

CITY OF GONZALES

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2016**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements	
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 – 47

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	48
Budgetary Comparison Schedule – Community Development Block Grant	49
Budgetary Comparison Schedule – Infrastructure Improvement Fund	50
Schedule of the City’s Proportionate Share of Net Pension Liability	51
Schedule of Contributions	52
Supplemental Only Information	
Combining Balance Sheet – Nonmajor Governmental Funds	53 – 55
Combining Statement of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	56 – 58
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>	59 – 60

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, 2016, 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, 2016, 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 – Change in Accounting Principles

As discussed in Note 1 to the financial statements, effective July 1, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. 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 48 through 50 and the Schedule of the City's Proportionate Share of Net Pension Liability and the Schedule of Contributions pages 51 and 52 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.

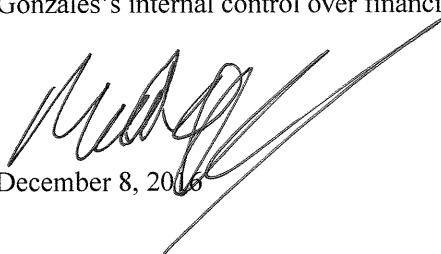
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016, 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.


December 8, 2016

CITY OF GONZALES

STATEMENT OF NET POSITION JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 7,312,768	\$ 7,907,665	\$ 15,220,433
Accounts receivable, net	-	284,461	284,461
Due from other governments	745,574	-	745,574
Interest receivable	1,943	6,201	8,144
Notes and loans receivable	3,641,231	-	3,641,231
Due from successor agency	159,833	-	159,833
Lease reimbursement receivable	160,433	-	160,433
Advance to successor agency	-	1,000,000	1,000,000
Other assets - deposits	15,746	-	15,746
Internal balances	(594,000)	594,000	-
Capital assets, net of allowance for depreciation	<u>27,540,641</u>	<u>16,406,897</u>	<u>43,947,538</u>
Total assets	<u>38,984,169</u>	<u>26,199,224</u>	<u>65,183,393</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>313,149</u>	<u>72,584</u>	<u>385,733</u>
LIABILITIES			
Accounts payable and accrued expense	604,478	265,797	870,275
Deposits payable	108,074	69,593	177,667
Long-term liabilities			
Due within one year	172,784	402,399	575,183
Due in more than one year	5,515,118	5,314,610	10,829,728
Net pension liability	1,478,756	299,973	1,778,729
Compensated absences	<u>209,020</u>	<u>-</u>	<u>209,020</u>
Total liabilities	<u>8,088,230</u>	<u>6,352,372</u>	<u>14,440,602</u>
DEFERRED INFLOWS OF RESOURCES	<u>538,522</u>	<u>103,531</u>	<u>642,053</u>
NET POSITION			
Net investment in capital assets	21,852,739	10,689,888	32,542,627
Restricted for specific projects and programs	4,708,289	-	4,708,289
Restricted for capital improvements	-	1,763,304	1,763,304
Unrestricted	<u>4,109,538</u>	<u>7,362,713</u>	<u>11,472,251</u>
Total net position	<u>\$ 30,670,566</u>	<u>\$ 19,815,905</u>	<u>\$ 50,486,471</u>

CITY OF GONZALES

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

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
Primary Government							
Governmental activities							
General government	\$ 425,487	\$ 1,107,574	\$ 50,252	\$ -	\$ 732,339	\$ -	\$ 732,339
Public safety	2,620,629	15,749	415,815	20,453	(2,168,612)	-	(2,168,612)
Public works	1,452,399	72,085	425,459	51,942	(902,913)	-	(902,913)
Parks and recreation	821,560	128,050	47,743	-	(645,767)	-	(645,767)
Community development	899,604	84,200	535,716	-	(279,688)	-	(279,688)
Debt Service							
Interest and fiscal charges	742	-	-	-	(742)	-	(742)
Total governmental activities	6,220,421	1,407,658	1,474,985	72,395	(3,265,383)	-	(3,265,383)
Business-type activities							
Water	993,641	1,328,802	-	9,438	-	344,599	344,599
Sewer	1,118,719	929,180	-	6,199	-	(183,340)	(183,340)
Garbage	947,865	1,170,317	-	-	-	222,452	222,452
Solar Energy	169,983	67,946	-	-	-	(102,037)	(102,037)
Total business-type activities	3,230,208	3,496,245	-	15,637	-	281,674	281,674
Total primary government	\$ 9,450,629	\$ 4,903,903	\$ 1,474,985	\$ 88,032	(3,265,383)	281,674	(2,983,709)
General Revenue							
Property taxes					2,109,748	-	2,109,748
Special assessments					9,157	-	9,157
Sales taxes					1,127,347	-	1,127,347
Franchise and other taxes					80,782	-	80,782
Utility users tax					239,592	-	239,592
Business licenses					72,306	-	72,306
Investment income					223,642	17,424	241,066
Other					210,085	1,000,000	1,210,085
Transfers					262,720	(262,720)	-
Total general revenue and transfers					4,335,379	754,704	5,090,083
Change in Net Position					1,069,996	1,036,378	2,106,374
Net Position							
Beginning of year					29,600,570	18,779,527	48,380,097
End of year					\$ 30,670,566	\$ 19,815,905	\$ 50,486,471

See accompanying notes.

CITY OF GONZALES

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Community Development Block Grant	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 2,890,870	\$ 201,390	\$ 133,382	\$ 4,087,126	\$ 7,312,768
Due from other governments	374,127	-	173,717	197,730	745,574
Interest receivable	-	-	51	1,892	1,943
Due from other funds	233,740	-	-	-	233,740
Notes and loans receivable	500,000	1,800,822	767,567	572,842	3,641,231
Lease reimbursement receivable	160,433	-	-	-	160,433
Advance to Successor Agency	-	-	-	159,833	159,833
Other assets - deposits	15,746	-	-	-	15,746
Total assets	\$ 4,174,916	\$ 2,002,212	\$ 1,074,717	\$ 5,019,423	\$ 12,271,268
LIABILITIES					
Accounts payable and accrued expense	\$ 490,330	\$ 1,943	\$ -	\$ 112,205	\$ 604,478
Due to other funds	-	-	-	233,740	233,740
Deposits and other liabilities	108,074	-	-	-	108,074
Advances from other funds	594,000	-	-	-	594,000
Total liabilities	1,192,404	1,943	-	345,945	1,540,292
DEFERRED INFLOWS OF RESOURCES					
Deferred loans	660,433	1,800,822	767,567	572,842	3,801,664
Total deferred inflows of resources	660,433	1,800,822	767,567	572,842	3,801,664
FUND BALANCE					
Restricted					
Lighting, landscape & park maintenance	-	-	-	1,943,990	1,943,990
Low-income housing activities	-	-	-	441,316	441,316
Community development	-	199,447	307,150	607,037	1,113,634
Street improvements	-	-	-	1,166,088	1,166,088
Public safety	-	-	-	43,261	43,261
Unassigned	2,322,079	-	-	(101,056)	2,221,023
Total fund balance	2,322,079	199,447	307,150	4,100,636	6,929,312
Total liabilities, deferred inflows of resources, and fund balance	\$ 4,174,916	\$ 2,002,212	\$ 1,074,717	\$ 5,019,423	\$ 12,271,268

