

City of Guadalupe

Financial Statements

Year Ended June 30, 2014

City of Guadalupe
Financial Statements
Year Ended June 30, 2014

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Independents Auditors' Report

Honorable Mayor and City Council
City of Guadalupe
Guadalupe, 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 Guadalupe, 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 of 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.

Honorable Mayor and City Council
City of Guadalupe
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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 Guadalupe as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 18 to the financial statements, the City has experienced decreased revenues and key budgeted revenue sources are unknown. Management projects continued budget shortfalls unless significant cost reduction or other measures are taken. These conditions raise substantial doubt about the City's ability to continue as a going concern. Management's plans regarding those matters are described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 7 through 21 and budgetary comparison information on pages 72 through 74, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Guadalupe'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.

Honorable Mayor and City Council

City of Guadalupe

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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 April 28, 2015, on our consideration of the City of Guadalupe'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 the internal control over financial reports or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Guadalupe's internal control over financial reporting and compliance.



Glenn Burdette Attest Corporation

San Luis Obispo, California

April 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

INTRODUCTION

This discussion and analysis of the City of Guadalupe financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. For the most complete picture of the City, please read this document in conjunction with the City's basic financial statements, and the accompanying notes to the basic financial statements. Comparisons between this year and the prior year are presented showing percentage changes.

FINANCIAL HIGHLIGHTS

- In September 2013, City Council adopted a new Master Fee Schedule to insure that city fees cover the complete cost with overhead of providing special services.
- In October of 2013 the City experienced a collapse in the sewer line that travels under the Union Pacific railroad. The City was prepared for such an incident and had a temporary line put in place within 24 hours. Over the course of the remaining fiscal year the City worked diligently with landowners, engineers and construction contractors to create a permanent solution which became the Truss Pro sewer line project. Construction for the permanent pipeline began in July of 2014 and was completed by August 2014.
- In March 2014 the City began the American Legion Hall Remediation & Seismic Improvement Project. This project was funded by a Community Development Block Grant as well as residual 2003 bond proceeds from the former Redevelopment Agency. The project was completed in August of 2014.
- In FY 2013/14, the City of Guadalupe completed work on the following planning documents: Pavement Management Plan (January 2014), Bicycle and Pedestrian Master Plan (February 2014), Short Range Transit Plan (May 2014), and Recycled Water Study (June 2014). The City also began work on a Wastewater Master Plan. The Short Range Transit Plan, Bicycle and Pedestrian Plan, and Recycled Water Study were grant-funded. The Pavement Management Plan was funded by Measure A. The Water Master Plan was funded by the Pasadera/DJ Farms Developer.
- The City's total net position decreased by \$986 thousand in 2014. The net position of governmental activities increased \$332 thousand and the net position of business-type activities decreased \$1.3 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.35 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's Annual Financial Report consists of four main components: (1) management's discussion and analysis, (2) the basic financial statements, (3) required supplementary information, and (4) combining fund financial statements. The basic financial statements include two kinds of statements that present different views of the City, the government-wide and the fund financial statements.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The basic financial statements also include notes that provide additional information essential to understanding the data contained in the government-wide and fund financial statements.

Government-Wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets and liabilities, as well as any deferred outflows or inflows. The statement of activities includes all current year revenues and expenses regardless of when cash is received or paid. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the City is improving or declining.

The government-wide financial statements of the City are divided as follows:

- *Governmental activities* – Most of the City's basic services are included here such as police, fire public works, community development, parks and recreation and general government.
- *Business-type activities* – Certain services provided by the City are funded by customer fees. Among these are water and sewer services, solid waste and transit services.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide more detailed information about the City's largest funds, not the City as a whole. The City has 30 funds that are considered governmental, four funds that are considered proprietary, and two funds that are considered fiduciary.

The City has three types of fund financial statements:

Governmental funds - Governmental funds tell how general government services such as police, fire and public works were financed in the short-term as well as what remains for future spending. Most of the City's basic services are included in governmental funds, which focus on (1) short-term inflows and outflows of spendable resources, and (2) the remaining year-end balances available for spending. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations that explain the relationship (or differences) between governmental funds and governmental activities follow the governmental funds statements.

Additional information regarding the City's ability to continue as a going concern is available in Note 17 of the Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS - continued

Proprietary Funds – Services for which customer fees are intended to finance the costs of operations are generally reported in proprietary funds. Proprietary funds statements, like the government wide statements, provide short-term and long term financial information about the activities of the City operates as businesses, such as water and sewer services.

