

CITY OF GONZALES

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2014

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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, 2014, 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 40 - 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

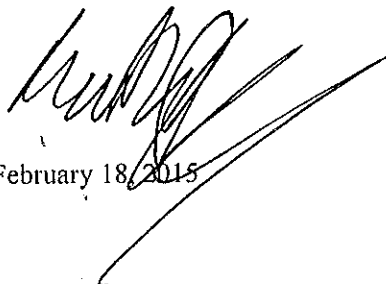
Other Information

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

The 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 February 18, 2015, on our consideration of the City of Gonzales's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gonzales's internal control over financial reporting and compliance.



February 18, 2015

CITY OF GONZALES

STATEMENT OF NET POSITION JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 5,045,380	\$ 5,007,375	\$ 10,052,755
Accounts receivable, net	-	467,235	467,235
Due from other governments	466,523	-	466,523
Interest receivable	860	1,364	2,224
Notes and loans receivable	2,935,282	10,788	2,946,070
Due from successor agency	230,000	-	230,000
Lease reimbursement receivable	707,128	-	707,128
Cash overdraft - due from successor agency	-	835,874	835,874
Advance to successor agency	-	1,000,000	1,000,000
Less: Allowance for uncollectible	(707,128)	(1,835,874)	(2,543,002)
Other assets - deposits	15,746	-	15,746
Internal balances	(506,699)	506,699	-
Capital assets, net of allowance for depreciation	29,151,143	16,825,987	45,977,130
Total assets	<u>37,338,235</u>	<u>22,819,448</u>	<u>60,157,683</u>
LIABILITIES			
Accounts payable and accrued expense	412,853	168,189	581,042
Deposits payable	148,857	65,849	214,706
Long-term liabilities			
Due within one year	128,091	329,329	457,420
Due in more than one year	4,213,981	4,370,862	8,584,843
Compensated absences	194,939	-	194,939
Total liabilities	<u>5,098,721</u>	<u>4,934,229</u>	<u>10,032,950</u>
NET POSITION			
Net investment in capital assets	24,809,071	12,125,796	36,934,867
Restricted for specific projects and programs	4,594,935	-	4,594,935
Restricted for capital improvements	-	1,758,166	1,758,166
Unrestricted	2,835,508	4,001,257	6,836,765
Total net position	<u>\$ 32,239,514</u>	<u>\$ 17,885,219</u>	<u>\$ 50,124,733</u>

CITY OF GONZALES

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

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	\$ 1,298,675	\$ 132,816	\$ 139	\$ -	\$ (1,165,720)	\$ -	\$ (1,165,720)
Public safety	2,660,722	48,245	593,300	90,163	(1,929,014)	-	(1,929,014)
Public works	1,435,657	-	420,593	-	(1,015,064)	-	(1,015,064)
Parks and recreation	742,877	150,093	-	124,983	(467,801)	-	(467,801)
Community development	461,751	120,968	137,279	401,302	197,798	-	197,798
Debt Service	307,616	-	-	-	(307,616)	-	(307,616)
Interest and fiscal charges	6,907,298	452,122	1,151,311	616,448	(4,687,417)	-	(4,687,417)
Total governmental activities							
Business-type activities							
Water	2,800,840	1,509,082	-	131,684	-	(1,160,074)	(1,160,074)
Sewer	620,664	914,387	-	625,150	-	918,873	918,873
Garbage	904,616	1,133,580	-	-	-	228,964	228,964
Solar Energy	157,294	65,384	-	-	-	(91,910)	(91,910)
Total business-type activities	4,483,414	3,622,433	-	756,834	-	(104,147)	(104,147)
Total primary government	\$ 11,390,712	\$ 4,074,555	\$ 1,151,311	\$ 1,373,282	(4,687,417)	(104,147)	(4,791,564)
General Revenue							
Property taxes					1,243,808	-	1,243,808
Special assessments					566,388	-	566,388
Sales taxes					459,679	-	459,679
Franchise and other taxes					330,589	-	330,589
Utility users tax					254,061	-	254,061
Business licenses					80,002	-	80,002
Investment income					174,000	11,670	185,670
Other					291,144	-	291,144
Transfers					236,644	(236,644)	-
Total general revenue and transfers					3,636,315	(224,974)	3,411,341
Change in Net Position					(1,051,102)	(329,121)	(1,380,223)
Net Position							
Beginning of year, (Restated) Note 13					33,200,616	18,214,340	51,414,956
Prior period adjustment					90,000	-	90,000
End of year					\$ 32,239,514	\$ 17,885,219	\$ 50,124,733

CITY OF GONZALES

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	Community Development Block Grant	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 727,851	\$ 60,998	\$ 247,059	\$ 4,009,472	\$ 5,045,380
Due from other governments	212,383	16,906	-	237,234	466,523
Interest receivable	14	-	51	795	860
Due from other funds	264,458	-	-	-	264,458
Notes and loans receivable	-	1,360,437	851,574	723,271	2,935,282
Lease reimbursement receivable	707,128	-	-	-	707,128
Advance to Successor Agency	-	-	-	230,000	230,000
Other assets - deposits	15,746	-	-	-	15,746
Total assets	\$ 1,927,580	\$ 1,438,341	\$ 1,098,684	\$ 5,200,772	\$ 9,665,377
LIABILITIES					
Accounts payable and accrued expense	\$ 273,646	\$ 12,294	\$ 3,363	\$ 123,551	\$ 412,854
Due to other funds	-	15,632	-	161,524	177,156
Deposits and other liabilities	148,857	-	-	-	148,857
Advances from other funds	594,000	-	-	-	594,000
Total liabilities	1,016,503	27,926	3,363	285,075	1,332,867
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	707,128	1,360,437	851,574	723,271	3,642,410
Total deferred inflows of resources	707,128	1,360,437	851,574	723,271	3,642,410
FUND BALANCE					
Restricted					
Lighting, landscape & park maintenance	-	-	-	1,902,401	1,902,401
Low-income housing activities	-	-	-	345,467	345,467
Community development	-	49,978	243,747	620,593	914,318
Street improvements	-	-	-	1,275,920	1,275,920
Public safety	-	-	-	156,829	156,829
Unassigned	203,949	-	-	(108,784)	95,165
Total fund balance	203,949	49,978	243,747	4,192,426	4,690,100
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,927,580	\$ 1,438,341	\$ 1,098,684	\$ 5,200,772	\$ 9,665,377

See accompanying notes.

