

**CITY OF GONZALES**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
JUNE 30, 2015**

## TABLE OF CONTENTS

---

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 – 2
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	3
Statement of Activities	4
<b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds	5
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	6
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	7
Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	8
Statement of Net Position - Proprietary Funds	9
Statement of Revenue, Expenses and Changes in Fund Net Position - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Statement of Fiduciary Assets and Liabilities - Agency Funds	12
Statement of Fiduciary Net Position – Private Purpose Trust Fund	13
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund	14
Notes to Basic Financial Statements	15 – 44

## **TABLE OF CONTENTS (Continued)**

---

	<u>Page</u>
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	45
Budgetary Comparison Schedule – Community Development Block Grant	46
Budgetary Comparison Schedule – Infrastructure Improvement Fund	47
Schedule of the City’s Proportionate Share of Net Pension Liability	48
Schedule of Contributions	49
<b>Supplemental Only Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	50 – 52
Combining Statement of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	53 – 55
<b>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	56 – 57
<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133</b>	58 – 59
Schedule of Expenditures of Federal Awards	60
Schedule of Findings and Questioned Costs	61
Summary Schedule of Prior Audit Findings	62

# BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.  
Ryan P. Jolley C.P.A.  
Darryl L. Smith C.P.A.  
Jeffrey M. Schill  
Lan T. Kimoto

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council  
City of Gonzales, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gonzales, California, (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gonzales, California, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in Note 1 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. 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 budgetary comparison information on pages 45 - 47 and the City's Schedule of Proportionate Share of Net Pension Liability and Contributions, on pages 48 - 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

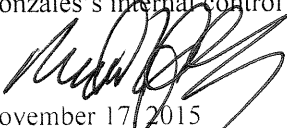
### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gonzales's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015, on our consideration of the City of Gonzales's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gonzales's internal control over financial reporting and compliance.

  
November 17, 2015

# CITY OF GONZALES

## STATEMENT OF NET POSITION JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 6,088,489	\$ 6,404,425	\$ 12,492,914
Accounts receivable, net	-	348,328	348,328
Due from other governments	593,282	-	593,282
Interest receivable	1,051	8,377	9,428
Notes and loans receivable	3,688,908	-	3,688,908
Due from successor agency	230,000	-	230,000
Lease reimbursement receivable	1,076,697	-	1,076,697
Advance to successor agency	-	1,000,000	1,000,000
Less: Allowance for uncollectible	(1,076,697)	(1,000,000)	(2,076,697)
Other assets - deposits	15,746	-	15,746
Internal balances	(551,059)	551,059	-
Capital assets, net of allowance for depreciation	<u>26,686,115</u>	<u>16,479,249</u>	<u>43,165,364</u>
Total assets	<u>36,752,532</u>	<u>23,791,438</u>	<u>60,543,970</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>251,671</u>	<u>38,700</u>	<u>290,371</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expense	609,765	158,884	768,649
Unearned revenues	-	-	-
Deposits payable	76,897	67,782	144,679
Long-term liabilities			
Due within one year	101,079	333,158	434,237
Due in more than one year	4,112,902	4,037,722	8,150,624
Net pension liability	1,793,365	361,366	2,154,731
Compensated absences	182,769	-	182,769
Total liabilities	<u>6,876,777</u>	<u>4,958,912</u>	<u>11,835,689</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>526,856</u>	<u>91,699</u>	<u>618,555</u>
<b>NET POSITION</b>			
Net investment in capital assets	22,472,134	12,108,369	34,580,503
Restricted for specific projects and programs	4,606,215	-	4,606,215
Restricted for capital improvements	-	1,760,100	1,760,100
Unrestricted	<u>2,522,221</u>	<u>4,911,058</u>	<u>7,433,279</u>
Total net position	<u>\$ 29,600,570</u>	<u>\$ 18,779,527</u>	<u>\$ 48,380,097</u>

**CITY OF GONZALES**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**

Functions/Programs	Program Revenue			Net Revenue/(Expense) and Changes in Net Position			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities							
General government	\$ 539,219	\$ -	\$ 210,443	\$ -	\$ (328,776)	\$ -	\$ (328,776)
Public safety	3,049,971	11,954	959,979	7,620	(2,070,418)	-	(2,070,418)
Public works	1,761,594	1,826	1,004,603	9,127	(746,038)	-	(746,038)
Parks and recreation	642,568	118,994	51,279	10,082	(462,213)	-	(462,213)
Community development	1,137,608	57,345	642,213	-	(438,050)	-	(438,050)
Debt Service							
Interest and fiscal charges	303,299	-	-	-	(303,299)	-	(303,299)
Total governmental activities	7,434,259	190,119	2,868,517	26,829	(4,348,794)	-	(4,348,794)
Business-type activities							
Water	1,035,359	1,328,978	-	5,429	-	299,048	299,048
Sewer	655,504	829,151	-	16,277	-	189,924	189,924
Garbage	1,016,760	1,289,220	-	-	-	272,460	272,460
Solar Energy	156,778	80,390	-	-	-	(76,388)	(76,388)
Total business-type activities	2,864,401	3,527,739	-	21,706	-	685,044	685,044
<b>Total primary government</b>	<b>\$ 10,298,660</b>	<b>\$ 3,717,858</b>	<b>\$ 2,868,517</b>	<b>\$ 48,535</b>	<b>(4,348,794)</b>	<b>685,044</b>	<b>(3,663,750)</b>
<b>General Revenue</b>							
Property taxes					2,074,268	-	2,074,268
Special assessments					9,181	-	9,181
Sales taxes					680,024	-	680,024
Franchise and other taxes					80,499	-	80,499
Utility users tax					281,269	-	281,269
Business licenses					61,733	-	61,733
Investment income					117,780	12,205	129,985
Other					54,339	835,874	890,213
Loss on sale of property					(281,205)	-	(281,205)
Transfers					221,280	(221,280)	-
Total general revenue and transfers					3,299,168	626,799	3,925,967
<b>Extraordinary Gain/(Loss)</b>					500,000	-	500,000
<b>Change in Net Position</b>					(549,626)	1,311,843	762,217
<b>Net Position</b>							
Beginning of year, as previously stated					32,239,514	17,885,219	50,124,733
Cumulative effect of change in accounting principles					(2,089,318)	(417,535)	(2,506,853)
Beginning of year, as restated					30,150,196	17,467,684	47,617,880
End of year					\$ 29,600,570	\$ 18,779,527	\$ 48,380,097

See accompanying notes.

**CITY OF GONZALES**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General	Community Development Block Grant	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 1,534,971	\$ 110,790	\$ 198,191	\$ 4,244,537	\$ 6,088,489
Due from other governments	200,343	180,346	1,000	211,593	593,282
Interest receivable	-	-	62	989	1,051
Due from other funds	184,458	-	-	-	184,458
Notes and loans receivable	500,000	1,731,973	836,102	620,833	3,688,908
Lease reimbursement receivable	1,076,697	-	-	-	1,076,697
Advance to Successor Agency	-	-	-	230,000	230,000
Other assets - deposits	15,746	-	-	-	15,746
Total assets	\$ 3,512,215	\$ 2,023,109	\$ 1,035,355	\$ 5,307,952	\$ 11,878,631
<b>LIABILITIES</b>					
Accounts payable and accrued expense	\$ 242,201	\$ 105,573	\$ 5,740	\$ 256,251	\$ 609,765
Due to other funds	-	91,111	-	50,406	141,517
Deposits and other liabilities	76,897	-	-	-	76,897
Advances from other funds	594,000	-	-	-	594,000
Total liabilities	\$ 913,098	\$ 196,684	\$ 5,740	\$ 306,657	\$ 1,422,179
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues	\$ 1,576,697	\$ 1,731,973	\$ 836,102	\$ 620,833	\$ 4,765,605
Total deferred inflows of resources	\$ 1,576,697	\$ 1,731,973	\$ 836,102	\$ 620,833	\$ 4,765,605
<b>FUND BALANCE</b>					
Restricted					
Lighting, landscape & park maintenance	-	-	-	2,045,329	2,045,329
Low-income housing activities	-	-	-	409,092	409,092
Community development	-	-	193,513	690,728	884,241
Street improvements	-	-	-	1,238,102	1,238,102
Public safety	-	-	-	29,451	29,451
Unassigned	1,022,420	94,452	-	(32,240)	1,084,632
Total fund balance	\$ 1,022,420	\$ 94,452	\$ 193,513	\$ 4,380,462	\$ 5,690,847
Total liabilities, deferred inflows of resources, and fund balance	\$ 3,512,215	\$ 2,023,109	\$ 1,035,355	\$ 5,307,952	\$ 11,878,631



# CITY OF GONZALES

## RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2015

---

Total governmental fund balance	\$ 5,690,847
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	26,686,115
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(4,213,981)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(182,769)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	251,671
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reported in the governmental funds	(1,793,365)
Deferred inflows of resources related to net pension liability, represent an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time	(526,856)
In governmental funds, receivables which are not considered available are deferred. Such items are not deferred in the Statement of Net Position	<u>3,688,908</u>
Net position of governmental activities	<u>\$ 29,600,570</u>

# CITY OF GONZALES

## STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2015

	General	Community Development Block Grant	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Taxes and assessments	\$ 2,668,743	\$ -	\$ -	\$ 518,017	\$ 3,186,760
Licenses, permits and impact fees	183,376	-	-	33,572	216,948
Intergovernmental	433,357	572,651	13,033	1,285,585	2,304,626
Charges for services	119,989	-	-	-	119,989
Fines and forfeitures	32,387	-	-	-	32,387
Loan repayments	-	70,462	-	86,632	157,094
Use of money and property	94,869	11,804	593	10,516	117,782
Other	54,553	-	-	795	55,348
Total revenue	3,587,274	654,917	13,626	1,935,117	6,190,934
<b>Expenditures</b>					
Current					
General government	546,467	-	-	-	546,467
Public safety	2,417,649	-	-	452,199	2,869,848
Public works	148,240	270,069	63,860	587,211	1,069,380
Parks and recreation	339,969	-	-	213,948	553,917
Community development	228,909	313,468	-	253,891	796,268
Capital outlay	99,093	-	-	159,752	258,845
Debt Service					
Principal	112,105	-	-	15,986	128,091
Interest and fiscal charges	302,475	-	-	824	303,299
Total expenditures	4,194,907	583,537	63,860	1,683,811	6,526,115
Revenue over/(under) expenditures	(607,633)	71,380	(50,234)	251,306	(335,181)
<b>Other Financing Sources/(Uses)</b>					
Proceeds from the sale of property	1,114,648	-	-	-	1,114,648
Transfers in/(out) - net	311,456	(26,906)	-	(63,270)	221,280
	1,426,104	(26,906)	-	(63,270)	1,335,928
<b>Change in Fund Balance</b>	818,471	44,474	(50,234)	188,036	1,000,747
<b>Fund Balance</b>					
Beginning of year	203,949	49,978	243,747	4,192,426	4,690,100
End of year	\$ 1,022,420	\$ 94,452	\$ 193,513	\$ 4,380,462	\$ 5,690,847

See accompanying notes.

