

**CITY OF CANYON LAKE,
CALIFORNIA**

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2021

City of Canyon Lake
Annual Financial Report
June 30, 2021
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Canyon Lake, California

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Canyon Lake, California, (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 Canyon Lake, California, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the date of the financial statements.



To the Honorable Mayor and Members of the City Council
City of Canyon Lake, California

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with the GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Responsibilities

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules for the general fund and gas tax special revenue fund, the schedule of proportionate share of the net pension liability, the schedule of plan contributions, and the schedule of changes in Total OPEB liability and related ratios, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



To the Honorable Mayor and Members of the City Council
City of Canyon Lake, California

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Lance, Soll & Lughard, LLP

Brea, California
February 21, 2022

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Management's Discussion and Analysis

As management of the City of Canyon Lake, California (City), we are pleased to offer to the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2021.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the end of fiscal year 2021 by \$13,104,567. The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources is referred to as net position.
- The City's total net position increased by \$737,595 during fiscal year 2020-2021.
- As of June 30, 2021, the City's governmental funds reported combined fund balances of \$8,500,071, an increase of \$2,348,496 from the prior fiscal year, and \$5,534,169 of the governmental funds' fund balances are assigned and unassigned.
- As of June 30, 2021, assigned and unassigned fund balances for the General Fund was \$5,195,552 or 84.1 percent of total General Fund expenditures.
- The City's total debt for governmental activities increased by \$981,583 due to entering into two capital leases for the purchase of two fire trucks. The unfunded pension liability of \$458,117 and the unfunded OPEB liability of \$390,084 are included in these financial statements. For the business-type activities the City's debt increased by \$390,000 with a new loan from Citizens Business Bank for the purchase of a building.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Canyon Lake's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner that is similar to a private-sector business.

Government-wide financial statements include a statement of net position and a statement of activities. The statement of net position presents information on all of the City's assets, deferred outflows of resources and liabilities, and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases may provide a useful indicator on whether the financial position of the City is improving or deteriorating.

The *statement of activities* provides information showing how the City's net position changed during the most recent fiscal year. These changes are reported using the full accrual basis of accounting that is when the economic event occurs, rather than when cash is received or paid. Under this basis of accounting, revenues and expenses are reported in the statement for some items that will only result in future cash inflows or outflows such as vacation earned but not paid and uncollected taxes.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, economic development, building and planning, animal control, and public works. The business-type activities of the City include rental activities.

The government-wide financial statements can be found on pages 14 - 16 of this report.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Gas Tax Special Revenue Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund, Special Revenue Funds, and Capital Projects Fund. A budgetary comparison statement has been provided for the General Fund and Major Special Revenue Gas Tax Fund in order to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 17 - 20 of this report.

Proprietary Funds: The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for rental activities of a City-owned building.

Proprietary funds provide the same kind of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the City's rental activities, which is considered a major fund of the City.

The basic proprietary fund financial statements can be found on pages 21 – 23 of this report.

Fiduciary funds: *Fiduciary funds* are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the basic financial statements: The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 26 - 56 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI), as listed on the Table of Contents and which can be found on pages 57 - 61.

Combining statements for nonmajor governmental funds are presented immediately following the required supplementary information and can be found on pages 62 - 66 of this report.

Government-wide financial analysis

As noted earlier, net position may, over time, serve as a useful indicator of the City's financial position. For the fiscal year ended June 30, 2021, the City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$13,104,567 as summarized below:

Statement of Net position

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|-----------------|----------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Assets: | | | | | | |
| Current and other assets | \$ 9,599,646 | \$ 7,159,493 | \$ 902,395 | \$ 504,832 | \$ 10,502,041 | \$ 7,664,325 |
| Capital assets (net of depreciation) | 6,230,087 | 6,748,698 | - | - | 6,230,087 | 6,748,698 |
| Total assets | <u>15,829,733</u> | <u>13,908,191</u> | <u>902,395</u> | <u>504,832</u> | <u>16,732,128</u> | <u>14,413,023</u> |
| Deferred outflows of resources: | | | | | | |
| Pension related items | 145,549 | 135,739 | - | - | 145,549 | 135,739 |
| OPEB related | 154,214 | 160,096 | - | - | 154,214 | 160,096 |
| | <u>299,763</u> | <u>295,835</u> | <u>-</u> | <u>-</u> | <u>299,763</u> | <u>295,835</u> |
| Liabilities: | | | | | | |
| Current and other liabilities | 1,231,563 | 1,025,462 | 893,905 | 240 | 2,125,468 | 1,025,702 |
| Long-term liabilities | 1,743,579 | 733,509 | - | 500,000 | 1,743,579 | 1,233,509 |
| Total liabilities | <u>2,975,142</u> | <u>1,758,971</u> | <u>893,905</u> | <u>500,240</u> | <u>3,869,047</u> | <u>2,259,211</u> |
| Deferred inflows of resources: | | | | | | |
| Pension related items | 9,533 | 30,806 | - | - | 9,533 | 30,806 |
| OPEB related | 48,744 | 51,869 | - | - | 48,744 | 51,869 |
| | <u>58,277</u> | <u>82,675</u> | <u>-</u> | <u>-</u> | <u>58,277</u> | <u>82,675</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 6,230,087 | 6,748,698 | - | - | 6,230,087 | 6,748,698 |
| Restricted | 2,239,194 | 1,751,534 | - | - | 2,239,194 | 1,751,534 |
| Unrestricted | 4,626,796 | 3,862,148 | 8,490 | 4,592 | 4,635,286 | 3,866,740 |
| Total net position | <u>\$ 13,096,077</u> | <u>\$ 12,362,380</u> | <u>\$ 8,490</u> | <u>\$ 4,592</u> | <u>\$ 13,104,567</u> | <u>\$ 12,366,972</u> |

The City's net position only include infrastructure assets such as roads, streets, lighting systems, drainage systems, bridges, etc. that were added in the fiscal years ending June 30, 2004 through 2021. Historically, the City has not recorded these assets. Under GASB 34, the City has elected not to retroactively include the value of major infrastructure assets in the statement of net position.

Excluding the unknown value of infrastructure assets, net investment in capital assets represents 47.5 percent of the City's net position. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the City's net position, \$2,239,194 or 17.1 percent, represent resources that are subject to restrictions on how they may be used. The remaining balance, (unrestricted net position), is \$4,635,286.

Statement of Activities: The statement of activities shows how the City's net position changed during the fiscal years 2020-21 and 2019-20. Provided below is a summary of changes in net position.

Statement of Changes in Net position

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|-------------------------|----------------------|--------------------------|-----------------|----------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 1,384,889 | \$ 438,738 | \$ 75,565 | \$ 17,915 | \$ 1,460,454 | \$ 456,653 |
| Operating grants and contributions | 1,050,641 | 857,731 | - | - | 1,050,641 | 857,731 |
| General revenues | 5,528,903 | 5,046,809 | - | 1,742 | 5,528,903 | 5,048,551 |
| Total revenues | <u>7,964,433</u> | <u>6,343,278</u> | <u>75,565</u> | <u>19,657</u> | <u>8,039,998</u> | <u>6,362,935</u> |
| Expenses: | | | | | | |
| General government | 1,624,643 | 1,232,932 | - | - | 1,624,643 | 1,232,932 |
| Public safety | 3,960,529 | 4,268,744 | - | - | 3,960,529 | 4,268,744 |
| Public works | 1,054,144 | 915,811 | - | - | 1,054,144 | 915,811 |
| Community development | 591,420 | 422,764 | - | - | 591,420 | 422,764 |
| Rental activities | - | - | 54,344 | 15,065 | 54,344 | 15,065 |
| Interest on long-term debt | - | 27 | 17,323 | - | 17,323 | 27 |
| Total expenses | <u>7,230,736</u> | <u>6,840,278</u> | <u>71,667</u> | <u>15,065</u> | <u>7,302,403</u> | <u>6,855,343</u> |
| Change in net position | 733,697 | (497,000) | 3,898 | 4,592 | 737,595 | (492,408) |
| Net position - beginning | 12,362,380 | 12,859,380 | 4,592 | - | 12,366,972 | 12,859,380 |
| Net position - ending | <u>\$ 13,096,077</u> | <u>\$ 12,362,380</u> | <u>\$ 8,490</u> | <u>\$ 4,592</u> | <u>\$ 13,104,567</u> | <u>\$ 12,366,972</u> |

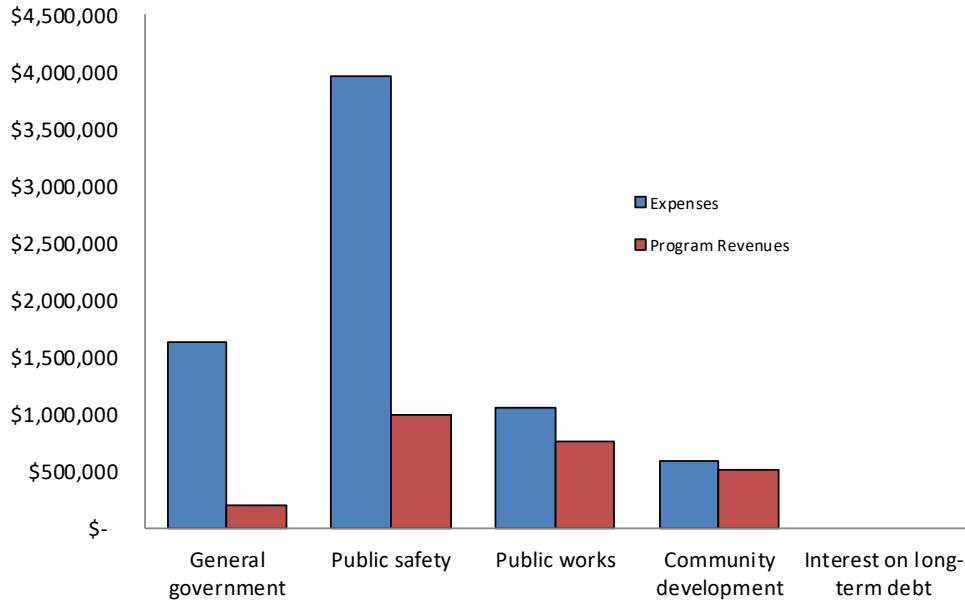
The City's net position increased overall by \$737,595 during the current fiscal year. The reason for the increase is explained in the governmental activities discussion below.