CITY OF GONZALES

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2016

Total governmental fund balance	\$ 6,929,312
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	27,540,641
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	(5,687,902)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds	(209,020)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	313,149
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	(1,478,756)
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	(538,522)
In governmental funds, receivables which are not considered available are deferred. Such items are not deferred in the Statement of Net Position	<u>3,801,664</u>
Net position of governmental activities	<u>\$ 30,670,566</u>

CITY OF GONZALES

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2016

	General	Community Development Block Grant	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes and assessments	\$ 3,207,150	\$ -	\$ -	431,782	\$ 3,638,932
Licenses, permits and impact fees	222,198	-	-	150,350	372,548
Intergovernmental	212,416	194,197	5,965	773,670	1,186,248
Charges for services	1,194,663	-	-	-	1,194,663
Fines and forfeitures	26,943	-	-	-	26,943
Loan repayments	-	106,150	68,535	47,628	222,313
Use of money and property	74,682	27,367	105,690	15,893	223,632
Other	49,652	-	-	-	49,652
Total revenue	4,987,704	327,714	180,190	1,419,323	6,914,931
Expenditures					
Current					
General government	504,547	-	-	-	504,547
Public safety	2,424,923	-	-	253,035	2,677,958
Public works	167,540	-	66,553	740,660	974,753
Parks and recreation	474,476	-	-	296,445	770,921
Community development	215,437	202,719	-	138,852	557,008
Capital outlay	1,776,381	-	-	220,797	1,997,178
Debt Service					
Principal	8,819	-	-	22,260	31,079
Interest and fiscal charges	742	-	-	-	742
Total expenditures	5,572,865	202,719	66,553	1,672,049	7,514,186
Revenue over/(under) expenditures	(585,161)	124,995	113,637	(252,726)	(599,255)
Other Financing Sources/(Uses)					
Loan proceeds	1,575,000	-	-	-	1,575,000
Transfers in/(out) - net	309,820	(20,000)	-	(27,100)	262,720
	1,884,820	(20,000)	-	(27,100)	1,837,720
Change in Fund Balance	1,299,659	104,995	113,637	(279,826)	1,238,465
Fund Balance					
Beginning of year	1,022,420	94,452	193,513	4,380,462	5,690,847
End of year	\$ 2,322,079	\$ 199,447	\$ 307,150	\$ 4,100,636	\$ 6,929,312

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, 2016

Net change in fund balance - total governmental funds		\$ 1,238,465
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	1,997,178	
Depreciation expense not reported in governmental funds	<u>(1,142,652)</u>	854,526
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position		101,079
Issuance of new debt is reported as an other financing source in governmental funds, however in the Statement of Activities it is accrued as a long-term debt		(1,575,000)
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		364,421
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		(47,677)
Allowance for uncollectible account is an expenditure in the Statement of Activities but not in the governmental funds as the receivable was offset with unavailable revenue		160,433
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>(26,251)</u>
Change in net position of governmental activities		<u>\$ 1,069,996</u>

CITY OF GONZALES

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016**

	Business-Type Activities - Enterprise Funds				Total Proprietary Funds
	Water	Sewer	Garbage	Solar Energy	
ASSETS					
Current assets					
Cash and investments	\$ 4,016,948	\$ 2,133,626	\$ 50,810	\$ 1,706,281	\$ 7,907,665
Accounts receivable, net	116,227	40,284	123,068	4,882	284,461
Interest receivable	2,971	2,526	704	-	6,201
Total current assets	4,136,146	2,176,436	174,582	1,711,163	8,198,327
Non-current assets					
Advances to Successor Agency	1,000,000	-	-	-	1,000,000
Advances to other funds	594,000	-	-	-	594,000
Property, plant and equipment, net of allowance for depreciation	7,802,408	5,812,214	-	2,792,275	16,406,897
Total non-current assets	9,396,408	5,812,214	-	2,792,275	18,000,897
Total assets	\$ 13,532,554	\$ 7,988,650	\$ 174,582	\$ 4,503,438	\$ 26,199,224
DEFERRED OUTFLOWS OF RESOURCES					
	31,693	31,261	9,630	-	72,584
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	\$ 38,736	\$ 104,541	\$ 122,520	\$ -	\$ 265,797
Deposits	69,593	-	-	-	69,593
Current portion of long-term debt	168,719	-	-	233,680	402,399
Total current liabilities	277,048	104,541	122,520	233,680	737,789
Non-current liabilities					
Long-term debt	1,684,765	-	-	3,629,845	5,314,610
Net pension liability	126,801	124,303	48,869	-	299,973
Total noncurrent liabilities	1,811,566	124,303	48,869	3,629,845	5,614,583
Total liabilities	2,088,614	228,844	171,389	3,863,525	6,352,372
DEFERRED INFLOWS OF RESOURCES					
	43,990	43,172	16,369	-	103,531
NET POSITION					
Net investment in capital assets	5,948,924	5,812,214	-	(1,071,250)	10,689,888
Restricted for capital improvements	944,990	818,314	-	-	1,763,304
Unrestricted/(deficit)	4,537,729	1,117,367	(3,546)	1,711,163	7,362,713
Total net position	11,431,643	7,747,895	(3,546)	639,913	19,815,905

See accompanying notes.

