

**CITY OF CANYON LAKE,
CALIFORNIA**

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2018

City of Canyon Lake
Annual Financial Report
June 30, 2018
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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

We have audited the accompanying financial statements of the governmental 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Canyon Lake, California, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1, the City adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 are fairly stated in all material respects in relation to the basic financial statements as a whole.



CPAs AND ADVISORS

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, 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, Solt & Lughard, LLP

Brea, California
January 28, 2019

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, 2018.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the end of fiscal year 2018 by \$12,677,661. 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 decreased by \$281,711 during fiscal year 2017-2018.
- As of June 30, 2018, the City's governmental funds reported combined fund balances of \$5,709,538, a decrease of \$32,054 from the prior fiscal year, and \$4,239,456 of the governmental funds' fund balances are assigned and unassigned.
- As of June 30, 2018, assigned and unassigned fund balances for the General Fund was \$4,239,456 or 87.5 percent of total General Fund expenditures.
- The City's total debt decreased by \$136,494 during the fiscal year as a result of the principal payments paid on the Riverside County Transportation Commission and Riverside County loans. The unfunded pension liability of \$380,550 and the unfunded OPEB liability of \$134,345 are included in these financial statements.

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 City does not have any business-type activities.

The government-wide financial statements can be found on pages 12 - 13 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 two categories: governmental 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 Capital Projects 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, Debt Service Fund and Capital Projects Fund. A budgetary comparison statement has been provided for the General Fund and Capital Projects Fund in order to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 14 - 17 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 statement can be found on page 18 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 19 - 46 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 47 - 52.

Combining statements for nonmajor governmental funds are presented immediately following the required supplementary information and can be found on pages 54 - 57 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, 2018, the City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$12,677,661 as summarized below:

Statement of Net position

	Governmental Activities	
	2018	2017
Assets:		
Current and other assets	\$ 6,533,583	\$ 6,812,672
Capital assets (net of depreciation)	7,600,249	7,951,035
Total assets	<u>14,133,832</u>	<u>14,763,707</u>
Deferred outflows of resources:		
Pension related items	<u>137,781</u>	<u>104,782</u>
Liabilities:		
Current and other liabilities	980,258	1,221,959
Long-term liabilities	<u>571,147</u>	<u>517,661</u>
Total liabilities	<u>1,551,405</u>	<u>1,739,620</u>
Deferred inflows of resources:		
Pension related items	<u>42,547</u>	<u>56,961</u>
Net position:		
Net investment in capital assets	7,407,390	7,612,518
Restricted	1,468,236	1,748,248
Unrestricted	<u>3,802,035</u>	<u>3,711,142</u>
Total net position	<u>\$ 12,677,661</u>	<u>\$ 13,071,908</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 2018. 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 58.4 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, \$1,468,236 or 11.6 percent, represent resources that are subject to restrictions on how they may be used. The remaining balance, (unrestricted net position), is \$3,802,035.

Statement of Activities: The statement of activities shows how the City's net position changed during the fiscal years 2017-18 and 2016-17. Provided below is a summary of changes in net position.

Statement of Changes in Net position

	Governmental Activities	
	2018	2017
Revenues:		
Program Revenues:		
Charges for services	\$ 370,679	\$ 316,186
Operating grants and contributions	676,682	533,346
Capital grants and contributions	59,254	22,717
General revenues	4,651,204	4,496,846
Total revenues	5,757,819	5,369,095
Expenses:		
General government	980,904	914,836
Public safety	3,609,319	3,051,354
Public works	1,213,374	955,908
Community development	234,590	185,905
Interest on long-term debt	1,343	2,091
Total expenses	6,039,530	5,110,094
Change in net position	(281,711)	259,001
Net position - beginning - as restated	12,959,372	12,812,907
Net position - ending	\$ 12,677,661	\$ 13,071,908

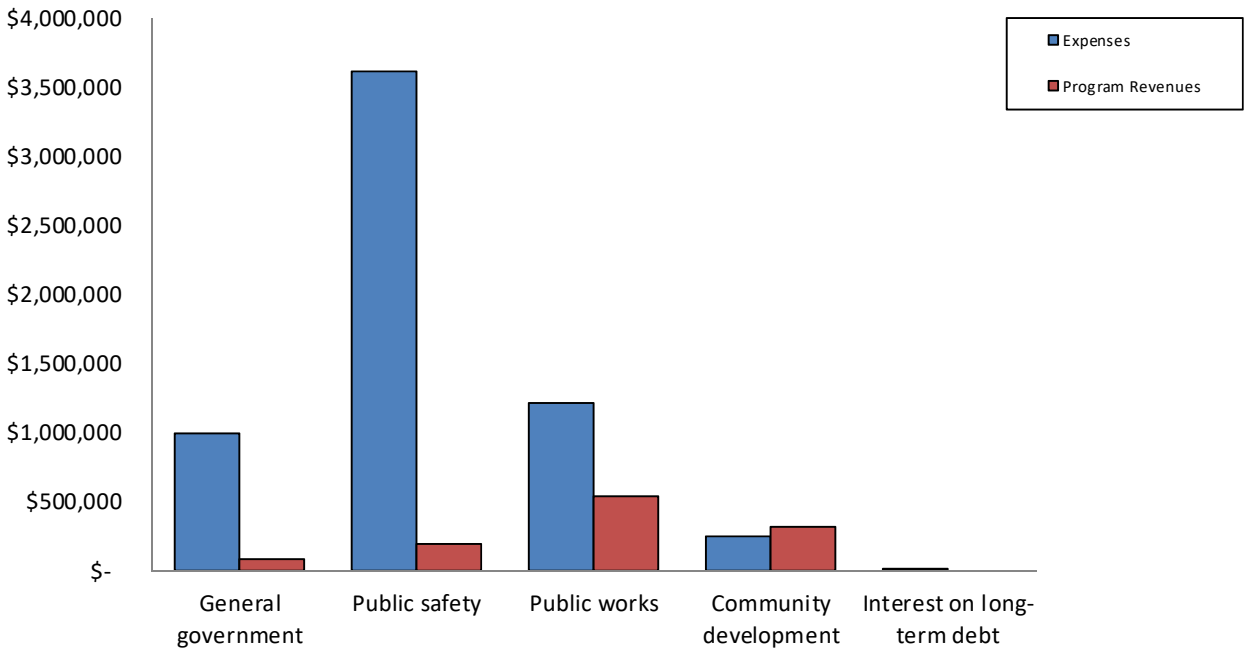
The City's net position decreased overall by \$281,711 during the current fiscal year. The reason for the decrease is explained in the governmental activities discussion below.