Governmental activities: Net position from governmental activities assets increased by \$733,697. Key elements of the increase are as follows:

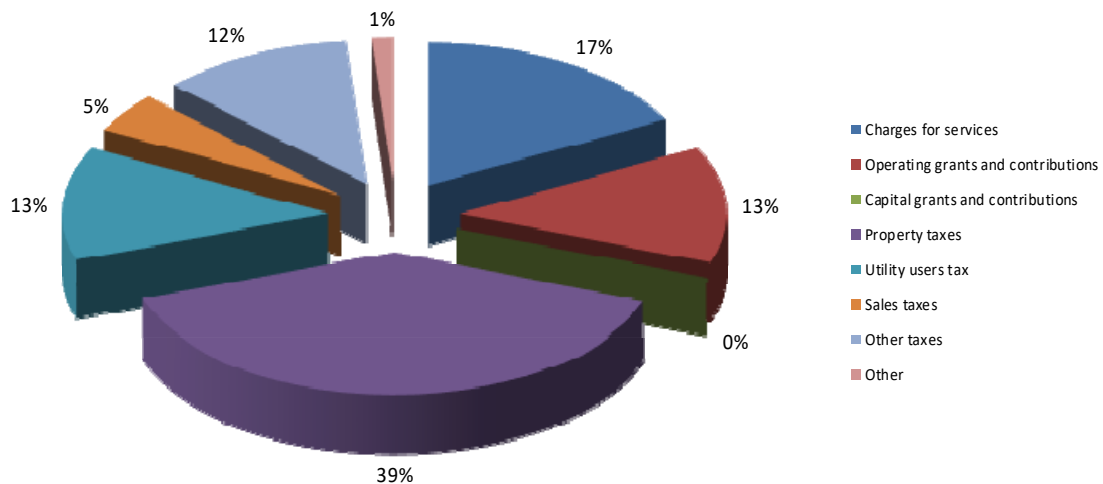
- General Fund revenues over the expenditures of \$879,253.
- Gas Tax Fund revenues over expenditures of \$288,034.
- Non-major governmental funds revenues over expenditures of \$199,626.
- Governmental expenditures reduced by capital asset purchases of \$79,591.
- Offset by depreciation expense of \$598,202.

The charts below provide graphic representation of the City's expenses compared to program revenues by function and its revenue by source.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



The governmental activities expenses and program revenues chart is designed to reflect expenses associated with each City function and the revenues that are directly attributable to each function. It is important to note that general revenues such as property, sales and other taxes are not directly attributable to specific functions and are therefore used to support program activities citywide. Regarding the revenues by source chart, it shows that 39 percent of governmental activities revenues came from property tax revenue.

Business-type activities: For the City's business-type activities, the results for the current fiscal year were positive. Overall net position increased to an ending balance of \$8,490. The Rental Fund accounts for the activity of a City-owned building. The total increase in net position for business-type activities was \$3,898.

Financial Analysis of City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds: The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. Please refer to pages 17 - 20 for more detail on governmental funds.

As of June 30, 2021, the City's governmental funds reported combined ending fund balances of \$8,500,071, an increase of \$2,348,496 in comparison with the prior year. Of the \$8,500,071, \$5,534,169 or 65.1 percent constitutes assigned and unassigned fund balance. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending or constraints are placed on the use of resources, respectively. The increase in governmental fund balance is due to an increase in the fund balance of the General Fund of \$1,860,836, an increase in the Gas Tax Fund of \$288,034 and an increase of non-major governmental funds of \$199,626. For the General Fund this is an increase of \$2,278,662 from the last fiscal year's decrease of \$417,826. General Fund revenues of \$7,056,204 were up \$1,576,029 over the prior year amount of \$5,480,175. The major components of the increase are, Property Taxes increased \$166,979 due to higher assessed values, Utility Users Tax increased \$77,494 due to more people at home, Building Permit Fees increased \$69,800 due to increased activity, Real Property Transfer tax increased \$50,990 due to higher home values, Franchise Fees increased \$241,747 due to a revised Franchise Agreement for the City's waste hauler and new revenues the EMS Subscription program of \$792,067 and Residential Rental Program of \$59,560 and Federal Funds of \$135,818 for the CARES Act funds. These were offset by a decrease in interest income of \$57,017. The City entered into two capital leases for the purchase of two fire trucks and has reported \$981,583 in other financing sources, proceeds from the issuance of long-term debt. General Fund expenditures of \$6,176,951 were up \$263,950 from the prior year amount of \$5,913,001. The major components of this are an increase in salaries and benefits in the City Managers Department for a new position and staff salary increases, Building Department costs increased by \$52,066 due to changes in the fee structure as the result of a new contract with a service provider and additional activity, the City Attorney's Department costs increased by \$67,031 due to litigation and additional services, the Planning Department costs increased \$108,581 for Housing Element, Specific Plan and Safety Plan. These increases were offset by decreases in expenditures for the Fire Department of \$277,215, costs billed by the County were less for various reasons. The increase in the Gas Tax Fund is revenues of \$450,594 were greater than expenditures of \$162,560.

General Fund Financial and Budgetary Highlights

The General Fund is the chief operating fund of the City. On June 30, 2021, unassigned fund balance was \$5,120,552. As a measure of the General Fund's financial condition, it may be useful to compare the unassigned fund balance to total expenditures. Unassigned fund balance represents 82.9 percent of General Fund expenditures. For the fiscal year, the General Fund's fund balance increased \$1,860,836 from the prior year. The differences between the General Fund budget and actual are summarized below:

- General Fund actual revenues were above budget by \$265,359 mainly due to higher than anticipated property taxes, sales tax, licenses and permits and investment income.
- Actual expenditures were \$1,487,636 less than the final budgeted amount of \$7,664,587, with police fire protection services being lower than anticipated and community development costs being higher than expected due to a change in the contract of the planning and building vendor.

Capital Assets and Debt Administration

Capital Assets: City investment in capital assets for its governmental type activities as of June 30, 2021, amounted to \$6,230,087 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery/vehicles and infrastructure assets.

Capital assets events during the current fiscal year included the following:

- Purchase of office equipment \$16,800.
- Purchase of two HVAC Systems \$17,650.

Additional information on the City's capital assets can be found on page 40 in the notes to the basic financial statements and a summary is provided below.

City of Canyon Lake Capital Assets (net of depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|-------------------------|---------------------|--------------------------|-------------|---------------------|---------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Land | \$ 130,000 | \$ 130,000 | \$ - | \$ - | \$ 130,000 | \$ 130,000 |
| Building and improvements | 380,360 | 394,787 | - | - | 380,360 | 394,787 |
| Machinery, equipment and vehicles | 240,731 | 199,889 | - | - | 240,731 | 199,889 |
| Infrastructure | 5,478,996 | 6,024,022 | - | - | 5,478,996 | 6,024,022 |
| Total | <u>\$ 6,230,087</u> | <u>\$ 6,748,698</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,230,087</u> | <u>\$ 6,748,698</u> |

Long-term liabilities: At the end of fiscal year 2021, the City's total long-term liabilities outstanding was \$1,910,067. This amount was comprised of a \$890,000 loan from Citizens Business Bank which is secured by the City investments held by Citizens Business Bank, \$38,484 in compensated absences and two vehicle leases with PNC Bank of \$981,583.

Outstanding long-term liabilities of the City is summarized below, and additional information can be found on pages 40 - 42 in the notes to basic financial statements.

**City of Canyon Lake
Outstanding Long-Term Liabilities**

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------|-------------------------|------------------|--------------------------|-------------------|---------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Compensated absences | \$ 38,484 | \$ 35,088 | \$ - | \$ - | \$ 38,484 | \$ 35,088 |
| PNC Equipment Lease | 719,663 | - | - | - | 719,663 | - |
| PNC Equipment Lease | 261,920 | - | - | - | 261,920 | - |
| Loan payable CBB | - | - | 890,000 | 500,000 | 890,000 | 500,000 |
| Total long-term liabilities | <u>\$ 1,020,067</u> | <u>\$ 35,088</u> | <u>\$ 890,000</u> | <u>\$ 500,000</u> | <u>\$ 1,910,067</u> | <u>\$ 535,088</u> |

Pension Plan Obligations

The City implemented GASB Statement No. 68 during fiscal year 2014-15 which resulted in an ending net pension liability of \$233,356 at June 30, 2015, \$228,126 at June 30, 2016, \$319,581 at June 30, 2017, \$380,550 at June 30, 2018, \$375,028 at June 30, 2019, \$417,619 at June 30, 2020 and \$458,117 at June 30, 2021. Additional information can be found on pages 42 - 49 in the notes to the basic financial statements.

The City implemented GASB Statement No. 75 during fiscal year 2017-18 which resulted in an ending total OPEB liability of \$134,345 at June 30, 2018, \$164,664 at June 30, 2019, \$298,346 at June 30, 2020 and \$390,084 at June 30, 2021. Additional information can be found on pages 50 - 52 in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

In preparing the budget for fiscal year 2021-22, management was conservative in its projections for revenues and budgeted increases in public safety costs as dictated by the police and fire contracts.