CITY OF GONZALES

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2014

Total governmental fund balance	\$ 4,690,100
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	29,151,143
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(4,342,072)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(194,939)
In governmental funds, receivables which are not considered available are deferred. Such items are not deferred in the Statement of Net Position	<u>2,935,282</u>
Net position of governmental activities	<u>\$ 32,239,514</u>

CITY OF GONZALES

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2014

	General	Community Development Block Grant	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes and assessments	\$ 2,368,139	\$ -	\$ -	\$ 566,388	\$ 2,934,527
Licenses, permits and impact fees	124,600	-	-	491,465	616,065
Intergovernmental	384,854	42,499	-	848,941	1,276,294
Charges for services	300,979	-	-	-	300,979
Fines and forfeitures	26,543	-	-	-	26,543
Use of money and property	130,372	4,097	25,638	13,893	174,000
Other	181,939	76,715	2,643	29,847	291,144
Total revenue	<u>3,517,426</u>	<u>123,311</u>	<u>28,281</u>	<u>1,950,534</u>	<u>5,619,552</u>
Expenditures					
Current					
General government	603,450	-	-	-	603,450
Public safety	2,080,752	-	-	409,752	2,490,504
Public works	53,144	247,717	69,200	375,862	745,923
Parks and recreation	451,785	-	-	201,504	653,289
Community development	305,966	-	-	212,472	518,438
Capital outlay	-	-	-	271,868	271,868
Debt Service					
Principal	101,839	-	-	20,185	122,024
Interest and fiscal charges	306,001	-	-	1,615	307,616
Total expenditures	<u>3,902,937</u>	<u>247,717</u>	<u>69,200</u>	<u>1,493,258</u>	<u>5,713,112</u>
Revenue over/(under) expenditures	(385,511)	(124,406)	(40,919)	457,276	(93,560)
Other Financing Sources/(Uses)					
Transfers in/(out) - net	337,049	(20,000)	-	(80,405)	236,644
	<u>337,049</u>	<u>(20,000)</u>	<u>-</u>	<u>(80,405)</u>	<u>236,644</u>
Change in Fund Balance	(48,462)	(144,406)	(40,919)	376,871	143,084
Fund Balance					
Beginning of year	252,411	194,384	284,666	3,815,555	4,547,016
End of year	<u>\$ 203,949</u>	<u>\$ 49,978</u>	<u>\$ 243,747</u>	<u>\$ 4,192,426</u>	<u>\$ 4,690,100</u>

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, 2014

Net change in fund balance - total governmental funds		\$ 143,084
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	271,868	
Depreciation expense not reported in governmental funds	<u>(1,300,268)</u>	(1,028,400)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		122,024
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		399,570
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		(707,128)
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>19,748</u>
Change in net position of governmental activities		<u><u>\$(1,051,102)</u></u>

CITY OF GONZALES

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds
	Water	Sewer	Garbage	Solar Energy		
ASSETS						
Current assets						
Cash and investments	\$ 2,786,959	\$ 2,111,102	\$ -	\$ 109,314	\$ 5,007,375	
Accounts receivable, net	157,201	99,726	205,763	4,545	467,235	
Interest receivable	753	611	-	-	1,364	
Notes and loans receivable	6,108	4,680	-	-	10,788	
Total current assets	2,951,021	2,216,119	205,763	113,859	5,486,762	
Non-current assets						
Cash overdraft - due from Successor Agency	835,874	-	-	-	835,874	
Advances to Successor Agency	1,000,000	-	-	-	1,000,000	
Less: Allowance for uncollectible	(1,835,874)	-	-	-	(1,835,874)	
Advances to other funds	594,000	-	-	-	594,000	
Property, plant and equipment, net of allowance for depreciation	8,116,416	6,030,754	-	2,678,817	16,825,987	
Total non-current assets	8,710,416	6,030,754	-	2,678,817	17,419,987	
Total assets	\$ 11,661,437	\$ 8,246,873	\$ 205,763	\$ 2,792,676	\$ 22,906,749	
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	\$ 29,506	\$ 22,953	\$ 115,730	\$ -	\$ 168,189	
Due to other funds	-	-	87,301	-	87,301	
Deposits	65,849	-	-	-	65,849	
Current portion of long-term debt	175,154	-	-	154,175	329,329	
Total current liabilities	270,509	22,953	203,031	154,175	650,668	
Non-current liabilities						
Long-term debt	2,016,689	-	-	2,354,173	4,370,862	
Total noncurrent liabilities	2,016,689	-	-	2,354,173	4,370,862	
Total liabilities	2,287,198	22,953	203,031	2,508,348	5,021,530	
NET POSITION						
Net investment in capital assets	5,924,573	6,030,754	-	170,469	12,125,796	
Restricted for capital improvements	996,124	822,042	-	-	1,758,166	
Unrestricted/(deficit)	2,513,542	1,371,124	2,732	113,859	4,001,257	
Total net position	\$ 9,374,239	\$ 8,223,920	\$ 2,732	\$ 284,328	\$ 17,885,219	

See accompanying notes.

CITY OF GONZALES

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds
	Water	Sewer	Garbage	Solar Energy		
Operating Revenue						
Charges for services	\$ 1,480,256	\$ 908,895	\$ 1,076,990	\$ -	\$ -	\$ 3,466,141
Other revenues	28,826	5,492	56,590	65,384		156,292
Total operating income	1,509,082	914,387	1,133,580	65,384		3,622,433
Operating Expense						
Contractual services and utilities	395,183	256,112	826,517	18,742		1,496,554
Personnel	213,520	213,031	73,165	-		499,716
Supplies and materials	94,239	43,218	4,934	-		142,391
Bad debt expense	1,835,874	-	-	-		1,835,874
Depreciation	183,906	108,303	-	19,272		311,481
Total operating expense	2,722,722	620,664	904,616	38,014		4,286,016
Operating income/(loss)	(1,213,640)	293,723	228,964	27,370		(663,583)
Nonoperating Revenue/(Expense)						
Development impact fees	131,684	625,150	-	-		756,834
Interest income	8,627	3,031	-	12		11,670
Interest expense	(78,118)	-	-	(119,280)		(197,398)
Total nonoperating revenue/(expense)	62,193	628,181	-	(119,268)		571,106
Net income/(loss) before transfers	(1,151,447)	921,904	228,964	(91,898)		(92,477)
Operating Transfers In/(Out)	(126,553)	(150,556)	(228,900)	269,365		(236,644)
Change in Net Position	(1,278,000)	771,348	64	177,467		(329,121)
Net Position						
Beginning of year, (Restated) Note 13	10,652,239	7,452,572	2,668	106,861		18,214,340
End of year	\$ 9,374,239	\$ 8,223,920	\$ 2,732	\$ 284,328		\$ 17,885,219

See accompanying notes.