Governmental activities: Net position from governmental activities assets decreased by \$281,711. Key elements of the decrease are as follows:

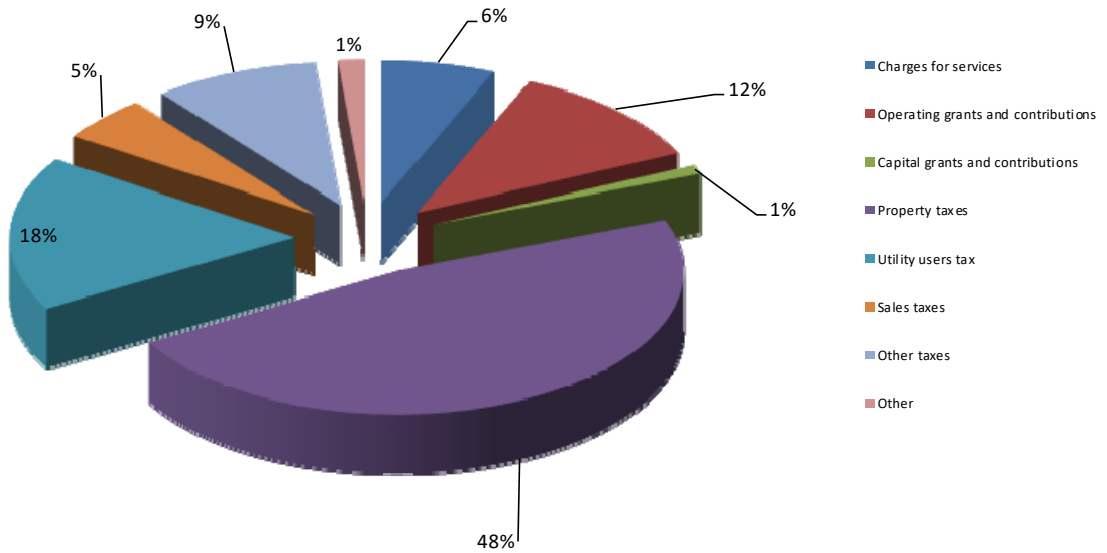
- Increase in net pension liability of \$60,969.
- Adoption of GASB 75 resulting in an OPEB liability of \$134,345.
- Depreciation expense of \$543,591.
- Street maintenance slurry seal project of \$263,778.

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 48 percent of governmental activities revenues came from property tax revenue.

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 14 - 17 for more detail on governmental funds.

As of June 30, 2018, the City's governmental funds reported combined ending fund balances of \$5,709,538, a decrease of \$32,054 in comparison with the prior year. Of the \$5,709,538, \$4,239,456 or 74.2 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 decrease in governmental fund balance is due to an increase in the fund balance of the General Fund of \$247,958 offset by a decrease in the Gas Tax Fund of \$293,823. The decrease in the Gas Tax Fund is due primarily to the slurry seal project. For the General Fund this is a decrease of \$361,150 from the last fiscal year's increase of \$609,108. The reduction in revenues over expenditures from the previous year is due to increases in property taxes of \$103,264, sales tax of \$51,560, building permits and fees of \$53,034 offset by increases in the cost of animal control services of \$43,534, increases in expenditures for police services of \$85,614, fire protection services of \$335,664, included in this is \$118,000 in repairs and maintenance for the fire station, building and safety costs of \$46,976 because of increased activity and special enforcement costs of \$106,177 due to increases in salaries and benefits and hours served and the purchase of a vehicle for \$46,268.

General Fund Financial and Budgetary Highlights

The General Fund is the chief operating fund of the City. At June 30, 2018, assigned and unassigned fund balance was \$4,239,456. As a measure of the General Fund's financial condition, it may be useful to compare the unassigned fund balance to total expenditures. Assigned and unassigned fund balances represent 87.5 percent of General Fund expenditures. For the fiscal year, the General Fund's fund balance increased \$247,958 from the prior year. The differences between the General Fund budget and actual are summarized below:

- General Fund actual revenues were above budget by \$225,686 mainly due to higher than anticipated property taxes, other taxes and building permit revenues.
- Actual expenditures were \$6,685 less than the final budgeted amount of \$4,849,576, with police and fire protection services being lower than anticipated and community development costs being higher than expected to increased activity in planning and building.