The Operating Budget for fiscal year 2021-22 anticipates having a deficit of \$572,116 for the General Fund.

- Anticipated General Fund Revenues of \$6,878,700, an increase of \$404,600 from the previous year due to projected increases in property taxes, utility users tax, construction and building permit fees.
- Proposed General Fund Expenditures of \$7,450,816, an increase of \$1,126,546 over the previous year, due to increased costs in personnel for the raises for City employees and due to the costs associated with the City starting its own Fire Department effective January 1, 2022, which included \$312,720 in startup costs and \$422,750 in new equipment.

Detailed information about the economic analysis, revenue assumptions, and other budgetary process parameters utilized in the annual budget preparation, can be obtained from the City's 2021-22 Budget which is available at City Hall.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the City Clerk, City of Canyon Lake, 31516 Railroad Canyon Road, Canyon Lake, California 92587, or call (951) 244-2955.

**City of Canyon Lake
Statement of Net Position
June 30, 2021**

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and investments | \$ 7,858,873 | \$ 21,547 | \$ 7,880,420 |
| Restricted cash for capital lease | 261,922 | - | 261,922 |
| Investments in real estate | - | 1,127,239 | 1,127,239 |
| Receivables: | | | |
| Accounts | 210,436 | - | 210,436 |
| Interest | 9,220 | - | 9,220 |
| Intergovernmental | 286,096 | - | 286,096 |
| Prepaid items | 726,708 | - | 726,708 |
| Internal balances | 246,391 | (246,391) | - |
| Capital assets, net of accumulated depreciation | 6,230,087 | - | 6,230,087 |
| Total assets | <u>15,829,733</u> | <u>902,395</u> | <u>16,732,128</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related items | 145,549 | - | 145,549 |
| OPEB related items | 154,214 | - | 154,214 |
| | <u>299,763</u> | <u>-</u> | <u>299,763</u> |
| LIABILITIES | | | |
| Accounts payable | 1,069,575 | 2,731 | 1,072,306 |
| Accrued interest payable | 7,299 | 1,174 | 8,473 |
| Deposits payable | 30,000 | - | 30,000 |
| Compensated absences, due within one year | 26,939 | - | 26,939 |
| Capital lease payable, due within one year | 97,750 | - | 97,750 |
| Notes payable, due within one year | - | 890,000 | 890,000 |
| Noncurrent liabilities: | | | |
| Compensated absences | 11,545 | - | 11,545 |
| Capital lease payable | 883,833 | - | 883,833 |
| Total OPEB liability | 390,084 | - | 390,084 |
| Net pension liability | 458,117 | - | 458,117 |
| Total liabilities | <u>2,975,142</u> | <u>893,905</u> | <u>3,869,047</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related items | 9,533 | - | 9,533 |
| OPEB related items | 48,744 | - | 48,744 |
| | <u>58,277</u> | <u>-</u> | <u>58,277</u> |
| NET POSITION | | | |
| Net investment in capital assets | 6,230,087 | - | 6,230,087 |
| Restricted: | | | |
| Public works | 2,201,419 | - | 2,201,419 |
| Public safety | 21,957 | - | 21,957 |
| Equipment | 15,818 | - | 15,818 |
| Unrestricted | 4,626,796 | 8,490 | 4,635,286 |
| Total net position | <u>\$ 13,096,077</u> | <u>\$ 8,490</u> | <u>\$ 13,104,567</u> |

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Statement of Activities
For the Fiscal Year Ended June 30, 2021**

| | Program Revenues | | | |
|--------------------------------|------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| General government | \$ 1,624,643 | \$ 47,825 | \$ 142,412 | \$ - |
| Public safety | 3,960,529 | 827,060 | 156,727 | - |
| Public works | 1,054,144 | - | 751,502 | - |
| Community development | 591,420 | 510,004 | - | - |
| Total governmental activities | 7,230,736 | 1,384,889 | 1,050,641 | - |
| Business-type activities: | | | | |
| Rental | 54,344 | 75,565 | - | - |
| Interest on long-term debt | 17,323 | - | - | - |
| Total business-type activities | 71,667 | 75,565 | - | - |
| Total Primary Government | \$ 7,302,403 | \$ 1,460,454 | \$ 1,050,641 | \$ - |

General revenues:

Taxes:

 Property tax, levied for general purpose

 Utility users tax

 Transient occupancy tax

 Franchise tax

 Sales tax

 Other taxes

Use of money and property

Other

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue
and Changes in Net Position

| <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|----------------------|
| \$ (1,434,406) | \$ - | \$ (1,434,406) |
| (2,976,742) | - | (2,976,742) |
| (302,642) | - | (302,642) |
| (81,416) | - | (81,416) |
| <u>(4,795,206)</u> | <u>-</u> | <u>(4,795,206)</u> |
| - | 21,221 | 21,221 |
| <u>-</u> | <u>(17,323)</u> | <u>(17,323)</u> |
| <u>-</u> | <u>3,898</u> | <u>3,898</u> |
| <u>(4,795,206)</u> | <u>3,898</u> | <u>(4,791,308)</u> |
| 3,117,619 | - | 3,117,619 |
| 1,023,300 | - | 1,023,300 |
| 66,634 | - | 66,634 |
| 584,976 | - | 584,976 |
| 361,485 | - | 361,485 |
| 275,797 | - | 275,797 |
| (1,526) | - | (1,526) |
| 100,618 | - | 100,618 |
| <u>5,528,903</u> | <u>-</u> | <u>5,528,903</u> |
| 733,697 | 3,898 | 737,595 |
| <u>12,362,380</u> | <u>4,592</u> | <u>12,366,972</u> |
| <u>\$ 13,096,077</u> | <u>\$ 8,490</u> | <u>\$ 13,104,567</u> |

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Balance Sheet
Governmental Funds
June 30, 2021**

| | General | Special Revenue Gas Tax Fund | Total Non-major Governmental Funds | Total Governmental Funds |
|--|----------------------------|---------------------------------------|---|--------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 5,390,088 | \$ 1,176,307 | \$ 1,292,478 | \$ 7,858,873 |
| Receivables: | | | | |
| Accounts | 210,436 | - | - | 210,436 |
| Interest | 9,220 | - | - | 9,220 |
| Intergovernmental | 173,226 | 37,161 | 75,709 | 286,096 |
| Prepaid items | 726,708 | - | - | 726,708 |
| Due from other funds | 246,391 | - | - | 246,391 |
| Restricted cash for capital lease | 261,922 | - | - | 261,922 |
| Total assets | <u>\$ 7,017,991</u> | <u>\$ 1,213,468</u> | <u>\$ 1,368,187</u> | <u>\$ 9,599,646</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,065,731 | \$ 3,844 | \$ - | \$ 1,069,575 |
| Deposits | 30,000 | - | - | 30,000 |
| Total liabilities | <u>1,095,731</u> | <u>3,844</u> | <u>-</u> | <u>1,099,575</u> |
| Fund Balances: | | | | |
| Nonspendable | 726,708 | - | - | 726,708 |
| Restricted | - | 1,209,624 | 1,029,570 | 2,239,194 |
| Assigned | 75,000 | - | 338,617 | 413,617 |
| Unassigned | 5,120,552 | - | - | 5,120,552 |
| Total fund balances | <u>5,922,260</u> | <u>1,209,624</u> | <u>1,368,187</u> | <u>8,500,071</u> |
| Total liabilities and fund balances | <u>\$ 7,017,991</u> | <u>\$ 1,213,468</u> | <u>\$ 1,368,187</u> | <u>\$ 9,599,646</u> |

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2021**

| | | |
|---|-------------|---------------|
| Fund balances of governmental funds | | \$ 8,500,071 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 6,230,087 |
| Deferred outflow of resources relate to: | | |
| Pension related deferred outflows of resources | | 145,549 |
| OPEB related deferred outflows of resources | | 154,214 |
| Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds. Therefore, interest payable is not reported as a liability in governmental funds. | | (7,299) |
| Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the statement of net position. | | |
| Balances at June 30, are: | | |
| Compensated absences | \$ (38,484) | |
| Capital lease payable | (981,583) | |
| Total OPEB liability | (390,084) | |
| Net pension liability | (458,117) | (1,868,268) |
| Deferred inflows of resources relate to: | | |
| Pension related deferred outflows of resources | | (9,533) |
| OPEB related deferred outflows of resources | | (48,744) |
| Net position of governmental activities | | \$ 13,096,077 |

The accompanying notes are an integral part of these financial statements

City of Canyon Lake
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2021

| | General | Special Revenue Gas Tax Fund | Total Non-major Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------------------------|---|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 5,310,487 | \$ - | \$ - | \$ 5,310,487 |
| Licenses and permits | 1,443,205 | - | - | 1,443,205 |
| Fines and forfeitures | 33,245 | - | - | 33,245 |
| Intergovernmental | 150,479 | 450,913 | 457,873 | 1,059,265 |
| Use of money and property | 46,299 | (319) | (238) | 45,742 |
| Other | 72,489 | - | - | 72,489 |
| Total revenues | <u>7,056,204</u> | <u>450,594</u> | <u>457,635</u> | <u>7,964,433</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,489,630 | - | - | 1,489,630 |
| Public safety | 3,937,209 | - | - | 3,937,209 |
| Public works | 87,110 | 162,560 | 250,000 | 499,670 |
| Community development | 583,411 | - | 8,009 | 591,420 |
| Capital outlay | 79,591 | - | - | 79,591 |
| Total expenditures | <u>6,176,951</u> | <u>162,560</u> | <u>258,009</u> | <u>6,597,520</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>879,253</u> | <u>288,034</u> | <u>199,626</u> | <u>1,366,913</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of long-term debt issued | 981,583 | - | - | 981,583 |
| Total other financing sources | <u>981,583</u> | <u>-</u> | <u>-</u> | <u>981,583</u> |
| Net change in fund balances | 1,860,836 | 288,034 | 199,626 | 2,348,496 |
| Fund balances, beginning of year | <u>4,061,424</u> | <u>921,590</u> | <u>1,168,561</u> | <u>6,151,575</u> |
| Fund balances, end of year | <u>\$ 5,922,260</u> | <u>\$ 1,209,624</u> | <u>\$ 1,368,187</u> | <u>\$ 8,500,071</u> |