Fiduciary Funds – Fiduciary Fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources belong. The City is the trustee, or fiduciary, for a Capital Facilities Fund per an agreement with DJ Farms. The City also elected to serve as the successor agency for its former redevelopment agency which was dissolved by state law. The successor agency activity is accounted for in a private purpose trust fund.

The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements because the City cannot use these resources to finance operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's overall financial condition. The following tables address the financial results of the City as a whole.

**City of Guadalupe
 Summary of Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government		Total Percent Change
	2014	2013	2014	2013	2014	2013	
Assets							
Current Assets	\$ 2,472,525	\$ 2,454,704	\$ 1,324,785	\$ 620,396	\$ 3,797,310	\$ 3,075,100	23.5%
Noncurrent Assets	9,749,943	10,121,348	9,666,217	10,234,355	19,416,160	20,355,703	-4.6%
Total Assets	12,222,468	12,576,052	10,991,002	10,854,751	23,213,470	23,430,803	-0.9%
Liabilities							
Current Liabilities	1,409,586	\$ 1,045,839	1,048,606	\$ 437,929	\$ 2,458,192	\$ 1,483,768	65.7%
Noncurrent Liabilities	405,792	1,455,042	2,573,448	1,729,940	2,979,240	3,184,982	-6.5%
Total Liabilities	1,815,378	2,500,881	3,622,054	2,167,869	5,437,432	4,668,750	16.5%
Net Position							
Net investment in capital assets	9,606,892	\$ 8,898,583	7,014,666	\$ 8,446,519	\$ 16,621,558	\$ 17,345,102	-4.2%
Restricted	644,585	346,860	147,100	147,100	791,685	493,960	60.3%
Unrestricted	155,613	829,728	207,182	93,263	362,795	922,991	-60.7%
	\$ 10,407,090	\$ 10,075,171	\$ 7,368,948	\$ 8,686,882	\$ 17,776,038	\$ 18,762,053	-5.3%

Analysis of net position

Total net position of the primary government decreased \$986 thousand this year. Total assets decreased \$217 thousand and total liabilities increased \$769 thousand. The following analysis of governmental and business-type activities provides more detailed information for these changes.

Governmental activities:

Current assets increased \$18 thousand due to an increase to receivables of \$338 thousand for the CDBG grant for Legion Hall work done in FY 13-14 as well as prepaid workers comp and general liability insurance of \$186 thousand paid, for next fiscal year. These increases were offset by inter-fund receivables paid off for approximately \$438 thousand due to the reimbursement received from the State for the elevated water tank and \$68 thousand for the current year reclassification of loan receivables to non-current assets.

Non-current assets decreased \$371 thousand due to current year depreciation of \$515 thousand which was offset by additions, transfers and deductions of \$75 thousand as well as a \$68 thousand offset for the current year reclassification of loan receivables to non-current assets. More detailed capital asset information is located in Note 5 to the financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

Current liabilities increased \$364 thousand due to the retrofit work for the Legion Hall of \$410 thousand, a deficient cash balance of \$445 thousand in the general fund and a \$16 thousand payable for the retrospective insurance liability. These liability increases were offset by the receipt of \$438 thousand from the State for the elevated water tank which reduced the inter-fund loans for the project as well as \$15 thousand for capital leases paid off in the prior year, a \$23 thousand decrease from the prior year for the certificates of participation moved to the Enterprise funds and a \$31 thousand decrease in Measure A due to the proper recording of the retrospective insurance liability. See Note 17 to the financial statements for more information on certificates of participation and Note 12 to the financials for information regarding the retrospective insurance liability.

Non-current liabilities decreased \$1 million due primarily to the reclassification of 2000 certificates of participation to the Enterprise funds. For more information about the 2000 certificates of participation see Note 17 to the financial statements.

Business-type activities:

Current assets increased \$704 thousand due to current year inter-fund transfer decreases of \$145 thousand, the reduction of inter-fund loans from the previous year of \$448 thousand due to the payment received for the elevated water tank, prepaid insurance premiums of \$61 thousand paid, for next fiscal year, a \$22 thousand increase due to the proper recording of the retrospective insurance liability and a slight increase in accounts receivable of \$28 thousand due to increased business customer water usage.

Non-current assets decreased \$568 thousand due to current year depreciation of \$705 thousand which was offset by asset additions of \$137 thousand. More detailed capital asset information is located in Note 5 to the financial statements.