Capital Assets and Debt Administration

Capital Assets: City investment in capital assets for its governmental type activities as of June 30, 2018, amounted to \$7,600,249 (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 a hybrid Toyota Highlander with AQMD Funds for \$46,132.
- Purchase of a Jeep Wrangler with AVA funding for \$46,269.
- Replacement of sections for the fence on Railroad Canyon Road for \$80,894.

Additional information on the City's capital assets can be found on pages 31 - 32 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	
	2018	2017
Land	\$ 130,000	\$ 130,000
Building and improvements	428,681	450,950
Machinery, equipment and vehicles	167,829	72,759
Infrastructure	6,873,739	7,297,686
Total	<u>\$ 7,600,249</u>	<u>\$ 7,951,395</u>

Long-term debt: At the end of fiscal year 2018, the City's total long-term debt outstanding was \$212,465. This amount was comprised of \$90,184 in loans from Riverside County which are secured by several different sources of revenues, \$102,675 in loans from RCTC which are secured by Measure A revenues, and \$19,606 in compensated absences.

Outstanding long-term debt of the City is summarized below, and additional information can be found on pages 32 - 33 in the notes to basic financial statements.

City of Canyon Lake Outstanding Long-Term Debt

	Governmental Activities	
	2018	2017
Compensated absences	\$ 19,606	\$ 10,442
Loan payable County of Riverside	90,184	153,184
Loan payable RCTC	102,675	185,333
Total long-term debt	<u>\$ 212,465</u>	<u>\$ 348,959</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 and \$380,550 at June 30, 2018. Additional information can be found on pages 34 - 41 in the notes to the basic financial statements.

The City implemented GASB Statement No. 75 during the current fiscal year which resulted in an ending total OPEB liability of \$134,345 at June 30, 2018. Additional information can be found on pages 42 - 43 in the notes to the basic financial statements..

Economic Factors and Next Year's Budgets and Rates

In preparing the budget for fiscal year 2018-19, 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 2018-19 anticipates having a deficit of \$558,028 for the General Fund.

- Anticipated General Fund Revenues of \$5,005,880, an increase of \$221,580 from the previous year due projected increases in property taxes and building permit fees.
- Proposed General Fund Expenditures of \$5,563,908, an increase of \$843,059 over the previous year, due increased costs in public safety for police of \$74,640 and fire protection of \$768,570.

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 2018-19 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, 2018**

ASSETS

Cash and investments	\$ 6,085,061
Receivables:	
Accounts	150,657
Interest	11,645
Intergovernmental	284,374
Prepaid items	1,846
Capital assets, net of accumulated depreciation	7,600,249
Total assets	14,133,832

DEFERRED OUTFLOWS OF RESOURCES

Pension related items	137,781
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LIABILITIES

Accounts payable	810,162
Retention payable	13,883
Noncurrent liabilities:	
Due within one year	156,213
Due in more than one year	56,252
Total OPEB liability	134,345
Net pension liability	380,550
Total liabilities	1,551,405

DEFERRED INFLOWS OF RESOURCES

Pension related items	42,547
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NET POSITION

Net investment in capital assets	7,407,390
Restricted:	
Public works	1,367,027
Public safety	79,536
Equipment	21,673
Unrestricted	3,802,035
Total net position	\$ 12,677,661

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Statement of Activities
For the Year Ended June 30, 2018**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 980,904	\$ 44,369	\$ 37,798	\$ -	\$ (898,737)
Public safety	3,609,319	22,128	143,839	26,745	(3,416,607)
Public works	1,213,374	-	495,045	32,509	(685,820)
Community development	234,590	304,182	-	-	69,592
Interest on long-term debt	1,343	-	-	-	(1,343)
Total governmental activities	\$ 6,039,530	\$ 370,679	\$ 676,682	\$ 59,254	(4,932,915)
General revenues:					
Taxes:					
Property tax, levied for general purpose					2,735,016
Utility users tax					1,006,730
Transient occupancy tax					57,248
Franchise tax					335,153
Sales tax					291,586
Other taxes					142,362
Use of money and property					(4,404)
Other					87,513
Total general revenues					4,651,204
Change in net position					(281,711)
Net position, beginning of year, as restated					12,959,372
Net position, end of year					\$ 12,677,661