CITY OF GONZALES

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds
	Water	Sewer	Garbage	Solar Energy		
Operating Revenue						
Charges for services	\$ 1,328,309	\$ 928,969	\$ 1,170,317	\$ -	\$ -	3,427,595
Other revenues	493	211	-	67,946	-	68,650
Total operating income	<u>1,328,802</u>	<u>929,180</u>	<u>1,170,317</u>	<u>67,946</u>	<u>-</u>	<u>3,496,245</u>
Operating Expense						
Contractual services and utilities	497,263	766,804	880,012	28,735	-	2,172,814
Personnel	158,476	158,605	57,864	-	-	374,945
Supplies and materials	79,343	77,147	9,989	5,908	-	172,387
Depreciation	192,355	116,163	-	38,544	-	347,062
Total operating expense	<u>927,437</u>	<u>1,118,719</u>	<u>947,865</u>	<u>73,187</u>	<u>-</u>	<u>3,067,208</u>
Operating income/(loss)	<u>401,365</u>	<u>(189,539)</u>	<u>222,452</u>	<u>(5,241)</u>	<u>-</u>	<u>429,037</u>
Nonoperating Revenue/(Expense)						
Development impact fees	9,438	6,199	-	-	-	15,637
Interest income	10,919	6,505	-	-	-	17,424
Interest expense	(66,204)	-	-	(96,796)	-	(163,000)
Other income	1,000,000	-	-	-	-	1,000,000
Total nonoperating revenue/(expense)	<u>954,153</u>	<u>12,704</u>	<u>-</u>	<u>(96,796)</u>	<u>-</u>	<u>870,061</u>
Net income/(loss) before transfers	<u>1,355,518</u>	<u>(176,835)</u>	<u>222,452</u>	<u>(102,037)</u>	<u>-</u>	<u>1,299,098</u>
Operating Transfers In/(Out)	<u>(149,360)</u>	<u>(179,360)</u>	<u>(204,000)</u>	<u>270,000</u>	<u>-</u>	<u>(262,720)</u>
Change in Net Position	<u>1,206,158</u>	<u>(356,195)</u>	<u>18,452</u>	<u>167,963</u>	<u>-</u>	<u>1,036,378</u>
Net Position						
Beginning of year	10,225,485	8,104,090	(21,998)	471,950	-	18,779,527
End of year	<u>\$ 11,431,643</u>	<u>\$ 7,747,895</u>	<u>\$ (3,546)</u>	<u>\$ 639,913</u>	<u>\$ -</u>	<u>\$ 19,815,905</u>

See accompanying notes.

CITY OF GONZALES

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities - Enterprise Funds					Total Business-Type Funds
	Water	Sewer	Garbage	Solar Energy		
Operating Activities						
Receipts from customers and users	\$ 1,340,554	\$ 933,088	\$ 1,216,385	\$ 71,895	\$	\$ 3,561,922
Payments for contractual services and utilities	(488,473)	(707,594)	(841,116)	(28,735)		(2,065,918)
Payments to employees	(194,912)	(194,543)	(68,935)	-		(458,390)
Payment to suppliers	(79,345)	(77,143)	(9,990)	(5,908)		(172,386)
Net cash provided (used) by operating activities	577,824	(46,192)	296,344	37,252		865,228
Non-capital Financial Activities						
Payments (to)/from developers	9,438	6,199	-	-		15,637
Transfers (to)/from other funds	(743,360)	(179,360)	(246,941)	270,000		(899,661)
Net cash provided by (used in) noncapital financing activities	(733,922)	(173,161)	(246,941)	270,000		(884,024)
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(70,540)	(13,624)	-	(190,546)		(274,710)
Loan proceeds	-	-	-	1,679,189		1,679,189
Principal paid on long-term debt	(163,206)	-	-	(169,837)		(333,043)
Interest paid on long-term debt	(66,204)	-	-	(96,796)		(163,000)
Net cash provided by (used in) capital and related financing activities	(299,950)	(13,624)	-	1,222,010		908,436
Investing Activities						
Interest received	11,568	-	1,407	-		12,975
Payments received on notes	594,000	6,625	-	-		600,625
Net cash provided by investing activities	605,568	6,625	1,407	-		613,600
Net Increase (Decrease) in Cash	149,520	(226,352)	50,810	1,529,262		1,503,240
Cash						
Beginning of year	3,867,428	2,359,978	-	177,019		6,404,425
End of year	4,016,948	2,133,626	50,810	1,706,281		7,907,665
Cash Flows from Operating Activities						
Operating income (loss)	\$ 401,365	\$ (189,539)	\$ 222,452	\$ (5,241)	\$	\$ 429,037
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	192,355	116,163	-	38,544		347,062
(Increase) Decrease in Accounts Receivable	9,942	3,910	46,066	3,949		63,867
(Increase) Decrease in Deferred Outflows of Resources	(15,299)	(15,183)	(3,402)	-		(33,884)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	8,787	59,212	38,897	-		106,896
Increase (Decrease) in Deposits	1,811	-	-	-		1,811
Increase (Decrease) in Net Pension Liability	(26,281)	(25,830)	(9,282)	-		(61,393)
Increase (Decrease) in Deferred Inflows of Resources	5,144	5,075	1,613	-		11,832
Net Cash Provided (Used) by Operating Activities	\$ 577,824	\$ (46,192)	\$ 296,344	\$ 37,252	\$	\$ 865,228

CITY OF GONZALES

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS JUNE 30, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 5,882
Total assets	<u>5,882</u>
LIABILITIES	
Agency funds payable	<u>5,882</u>
Total liabilities	<u>\$ 5,882</u>

CITY OF GONZALES

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2016

	<u>Redevelopment Successor Agency</u>
Assets	
Current assets	
Cash and investments	\$ 296,277
Restricted cash and investments	2,455,083
Total current assets	<u>2,751,360</u>
Noncurrent assets	
Notes receivable	391,741
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>5,162,792</u>
Total assets	<u>7,914,152</u>
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	7,453
Unearned revenue	843,637
Due to City of Gonzales	160,433
Interest payable	119,774
Bonds - current portion	<u>370,781</u>
Total current liabilities	<u>1,502,078</u>
Noncurrent liabilities	
Bonds - long term portion	13,975,529
Advance from Housing Successor Fund	159,833
Advance payable to City of Gonzales	<u>1,500,000</u>
Total noncurrent liabilities	<u>15,635,362</u>
Total liabilities	<u>17,137,440</u>
Net Position	
Held in trust for other governments	<u>\$ (9,223,288)</u>

CITY OF GONZALES

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND JUNE 30, 2016

	<u>Redevelopment Successor Agency</u>
Additions	
Property taxes	\$ 2,208,062
Interest and use of property	55,326
Other revenues	47,448
Total additions	<u>2,310,836</u>
Deductions	
Administrative expenses	163,045
Bond issuance related costs	156,422
Interest and fiscal expenses	668,994
Total deductions	<u>1,179,771</u>
Change In Net Position	<u>1,131,065</u>
Net Position	
Beginning of year	<u>(10,354,353)</u>
End of year	<u>\$ (9,223,288)</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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 of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund and certificates of deposit. Investments are recorded at amortized cost or fair value. Fair value is based upon quoted market prices.

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, 2016

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 1st, proceeding the fiscal year for which the taxes are levied. The fiscal year begins July 1st and ends June 30th 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 1st of the fiscal year and is delinquent, if not paid, by December 10th; and the second installment is due on March 1st of the fiscal year and is delinquent, if not paid, by April 10th. 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 31st 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 are 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.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

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 is included as part of the capitalized value of the assets constructed.

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, 2016

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, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

New Effective Accounting Pronouncements

For the year ended June 30, 2016, the City implemented GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. The primary objective of GASB 72 is to provide guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. There was no material impact on the City's financial statements as a result of the implementation of Statement No. 72. All required disclosures were added to Note 3.

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.