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2021**

Net change in fund balances - total governmental funds \$ 2,348,496

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

Governmental funds report capital outlays as expenditures. However, in statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense or are allocated to the appropriate functional expense when the cost is below capitalization threshold. This activity is reconciled as follows:

| | |
|----------------------------|-----------|
| Cost of assets capitalized | 79,591 |
| Depreciation expense | (598,202) |

Debt proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period proceeds were received from:

| | |
|----------------|-----------|
| Capital leases | (981,583) |
|----------------|-----------|

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

| | |
|---|----------|
| Pension related net of adjustments | (9,415) |
| OPEB related net of adjustments | (94,495) |
| Increase in compensated absences payable | (3,396) |
| Increase in accrued interest payable on long-term liabilities | (7,299) |
| | (7,299) |

Change in net position of governmental activities \$ 733,697

**City of Canyon Lake
Statement of Net Position -
Proprietary Funds
June 30, 2021**

| | <u>Enterprise Fund</u> |
|---------------------------|------------------------|
| | <u>Rental</u> |
| ASSETS | |
| Current Assets: | |
| Cash and investments | \$ 21,547 |
| Investment in real estate | 1,127,239 |
| Total current assets | 1,148,786 |
| Total assets | 1,148,786 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts payable | 2,731 |
| Accrued interest payable | 1,174 |
| Due to other funds | 246,391 |
| Note payable - CBB | 890,000 |
| Total current liabilities | 1,140,296 |
| Total liabilities | 1,140,296 |
| NET POSTION | |
| Unrestricted | 8,490 |
| Total net position | \$ 8,490 |

The accompanying notes are an integral part of these financial statements

City of Canyon Lake
Statement of Revenues, Expenditures, and Changes in Net Position -
Proprietary Funds
For the Fiscal Year Ended June 30, 2021

| | <u>Enterprise Fund</u> |
|-------------------------------|------------------------|
| | <u>Rental</u> |
| OPERATING REVENUES | |
| Rental income | \$ 75,565 |
| Total operating revenues | 75,565 |
| OPERATING EXPENSES | |
| Property management | 409 |
| Repairs and maintenance | 29,290 |
| Utilities | 10,620 |
| Property assessments | 9,544 |
| Property taxes | 4,227 |
| Other operating expenses | 254 |
| Total operating expenses | 54,344 |
| Operating income | 21,221 |
| NON-OPERATING EXPENSES | |
| Interest expense | 17,323 |
| Change in net position | 3,898 |
| Net Position, Beginning | 4,592 |
| Net Position, Ending | \$ 8,490 |

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2021**

| | Enterprise Fund Rental |
|---|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 75,565 |
| Payments to suppliers for goods and services | (51,853) |
| Net cash provided by operating activities | 23,712 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Investment in real estate | (400,000) |
| Capital debt proceeds | 400,000 |
| Interest payments | (16,149) |
| Net cash used by capital financing activities | (16,149) |
| Net increase in cash and cash equivalents | 7,563 |
| Cash and cash equivalents, beginning | 13,984 |
| Cash and cash equivalents, ending | \$ 21,547 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating income | \$ 21,221 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Increase (decrease) in operating liabilities: | |
| Accounts payable | 2,491 |
| Net cash provided by operating activities | \$ 23,712 |

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2021**

| | Custodial Fund |
|---|-------------------|
| ASSETS | |
| Cash and investments | \$ 596,386 |
| Receivables: | |
| Intergovernmental | 56,749 |
| Total assets | 653,135 |
| LIABILITIES | |
| Accounts payable | 653,135 |
| NET POSITION | |
| Restricted for taxing entities and other agencies | \$ - |

The accompanying notes are an integral part of these financial statements

City of Canyon Lake
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2021

| | Custodial Fund |
|---|-------------------|
| ADDITIONS | |
| Refuse fees collected for other agency | \$ 1,702,913 |
| Fees collected for other government | 31,276 |
| Total additions | 1,734,189 |
| DEDUCTIONS | |
| Payment to other agencies | 1,702,913 |
| Payment of fees collected to other government | 31,276 |
| Total deductions | 1,734,189 |
| Change in net position | - |
| Net Position, Beginning | - |
| Net Position, Ending | \$ - |

The accompanying notes are an integral part of these financial statements

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the reporting entity

The City of Canyon Lake was incorporated on December 1, 1990 under the laws of the State of California and enjoys all the rights and privileges pertaining to “General Law” cities. The City operates under a council-manager form of government and currently provides a wide variety of services to its citizens, including public safety, public services, community development, general administrative and other services.

There are no separate legal entities over which the City is financially accountable for.

b. Government-wide and fund financial statements

The government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regard to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct and indirect 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 revenue are reported instead as general revenues.

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

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 1: Organization and Summary of Significant Accounting Policies (continued)

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

The government-wide statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Agency funds use the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified-accrual basis of accounting*. Under the modified-accrual basis of accounting, revenues are recognized in these funds when susceptible to accrual (i.e. when they are both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers property taxes collected after year-end, as available if they are collected within 60 days of the end of the current fiscal period. Other revenue susceptible to accrual includes sales tax, state gasoline taxes, investment income, and certain other intergovernmental revenues. Expenditures in the governmental funds are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, as well as compensated absences and claims and judgments, which are recognized when due.

d. Fund classifications

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government not accounted and reported in another fund.

The *Gas Tax Fund* accounts for the repair and maintenance of streets and traffic signals of the City.

The City reports the following major proprietary funds

The *Rental Fund* accounts for the activities of a City-owned building.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 1: Organization and Summary of Significant Accounting Policies (continued)

d. Fund classifications (continued)

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue resources that are restricted or committed to expenditures for specific purposes other than debt service and capital projects.

The *Capital Projects Fund* accounts for city-wide capital improvement projects.

The *Fiduciary Fund* is used to account for the resources held by the City in a fiduciary capacity.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

e. Financial statement elements

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value. The City's policy is to hold investments until maturity or until market values equal or exceed cost. The State Treasurers Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the Pool is the same as the fair value of the Pool shares.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 1: Organization and Summary of Significant Accounting Policies (continued)

e. Financial statement elements (continued)

Receivables and payables (continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable, available financial resources.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes

The County of Riverside collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1st to June 30th. All secured personal property taxes and one-half of the taxes on real property are due November 1st, the second installment is due February 1st. All taxes are delinquent, if unpaid, on December 10th and April 10th respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31st.

Prepaid costs

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the purchases method.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than or equal to \$1,000 (amount not rounded) and an estimated useful life of at least two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value at the date of acquisition.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 1: Organization and Summary of Significant Accounting Policies (continued)

e. Financial statement elements (continued)

Capital assets (continued)

Property, plant and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives.

| Assets | Years |
|-----------------------|---------|
| Buildings | 39 |
| Building improvements | 10 |
| Infrastructure | 20 - 50 |
| Vehicles | 5 - 10 |
| Office equipment | 5 - 10 |
| Computer equipment | 5 |

Use of estimates

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Compensated absences

The City provides to its employees a comprehensive annual leave program. Leave pay is payable at the time it is taken or upon termination.

The total amount of liability for compensated absences is segregated between short-term and long-term with both portions reflected in the government-wide statements. The short-term portion is determined to be the amount due to employees for future absences which is attributable to services already rendered and which is expected to be paid during the next fiscal year.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 1: Organization and Summary of Significant Accounting Policies (continued)

e. Financial statement elements (continued)

Long-term obligations (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | June 30, 2019 |
| Measurement Date (MD) | June 30, 2020 |
| Measurement Period (MP) | July 1, 2019 to June 30, 2020 |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 1: Organization and Summary of Significant Accounting Policies (continued)

e. Financial statement elements (continued)

Other Postemployment Benefits (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|--------------------|-------------------------------|
| Valuation Date | June 30, 2020 |
| Measurement Date | June 30, 2020 |
| Measurement Period | July 1, 2020 to June 30, 2021 |

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then. The City currently has pension related deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has pension related deferred inflows of resources.

Fund equity

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 1: *Organization and Summary of Significant Accounting Policies (continued)*

e. Financial statement elements (continued)

Fund equity, (continued)

Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.

Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint.

Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The City Council may establish (and modify or rescind) fund balance commitments by passage of an ordinance or resolution.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. It is the City's policy to consider committed amounts as being reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Note 2: Budgetary Information

The City prepares its budgets on the basis of estimated actual expenditures and, accordingly, the budget amounts included in the accompanying financial statements are presented on a basis consistent with generally accepted accounting principles.

Each year, the City Manager submits a proposed budget to the City Council during May. The City Council holds budget hearings during May and June. The final budget is adopted by the City Council in June.

No budget expenditures can be disbursed without proper appropriations. Once the budget is adopted, no additional funds can be authorized without the City Council's approval. The level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the individual fund level. The City Manager can authorize budget transfers between departments without additional appropriations.

Throughout the year, budgeted expenditures are reviewed and projections are made by the City Manager. Therefore, any necessary changes are submitted for approval to the City Council with a recorded action for any budget adjustments.

