Payments to suppliers	(609,221)	(370,695)	(235,478)	(1,215,394)
Payments for salaries	(263,641)	(323,411)		(587,052)
Net Cash Provided (Used) by Operating Activities	710,127	732,975		1,443,102
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets		(4,469,383)		(4,469,383)
Capital grants received		4,406,022		4,406,022
Principal paid	(297,000)	(80,000)		(377,000)
Interest paid	(212,549)	(86,120)		(298,669)
Net Cash Provided (Used) for Capital and Related Financing Activities	(509,549)	(229,481)		(739,030)
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Transfers paid	(25,000)	(225,000)		(250,000)
Net Cash Provided (Used) from Non-Capital Financing Activities	(25,000)	(225,000)		(250,000)
<b>Cash Flows from Investing Activities:</b>				
Interest received	543	3,490		4,033
Net Cash Provided (Used) from Investing Activities	543	3,490		4,033
Increase (decrease) in cash and cash equivalents	176,121	281,984		458,105
Cash and cash equivalents, beginning of fiscal year	820,273	1,768,017		2,588,290
Cash and cash equivalents, end of fiscal year	\$ 996,394	\$ 2,050,001	\$ -	\$ 3,046,395
<b>Reconciliation to Statement of Net Position:</b>				
Cash and investments	\$ 455,366	\$ 1,946,154	\$ -	\$ 2,401,520
Cash and investments with fiscal agents	320,750			320,750
Restricted cash and investments	220,278	103,847		324,125
Total cash and cash equivalents, end of fiscal year	\$ 996,394	\$ 2,050,001	\$ -	\$ 3,046,395

(Continued)

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE**  
**PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS (Continued)**  
**ARISING FROM CASH TRANSACTIONS**  
**For the Fiscal Year Ended June 30, 2017**

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income	\$ 665,605	\$ 708,725	\$ 16,518	\$ 1,390,848
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
(Increase) decrease in deposits receivable		6,250		6,250
(Increase) decrease in due from other funds	43,249	16,518		59,767
Increase (decrease) in due to other funds			(16,518)	(16,518)
Increase (decrease) in compensated absences	1,273	1,482		2,755
Net Cash Provided (Used) by Operating Activities	<u>\$ 710,127</u>	<u>\$ 732,975</u>	<u>\$ -</u>	<u>\$ 1,443,102</u>

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE**  
**FIDUCIARY FUND**  
**STATEMENT OF NET POSITION ARISING FROM CASH TRANSACTIONS**  
June 30, 2017

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	Private-Purpose Trust Fund
	<u>                    </u>
<b>ASSETS</b>	
Cash and investments with fiscal agents	\$ 469,061
Restricted cash and investments	2,828,214
Notes receivable	37,363
Capital assets, not being depreciated	<u>437,894</u>
Total assets	<u>3,772,532</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Loss on refunding of debt	<u>81,976</u>
Total deferred outflows of resources	<u>81,976</u>
Total assets and deferred outflows of resources	<u>3,854,508</u>
<b>LIABILITIES</b>	
Long-term debt, due within one year	160,000
Long-term debt, due in more than one year	<u>5,640,000</u>
Total liabilities	<u>5,800,000</u>
<b>NET POSITION (DEFICIT)</b>	
Unrestricted	<u>(1,945,492)</u>
Total net position (deficit)	<u><u>\$ (1,945,492)</u></u>

See accompanying notes to basic financial statements

**CITY OF HOLTVILLE**

**FIDUCIARY FUND**

**STATEMENT OF CHANGE IN FIDUCIARY NET POSITION ARISING FROM CASH TRANSACTIONS**

For the Fiscal Year Ended June 30, 2017

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	Private-Purpose Trust Fund
<b>Additions:</b>	
Investment revenue	\$ 4,575
Tax and assessments	683,243
	<hr/>
Total additions	687,818
	<hr/>
<b>Deductions:</b>	
Administration	30
Interest expense	309,679
Amortization expense	4,032
Contributions to general fund	55,535
	<hr/>
Total deductions	369,276
	<hr/>
Change in net position	318,542
Net Position (Deficit) - July 1, 2016	(2,264,034)
	<hr/>
Net Position (Deficit) - June 30, 2017	<u>\$ (1,945,492)</u>

See accompanying notes to basic financial statements



**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Reporting Entity**

The City of Holtville (City) is a municipal corporation, operating as a general law city, and governed by a city council of five members. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Holtville (the primary government) and its component unit. The component units discussed in Note 1-B are included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present financial information for the City of Holtville (the primary government) and its component units. Blended component units, although legally separate entity, are in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize their legal separateness from the City. Each blended component unit has a fiscal year end of June 30. The blended component units are included in the City's reporting entity because of the significance of their operational and financial relationship with the City. There are no entities which meet the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, 61, and 80 criteria for discrete disclosure within these basic financial statements.

**B. Individual Component Unit Disclosures**

*Blended Component Unit.* The Financing Authority (Authority) of the City of Holtville is governed by the City Council of the City of Holtville. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because the City Council is the governing board, and is able to impose its will on the Authority.

**C. Financial Statement Presentation**

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities include the financial activities of the overall City government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on individual funds, each of which is displayed in a separate column.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues Collected, Expenditures Paid, and Changes in Fund Balances Arising from Cash Transactions for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Financial Statement Presentation (Continued)**

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. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

**Proprietary Fund Financial Statements**

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues Collected, Expenses Paid, and Changes in Net Position, and a Statement of Cash Flows Arising from Cash Transactions for all proprietary funds.

**Fiduciary Fund Financial Statements**

Fiduciary fund financial statements include a Statement of Net Position and Statement of Changes in Net Position.

**D. Accounting Policies**

The City of Holtville records transactions, and accordingly, these financial statements were prepared, using the modified cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The following are some of the ways that the modified cash basis of accounting differs from accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require all governmental funds to use the modified accrual basis of accounting. Revenues should be recognized when they become measurable and available as net current assets. The City of Holtville, however, recognizes revenue when it is received by the City.

Taxpayer-assessed income, gross receipts, and sales taxes are recognized when the revenue is received by the City. Refunds of such taxes are recognized when they are paid. Under accounting principles generally accepted in the United States of America, these taxes are considered "measurable" when in the hands of intermediary collecting governments and should be recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Accounting Policies (Continued)**

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is that principal and interest on long-term debt is recognized when due. The modified cash basis of accounting recognizes all expenditures when they are paid.