# CITY OF GONZALES

## RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2015

---

Net change in fund balance - total governmental funds	\$ 1,000,747
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense	
Capital outlay expenditures are therefore added back to fund balances	258,844
Disposal of property	(1,395,853)
Depreciation expense not reported in governmental funds	<u>(1,328,019)</u>
	(2,465,028)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	128,091
Contributions in the pension plan in the current fiscal year are deferred outflows of resources in the Statement of Net Position	251,671
Pension 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	(230,903)
Repayment of long-term loans receivable is revenue in governmental funds, but the repayment reduces long-term assets in the statement of net position. Issuance of long-term loans receivable produces the opposite effect	753,626
Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds	<u>12,170</u>
Change in net position of governmental activities	<u>\$ (549,626)</u>

**CITY OF GONZALES**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds					Total
	Water	Sewer	Garbage	Solar Energy	Proprietary	Funds
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and investments	\$ 3,867,428	\$ 2,359,978	\$ -	\$ 177,019	\$	6,404,425
Accounts receivable, net	126,169	44,194	169,134	8,831		348,328
Interest receivable	3,620	2,646	2,111	-		8,377
Total current assets	<u>3,997,217</u>	<u>2,406,818</u>	<u>171,245</u>	<u>185,850</u>		<u>6,761,130</u>
<b>Non-current assets</b>						
Advances to Successor Agency	1,000,000	-	-	-		1,000,000
Less: Allowance for uncollectible	(1,000,000)	-	-	-		(1,000,000)
Advances to other funds	594,000	-	-	-		594,000
Property, plant and equipment, net of allowance for depreciation	7,924,223	5,914,753	-	2,640,273		16,479,249
Total non-current assets	<u>8,518,223</u>	<u>5,914,753</u>	<u>-</u>	<u>2,640,273</u>		<u>17,073,249</u>
Total assets	<u>\$ 12,515,440</u>	<u>\$ 8,321,571</u>	<u>\$ 171,245</u>	<u>\$ 2,826,123</u>	<u>\$</u>	<u>23,834,379</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	<u>16,394</u>	<u>16,078</u>	<u>6,228</u>	<u>-</u>		<u>38,700</u>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Accounts payable and accrued expenses	\$ 29,932	\$ 45,329	\$ 83,623	\$ -	\$	158,884
Due to other funds	-	-	42,941	-		42,941
Deposits	67,782	-	-	-		67,782
Current portion of long-term debt	163,223	-	-	169,935		333,158
Total current liabilities	<u>260,937</u>	<u>45,329</u>	<u>126,564</u>	<u>169,935</u>		<u>602,765</u>
<b>Non-current liabilities</b>						
Long-term debt	1,853,484	-	-	2,184,238		4,037,722
Net pension liability	153,082	150,133	58,151	-		361,366
Total noncurrent liabilities	<u>2,006,566</u>	<u>150,133</u>	<u>58,151</u>	<u>2,184,238</u>		<u>4,399,088</u>
Total liabilities	<u>2,267,503</u>	<u>195,462</u>	<u>184,715</u>	<u>2,354,173</u>		<u>5,001,853</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
	<u>38,846</u>	<u>38,097</u>	<u>14,756</u>	<u>-</u>		<u>91,699</u>
<b>NET POSITION</b>						
Net investment in capital assets	5,907,516	5,914,753	-	286,100		12,108,369
Restricted for capital improvements	946,695	813,405	-	-		1,760,100
Unrestricted/(deficit)	3,371,274	1,375,932	(21,998)	185,850		4,911,058
Total net position	<u>\$ 10,225,485</u>	<u>\$ 8,104,090</u>	<u>\$ (21,998)</u>	<u>\$ 471,950</u>	<u>\$</u>	<u>18,779,527</u>

**CITY OF GONZALES**

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds
	Water	Sewer	Garbage	Solar Energy	
<b>Operating Revenue</b>					
Charges for services	\$ 1,327,728	\$ 824,395	\$ 1,289,220	\$ -	\$ 3,441,343
Other revenues	1,250	4,756	-	80,390	86,396
Total operating income	1,328,978	829,151	1,289,220	80,390	3,527,739
<b>Operating Expense</b>					
Contractual services and utilities	454,504	235,819	940,509	14,584	1,645,416
Personnel	201,798	201,645	68,171	-	471,614
Supplies and materials	115,327	102,039	8,080	-	225,446
Depreciation	192,193	116,001	-	38,544	346,738
Total operating expense	963,822	655,504	1,016,760	53,128	2,689,214
Operating income/(loss)	365,156	173,647	272,460	27,262	838,525
<b>Nonoperating Revenue/(Expense)</b>					
Development impact fees	5,429	16,277	-	-	21,706
Interest income	8,370	3,835	-	-	12,205
Interest expense	(71,537)	-	-	(103,650)	(175,187)
Other income	835,874	-	-	-	835,874
Total nonoperating revenue/(expense)	778,136	20,112	-	(103,650)	694,598
Net income/(loss) before transfers	1,143,292	193,759	272,460	(76,388)	1,533,123
<b>Operating Transfers In/(Out)</b>	(115,170)	(140,120)	(230,000)	264,010	(221,280)
<b>Change in Net Position</b>	1,028,122	53,639	42,460	187,622	1,311,843
<b>Net Position</b>					
Beginning of year, as previously reported	9,374,239	8,223,920	2,732	284,328	17,885,219
Cumulative effect of change in accounting principles	(176,876)	(173,469)	(67,190)	-	(417,535)
Beginning of year, as restated	9,197,363	8,050,451	(64,458)	284,328	17,467,684
End of year	10,225,485	8,104,090	(21,998)	471,950	18,779,527

See accompanying notes.

**CITY OF GONZALES**

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Funds					Total Business-Type Funds
	Water	Sewer	Garbage	Solar Energy		
<b>Operating Activities</b>						
Receipts from customers and users	\$ 1,361,943	\$ 884,683	\$ 1,325,849	\$ 76,104	\$	\$ 3,648,579
Payments for contractual services and utilities	(454,075)	(213,445)	(972,617)	(14,584)		(1,654,721)
Payments to employees	(203,140)	(202,962)	(68,682)	-		(474,784)
Payment to suppliers	(115,330)	(102,037)	(8,079)	-		(225,446)
Net cash provided (used) by operating activities	589,398	366,239	276,471	61,520		1,293,628
<b>Non-capital Financial Activities</b>						
Cash overdraft loan to Successor Agency	835,874	-	-	-		835,874
Payments (to)/from developers	5,429	16,277	-	-		21,706
Transfers (to)/from other funds	(115,170)	(140,120)	(274,360)	264,010		(265,640)
Net cash provided by (used in) noncapital financing activities	726,133	(123,843)	(274,360)	264,010		591,940
<b>Capital and Related Financing Activities</b>						
Principal paid on long-term debt	(175,136)	-	-	(154,175)		(329,311)
Interest paid on long-term debt	(71,537)	-	-	(103,650)		(175,187)
Net cash used in capital and related financing activities	(246,673)	-	-	(257,825)		(504,498)
<b>Investing Activities</b>						
Interest received	5,503	4,680	(2,111)	-		8,072
Payments received on notes	6,108	1,800	-	-		7,908
Net cash provided by investing activities	11,611	6,480	(2,111)	-		15,980
<b>Net Increase (Decrease) in Cash</b>	1,080,469	248,876	-	67,705		1,397,050
<b>Cash</b>						
Beginning of year	2,786,959	2,111,102	-	109,314		5,007,375
End of year	3,867,428	2,359,978	-	177,019		6,404,425
<b>Cash Flows from Operating Activities</b>						
Operating income (loss)	\$ 365,156	\$ 173,647	\$ 272,460	\$ 27,262	\$	\$ 838,525
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	192,193	116,001	-	38,544		346,738
(Increase) Decrease in Accounts Receivable	31,032	55,532	36,629	(4,286)		118,907
(Increase) Decrease in Deferred Outflows of Resources	(16,394)	(16,078)	(6,228)	-		(38,700)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	426	22,376	(32,107)	-		(9,305)
Increase (Decrease) in Deposits	1,933	-	-	-		1,933
Increase (Decrease) in Net Pension Liability	(23,794)	(23,336)	(9,039)	-		(56,169)
Increase (Decrease) in Deferred Inflows of Resources	38,846	38,097	14,756	-		91,699
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ 589,398	\$ 366,239	\$ 276,471	\$ 61,520	\$	\$ 1,293,628

See accompanying notes.