Formal budgetary integration is employed as a management control device during the year for all the governmental type funds. Budgets for all the governmental type funds are adopted on a basis consistent with generally accepted accounting principles, except for the Capital Projects Fund which does not have a legally adopted budget. Budgeted amounts are as originally adopted and are further amended by the City Council.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

Cash and investments as of June 30, 2021 are classified in the accompanying financial statements as follows:

| | |
|-------------------------------------|----------------------------|
| Statement of Net position | |
| Cash and investments | \$ 7,880,420 |
| Investments in real estate | 1,127,239 |
| Restricted cash for capital lease | 261,922 |
| Statement of Fiduciary Net Position | |
| Cash and investments | <u>596,386</u> |
| | |
| Total cash and investments | <u><u>\$ 9,865,967</u></u> |

Cash and investments as of June 20, 2021 consists of the following:

| | |
|--------------------------------------|----------------------------|
| Deposits with financial institutions | \$ 5,690,871 |
| Cash on hand | 300 |
| Investments | <u>4,174,796</u> |
| | |
| Total cash and investments | <u><u>\$ 9,865,967</u></u> |

The City follows the practice of pooling cash and investments of all funds except for funds held by a fiscal agent. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on cash balances. Interest income from cash and investments with a fiscal agent is credited directly to the related fund.

The City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 3: Cash and Investments (continued)

Authorized investments

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 trustees 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.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in one Issuer</u> |
|-------------------------------------|-------------------------|--|---|
| U. S. Treasuries | 5 years | None | None |
| Money Market Accounts | N/A | 10% | 5% |
| Certificates of Deposit | 5 years | None | None |
| Local Agency Investment Fund (LAIF) | N/A | 50% | None |
| Federal Agency Securities | 5 years | None | None |
| Bankers Acceptances | 180 days | 10% | 5% |
| Commercial Paper | 270 days | 10% | 10% |
| Medium-Term Notes | 5 years | 15% | 5% |
| Negotiable Certificates of Deposit | 5 years | 30% | 5% |
| Repurchase Agreements | 1 year | 10% | None |

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 and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations are presented below.

| <u>Investment type</u> | <u>Total</u> | <u>12 months or less</u> | <u>13 to 24 months</u> | <u>25 to 60 months</u> |
|------------------------------|----------------------------|----------------------------|--------------------------|----------------------------|
| Local Agency Investment Fund | \$ 10,291 | \$ 10,291 | \$ - | \$ - |
| Federal agency securities | 2,458,418 | 299,370 | 512,796 | 1,646,252 |
| Corporate debt securities | 256,034 | 100,103 | 155,931 | - |
| Money market | 322,814 | 322,814 | - | - |
| Real estate | 1,127,239 | 1,127,239 | - | - |
| Totals | <u>\$ 4,174,796</u> | <u>\$ 1,859,817</u> | <u>\$ 668,727</u> | <u>\$ 1,646,252</u> |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 3: Cash and Investments (continued)

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. Information about the minimum rating required by the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each type of investment held by the City can be found below.

| Investment type | Total | Minimum legal rating | Ratings as of year end |
|------------------------------|---------------------|----------------------|------------------------|
| Local Agency Investment Fund | \$ 10,291 | N/A | Not rated |
| Federal agency securities | 2,458,418 | AA-a2 | AA+ |
| Corporate debt securities | 256,034 | A | A-, A, & A+ |
| Money market | 322,814 | N/A | Not rated |
| Real estate | <u>1,127,239</u> | N/A | Not rated |
| Totals | <u>\$ 4,174,796</u> | | |

Concentration of credit risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer (other than Mutual Funds and External Investment Pools) that represent 5% or more of the City's investments are as follows:

| Issuer | Investment Type | Reported Amounts |
|------------------------|---------------------------|------------------|
| Federal Home Loan Bank | Federal agency securities | \$ 591,270 |
| John Deere Capital | Corporate debt securities | 256,034 |
| Tenn Valley Authority | Federal agency securities | 214,960 |
| Freddie Mac | Federal agency securities | 397,989 |
| Fannie MAE | Federal agency securities | 906,414 |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 3: Cash and Investments (continued)

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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2021, the City had deposits of \$5,641,736 with financial institutions in excess of federal depository insurance limits that were held in collateralized accounts.

Investments 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 that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not registered with the Securities and Exchange Commission and is not rated. Deposits and withdrawals are made on the basis of \$1 and not fair value. Accordingly, the City's investment in this pool is measured on uncategorized inputs not defined as level 1, 2 or 3.

LAIF has reported to its participating agencies that, as of June 30, 2021, the carrying amount (at amortized cost) of the Pool was \$193,304,977,285 and the estimated fair value of the pool was \$193,321,015,759. The City's proportionate share of the Pool's market value (as determined by LAIF) as of June 30, 2021, was \$10,291. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

Fair Value Measurement

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

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 3: Cash and Investments (continued)

The City has the following recurring fair value measurements as of June 30, 2021:

| Investments by Fair Value Level | Fair Value Measurement Using | | | |
|---------------------------------|------------------------------|---------|--------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Federal agency securities | \$ 2,458,418 | \$ - | \$ 2,458,418 | \$ - |
| Corporate debt securities | 256,034 | - | 256,034 | - |
| Money Market | 322,814 | - | 322,814 | - |
| | 3,037,266 | \$ - | \$ 3,037,266 | \$ - |
| Uncategorized: | | | | |
| Local Agency Investment Fund | 10,291 | | | |
| Real estate | 1,127,239 | | | |
| Totals | <u>\$ 4,174,796</u> | | | |

Note 4: Interfund Receivables and Payables

The composition of interfund balances at June 30, 2021 is as follows:

| <u>Due to/from Other Funds:</u> | | |
|---------------------------------|---------------------|-------------------|
| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
| General Fund | Rental Fund | <u>\$ 246,391</u> |

The above amount owed to the General Fund was for a temporary loan to the Rental Fund for the purchase of a building as an investment. The amount will be repaid to the General Fund in Fiscal Year 2021-22.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 5: Capital Assets

Capital asset activity for the year ended June 30, 2021 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|---------------------|-------------|---------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 130,000 | \$ - | \$ - | \$ 130,000 |
| Total capital assets, not being depreciated | 130,000 | - | - | 130,000 |
| Capital assets, being depreciated: | | | | |
| Buildings | 745,026 | 7,344 | - | 752,370 |
| Machinery & equipment | 309,084 | 72,247 | - | 381,331 |
| Vehicles | 240,969 | - | - | 240,969 |
| Infrastructure | 10,236,505 | - | - | 10,236,505 |
| Total capital assets, being depreciated | 11,531,584 | 79,591 | - | 11,611,175 |
| Less accumulated depreciation for: | | | | |
| Buildings | (350,239) | (21,771) | - | (372,010) |
| Machinery & equipment | (221,823) | (17,955) | - | (239,778) |
| Vehicles | (128,341) | (13,450) | - | (141,791) |
| Infrastructure | (4,212,483) | (545,026) | - | (4,757,509) |
| Total accumulated depreciation | (4,912,886) | (598,202) | - | (5,511,088) |
| Total capital assets, being depreciated, net | 6,618,698 | (518,611) | - | 6,100,087 |
| Governmental activities capital assets, net | <u>\$ 6,748,698</u> | <u>\$ (518,611)</u> | <u>\$ -</u> | <u>\$ 6,230,087</u> |

Depreciation expense was charged to functions of the primary government as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 30,442 |
| Public safety | 13,286 |
| Public works | 554,474 |
| Total depreciation expense - governmental activities | <u>\$ 598,202</u> |

Note 6: Compensated Absences

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------|----------------------|------------------|------------------|-------------------|------------------------|
| Compensated Absences | <u>\$ 35,088</u> | <u>\$ 30,861</u> | <u>\$ 27,465</u> | <u>\$ 38,484</u> | <u>\$ 26,939</u> |

Liabilities for compensated absences are typically liquidated by the General Fund.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 7: Long-Term Liabilities

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

Governmental Activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-------------------|-------------|-------------------|------------------------|
| Long-term debt | | | | | |
| <i>Direct borrowings:</i> | | | | | |
| PNC Equipment Lease | \$ - | \$ 719,663 | \$ - | \$ 719,663 | \$ 62,921 |
| PNC Equipment Lease | - | 261,920 | - | 261,920 | 34,829 |
| Governmental activities long-term debt | <u>\$ -</u> | <u>\$ 981,583</u> | <u>\$ -</u> | <u>\$ 981,583</u> | <u>\$ 97,750</u> |

Capital Lease Payable – PNC No. 98994503-1

On March 26, 2021, the City entered into a lease agreement with PNC Equipment Finance LLC for the financing of a 2021 Pierce Enforcer Pumper fire truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. As of June 30, 2021, the City had not received the fire truck and the amount is recorded as prepaid equipment.

Capital Lease Payable – PNC No. 98994503-2

On March 26, 2021, the City entered into a lease agreement with PNC Equipment Finance LLC for the financing of a 2021 Firematic 500 GPM Type 6 Fire Apparatus fire truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. As of June 30, 2021, the City had not received the fire truck and the proceeds of the lease are recorded in cash and investments.