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, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 15,220,433
Fiduciary Funds:	
Cash and Investments	<u>2,757,242</u>
Total Cash and Investments	<u>\$ 17,977,675</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$	350
Deposits with Financial Institutions		2,676,412
Local Agency Investment Fund		4,058,346
Certificates of Deposit		10,929
Money Market Accounts		8,776,555
Held by Fiscal Agent:		
Cash		355
U.S. Treasury Obligation Funds		4,010
U.S. Treasury Note		303,393
U.S. Treasury Bond		880,674
Foreign Issues		895,967
U.S. Treasury Money Market Funds		<u>370,684</u>
Total Cash and Investments	\$	<u>17,977,675</u>

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

LAIF is valued based on the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (Level 2 input).

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

The City had the following recurring fair value measurements as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2016 Balance</u>
Investments by fair value level:				
Debt Securities:				
U.S. Treasury Obligations	\$ -	\$ 4,010	\$ -	\$ 4,010
U.S. Treasury Note	-	303,393	-	303,393
U.S. Treasury Bond	-	880,674	-	880,674
Foreign Issues	-	895,967	-	895,967
Total Debt Securities	<u>-</u>	<u>2,084,044</u>	<u>-</u>	<u>2,084,044</u>
Equity Securities:				
CDS	10,929	-	-	10,929
LAIF	<u>-</u>	<u>4,058,346</u>	<u>-</u>	<u>4,058,346</u>
Total Equity Securities	<u>10,929</u>	<u>4,058,346</u>	<u>-</u>	<u>4,069,275</u>
Investments carried at amortized cost:				
Deposits				2,677,117
Money Market Mutual Funds				<u>9,147,239</u>
Total Investments amortized at cost				<u>11,824,356</u>
Total Investments				<u>\$ 17,977,675</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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, 2016

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

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

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	\$ 4,058,346	\$ 4,058,346	\$ -	\$ -	\$ -
Certificates of deposit	10,929	10,929	-	-	-
Money Market Accounts	8,776,555	8,776,555	-	-	-
Held by Bond Trustee:					
Cash	355	355	-	-	-
U.S. Treasury Obligation Funds	4,010	4,010	-	-	-
U.S. Treasury Note	303,393	119,780	60,388	123,225	-
U.S. Treasury Bond	880,674	-	61,126	819,548	-
Foreign Issues	895,967	-	-	-	895,967
U.S. Treasury Money Market Funds	<u>370,684</u>	<u>370,684</u>	-	-	-
Total	<u>\$15,300,913</u>	<u>\$13,340,659</u>	<u>\$ 121,514</u>	<u>\$ 942,773</u>	<u>\$ 895,967</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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	\$ 4,058,346	N/A	\$ 4,058,346	\$ -
Certificates of deposit	10,929	N/A	10,929	-
Money Market Accounts	8,776,555	N/A	8,776,555	-
Held by Bond Trustee:				
Cash	355	N/A	355	-
U.S. Treasury Obligation Funds	4,010	N/A	4,010	-
U.S. Treasury Note	303,393	AAA	-	303,393
U.S. Treasury Bond	880,674	N/A	880,674	-
Foreign Issues	895,967	AAA	-	895,967
U.S. Treasury Money Market Funds	<u>370,684</u>	AAA	<u>-</u>	<u>370,684</u>
Total	<u>\$ 15,300,913</u>		<u>\$ 13,730,869</u>	<u>\$ 1,570,044</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, 2016.

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.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 3 – Cash and Investments (Continued)

At June 30, 2016, 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, 2016, total cash held in bank was \$2,676,411 of which \$2,426,411 was in excess of federal depository insurance limits.

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, 2016 were as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Funds				
Local Business Promissory Notes	\$ 264,246	\$ -	\$ (32,354)	\$ 231,892
Developer Loans	836,102	-	(68,535)	767,567
Rehabilitation Loans	2,088,560	175,000	(121,788)	2,141,772
Successor Agency	500,000	-	-	500,000
	<u>\$ 3,688,908</u>	<u>\$ 175,000</u>	<u>\$ (222,677)</u>	<u>\$ 3,641,231</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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

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, 2016</u>
September 30, 2011	191,135	2%	November 1, 2020	Deed of Trust	\$ 98,489
April 1, 2011	200,000	2%	October 1, 2024	Security Agreement	133,403
					<u>\$ 231,892</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, 2016</u>
February 19, 2008	\$ 836,120	4%	January 1, 2028	Deed of Trust	<u>\$ 767,567</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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, 2016
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	36,083
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	127,379
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
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	40,543
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	13,131
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	23,719
July 2, 2012	-	3%	July 2, 2022	Machinery/Equipment	52,846
July 9, 2010	70,000	1%	July 9, 2017	Security Agreement	13,713
May 1, 2012	105,000	3%	May 1, 2022	Security Agreement	66,731
April 11, 2014	91,511	3%	April 11, 2024	Security Agreement	73,112
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	251,582
September 30, 2015	175,000	2%	September 30, 2030	Security Agreement	169,972
					<u>\$ 2,141,772</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, 2016

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2016 were as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 7,707,583	\$ -	\$ -	\$ 7,707,583
Construction in progress	-	1,955,922	-	1,955,922
Total capital assets, not being depreciated	<u>7,707,583</u>	<u>1,955,922</u>	<u>-</u>	<u>9,663,505</u>
Capital assets, being depreciated				
Buildings and improvements	8,023,550	-	-	8,023,550
Infrastructure	32,668,682	-	-	32,668,682
Machinery and equipment	2,226,524	41,256	-	2,267,780
Total capital assets, being depreciated	<u>42,918,756</u>	<u>41,256</u>	<u>-</u>	<u>42,960,012</u>
Less accumulated depreciation for				
Buildings and improvements	(1,501,384)	(202,129)	-	(1,703,513)
Infrastructure	(20,749,355)	(832,990)	-	(21,582,345)
Machinery and equipment	(1,689,485)	(107,533)	-	(1,797,018)
Total accumulated depreciation	<u>(23,940,224)</u>	<u>(1,142,652)</u>	<u>-</u>	<u>(25,082,876)</u>
Total capital assets, being depreciated, net	<u>18,978,532</u>	<u>(1,101,396)</u>	<u>-</u>	<u>17,877,136</u>
Governmental activities capital assets, net	<u>\$ 26,686,115</u>	<u>\$ 854,526</u>	<u>\$ -</u>	<u>\$ 27,540,641</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 604,807	\$ -	\$ -	\$ 604,807
Construction in progress	-	56,916	-	56,916
Total capital assets, not being depreciated	<u>604,807</u>	<u>56,916</u>	<u>-</u>	<u>661,723</u>
Capital assets, being depreciated				
Buildings and improvements	46,939	-	-	46,939
Infrastructure	22,511,943	-	-	22,511,943
Machinery and equipment	554,458	217,794	-	772,252
Total capital assets, being depreciated	<u>23,113,340</u>	<u>217,794</u>	<u>-</u>	<u>23,331,134</u>
Less: accumulated depreciation	<u>(7,238,898)</u>	<u>(347,062)</u>	<u>-</u>	<u>(7,585,960)</u>
Total capital assets, being depreciated, net	<u>15,874,442</u>	<u>(129,268)</u>	<u>-</u>	<u>15,745,174</u>
Business-type activities capital assets, net	<u>\$ 16,479,249</u>	<u>\$ (72,352)</u>	<u>\$ -</u>	<u>\$ 16,406,897</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 5 – Capital Assets (Continued)

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

Government Activities:

General Government	\$	6,562
Public Safety		195,572
Public Works		507,167
Parks and Recreation		90,757
Community Development		342,594
	\$	<u>1,142,652</u>

Business-Type Functions:

Water	\$	192,355
Sewer		116,163
Solar		38,544
	\$	<u>347,062</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, 2016.