# CITY OF GONZALES

## STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS JUNE 30, 2015

---

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 4,103
Total assets	<u>4,103</u>
 <b>LIABILITIES</b>	
Agency funds payable	4,103
Total liabilities	<u>\$ 4,103</u>

# CITY OF GONZALES

## STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2015

---

	<b>Redevelopment Successor Agency</b>
<b>Assets</b>	
<b>Current assets</b>	
Cash and investments	\$ 412,466
Restricted cash and investments	<u>1,130,094</u>
Total current assets	<u><u>1,542,560</u></u>
<b>Noncurrent assets</b>	
Notes receivable	402,091
Net investment in lease receivable	4,310,000
Property, plant and equipment, net of allowance for depreciation	<u>461,051</u>
Total noncurrent assets	<u><u>5,173,142</u></u>
Total assets	<u><u>6,715,702</u></u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	8,281
Unearned revenue	876,085
Due to City of Gonzales	1,076,697
Interest payable	72,247
Bonds - current portion	<u>357,434</u>
Total current liabilities	<u><u>2,390,744</u></u>
<b>Noncurrent liabilities</b>	
Bonds - long term portion	12,949,311
Advance from Housing Successor Fund	230,000
Advance payable to City of Gonzales	<u>1,500,000</u>
Total noncurrent liabilities	<u><u>14,679,311</u></u>
Total liabilities	<u><u>17,070,055</u></u>
<b>Net Position</b>	
Held in trust for other governments	<u><u>\$ (10,354,353)</u></u>



# CITY OF GONZALES

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND JUNE 30, 2015

---

	<u>Redevelopment Successor Agency</u>
<b>Additions</b>	
Property taxes	\$ 1,285,314
Interest and use of property	35,230
Other revenues	31,828
Total additions	<u>1,352,372</u>
<b>Deductions</b>	
Administrative expenses	194,734
Depreciation	18,446
Interest and fiscal expenses	807,758
Loss on sale of property	489,928
Total deductions	<u>1,510,866</u>
<b>Extraordinary loss</b>	<u>(500,000)</u>
<b>Change In Net Position</b>	<u>(658,494)</u>
<b>Net Position</b>	
Beginning of year	<u>(9,695,859)</u>
End of year	<u>\$ (10,354,353)</u>

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies

#### **Reporting Entity**

The City of Gonzales (the City) is a municipal corporation, operating as a general law city, and governed by a city council of five members. As required by accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the City of Gonzales (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

The Gonzales Public Financing Authority (the Authority) is governed by the City Council of the City of Gonzales. Although, it is legally separate from the City, the Authority is reported as if it were part of the primary government because the City Council is the governing board is able to impose its will on the Authority and management has the same operational responsibility for the Authority as it does for the rest of the City. The activity of the Authority is included as separate funds in the special revenue fund and debt service fund types. Separate financial statements are not issued by the Authority.

#### **Basis of Presentation**

The City has conformed to the pronouncements of the GASB, which are the primary authoritative statements of accounting principles generally accepted in the United States of America applicable to state and local governments.

#### **Government-Wide Financial Statements**

The Government-Wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all of the nonfiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### **Fund Financial Statements**

The accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category - *governmental, proprietary, and fiduciary* - are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

#### **Governmental Fund Financial Statements Funds**

Major funds are defined as funds that have assets, liabilities, revenues, or expenditures/expenses equal to ten percent of their fund-type (governmental and enterprise funds, respectively) total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The following types of governmental funds are used:

#### General Fund

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

#### Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources (other than debt service and capital projects) that are restricted or committed to expenditures for specified purposes.

#### Debt Service Funds

Debt service funds are used to account for and report the financial resources that are restricted, committed or assigned for the payment of long-term debt principal, interest, and related costs.

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

- *General Fund* – This fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.
- *Community Development Block Grant Fund* – This fund accounts for Federal Grant monies restricted for specific community programs, which includes the activity related to loans provided to homeowners and businesses and the repayment of these loans.
- *Infrastructure Improvement Fund* – This fund is used to hold and track impact funds that have been initiated and committed to City infrastructure improvement projects.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### Fund Balance Classifications

The City's fund balance policy establishes the procedures for reporting unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the City's governmental funds: General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds.

#### Definitions

Fund balance is the difference between the assets and liabilities reported in the City's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The five components of fund balance are as follows:

- Nonspendable: Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.
- Restricted: Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- Committed: Resources that are constrained to specific purposes by a formal action of the City Council such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the City Council. Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- Assigned: Resources that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by the City Council or to an official which the City Council has delegated this authority.
- Unassigned: Within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Within all other governmental funds, the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

#### Policy

1. Unless necessary by other requirements and circumstances, when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.
2. The City's Fund Balance policy delegates to the Finance Director the authority to assign unrestricted fund balance amounts where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Change in Net Position, and a Statement of Cash Flows.

Proprietary fund types are accounted for using the “economic resources” measurement focus and accrual basis of accounting. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on the Statement of Net Position. Their reported fund equity presents total net position. The operating statement of the proprietary funds presents increases (revenues) and decreases (expenses) in total net position. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

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

The City reported the following major proprietary (enterprise) funds:

- *Water Fund* - This fund accounts for the activities for providing water service to the residents of the City.
- *Sewer Fund* - This fund accounts for the activities of providing sewer service to the residents of the City.
- *Garbage Fund* - This fund accounts for the activities of providing garbage service to the residents of the City.
- *Solar Energy Fund* – This fund accounts for the activities, the debt and the resources generated from the installation of solar energy panels.

#### Fiduciary Fund Financial Statements

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. The City maintains fiduciary funds for the River Road Assessment District, and the Private Purpose Trust Fund for the Successor Agency of the former Redevelopment Agency.

#### Basis of Accounting

The government-wide, proprietary funds and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures/expenses. The City's policy is to first apply restricted net position to such programs, followed by unrestricted net position.

#### **Financial Statement Amounts**

*Cash and Cash Equivalents* - The City maintains a pooled cash and investment program. Therefore, for purposes of the statement of cash flows, the City considers the entire pooled cash and investment balance to be cash and cash equivalents.

Investments are reported in the accompanying balance sheet at a fair value, except for investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The fair value of the investments is generally based on published market prices and quotations from major investment firms.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools its cash and investments of all funds with the City's pool, except for assets held by fiscal agents. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

*Accounts Receivable* – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

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

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

*Advances To/From Other Funds* - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

*Capital Assets* - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and with 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 are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Improvements	20 - 40
Equipment	5 - 15
Infrastructure	20 - 70

*Compensated Absences* - The City has adopted policies on sick leave and vacation leave. Sick leave is accrued at the rate of eight hours per month by all employees. A portion of the accumulated sick leave will be paid to retiring or resigning employees with a minimum of fifteen years of service. All other employees who terminate employment will receive no compensation for accumulated sick leave.

Employees are only allowed to carry forward one year worth of vacation hours as of January 1 of each year. Vacation is accrued for employees as follows:

<u>Years of Service</u>	<u>Monthly Accrual</u>	<u>Annually</u>
0 to 2	6-2/3 hours	Two weeks
3 to 9	10 hours	Three weeks
10 to 15	11-2/3 hours	Three weeks and 2-1/2 days
15+	13-1/3 hours	Four weeks

Upon termination of employment and, after completion of at least six months of service with the City, the accrued vacation leave shall be paid to the terminated employee.

*Unearned Revenue* – Unearned revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records unearned revenue related to uncollected outstanding performing loans and intergovernmental revenues received but not earned (qualifying expenditures not yet incurred).

*Deferred Compensation Plan* - City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only upon termination, retirement, death, or in an emergency as defined by the Plan. The assets of the Plan are not included within the City's financial statements.



# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

*Pension Plan* – All full-time City employees are members of the State of California Public Employees' Retirement System. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary.

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

*Long-Term Obligations* - In the Government-Wide Financial Statements and in the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Position. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts 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 debt service expenditures.

*Net Position* - The government-wide and business-type activities financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the City not restricted for any project or other purpose.

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

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### New Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the City's financial reporting process. The City became subject to the following GASB Statement for the year ended June 30, 2015:

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

### Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Gonzales Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during June of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

#### Statement of Net Position:

Cash and Investments	\$ 12,492,914
Fiduciary Funds:	
Cash and Investments	<u>1,546,663</u>
Total Cash and Investments	<u>\$ 14,039,577</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 1,221
Deposits with Financial Institutions	1,508,600
Local Agency Investment Fund	5,126,039
Certificates of Deposit	10,916
Money Market Accounts	6,262,708
Held by Fiscal Agent:	
Investment Agreements	610,238
U.S. Treasury Money Market Funds	<u>519,855</u>
Total Cash and Investments	<u>\$ 14,039,577</u>

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 3 – Cash and Investments (Continued)

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

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	270 days	40%	30%
Commercial Paper	180 days	15%	10%
Time Certificates of Deposit	3 years	25%	None
Negotiable Certificates of Deposit	3 years	30%	None
Repurchase Agreements	1 year	20%	None
Medium-Term Notes	5 years	30%	15%
Mutual Funds	5 years	20%	10%
Money Market Mutual Funds	5 years	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
County Investment Pool	N/A	None	None

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 3 – Cash and Investments (Continued)

#### Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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

Investment Type	Fair Value	Remaining Maturity (in months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund	\$ 5,126,039	\$ 5,126,039	\$ -	\$ -	\$ -
Certificates of deposit	10,916	10,916	-	-	-
Money Market Accounts	6,262,708	6,262,708	-	-	-
Held by Bond Trustee:					
Investment Agreements	610,238	212,407	-	-	397,831
U.S. Treasury Money Market Funds	519,855	519,855	-	-	-
Total	\$12,529,756	\$12,131,925	\$ -	\$ -	\$ 397,831

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 3 – Cash and Investments (Continued)

#### Disclosures Relating to Credit Risk

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

Investment Type		Minimum Rating	Unrated	AAA
Local Agency Investment Fund	\$ 5,126,039	N/A	\$ 5,126,039	\$ -
Certificates of deposit	10,916	N/A	10,916	-
Money Market Accounts	6,262,708		6,262,708	-
Held by Bond Trustee:				
Investment Agreements	610,238	N/A	610,238	-
U.S. Treasury Money Market Funds	<u>519,855</u>	AAA	-	<u>519,855</u>
Total	<u>\$ 12,529,756</u>		<u>\$ 12,009,901</u>	<u>\$ 519,855</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 that stipulated by the California Government Code. There were no investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City-wide investments as of June 30, 2015.

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2015, the balances held in bank accounts were (comprised of deposits, CD's and money market accounts) collateralized by the pledging financial institution, but not in the City's name. At June 30, 2015, total cash held in bank was \$8,079,781 of which \$7,819,729 was in excess of federal depository insurance limits.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 3 – Cash and Investments (Continued)

#### Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The City is a voluntary participant in the investment pool.