Accounting principles generally accepted in the United States of America require all proprietary funds and government-wide reporting to use the accrual basis of accounting. Revenues should be recognized when they are earned, and their expenses should be recognized when they are incurred. The modified cash basis of accounting recognizes revenues when received and expenses when paid.

The purchase of capital items in the proprietary funds should be recorded as capital assets and depreciated under accounting principles generally accepted in the United States of America; however, the City records these items as expenses when they are paid.

The purchase of capital assets should be capitalized and depreciated in the Statement of Net Position and Statement of Activities under GASB Statement No. 34, however, under the modified cash basis of accounting, the City records these items as expenditures when paid.

**E. Fund Accounting**

Governmental Accounting Standards Board (GASB) Statement No. 34 defines major funds and requires that the City's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures/expenses equal to or greater than ten percent of their fund-type total and five percent of the grand total of all funds.

The City reported the following major governmental funds in the accompanying financial statements:

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

The **Community Development Block Grant (CDBG) Special Revenue Fund** is used to account for the activity in the City's CDBG revolving loan programs.

The **Home Grant Special Revenue Fund** is used to account for the activity in the City's HOME revolving loan programs.

The **Local Transit Authority Special Revenue Fund** is used to account for transportation projects funded through the Measure D funding. Measure D is Imperial County's local ½ cent sales tax transportation Measure. The 95% of the funds from Measure D go directly to the cities and the County to pay for critical road repair projects. The other 5% is set aside for regional projects.

The **Local Transportation Special Revenue Fund** is used to account for local transportation projects which are funded in whole or in part through State and/or Federal funding sources specific to the transportation project(s).

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Fund Accounting (Continued)**

The City reported the following major proprietary funds:

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

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

The **Solid Waste Fund** is used to account for residential and commercial garbage collection and disposal.

Additionally, the City reported the following fund type:

The **Private-Purpose Trust Fund** is used to account for the activities of the Successor Agency (former Redevelopment Agency).

**F. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accounting principles generally accepted in the United States of America require all governmental funds to use the modified accrual basis of accounting and all proprietary fund types to use the accrual basis of accounting. The City of Holtville uses the modified cash basis of accounting for all fund types.

The modified cash basis of accounting recognizes all monies received as revenues at the time of receipt and all amounts paid as expenditures at the time of payment with the exception of the following:

1. Long-term notes and loans receivable are set up as assets and unearned revenue and note/loan payments received by the City are recorded as reductions of the asset and liability and program income when received.
2. Long term payables are set up as liabilities in the proprietary funds. Principal payments are recorded as reductions of the liabilities when made.

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Budgets and Budgetary Accounting**

The City is required by its municipal code to adopt an annual budget on or before June 30, which is the end of its fiscal year, for the ensuing fiscal year. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during each fiscal year. The City Manager is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended.

Budgeted revenue and expenditure amounts shown represent the City's originally-adopted budget adjusted for supplemental revenues and appropriations during the course of the fiscal year. Budget amounts, as adjusted, reported for the governmental funds of the City are adopted on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Budgets were not adopted for the Community Development Block Grant Fund, Home Grant Fund, Façade Improvement Program Fund, CDBG Grant Sewer Study Fund, Business Assistance Loan Fund, or Low/Mod Housing Fund.

**H. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

**I. Investments**

Investments are stated at fair value. The City has adopted an investment policy which provides a means for investing the public funds held by the City. These investments are also allowed by the California Government Code.

**J. Capital Assets**

Capital assets in the proprietary funds are expensed when paid. This practice is contrary to accounting principles generally accepted in the United States of America.

The City does not maintain a complete accounting of capital assets. This practice is contrary to accounting principles generally accepted in the United States of America.

**K. Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash.

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Compensated Absences**

One time per year, Classified employees of the City may receive cash compensation for accrued vacation in excess of two times their annual accrual. One time per year, Management employees may receive cash compensation for accrued vacation in excess of three weeks. Cash compensation for unused sick leave is only payable to management employees with accrued sick hours in excess of 212 hours, or upon termination, and is compensated at 25% of the accrued sick leave to be converted.

**M. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures/expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**N. Use of Estimates**

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

**O. Net Position and Fund Balance**

In the Government-wide financial statements and proprietary fund financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Restricted net position represent net position restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. All other net position is considered unrestricted.

At June 30, 2017, the City had recorded restricted net position in the Governmental Activities and Business-type Activities as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Restricted for:		
Community development	\$ 1,602,525	\$ -
HOME grant program	1,249,233	
Transportation	1,021,451	
Streets and roads	420,812	
Total Restricted	<u>\$ 4,294,021</u>	<u>\$ -</u>

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. Net Position and Fund Balance (Continued)**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. Net Position and Fund Balance (Continued)**

The constraints placed on fund balance for the major governmental funds and all other governmental funds at June 30, 2017 are as follows:

Fund Balances	General Fund	Community Development Block Grant Special Revenue Fund	Home Grant Special Revenue Fund	Local Transit Authority Special Revenue Fund	Local Transportation Special Revenue Fund	Nonmajor Governmental Funds	Total
<b>Nonspendable:</b>							
Housing Rehabilitation and Business							
Program Loans	\$ 91,749	\$ 106,705	\$ -	\$ -	\$ -	\$ -	\$ 198,454
<i>Total Nonspendable</i>	<u>91,749</u>	<u>106,705</u>					<u>198,454</u>
<b>Restricted for:</b>							
Community Development		742,897	54,932				797,829
Transportation				1,021,451			1,021,451
Streets and Roads						420,812	420,812
<i>Total Restricted</i>		<u>742,897</u>	<u>54,932</u>	<u>1,021,451</u>		<u>420,812</u>	<u>2,240,092</u>
Unassigned	1,446,007				(589,330)		856,677
<i>Total Fund Balances</i>	<u>\$ 1,537,756</u>	<u>\$ 849,602</u>	<u>\$ 54,932</u>	<u>\$ 1,021,451</u>	<u>\$ (589,330)</u>	<u>\$ 420,812</u>	<u>\$ 3,295,223</u>

**P. Future Accounting Pronouncements**

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	" Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provision of this statement is effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provision of this statement is effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provision of this statement is effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.