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 233,740
Public Safety Fund	87,597	-
CDBG Urban County Grant Fund	146,143	-
	<u>\$ 233,740</u>	<u>\$ 233,740</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 2015-2016, the General Fund did not make any payments.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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>
Major Governmental Funds:		
General Fund	\$ 309,820	\$ -
Community Development Block Grant Fund	-	(20,000)
Proprietary Funds:		
Water	-	(149,360)
Sewer	-	(179,360)
Garbage	-	(204,000)
Solar Energy	270,000	-
Nonmajor Governmental Funds:		
Gas Tax Fund	65,200	-
Supplemental Local Law Enforcement Fund	-	(142,851)
Public Safety Fund	142,851	-
California Breeze Maintenance District Fund	-	(42,800)
Canyon Creek Park Maintenance District Fund	-	(45,000)
Cipriani Estates Park & Maintenance District Fund	-	(20,050)
Gonzales Industrial Park Landscape & Maintenance Fund	-	(11,450)
CDBG Urban County Grant Fund	-	(15,804)
General Plan Update Impact Fees Fund	84,443	-
Sphere of Influence Impact Fees Fund	-	(34,443)
Shopping Center Fund	-	(7,196)
	<u>\$ 872,314</u>	<u>\$ (872,314)</u>

The following describe the significant transfers made during the year:

- The Supplemental Local Law Enforcement Fund transferred \$142,851 to the Public Safety Fund in order to finance various programs.
- Various nonmajor funds transferred \$309,820 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, 2016

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

- Various nonmajor funds transferred \$65,200 to the Gas Tax Fund for various street related projects accounted for in the Gas Tax Fund.
- Various funds transferred \$270,000 to the Solar Fund for utility fees.
- General Plan Update Impact Fees Fund received \$84,443 from several funds to cover the costs of the general plan update.
- The Garbage Fund transferred \$204,000 to the General Fund for reimbursement of administrative costs.

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 1st 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.

In December 2015 the State Department of Finance approved the advance as an enforceable obligation. The advance will be repaid with interest as additional funding is available in subsequent fiscal years.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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, 2016 was comprised of the following individual issues:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements/ Restatement</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
<u>Governmental Activities Long Term Debt</u>					
Capital Leases					
Lease of Police Station from Successor Agency	\$ 4,175,000	\$ -	\$ (70,000)	\$ 4,105,000	\$ 75,000
Pool Site Lease	-	1,575,000	-	1,575,000	89,882
Radio Equipment Lease	38,981	-	(31,079)	7,902	7,902
Total Governmental Activities Debt	<u>\$ 4,213,981</u>	<u>\$ 1,575,000</u>	<u>\$ (101,079)</u>	<u>\$ 5,687,902</u>	<u>\$ 172,784</u>
<u>Business-Type Activities Long Term Debt</u>					
Note Payable					
2005 Water Tank & Sewer Expansion Refinance	\$ 2,016,690	\$ -	\$ (163,206)	\$ 1,853,484	\$ 168,719
Capital Leases					
Solar Panel Energy Lease	2,354,173	-	(169,836)	2,184,337	186,618
Solar Panel Energy Lease	-	1,679,188	-	1,679,188	47,062
Total Business-Type Activities Debt	<u>\$ 4,370,863</u>	<u>\$ 1,679,188</u>	<u>\$ (333,042)</u>	<u>\$ 5,717,009</u>	<u>\$ 402,399</u>
<u>Compensated Absences</u>					
Governmental Activities	<u>\$ 182,769</u>	<u>\$ 26,251</u>	<u>\$ -</u>	<u>\$ 209,020</u>	

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.

Pool Site Lease - On March 1, 2016, the City entered into an agreement with the Gonzales Public Financing Authority to lease the pool site for \$1,575,000 at 2.88% interest rate. Lease terminates on February 1, 2031.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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, 2016, the City is owed \$160,433 in lease payments from 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.

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 30th and December 30th.

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 29th and June 29th 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 amount financed was \$2,697,589 and is payable over a 14 year term with lease payments commencing in October of 2012.

Solar Panel Energy Lease - In March of 2016, the City entered into a lease purchase agreement for the purchase of Solar Panels. The amount financed was \$1,679,189 and is payable over a 15 year term with lease payments commencing in August of 2016.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 8 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2016 were as follows:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 172,784	\$ 333,790	\$ 402,399	\$ 191,144
2018	162,505	333,115	424,243	180,094
2019	170,043	327,202	439,798	167,928
2020	177,655	320,590	466,891	151,795
2021	185,342	313,546	495,587	134,577
2022-2026	1,049,837	1,441,766	2,828,989	371,749
2027-2031	1,314,736	1,173,145	659,102	53,320
2032-2036	990,000	846,088	-	-
2037-2040	1,465,000	375,375	-	-
	<u>\$ 5,687,902</u>	<u>\$ 5,464,617</u>	<u>\$ 5,717,009</u>	<u>\$ 1,250,607</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, 2016, is \$140,000.

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, 2016:

Public Safety Fund	\$ (97,161)
Garbage	(3,546)
CDBG Urban County Grant	(3,895)
	<u>\$ (104,602)</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, 2016

Note 12 – Deferred Outflows/Inflows of Resources

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 2015-16 pension contributions subsequent to measurement date	\$ 439,781
Difference between expected and actual experience	9,502
Difference between projected and actual contributions	<u>30,776</u>
Total deferred outflows of resources	<u>\$ 385,733</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	\$ 96,167
Changes in assumptions	190,725
Adjustment due to differences in proportions	333,240
Difference between projected and actual contributions	<u>21,921</u>
Total deferred inflows of resources	<u>\$ 642,053</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, deferred loans, is reported only in the governmental funds balance sheet. The City reports in the governmental funds \$3,301,664 as deferred loans.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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, 11th 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, 2016, the monthly payment was \$6,574. During fiscal year 2015-2016, the City paid the resident a total of \$78,817.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