### Note 4 – Notes Receivable and Deferred Loans Receivable

Loans as of fiscal year ended June 30, 2015 were as follows:

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
<b>Governmental Funds</b>				
Local Business Promissory Notes	\$ 328,219	\$ -	\$ (63,973)	\$ 264,246
Developer Loans	836,102	-	-	836,102
Rehabilitation Loans	1,770,961	481,356	(163,757)	2,088,560
Successor Agency	-	500,000	-	500,000
<b>Enterprise Funds</b>				
Sewer and Water Impact Loans	10,788	-	(10,788)	-
	<u>\$ 2,946,070</u>	<u>\$ 981,356</u>	<u>\$ (238,518)</u>	<u>\$ 3,688,908</u>

#### Local Business Promissory Notes

<u>Date of Note</u>	<u>Original Principal</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Collateral</u>	<u>Balance as of June 30, 2015</u>
February 1, 2009	\$ 35,000	3%	February 1, 2014	Security Agreement	\$ -
September 30, 2011	191,135	2%	November 1, 2020	Deed of Trust	117,044
April 1, 2011	200,000	2%	October 1, 2024	Security Agreement	147,202
					<u>\$ 264,246</u>

#### Developer Loans

<u>Date of Note</u>	<u>Original Principal</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Collateral</u>	<u>Balance as of June 30, 2015</u>
February 19, 2008	\$ 836,120	4%	January 1, 2028	Deed of Trust	<u>\$ 836,102</u>

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 4 – Notes Receivable and Deferred Loans Receivable (Continued)

#### Rehabilitation Loans

Date of Note	Original Principal	Interest Rate	Maturity Date	Collateral	Balance as of June 30, 2015
May 24, 2006	\$ 132,400	2%	May 24, 2036	Deed of Trust	\$ 132,400
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	17,500	2%	May 24, 2036	Deed of Trust	17,500
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
December 21, 2001	45,800	0%	No specified maturity	Deed of Trust	526
September 11, 2008	125,561	3%	September 11, 2038	Deed of Trust	125,561
November 18, 2008	111,184	3%	November 18, 2038	Deed of Trust	127,722
December 23, 2008	97,346	3%	December 23, 2038	Deed of Trust	97,346
May 12, 2004	43,500	3%	March 12, 2024	Deed of Trust	19,690
February 20, 2008	21,000	1%	February 20, 2023	Deed of Trust	11,479
March 5, 2009	16,000	0%	March 5, 2024	Deed of Trust	13,226
April 8, 2008	23,802	0%	April 8, 2023	Deed of Trust	23,714
July 8, 2008	57,440	0%	July 8, 2023	Deed of Trust	7,500
July 22, 2008	48,643	0%	July 22, 2023	Deed of Trust	42,943
February 19, 2008	170,000	4%	February 19, 2028	Deed of Trust	170,000
June 17, 2010	22,450	0%	June 17, 2025	Deed of Trust	14,891
February 3, 2010	53,145	0%	February 3, 2025	Deed of Trust	53,145
May 3, 2010	70,000	1%	May 3, 2020	Machinery/Equipment	29,503
July 2, 2012	-	3%	July 2, 2022	Machinery/Equipment	65,477
July 9, 2010	70,000	1%	July 9, 2017	Security Agreement	23,879
January 10, 2011	70,000	1%	January 10, 2018	Security Agreement	16,298
May 1, 2012	105,000	3%	May 1, 2022	Security Agreement	76,732
April 11, 2014	91,511	3%	April 11, 2024	Security Agreement	86,675
April 18, 2014	59,486	0%	April 18, 2044	Deed of Trust	60,089
August 25, 2014	74,018	0%	August 25, 2044	Deed of Trust	74,018
August 25, 2014	38,531	0%	August 25, 2044	Deed of Trust	38,531
October 21, 2014	89,715	0%	October 21, 2044	Deed of Trust	89,715
June 19, 2015	270,000	0%	June 19, 2027	Deed of Trust	270,000
					<u>\$ 2,088,560</u>

#### Successor Agency Promissory Note

During fiscal year 2009-10, the City loaned \$500,000 to the Successor Agency of the former Redevelopment Agency of the City of Gonzales. The note bears interest at 2% per annum.



# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

**Note 5 – Capital Assets** – Capital asset activities for the year ended June 30, 2015 were as follows:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2015</b>
<b><u>Governmental Activities</u></b>				
Capital assets, not being depreciated				
Land	\$ 9,103,436	\$ -	\$ (1,395,853)	\$ 7,707,583
Construction in progress	32,175	-	(32,175)	-
Total capital assets, not being depreciated	<u>9,135,611</u>	<u>-</u>	<u>(1,428,028)</u>	<u>7,707,583</u>
Capital assets, being depreciated				
Buildings and improvements	8,040,235	-	(16,685)	8,023,550
Infrastructure	32,645,537	23,145	-	32,668,682
Machinery and equipment	1,941,965	284,559	-	2,226,524
Total capital assets, being depreciated	<u>42,627,737</u>	<u>307,704</u>	<u>(16,685)</u>	<u>42,918,756</u>
Less accumulated depreciation for				
Buildings and improvements	(1,297,380)	(204,004)	-	(1,501,384)
Infrastructure	(19,729,488)	(1,019,867)	-	(20,749,355)
Machinery and equipment	(1,585,337)	(104,148)	-	(1,689,485)
Total accumulated depreciation	<u>(22,612,205)</u>	<u>(1,328,019)</u>	<u>-</u>	<u>(23,940,224)</u>
Total capital assets, being depreciated, net	<u>20,015,532</u>	<u>(1,020,315)</u>	<u>(16,685)</u>	<u>18,978,532</u>
Governmental activities capital assets, net	<u>\$ 29,151,143</u>	<u>\$ (1,020,315)</u>	<u>\$ (1,444,713)</u>	<u>\$ 26,686,115</u>
<b><u>Business-Type Activities</u></b>				
Capital assets, not being depreciated				
Land	\$ 604,807	\$ -	\$ -	\$ 604,807
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>604,807</u>	<u>-</u>	<u>-</u>	<u>604,807</u>
Capital assets, being depreciated				
Buildings and improvements	46,939	-	-	46,939
Infrastructure	22,511,943	-	-	22,511,943
Machinery and equipment	554,458	-	-	554,458
Total capital assets, being depreciated	<u>23,113,340</u>	<u>-</u>	<u>-</u>	<u>23,113,340</u>
Less: accumulated depreciation	<u>(6,892,160)</u>	<u>(346,738)</u>	<u>-</u>	<u>(7,238,898)</u>
Total capital assets, being depreciated, net	<u>16,221,180</u>	<u>(346,738)</u>	<u>-</u>	<u>15,874,442</u>
Business-type activities capital assets, net	<u>\$ 16,825,987</u>	<u>\$ (346,738)</u>	<u>\$ -</u>	<u>\$ 16,479,249</u>

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 5 – Capital Assets (Continued)

Depreciation expense was charged to the following functions in the Statement of Activities:

#### Government Activities:

General Government	\$	7,845
Public Safety		192,779
Public Works		693,879
Parks and Recreation		90,633
Community Development		342,883
	<u>\$</u>	<u>1,328,019</u>

#### Business-Type Functions:

Water	\$	192,193
Sewer		116,001
Solar		38,544
	<u>\$</u>	<u>346,738</u>

### Note 6 – Interfund Receivables, Payables and Transfers

#### Due From/To Other Funds

Current interfund balances and other short-term borrowings between funds were attributed to negative cash balances and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of interfund balances as of June 30, 2015.

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 184,458
Community Development Block Grant Fund	91,111	-
Public Safety Fund	25,036	-
CDBG Urban County Grant Fund	25,370	-
Garbage Fund	42,941	-
	<u>\$ 184,458</u>	<u>\$ 184,458</u>

#### Advances

During fiscal year 2009-2010 the City of Gonzales formalized an advance agreement between the City's General Fund and the Water Fund for the amount of \$594,000. The amount is payable by the General Fund to the Water Fund over a period of 20 years at an interest rate of 1 percent payable in annual payments of \$33,057. During the fiscal year 2014-2015, the General Fund did not make any payments.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 6 – Interfund Receivables, Payables and Transfers (Continued)

#### Interfund Transfers

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements.

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Governmental Funds:</b>		
General Fund	\$ 311,456	\$ -
Community Development Block Grant Fund	-	(26,906)
<b>Proprietary Funds:</b>		
Water	-	(115,170)
Sewer	-	(140,120)
Garbage	-	(230,000)
Solar Energy	264,010	-
<b>Nonmajor Governmental Funds:</b>		
Gas Tax Fund	340,973	-
Gas Tax Fund 2105	-	(275,773)
Supplemental Local Law Enforcement Fund	-	(161,490)
Public Safety Fund	150,125	-
California Breeze Maintenance District Fund	-	(32,800)
Canyon Creek Park Maintenance District Fund	-	(41,900)
Cipriani Estates Park Maintenance District Fund	-	(5,000)
Cipriani Estates Maintenance District Fund	-	(13,100)
Gonzales Industrial Park Landscape Maintenance Fund	-	(4,700)
Gonzales Industrial Park Benefit Assessment Fund	-	(9,100)
CDBG Urban County Grant Fund	-	(3,309)
Shopping Center Fund	-	(7,196)
	<u>\$ 1,066,564</u>	<u>\$ (1,066,564)</u>

The following describe the significant transfers made during the year:

- The Community Development Block Grant Fund transferred \$26,906 to the General Fund for administrative costs.
- The Supplemental Local Law Enforcement Fund transferred \$161,490 to the Public Safety Fund in order to finance various programs.
- Various nonmajor funds transferred \$339,110 to the General Fund, principally as reimbursements to the General Fund for various costs including administrative costs.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 6 – Interfund Receivables, Payables and Transfers (Continued)

- Various nonmajor funds transferred \$340,973 to the Gas Tax Fund for various street related projects accounted for in the Gas Tax Fund.
- The Water and Sewer Funds transferred \$179,530, and \$38,544, respectively to the Solar Energy Fund to close out the Solar Fund.
- The Garbage Fund transferred \$230,000 to the General Fund for reimbursement of administrative costs.
- The Sewer Fund transferred \$60,000 to the Water Fund for its share of the water tank and sewer expansion note payable.