Current liabilities increased \$611 thousand due to the deficient cash balance in the wastewater funds of \$313 thousand. The deficient cash was due to scheduled loan payments to the RDA successor agency of \$140 thousand and approximately \$173 thousand for the Truss Pro project. Accounts payable of \$35 thousand increased for the wastewater fund due primarily to the off-street repair to the road leading to the wastewater treatment plant. The solid waste fund increased \$48 thousand due to the increase of deficient cash from the prior year of \$86 thousand offset by a decrease in accounts payable of \$38 thousand. Long term liabilities due in one year increased \$203 thousand due to a \$25 thousand increase for the certificates of participation moved to the Enterprise funds (see Note 17 to the financial statements), a \$170 thousand increase in RDA successor agency scheduled loan payments and an \$8 thousand increase for California Joint Powers Insurance Authority (CAJPIA) retrospective liability (see Note 12 to the financial statements for information regarding the CAJPIA liability). The transit fund increased approximately \$12 thousand due to the creation of a short range transit plan.

Non-current liabilities increased \$844 thousand primarily due to the reclassification of 2000 certificates of participation from Governmental activities. For more information about the 2000 certificates of participation see Note 17 to the financial statements.

City of Guadalupe
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

The City's net position decreased by \$933,839 during the current fiscal year. Information about changes in net position is summarized.

City of Guadalupe							
Changes in Net Position							
For the Fiscal Years Ended June 30, 2014 and 2013							
(In thousands)							
	Governmental		Business-type		Total Primary		Total
	Activities		Activities		Government		
	2014	2013	2014	2013	2014	2013	Change
Revenues							
Program revenues:							
Charges for services	\$ 86,104	\$ 50,454	\$ 3,363,597	\$ 2,891,145	\$ 3,449,701	\$ 2,941,599	17.3%
Operating grants and contributions	1,130,705	1,177,441	372,527	322,237	1,503,232	1,499,678	0.2%
Capital grants and contributions	368,409	27,440		5,000	368,409	32,440	1035.7%
General revenue:							
Sales tax	252,003	322,799			252,003	322,799	-21.9%
Property tax	1,005,653	1,297,204			1,005,653	1,297,204	-22.5%
Utility users tax	228,274	234,127			228,274	234,127	-2.5%
Gas tax	324,295	268,705			324,295	268,705	20.7%
Franchise fees	172,006	145,539			172,006	145,539	18.2%
State of California in-lieu	3,019	3,647			3,019	3,647	-17.2%
Property transfer tax	4,019	7,427			4,019	7,427	-45.9%
Licenses and permits	59,060	50,523			59,060	50,523	16.9%
Rents	245,268	429,910			245,268	429,910	-42.9%
Interest income	1,304	1,229	240	298	1,544	1,527	1.1%
Other revenues	145,281	75,151	6,017	1,408	151,298	76,559	97.6%
Total revenues	<u>4,025,400</u>	<u>4,091,596</u>	<u>3,742,381</u>	<u>3,220,088</u>	<u>7,767,781</u>	<u>7,311,684</u>	6.2%
Program Expenses							
Public safety	2,082,192	2,011,549			2,082,192	2,011,549	3.5%
Transportation	442,468	494,473			442,468	494,473	-10.5%
Leisure, culture and social services	127,861	81,053			127,861	81,053	57.7%
Community development	1,063,160	551,877			1,063,160	551,877	92.6%
General government	1,177,893	1,229,869			1,177,893	1,229,869	-4.2%
Business-type activities			3,802,718	3,411,754	3,802,718	3,411,754	11.5%
Interest on long-term debt	5,328	7,453			5,328	7,453	-28.5%
Total expenses	<u>4,898,902</u>	<u>4,376,274</u>	<u>3,802,718</u>	<u>3,411,754</u>	<u>8,701,620</u>	<u>7,788,028</u>	11.7%
Transfers	22,774	438,333	(22,774)	(438,333)	-	-	-
Change in net position	(850,728)	153,655	(83,111)	(629,999)	(933,839)	(476,344)	96.0%
Net position - beginning of year	<u>10,075,171</u>	<u>10,218,732</u>	<u>8,686,882</u>	<u>9,316,881</u>	<u>18,762,053</u>	<u>19,535,613</u>	-4.0%
Prior year restatement	1,182,647	(297,216)	(1,234,823)	-	(52,176)	(297,216)	-82.4%
Net Position - beginning of year, restated	<u>11,257,818</u>	<u>9,921,516</u>	<u>7,452,059</u>	<u>9,316,881</u>	<u>18,709,877</u>	<u>19,238,397</u>	-2.7%
Net position - end of year	<u>\$ 10,407,090</u>	<u>\$ 10,075,171</u>	<u>\$ 7,368,948</u>	<u>\$ 8,686,882</u>	<u>\$ 17,776,038</u>	<u>\$ 18,762,053</u>	-5.3%

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

Analysis of the changes in net position:

Total government-wide revenues of the primary government increased \$456 thousand, a 6.2% increase from the prior year, and total expenses increased \$914 thousand, an 11.7% increase. These changes are discussed in more detail below.