CITY OF GONZALES

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds					Total Business-Type Funds
	Water	Sewer	Garbage	Solar Energy		
Operating Activities						
Receipts from customers and users	\$ 1,560,805	\$ 913,054	\$ 1,070,001	\$ 70,177	\$	\$ 3,614,037
Payments for contractual services and utilities	(388,949)	(260,423)	(775,770)	(18,742)		(1,443,884)
Payments to employees	(212,429)	(211,940)	(73,206)	-		(497,575)
Payment to suppliers	(94,239)	(43,218)	(4,934)	-		(142,391)
Net cash provided (used) by operating activities	865,188	397,473	216,091	51,435		1,530,187
Non-capital Financial Activities						
Cash overdraft loan to Successor Agency	(97,678)	-	-	-		(97,678)
Payments (to)/from developers	131,684	625,150	-	-		756,834
Transfers (to)/from other funds	668,475	(150,556)	(216,091)	269,365		571,193
Net cash provided by (used in) noncapital financing activities	702,481	474,594	(216,091)	269,365		1,230,349
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(658,625)	(88,367)	-	(208,607)		(955,599)
Principal paid on long-term debt	(168,288)	-	-	(150,659)		(318,947)
Interest paid on long-term debt	(78,118)	-	-	(119,280)		(197,398)
Net cash used in capital and related financing activities	(905,031)	(88,367)	-	(478,546)		(1,471,944)
Investing Activities						
Interest received	8,627	2,943	-	12		11,582
Net cash provided by investing activities	8,627	2,943	-	12		11,582
Net Increase (Decrease) in Cash	671,265	786,643	-	(157,734)		1,300,174
Cash						
Beginning of year	2,115,694	1,324,459	-	267,048		3,707,201
End of year	\$ 2,786,959	\$ 2,111,102	\$ -	\$ 109,314	\$	\$ 5,007,375
Cash Flows from Operating Activities						
Operating income (loss)	\$ (1,213,640)	\$ 293,723	\$ 228,964	\$ 27,370	\$	\$ (663,583)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	183,906	108,303	-	19,272		311,481
Allowance for uncollectible	1,835,874	-	-	-		1,835,874
(Increase) Decrease in Accounts Receivable	49,376	(1,333)	(63,579)	4,793		(10,743)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	9,672	(3,220)	50,706	-		57,158
Net Cash Provided (Used) by Operating Activities	\$ 865,188	\$ 397,473	\$ 216,091	\$ 51,435	\$	\$ 1,530,187

See accompanying notes.

CITY OF GONZALES

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 2,320
Total assets	<u>2,320</u>
LIABILITIES	
Agency funds payable	<u>2,320</u>
Total liabilities	<u>\$ 2,320</u>

CITY OF GONZALES

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2014

	<u>Redevelopment Successor Agency</u>
Assets	
Current assets	
Cash and investments	\$ 570,573
Restricted cash and investments	1,121,694
Interest receivable	28
Total current assets	<u>1,692,295</u>
Noncurrent assets	
Notes receivable	412,856
Net investment in lease receivable	4,310,000
Property, plant and equipment, net of allowance for depreciation	<u>1,291,450</u>
Total noncurrent assets	<u>6,014,306</u>
Total assets	<u>7,706,601</u>
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	8,480
Unearned revenue	908,533
Due to City of Gonzales	707,128
Cash overdraft - Due to City of Gonzales	835,874
Interest payable	65,858
Bonds - current portion	285,000
Total current liabilities	<u>2,810,873</u>
Noncurrent liabilities	
Bonds - long term portion	13,361,587
Advance from Housing Successor Fund	230,000
Advance payable to City of Gonzales	<u>1,000,000</u>
Total noncurrent liabilities	<u>14,591,587</u>
Total liabilities	<u>17,402,460</u>
Net Position	
Held in trust for other governments	<u>\$ (9,695,859)</u>

CITY OF GONZALES

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND JUNE 30, 2014

	<u>Successor Agency</u>
Additions	
Property taxes	\$ 960,305
Interest and use of property	25,477
Other revenues	35,450
Total additions	<u>1,021,232</u>
Deductions	
Administrative expenses	213,030
Program expenses	64,261
Depreciation	36,049
Interest and fiscal expenses	815,659
Total deductions	<u>1,128,999</u>
Change In Net Position	(107,767)
Net Position	
Beginning of year	(8,814,882)
Cumulative effect from change in accounting principle	<u>(773,210)</u>
End of year	<u>\$ (9,695,859)</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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, 2014

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, 2014

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, 2014

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, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

Financial Statement Amounts

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

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

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

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

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

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

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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 is met.

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

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

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

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

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

	Years
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:

Years of Service	Monthly Accrual	Annually
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.

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.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Implementation of New GASB Pronouncement – For the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). See Note 12 for further information.

New GASB Pronouncements Not Yet Adopted - In June 30, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for the fiscal year ended June 30, 2015.

In January 2014, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for the fiscal year ended June 30, 2015.

In April 2014, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for the fiscal year ended June 30, 2015.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 10,052,755
Fiduciary Funds:	
Cash and Investments	<u>1,694,587</u>
Total Cash and Investments	<u>\$ 11,747,342</u>

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 468
Deposits with Financial Institutions	1,193,385
Local Agency Investment Fund	4,084,769
Certificates of Deposit	10,916
Money Market Accounts	5,336,110
Held by Fiscal Agent:	
Investment Agreements	208,222
U.S. Treasury Money Market Funds	<u>913,472</u>
Total Cash and Investments	<u>\$ 11,747,342</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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, 2014

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Fair Value	Remaining Maturity (in months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund	\$ 4,084,769	\$ 4,084,769	\$ -	\$ -	\$ -
Certificates of deposit	10,916	10,916	-	-	-
Money Market Accounts	5,336,110	5,336,110	-	-	-
Held by Bond Trustee:					
Investment Agreements	208,222	-	-	-	208,222
U.S. Treasury Money Market Funds	913,472	913,472	-	-	-
Total	\$10,553,489	\$10,345,267	\$ -	\$ -	\$ 208,222

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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	\$ 4,084,769	N/A	\$ 4,084,769	\$ -
Certificates of deposit	10,916	N/A	10,916	-
Money Market Accounts	5,336,110		5,336,110	-
Held by Bond Trustee:				
Investment Agreements	208,222	N/A	208,222	-
U.S. Treasury Money Market Funds	913,472	AAA	-	913,472
Total	<u>\$ 10,553,489</u>		<u>\$ 9,640,017</u>	<u>\$ 913,472</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, 2014.

Custodial Credit Risk

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

At June 30, 2014, 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, 2014, total cash held in bank was \$6,614,883 of which \$5,847,619 was in excess of federal depository insurance limits.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The City is a voluntary participant in the investment pool.