The annual debt service requirements for the capital leases payable outstanding at June 30, 2021 are as follows:

| Year Ending June 30, | Lease No. 98994503-1 | | Lease No. 98994503-2 | | Total |
|-------------------------|----------------------|-------------------|----------------------|------------------|---------------------|
| | Principal | Interest | Principal | Interest | |
| 2022 | \$ 62,921 | \$ 21,230 | \$ 34,829 | \$ 6,234 | \$ 125,214 |
| 2023 | 64,777 | 19,374 | 35,658 | 5,405 | 125,214 |
| 2024 | 66,688 | 17,463 | 36,507 | 4,556 | 125,214 |
| 2025 | 68,656 | 15,495 | 37,376 | 3,687 | 125,214 |
| 2026 | 70,681 | 13,470 | 38,265 | 2,798 | 125,214 |
| 2027-2031 | 385,940 | 34,816 | 79,285 | 2,841 | 502,882 |
| | <u>\$ 719,663</u> | <u>\$ 121,848</u> | <u>\$ 261,920</u> | <u>\$ 25,521</u> | <u>\$ 1,128,952</u> |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 7: Long-Term Liabilities (continued)

Business-Type Activities:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Long-term debt | | | | | |
| <i>Direct borrowings:</i> | | | | | |
| Note Payable - CBB | \$ 500,000 | \$ 390,000 | \$ - | \$ 890,000 | \$ 890,000 |

Loan Payable – Citizens Business Bank

In March 2020, the City entered into an agreement with Citizens Business Bank to obtain a loan to finance the purchase of a building. The loan bears an interest rate of LIBOR plus 2.5% per annum. Principal plus all accrued interest is due in full on March 11, 2022. The City began paying regular monthly payments of all accrued interest in April 2020. Therefore, no accrued interest is expected to be due when the loan matures. The loan is secured by the investments of the City held by Citizens Business Bank. The principal balance as of June 30, 2021, is \$890,000.

Note 8: Operating Leases

The City leases equipment under a noncancelable operating lease. Total costs for the lease was \$13,121 for the fiscal year ended June 30, 2021. The future minimum annual lease payments for the lease are as follows:

| <u>Year Ending June 30,</u> | <u>Total</u> |
|---------------------------------|-----------------|
| 2022 | \$ 2,444 |
| | <u>\$ 2,444</u> |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 8: Operating Leases (continued)

The City leases office space under a noncancelable operating lease. Total costs for the lease was \$32,916 for the fiscal year ended June 30, 2021. The Lease Term begins March 27, 2019, and expires March 26, 2024. The future minimum annual lease payments for the lease are as follows:

| Year Ending June 30, | Total |
|-------------------------|-----------|
| 2022 | \$ 34,008 |
| 2023 | 34,008 |
| 2024 | 22,672 |
| | \$ 90,688 |

Note 9: Retirement Plan

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under generally accepted accounting principles. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors two miscellaneous plans. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 9: Retirement Plan (continued)

A. General Information about the Pension Plan (continued)

Benefits Provided (continued)

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

| | Miscellaneous | |
|---|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 2 % @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 67+ | 52 - 67+ |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1.000% to 2.500% |
| Required employee contribution rates | 6.908% | 6.750% |
| Required employer contribution rates | 10.484% | 7.732% |

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2021 were \$82,957. The actual employer payments of \$66,387 made to CalPERS by the City during the measurement period ended June 30, 2020, differed from the City's proportionate share of the employer's contributions of \$62,799 by \$3,588, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 9: Retirement Plan (continued)

B. Net Pension Liability

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

| | Miscellaneous |
|----------------------------------|---|
| Valuation Date | 6/30/2019 |
| Measurement Date | 6/30/2020 |
| Actuarial Cost Method | Entry Age Normal in accordance with the requirements of GASB 68 |
| Asset Valuation Method | Market Value of Assets |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Salary Increases | Varies by Entry Age and Service |
| Mortality Rate Table (1) | Derived using CALPERS' membership data for all Funds |
| Post Retirement Benefit Increase | The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter. |

(1) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 9: Retirement Plan (continued)

B. Net Pension Liability (continued)

Long-term Expected Rate of Return

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

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

The expected real rates of return by asset class are as follows:

| Asset Class ¹ | Current Target Allocation | Real Return Years 1 - 10 ² | Real Return Years 11+ ³ |
|--------------------------|------------------------------|--|---------------------------------------|
| Global Equity | 50.0% | 4.80% | 5.98% |
| Fixed Income | 28.0% | 1.00% | 2.62% |
| Inflation Assets | 0.0% | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% |
| Real Assets | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0.00% | (0.92%) |
| Total | <u>100%</u> | | |

¹ In the System's CAFR, fixed income is included in global debt securities; liquidity is included in short-term investments; inflation assets are included in both global equity securities and global debt securities

² An expected inflation of 2.00% used for this period

³ An expected inflation of 2.92% used for this period

Change of Assumptions

The Plan adopted a new amortization policy effective with the 2019 actuarial valuation. The new amortization policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes apply only to new UAL bases established on or after June 30, 2019.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 9: Retirement Plan (continued)

B. Net Pension Liability (continued)

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

C. Proportionate Share of Net Pension Liability

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

| | Increase (Decrease) | | |
|----------------------------|--|---------------------------------------|--|
| | Plan Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Plan Net Pension Liability (c) = (a) - (b) |
| Balance at: 6/30/2019 (MD) | \$ 1,787,628 | \$ 1,370,009 | \$ 417,619 |
| Balance at: 6/30/2020 (MD) | \$ 1,863,663 | \$ 1,405,546 | \$ 458,117 |
| Net Changes during 2019-20 | \$ 76,035 | \$ 35,537 | \$ 40,498 |

Valuation Date (VD), Measurement Date (MD).

The City's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at www.calpers.ca.gov.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 9: Retirement Plan (continued)

C. Proportionate Share of Net Pension Liability (continued)

The City's proportionate share of the net pension liability for the Miscellaneous Plan as of the June 30, 2019, and 2020 measurement dates was as follows:

| | <u>Miscellaneous</u> |
|-------------------------------------|----------------------|
| Proportionate Share - June 30, 2019 | 0.01043% |
| Proportionate Share - June 30, 2020 | 0.01086% |
| Change - Increase (Decrease) | 0.00043% |

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

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

| | <u>Discount Rate - 1%</u> <u>(6.15%)</u> | <u>Current Discount</u> <u>Rate (7.15%)</u> | <u>Discount Rate + 1%</u> <u>(8.15%)</u> |
|--|---|--|---|
| Miscellaneous Plan's Net Pension Liability | \$ 706,125 | \$ 458,117 | \$ 253,196 |

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

| | |
|--|--|
| Net difference between projected and actual earnings on pension plan investments | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the average expected remaining service lives (EARSL) of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 9: Retirement Plan (continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources (continued)

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for PERF C for the measurement period ending June 30, 2020 is 3.8 years, which was obtained by dividing the total service years of 548,581 (the sum of remaining service lifetimes of the active employees) by 145,663 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2019), the City's net pension liability was \$417,619. For the measurement period ending June 30, 2020 (the measurement date), the City incurred a pension expense/(income) of \$92,373 for the Plan.

As of June 30, 2021, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences Between Expected and Actual Experience | \$ 23,608 | \$ - |
| Changes of Assumptions | - | (3,267) |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 13,609 | - |
| Change in Employer's Proportion | 22,731 | - |
| Difference in Actual vs. Projected Contributions | 2,644 | (6,266) |
| Pension Contributions Subsequent to Measurement Date | 82,957 | - |
| Total | \$ 145,549 | \$ (9,533) |

These amounts above are net of outflows and inflows recognized in the 2018-19 measurement period expense. Contributions subsequent to the measurement date of \$82,957 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 9: Retirement Plan (continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

| Fiscal Year Ended June 30: | Deferred Outflows/(Inflows) of Resources |
|-------------------------------|--|
| 2022 | \$ 13,325 |
| 2023 | 19,244 |
| 2024 | 13,962 |
| 2025 | 6,528 |
| 2026 | - |
| Thereafter | - |

E. Payable to the Pension Plan

At June 30, 2021, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year then ended.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 10: Other Postemployment Benefits (OPEB)

The City has established a Retiree Healthcare Plan (HC Plan), and participates in a single-employer defined benefit retiree healthcare plan. The Plan provides post-employment medical insurance to eligible retirees through the California Public Employees Retirement System. State statutes within the Public Employees' Retirement Law establish menus of benefit provisions as well as other requirements and may be amended by CalPERS. The District selected an optional benefit provision specifically for health benefits in compliance with the Public Employees Medical and Hospital Care Act (PEMHCA). A separate financial report is not prepared for the HC Plan.

Employees Covered

| | |
|--|----|
| Active employees | 10 |
| Inactive employees or beneficiaries currently receiving benefits | 1 |
| Total | 11 |

As of the June 30, 2021 actuarial valuation, the following current and former employees were covered by the benefit terms under the HC Plan:

Contributions

The contribution requirements of the Plan are established by the City Council. On February 19, 2014, the City Council adopted Resolution No. 2014-7 to reduce the amount of employer's contribution to the minimum amount under PEMHCA, based upon a formula established by the Public Employees Retirement System, and Resolution No. 2014-8 to confirm the contribution will be for employees with a minimum of 20 years of services to the City. For the fiscal year ended June 30, 2021, the City's required minimum payments amounted to \$4,139 in payment for premiums.

Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2021 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation dated June 30, 2020, based on the following actuarial methods and assumptions:

| Actuarial Assumptions: | June 30, 2020 |
|---|---|
| Discount Rate | 2.14% |
| Inflation | 2.75% |
| Healthcare Trend | 4.00% |
| Salary Increases | 2.75% |
| Mortality Rate | 2017 CalPERS Mortality for Miscellaneous and School Employees |
| Pre-Retirement Turnover Healthcare Trend Rate | 2017 CalPERS 2.0% at 62 Rates for Miscellaneous Employees |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 10: Other Postemployment Benefits (OPEB) (continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 2.20% percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the HC Plan are as follows:

| | Total OPEB Liability |
|---|-----------------------------|
| Balance at June 30, 2020 (Rollback balance June 30, 2020) | \$ 298,346 |
| Changes recognized for the measurement period: | |
| Service Cost | 84,100 |
| Interest | 7,445 |
| Changes of assumptions | 4,165 |
| Experience (gains)/losses | - |
| Contributions - employer | - |
| Benefit payments | (3,972) |
| Net Changes | 91,738 |
| Balance at June 30, 2021 (Measurement Date June 30, 2021) | \$ 390,084 |

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2021:

| | 1% Decrease 1.14% | Current Discount Rate 2.14% | 1% Increase 3.14% |
|----------------------|----------------------|-----------------------------------|----------------------|
| Total OPEB Liability | \$ 466,376 | \$ 390,084 | \$ 329,344 |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 10: Other Postemployment Benefits (OPEB) (continued)

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the total OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2021:

| | 1% Decrease | Current Healthcare Cost Trend Rates | 1% Increase |
|----------------------|-------------|--|-------------|
| Total OPEB Liability | \$ 308,036 | \$ 390,084 | \$ 501,179 |

As of the fiscal year ended June 30, 2021 the City reported deferred outflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ 154,214 | \$ - |
| Differences between expected and actual experience | - | (48,744) |
| Total | \$ 154,214 | \$ (48,744) |

The deferred item will be amortized and recognized in pension expense as follows:

| Fiscal Year Ended June 30: | Deferred Outflows/(Inflows) of Resources |
|-------------------------------|--|
| 2022 | \$ 6,922 |
| 2023 | 6,922 |
| 2024 | 6,922 |
| 2025 | 6,922 |
| 2026 | 6,922 |
| Thereafter: | 70,860 |

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 11: Risk Management

The City is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority formed under Section 990 of the California Government Code for the purpose of jointly funding programs of insurance coverage for its members. PERMA is comprised of thirty-one participating member agencies: twenty-one cities, four transit agencies and six special districts. The City participates in the liability, employment practices liability, property, auto physical damage, crime and cyber liability insurance programs of PERMA. The City joined PERMA on July 1, 2011.

The liability program provides coverage up to \$50 million per occurrence for personal injury, bodily injury, property damage and public officials' errors and omissions. The City has selected a \$0 self-insured retention for this coverage and participates in risk sharing pools for losses up to \$1 million, followed by PERMA's membership in the Public Risk Innovation, Solutions, and Management (PRISM) for \$49 million of excess liability coverage.

The employment practices liability program provides up to \$50 million coverage for employment related lawsuits, such as wrongful termination and discrimination. The City self-insures up to \$25,000 per occurrence and participates in the Employment Risk Management Authority (ERMA) for losses up to \$1 million. Coverage above \$1 million and up to \$50 million is available through PERMA's membership in PRISM for liability coverage.

The property insurance program is group purchased under a master property insurance policy with accumulated values from all participants effecting lower rates and broader coverage for members. The program covers real property, business personal property, inland marine coverage for special mobile equipment and business interruption. Commercial property coverage is written on a replacement cost basis and all risk, eliminating the traditional commercial "named peril" policy.

The auto physical damage insurance program is also group purchased under a master insurance policy with accumulated values from all participants effecting lower rates for members. Auto physical damage coverage is written on an agreed amount basis.

The crime insurance program provides public employee dishonesty, forgery or alteration, and computer fraud coverage under a master insurance policy.

The cyber liability program provides coverage for information security & privacy liability, privacy notification costs, regulatory defense & penalties, website media content liability, cyber extortion, first party data protection & business interruption losses.

The City is insured with the State Compensation Insurance Fund for workers' compensation claims. There is no deductible requirement for this coverage. However, in Fiscal Year 2021-22 the City joined the Worker's Compensation program of PERMA.

The amount of the settlements has not exceeded the above coverage for the past three fiscal years.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 12: Commitments and Contingencies

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position.

Note 13: Fund Equity

The City has established certain fund balance designations to report the amounts in the following funds, which represent available spendable resources which are restricted, committed or assigned for a specific purpose:

| | General Fund | Major Fund Gas Tax Fund | Non-Major Governmental Funds | Total |
|------------------------|---------------------|-------------------------------|------------------------------------|---------------------|
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Prepaid items | \$ 726,708 | \$ - | \$ - | \$ 726,708 |
| Restricted for: | | | | |
| Public works | - | 1,209,624 | 991,795 | 2,201,419 |
| Public safety | - | - | 21,957 | 21,957 |
| Equipment | - | - | 15,818 | 15,818 |
| Assigned to: | | | | |
| Self-insured retention | 15,000 | - | - | 15,000 |
| Litigation | 25,000 | - | - | 25,000 |
| Equipment replacement | 35,000 | - | - | 35,000 |
| Capital projects | - | - | 338,617 | 338,617 |
| Unassigned: | 5,120,552 | - | - | 5,120,552 |
| | <u>\$ 5,922,260</u> | <u>\$ 1,209,624</u> | <u>\$ 1,368,187</u> | <u>\$ 8,500,071</u> |

Note 14: Jointly Governed Organization

The City, in conjunction with 4 other governmental entities, created the Southwest Communities Financing Authority (Authority) on November 30, 2004. The Authority was formed to issue bonds for the construction of an animal shelter to be used by the member agencies. The Authority's board is comprised of one member from each participating entity. The City has the following fiscal obligations: debt repayment of bonds issued, administrative costs and operation of the animal shelter. The debt service payments and the animal shelter operating costs will be prorated to each member based on the percentage of the animals housed at the facility, on an annual basis. The administrative costs will be borne equally by all members. The City incurred costs of \$111,885 for the fiscal year ended June 30, 2021, which included \$34,096 in interest on the bonds issued. To obtain the financial statements for the Authority please contact the Authority at 33751 Mission Trail, Wildomar, CA 92595.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2021

Note 15: COVID-19 Considerations

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption was temporary, there is considerable uncertainty around the duration of the pandemic. Therefore, the ultimate financial impact and duration cannot be estimated at this time, and no adjustments have been made to these financial statements as a result of this uncertainty.

Note 16: Subsequent Events

American Rescue Plan Funding

On March 11, 2021, HR 1319, the American Rescue Plan Act of 2021 (ARPA), was signed into law. ARPA was designed to provide assistance to individuals, businesses and, state and local governments to assist in the economic recovery from the ongoing COVID-19 pandemic. The City of Canyon Lake was granted an allocation of \$2,698,416, delivered in two tranches of \$1,349,208 in July 2021 and July 2022. The qualified use of these funds includes public safety, infrastructure, and restoration of services to pre-pandemic levels.

Fire Department

Effective January 1, 2022, the City began operating its own municipal Fire Department, and is no longer receiving fire protection services from Riverside County. The City has staffed the new Fire Department with fulltime and parttime City employees. In January of 2022 the City completed the purchase of two fire trucks through a lease purchase agreement in the amount of \$981,583. In addition, the City included in the Fiscal Year 2021-22 Budget \$312,720 in startup costs and \$422,750 in startup capital outlay costs.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Canyon Lake
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Taxes | \$ 5,086,800 | \$ 5,116,800 | \$ 5,310,487 | \$ 193,687 |
| Licenses and permits | 1,232,500 | 1,356,500 | 1,443,205 | 86,705 |
| Fines and forfeitures | 15,000 | 15,000 | 33,245 | 18,245 |
| Intergovernmental | 63,800 | 199,618 | 150,479 | (49,139) |
| Use of money and property | 54,000 | 73,927 | 46,299 | (27,628) |
| Other | 22,000 | 29,000 | 72,489 | 43,489 |
| Total revenues | 6,474,100 | 6,790,845 | 7,056,204 | 265,359 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,275,382 | 1,540,596 | 1,489,630 | 50,966 |
| Public safety | 4,447,897 | 4,456,517 | 3,937,209 | 519,308 |
| Public works | 96,300 | 96,300 | 87,110 | 9,190 |
| Community development | 425,100 | 510,000 | 583,411 | (73,411) |
| Capital outlay | 79,591 | 1,061,174 | 79,591 | 981,583 |
| Total expenditures | 6,324,270 | 7,664,587 | 6,176,951 | 1,487,636 |
| Excess (deficiency) of revenues over (under) expenditures | 149,830 | (873,742) | 879,253 | 1,752,995 |
| OTHER FINANCING SOURCES | | | | |
| Long-term debt issued | - | 981,583 | 981,583 | - |
| Total other financing sources | - | 981,583 | 981,583 | - |
| Net change in fund balance | 149,830 | 107,841 | 1,860,836 | 1,752,995 |
| Fund balance, beginning of year | 4,061,424 | 4,061,424 | 4,061,424 | - |
| Fund balance, end of year | <u>\$ 4,211,254</u> | <u>\$ 4,169,265</u> | <u>\$ 5,922,260</u> | <u>\$ 1,752,995</u> |

City of Canyon Lake
Required Supplementary Information
Budgetary Comparison Schedule
Gas Tax Special Revenue Fund
For the Fiscal Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---------------------------------|---------------------|-------------------|---------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Intergovernmental | \$ 501,300 | \$ 501,300 | \$ 450,913 | \$ (50,387) |
| Use of money and property | 4,000 | 4,000 | (319) | (4,319) |
| Total revenues | <u>505,300</u> | <u>505,300</u> | <u>450,594</u> | <u>(54,706)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | 164,000 | 164,000 | 162,560 | 1,440 |
| Capital Outlay | 213,000 | 289,900 | - | 289,900 |
| Total expenditures | <u>377,000</u> | <u>453,900</u> | <u>162,560</u> | <u>291,340</u> |
| Net change in fund balance | 128,300 | 51,400 | 288,034 | 236,634 |
| Fund balance, beginning of year | <u>921,590</u> | <u>921,590</u> | <u>921,590</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,049,890</u> | <u>\$ 972,990</u> | <u>\$ 1,209,624</u> | <u>\$ 236,634</u> |