Governmental Activities:

Total revenues for governmental activities decreased \$66 thousand from the prior year. Total expenses increased \$523 thousand, transfers decreased \$416 thousand, from the prior year and prior year restatements increased \$1.5 million. Transfers primarily consist of indirect cost allocations to the General Fund and were lower than 2013 primarily due to the implementation of a comprehensive indirect cost allocation plan. Prior year restatement increased \$1.2 million due primarily to the proper reporting of 2000 certificates of participation. For more information about the prior year restatements see Note 17 to the financial statements.

Revenue

Capital grants and contributions increased by \$341 thousand mostly due to a Community Development Block Grant received for the seismic retrofit of the Legion Hall.

Property tax decreased \$291 thousand due to a one-time payment received in the prior year for the RDA dissolution of \$299 thousand and a one-time settlement payment received in the prior year from Santa Barbara County for \$51 thousand related to a property tax administration dispute. These decreases were offset by a property tax increase of \$59 thousand due to a slight increase in housing sales.

Rents decreased \$185 thousand primarily due to prior year one time payments received for half the sale of the water tank tower. Other revenues increased \$70 thousand due to the reclassification of the successor agency contribution previously reported in operating grants and contributions in 2013.

Expenses

Public safety increased \$70 thousand due mostly to equipment upgrades for Police and Fire and a vehicle purchase for Police. Transportation decreased \$52 thousand due to partial re-assignment of street employees to parks and building maintenance department and the correct coding of utility charges for streets. Community development increased \$511 thousand due primarily to the seismic retrofit work completed at the Legion Hall. Leisure, culture and social services increased \$46 thousand primarily due to correct coding of utilities for parks. General government expenses decreased by \$52 thousand due to a combined decrease of a \$187 prior year restatement offset by an increase of \$135 thousand due to street employee allocation to building maintenance and parks departments and the Measure A maintenance of effort.

Business-Type Activities:

Total revenues for business-type activities increased \$522 thousand from the prior year, a 16% increase. Total expenses increased \$391 thousand and net transfers to governmental activities decreased \$416 thousand due to the implementation of a comprehensive indirect cost allocation plan.

Revenue

Charges for services increased by \$472 thousand due to increased water usage by agricultural businesses and the implementation of a revised master fee schedule effective December 1, 2013. Operating grants and contributions increased \$50 thousand due to an increase in Local Transportation Fund revenues and Federal Transit Administration Section 5311 Funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

Expenses

Wastewater professional services expense increased by \$275 thousand due to the Truss Pro sewer line break that occurred at the end of October 2013. Water expenses increased by \$63 thousand due to emergency repairs, the reclassification of audit charges that were charged to Measure A in error and meter and hydrant replacements. Transit professional services expense increased \$53 thousand due to the creation of a short range transit plan.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The City uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of City Government, reporting City operations in more detail than the government-wide statements.

Governmental Funds:

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Total fund balance for governmental funds decreased by \$298 thousand during fiscal year 2014. For the fiscal year ended June 30, 2014, as compared with the fiscal year ended June 30, 2013 total revenues for governmental funds decreased \$73 thousand, total expenditures for governmental funds increased \$608 thousand, net other financing sources decreased \$416 thousand and prior year restatements increased fund beginning fund balance \$85 thousand. Reasons for these changes are discussed in more detail below.

General Fund

Total General Fund revenues decreased \$824 thousand in the current year mostly due to prior year one-time payments received from the following: the former Redevelopment Agency one time dissolution payment of approximately \$227 thousand, a \$300 thousand one-time contribution from Chevron and \$368 thousand from AP wireless for the cell tower lease purchase. Sales tax revenues declined \$71 thousand from prior year due to a Board of Equalization audit of a local entity that resulted in a one-time prior year payment of \$114 thousand. After accounting for this one-time money, sales tax actually increased \$44 thousand.

Total General Fund expenditures increased \$236 thousand this year. \$66 thousand was due to increases in Personnel services as follows:

- a.) A \$55 thousand increase in the Finance department for one clerk position moved from full-time to part-time and the Finance Director position moved from part-time to full time.
- b.) A \$49 thousand increase in the parks and recreation department and \$7 thousand increase in the building maintenance department due to the re-assigning of street department employees to cover both departments.
- c.) A \$32 thousand increase in the Police department due to personnel changes and union negotiations.