Note 4 – Notes Receivable and Deferred Loans Receivable

Loans as of fiscal year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Funds				
Local Business Promissory Notes	\$ 340,446	\$ -	\$ (12,227)	\$ 328,219
Developer Loans	836,102	-	-	836,102
Rehabilitation Loans	1,703,422	150,997	(83,458)	1,770,961
Enterprise Funds				
Sewer and Water Impact Loans	23,561	-	(12,773)	10,788
	<u>\$ 2,903,531</u>	<u>\$ 150,997</u>	<u>\$ (108,458)</u>	<u>\$ 2,946,070</u>

Local Business Promissory Notes

Date of Note	Original Principal	Interest Rate	Maturity Date	Collateral	Balance as of June 30, 2014
February 1, 2009	\$ 35,000	3%	February 1, 2014	Security Agreement	\$ 15,473
September 30, 2011	191,135	2%	November 1, 2020	Deed of Trust	153,069
April 1, 2011	200,000	2%	October 1, 2024	Security Agreement	159,677
					<u>\$ 328,219</u>

Developer Loans

Date of Note	Original Principal	Interest Rate	Maturity Date	Collateral	Balance as of June 30, 2014
February 19, 2008	\$ 836,120	4%	January 1, 2028	Deed of Trust	<u>\$ 836,102</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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, 2014
May 24, 2006	\$ 132,400	2%	May 24, 2036	Deed of Trust	\$ 132,400
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	17,500	2%	May 24, 2036	Deed of Trust	17,500
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
December 21, 2001	45,800	0%	No specified maturity	Deed of Trust	523
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	128,085
December 23, 2008	97,346	3%	December 23, 2038	Deed of Trust	97,346
May 12, 2004	43,500	3%	March 12, 2024	Deed of Trust	19,690
February 20, 2008	21,000	1%	February 20, 2023	Deed of Trust	12,913
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	56,824
July 22, 2008	48,643	0%	July 22, 2023	Deed of Trust	45,043
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	15,971
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	42,132
July 2, 2012	-	3%	July 2, 2022	Machinery/Equipment	77,767
July 9, 2010	70,000	1%	July 9, 2017	Security Agreement	33,944
January 10, 2011	70,000	1%	January 10, 2018	Security Agreement	22,304
April 20, 2011	70,000	1%	April 20, 2021	Security Agreement	46,358
May 1, 2012	105,000	3%	May 1, 2022	Security Agreement	86,439
April 11, 2014	91,511	3%	April 11, 2024	Security Agreement	90,590
April 18, 2014	59,486	0%	April 18, 2044	Deed of Trust	59,486
					<u>\$ 1,770,961</u>

Sewer and Water Impact Loans

Long term receivables in the amount of \$10,788 represent monies loaned to small businesses in connection with the business assistance program.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 5 – Capital Assets – Capital asset activities for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 9,043,436	\$ 60,000	\$ -	\$ 9,103,436
Construction in progress	-	32,175	-	32,175
Total capital assets, not being depreciated	<u>9,043,436</u>	<u>92,175</u>	<u>-</u>	<u>9,135,611</u>
Capital assets, being depreciated				
Buildings and improvements	8,040,235	-	-	8,040,235
Infrastructure	32,465,844	179,693	-	32,645,537
Machinery and equipment	1,941,965	-	-	1,941,965
Total capital assets, being depreciated	<u>42,448,044</u>	<u>179,693</u>	<u>-</u>	<u>42,627,737</u>
Less accumulated depreciation for				
Buildings and improvements	(1,093,376)	(204,004)	-	(1,297,380)
Infrastructure	(18,714,811)	(1,014,677)	-	(19,729,488)
Machinery and equipment	(1,503,750)	(81,587)	-	(1,585,337)
Total accumulated depreciation	<u>(21,311,937)</u>	<u>(1,300,268)</u>	<u>-</u>	<u>(22,612,205)</u>
Total capital assets, being depreciated, net	<u>21,136,107</u>	<u>(1,120,575)</u>	<u>-</u>	<u>20,015,532</u>
Governmental activities capital assets, net	<u>\$ 30,179,543</u>	<u>\$ (1,028,400)</u>	<u>\$ -</u>	<u>\$ 29,151,143</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 604,807	\$ -	\$ -	\$ 604,807
Construction in progress	2,554,781	-	(2,554,781)	-
Total capital assets, not being depreciated	<u>3,159,588</u>	<u>-</u>	<u>(2,554,781)</u>	<u>604,807</u>
Capital assets, being depreciated				
Buildings and improvements	46,939	-	-	46,939
Infrastructure	19,228,797	3,283,146	-	22,511,943
Machinery and equipment	327,224	227,234	-	554,458
Total capital assets, being depreciated	<u>19,602,960</u>	<u>3,510,380</u>	<u>-</u>	<u>23,113,340</u>
Less: accumulated depreciation	<u>(6,581,834)</u>	<u>(310,326)</u>	<u>-</u>	<u>(6,892,160)</u>
Total capital assets, being depreciated, net	<u>13,021,126</u>	<u>3,200,054</u>	<u>-</u>	<u>16,221,180</u>
Business-type activities capital assets, net	<u>\$ 16,180,714</u>	<u>\$ 3,200,054</u>	<u>\$ (2,554,781)</u>	<u>\$ 16,825,987</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 5 – Capital Assets (Continued)

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

General Government	\$	7,845
Public Safety		170,218
Public Works		689,734
Parks and Recreation		89,588
Community Development		342,883
	<u>\$</u>	<u>1,300,268</u>
 Business-Type Functions:		
Water	\$	182,751
Sewer		108,303
Solar		19,272
	<u>\$</u>	<u>310,326</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, 2014.

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 264,458
Community Development Block Grant Fund	15,632	-
Public Safety Fund	64,172	-
CDBG Urban County Grant Fund	97,352	-
Garbage Fund	87,302	-
	<u>\$ 264,458</u>	<u>\$ 264,458</u>

Advances

During fiscal year 2009-2010 the City of Gonzales formalized an advance agreement between the City's General Fund and the Water Fund for the amount of \$594,000. The amount is payable by the General Fund to the Water Fund over a period of 20 years at an interest rate of 1 percent payable in annual payments of \$33,057. During the fiscal year 2013-2014, the General Fund did not make any payments.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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	\$ 337,049	\$ -
Community Development Block Grant Fund	-	(20,000)
Proprietary Funds:		
Water	-	(126,553)
Sewer	-	(150,556)
Garbage	-	(228,900)
Solar Energy	-	269,365
Nonmajor Governmental Funds:		
Gas Tax Fund	64,741	-
Supplemental Local Law Enforcement Fund	-	(140,000)
Public Safety Fund	140,000	-
California Breeze Maintenance District Fund	-	(32,800)
Canyon Creek Park Maintenance District Fund	-	(41,900)
Cipriani Estates Park Maintenance District Fund	-	(5,000)
Cipriani Estates Maintenance District Fund	-	(13,100)
Gonzales Industrial Park Landscape Maintenance Fund	-	(4,700)
Gonzales Industrial Park Benefit Assessment Fund	-	(9,100)
CDBG Urban County Grant Fund	-	(31,350)
Shopping Center Fund	-	(7,196)
	<u>\$ 541,790</u>	<u>\$ (541,790)</u>

The following describe the significant transfers made during the year:

- The Community Development Block Grant Fund transferred \$20,000 to the General Fund for administrative costs.
- The Supplemental Local Law Enforcement Fund transferred \$140,000 to the Public Safety Fund in order to finance various programs.
- Various nonmajor funds transferred \$80,405 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, 2014

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

- Various nonmajor funds transferred \$64,741 to the Gas Tax Fund for various street related projects accounted for in the Gas Tax Fund.
- The Water and Sewer Funds transferred \$183,169, and \$86,196, respectively to the Solar Energy Fund for capital project costs.
- The Garbage Fund transferred \$228,900 to the General Fund for reimbursement of administrative costs.
- The Sewer Fund transferred \$60,000 to the Water Fund for its share of the water tank and sewer expansion note payable.