The accompanying notes are an integral part of these financial statements

**City of Canyon Lake
Balance Sheet
Governmental Funds
June 30, 2018**

	General	Special Revenue Gas Tax Fund	Total Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 4,423,485	\$ 786,075	\$ 875,501	\$ 6,085,061
Receivables:				
Accounts	150,657	-	-	150,657
Interest	11,645	-	-	11,645
Intergovernmental	184,469	41,646	58,259	284,374
Prepaid items	1,846	-	-	1,846
	<u>4,772,102</u>	<u>827,721</u>	<u>933,760</u>	<u>6,533,583</u>
Total assets	<u>\$ 4,772,102</u>	<u>\$ 827,721</u>	<u>\$ 933,760</u>	<u>\$ 6,533,583</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 530,800	\$ 279,362	\$ -	\$ 810,162
Retentions payable	-	13,883	-	13,883
	<u>530,800</u>	<u>293,245</u>	<u>-</u>	<u>824,045</u>
Total liabilities	<u>530,800</u>	<u>293,245</u>	<u>-</u>	<u>824,045</u>
Fund Balances:				
Nonspendable	1,846	-	-	1,846
Restricted	-	534,476	933,760	1,468,236
Assigned	75,000	-	-	75,000
Unassigned	4,164,456	-	-	4,164,456
	<u>4,241,302</u>	<u>534,476</u>	<u>933,760</u>	<u>5,709,538</u>
Total fund balances	<u>4,241,302</u>	<u>534,476</u>	<u>933,760</u>	<u>5,709,538</u>
Total liabilities and fund balances	<u>\$ 4,772,102</u>	<u>\$ 827,721</u>	<u>\$ 933,760</u>	<u>\$ 6,533,583</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, 2018

Fund balances of governmental funds \$ 5,709,538

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. 7,600,249

Deferred outflow of resources relate to:

Pension contributions made after the measurement date		38,386
Changes of assumptions		69,841
Difference between expected and actual experience		563
Difference between projected and actual investment earnings		15,795
Change in employer's proportion		13,196

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	\$ (19,606)	
Loan payable - County of Riverside	(90,184)	
Loan payable- RCTC	(102,675)	
Total OPEB liability	(134,345)	
Net pension liability	<u>(380,550)</u>	(727,360)

Deferred inflows of resources relate to:

Changes of assumptions		(5,325)
Difference between expected and actual experience		(8,066)
Change in employer's proportion		(10,394)
Difference between contribution and proportionate share of contribution		<u>(18,762)</u>

Net position of governmental activities \$ 12,677,661

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 Year Ended June 30, 2018

	General	Special Revenue Gas Tax Fund	Total Non-major Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 4,510,375	\$ -	\$ -	\$ 4,510,375
Licenses and permits	383,917	-	-	383,917
Fines and forfeitures	22,128	-	-	22,128
Intergovernmental	74,699	317,885	350,351	742,935
Use of money and property	39,965	(805)	(461)	38,699
Other	59,765	-	-	59,765
	<u>5,090,849</u>	<u>317,080</u>	<u>349,890</u>	<u>5,757,819</u>
EXPENDITURES				
Current:				
General government	913,615	-	-	913,615
Public safety	3,472,604	-	129,000	3,601,604
Public works	170,249	530,009	-	700,258
Community development	234,590	-	-	234,590
Capital outlay	51,833	80,894	60,078	192,805
Debt service:				
Principal	-	-	145,658	145,658
Interest and fiscal charges	-	-	1,343	1,343
	<u>4,842,891</u>	<u>610,903</u>	<u>336,079</u>	<u>5,789,873</u>
Net change in fund balances	247,958	(293,823)	13,811	(32,054)
Fund balances, beginning of year	<u>3,993,344</u>	<u>828,299</u>	<u>919,949</u>	<u>5,741,592</u>
Fund balances, end of year	<u>\$ 4,241,302</u>	<u>\$ 534,476</u>	<u>\$ 933,760</u>	<u>\$ 5,709,538</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 Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ (32,054)
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	192,805
Depreciation expense	(543,591)
Governmental funds report principal payments as expenditures. In the statement of activities, principal payments are applied to the appropriate long-term liability.	
	145,658
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	(13,556)
OPEB related net of adjustments	(21,809)
Increase in compensated absences payable	(9,164)
	(34,529)
Change in net position of governmental activities	\$ (281,711)

The accompanying notes are an integral part of these financial statements

City of Canyon Lake
Statement of Fiduciary Assets and Liabilities
June 30, 2018

	<u>Agency Fund</u>
ASSETS	
Due from other governments	<u>\$ 48,109</u>
Total assets	<u><u>\$ 48,109</u></u>
LIABILITIES	
Deposits	<u>\$ 48,109</u>
Total liabilities	<u><u>\$ 48,109</u></u>

The accompanying notes are an integral part of these financial statements

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City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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. The City does not have any proprietary funds.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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 fiduciary fund financial statements. 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.

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.

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.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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

The *Agency 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.

Other Accounting Policies

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."

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.

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.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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

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.

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.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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

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.

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, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies (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, 2018
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

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, 2018

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

Implementation of new pronouncement

GASB has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses. For postemployment benefits other than pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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, 2018

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net position	
Cash and investments	\$ 6,085,061
Statement of Fiduciary Assets and Liabilities	
Cash and investments	<u> -</u>
Total cash and investments	<u><u>\$ 6,085,061</u></u>

Cash and Investments as of June 30, 2018 consists of the following:

Deposits with financial institutions	\$ 3,150,825
Cash on hand	300
Investments	<u>2,933,936</u>
Total cash and investments	<u><u>\$ 6,085,061</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, 2018

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	\$ 9,749	\$ 9,749	\$ -	\$ -
Money market sweep	310,667	310,667	-	-
Negotiable certificates of deposit	394,436	99,802	-	294,634
Federal agency securities	1,703,162	197,686	388,289	1,117,187
Corporate debt securities	395,688	-	99,928	295,760
Money market	120,234	120,234	-	-
Totals	<u>\$ 2,933,936</u>	<u>\$ 738,138</u>	<u>\$ 488,217</u>	<u>\$ 1,707,581</u>