### Note 7 – Receivables Due From Successor Agency Private Purpose Trust Fund

#### Advance

On June 1, 2011, the Agency entered into a loan agreement with the City for an advance of \$1,000,000 provided to the Agency for the purpose of refunding a portion of the 2006 Subordinate Tax Allocation Notes of the Redevelopment Agency. The advance is payable to the City over ten years maturing on June 1, 2021. The terms of the agreement include the rate of interest at 2 percent payable commencing June 1, 2012 and continuing on each June 1<sup>st</sup> through June 1, 2016. Commencing on June 1, 2017 the former Agency was scheduled to make principal payments in the amount of \$200,000 along with interest payments until its maturity in 2021. On February 1, 2012, all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund during fiscal year 2011-2012. Repayment of the loan is subject to the approval of the California Department of Finance, and as more fully described at Note 15, the State Department of Finance (DOF) has disallowed this advance. Further, the City’s management has not evaluated the likelihood or timing of potential cash flows for any potential repayments.

The scheduled annual minimum debt services requirements (based on the agreement) for the Successor Agency repayment to the Water Fund at June 30, 2015, are as follows:

Years ending June 30,	2011 Advance		
	Principal	Interest	Total
2016	\$ -	\$ 20,000	\$ 20,000
2017	200,000	20,000	220,000
2018	200,000	16,000	216,000
2019	200,000	12,000	212,000
2020	200,000	8,000	208,000
2021	200,000	4,000	204,000
	<u>\$ 1,000,000</u>	<u>\$ 80,000</u>	<u>\$ 1,080,000</u>

The \$20,000 was not paid by the Successor Agency during fiscal year 2011-2012, 2012-2013, 2013-2014, and 2014-15 as the amounts were not approved by the State of California as noted at Note 14. The past due amounts have not been accrued, pending resolution with the State Department of Finance. The City has booked an allowance for uncollectible accounts as the probability of collecting on this advance is uncertain as of June 30, 2015. See Note 17 regarding the subsequent event that occurred affecting this advance.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 8 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

Long-term debt payable at June 30, 2015 was comprised of the following individual issues:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements/ Restatement</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Current</u> <u>Portion</u>
<b><u>Governmental Activity Long Term Debt</u></b>					
Capital Leases					
Police Vehicles & Equipment Lease	\$ 27,840	\$ -	\$ (27,840)	\$ -	\$ -
Lease of Police Station from Successor Agency	4,245,000	-	(70,000)	4,175,000	70,000
Radio Equipment Lease	69,232	-	(30,251)	38,981	31,079
Total Governmental Activity Debt	<u>\$ 4,342,072</u>	<u>\$ -</u>	<u>\$ (128,091)</u>	<u>\$ 4,213,981</u>	<u>\$ 101,079</u>
<b><u>Business-Type Activity Long Term Debt</u></b>					
Note Payable					
2005 Water Tank & Sewer Expansion Refinance	\$ 2,174,562	\$ -	\$ (157,872)	\$ 2,016,690	\$ 163,206
Capital Leases					
Solar Panel Energy Lease	2,508,348	-	(154,175)	2,354,173	169,935
Equipment Lease	17,281	-	(17,281)	-	-
Total Business-Type Activity Debt	<u>\$ 4,700,191</u>	<u>\$ -</u>	<u>\$ (329,328)</u>	<u>\$ 4,370,863</u>	<u>\$ 333,141</u>
<b><u>Compensated Absences</u></b>					
Government Activities	<u>\$ 194,939</u>	<u>\$ -</u>	<u>\$ (12,170)</u>	<u>\$ 182,769</u>	

**Police Vehicles and Equipment Lease** – The City entered into a Lease-Purchase Agreement in April 2011 in the amount of \$174,263, to finance the purchase of three police vehicles, a mower and water meters. The lease contains a bargain purchase option and is payable over four years. During fiscal year 2014-15, the lease was paid off.

**Lease of Police Station From Successor Agency** - During fiscal year 2010-2011, the former Gonzales Redevelopment Agency issued the 2011 Lease Revenue Refunding Bonds in the amount of \$4,440,000. Simultaneously, the former Agency and the City of Gonzales entered into a lease agreement whereby the City leased the Police Station building from the former Agency. The bonds, issued by the former Agency, are secured by lease payments from the City which are equal to the debt service payments for the 2011 Lease Revenue Refunding Bonds. The lease is recorded as a Capital Lease liability in the City's Government-Wide Statement of Net Position. A corresponding lease receivable and the 2011 Lease Revenue Refunding Bonds are recorded in the Private-Purpose Trust Fund. The former Agency was dissolved at January 31, 2012 and the assets and liability of the former Agency were transferred to the Private Purpose Trust Fund.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 8 – Long-Term Debt (Continued)

In addition, the City and former Agency entered into a separate reimbursement agreement whereby the former Agency is to reimburse the City for all costs incurred by the City related to the above noted lease including but not limited to lease principal (up to \$4,400,000) and lease interest payments made by the City. As of June 30, 2015, the City had paid \$1,076,697 in lease payments to the Successor Agency in connection with this lease, which is considered reimbursable costs to the City under the agreement. This amount is recorded as a receivable at the Governmental Funds Balance Sheet and the Government Wide Statement of Net Position.

As further described at Note 14, the 2011 Lease Revenue Refunding Bonds have not yet been deemed enforceable obligations by the State Department of Finance. As a result, reimbursements to the City for the lease payments have not been made. It is uncertain as to the nature and timing of repayment, if any. See Note 17.

**Radio Equipment Lease** – On July 9, 2012, the city entered into a lease purchase agreement for the purchase of radio equipment. The amount financed was \$120,247 and is payable over a four year term with quarterly lease payments commencing October 19, 2012.

**2005 Water Tank & Sewer Expansion Refinance** – On November 1, 2005 the Gonzales Public Financing Authority entered into a funding agreement with a financial institution to provide \$3,131,500 for the Sewer Expansion and Water Tank Projects (the Project). The Note accrues interest at a rate of 4.55 percent. Principal and interest payments are due semi-annually on June 30<sup>th</sup> and December 30<sup>th</sup>.

The Financing Authority simultaneously entered into an installment sale agreement with the City of Gonzales where the Authority sells the Project to the City and the City purchases the Project from the Authority. The installment sale agreement accrues interest at the rate of 4.55 percent (the same rate as the Note) and the City is required to make semi-annual installment payments to the Authority in the same amounts due under the Note. The Authority has assigned the right to receive these installment payments to the Note holder.

In June of 2012, the above note was refinanced. The amount financed was \$2,475,000 at the interest rate of 3.35 percent and payable in semi-annual installments on December 29<sup>th</sup> and June 29<sup>th</sup> of each year beginning on December 29, 2012.

**Solar Panel Energy Lease** - In February of 2012, the City entered into a lease purchase agreement for the purchase of Solar Panels. The carrying value of the assets purchased to date is \$502,666. The amount financed was \$2,697,589 and is payable over a 14 year term with lease payments commencing in October of 2012.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

### Note 8 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2015 were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 101,079	\$ 297,511	\$ 333,143	\$ 162,999
2017	82,902	294,022	355,337	150,575
2018	75,000	290,969	328,076	133,776
2019	80,000	287,594	340,842	124,400
2020	85,000	283,594	365,065	111,137
2021-2025	500,000	1,342,863	2,245,022	319,356
2026-2030	675,000	1,167,662	403,378	8,139
2031-2035	920,000	915,063	-	-
2036-2040	1,355,000	485,469	-	-
2041	340,000	27,625	-	-
	<u>\$ 4,213,981</u>	<u>\$ 5,392,372</u>	<u>\$ 4,370,862</u>	<u>\$ 1,010,382</u>

### Note 9 – Special Assessment Improvement Bonds

The Gonzales River Road Assessment District has issued debt to finance infrastructure improvements and facilities within its boundary. The City is the collecting agent for the debt issued by the District, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not included in the long-term debt of the City. The outstanding balance as of June 30, 2015, is \$180,000.

### Note 10 – Fund Balance

**Fund Balance and Retained Earnings Deficits** - The following is a summary of deficit fund balances and retained earnings as of June 30, 2015:

Public Safety Fund	\$ (32,240)
Garbage	(21,998)
	<u>\$ (54,238)</u>

These deficits are expected to be relieved from future revenues or transfers from other funds.

### Note 11 – Operating Lease – Rooftops for Solar Panels

On March 2012, the City entered into a lease agreement with a Winery, for the rental of their rooftops in connection with the solar panels purchased by the City. The lease rental payments are equal to \$5,000 annually for the first ten years and \$10,000 for the sixteenth year, with a three percent annual escalator applied to each subsequent year of the agreement which terminates on December 31, 2042.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 12 – Deferred Outflows/Inflows of Resources

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2014.

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In addition to assets, the statement of financial 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 or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the following deferred outflows related to net pension liability in the Statement of Net Position:

Fiscal year 2014-15 pension contributions subsequent to measurement date	<u>\$ 290,371</u>
Total deferred outflows of resources	<u>\$ 290,371</u>

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports the following deferred inflows related to net pension liability in the Statement of Net Position:

Net differences between projected and actual earnings on pension plan investments	\$ 550,892
Adjustment due to differences in proportions	<u>67,663</u>
Total deferred inflows of resources	<u>\$ 618,555</u>

The City also has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, that item, unavailable revenues, is reported only in the governmental funds balance sheet. The City reports in the governmental funds \$3,188,908 as unavailable revenues.



# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 13 – Risk Management

The City provides for workers' compensation and liability through a self-funded joint powers agency, Monterey Bay Area Self Insurance Authorities. Joint Powers Agreement (JPA) accounts are not separately maintained for each participant.

#### Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the Monterey Bay Area Self Insurance Authority (MBASIA). MBASIA is composed of 10 California public entities and is organized under a joint powers agreement pursuant to California Government Code 6500 et seq. The purpose of MBASIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverage.

General Liability: The City is self-insured for the first \$10,000 of each liability claims. Claims above \$10,000 up to \$490,000 are paid by MBASIA. Claims above \$490,000 up to \$19.5 million are covered by insurance purchased by MBASIA.

Workers' Compensation: The City does not retain a self-insured portion of workers' compensation claims. Annual premiums for coverage up to statutory levels are paid to MBASIA based on the level of claims activity. A third party claims administrator is contracted by MBASIA to manage claims activity.

#### **Adequacy of Protection**

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded insured coverage. There have been no significant reductions in insured liability coverage from coverage in the prior year. Audited financial statements for MBASIA can be obtained from their management at 100 Pine Street, 11<sup>th</sup> Floor, San Francisco, CA 94111.