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

Advance

On June 1, 2011, the Agency entered into a loan agreement with the City for an advance of \$1,000,000 provided to the Agency for the purpose of refunding a portion of the 2006 Subordinate Tax Allocation Notes of the Redevelopment Agency. The advance is payable to the City over ten years maturing on June 1, 2021. The terms of the agreement include the rate of interest at 2 percent payable commencing June 1, 2012 and continuing on each June 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. Repayment of the loan is subject to the approval of the California Department of Finance, and as more fully described at Note 15, the State Department of Finance (DOF) has disallowed this advance. Further, the City’s management has not evaluated the likelihood or timing of potential cash flows for any potential repayments.

The scheduled annual minimum debt services requirements (based on the agreement) for the Successor Agency repayment to the Water Fund at June 30, 2014, are as follows:

Years ending June 30,	2011 Advance		
	Principal	Interest	Total
2015	\$ -	\$ 20,000	\$ 20,000
2016	-	20,000	20,000
2017	200,000	20,000	220,000
2018	200,000	16,000	216,000
2019	200,000	12,000	212,000
2020-2021	400,000	12,000	412,000
	<u>\$ 1,000,000</u>	<u>\$ 100,000</u>	<u>\$ 1,100,000</u>

The \$20,000 was not paid by the Successor Agency during fiscal year 2011-2012, 2012-2013, and 2013-2014 as the amounts were not approved by the State of California as noted at Note 16. The past due amounts have not been accrued, pending resolution with the State Department of Finance. The City has booked an allowance for uncollectible accounts as the probability of collecting on this advance is unknown.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Receivables Due From Successor Agency Private Purpose Trust Fund (Continued)

Cash Overdraft – Due From Successor Agency

The Successor Agency's cash balance at June 30, 2014 included balances in a bank account in the name of the Successor Agency which ended the fiscal year in a positive balance. Additionally, the Successor Agency's cash balance within the City's cash pool was negative as of June 30, 2014 in the amount of \$835,874. At June 30, 2014 this amount was reclassified for financial statement presentation purposes, as a liability to the City of Gonzales's Water Fund. Also, the City has advanced amounts during the year to the Successor Agency for the payment of enforceable obligations as the Successor Agency has not had sufficient cash available. The City has booked an allowance for uncollectible accounts as the probability of collecting on this due from Successor Agency is unknown.

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, 2014 was comprised of the following individual issues:

	Balance July 1, 2013	Additions	Retirements/ Restatement	Balance June 30, 2014	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Capital Leases					
Police Vehicles & Equipment Lease	\$ 55,418	\$ -	\$ 27,578	\$ 27,840	\$ 27,840
Lease of Police Station from Successor Agency	4,400,000	-	155,000	4,245,000	70,000
Radio Equipment Lease	98,678	-	29,446	69,232	30,251
Total Governmental Activity Debt	<u>\$ 4,554,096</u>	<u>\$ -</u>	<u>\$ 212,024</u>	<u>\$ 4,342,072</u>	<u>\$ 128,091</u>
<u>Business-Type Activity Long Term Debt</u>					
Note Payable					
2005 Water Tank & Sewer Expansion Refinance	\$ 2,327,276	\$ -	\$ 152,714	\$ 2,174,562	\$ 157,873
Capital Leases					
Solar Panel Energy Lease	2,659,007	-	150,659	2,508,348	154,175
Equipment Lease	32,855	-	15,574	17,281	17,281
Total Business-Type Activity Debt	<u>\$ 5,019,138</u>	<u>\$ -</u>	<u>\$ 318,947</u>	<u>\$ 4,700,191</u>	<u>\$ 329,329</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 214,687</u>	<u>\$ -</u>	<u>\$ 19,748</u>	<u>\$ 194,939</u>	

Police Vehicles and Equipment Lease – The City entered into a Lease-Purchase Agreement in April 2011 in the amount of \$174,263, to finance the purchase of three police vehicles, a mower and water meters. The lease contains a bargain purchase option and is payable over four years. The annual lease payments are due on July 15th of each year commencing on July 15, 2011.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 8 – Long-Term Debt (Continued)

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.

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, 2014, the City had paid \$707,128 in lease payments to the Successor Agency in connection with this lease, which is considered reimbursable costs to the City under the agreement. This amount is recorded as a receivable at the Governmental Funds Balance Sheet and the Government Wide Statement of Net Position.

As further described at Note 13, the 2011 Lease Revenue Refunding Bonds have not yet been deemed enforceable obligations by the State Department of Finance. As a result, reimbursements to the City for the lease payments have not been made. It is uncertain as to the nature and timing of repayment, if any. See Note 15.

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 carrying value of the assets purchased to date is \$502,666. The amount financed was \$2,697,589 and is payable over a 14 year term with lease payments commencing in October of 2012.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 8 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2014 were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 128,091	\$ 302,356	\$ 329,329	\$ 175,933
2016	101,079	297,511	333,043	163,001
2017	82,902	294,022	355,337	149,945
2018	75,000	290,969	328,076	136,775
2019	80,000	287,594	340,842	124,399
2020-2024	475,000	1,369,719	2,099,282	402,038
2025-2029	635,000	1,208,144	914,282	36,593
2030-2034	855,000	976,131	-	-
2035-2039	1,255,000	587,438	-	-
2035-2039	655,000	80,844	-	-
	<u>\$ 4,342,072</u>	<u>\$ 5,694,728</u>	<u>\$ 4,700,191</u>	<u>\$ 1,188,684</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, 2014, is \$220,000.

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, 2014:

Public Safety Fund	\$ (91,972)
CDBG Urban County Grant Fund	(16,812)
	<u>\$ (108,784)</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, 2014

Note 12 – Deferred Outflows/Inflows of Resources

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

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows or 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 has no items to report in this category.

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, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds are unavailable revenues of \$3,642,410 related to long-term notes and loans receivable.

Note 13 – Fund Balance Reclassification

The June 30, 2013 fund balances of \$795,028 and \$190,847 for the Water and Sewer Impact Fee Funds, respectively, were reclassified from governmental special revenue funds to enterprise funds. The funds were combined with the Water and Sewer Enterprise Operating Funds and the fund balance of these funds are shown in the enterprise funds as restricted for capital improvements.