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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	\$ 9,749	N/A	Not rated
Money market sweep	310,667	N/A	Not rated
Negotiable certificates of deposit	394,436	N/A	Not rated
Federal agency securities	1,703,162	AA-a2	AA+
Corporate debt securities	395,688	A	A-, A, & A+
Money market	120,234	N/A	Not rated
Totals	<u>\$ 2,933,936</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	\$ 147,272
Federal Home Loan	Federal agency securities	413,703
Fannie Mae	Federal agency securities	507,454
Freddie Mac	Federal agency securities	537,866
PNC Bank	Corporate debt securities	193,844

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

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, 2018, the City had deposits of \$3,670,304 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, 2018, the carrying amount (at amortized cost) of the Pool was \$88,964,875,827 and the estimated fair value of the pool was \$88,798,232,977. The City's proportionate share of the Pool's market value (as determined by LAIF) as of June 30, 2018, was \$9,749. 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, 2018

Note 3: Cash and Investments (continued)

The City has the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value Level	Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3
Negotiable certificates of deposit	\$ 394,436	\$ -	\$ 394,436	\$ -
Federal agency securities	1,703,162	-	1,703,162	-
Corporate debt securities	395,688	-	395,688	-
Money market sweep	310,667	310,667	-	-
Money Market	120,234	-	120,234	-
	2,924,187	<u>\$ 310,667</u>	<u>\$ 2,613,520</u>	<u>\$ -</u>
<u>Investments by Net Asset Value</u>				
Local Agency Investment Fund	9,749			
Totals	<u>\$ 2,933,936</u>			

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2018 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	735,150	-	-	735,150
Machinery & equipment	305,613	19,510	(18,628)	306,495
Vehicles	141,722	92,401	-	234,123
Infrastructure	9,966,128	80,894	-	10,047,022
Total capital assets, being depreciated	11,148,613	192,805	(18,628)	11,322,790
Less accumulated depreciation for:				
Buildings	(284,560)	(21,909)	-	(306,469)
Machinery & equipment	(248,819)	(12,220)	18,628	(242,411)
Vehicles	(125,757)	(4,621)	-	(130,378)
Infrastructure	(2,668,442)	(504,841)	-	(3,173,283)
Total accumulated depreciation	(3,327,578)	(543,591)	18,628	(3,852,541)
Total capital assets, being depreciated, net	7,821,035	(350,786)	-	7,470,249
Governmental activities capital assets, net	<u>\$ 7,951,035</u>	<u>\$ (350,786)</u>	<u>\$ -</u>	<u>\$ 7,600,249</u>

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 4: Capital Assets (continued)

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

Governmental activities:	
General government	\$ 22,760
Public safety	7,715
Public works	<u>513,116</u>
Total depreciation expense - governmental activities	<u><u>\$ 543,591</u></u>

Note 5: Long-Term Liabilities

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

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loan Payable - County of Riverside	\$ 153,184	\$ -	\$ 63,000	\$ 90,184	\$ 63,000
RCTC Loan	185,333	-	82,658	102,675	83,413
Compensated Absences	<u>10,442</u>	<u>12,194</u>	<u>3,030</u>	<u>19,606</u>	<u>9,800</u>
Governmental activities long-term liabilities	<u><u>\$ 348,959</u></u>	<u><u>\$ 12,194</u></u>	<u><u>\$ 148,688</u></u>	<u><u>\$ 212,465</u></u>	<u><u>\$ 156,213</u></u>

Loan Payable - County of Riverside

In June 2003, the City entered into an agreement with the County of Riverside (the County) to obtain a loan for \$1,000,000 to finance the costs of structural repairs to Railroad Canyon Road. The loan is interest free. The loan did not have a set debt service schedule and was due within ten (10) years of the agreement and no later than June 30, 2013. The agreement was amended subsequent to June 30, 2013 and is now due within seven years, and has a set schedule of repayment, and is due no later than October 15, 2019. The City has pledged all of its Proposition 12 and 40 park bond funds, Community Development Block Grant funds, and commencing in fiscal year 2010-2011 Measure A and/or Proposition 42 funds for repayment of the debt. The principal balance as of June 30, 2018 is \$90,184.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 5: Long-Term Liabilities (continued)

Loan Payable - County of Riverside (continued)

The annual requirements to amortize the outstanding County of Riverside Loan payable as of June 30, 2018 are as follows:

Year Ending June 30,	Loan County of Riverside Principal
2019	\$ 63,000
2020	27,184
Total	\$ 90,184

Loan Payable – Riverside County Transportation Commission

In January 2013, the City entered into an agreement with the Riverside County Transportation Commission (RCTC) to obtain a loan for \$557,000 of Measure A Funds to finance construction costs for Railroad Canyon Road. The Loan bears interest at the rate of .91% per annum. Principal and interest are payable in monthly installments of \$7,000 commencing on January 18, 2013, until paid in full on December 18, 2019. The City has pledged its future Measure A revenues for the repayment of the Loan. The principal balance as of June 30, 2018 is \$102,675.