City of Canyon Lake
Required Supplementary Information
Schedule of the Local Government's Proportionate Share of the
Plan's Net Pension Liability and Related Ratios as of the Measurement Date
Last 10 Years*
For the Fiscal Year Ended June 30, 2021

| Measurement Date | Employer's Proportion of the Collective Net Pension Liability ¹ | Employer's Proportionate Share of the Collective Net Pension Liability | Employer's Covered Payroll | Employer's Proportionate Share of the Collective Net Pension Liability as a percentage of the Employer's Covered Payroll | Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability |
|------------------|--|---|-------------------------------|--|---|
| 6/30/2014 | 0.00375% | \$ 233,356 | \$ 97,906 | 238.35% | 82.11% |
| 6/30/2015 | 0.00332% | 228,126 | 241,941 | 94.29% | 82.84% |
| 6/30/2016 | 0.00369% | 319,581 | 257,514 | 124.10% | 77.98% |
| 6/30/2017 | 0.00384% | 380,550 | 408,132 | 93.24% | 77.26% |
| 6/30/2018 | 0.00389% | 375,028 | 367,763 | 101.98% | 78.15% |
| 6/30/2019 | 0.00408% | 417,619 | 399,181 | 104.62% | 76.64% |
| 6/30/2020 | 0.00421% | 458,117 | 514,343 | 89.07% | 75.42% |

¹ Proportion of the net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

* Measurement date 6/30/2014 (fiscal year 2015) was the first year of implementation. Additional years will be presented as information becomes available.

**City of Canyon Lake
Required Supplementary Information
Schedule of Plan Contributions
Last 10 Years*
For the Fiscal Year Ended June 30, 2021**

| Fiscal Year | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------|---|--|-------------------------------------|-------------------------------|--|
| 2014-15 | \$ 21,700 | \$ (21,700) | \$ - | \$ 241,941 | 8.97% |
| 2015-16 | 28,593 | (28,593) | - | 257,514 | 11.10% |
| 2016-17 | 36,602 | (36,602) | - | 408,132 | 8.97% |
| 2017-18 | 38,386 | (38,386) | - | 367,763 | 10.44% |
| 2018-19 | 49,184 | (49,184) | - | 399,181 | 12.32% |
| 2019-20 | 66,387 | (66,387) | - | 514,343 | 12.91% |
| 2020-21 | 82,957 | (82,957) | - | 668,955 | 12.40% |

* Measurement date 6/30/2014 (fiscal year 2015) was the first year of implementation. Additional years will be presented as information becomes available.

Notes to Schedule:

Change in Benefit Terms: None

Changes in Assumptions: For 2020, the Plan adopted a new amortization policy effective with the 2019 actuarial valuation. The new amortization policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes apply only to new UAL bases established on or after June 30, 2019. There were no changes in assumptions in 2019. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate in 2019. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes in the discount rate. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

City of Canyon Lake
Required Supplementary Information
Schedule of Changes in the Total OPEB Liability and Related Ratios
as of the Measurement Date
Last 10 Years*
For the Fiscal Year Ended June 30, 2021

| Measurement Period | 2018 | 2019 | 2020 | 2021 |
|---|-------------------|-------------------|-------------------|-------------------|
| Total OPEB Liability | | | | |
| Service Cost | \$ 21,629 | \$ 22,224 | \$ 24,506 | \$ 84,100 |
| Interest on the Total OPEB Liability | 4,592 | 5,011 | 6,109 | 7,445 |
| Actual and expected experience difference | - | - | - | - |
| Changes in assumptions | - | 7,672 | 162,794 | 4,165 |
| Experience (gains)/losses | - | - | (54,994) | - |
| Changes in benefit terms | - | - | - | - |
| Benefit payments | (4,412) | (4,588) | (4,733) | (3,972) |
| Net change in Total OPEB Liability | 21,809 | 30,319 | 133,682 | 91,738 |
| Total OPEB Liability - beginning | 112,536 | 134,345 | 164,664 | 298,346 |
| Total OPEB Liability - ending (a) | <u>\$ 134,345</u> | <u>\$ 164,664</u> | <u>\$ 298,346</u> | <u>\$ 390,084</u> |
| | | | | |
| Total OPEB Liability - ending (a) | \$ 134,345 | \$ 163,903 | \$ 298,346 | \$ 390,084 |
| | | | | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% | 0.46% | 0.00% | 0.00% |
| | | | | |
| Covered employee payroll | \$ 300,891 | \$ 371,707 | \$ 483,844 | \$ 607,262 |
| | | | | |
| Total OPEB liability as a percentage of covered employee payroll | 44.65% | 44.09% | 61.66% | 64.24% |

Notes to schedule:

Contributions are not based on a measure of pay for the OPEB plan, therefore covered employee payroll is used.

The following assumptions were changed from the prior valuation:

Mortality tables were updated to the 2017 CalPERS Mortality for Miscellaneous and Schools Employees; retirement tables were updated to the 2017 CalPERS 2.0%@62 Rates for Miscellaneous Employees; discount rate decreased to 2.14% from 2.20% by using the BondBuyer 20 Index at June 30, 2020.

* Fiscal Year 2017-18 was the first year of implementation, additional years information will be added as it becomes available.

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Measure A – This fund is used to account for the construction, reconstruction, alteration, and maintenance of the streets of the City.

AQMD – This fund is used to account for the receipt of AB 2766 funds to implement programs that reduce air pollution from motor vehicles. Local Governments receive forty percent of the motor vehicle registration fee surcharge of \$4 per vehicle collected by the Department of Motor Vehicles.

Law Enforcement Grants – This fund is used to account for the *Supplemental Law Enforcement Grant* funds used for front line law enforcement services, and for the *California Law Enforcement Equipment Program* for the purchase of equipment to assist law enforcement to prevent and reduce crime.

Miscellaneous Grants – This fund is used to account for specific revenue resources that are restricted or committed to expenditure for specific purposes other than capital projects.

Capital Projects Fund

Capital Projects – This fund accounts for City-wide capital improvement projects.

**City of Canyon Lake
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021**

| | Special Revenue Funds | | | |
|--|-----------------------|-------------------|------------------------------|-------------------------|
| | Measure A | AQMD | Law Enforcement Grants | Miscellaneous Grants |
| ASSETS | | | | |
| Cash and investments | \$ 794,176 | \$ 121,910 | \$ 21,957 | \$ 15,818 |
| Receivables: | | | | |
| Intergovernmental | 72,057 | 3,652 | - | - |
| Total assets | <u>\$ 866,233</u> | <u>\$ 125,562</u> | <u>\$ 21,957</u> | <u>\$ 15,818</u> |
| FUND BALANCES | | | | |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Public works | 866,233 | 125,562 | - | - |
| Public safety | - | - | 21,957 | - |
| Equipment | - | - | - | 15,818 |
| Assigned to: | | | | |
| Capital projects | - | - | - | - |
| Total fund balances | <u>866,233</u> | <u>125,562</u> | <u>21,957</u> | <u>15,818</u> |
| Total liabilities and fund balances | <u>\$ 866,233</u> | <u>\$ 125,562</u> | <u>\$ 21,957</u> | <u>\$ 15,818</u> |

| <u>Capital Projects Fund</u> | <u>Total Non-major Governmental Funds</u> |
|----------------------------------|---|
| Capital Projects | |
| \$ 338,617 | \$ 1,292,478 |
| <u>-</u> | <u>75,709</u> |
| <u>\$ 338,617</u> | <u>\$ 1,368,187</u> |

| | |
|-------------------|---------------------|
| - | 991,795 |
| - | 21,957 |
| - | 15,818 |
| <u>338,617</u> | <u>338,617</u> |
| <u>338,617</u> | <u>1,368,187</u> |
| <u>\$ 338,617</u> | <u>\$ 1,368,187</u> |

City of Canyon Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2021

| | Special Revenue Funds | | | |
|----------------------------------|-----------------------|-------------------|-----------------------|------------------|
| | Measure A | AQMD | Law | Miscellaneous |
| | | | Enforcement Grants | |
| REVENUES | | | | |
| Intergovernmental | \$ 286,782 | \$ 14,364 | \$ 156,727 | \$ - |
| Use of money and property | <u>(203)</u> | <u>(35)</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>286,579</u> | <u>14,329</u> | <u>156,727</u> | <u>-</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public safety | - | - | 250,000 | - |
| Public works | <u>8,009</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>8,009</u> | <u>-</u> | <u>250,000</u> | <u>-</u> |
| Net change in fund balances | 278,570 | 14,329 | (93,273) | - |
| Fund balances, beginning of year | <u>587,663</u> | <u>111,233</u> | <u>115,230</u> | <u>15,818</u> |
| Fund balances, end of year | <u>\$ 866,233</u> | <u>\$ 125,562</u> | <u>\$ 21,957</u> | <u>\$ 15,818</u> |

| <u>Capital Projects Fund</u> | <u>Total Non-major Governmental Funds</u> |
|----------------------------------|---|
| \$ - | \$ 457,873 |
| <u>-</u> | <u>(238)</u> |
| <u>-</u> | <u>457,635</u> |
| - | 250,000 |
| <u>-</u> | <u>8,009</u> |
| <u>-</u> | <u>258,009</u> |
| - | 199,626 |
| <u>338,617</u> | <u>1,168,561</u> |
| <u>\$ 338,617</u> | <u>\$ 1,368,187</u> |

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