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, 2016 was 16.073% for the miscellaneous plan and 16.195% for the safety plan. The contribution requirements of plan members are 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, 2016, are summarized as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Hire Date	Prior to January 1, 2013	Prior to January 1, 2013
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	55
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	7.00%	7.00%
Required Employer Contribution Rates	17.305%	15.143%
	 PEPRA	
	<u>Miscellaneous</u>	<u>PEPRA Safety</u>
Hire Date	On or after January 1, 2013	On or after January 1, 2013
Benefit Formula	2.0% at 62; maximum 2% COLA	2.0% at 57; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	62	57
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	6.25%	9.50%
Required Employer Contribution Rates	6.237%	9.069%

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 15 – Pension Plan (Continued)

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, 2016, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 345,365
Contributions – employee	\$ 143,051

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

As of June 30, 2016, 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	\$ 1,084,895
Total Net Pension Liability – Safety	\$ 693,834

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, 2015, 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, 2014 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, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2014	0.05204%	.023160%
Proportion – June 30, 2015	<u>0.03955%</u>	<u>.016839%</u>
Change – Increase/(Decrease)	(0.01249%)	(.06321%)

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 15 – Pension Plan (Continued)

For the year ended June 30, 2016, the City recognized pension expense of \$204,624. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 345,455	\$ -
Adjustment due to differences in proportions	-	(333,240)
Changes in assumptions or other inputs	-	(190,725)
Difference between projected and actual contributions	30,776	-
Difference between projected and actual earnings on pension plan investments	-	(96,167)
Difference between expected and actual experience in the Total Pension Liability	<u>9,502</u>	<u>(21,921)</u>
Total	<u>\$ 385,733</u>	<u>\$ (642,053)</u>

The \$345,455 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:

<u>June 30</u>	
2017	\$ (171,067)
2018	(166,295)
2019	(146,902)
2020	<u>(117,511)</u>
Total	<u>\$ (601,775)</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 15 – Pension Plan (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership ¹ Date for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Investment Rate of Return	7.50%

¹ 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, 2014 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.

Change of assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 15 – Pension Plan (Continued)

Discount rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 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 on CalPERS’ website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees’ Retirement 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 the 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 was calculated. The expected nominal 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 long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

Note 15 – Pension Plan (Continued)

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. The geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return ¹ Years 1-10	Real Return ² Years 11+
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%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

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 (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous	\$ 1,819,690	\$ 1,084,895	\$ 478,503
Safety	\$ 1,112,533	\$ 693,834	\$ 350,598

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 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through December 8, 2016, the date which these financial statements were available to be issued.

On May 6, 2016, the California Department of Finance approved the Successor Agency 2016 Tax Allocation Refunding Bonds to refinance the Gonzales Redevelopment Agency 2011 Lease Revenue Refunding Bonds. It did not change the maturity date, but reduced the interest rate on the bonds from 5.625% – 8.125% to 2.980%. This resulted in a cost savings of \$2,451,197 over the life of the bonds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GONZALES

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 2,911,700	\$ 3,207,200	\$ 3,207,150	\$ (50)
Licenses, permits and impact fees	162,150	180,200	222,198	41,998
Intergovernmental	267,350	267,350	212,416	(54,934)
Charges for services	(277,568)	1,055,616	1,194,663	139,047
Fines and forfeitures	32,000	31,000	26,943	(4,057)
Use of money and property	53,000	62,000	74,682	12,682
Other	40,000	42,000	49,652	7,652
Total revenue	<u>3,188,632</u>	<u>4,845,366</u>	<u>4,987,704</u>	<u>142,338</u>
Expenditures				
Current				
General government	418,099	381,763	504,547	(122,784)
Public safety	2,073,754	2,303,913	2,424,923	(121,010)
Public works	157,402	159,421	167,540	(8,119)
Parks and recreation	333,013	389,311	474,476	(85,165)
Community development	219,410	238,319	215,437	22,882
Capital outlay	600	1,500,000	1,776,381	(276,381)
Debt service				
Principal	-	-	8,819	(8,819)
Interest and fiscal charges	30,000	130,000	742	129,258
Total expenditures	<u>3,232,278</u>	<u>5,102,727</u>	<u>5,572,865</u>	<u>(470,138)</u>
Revenue over (under) expenditures	(43,646)	(257,361)	(585,161)	(327,800)
Other Financing Sources				
Loan proceeds	-	-	1,575,000	1,575,000
Transfers in (out) - net	<u>327,100</u>	<u>327,100</u>	<u>309,820</u>	<u>(17,280)</u>
Net Change in Fund Balance	<u>\$ 283,454</u>	<u>\$ 69,739</u>	1,299,659	<u>\$ 1,229,920</u>
Fund Balance				
Beginning of year			<u>1,022,420</u>	
End of year			<u>\$ 2,322,079</u>	

CITY OF GONZALES

BUDGETARY COMPARISON SCHEDULE COMMUNITY DEVELOPMENT BLOCK GRANT YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive/ (Negative)</u>
Revenue				
Intergovernmental	157,375	373,412	194,197	\$ (179,215)
Loan repayments	59,350	59,350	106,150	46,800
Use of money and property	11,076	11,076	27,367	16,291
Total revenue	<u>227,801</u>	<u>443,838</u>	<u>327,714</u>	<u>(116,124)</u>
Expenditures				
Community development	<u>223,975</u>	<u>224,475</u>	<u>202,719</u>	<u>21,756</u>
Total expenditures	<u>223,975</u>	<u>224,475</u>	<u>202,719</u>	<u>21,756</u>
Revenue over expenditures	3,826	219,363	124,995	(94,368)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Change in Fund Balance	<u>\$ (16,174)</u>	<u>\$ 199,363</u>	104,995	<u>\$ (94,368)</u>
Fund Balance				
Beginning of year			<u>94,452</u>	
End of year			<u>\$ 199,447</u>	

CITY OF GONZALES

BUDGETARY COMPARISON SCHEDULE INFRASTRUCTURE IMPROVEMENT YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 5,000	\$ 5,000	\$ 5,965	\$ 965
Loan repayments	2,500	2,500	68,535	66,035
Use of money and property	<u>22,500</u>	<u>22,500</u>	<u>105,690</u>	<u>83,190</u>
Total revenue	<u>30,000</u>	<u>30,000</u>	<u>180,190</u>	<u>150,190</u>
Expenditures				
Public works	<u>85,000</u>	<u>85,000</u>	<u>66,553</u>	<u>18,447</u>
Total expenditures	<u>85,000</u>	<u>85,000</u>	<u>66,553</u>	<u>18,447</u>
Change in Fund Balance	<u>\$ (55,000)</u>	<u>\$ (55,000)</u>	113,637	<u>\$ 168,637</u>
Fund Balance				
Beginning of year			<u>193,513</u>	
End of year			<u>\$ 307,150</u>	

CITY OF GONZALES

**SCHEDULE OF THE CITY'S NET PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 YEARS*
YEAR ENDED JUNE 30, 2016**

	Miscellaneous		Safety	
	2015	2016	2015	2016
Proportion of the net pension liability	0.05204%	0.03955%	0.02316%	0.01684%
Proportionate share of the net pension liability	\$ 1,286,053	\$ 1,084,895	\$ 868,678	\$ 693,834
Covered - employee payroll	\$ 1,112,163	\$ 982,675	\$ 992,049	\$ 1,039,081
Proportionate share of the net pension liability as a percentage of covered-employee payroll	115.64%	110.40%	87.56%	66.77%
Plan's fiduciary net position	\$ 4,587,216	\$ 5,044,102	\$ 3,422,038	3,797,755
Plan's fiduciary net position as a percentage of the Total Pension Liability	78.100%	82.300%	79.750%	84.550%

*Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown.