The annual requirements to amortize the outstanding RCTC Loan payable as of June 30, 2018 are as follows:

Year Ending June 30,	RCTC Loan Payable	
	Principal	Interest
2019	\$ 83,413	\$ 587
2020	19,262	28
Total	\$ 102,675	\$ 615

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 6: Operating Lease

The City leases equipment under a noncancelable operating lease. Total costs for the lease was \$7,332 for the fiscal year ended June 30, 2018. The future minimum annual lease payments for the lease are as follows:

Year Ending June 30,	Total
2019	\$ 7,332
2020	7,332
2021	7,332
2022	2,444
	\$ 24,440

Note 7: 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) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). 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 GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors one miscellaneous plan. 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 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 7: 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, 2018, 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	6.896%	6.250%
Required employer contribution rates	8.418%	6.533%

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, 2018, were \$38,386. The actual employer payments of \$36,602 made to CalPERS by the City during the measurement period ended June 30, 2017, differed from the City's proportionate share of the employer's contributions of \$48,929 by \$12,327, 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, 2018

Note 7: 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, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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	6/30/2016
Measurement Date	6/30/2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases (1)	3.30% to 14.20%
Investment Rate of Return (2)	7.00%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

- (1) Annual increases vary by category, entry age, and duration of service
- (2) Net of pension plan investment and administrative expenses; includes inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

Change of Assumptions

In fiscal year 2017-18, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 7: Retirement Plan (continued)

B. Net Pension Liability (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on CalPERS' website, at www.calpers.ca.gov.

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 following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 7: Retirement Plan (continued)

B. Net Pension Liability (continued)

Discount Rate (continued)

Asset Class	Allocation	Years 1 - 10 ¹	Years 11+ ²
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

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.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 7: Retirement Plan (continued)

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: 6/30/2016 (MD)	\$ 1,451,253	\$ 1,131,672	\$ 319,581
Balance at: 6/30/2017 (MD)	\$ 1,673,729	\$ 1,293,179	\$ 380,550
Net Changes during 2016-17	\$ 222,476	\$ 161,507	\$ 60,969

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

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The City's proportion of the net pension liability was 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. The City's proportionate share of the net pension liability for the Plan as of the June 30, 2016, and 2017 measurement dates was as follows:

	Miscellaneous
Proportionate Share - June 30, 2016	0.00920%
Proportionate Share - June 30, 2017	0.00965%
Change - Increase (Decrease)	0.00045%

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:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan's Net Pension Liability	\$ 610,567	\$ 380,550	\$ 189,881

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 7: Retirement Plan (continued)

C. Proportionate Share of Net Pension Liability (continued)

Subsequent Events

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

Recognition of Gains and Losses

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:

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

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 the Plan for the 2016-17 measurement period is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 7: Retirement Plan (continued)

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

As of the start of the measurement period (July 1, 2016), the City's net pension liability was \$319,581. For the measurement period ending June 30, 2017 (the measurement date), the City incurred a pension expense/(income) of \$51,941 for the Plan.

As of June 30, 2018, 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	\$ 563	\$ (8,066)
Changes of Assumptions	69,841	(5,325)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	15,795	-
Change in Employer's Proportion	13,196	(10,394)
Difference in Actual vs. Projected Contributions	-	(18,762)
Pension Contributions Subsequent to Measurement Date	38,386	-
Total	\$ 137,781	\$ (42,547)

These amounts above are net of outflows and inflow recognized in the 2016-17 measurement period expense. \$38,386 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	\$ 3,076
2019	40,193
2020	22,958
2021	(9,379)

E. Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 8: 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

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the HC Plan:

Active employees	6
Inactive employees or beneficiaries currently receiving benefits	1
Total	7

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, 2018, the City's required minimum payments amounted to \$4,412 in payment for premiums.

Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation dated June 30, 2018, based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Discount Rate	3.80%
Inflation	2.75%
Salary Increases	2.75%
Mortality Rate	2014 CalPERS Active Mortality for Miscellaneous Employees
Pre-Retirement Turnover Healthcare Trend Rate	2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees adjusted to reflect a minimum retirement age of 52

Discount Rate

The discount rate used to measure the total OPEB liability was 3.8% 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.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 8: Other Postemployment Benefits (OPEB), (continued)

Changes in the Total OPEB Liability

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

	Total OPEB Liability (a)
Balance at June 30, 2017	
(Rollback balance June 30, 2017)	\$ 112,536
Changes recognized for the measurement period:	
Service Cost	21,629
Interest	4,592
Changes of assumptions	-
Plan experience differences	-
Contributions - employer	-
Net investment income	-
Benefit payments	(4,412)
Administrative expenses	-
Net Changes	21,809
Balance at June 30, 2018	
(Measurement Date June 30, 2018)	\$ 134,345

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, 2018:

	1% Decrease 2.80%	Current Discount Rate 3.80%	1% Increase 4.80%
Total OPEB Liability \$	156,214	\$ 134,345	\$ 116,771

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, 2018:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Total OPEB Liability \$	117,189	\$ 134,345	\$ 155,106

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 9: 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-two cities, three transit agencies and six special districts. The City participates in the liability, employment practices liability, property, auto physical damage, and crime insurance programs of PERMA.

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 CSAC Excess Insurance Authority (EIA) for \$49 million of excess liability coverage.