**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Deferred Outflows and Inflows of Resources**

Pursuant to GASB Statement No. 65 the City recognizes deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. Refer to Note 14 for a detailed listing of the deferred inflows of resources that the City has recognized.

Pursuant to GASB Statement No. 65 the City recognizes deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of fund balance by the government that is applicable to a future reporting period. Refer to Note 7 for a detailed listing of the deferred inflows of resources that the City has recognized.

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental funds balance sheet includes a reconciliation between fund balance of total governmental funds and net position of governmental activities as reported in the government-wide statement of net position.

One element of the reconciliation explains that “long-term liabilities” are not due and payable in the current period and, therefore, are not reported in the funds. The details of this difference are as follows:

<u>Long-Term Debt Obligations</u>	
Compensated Absences	\$ 52,004
Settlement agreement	249,502
Claims Payable	200,514
	<u>\$ 502,020</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Deficit Fund Balances and Net Position**

Deficit net position of \$3,688,577, \$2,190,890, and \$64,472 exist in the Water Fund, Sewer Fund, and Solid Waste Fund, respectively. These deficits are due to the City not capitalizing capital outlay expenses in the Enterprise Funds. There are also deficit fund balances of \$589,330 in the Local Transportation Special Revenue Fund. The deficits are due to the City paying expenditures in advance of receiving revenues. The majority of these deficits are going to be repaid once reimbursements are received from the grantor, and if there are any outstanding deficits after the repayments, the General Fund should cover these deficits when the fund is closed out.

**NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

**Excess of Expenditures over Appropriations**

Excess of expenditures over appropriations in departments/cost centers of individual funds are as follows:

<u>FUND</u>	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>	<u>EXCESS</u>
Major Funds:			
General:			
Public safety	\$ 1,482,342	\$ 1,911,062	\$ 428,720
Public works	399,123	558,733	159,610
Transfer out		127,723	127,723

**NOTE 4 – CASH AND INVESTMENTS**

Cash and investments are reported as follows in the Statement of Net Position Arising from Cash Transactions:

Statement of Net Position:	
Cash and investments	\$ 5,498,289
Cash and investments with fiscal agents	320,750
Restricted cash and investments	324,125
Statement of Fiduciary Net Position:	
Cash and investments with fiscal agents	469,061
Restricted cash and investments	<u>2,828,214</u>
Total	<u>\$ 9,440,439</u>

Cash and investments held by the City at June 30, 2017 consisted of the following:

Cash on hand	\$ 100
Cash deposits	3,041,942
Investments	<u>6,398,397</u>
Total	<u>\$ 9,440,439</u>

**Investments Authorized by the California Government Code and the City's Investment Policy**

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). The table also identifies certain provisions of 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. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

**NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**

**Investments Authorized by the California Government Code and the City’s Investment Policy (Continued)**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	\$65 million
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Insured Deposits with Banks and Savings and Loans	N/A	None	15%
Repurchase Agreements	90 days	None	15%
Bankers Acceptance (must be dollar denominated)	9 months	40%	15%
Commercial Paper	6 months	15%	15%
Negotiable Time Certificates of Deposit	5 years	30%	15%
Medium Term Corporate Notes	5 years	30%	* 10%
Time deposits	N/A	25%	15%

\* As of June 30, 2017, the portfolio percentage of the City’s certificates of deposit exceed allowable investment instruments per the California Government Code and the City’s policy.

**Investments Authorized by Debt Agreements**

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

Authorized Investment Type	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 Investment Fund (State Pool)	N/A	None	None
Banker's Acceptances	270 days	40%	15%
Commercial Paper	180 days	15%	15%
Guaranteed Investment Contracts	N/A	None	None
Money Market Accounts	N/A	None	None

**NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**

**Disclosures Relating to Interest Rate Risk**

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

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

Investment Type	Totals	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	More Than 48 Months
State Investment Pool	\$ 1,653,513	\$ 1,653,513	\$ -	\$ -	\$ -	\$ -
Money Market Funds	751,508	751,508				
Certificates of Deposit	3,203,565	745,041	1,474,905	248,265	494,697	240,657
Investments with Fiscal Agent:						
Money Market Funds	789,811	789,811				
Total	<u>\$ 6,398,397</u>	<u>\$ 3,939,873</u>	<u>\$ 1,474,905</u>	<u>\$ 248,265</u>	<u>\$ 494,697</u>	<u>\$ 240,657</u>

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

**Disclosures Relating to Credit Risk**

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 1,653,513	N/A	\$ -	\$ -	\$ -	\$ -	\$ 1,653,513
Money Market Funds	751,508	N/A					751,508
Certificates of Deposit	3,203,565	N/A					3,203,565
Investments with Fiscal Agent:							
Money Market Funds	789,811	N/A		789,811			
Total	<u>\$ 6,398,397</u>		<u>\$ -</u>	<u>\$ 789,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,608,586</u>

**NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than money market funds and external investment pools) that represent 5% or more of total City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Various Private Banks	Certificates of Deposit	\$3,203,565

Investment in any one issuer that represent 5% or more of total investments by reporting unit (primary government, governmental activities, business type activities, fiduciary fund, major funds, nonmajor funds in the aggregate, etc.) are as follows:

\$3,203,565 of the cash and investments (including amounts held by bond trustee) reported in the governmental and business-type activities are held in various private banks.

**Custodial Credit Risk**

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

As of June 30, 2017, \$2,765,968 of the City’s deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

**Investment in State Investment Pool**

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

**NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

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

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**NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurement**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The City has the following recurring fair value measurements as of June 30, 2017

<u>Investment by Fair Value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
Debt Securities				
Certificates of Deposit	\$ 3,203,565	\$ 3,203,565	\$ -	\$ -
Total	<u>\$ 3,203,565</u>	<u>\$ 3,203,565</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 5 – LOANS AND NOTES RECEIVABLE**

Program loans receivable represent Housing Rehabilitation and Business Program loans, which were assigned to the City. The loans are secured by deeds of trust, which attach to the property until title to the property is transferred. Most of these loans are deferred, but there are a few that require monthly payments. Interest rates vary from 0% to 4%. The housing rehabilitation loans receivable total is \$2,232,372 as of June 30, 2017. \$91,749 is recorded in the General Fund for one of these loans receivable.