Note 14 – Prior Period Adjustment

Beginning net position of Governmental Activities has been restated to reflect the cumulative effect of prior year adjustments. Long-term debt related to the police station capital lease from the City to the Successor Agency was overstated by \$90,000 in fiscal year 2013. To correct this error, beginning net position in the Governmental Activities was increased by \$90,000.

Note 15 – Cumulative Effect from Change in Accounting Principle

The City and Successor Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Previously, under GASB Statement No. 7, the costs of bond issuance were capitalized and amortized over the repayment period in the financial statements. Under GASB Statement No. 65, these costs are to be expensed in the period incurred. At June 30, 2013, the remaining unamortized portion of the bond issuance costs was \$773,210. Net position at June 30, 2013, was adjusted in the accompanying financial statements for the cumulative effect of this new accounting principle which resulted in a decrease to beginning net position of \$773,210.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 16 -- 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 17 -- 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, 2014, the monthly payment was \$6,321. During fiscal year 2013-2014, the City paid the resident a total of \$72,934.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 17 – Commitments and Contingencies (Continued)

Enforceable Obligations

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

The legislation requires DOF to review the enforceable obligations on the ROPS which are to be funded using property tax. As part of this review, the DOF has disallowed several obligations listed on the ROPS submitted by the Successor Agency, including the Advance from the Water Fund in the amount of \$1,000,000 (Note 7), the 2011 Lease Revenue Refunding Bonds and the related reimbursement agreement (with a principal amount up to \$4,400,000) relating to the Police Station Capital Lease (Note 8) with an outstanding reimbursable balance of \$707,128 as of June 30, 2014.

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

As disclosed at Note 7, the former redevelopment agency borrowed funds from the City’s Water Fund for the purpose of refunding a portion of the 2006 Subordinate Tax Allocation Bonds which had a balloon payment due on August 1, 2011. As of June 30, 2014, the balance of the obligation to the City from the former Agency of \$1,000,000 was denied by the State Department of Finance as an enforceable obligation. Further, the City’s management has not evaluated the likelihood or timing of potential cash flows.

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

As of June 30, 2014, the \$1,000,000 and \$707,128 loan balance is recorded as a liability in the Successor Agency’s Private Purpose Trust Fund Statement of Fiduciary Net Position and as a receivable by the City.

Cash Overdraft

As further described at Note 7, the Successor Agency’s cash balance at June 30, 2014, included a negative cash balance within the City’s cash pool of \$835,874. This amount is reflected as a receivable within the City’s Water Fund. The negative amount is attributed to the beginning negative cash position of the Successor Agency at the date of dissolution of the former Redevelopment Agency. This amount has not been approved as an enforceable obligation by the State Department of Finance.

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

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 18 – 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, 2014 was 15.585% for the miscellaneous plan and 16.118% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$401,081 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

THREE YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 407,305	100%	-
June 30, 2013	\$ 402,173	100%	-
June 30, 2014	\$ 401,081	100%	-

Note 19 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through February 18, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GONZALES

BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Taxes	\$ 2,388,650	\$ 2,388,650	\$ 2,368,139	\$ (20,511)
Licenses, permits and impact fees	50,010	50,010	124,600	74,590
Intergovernmental	507,880	507,880	384,854	(123,026)
Charges for services	207,300	207,300	300,979	93,679
Fines and forfeitures	22,000	22,000	26,543	4,543
Use of money and property	97,000	97,000	130,372	33,372
Other	174,665	174,665	181,939	7,274
Total revenue	<u>3,447,505</u>	<u>3,447,505</u>	<u>3,517,426</u>	<u>69,921</u>
Expenditures				
Current				
General government	555,206	555,206	603,450	(48,244)
Public safety	2,026,112	2,026,112	2,080,752	(54,640)
Public works	65,945	65,945	53,144	12,801
Parks and recreation	424,762	424,762	451,785	(27,023)
Community development	282,411	282,411	305,966	(23,555)
Capital outlay	-	-	-	-
Debt service				
Principal	102,000	102,000	101,839	161
Interest and fiscal charges	283,819	283,819	306,001	(22,182)
Total expenditures	<u>3,740,255</u>	<u>3,740,255</u>	<u>3,902,937</u>	<u>(162,682)</u>
Revenue over (under) expenditures	(292,750)	(292,750)	(385,511)	(92,761)
Other Financing Sources				
Transfers in (out) - net	<u>292,750</u>	<u>292,750</u>	<u>337,049</u>	<u>44,299</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(48,462)</u>	<u>\$ (48,462)</u>
Fund Balance				
Beginning of year			<u>252,411</u>	
End of year			<u>\$ 203,949</u>	

CITY OF GONZALES

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT BLOCK GRANT
YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Intergovernmental	\$ 284,350	\$ 284,350	\$ 42,499	\$ (241,851)
Use of money and property	9,000	9,000	4,097	(4,903)
Other	52,730	52,730	76,715	23,985
Total revenue	<u>346,080</u>	<u>346,080</u>	<u>123,311</u>	<u>(222,769)</u>
Expenditures				
Public works	304,600	304,600	247,717	56,883
Capital outlay	-	-	-	-
Total expenditures	<u>304,600</u>	<u>304,600</u>	<u>247,717</u>	<u>56,883</u>
Revenue over expenditures	41,480	41,480	(124,406)	(165,886)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	<u>(30,000)</u>	<u>(30,000)</u>	<u>(20,000)</u>	<u>10,000</u>
Change in Fund Balance	<u>\$ 11,480</u>	<u>\$ 11,480</u>	<u>(144,406)</u>	<u>\$ (155,886)</u>
Fund Balance				
Beginning of year			<u>194,384</u>	
End of year			<u>\$ 49,978</u>	