The employment practices liability program provides up to \$1 million per occurrence. The City has selected a \$25,000 self-insured retention for this coverage. Coverage above \$25,000 is with Employment Risk Management Authority (ERMA) to a limit of \$1,000,000, followed by PERMA's membership in CSAC-EIA for \$49 million of excess employment practices 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 City is insured with the State Compensation Insurance Fund for workers' compensation claims. There is no deductible requirement for this coverage.

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

Note 10: 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.

City of Canyon Lake
Notes to the Basic Financial Statements
June 30, 2018

Note 11: 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	\$ 1,846	\$ -	\$ -	\$ 1,846
Restricted for:				
Public works	-	534,476	832,551	1,367,027
Public safety	-	-	79,536	79,536
Equipment	-	-	21,673	21,673
Assigned to:				
Self-insured retention	15,000	-	-	15,000
Litigation	25,000	-	-	25,000
Equipment replacement	35,000	-	-	35,000
Unassigned:	4,164,456	-	-	4,164,456
	<u>\$ 4,241,302</u>	<u>\$ 534,476</u>	<u>\$ 933,760</u>	<u>\$ 5,709,538</u>

Note 12: 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 \$145,507 for the fiscal year ended June 30, 2018, which included \$66,599 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, 2018

Note 13: Prior Period Adjustment

As discussed in Note 1, the City implemented GASB Statement No. 75 effective July 1, 2017. GASB 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, expense/expenditures for Other Post-Employment Benefits (OPEB). GASB Statement No. 75 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. Accordingly, beginning Net Position on the Financial Statements has been restated for changes related to GASB 75 as follows:

Beginning net position, as previously reported	\$ 13,071,908
Restatement due to change in accounting principle	<u>(112,536)</u>
Beginning net position, as restated	<u><u>\$ 12,959,372</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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City of Canyon Lake
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 4,350,800	\$ 4,423,060	\$ 4,510,375	\$ 87,315
Licenses and permits	281,500	281,500	383,917	102,417
Fines and forfeitures	15,000	15,000	22,128	7,128
Intergovernmental	41,800	50,403	74,699	24,296
Use of money and property	70,200	70,200	39,965	(30,235)
Other	25,000	25,000	59,765	34,765
Total revenues	4,784,300	4,865,163	5,090,849	225,686
EXPENDITURES				
Current:				
General government	821,742	898,067	913,615	(15,548)
Public safety	3,508,908	3,515,811	3,472,604	43,207
Public works	131,698	177,198	170,249	6,949
Community development	197,600	197,600	234,590	(36,990)
Capital outlay	60,900	60,900	51,833	9,067
Total expenditures	4,720,848	4,849,576	4,842,891	6,685
Net change in fund balance	63,452	15,587	247,958	232,371
Fund balance, beginning of year	3,993,344	3,993,344	3,993,344	-
Fund balance, end of year	<u>\$ 4,056,796</u>	<u>\$ 4,008,931</u>	<u>\$ 4,241,302</u>	<u>\$ 232,371</u>

City of Canyon Lake
Required Supplementary Information
Budgetary Comparison Schedule
Gas Tax Special Revenue Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$ 291,700	\$ 310,300	\$ 317,885	\$ 7,585
Use of money and property	1,000	1,000	(805)	(1,805)
Total revenues	<u>292,700</u>	<u>311,300</u>	<u>317,080</u>	<u>5,780</u>
EXPENDITURES				
Current:				
Public works	766,500	782,100	530,009	252,091
Capital Outlay	-	-	80,894	(80,894)
Total expenditures	<u>766,500</u>	<u>782,100</u>	<u>610,903</u>	<u>171,197</u>
Net change in fund balance	(473,800)	(470,800)	(293,823)	176,977
Fund balance, beginning of year	<u>828,299</u>	<u>828,299</u>	<u>828,299</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 354,499</u></u>	<u><u>\$ 357,499</u></u>	<u><u>\$ 534,476</u></u>	<u><u>\$ 176,977</u></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 Year Ended June 30, 2018

	<u>Measurement Date 6/30/2014</u>	<u>Measurement Date 6/30/2015</u>	<u>Measurement Date 6/30/2016</u>	<u>Measurement Date 6/30/2017</u>
Employer's Proportion of the Collective Net Pension Liability ¹	0.00375%	0.00832%	0.00920%	0.00965%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 233,356	\$ 228,126	\$ 319,581	\$ 380,550
Employer's Covered Payroll	\$ 97,906	\$ 241,941	\$ 257,514	\$ 408,132
Employer's Proportionate Share of the Collective Net Pension Liability as a percentage of the Employer's Covered Payroll	238.35%	94.29%	124.10%	93.24%
Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability	82.11%	82.84%	77.98%	77.26%

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.

Changes in Assumptions: In 2015, there were no changes. In 2016, the discount rate was changed from 7.5 percent (net of administration expenses) to 7.65 percent. In 2017, the accounting discount rate reduced from 7.65 to 7.15 percent.