The City loaned Business Program loans to various business owners within the City. As of June 30, 2017, there is only one Business Program loan still outstanding. This loan is secured by a deed of trust. The terms of the loan call for monthly payments with an interest rate of 6%. The outstanding balance as of June 30, 2017 is \$20,011.

On September 1, 2003, the City loaned Holtville Gardens, L.P. \$3,000,000 as part of the State of California HOME Investment Partnership Program to aid in the development and construction of an 81-unit apartment complex located at 950 Holt Avenue in the City of Holtville. The terms of the loan call for Holtville Gardens to make annual payments in the amount of 50% of the “Distributable Cash Flow” from the project within ninety (90) days following the end of each calendar year, with respect to the preceding year. The entire amount of the outstanding principal, with the accrued interest at 1%, shall be due and payable in fifty-five (55) years from September 1, 2003. The outstanding balance as of June 30, 2017 is \$3,406,903. The fund financial statements reflect deferred revenue in the amount of \$3,406,903 to offset this note receivable, which includes interest. On the statement of net position the City has set up an allowance of \$3,406,903 as of June 30, 2017.

**NOTE 5 – LOANS AND NOTES RECEIVABLE (CONTINUED)**

On May 9, 2005, the former Redevelopment Agency Low and Moderate Income Housing Fund loaned Holtville Gardens, L.P. \$200,000 to aid in the development and construction of an 81-unit apartment complex located at 950 Holt Avenue in the city of Holtville. The terms of the loan call for Holtville Gardens to make annual payments in the amount of 50% of the Distributable Cash Flow” from the project within ninety (90) days following the end of each calendar year, with respect to the preceding year. The entire amount of the outstanding principal, with the accrued interest at 5%, shall be due and payable in full thirty (30) years from May 9, 2005. The outstanding balance as of June 30, 2017 was \$ 320,000.

Total program loans receivable outstanding at June 30, 2017 is \$5,979,286, and the fund financial statements reflect deferred inflows of resources of \$5,780,832 to offset the deferred portion of these loans receivable.

**NOTE 6 – PROPERTY TAXES**

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

**Property Valuations** - are established by the Assessor of the County of Imperial for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

**Tax Levies** - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

**Tax Levy Dates** - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends on June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

**Tax Collections** - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

**Tax Levy Apportionments** - Due to the nature of the City-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under state legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three years prior to fiscal year 1979.



**NOTE 6 – PROPERTY TAXES (CONTINUED)**

**Property Tax Administration Fees** - The State of California FY 90-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded net of administrative fees withheld during the fiscal year.

**NOTE 7 – DEFERRED INFLOWS OF RESOURCES**

At June 30, 2017, components of deferred inflows of resources – note receivable reported in the fund financial statements were \$859,628, \$4,601,204, and \$320,000 in the Community Development Block Grant Special Revenue Fund, Home Grant Special Revenue Fund, and Low/Mod Housing Special Revenue Fund, respectively.

**NOTE 8 – LONG-TERM DEBT**

**A. Governmental Activities**

**Settlement Agreement**

During the fiscal year 2016-17, the City entered into a settlement agreement with Barton Properties, Inc. (Barton). Due to a lawsuit against the City, the case was affirmed in favor of the City, except for an award of attorney fees and cost against the City. The settlement is in the amount of \$258,739 as of February 16, 2017. The terms of the settlement agreement call for the City to pay the Barton seven annual installments of \$53,052 at 7% interest, beginning fiscal year 2016-17 and ending fiscal year 2022-23.

The remaining annual settlement payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 50,660	\$ 2,392	\$ 53,052
2019	39,286	13,766	53,052
2020	41,883	11,169	53,052
2021	44,792	8,260	53,052
2022	47,950	5,102	53,052
2023	24,931	1,745	26,676
	<u>\$ 249,502</u>	<u>\$ 42,434</u>	<u>\$ 291,936</u>

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**B. Business-type Activities**

**1999 Water Revenue Refunding Bonds**

On February 1, 1999, the Holtville Financing Authority issued \$4,380,000 of 1999 Revenue Refunding Bonds for the purpose of enabling the Authority to defease the 1991 Revenue Bonds, to fund a reserve account for the bonds, and to pay bond issuance costs.

The bonds are payable from revenues consisting primarily of installment payments, which amounts are designed to be sufficient in both time and amount to pay, when due, the principal and interest payable with respect to the bonds. In the Installment Sale Agreement, the City covenants to fix, prescribe, revise, and collect rates, fees, and charges for the service and facilities furnished by the Water Enterprise during each fiscal year, which are at least sufficient to pay for all operation and maintenance costs of the Water Enterprise, the installment payments, and amounts required to restore the balance in the bond reserve account to its reserve requirement.

The 1999 Water Refunding Bonds are serviced by a lien on the gross revenues from water service charges and are not subject to the limit on bonded debt.

The refunding bond issue matures from December 1, 2002 to December 1, 2021 with interest rates from 3.75% to 5.00%. The future debt service requirements on the 1999 series Water Revenue Refunding Bonds are:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 250,000	\$ 62,500	\$ 312,500
2019	260,000	49,750	309,750
2020	275,000	36,375	311,375
2021	285,000	22,375	307,375
2022	305,000	7,625	312,625
	<u>\$ 1,375,000</u>	<u>\$ 178,625</u>	<u>\$1,553,625</u>

**2009A and 2009B Water Revenue Bonds (USDA)**

On July 1, 2009, the Holtville Public Financing Authority issued Water Revenue Bonds (USDA), Series A, in the amount of \$3,401,000 and Water Revenue Bonds (USDA), Series B, in the amount of \$833,000.

The bonds are payable from monies to be derived from installment payments, to be made by the City from net revenues of the water system, which amounts are designed to be sufficient in both time and amount to pay, when due, the principal and interest payable with respect to the bonds. In the Installment Sale Agreement, the City covenants to fix, prescribe, revise, and collect rates, fees, and charges for the service and facilities furnished by the Water Enterprise during each fiscal year, which are at least sufficient to pay for all operation and maintenance costs of the Water Enterprise and the installment payments.