CITY OF GONZALES

**BUDGETARY COMPARISON SCHEDULE
INFRASTRUCTURE IMPROVEMENT
YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Use of money and property	14,500	14,500	25,638	11,138
Other	-	-	2,643	2,643
Total revenue	<u>14,500</u>	<u>14,500</u>	<u>28,281</u>	<u>13,781</u>
Expenditures				
Public works	35,000	35,000	69,200	(34,200)
Capital outlay	-	-	-	-
Total expenditures	<u>35,000</u>	<u>35,000</u>	<u>69,200</u>	<u>(34,200)</u>
Revenue over expenditures	(20,500)	(20,500)	(40,919)	(20,419)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	-	-
Change in Fund Balance	<u>\$ (20,500)</u>	<u>\$ (20,500)</u>	(40,919)	<u>\$ (20,419)</u>
Fund Balance				
Beginning of year			<u>284,666</u>	
End of year			<u>\$ 243,747</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF GONZALES
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue									
	Gas Tax	Gas Tax 2105	Supplemental Local Law Enforcement	Public Safety	Ag Industrial Park Federal Grant	AQMD	Housing Successor	California Breeze Maintenance District	Canyon Creek Park Maintenance District	
ASSETS										
Cash and investments	\$ 367,467	\$ 253,384	\$ 11,840	\$ 9,640	\$ 15,118	\$ 53,779	\$ 61,688	\$ 379,110	\$ 779,913	
Due from other governments	110,902	28,180	17,612	-	10	-	-	121	212	
Interest receivable	22	92	-	-	-	-	-	-	-	
Notes and loans receivable	-	-	-	-	-	159,677	410,525	-	-	
Advance to Successor Agency	-	-	-	-	-	-	230,000	-	-	
Total assets	\$ 478,391	\$ 281,656	\$ 29,452	\$ 9,640	\$ 15,128	\$ 213,456	\$ 702,213	\$ 379,231	\$ 780,125	
LIABILITIES										
Accounts payable and accrued expense	\$ 22,537	\$ 5,883	\$ -	\$ 37,440	\$ -	\$ -	\$ -	\$ 4,223	\$ 4,634	
Due to other funds	-	-	-	64,172	-	-	-	-	-	
Total liabilities	22,537	5,883	-	101,612	-	-	-	4,223	4,634	
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenues	-	-	-	-	-	159,677	410,525	-	-	
Total deferred inflows of resources	-	-	-	-	-	159,677	410,525	-	-	
FUND BALANCE										
Restricted										
Lighting, landscape & park maintenance	-	-	-	-	-	-	-	375,008	775,491	
Low-income housing activities	-	-	-	-	-	53,779	291,688	-	-	
Community development	-	-	-	-	15,128	-	-	-	-	
Street improvements	455,854	275,773	-	-	-	-	-	-	-	
Public safety	-	-	29,452	-	-	-	-	-	-	
Unassigned	-	-	-	(91,972)	-	-	-	-	-	
Total fund balance	455,854	275,773	29,452	(91,972)	15,128	53,779	291,688	375,008	775,491	
Total liabilities, deferred inflows of resources and fund balance	\$ 478,391	\$ 281,656	\$ 29,452	\$ 9,640	\$ 15,128	\$ 213,456	\$ 702,213	\$ 379,231	\$ 780,125	

CITY OF GONZALES

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2014**

	Special Revenue							
	Cipriani Maintenance District	Cipriani Estates Maintenance District	Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment	Signalization Impact Fees	Police Impact Fees	Park Impact Fees	Fire Impact Fees
ASSETS								
Cash and investments	\$ 93,609	\$ 321,328	\$ 162,052	\$ 183,803	\$ 433,660	\$ 28,699	\$ 46,946	\$ 98,667
Due from other governments	-	-	-	-	-	-	-	-
Interest receivable	65	95	58	39	34	-	-	11
Notes and loans receivable	-	-	-	-	-	-	-	-
Advance to Successor Agency	-	-	-	-	-	-	-	-
Total assets	\$ 93,674	\$ 321,423	\$ 162,110	\$ 183,842	\$ 433,694	\$ 28,699	\$ 46,946	\$ 98,678
LIABILITIES								
Accounts payable and accrued expense	\$ 2,487	\$ 2,061	\$ 2,025	\$ 2,574	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-	-
Total liabilities	2,487	2,061	2,025	2,574	-	-	-	-
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues	-	-	-	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-	-	-	-
FUND BALANCE								
Restricted								
Lighting, landscape & park maintenance	91,187	319,362	160,085	181,268	-	-	-	-
Low-income housing activities	-	-	-	-	433,694	-	46,946	-
Community development	-	-	-	-	-	-	-	-
Street improvements	-	-	-	-	-	28,699	-	98,678
Public safety	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-
Total fund balance	91,187	319,362	160,085	181,268	433,694	28,699	46,946	98,678
Total liabilities, deferred inflows of resources and fund balance	\$ 93,674	\$ 321,423	\$ 162,110	\$ 183,842	\$ 433,694	\$ 28,699	\$ 46,946	\$ 98,678

CITY OF GONZALES

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2014

	Special Revenue					Debt Service		Total
	Circulation System Impact Fees	Storm Drainage Facility Impact Fees	Public Facilities Impact Fees	Public Uses Mitigation Fees	Sphere of Influence Impact Fees	CDBG Urban County Grant	Shopping Center	
ASSETS								
Cash and investments	\$ 450,216	\$ 119,265	\$ 58,579	\$ 17,953	\$ 62,756	\$ -	\$ -	\$ 4,009,472
Due from other governments	-	-	-	-	-	80,540	-	257,234
Interest receivable	-	-	28	8	-	-	-	795
Notes and loans receivable	153,069	-	-	-	-	-	-	723,271
Advance to Successor Agency	-	-	-	-	-	-	-	250,000
Total assets	\$ 603,285	\$ 119,265	\$ 58,607	\$ 17,961	\$ 62,756	\$ 80,540	\$ -	\$ 5,200,772
LIABILITIES								
Accounts payable and accrued expense	\$ 682	\$ 24,506	\$ -	\$ -	\$ 14,499	\$ -	\$ -	\$ 123,551
Due to other funds	-	-	-	-	-	97,352	-	161,324
Total liabilities	682	24,506	-	-	14,499	97,352	-	285,075
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues	153,069	-	-	-	-	-	-	723,271
Total deferred inflows of resources	153,069	-	-	-	-	-	-	723,271
FUND BALANCE								
Restricted								
Lighting, landscape & park maintenance	-	-	-	-	-	-	-	1,902,401
Low-income housing activities	-	-	-	-	-	-	-	345,467
Community development	-	-	58,607	17,961	48,257	-	-	620,593
Street improvements	449,534	94,759	-	-	-	-	-	1,275,920
Public safety	-	-	-	-	-	-	-	156,829
Unassigned	-	-	-	-	-	(16,812)	-	(108,784)
Total fund balance	449,534	94,759	58,607	17,961	48,257	(16,812)	-	4,192,426
Total liabilities, deferred inflows of resources and fund balance	\$ 603,285	\$ 119,265	\$ 58,607	\$ 17,961	\$ 62,756	\$ 80,540	\$ -	\$ 5,200,772