### Note 14 – Commitments and Contingencies

#### **General**

The City participates in a number of Federal and State assisted grant programs which are subject to financial and compliance audits. Audits for these programs and the respective findings are to be determined at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.

The City is a defendant in various lawsuits and claims. The City attorney anticipates that actual or potential claims against the City, not covered by insurance, would not materially affect the financial position of the City.

The City is party to an agreement under which it must pay a sum of money to a resident for the remainder of the resident's life. The payment increases by 4 percent annually. As of June 30, 2015, the monthly payment was \$6,321. During fiscal year 2014-2015, the City paid the resident a total of \$75,851.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 14 – Commitments and Contingencies (Continued)

#### Enforceable Obligations

Assembly Bills 1x26 and 1484, which dissolved redevelopment agencies in California, require that the City and Successor Agency submit “Recognized Obligation Payment Schedules” (ROPS) to the State Department of Finance (DOF) listing enforceable obligations for which tax increment is required, twice each fiscal year.

The legislation requires DOF to review the enforceable obligations on the ROPS which are to be funded using property tax. As part of this review, the DOF has disallowed several obligations listed on the ROPS submitted by the Successor Agency, including the Advance from the Water Fund in the amount of \$1,000,000 (Note 7), the 2011 Lease Revenue Refunding Bonds and the related reimbursement agreement (with a principal amount up to \$4,400,000) relating to the Police Station Capital Lease (Note 8) with an outstanding reimbursable balance of \$1,076,797 as of June 30, 2015.

#### Advance and Lease Reimbursement Receivable from the Successor Agency Private Purpose Trust Fund

As disclosed at Note 7, the former redevelopment agency borrowed funds from the City’s Water Fund for the purpose of refunding a portion of the 2006 Subordinate Tax Allocation Bonds which had a balloon payment due on August 1, 2011. As of June 30, 2015, the balance of the obligation to the City from the former Agency of \$1,000,000 was denied by the State Department of Finance as an enforceable obligation. Further, the City’s management has not evaluated the likelihood or timing of potential cash flows.

As described at 8, with the issuance of the 2011 Lease Revenue Refunding Bonds of the former Redevelopment Agency, the City simultaneously entered into a lease agreement whereby the City leased the Police Station from the former Redevelopment Agency. Concurrently, the City also entered into a reimbursement agreement with the former Redevelopment Agency whereby the former Redevelopment Agency would reimburse the City for all costs incurred with respect to the Police Station lease, including lease payments. The California State Department of Finance has not approved the underlying 2011 Lease Revenue Refunding Bonds or the reimbursement agreement to the City. Further, the City’s management has not evaluated the likelihood or timing of potential cash flows.

As of June 30, 2015, the \$1,000,000 and \$1,076,697 loan balance is recorded as a liability in the Successor Agency’s Private Purpose Trust Fund Statement of Fiduciary Net Position and as a receivable by the City.

As noted above, the State Department of Finance has not approved the above items as enforceable obligations. As a result the City has recorded an allowance for uncollectible accounts in accordance with accounting principles generally accepted in the United States of America for receivables where collection is not probable. The City continues to work with the State Legislator for a “legislative fix” so that the loans will be enforceable obligations consistent with HSC 34171(d)(2). Should the City not prevail in obtaining approval for recognizing the loans as enforceable obligations, the impact to the City’s General Fund and Water Fund would be material.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 15 – Pension Plan

**Plan Description** - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

**Funding Policy** – Active plan members in the Plan are required to contribute 7% of their covered salary for both miscellaneous and public safety members. The City contributes 3.5% of the employees required share of 7%. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2015 was 16.073% for the miscellaneous plan and 16.195% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
	Prior to	Prior to
	January 1, 2013	January 1, 2013
Hire Date		
Benefit Formula	2.0% at 60; maximum 2% COLA	2.0% at 55; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	60	60
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	7.00%	7.00%
Required Employer Contribution Rates	16.073%	16.195%

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all employers be determined on an annual basis by the actuary and shall be effective on July 1 following the notice of change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 313,644
Contributions – employee	\$ 146,122

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 15 – Pension Plan (Continued)

#### Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Total Net Pension Liability - Miscellaneous	\$ 1,286,053
Total Net Pension Liability – Safety	\$ 868,678

#### General Information about the Pension Plan

The City's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each Plan is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2013	0.04914%	.023364%
Proportion – June 30, 2014	<u>0.05204%</u>	<u>.023160%</u>
Change – Increase/(Decrease)	0.00290%	(.00020%)

For the year ended June 30, 2015, the City recognized pension expense of \$266,433. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

The \$290,371 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	\$ (161,888)
2017	(161,888)
2018	(157,056)
2019	<u>(137,723)</u>
Total	<u>\$ (618,555)</u>

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 15 – Pension Plan (Continued)

**Actuarial Assumptions** – The total pension liability in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.5% (net of administrative expenses)
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service <sup>1</sup>
Investment Rate of Return	7.50% <sup>2</sup>
Mortality	Derived using CalPERS' Membership <sup>3</sup> Data for all Funds

<sup>1</sup> Varying by service, including inflation

<sup>2</sup> Net of pension plan investment expenses, including inflation

<sup>3</sup> 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, 2013 valuation was based on the results of an actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

**Discount rate** – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for their own financial reporting purposes.

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 15 – Pension Plan (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 rate of returns, net of inflation) are developed for each major asset class.

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

The table below reflects long-term expected real rates 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. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
<b>Total</b>	<b>100%</b>		

1 An expected inflation of 2.5% used for this period

2 An expected inflation of 3.0% used for this period

# CITY OF GONZALES

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

---

### Note 15 – Pension Plan (Continued)

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following presents the City’s proportionate share of the net pension liability for each Plan, calculating using the discount rate of each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Miscellaneous	\$ 2,065,217	\$ 1,286,053	\$ 639,421
Safety	\$ 1,443,409	\$ 868,678	\$ 395,125

**Pension Plan Fiduciary Net Position** – Detailed information about each pension plan’s fiduciary net position is available in the separately issue CalPERS financial reports.

### Note 16 – Cumulative Effect of Change in Accounting Principles

During the year the City had a cumulative effect of change in accounting principles in both the Water, Sewer and Garbage Fund in the amount of \$176,876, \$173,469, and \$67,190, respectively, to record the opening balance of net pension liability due to the implementation of GASB No. 68, for a cumulative effect of change in accounting principles of \$417,535. The net effect of this adjustment decreased the City’s net position by \$417,535.

In the Statement of Activities, the City had a cumulative effect of change in accounting principles in the amount of \$2,089,318 to record the opening balance of net pension liability due to the implementation of GASB No. 68. The net effect of this adjustment decreased the City’s net position by \$2,089,318.

### Note 17 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through November 17, 2015, the date which these financial statements were available to be issued. Management concluded that the “legislative fix” SB107 approved by the State Legislator in fiscal year 2015-16 is a material subsequent event as the loans from the City to the Successor Agency are now enforceable obligations. As a result, in fiscal year 2015-16 the allowance for uncollectible accounts will be reversed. The effect to the financial position on the General Fund will be the repayment of the Lease Revenue Bond Reimbursement Agreement advances that were made by the City from the General Fund of approximately \$1,076,697. This advance will be repaid as RPTTF funds are available. Also the \$1,000,000 loan from the Water Fund referred to in Note 7, has now been approved as an enforceable obligation and will be repaid after the General Fund has been reimbursed in full.

### Note 18 – City/Successor Agency Extraordinary Gain/(Loss)

The Successor Agency had an extraordinary loss of \$500,000 relating to the approval of a promissory note issued by the City to the Successor Agency of the former Redevelopment Agency of the City of Gonzales in fiscal year 2009-10. The Department of Finance approved this loan as an enforceable obligation, as such, the promissory note is now recognized as a liability to the Successor Agency. In the Government-Wide Statement of Activities, the City now recognizes this as extraordinary gain.

**REQUIRED SUPPLEMENTARY INFORMATION**

---



**CITY OF GONZALES**

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

**YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Taxes	\$ 2,503,183	\$ 2,551,611	\$ 2,668,743	\$ 117,132
Licenses, permits and impact fees	142,050	135,650	183,376	47,726
Intergovernmental	317,000	375,100	433,357	58,257
Charges for services	131,000	131,000	119,989	(11,011)
Fines and forfeitures	27,000	32,000	32,387	387
Use of money and property	97,000	97,000	94,869	(2,131)
Other	37,000	147,000	54,553	(92,447)
Total revenue	<u>3,254,233</u>	<u>3,469,361</u>	<u>3,587,274</u>	<u>117,913</u>
<b>Expenditures</b>				
Current				
General government	444,941	545,884	546,467	(583)
Public safety	2,020,222	2,462,003	2,417,649	44,354
Public works	156,314	163,424	148,240	15,184
Parks and recreation	331,109	356,017	339,969	16,048
Community development	219,423	252,941	228,909	24,032
Capital outlay	-	-	99,093	(99,093)
Debt service				
Principal	-	-	112,105	(112,105)
Interest and fiscal charges	397,819	397,819	302,475	95,344
Total expenditures	<u>3,569,828</u>	<u>4,178,088</u>	<u>4,194,907</u>	<u>(16,819)</u>
Revenue over (under) expenditures	(315,595)	(708,727)	(607,633)	101,094
<b>Other Financing Sources</b>				
Proceeds from the sale of property	-	-	1,114,648	1,114,648
Transfers in (out) - net	317,400	317,400	311,456	(5,944)
<b>Net Change in Fund Balance</b>	<u>\$ 1,805</u>	<u>\$ (391,327)</u>	818,471	<u>\$ 1,209,798</u>
<b>Fund Balance</b>				
Beginning of year			<u>203,949</u>	
End of year			<u>\$ 1,022,420</u>	