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**B. Business-type Activities (Continued)**

**2009A and 2009B Water Revenue Bonds (USDA) (continued)**

The 2009A and 2009B Water Revenue Bonds are serviced by a lien on the gross revenues from water service charges and are not subject to the limit on bonded debt.

The 2009A bond issue matures each July 1 beginning in 2010 with final maturity in the fiscal year 2049. The interest rate is 4.25%. Future minimum debt service payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 45,000	\$ 132,188	\$ 177,188
2019	47,000	130,233	177,233
2020	49,000	128,193	177,193
2021	51,000	126,416	177,416
2022	53,000	123,857	176,857
2023-2027	303,000	582,839	885,839
2028-2032	372,000	511,418	883,418
2033-2037	459,000	423,545	882,545
2038-2042	566,000	314,695	880,695
2043-2047	696,000	180,951	876,951
2048-2050	492,000	31,913	523,913
	<u>\$ 3,133,000</u>	<u>\$2,686,248</u>	<u>\$5,819,248</u>

The 2009B bond issue matures each July 1 beginning in 2010 with final maturity in the fiscal year 2026. The interest rate is 2.625%. Future minimum debt service payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 14,000	\$ 3,448	\$ 17,448
2019	14,000	3,080	17,080
2020	15,000	2,699	17,699
2021	15,000	2,313	17,313
2022	16,000	1,899	17,899
2023-2026	64,399	3,313	67,712
	<u>\$ 138,399</u>	<u>\$ 16,752</u>	<u>\$ 155,151</u>

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**B. Business-type Activities (Continued)**

**2013 Sewer Revenue Bonds**

On December 9, 2013, the City issued \$4,500,000 of 2013 Sewer Revenue Bonds (USDA) for the purpose of refunding the 2003 Sewer Revenue Bonds and 2011 Subordinate Sewer Revenue Notes, to provide a portion of the financing cost of the Outfall Main Project, and pay the costs of issuance. The outstanding principal balance at June 30, 2017 is \$4,266,000.

The bonds are payable from monies to be derived from installment payments, to be made by the City from net revenues of the sewer system, which amounts are designed to be sufficient in both time and amount to pay, when due, the principal and interest payable with respect to the bonds. In the Installment Sale Agreement, the City covenants to fix, prescribe, revise, and collect rates, fees, and charges for the service and facilities furnished by the Sewer Enterprise during each fiscal year, which are at least sufficient to pay for all operation and maintenance costs of the Sewer Enterprise and the installment payments.

The 2013 Sewer Revenue Bonds are serviced by a lien on the gross revenues from sewer service charges and are not subject to the limit on bonded debt.

Interest on the 2013 Sewer Revenue Bonds is 2% and repayments commence December 1, 2014 with final maturity on December 1, 2052. Future minimum debt service payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 82,000	\$ 84,500	\$ 166,500
2019	83,500	82,845	166,345
2020	85,000	81,160	166,160
2021	87,000	79,440	166,440
2022	88,500	77,685	166,185
2023-2027	470,750	360,841	831,591
2028-2032	520,000	311,330	831,330
2033-2037	574,750	256,652	831,402
2038-2042	636,000	196,180	832,180
2043-2047	702,000	129,320	831,320
2048-2052	774,000	55,518	829,518
2053	162,500	1,625	164,125
	<u>\$4,266,000</u>	<u>\$1,717,096</u>	<u>\$5,983,096</u>

**CITY OF HOLTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2017

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**B.** The following is a summary of Long-Term Debt activity for the fiscal year ended June 30, 2017:

<b>Governmental activities</b>	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due in</u> <u>one year</u>
Compensated absences	\$ 60,498	\$ 28,684	\$ 37,178	\$ 52,004	\$ 23,402
Settlement agreement		258,739	9,237	249,502	50,660
Claims payable	<u>231,286</u>	<u>372,825</u>	<u>403,597</u>	<u>200,514</u>	
	<u>\$ 291,784</u>	<u>\$ 660,248</u>	<u>\$450,012</u>	<u>\$ 502,020</u>	<u>\$ 74,062</u>
<b>Business-type activities</b>					
Compensated absences	\$ 75,180	\$ 32,868	\$ (30,113)	\$ 77,935	\$ 7,793
1999 Water Revenue					
Refunding Bonds	1,615,000		240,000	1,375,000	250,000
2009A Water Revenue Bonds	3,176,000		43,000	3,133,000	45,000
2009B Water Revenue Bonds	152,399		14,000	138,399	14,000
2013 Sewer Revenue Bonds	<u>4,346,000</u>		<u>80,000</u>	<u>4,266,000</u>	<u>82,000</u>
	<u>\$9,364,579</u>	<u>\$ 32,868</u>	<u>\$346,887</u>	<u>\$ 8,990,334</u>	<u>\$ 398,793</u>

**NOTE 9 – INTERFUND TRANSACTIONS**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Normally, these balances occur as a result of expenditures/ expenses being paid prior to receiving revenue which causes a deficit in pooled cash.

**A. Due to/from other funds**

Receivables and payables between funds are classified as due from or due to other funds. Due from and due to other funds are usually a result of a shortfall of pooled cash within the respective fund.

	<u>Interfund</u> <u>Receivables</u>	<u>Interfund</u> <u>Payables</u>
Governmental Funds:		
Major Funds:		
General	\$ 589,330	\$ -
Local Transportation		589,330
Proprietary Funds:		
Major Funds:		
Sewer	64,472	
Solid Waste		64,472
	<u>\$ 653,802</u>	<u>\$ 653,802</u>

**NOTE 9 – INTERFUND TRANSACTIONS (CONTINUED)**

**B. Interfund transfers**

Transfers are indicative of funding for capital projects, lease payments or debt service, reimbursement of various City operations and re-allocations of special revenues.

Transfers for the fiscal year ended June 30, 2017 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
Major Funds:		
General	\$ 634,462	\$ 127,723
Community Development Block Grant	57,225	83,982
Home Grant	2,962	
Local Transit Authority		535,962
Local Transportation	404,219	
Nonmajor Funds:		
Gas Tax		125,000
Façade Improvement Program	2,661	
CDBG Grant Sewer Study	13,461	
Business Assistance Loan	7,677	
Proprietary Funds:		
Major Funds:		
Water		25,000
Sewer		225,000
	<u>\$ 1,122,667</u>	<u>\$ 1,122,667</u>

**NOTE 10 – SELF-FUNDED INSURANCE COVERAGE**

The City provides for workers' compensation and liability insurance through a self-funded joint powers agency, Public Entity Risk Management Authority (PERMA), formerly Coachella Valley Joint Powers Insurance Authority. The PERMA accounts are separately maintained for each participant. The City's share of retained earnings of the liability fund is \$0 and \$641,896 for the workers' compensation fund.