CITY OF GONZALES

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014

	Special Revenue									
	Gas Tax	Gas Tax 2105	Supplemental Local Law Enforcement	Public Safety	Ag Industrial Park Federal Grant	AQMD	Housing Successor	California Breeze Maintenance District	Canyon Creek Park Maintenance District	
Revenue										
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 146,667	\$ 202,297	
Licenses, permits and impact fees	-	-	-	-	-	-	-	-	-	
Intergovernmental	359,167	61,426	169,452	164,116	-	-	-	-	-	
Use of money and property	908	401	-	-	44	4,623	3,538	594	1,306	
Other revenue	8,134	-	-	-	1,625	12,228	6,743	-	-	
Total revenue	368,209	61,827	169,452	164,116	1,669	16,851	10,281	147,261	203,603	
Expenditures										
Public safety	-	-	-	396,088	-	-	-	-	-	
Public works	322,229	14,274	-	-	-	-	-	-	-	
Parks and recreation	-	-	-	-	-	-	-	93,459	77,436	
Community development	-	-	-	-	4,868	-	114	-	-	
Capital outlay	117,098	-	-	-	-	-	-	-	-	
Debt service	-	-	-	-	-	-	-	-	-	
Principal	-	-	-	-	-	-	-	-	-	
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	
Total expenditures	439,327	14,274	-	396,088	-	-	114	93,459	77,436	
Revenue over (under) expenditures	(71,118)	47,553	169,452	(231,972)	(3,199)	16,851	10,167	53,802	126,167	
Other financing sources/(uses)										
Operating transfers in/(out) - net	64,741	-	(140,000)	140,000	-	-	-	(32,800)	(41,900)	
	64,741	-	(140,000)	140,000	-	-	-	(32,800)	(41,900)	
Change in Fund Balance	(6,377)	47,553	29,452	(91,972)	(3,199)	16,851	10,167	21,002	84,267	
Fund Balance										
Beginning of year	462,231	228,220	-	-	18,327	36,928	281,521	354,006	691,224	
End of year	\$ 455,854	\$ 275,773	\$ 29,452	\$ (91,972)	\$ 15,128	\$ 53,779	\$ 291,688	\$ 375,008	\$ 775,491	

CITY OF GONZALES

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

	Special Revenue							
	Cipriani Estates Park Maintenance District	Cipriani Estates Maintenance District	Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment	Signalization Impact Fees	Police Impact Fees	Park Impact Fees	Fire Impact Fees
Revenue								
Taxes and assessments	\$ 52,287	\$ 75,952	\$ 22,116	\$ 59,873	\$ -	\$ -	\$ -	\$ -
Licenses, permits and impact fees	-	-	-	-	-	34,336	-	55,827
Intergovernmental	-	-	-	-	-	-	-	-
Use of money and property	282	600	253	204	-	13	145	187
Other revenue	-	-	-	-	1,117	-	-	-
Total revenue	<u>52,569</u>	<u>76,552</u>	<u>22,369</u>	<u>60,077</u>	<u>1,117</u>	<u>34,349</u>	<u>145</u>	<u>56,014</u>
Expenditures								
Public safety	-	-	-	-	-	-	-	13,664
Public works	-	7,440	10,825	21,094	-	-	-	-
Parks and recreation	16,861	-	-	-	-	-	13,748	-
Community development	-	-	-	-	-	-	-	-
Capital outlay	60,000	-	-	-	-	-	-	32,175
Debt service	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	20,185	-	-
Interest and fiscal charges	-	-	-	-	-	1,615	-	-
Total expenditures	<u>76,861</u>	<u>7,440</u>	<u>10,825</u>	<u>21,094</u>	<u>-</u>	<u>21,800</u>	<u>13,748</u>	<u>45,839</u>
Revenue over (under) expenditures	(24,292)	69,112	11,544	38,983	1,117	12,549	(13,603)	10,175
Other financing sources/(uses)								
Operating transfers in/(out) - net	(5,000)	(13,100)	(4,700)	(9,100)	-	-	-	-
	<u>(5,000)</u>	<u>(13,100)</u>	<u>(4,700)</u>	<u>(9,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	(29,292)	56,012	6,844	29,883	1,117	12,549	(13,603)	10,175
Fund Balance								
Beginning of year	120,479	263,350	153,241	151,385	432,577	16,150	60,549	88,503
End of year	<u>\$ 91,187</u>	<u>\$ 319,362</u>	<u>\$ 160,085</u>	<u>\$ 181,268</u>	<u>\$ 433,694</u>	<u>\$ 28,699</u>	<u>\$ 46,946</u>	<u>\$ 98,678</u>

CITY OF GONZALES

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

YEAR ENDED JUNE 30, 2014

	Special Revenue						Debt Service		Total
	Circulation System Impact Fees	Storm Drainage Facility Impact Fees	Public Facilities Impact Fees	Public Mitigation Fees	Sphere of Influence Impact Fees	CDBG Urban County Grant	Shopping Center	Non-major Governmental Funds	
Revenue									
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	7,196	\$ 566,388	
Licenses, permits and impact fees	337,097	56,333	7,872	-	-	-	-	491,465	
Intergovernmental	-	-	-	-	-	94,780	-	848,941	
Use of money and property	217	419	122	37	-	-	-	13,893	
Other revenue	-	-	-	-	-	-	-	29,847	
Total revenue	<u>337,314</u>	<u>56,752</u>	<u>7,994</u>	<u>37</u>	<u>-</u>	<u>94,780</u>	<u>7,196</u>	<u>1,950,334</u>	
Expenditures									
Public safety	-	-	-	-	-	-	-	409,752	
Public works	-	-	-	-	-	-	-	375,862	
Parks and recreation	-	-	-	-	-	-	-	201,504	
Community development	24,907	133,428	8,221	-	23,287	17,647	-	212,472	
Capital outlay	-	-	-	-	-	62,595	-	271,868	
Debt service	-	-	-	-	-	-	-	20,185	
Principal	-	-	-	-	-	-	-	1,615	
Interest and fiscal charges	-	-	-	-	-	-	-	-	
Total expenditures	<u>24,907</u>	<u>133,428</u>	<u>8,221</u>	<u>-</u>	<u>23,287</u>	<u>80,242</u>	<u>-</u>	<u>1,493,258</u>	
Revenue over (under) expenditures	312,407	(76,676)	(227)	37	(23,287)	14,538	7,196	457,276	
Other financing sources/(uses)									
Operating transfers in/(out) - net	-	-	-	-	-	(31,350)	(7,196)	(80,405)	
	-	-	-	-	-	(31,350)	(7,196)	(80,405)	
Change in Fund Balance	312,407	(76,676)	(227)	37	(23,287)	(16,812)	-	376,871	
Fund Balance									
Beginning of year	137,127	171,435	58,834	17,924	71,544	-	-	3,815,555	
End of year	<u>\$ 449,534</u>	<u>\$ 94,759</u>	<u>\$ 58,607</u>	<u>\$ 17,961</u>	<u>\$ 48,257</u>	<u>\$ (16,812)</u>	<u>\$ -</u>	<u>\$ 4,192,426</u>	

**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, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated February 18, 2015.

Internal Control Over Financial Reporting

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

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

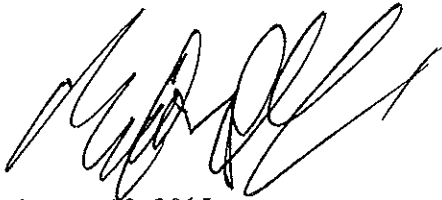
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the schedule of findings dated May 23, 2014 that we consider to be a significant deficiency in internal control over financial reporting. Please refer to that communication for a more detailed explanation of the deficiency 2013-2. 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.

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.

February 18, 2015