These personnel costs were offset by \$77 thousand for reductions in payroll for the Administration, Fire and Building & Safety departments due to furloughs.

Operating expenditures increased by \$167 thousand due to the following department expenditures:

- a.) An \$80 thousand increase in utility costs for building maintenance and parks and recreation departments coded to the correct fund in FY 13-14.
- b.) The Measure A maintenance of effort requirement posted to the general fund for \$76 thousand.
- c.) An \$11 thousand Measure A audit correction posted to the general fund for audit charges.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS - continued

Total other financing sources decreased \$212 thousand due primarily to the implementation of a comprehensive indirect cost allocation plan. A prior year restatement of \$23 thousand increased beginning fund balance due to the proper recording of the retrospective insurance liability. See Note 12 to the financial statement for more information on the retrospective insurance liability.

Community Development Fund

In January of 2014 the fund received reimbursement from the California Office of Emergency Services of \$440 thousand for the final grant payment for the replacement of the 10th street elevated water tank. Activity generated by this reimbursement increased the Other Financing Sources "transfers out" to clear the inter-fund loans between water, wastewater and community development fund that supported the initial funding for this project.

CDBG

In fiscal year 2012-13 the City was awarded a \$368 thousand Community Development Block Grant for seismic retrofit of the Legion Hall. Work began March of 2014 and was completed early August of 2014. Revenues received of \$338 thousand represent the work that was performed in FY 2013-14. Additional costs were covered by residual 2003 bond proceeds from the former Redevelopment Agency.

Other Governmental Funds

Total other governmental funds revenues decreased from the prior year \$27 thousand. \$43 thousand was primarily due to prior year one-time proceeds from the former Redevelopment Agency dissolution payment to the Lighting District Fund which was offset by a \$16 thousand increase in Police and Fire grant revenue for equipment. Total other government fund expenditures decreased \$43 thousand. This decrease was due in part to the re-organization of street personnel re-assigned to cover the Parks department and Building Maintenance department of approximately \$88 thousand. This decrease was offset by an increase in maintenance and operations of approximately \$37 thousand due to expenditures for alternative transportation for the maintenance of effort requirement and an increase in capital outlay of \$8 thousand for street maintenance. Total other financing sources decreased \$76 thousand due primarily to the implementation of a comprehensive indirect cost allocation plan. A prior year restatement of \$62 thousand increased beginning fund balance due to the proper recording of the retrospective insurance liability. See Note 12 to the financial statements for more information on the retrospective insurance liability.

Enterprise Funds:

The City's four enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. Total operating revenues increased by \$522 thousand total operating expenses increased by \$427 thousand or 13% over prior year. Total non-operating revenues and expenses decreased \$452 thousand and prior year restatements decreased beginning fund balance by 1.2 million. The discussion below provides a detailed explanation for each business-type fund.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS - continued

Water Fund

Water fund operating revenue increased \$347 thousand compared to the prior year due to increased agricultural business water usage and a revised master fee schedule effective December 1, 2013. Operating expenses in the current year increased \$60 thousand due to emergency water repairs, the reclassification of audit charges that were charged to Measure A in error and meter and hydrant replacements. Total non-operating revenues and expenses decreased \$272 thousand due primarily to the transfer-in of \$167 thousand from the CDBG fund for the elevated water tank inter-fund loan repayment, a decrease of approximately 13 thousand for costs related to certificates of participation and a \$91 thousand decrease in transfers-out due to the implementation of a comprehensive indirect cost allocation plan. Prior year restatements decreased beginning fund balance \$282 thousand due to a \$16 thousand decrease due to the proper recording of the retrospective insurance liability and a \$266 thousand decrease due to the proper reporting of 2000 certificates of participation. For more information about the 2000 certificates of participation see Note 17 to the financial statements and Note 12 for retrospective insurance liability information.

Wastewater Fund

Wastewater fund revenue increased \$77 thousand compared to the prior year due to increased water usage for commercial customers as well as implementation of a revised master fee schedule on December 1, 2013. Operating expenses increased \$292 thousand primarily due to the Truss Pro sewer line break. Total non-operating revenues and expenses decreased \$174 thousand due primarily to the transfer-in of \$167 thousand from the CDBG fund for the elevated water tank inter-fund loan repayment. Prior year restatements decreased beginning fund balance \$953 thousand due to a \$12 thousand decrease for the proper recording of the retrospective insurance liability and a \$942 thousand decrease for the proper reporting of 2000 certificates of participation. For more information about the 2000 certificates of participation see Note 17 to the financial statements and Note 12 for retrospective insurance liability information.