Summary financial information for the funds of the PERMA for the fiscal year ended June 30, 2017 is as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u>
Total assets	\$ 20,955,015	\$ 20,206,991
Total liabilities	19,102,419	6,778,152
Net position	1,852,596	13,428,839
Total revenues	3,032,529	6,039,003
Total expenditures	2,898,799	10,231,314
Net increase (decrease) in net position	133,730	(4,192,311)

**NOTE 10 – SELF-FUNDED INSURANCE COVERAGE (CONTINUED)**

Claims, expenditures, and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Those losses do include an estimate of claims that have been incurred but not reported. At June 30, 2017, the amount of these liabilities was \$200,514. This liability is the City's best estimate based on available information.

The separate financial statements of PERMA may be obtained by writing: PERMA, 77-670 Springfield Lane, Suite 1A, Palm Desert, CA, 92211, or phone (760) 360-3264.

**NOTE 11 – DEFERRED COMPENSATION PLAN**

The City of Holtville has a deferred compensation plan for its employees in accordance with Internal Revenue Code Section 457. Plan participation is available to substantially all employees and includes that portion of an employee's regular compensation designated by the employee for deferral up to a maximum of \$18,000 or one-third of a participant's annual compensation, whichever is lesser. The compensation which is deferred is not available to employees until termination, retirement, death, or unforeseeable emergency.

**NOTE 12 – PENSION TRUST FUND - RETIREMENT PLAN**

The City converted its Money Purchase Plan to a Profit Sharing Plan. The Plan is a "salary reduction plan" under Section 401(k) of the Internal Revenue Code.

The plan provides for mandatory employee contributions of 3 percent of compensation. The City's contributions are 10 percent of covered compensation. Employees are fully vested at 7 years of service.

**NOTE 13 – CONTINGENCIES AND COMMITMENTS**

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

The City is involved in pending lawsuits of a nature common to many similar jurisdictions. City management estimates the potential claims against the City, not covered by insurance, will be immaterial to the financial statements.

Proposition 218, which was approved by the voters in November 1996, will regulate the City's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by voters. Therefore, the City's ability to finance the services for which the taxes, assessments, and fees were imposed may be significantly impaired. At this time, it is uncertain how Proposition 218 will affect the City's ability to maintain or increase the revenue from taxes, assessments, and fees.

**NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY:**

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. This action impacted the reporting entity of the City of Holtville that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets units they are distributed to other units of state and local government. On January 9, 2012, the City elected to become the Successor Agency for the former Holtville Redevelopment Agency.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs that State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the state Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

On June 1, 2005, the former Redevelopment Agency loaned the 99 Cent Plus Center \$120,000. The terms of the loan call for the 99 Cent Plus Center to make monthly payments of \$1,013 for 15 years, with an interest rate of 6%. The outstanding balance as of June 30, 2017 was \$37,363.

As of June 30, 2017, the Successor Agency held land in the amount of \$437,894 which consisted of vacant land purchased in December 2007 that was originally intended to be sold for future development.

Accounting gains or losses resulting from advance refunding of long-term debt is deferred in accordance with GASB Statement No. 23 and No. 65. Deferred amount on bond refunding are amortized over the shorter of the life of the new debt or refunded debt. The deferred loss on refunding balance at June 30, 2017 was \$81,976 on the Statement of Net Position Arising from Cash Transactions for Private-Purpose Trust Fund related to the 2007 Tax Allocation Bonds.



**NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (CONTINUED):**

Long-term debt of the Successor Agency as of June 30, 2017, consisted of the following:

**2007 Tax Allocation Bonds - Former Community Development Agency Tax Allocation Bonds**

On October 31, 2007, the Redevelopment Agency issued Holtville Redevelopment Project Tax Allocation Bonds, Series 2007, in an amount of \$6,990,000.

The bonds were issued to (a) refund the 1993 Tax Allocation Bonds, (b) fund a reserve fund, and (c) pay certain costs in connection therewith.

The Bonds mature annually each November 1 from 2008 to 2037, in amounts ranging from \$125,000 to \$445,000 and bear interest at rates ranging from 4.00% to 5.40%. Interest is payable semi-annually on May 1 and November 1.

The Bonds maturing November 1, 2018 and thereafter are subject to redemption prior to their stated maturity, at the option of the Agency, as a whole or in part on any date, from any source of available funds on or after November 1, 2017 at the principal amount thereof plus accrued interest to the redemption date, without premium.

The Bonds maturing on November 1, 2027 and November 1, 2037 are subject to mandatory redemption by lot prior to maturity from mandatory sinking account installments on each November 1 at the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium. In lieu of mandatory sinking account redemption, the Indenture permits the purchase of Term Bonds on the open market. The par amount of Term Bonds so purchased by the Agency and surrendered to the Trustee for cancellation in any 12-month period ending thirty (30) days prior to any November 1 in any year shall be credited toward and shall reduce the principal amount of Bonds required to be redeemed on the following November 1.

Annual debt service requirements, to maturity, for the 2007 Tax Allocation Bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
June 30,			
2018	\$ 160,000	\$ 302,636	\$ 462,636
2019	165,000	295,038	460,038
2020	175,000	286,960	461,960
2021	185,000	278,228	463,228
2022	195,000	268,821	463,821
2023-2027	1,125,000	1,178,600	2,303,600
2028-2032	1,450,000	836,870	2,286,870
2033-2037	1,900,000	387,450	2,287,450
2038	445,000	12,015	457,015
	<u>\$ 5,800,000</u>	<u>\$ 3,846,618</u>	<u>\$ 9,646,618</u>

**CITY OF HOLTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2017

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**NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (CONTINUED):**

**2007 Tax Allocation Bonds - Former Community Development Agency Tax Allocation Bonds (Continued)**

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due in one year
2007 Tax Allocation Bonds	\$ 5,955,000	\$ -	\$ 155,000	\$ 5,800,000	\$ 160,000
	<u>\$ 5,955,000</u>	<u>\$ -</u>	<u>\$ 155,000</u>	<u>\$ 5,800,000</u>	<u>\$ 160,000</u>

**NOTE 15 – SUBSEQUENT EVENTS**

On September 25, 2017, the City Council approved a contract with The Holt Group, Inc. for design engineering and construction management services for the Citywide Pavement Rehabilitation Project, in the amount of \$54,510.