CITY OF GONZALES

**SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS*
YEAR ENDED JUNE 30, 2016**

	Miscellaneous		Safety	
	2015	2016	2015	2016
Contractually required contribution (actuarially determined)	\$ 160,656	\$ 137,778	\$ 161,844	\$ 152,643
Contributions in relation to the actuarially determined contributions	(160,656)	(137,778)	(161,844)	(152,643)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,112,163	\$ 982,675	\$ 992,049	\$ 1,039,081
Contributions as a percentage of covered-employee payroll	14.45%	14.02%	16.31%	14.69%

*Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown.

Notes to Schedule of Contributions

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of Retirement are
Payroll Growth	3.00%

SUPPLEMENTAL ONLY INFORMATION

CITY OF GONZALES
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue									
	Gas Tax	Supplemental Local Law Enforcement	Public Safety	Ag Industrial Park Federal Grant	AQMD	Housing Successor	California Breeze Maintenance District	Canyon Creek Park Maintenance District		
ASSETS										
Cash and investments	\$ 606,793	\$ 16,590	\$ -	\$ 7,699	\$ 79,831	\$ 201,652	\$ 359,376	\$ 903,958		
Due from other governments	28,811	26,671	-	-	-	-	-	-		
Interest receivable	262	-	-	18	-	-	299	527		
Notes and loans receivable	-	-	-	-	133,404	340,948	-	-		
Advance to Successor Agency	-	-	-	-	-	159,833	-	-		
Total assets	\$ 635,866	\$ 43,261	\$ -	\$ 7,717	\$ 213,235	\$ 702,433	\$ 359,675	\$ 904,485		
LIABILITIES										
Accounts payable and accrued expense	\$ 42,686	\$ -	\$ 9,564	\$ -	\$ -	\$ -	\$ 13,558	\$ 12,871		
Due to other funds	-	-	87,597	-	-	-	-	-		
Total liabilities	42,686	-	97,161	-	-	-	13,558	12,871		
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenues	-	-	-	-	133,404	340,948	-	-		
Total deferred inflows of resources	-	-	-	-	133,404	340,948	-	-		
FUND BALANCE										
Restricted										
Lighting, landscape & park maintenance	-	-	-	-	-	-	346,117	891,614		
Low-income housing activities	-	-	-	-	79,831	361,485	-	-		
Community development	-	-	-	7,717	-	-	-	-		
Street improvements	593,180	-	-	-	-	-	-	-		
Public safety	-	43,261	-	-	-	-	-	-		
Unassigned	-	-	(97,161)	-	-	-	-	-		
Total fund balance	593,180	43,261	(97,161)	7,717	79,831	361,485	346,117	891,614		
Total liabilities, deferred inflows of resources and fund balance	\$ 635,866	\$ 43,261	\$ -	\$ 7,717	\$ 213,235	\$ 702,433	\$ 359,675	\$ 904,485		

**CITY OF GONZALES
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2016**

	Cipriani		Gonzales		Special Revenue								
	Estates Park & Maintenance District		Industrial Park Landscape & Maintenance		Signalization Impact Fees	Aquatic Impact Fees	Police Impact Fees	Park Impact Fees	Fire Impact Fees				
ASSETS													
Cash and investments	\$ 420,484	\$	300,827	\$	380,382	\$	1,357	\$	4,078	\$	2,682	\$	60,769
Due from other governments	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest receivable	361		228		84								28
Notes and loans receivable	-		-		-								-
Advance to Successor Agency	-		-		-								-
Total assets	\$ 420,845	\$	301,055	\$	380,466	\$	1,357	\$	4,078	\$	2,682	\$	60,797
LIABILITIES													
Accounts payable and accrued expense	\$ 7,530	\$	8,111	\$	2,404	\$	-	\$	-	\$	-	\$	-
Due to other funds	-		-		-								-
Total liabilities	7,530		8,111		2,404								-
DEFERRED INFLOWS OF RESOURCES													
Unavailable revenues	-		-		-								-
Total deferred inflows of resources	-		-		-								-
FUND BALANCE													
Restricted													
Lighting, landscape & park maintenance	413,315		292,944		-								-
Low-income housing activities	-		-		-								-
Community development	-		-		378,062		1,357		4,078		2,682		60,797
Street improvements	-		-		-								-
Public safety	-		-		-								-
Unassigned	-		-		-								-
Total fund balance	413,315		292,944		378,062		1,357		4,078		2,682		60,797
Total liabilities, deferred inflows of resources and fund balance	\$ 420,845	\$	301,055	\$	380,466	\$	1,357	\$	4,078	\$	2,682	\$	60,797

**CITY OF GONZALES
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
 JUNE 30, 2016**

	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	General Plan Impact Fees	CDBG Urban County Grant	Shopping Center	
ASSETS									
Cash and investments	\$ 539,150	\$ 49,239	\$ 52,578	\$ 19,738	\$ -	\$ 79,943	\$ -	\$ -	\$ 4,087,126
Due from other governments	-	-	-	-	-	-	-	-	197,730
Interest receivable	-	-	65	20	-	-	-	-	1,892
Notes and loans receivable	98,490	-	-	-	-	-	-	-	572,842
Advance to Successor Agency	-	-	-	-	-	-	-	-	159,833
Total assets	\$ 637,640	\$ 49,239	\$ 52,643	\$ 19,758	\$ -	\$ 79,943	\$ 142,248	\$ -	\$ 5,019,423
LIABILITIES									
Accounts payable and accrued expense	\$ -	\$ 15,481	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,205
Due to other funds	-	-	-	-	-	-	146,143	-	233,740
Total liabilities	-	15,481	-	-	-	-	146,143	-	345,945
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenues	98,490	-	-	-	-	-	-	-	572,842
Total deferred inflows of resources	98,490	-	-	-	-	-	-	-	572,842
FUND BALANCE									
Restricted									
Lighting, landscape & park maintenance	-	-	-	-	-	-	-	-	1,943,990
Low-income housing activities	-	-	-	-	-	-	-	-	441,316
Community development	-	-	52,643	19,758	-	79,943	-	-	607,037
Street improvements	539,150	33,758	-	-	-	-	-	-	1,166,088
Public safety	-	-	-	-	-	-	-	-	43,261
Unassigned	-	-	-	-	-	-	(3,895)	-	(101,056)
Total fund balance	539,150	33,758	52,643	19,758	-	79,943	(3,895)	-	4,100,636
Total liabilities, deferred inflows of resources and fund balance	\$ 637,640	\$ 49,239	\$ 52,643	\$ 19,758	\$ -	\$ 79,943	\$ 142,248	\$ -	\$ 5,019,423