Solid Waste Fund

Solid Waste revenue increased \$49 thousand compared to the prior year due to a franchise fee increase of 2.5% and a CPI increase of 3.5% in FY 13-14. Operating expenses increased \$31 thousand due primarily to the increase in franchise fees of 2.5% transferred to the general fund. Total non-operating revenues and expenses increased \$16 thousand due to a new contract agreement with the solid waste hauler absorbing the street sweeping services.

Transit Fund

Transit fund revenue increased \$49 thousand compared to the prior year primarily due to an increase in Local Transportation Fund revenues and Federal Transit Administration Section 5311 Funds. Operating expenses increased \$44 thousand primarily due to the creation of a Short Range Transit Plan. Total non-operating revenues and expenses increased \$10 thousand due to the implementation of a comprehensive indirect cost allocation plan.

Fiduciary Funds:

The City's two Fiduciary Funds, which are used to account for resources held for the benefit of parties outside the government, is not reflected in the government wide financials because the resources of those funds are not available to support City programs. The accounting used for fiduciary funds is presented with the fund financials statements in the supplemental information section.

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2014 is presented as required supplementary information following the notes to the financial statements. The final budget amounts (which are the focus of this discussion and accompanying financial statements) are different from those presented in the 2013-14 Budget Document. This is due to changes that occurred between when the Preliminary Budget was prepared and year-end final budget approvals.

The following summarizes the original and final budget compared with actual results for 2013-14:

General Fund	Original Budget	Final Budget	Actual	Variance
Revenues	\$ 2,087,000	\$ 1,982,000	\$ 2,098,073	\$ 116,073
Expenditures	3,071,000	3,104,001	3,175,517	(71,516)
Other Financing Sources	1,009,000	509,000	449,591	(59,409)
Change in fund balances	25,000	(613,001)	(627,853)	(14,852)
Fund balance - beginning of year	304,251	304,251	304,251	-
Prior year restatements			22,565	22,565
Fund balance (deficit) - beginning of year, restated	304,251	304,251	326,816	22,565
Fund balances (deficit) - end of year	<u>\$ 329,251</u>	<u>\$ (308,750)</u>	<u>\$ (301,037)</u>	<u>\$ 7,713</u>

Overall, the ending fund balance is (\$301 thousand), which is \$7 thousand less than the final budget estimate. The net decrease results from a variety of adjustments; the key changes are summarized as follows:

- Revenue was \$116 thousand higher than estimated primarily due to the following increases, franchise fees \$32 thousand, property tax \$23 thousand, \$41 thousand administrative overhead and approximately \$20 thousand in other agency revenue.
- Expenditures were \$72 thousand higher than estimated mostly due to the Measure A maintenance of effort requirement.
- Other financing sources were \$59 thousand lower than estimated due to the proper recording of interfund transfers to the general fund.

CAPITAL ASSETS

Capital Assets Summary. The City of Guadalupe's investment in capital assets for its governmental and business type activities as of June 30, 2014, amounts to \$19,347,108 (net of accumulated depreciation). The investment in capital assets includes land, park improvements, buildings and improvements, vehicles and equipment, streets, bikeways, water, wastewater and storm drain systems.

CAPITAL ASSETS - continued



A summary of the City's capital assets at June 30, 2014 follows:

<u>Capital Assets, Net of Accumulated Depreciation</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 343,131	\$ 194,995	\$ 538,126
Infrastructure	5,164,750	5,860,641	11,025,391
Buildings and Improvements	4,124,554	3,147,627	7,272,181
Vehicles	24,127	355,569	379,696
Equipment	24,330	40,271	64,601
Construction in Progress	-	67,115	67,115
	<u>\$ 9,680,892</u>	<u>\$ 9,666,218</u>	<u>\$ 19,347,110</u>

Major capital asset expenditures during the fiscal year include:

- Vehicle Purchase
- Street Reconstruction and Maintenance
- Pavement upgrades
- Water system improvements
- Wastewater improvements
- Bike and Pedestrian Master Plan

Property, plant and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-50
Buildings and Structures	20-50
Improvements other than buildings	20-50
Equipment	5-15