On November 6, 2017, the City Council approved a contract with Pyramid Construction Co., for construction services for the Ninth Street Improvement Project, in the amount of \$343,480.

On November 6, 2017, the City Council approved a contract with The Holt Group for Resident Engineering & Construction Management Services for the Ninth Street (Palm to Olive) Improvement Project, in the amount of \$57,425.

**NOTE 16 – FINANCIAL CONDITION**

The City’s business-type activities net position has a deficit of \$5,943,939 at June 30, 2017, which includes deficit net position of \$3,688,577 in the Water Fund, \$2,190,890 in the Sewer Fund, and \$64,472 in the Solid Waste Fund. As of June 30, 2017, the City’s General Fund had temporarily loaned \$589,330 to other funds that had negative cash balances as of June 30, 2017, and the Sewer Fund had temporarily loaned \$64,472 to the Solid Waste Fund which had negative cash as of June 30, 2017. Continued deficits and negative cash balances can result in a going concern and compliance issues with debt covenants. Additionally, future capital improvements and operations could be affected if continued deficits occur.

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**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF HOLTVILLE****SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID, AND CHANGES  
IN FUND BALANCE ARISING FROM CASH TRANSACTIONS - BUDGET AND ACTUAL  
GENERAL FUND**

For the Fiscal Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues Collected</b>				
Taxes:				
Secured and unsecured property taxes	\$ 109,700	\$ 109,700	\$ 140,735	\$ 31,035
Utility users taxes	451,250	451,250	456,527	5,277
Sales and use taxes	350,000	350,000	372,458	22,458
Franchise taxes	90,000	90,000	111,736	21,736
Other taxes	33,350	33,350	23,348	(10,002)
Licenses and permits	1,130	1,130	1,820	690
Fines and penalties	1,450	1,450	1,022	(428)
Investment revenue collected	8,250	8,250	14,219	5,969
Intergovernmental revenue collected	878,948	878,948	1,312,654	433,706
Charges for current services	69,568	69,568	59,703	(9,865)
Contributions from private-purpose trust fund	55,535	55,535	55,535	
Other revenues collected	40,000	40,000	53,750	13,750
Total revenues collected	2,089,181	2,089,181	2,603,507	514,326
<b>Expenditures Paid</b>				
General Government:				
City council	35,598	35,598	37,022	(1,424)
City manager	239,630	239,630	244,248	(4,618)
Planning	77,600	77,600	97,795	(20,195)
Engineering	25,000	25,000	4,390	20,610
City clerk	29,716	29,716	20,521	9,195
Finance office	162,976	162,976	143,494	19,482
City treasurer	1,946	1,946	1,946	
City attorney	72,000	72,000	32,081	39,919
Non-departmental	116,250	116,250	161,716	(45,466)
Total general government	760,716	760,716	743,213	17,503
Public Safety:				
Police department	892,836	892,836	886,656	6,180
Dispatch services	112,000	112,000	101,712	10,288
Animal control	21,566	21,566	18,240	3,326
Fire department	455,940	455,940	904,454	(448,514)
Total public safety	1,482,342	1,482,342	1,911,062	(428,720)

(Continued)

**CITY OF HOLTVILLE****SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID, AND CHANGES  
IN FUND BALANCE ARISING FROM CASH TRANSACTIONS - BUDGET AND ACTUAL  
GENERAL FUND**

For the Fiscal Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Expenditures Paid (continued)</b>				
Public Works:				
Street maintenance	\$ 161,955	\$ 161,955	\$ 300,153	\$ (138,198)
Parks maintenance	166,786	166,786	174,779	(7,993)
Building maintenance	70,382	70,382	83,801	(13,419)
Total public works	399,123	399,123	558,733	(159,610)
Total expenditures paid	2,642,181	2,642,181	3,213,008	(570,827)
Excess of revenues collected over (under) expenditures paid	(553,000)	(553,000)	(609,501)	(56,501)
<b>Other Financing Sources (Uses):</b>				
Transfers in	650,000	650,000	634,462	(15,538)
Transfers out			(127,723)	(127,723)
Total other financing sources (uses)	650,000	650,000	506,739	(143,261)
Net changes in fund balances	97,000	97,000	(102,762)	(199,762)
Fund balance - July 1, 2016	1,640,518	1,640,518	1,640,518	
Fund balance - June 30, 2017	\$ 1,737,518	\$ 1,737,518	\$ 1,537,756	\$ (199,762)

**CITY OF HOLTVILLE****SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID, AND CHANGES  
IN FUND BALANCE ARISING FROM CASH TRANSACTIONS - BUDGET AND ACTUAL  
LOCAL TRANSIT AUTHORITY SPECIAL REVENUE FUND  
For the Fiscal Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues Collected:</b>				
Investment earnings	\$ 250	\$ 250	\$ 1,087	\$ 837
Intergovernmental	468,750	468,750	675,266	206,516
Total revenues collected	469,000	469,000	676,353	207,353
<b>Expenditures Paid:</b>				
Capital outlay	404,000	404,000		404,000
Total expenditures paid	404,000	404,000		404,000
Excess of revenues collected over (under) expenditures paid	65,000	65,000	676,353	611,353
<b>Other Financing Sources (Uses):</b>				
Transfers out	(125,000)	(125,000)	(535,962)	(410,962)
Total other financing sources (uses)	(125,000)	(125,000)	(535,962)	(410,962)
Net change in fund balance	(60,000)	(60,000)	140,391	200,391
Fund balance, July 1, 2016	881,060	881,060	881,060	
Fund balance, June 30, 2017	\$ 821,060	\$ 821,060	\$ 1,021,451	\$ 200,391