**CITY OF GONZALES**

**BUDGETARY COMPARISON SCHEDULE  
COMMUNITY DEVELOPMENT BLOCK GRANT  
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<b>Variance with Final Budget Positive/ (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Intergovernmental	427,000	393,188	572,651	\$ 179,463
Loan repayments	56,300	71,350	70,462	(888)
Use of money and property	12,740	12,740	11,804	(936)
Total revenue	<u>496,040</u>	<u>477,278</u>	<u>654,917</u>	<u>177,639</u>
<b>Expenditures</b>				
Public works	66,000	364,165	270,069	94,096
Community development	341,000	313,478	313,468	10
Total expenditures	<u>407,000</u>	<u>677,643</u>	<u>583,537</u>	<u>94,106</u>
Revenue over expenditures	89,040	(200,365)	71,380	271,745
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	<u>(23,000)</u>	<u>(26,906)</u>	<u>(26,906)</u>	<u>-</u>
<b>Change in Fund Balance</b>	<u>\$ 66,040</u>	<u>\$ (227,271)</u>	44,474	<u>\$ 271,745</u>
<b>Fund Balance</b>				
Beginning of year			<u>49,978</u>	
End of year			<u>\$ 94,452</u>	

**CITY OF GONZALES**

**BUDGETARY COMPARISON SCHEDULE  
INFRASTRUCTURE IMPROVEMENT  
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue</b>				
Intergovernmental	\$ 5,000	\$ 5,000	\$ 13,033	\$ 8,033
Use of money and property	22,500	22,500	593	(21,907)
Total revenue	<u>27,500</u>	<u>27,500</u>	<u>13,626</u>	<u>(13,874)</u>
<b>Expenditures</b>				
Public works	<u>85,000</u>	<u>95,000</u>	<u>63,860</u>	<u>31,140</u>
Total expenditures	<u>85,000</u>	<u>95,000</u>	<u>63,860</u>	<u>31,140</u>
Revenue over expenditures	(57,500)	(67,500)	(50,234)	17,266
<b>Other Financing Sources/(Uses)</b>				
Transfers in/(out) - net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in Fund Balance</b>	<u>\$ (57,500)</u>	<u>\$ (67,500)</u>	(50,234)	<u>\$ 17,266</u>
<b>Fund Balance</b>				
Beginning of year			<u>243,747</u>	
End of year			<u>\$ 193,513</u>	

# CITY OF GONZALES

## SCHEDULE OF THE CITY'S NET PROPORTIONATE SHARE OF NET PENSION LIABILITY LAST 10 YEARS\* YEAR ENDED JUNE 30, 2015

---

	Miscellaneous 2015	Safety 2015
Proportion of the net pension liability	0.02067%	0.01396%
Proportionate share of the net pension liability	\$ 1,286,053	\$ 868,678
Covered - employee payroll	\$ 1,112,163	\$ 992,049
Proportionate share of the net pension liability as a percentage of covered-employee payroll	115.64%	87.56%
Plan's fiduciary net position	\$ 4,587,216	\$ 3,422,038
Plan's fiduciary net position as a percentage of the Total Pension Liability	78.100%	79.75%

\*Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown.

# CITY OF GONZALES

## SCHEDULE OF CONTRIBUTIONS

LAST 10 YEARS\*

YEAR ENDED JUNE 30, 2015

	Miscellaneous 2015	Safety 2015
Contractually required contribution (actuarially determined)	\$ 160,656	\$ 161,844
Contributions in relation to the actuarially determined contributions	<u>(160,656)</u>	<u>(161,844)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,112,163	\$ 992,049
Contributions as a percentage of covered-employee payroll	14.45%	16.31%

\*Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown.

### Notes to Schedule of Contributions

Valuation Date 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.50% (net of administrative expenses)
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds

**SUPPLEMENTAL ONLY INFORMATION**

---

**CITY OF GONZALES**

**COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	Special Revenue									
	Gas Tax	Gas Tax 2105	Supplemental Local Law Enforcement	Public Safety	Ag Industrial Park Federal Grant	AQMD	Housing Successor	California Breeze Maintenance District	Canyon Creek Park Maintenance District	
<b>ASSETS</b>										
Cash and investments	\$ 690,110	\$ -	\$ 4,136	\$ -	\$ 15,153	\$ 62,185	\$ 116,112	\$ 401,355	\$ 859,199	
Due from other governments	19,960	-	25,768	-	-	795	-	-	-	
Interest receivable	136	-	-	-	9	-	-	155	273	
Notes and loans receivable	-	-	-	-	-	147,202	356,587	-	-	
Advance to Successor Agency	-	-	-	-	-	-	230,000	-	-	
Total assets	\$ 710,206	\$ -	\$ 29,904	\$ -	\$ 15,162	\$ 210,182	\$ 702,699	\$ 401,510	\$ 859,472	
<b>LIABILITIES</b>										
Accounts payable and accrued expense	\$ 32,487	\$ -	\$ 453	\$ 7,204	\$ 4,000	\$ -	\$ -	\$ 20,465	\$ 18,843	
Due to other funds	-	-	-	25,036	-	-	-	-	-	
Total liabilities	32,487	-	453	32,240	4,000	-	-	20,465	18,843	
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Unavailable revenues	-	-	-	-	-	147,202	356,587	-	-	
Total deferred inflows of resources	-	-	-	-	-	147,202	356,587	-	-	
<b>FUND BALANCE</b>										
Restricted										
Lighting, landscape & park maintenance	-	-	-	-	-	-	-	381,045	840,629	
Low-income housing activities	-	-	-	-	-	62,980	346,112	-	-	
Community development	-	-	-	-	11,162	-	-	-	-	
Street improvements	677,719	-	-	-	-	-	-	-	-	
Public safety	-	-	29,451	-	-	-	-	-	-	
Unassigned	-	-	-	(32,240)	-	-	-	-	-	
Total fund balance	677,719	-	29,451	(32,240)	11,162	62,980	346,112	381,045	840,629	
Total liabilities, deferred inflows of resources and fund balance	\$ 710,206	\$ -	\$ 29,904	\$ -	\$ 15,162	\$ 210,182	\$ 702,699	\$ 401,510	\$ 859,472	

**CITY OF GONZALES  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)  
JUNE 30, 2015**

	Special Revenue									
	Cipriani Maintenance District	Cipriani Estates District	Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment	Signalization Impact Fees	Aquatic Impact Fees	Police Impact Fees	Park Impact Fees	Fire Impact Fees	
<b>ASSETS</b>										
Cash and investments	\$ 116,822	\$ 348,554	\$ 147,057	\$ 236,489	\$ 434,665	\$ 1,357	\$ 17,264	\$ 57,142	\$ 72,180	
Due from other governments	-	-	-	-	-	-	-	-	-	-
Interest receivable	65	122	74	51	44	-	-	-	14	
Notes and loans receivable	-	-	-	-	-	-	-	-	-	-
Advance to Successor Agency	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 116,887	\$ 348,676	\$ 147,131	\$ 236,540	\$ 434,709	\$ 1,357	\$ 17,264	\$ 57,142	\$ 72,194	
<b>LIABILITIES</b>										
Accounts payable and accrued expense	\$ 5,222	\$ 4,809	\$ 2,211	\$ 13,337	\$ 3,575	\$ -	\$ -	\$ 3,410	\$ -	
Due to other funds	-	-	-	-	-	-	-	-	-	-
Total liabilities	5,222	4,809	2,211	13,337	3,575	-	-	3,410	-	
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Unavailable revenues	-	-	-	-	-	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-	-	-	-	-	-
<b>FUND BALANCE</b>										
Restricted										
Lighting, landscape & park maintenance	111,665	343,867	144,920	223,203	-	-	-	-	-	-
Low-income housing activities	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	431,134	1,357	17,264	53,732	72,194	
Street improvements	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Total fund balance	111,665	343,867	144,920	223,203	431,134	1,357	17,264	53,732	72,194	
Total liabilities, deferred inflows of resources and fund balance	\$ 116,887	\$ 348,676	\$ 147,131	\$ 236,540	\$ 434,709	\$ 1,357	\$ 17,264	\$ 57,142	\$ 72,194	



CITY OF GONZALES

COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)  
JUNE 30, 2015

	Special Revenue						Debt Service		Total Non-major Governmental Funds
	Circulation System Impact Fees	Storm Drainage Facility Impact Fees	Public Facilities Impact Fees	Public Uses Mitigation Fees	Sphere of Influence Impact Fees	CDBG Urban County Grant	Shopping Center		
<b>ASSETS</b>									
Cash and investments	\$ 469,833	\$ 91,085	\$ 49,712	\$ 19,684	\$ 34,443	\$ -	\$ -	\$ 4,244,537	
Due from other governments	-	-	-	-	-	165,070	-	211,593	
Interest receivable	-	-	36	10	-	-	-	989	
Notes and loans receivable	117,044	-	-	-	-	-	-	620,833	
Advance to Successor Agency	-	-	-	-	-	-	-	230,000	
Total assets	\$ 586,877	\$ 91,085	\$ 49,748	\$ 19,694	\$ 34,443	\$ 165,070	\$ -	\$ 5,307,952	
<b>LIABILITIES</b>									
Accounts payable and accrued expense	\$ -	\$ 535	\$ -	\$ -	\$ -	\$ 139,700	\$ -	\$ 256,251	
Due to other funds	-	-	-	-	-	25,370	-	50,406	
Total liabilities	-	535	-	-	-	165,070	-	306,657	
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unavailable revenues	117,044	-	-	-	-	-	-	620,833	
Total deferred inflows of resources	117,044	-	-	-	-	-	-	620,833	
<b>FUND BALANCE</b>									
Restricted									
Lighting, landscape & park maintenance	-	-	-	-	-	-	-	2,045,329	
Low-income housing activities	-	-	-	-	-	-	-	409,092	
Community development	-	-	49,748	19,694	34,443	-	-	690,728	
Street improvements	469,833	90,550	-	-	-	-	-	1,238,102	
Public safety	-	-	-	-	-	-	-	29,451	
Unassigned	-	-	-	-	-	-	-	(32,240)	
Total fund balance	469,833	90,550	49,748	19,694	34,443	-	-	4,380,462	
Total liabilities, deferred inflows of resources and fund balance	\$ 586,877	\$ 91,085	\$ 49,748	\$ 19,694	\$ 34,443	\$ 165,070	\$ -	\$ 5,307,952	