CAPITAL ASSETS - continued

Capital assets activity for the fiscal year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities:				
Land	\$ 343,131	\$	\$	\$ 343,131
Construction in progress	73,622		(73,622)	-
Infrastructure	6,868,367	88,384	30,501	6,987,252
Accumulated depreciation	(1,494,646)	(327,856)		(1,822,502)
Buildings and improvements	5,197,860			5,197,860
Accumulated depreciation	(931,022)	(142,284)		(1,073,306)
Vehicles	868,854	21,636		890,490
Accumulated depreciation	(836,410)	(29,953)		(866,363)
Equipment	603,858	8,024		611,882
Accumulated depreciation	(572,266)	(15,286)		(587,552)
Total governmental capital assets, net	<u>\$ 10,121,348</u>	<u>\$ (397,335)</u>	<u>\$ (43,121)</u>	<u>\$ 9,680,892</u>
Business-Type Activities:				
Land	\$ 194,995	\$	\$	\$ 194,995
Construction in progress		67,115		67,115
Buildings and improvements	9,463,917			9,463,917
Accumulated depreciation	(5,707,796)	(608,495)		(6,316,291)
Vehicles	1,003,725			1,003,725
Accumulated depreciation	(554,468)	(93,688)		(648,156)
Equipment	436,816	39,714		476,530
Accumulated depreciation	(432,941)	(3,318)		(436,259)
Infrastructure	6,949,655	30,533		6,980,188
Accumulated depreciation	(1,119,547)			(1,119,547)
Total governmental capital assets, net	<u>\$ 10,234,356</u>	<u>\$ (568,139)</u>	<u>\$ -</u>	<u>\$ 9,666,217</u>

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
Public safety	\$ 36,770
Leisure, cultural & social services	36,137
Community development	412,814
General government	29,658
Total governmental activities depreciation expense	<u>\$ 515,379</u>
Business-type activities:	
Water	\$ 163,999
Waste water	443,379
Transit	98,123
Total business-type activities depreciation expense	<u>\$ 705,501</u>

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements.

LONG-TERM DEBT

At June 30, 2014, the City of Guadalupe has \$3,461,482 in long-term debt outstanding as summarized below:

Long-Term Debt	Governmental Activities	Business-type Activities	Total
Sewer Bonds	\$ 74,000	\$	\$ 74,000
OPEB	160,966		160,966
Certificates of participation		2,194,641	2,194,641
Compensated absences	212,962		212,962
Loans payable to successor agency trust fund		559,539	559,539
Insurance claim payable	179,599	79,775	259,374
	<u>\$ 627,527</u>	<u>\$ 2,833,955</u>	<u>\$ 3,461,482</u>

Long-term debt governmental activity for the fiscal year ended June 30, 2014 was as follows:

Governmental activities:	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Sewer bonds	\$ 87,000	\$	\$ 13,000	\$ 74,000
OPEB	117,763	43,203		160,966
Compensated absences	200,099	12,863		212,962
Insurance claim payable	179,599			179,599
Capital leases payable	15,525		15,525	-
Total	<u>\$ 599,986</u>	<u>\$ 56,066</u>	<u>\$ 28,525</u>	<u>\$ 627,527</u>

Long-term debt business-type activity for the fiscal year ended June 30, 2014 was as follows:

Business-Type Activities:	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Certificates of participation	\$ 2,245,537	\$	\$ 50,896	\$ 2,194,641
Loans payable to Successor Agency Trust Fund	749,539		190,000	559,539
Insurance claim payable	79,775			79,775
Total	<u>\$ 3,074,851</u>	<u>\$ -</u>	<u>\$ 240,896</u>	<u>\$ 2,833,955</u>

Additional information about the City of Guadalupe's long-term debt can be found in Note 6 to the basic financial statements.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES



On June 24, 2014 the Council adopted the 2014-15 budget (Resolution No. 2014-43). The General Fund portion of that budget contains a deficit of \$335 thousand. This is primarily a function of decreased Interfund transfers vs prior years. The City expects to have a balanced General Fund budget in 2015-16 thanks to new revenue which includes new taxes, higher franchise fees, and economic growth.

Fiscal Outlook. In November 2014 voters passed three measures that will have a significant impact on future sustainable revenues for the General Fund. The measures included a quarter-cent sales tax increase, removal of the City's utility users' tax cap, and annual business licenses being calculated on gross receipts. Combined, the three measures should generate \$315 thousand in new revenue. The Pasadera Development (formally DJ Farms) broke ground in early 2015. During build-out, Pasadera will drive increased building permit revenue for the General Fund. Pasadera will also increase the property tax base. Once built, the shopping center in Pasadera will lead to increased sales tax receipts. In 2015, the City expects to create a Solid Waste roll-off franchise to increase franchise fees for the General Fund – potential revenue of \$50 thousand per year. Finally, the City also expects to charge its water and wastewater utilities franchise fees – potential revenue of \$135 thousand per year.