**CITY OF HOLTVILLE****SCHEDULE OF REVENUES COLLECTED, EXPENDITURES PAID, AND CHANGES  
IN FUND BALANCE ARISING FROM CASH TRANSACTIONS - BUDGET AND ACTUAL  
LOCAL TRANSPORTATION FUND  
For the Fiscal Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues Collected:</b>				
Intergovernmental	\$ 2,028,000	\$ 2,028,000	\$ 759,630	\$ (1,268,370)
Other revenues collected			330	330
Total revenues collected	<u>2,028,000</u>	<u>2,028,000</u>	<u>759,960</u>	<u>(1,268,040)</u>
<b>Expenditures Paid:</b>				
Capital outlay	<u>1,675,000</u>	<u>1,675,000</u>	<u>1,401,200</u>	<u>273,800</u>
Total expenditures paid	<u>1,675,000</u>	<u>1,675,000</u>	<u>1,401,200</u>	<u>273,800</u>
Excess of revenues collected over (under) expenditures paid	<u>353,000</u>	<u>353,000</u>	<u>(641,240)</u>	<u>(994,240)</u>
Net change in fund balance	353,000	353,000	(237,021)	(590,021)
Fund balance (deficit), July 1, 2016	<u>(352,309)</u>	<u>(352,309)</u>	<u>(352,309)</u>	
Fund balance (deficit), June 30, 2017	<u>\$ 691</u>	<u>\$ 691</u>	<u>\$ (589,330)</u>	<u>\$ (590,021)</u>



**OTHER SUPPLEMENTAL INFORMATION**

**CITY OF HOLTVILLE**  
**COMBINING STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES**  
**ARISING FROM CASH TRANSACTIONS - NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2017**

	Special Revenue Funds			
	Gas Tax Fund	Bikepath Fund	Façade Improvement Program Fund	CDBG Grant Sewer Study Fund
<b>ASSETS</b>				
Cash and investments	\$ 407,132	\$ 13,680	\$ -	\$ -
Notes receivable				
<b>Total assets</b>	<b>\$ 407,132</b>	<b>\$ 13,680</b>	<b>\$ -</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Deferred revenue	\$ -	\$ -	\$ -	\$ -
<b>Total liabilities</b>				
Fund Balances:				
Restricted	407,132	13,680		
<b>Total fund balances</b>	<b>407,132</b>	<b>13,680</b>		
<b>Total liabilities and fund balances</b>	<b>\$ 407,132</b>	<b>\$ 13,680</b>	<b>\$ -</b>	<b>\$ -</b>

Special Revenue Funds		
Business Assistance Loan Fund	Low/Mod Housing Fund	Totals
\$ -	\$ -	\$ 420,812
	320,000	320,000
<u>\$ -</u>	<u>\$ 320,000</u>	<u>\$ 740,812</u>
\$ -	\$ 320,000	\$ 320,000
	320,000	320,000
		420,812
		420,812
<u>\$ -</u>	<u>\$ 320,000</u>	<u>\$ 740,812</u>

**CITY OF HOLTVILLE**

COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,  
AND CHANGES IN FUND BALANCES ARISING FROM CASH  
TRANSACTIONS - NON-MAJOR GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2017

	Special Revenue Funds			
	Gas Tax Fund	Bikepath Fund	Façade Improvement Program Fund	CDBG Grant Sewer Study Fund
<b>Revenues Collected:</b>				
Taxes and other assessments	\$ 118,846	\$ -	\$ -	\$ -
Investment earnings	687			
Total revenues collected	119,533			
<b>Expenditures Paid:</b>				
Public safety		10,668		
Capital outlay		2,222		
Total expenditures paid		12,890		
Excess of revenues collected over (under) expenditures paid	119,533	(12,890)		
<b>Other Financing Sources (Uses):</b>				
Transfers in			2,661	13,461
Transfers out	(125,000)			
Total other financing sources (uses)	(125,000)		2,661	13,461
Net changes in fund balances	(5,467)	(12,890)	2,661	13,461
Fund balances (deficit), July 1, 2016	412,599	26,570	(2,661)	(13,461)
Fund balances, June 30, 2017	\$ 407,132	\$ 13,680	\$ -	\$ -

<u>Special Revenue Funds</u>		
<u>Business Assistance Loan Fund</u>	<u>Low/Mod Housing Fund</u>	<u>Totals</u>
\$ -	\$ -	\$ 118,846
		687
		119,533
		10,668
		2,222
		12,890
		106,643
7,677		23,799
		(125,000)
7,677		(101,201)
7,677		5,442
(7,677)		415,370
\$ -	\$ -	\$ 420,812

**CITY OF HOLTVILLE**

**STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID, AND CHANGES  
IN FUND BALANCE ARISING FROM CASH TRANSACTIONS - BUDGET AND ACTUAL  
GAS TAX FUND**

For the Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues Collected:</b>			
Taxes and other assessments	\$ 146,257	\$ 118,846	\$ (27,411)
Investment earnings	800	687	(113)
	<u>147,057</u>	<u>119,533</u>	<u>(27,524)</u>
<b>Total revenues collected</b>			
	<u>147,057</u>	<u>119,533</u>	<u>(27,524)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers out	(150,000)	(125,000)	25,000
	<u>(150,000)</u>	<u>(125,000)</u>	<u>25,000</u>
<b>Total other financing sources (uses)</b>			
	<u>(150,000)</u>	<u>(125,000)</u>	<u>25,000</u>
<b>Net change in fund balance</b>	(2,943)	(5,467)	(2,524)
Fund balance, July 1, 2016	412,599	412,599	
Fund balance, June 30, 2017	<u>\$ 409,656</u>	<u>\$ 407,132</u>	<u>\$ (2,524)</u>

**CITY OF HOLTVILLE**

**STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID, AND CHANGES  
IN FUND BALANCE ARISING FROM CASH TRANSACTIONS - BUDGET AND ACTUAL  
BIKEPATH FUND**

For the Fiscal Year Ended June 30, 2017

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	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues Collected:</b>			
Intergovernmental	\$ 10,000	\$ -	\$ (10,000)
Total revenues collected	10,000		(10,000)
Net change in fund balance	10,000		(10,000)
Fund balance, July 1, 2016	26,570	26,570	
Fund balance, June 30, 2017	<u>\$ 36,570</u>	<u>\$ 26,570</u>	<u>\$ (10,000)</u>