**CITY OF GONZALES**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015**

	Special Revenue									
	Gas Tax	Gas Tax 2105	Supplemental Local Law Enforcement	Public Safety	Ag Industrial Park Federal Grant	AQMD	Housing Successor	California Breeze Maintenance District	Canyon Creek Park Maintenance District	
<b>Revenue</b>										
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,840
Licenses, permits and impact fees	-	-	-	4,889	-	-	-	-	-	-
Intergovernmental	408,805	-	165,062	351,181	-	27,000	-	-	-	-
Use of money and property	1,207	-	-	-	34	2,820	125	724	-	1,605
Loan repayments	-	-	-	-	-	11,438	54,299	-	-	-
Other revenue	-	-	-	-	-	795	-	-	-	-
Total revenue	410,012	-	165,062	356,070	34	42,053	54,424	145,653	-	202,445
<b>Expenditures</b>										
Public safety	-	-	3,573	446,463	-	-	-	-	-	-
Public works	528,661	-	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	300	-	106,816	-	95,407
Community development	-	-	-	-	4,000	-	-	-	-	-
Capital outlay	-	-	-	-	-	32,552	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	436	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	23	-	-	-	-	-	-	-	-	-
Total expenditures	529,120	-	3,573	446,463	4,000	32,852	-	106,816	-	95,407
Revenue over (under) expenditures	(119,108)	-	161,489	(90,393)	(3,966)	9,201	54,424	38,837	-	107,038
<b>Other financing sources/(uses)</b>										
Operating transfers in/(out) - net	340,973	(275,773)	(161,490)	150,125	-	-	-	(32,800)	-	(41,900)
	340,973	(275,773)	(161,490)	150,125	-	-	-	(32,800)	-	(41,900)
<b>Change in Fund Balance</b>	221,865	(275,773)	(1)	59,732	(3,966)	9,201	54,424	6,037	-	65,138
<b>Fund Balance</b>										
Beginning of year	455,854	275,773	29,452	(91,972)	15,128	53,779	291,688	375,008	-	775,491
End of year	677,719	-	29,451	(32,240)	11,162	62,980	346,112	381,045	-	840,629

**CITY OF GONZALES**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2015**

	Special Revenue									
	Cipriani Estates Park Maintenance District	Cipriani Estates Maintenance District	Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment	Signalization Impact Fees	Aquatic Impact Fees	Police Impact Fees	Park Impact Fees	Fire Impact Fees	
<b>Revenue</b>										
Taxes and assessments	\$ 33,254	\$ 49,758	\$ 3,626	\$ 78,414	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, permits and impact fees	-	-	-	-	-	1,357	4,916	10,082	2,704	-
Intergovernmental	-	-	-	-	-	-	-	-	100,000	-
Use of money and property	239	700	339	313	1,015	-	-	114	175	-
Loan repayments	-	-	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-	-	-
Total revenue	33,493	50,458	3,965	78,727	1,015	1,357	4,916	10,196	102,879	-
<b>Expenditures</b>										
Public safety	-	-	-	-	-	-	-	-	-	2,163
Public works	-	12,853	14,430	27,692	3,575	-	-	-	-	-
Parks and recreation	8,015	-	-	-	-	-	-	3,410	-	-
Community development	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	127,200
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	15,550	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	801	-	-	-
Total expenditures	8,015	12,853	14,430	27,692	3,575	-	16,351	3,410	129,363	-
Revenue over (under) expenditures	25,478	37,605	(10,465)	51,035	(2,560)	1,357	(11,435)	6,786	(26,484)	-
<b>Other financing sources/(uses)</b>										
Operating transfers in/(out) - net	(5,000)	(13,100)	(4,700)	(9,100)	-	-	-	-	-	-
	(5,000)	(13,100)	(4,700)	(9,100)	-	-	-	-	-	-
<b>Change in Fund Balance</b>	20,478	24,505	(15,165)	41,935	(2,560)	1,357	(11,435)	6,786	(26,484)	-
<b>Fund Balance</b>										
Beginning of year	91,187	319,362	160,085	181,268	433,694	-	28,699	46,946	98,678	-
End of year	\$ 111,665	\$ 343,867	\$ 144,920	\$ 223,203	\$ 431,134	\$ 1,357	\$ 17,264	\$ 53,732	\$ 72,194	\$ -

**CITY OF GONZALES**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2015**

	Special Revenue						Debt Service		Total
	Circulation System Impact Fees	Storm Drainage Facility Impact Fees	Public Facilities Impact Fees	Public Uses Mitigation Fees	Sphere of Influence Impact Fees	CDBG Urban County Grant	Shopping Center	Non-major Governmental Funds	
<b>Revenue</b>									
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,196	\$ 518,017	
Licenses, permits and impact fees	5,090	131	2,509	1,694	200	-	-	33,572	
Intergovernmental	-	-	-	-	-	233,537	-	1,285,585	
Use of money and property	646	290	131	39	-	-	-	10,516	
Loan repayments	20,895	-	-	-	-	-	-	86,632	
Other revenue	-	-	-	-	-	-	-	795	
Total revenue	26,631	421	2,640	1,733	200	233,537	7,196	1,935,117	
<b>Expenditures</b>									
Public safety	-	-	-	-	-	-	-	452,199	
Public works	-	-	-	-	-	-	-	587,211	
Parks and recreation	-	-	-	-	-	-	-	213,948	
Community development	6,332	4,630	11,499	-	14,014	213,416	-	253,891	
Capital outlay	-	-	-	-	-	-	-	159,752	
Debt service	-	-	-	-	-	-	-	15,986	
Principal	-	-	-	-	-	-	-	824	
Interest and fiscal charges	-	-	-	-	-	-	-	-	
Total expenditures	6,332	4,630	11,499	-	14,014	213,416	-	1,683,811	
Revenue over (under) expenditures	20,299	(4,209)	(8,859)	1,733	(13,814)	20,121	7,196	251,306	
<b>Other financing sources/(uses)</b>									
Operating transfers in/(out) - net	-	-	-	-	-	(3,309)	(7,196)	(63,270)	
	-	-	-	-	-	(3,309)	(7,196)	(63,270)	
<b>Change in Fund Balance</b>	20,299	(4,209)	(8,859)	1,733	(13,814)	16,812	-	188,036	
<b>Fund Balance</b>									
Beginning of year	449,534	94,759	58,607	17,961	48,257	(16,812)	-	4,192,426	
End of year	\$ 469,833	\$ 90,550	\$ 49,748	\$ 19,694	\$ 34,443	\$ -	\$ -	\$ 4,380,462	

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

To the Honorable Mayor and City Council  
City of Gonzales, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gonzales, California, (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 17, 2015.

**Internal Control Over Financial Reporting**

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

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

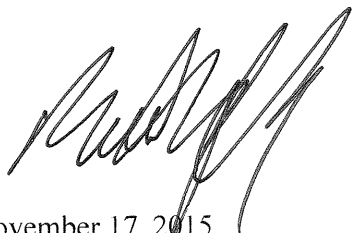
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in black ink, appearing to be 'M. J. Smith', written in a cursive style.

November 17, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and City Council  
City of Gonzales, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Gonzales, California's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City of Gonzales, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

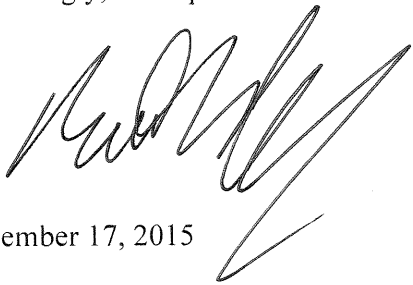
## Report on Internal Control Over Compliance

Management of the City of Gonzales, California, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to be 'R. J. ...', is written over the date.

November 17, 2015



**CITY OF GONZALES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass-through Number</b>	<b>Federal Expenditures</b>
U.S. Department of Housing and Urban Development			
Passed through State Department of Housing and Community Development			
HOME Investment Partnership Program	14.239	11-HOME-7665	\$ 280,062
Community Development Block Grant	14.228	12-CDBG-8391	179,215
Passed through County of Monterey			
Community Development Block Grant	14.228	B-14-MC-06-0011	<u>233,537</u>
Total U.S Department of Housing and Urban Development			<u>692,814</u>
<i>Total Federal Expenditures</i>			<u>\$ 692,814</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

# CITY OF GONZALES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

---

### A. Summary of Auditor's Results

#### *Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported
- Non-compliance material to financial statements noted?  Yes  No

#### *Federal Awards*

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

#### *Identification of Major Programs*

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

### B. Findings – Financial Statements Audit

None noted.

### C. Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.

**CITY OF GONZALES**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2015**

---

**Summary Schedule of Prior Audit Findings**

There were no prior year audit findings

**CITY OF GONZALES**

**MANAGEMENT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2015**

## **TABLE OF CONTENTS**

---

	<u>Page</u>
Introduction	1
Required Communications	2 – 4

# BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.  
Ryan P. Jolley C.P.A.  
Darryl L. Smith C.P.A.  
Jeffrey M. Schill  
Lan T. Kimoto

To the Honorable City Council  
City of Gonzales, California

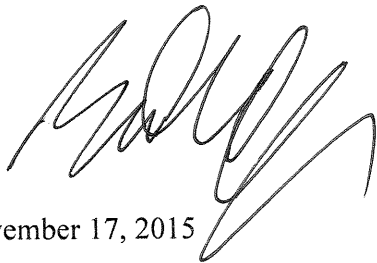
In planning and performing our audit of the basic financial statements of the City of Gonzales (City) for the year ended June 30, 2015, in accordance with generally accepted auditing standards in the United States, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the City's staff for its cooperation during our audit.

November 17, 2015



To the Honorable City Council  
City of Gonzales, California

We have audited the financial statements of the City of Gonzales (City) for the year ended June 30, 2015, and have issued our report thereon dated November 17, 2015. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

The City implemented GASB Statement No. 68 during the current fiscal year.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events

affecting them may differ significantly from those expected. The most sensitive accounting estimates affecting the financial statements were used for calculating depreciation and the allowance for doubtful accounts. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

#### Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We did not identify any significant audit adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

#### Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Management Representations

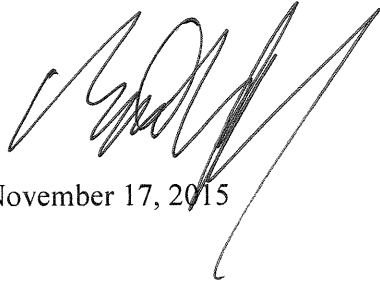
We have requested certain representations from management that are included in the management representation letter.

#### Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



This report is intended for the use of management, the Board of Directors, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, consisting of several loops and a long, sweeping tail that extends downwards and to the right.

November 17, 2015