* 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 Year Ended June 30, 2018

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Actuarially Determined Contribution	\$ 21,700	\$ 28,593	\$ 36,602	\$ 38,386
Contributions in Relation to the Actuarially Determined Contribution	(21,700)	(28,593)	(36,602)	(38,386)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's Covered Payroll	\$ 241,941	\$ 257,514	\$ 408,132	\$ 367,763
Contributions as a Percentage of Covered Payroll	8.97%	11.10%	8.97%	10.44%

* 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: In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. 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 Year Ended June 30, 2018

Measurement Period	2018
Total OPEB Liability	
Service Cost	\$ 21,629
Interest on the Total OPEB Liability	4,592
Actual and expected experience difference	-
Changes in assumptions	-
Changes in benefit terms	-
Benefit payments	(4,412)
Net change in Total OPEB Liability	<u>21,809</u>
Total OPEB Liability - beginning	<u>112,536</u>
Total OPEB Liability - ending (a)	<u><u>\$ 134,345</u></u>
Total OPEB Liability - ending (a)	\$ 134,345
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered employee payroll	\$ 300,891
Total OPEB liability as a percentage of covered employee payroll	44.65%

Notes to schedule:

The following assumptions were changed from the prior valuation:

None.

* Fiscal Year 2017-18 was the first year of implementation.

**City of Canyon Lake
 Required Supplementary Information
 Schedule of OPEB Plan Contributions
 Last 10 Years*
 For the Year Ended June 30, 2018**

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ended June 30	2018
Contractually or Statutorily Determined Contributions (C/S DC)	\$ 4,412
Contributions in relation to the C/S DC	(4,412)
Contribution deficiency/(excess)	\$ -
Covered employee payroll	\$ 300,891
Contribution as a percentage of covered payroll	1.47%

Notes to schedule:

None

Methods and assumptions used to determine contributions:

N/A

* Fiscal Year 2017-18 was the first year of implementation.

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, 2018**

	Special Revenue Funds			
	Measure A	AQMD	Law Enforcement Grants	Miscellaneous Grants
ASSETS				
Cash and investments	\$ 346,130	\$ 76,881	\$ 54,536	\$ 21,673
Receivables:				
Intergovernmental	15,727	3,586	25,000	-
Total assets	<u>\$ 361,857</u>	<u>\$ 80,467</u>	<u>\$ 79,536</u>	<u>\$ 21,673</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Public works	361,857	80,467	-	-
Public safety	-	-	79,536	-
Equipment	-	-	-	21,673
Total fund balances	<u>361,857</u>	<u>80,467</u>	<u>79,536</u>	<u>21,673</u>
Total liabilities and fund balances	<u>\$ 361,857</u>	<u>\$ 80,467</u>	<u>\$ 79,536</u>	<u>\$ 21,673</u>

<u>Capital Projects Fund</u>	<u>Total Non-major Governmental Funds</u>
Capital Projects	
\$ 376,281	\$ 875,501
<u>13,946</u>	<u>58,259</u>
<u>\$ 390,227</u>	<u>\$ 933,760</u>

<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>

390,227	832,551
-	79,536
<u>-</u>	<u>21,673</u>
<u>390,227</u>	<u>933,760</u>
<u>\$ 390,227</u>	<u>\$ 933,760</u>

City of Canyon Lake
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds			
	Measure A	AQMD	Law Enforcement Grants	Miscellaneous Grants
REVENUES				
Intergovernmental	\$ 184,294	\$ 12,695	\$ 139,416	\$ -
Use of money and property	(354)	(107)	-	-
Total revenues	<u>183,940</u>	<u>12,588</u>	<u>139,416</u>	<u>-</u>
EXPENDITURES				
Current:				
Public safety	-	-	129,000	-
Capital Outlay	-	46,132	-	-
Debt service:				
Principal	145,658	-	-	-
Interest and fiscal charges	1,343	-	-	-
Total expenditures	<u>147,001</u>	<u>46,132</u>	<u>129,000</u>	<u>-</u>
Net change in fund balances	36,939	(33,544)	10,416	-
Fund balances, beginning of year	<u>324,918</u>	<u>114,011</u>	<u>69,120</u>	<u>21,673</u>
Fund balances, end of year	<u>\$ 361,857</u>	<u>\$ 80,467</u>	<u>\$ 79,536</u>	<u>\$ 21,673</u>

Capital Projects Fund	Total Non-major Governmental Funds
\$ 13,946	\$ 350,351
<u>-</u>	<u>(461)</u>
<u>13,946</u>	<u>349,890</u>
-	129,000
13,946	60,078
-	145,658
<u>-</u>	<u>1,343</u>
<u>13,946</u>	<u>336,079</u>
-	13,811
<u>390,227</u>	<u>919,949</u>
<u>\$ 390,227</u>	<u>\$ 933,760</u>

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AGENCY FUND

Agency Fund - To account for collections from citizens for solid waste services by the City on behalf of CR&R and payments made by the City to CR&R. To account for TUMF and MSHCP fees received from developers and builders and paid to WRCOG. To account for developer deposits received for various planning projects.

City of Canyon Lake
Statement of Changes in Fiduciary Assets and Liabilities
For the Year Ended June 30, 2018

Agency Fund	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
ASSETS				
Cash and investments	\$ 4,037	\$ 1,352,477	\$ 1,356,514	\$ -
Due from other governments	33,228	48,109	33,228	48,109
Total assets	<u>\$ 37,265</u>	<u>\$ 1,400,586</u>	<u>\$ 1,389,742</u>	<u>\$ 48,109</u>
LIABILITIES				
Deposits	\$ 37,265	\$ 1,400,586	\$ 1,389,742	\$ 48,109
Total liabilities	<u>\$ 37,265</u>	<u>\$ 1,400,586</u>	<u>\$ 1,389,742</u>	<u>\$ 48,109</u>