CITY OF GONZALES

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	Special Revenue									
	Gas Tax	Supplemental Local Law Enforcement	Public Safety	Ag Industrial Park Federal Grant	AQMD	Housing Successor	California Breeze Maintenance District	Canyon Creek Park Maintenance District		
Revenue										
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 143,544	\$ 202,363		
Licenses, permits and impact fees	-	-	5,801	-	-	-	-	-		
Intergovernmental	419,495	170,974	25,149	-	-	-	-	-		
Use of money and property	1,568	-	-	55	3,052	99	1,145	2,403		
Loan repayments	-	-	-	-	13,799	15,274	-	-		
Total revenue	421,063	170,974	30,950	55	16,851	15,373	144,689	204,766		
Expenditures										
Public safety	-	14,313	238,722	-	-	-	-	-		
Public works	570,343	-	-	-	-	-	-	-		
Parks and recreation	-	-	-	-	-	-	136,817	108,781		
Community development	-	-	-	3,500	-	-	-	-		
Capital outlay	-	-	-	-	-	-	-	-		
Debt service	-	-	-	-	-	-	-	-		
Principal	459	-	-	-	-	-	-	-		
Interest and fiscal charges	-	-	-	-	-	-	-	-		
Total expenditures	570,802	14,313	238,722	3,500	-	-	136,817	108,781		
Revenue over (under) expenditures	(149,739)	156,661	(207,772)	(3,445)	16,851	15,373	7,872	95,985		
Other financing sources/(uses)										
Operating transfers in/(out) - net	65,200	(142,851)	142,851	-	-	-	(42,800)	(45,000)		
	65,200	(142,851)	142,851	-	-	-	(42,800)	(45,000)		
Change in Fund Balance	(84,539)	13,810	(64,921)	(3,445)	16,851	15,373	(34,928)	50,985		
Fund Balance										
Beginning of year	677,719	29,451	(32,240)	11,162	62,980	346,112	381,045	840,629		
End of year	593,180	43,261	(97,161)	7,717	79,831	361,485	346,117	891,614		

CITY OF GONZALES

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

	Cipriani		Gonzales		Special Revenue									
	Estates Park & Maintenance District	Industrial Park Landscape & Maintenance	Signalization Impact Fees	Aquatic Impact Fees	Park Impact Fees	Police Impact Fees	Park Impact Fees	Fire Impact Fees						
Revenue														
Taxes and assessments	\$ 78,679	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, permits and impact fees	-	-	-	-	-	8,615	-	-	-	-	-	-	-	11,907
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Use of money and property	1,421	1,015	1,081	-	-	-	-	100	-	-	-	-	199	-
Loan repayments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	80,100	1,015	1,081	-	-	8,615	-	100	-	-	8,615	-	199	12,106
Expenditures														
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public works	51,420	64,744	54,153	-	-	-	-	-	-	-	-	-	-	-
Parks and recreation	50,847	-	-	-	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	51,150	-	-	-	-	-	23,503
Principal	-	-	-	-	-	21,801	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	102,267	64,744	54,153	-	-	21,801	-	51,150	-	-	21,801	-	-	23,503
Revenue over (under) expenditures	(22,167)	(63,729)	(53,072)	-	-	(13,186)	-	(51,050)	-	-	(13,186)	-	-	(11,397)
Other financing sources/(uses)														
Operating transfers in/(out) - net	(20,050)	(11,450)	-	-	-	-	-	-	-	-	-	-	-	-
	(20,050)	(11,450)	-	-	-	-	-	-	-	-	-	-	-	-
Change in Fund Balance	(42,217)	(75,179)	(53,072)	-	-	(13,186)	-	(51,050)	-	-	(13,186)	-	-	(11,397)
Fund Balance														
Beginning of year	455,532	368,123	431,134	1,357	17,264	53,732	72,194							
End of year	\$ 413,315	\$ 292,944	\$ 378,062	\$ 1,357	\$ 4,078	\$ 2,682	\$ 60,797							

CITY OF GONZALES

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

	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	General Plan Impact Fees	CDBG Urban County Grant		Shopping Center
Revenue									
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,196	\$ 431,782
Licenses, permits and impact fees	119,552	1,782	2,693	-	-	-	-	-	150,350
Intergovernmental	-	-	-	-	-	-	158,053	-	773,671
Use of money and property	3,294	195	202	64	-	-	-	-	15,893
Loan repayments	18,555	-	-	-	-	-	-	-	47,628
Total revenue	141,401	1,977	2,895	64	-	-	158,053	7,196	1,419,324
Expenditures									
Public safety	-	-	-	-	-	-	-	-	253,035
Public works	-	-	-	-	-	-	-	-	740,660
Parks and recreation	-	-	-	-	-	-	-	-	296,445
Community development	72,084	58,769	-	-	-	4,500	-	-	138,853
Capital outlay	-	-	-	-	-	-	146,144	-	220,797
Debt service	-	-	-	-	-	-	-	-	22,260
Principal	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-
Total expenditures	72,084	58,769	-	-	-	4,500	146,144	-	1,672,050
Revenue over (under) expenditures	69,317	(56,792)	2,895	64	-	(4,500)	11,909	7,196	(252,726)
Other financing sources/(uses)									
Operating transfers in/(out) - net	-	-	-	-	(34,443)	84,443	(15,804)	(7,196)	(27,100)
Change in Fund Balance	69,317	(56,792)	2,895	64	(34,443)	79,943	(3,895)	-	(279,826)
Fund Balance									
Beginning of year	469,833	90,550	49,748	19,694	34,443	-	-	-	4,380,462
End of year	\$ 539,150	\$ 33,758	\$ 52,643	\$ 19,758	\$ -	\$ 79,943	\$ (3,895)	\$ -	\$ 4,100,636

**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, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 8, 2016.

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.

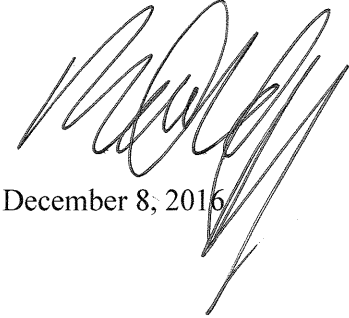
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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, consisting of several overlapping loops and strokes, positioned above the date.

December 8, 2016