CITY OF GUADALUPE ACTIVITIES



The City of Guadalupe utilizes grants as much as possible to carry out capital projects. Excellent success has been achieved through this process. In conjunction with grants, the city seeks low interest loans when available. Infrastructure improvements continue to be a high priority. A continued focus for the future is improvements to the wastewater collection and water distribution systems. Measure A funding was used for street maintenance projects and Proposition 50 funds have been used for major improvements at our wastewater treatment facility. In Fiscal Year 2013-14 the City received three grants to purchase a new vehicle for the Police Department as well as equipment for the Fire department.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Guadalupe - Attn: Andrew Carter, 918 Obispo Street, Guadalupe, CA 93434.

City of Guadalupe
Statement of Net Position
June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and investments	\$ 1,527,486	\$ 729,627	\$ 2,257,113
Accounts receivable, net of allowance	763,040	534,369	1,297,409
Prepaid expenses	181,999	60,789	242,788
Loans receivable	69,051		69,051
Land	343,131	194,995	538,126
Construction in progress		67,115	67,115
Depreciable capital assets, net of accumulated depreciation	<u>9,337,761</u>	<u>9,404,107</u>	<u>18,741,868</u>
Total assets	<u>12,222,468</u>	<u>10,991,002</u>	<u>23,213,470</u>
Liabilities			
Accounts payable and accrued liabilities	1,187,851	748,109	1,935,960
Interest payable		39,990	39,990
Long-term liabilities:			
Due within one year	221,735	260,507	482,242
Due after one year	<u>405,792</u>	<u>2,573,448</u>	<u>2,979,240</u>
Total liabilities	<u>1,815,378</u>	<u>3,622,054</u>	<u>5,437,432</u>
Net Position			
Net investment in capital assets	9,606,892	7,014,666	16,621,558
Restricted for debt service	19,700	147,100	166,800
Restricted for other purposes	624,885		624,885
Unrestricted	<u>155,613</u>	<u>207,182</u>	<u>362,795</u>
Total net position	<u>\$ 10,407,090</u>	<u>\$ 7,368,948</u>	<u>\$ 17,776,038</u>

The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Public safety	\$ 2,082,192	\$ 66,575	\$ 254,282	\$
Transportation	442,468		405,813	30,256
Leisure, cultural and social services	127,861	1,388		
Community development	1,063,160	17,296	439,620	338,153
General government	1,177,893	845	30,990	
Interest on long-term debt	5,328			
Total governmental activities	4,898,902	86,104	1,130,705	368,409
Business-type activities:				
Water	1,391,751	1,856,039		
Wastewater	1,349,128	878,733		
Solid waste	553,915	530,256	5,000	
Transit	507,924	98,569	367,527	
Total business-type activities	3,802,718	3,363,597	372,527	-
General revenues:				
Sales taxes				
Property taxes				
Utility users tax (UUT)				
Gas tax				
Franchise fees				
State of California in-lieu				
Property transfer tax				
Licenses and permits				
Rental income				
Interest income				
Other revenues				
Transfers				
Total general revenues				
Change in net position				
Net position - beginning of year				
Prior year restatement				
Net position - beginning of year, restated				
Net position - end of year				

The notes to the financial statements are an integral part of these financial statements.

Net Revenues (Expenses) and Changes in Net Position

<u>Total</u> <u>Governmental</u> <u>Activities</u>	<u>Total</u> <u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (1,761,335)	\$	\$ (1,761,335)
(6,399)		(6,399)
(126,473)		(126,473)
(268,091)		(268,091)
(1,146,058)		(1,146,058)
(5,328)		(5,328)
<u>(3,313,684)</u>		<u>(3,313,684)</u>
	464,288	464,288
	(470,395)	(470,395)
	(18,659)	(18,659)
	(41,828)	(41,828)
	<u>(66,594)</u>	<u>(66,594)</u>
252,003		252,003
1,005,653		1,005,653
228,274		228,274
324,295		324,295
172,006		172,006
3,019		3,019
4,019		4,019
59,060		59,060
245,268		245,268
1,304	240	1,544
145,281	6,017	151,298
22,774	(22,774)	-
<u>2,462,956</u>	<u>(16,517)</u>	<u>2,446,439</u>
(850,728)	(83,111)	(933,839)
<u>10,075,171</u>	<u>8,686,882</u>	<u>18,762,053</u>
<u>1,182,647</u>	<u>(1,234,823)</u>	<u>(52,176)</u>
<u>11,257,818</u>	<u>7,452,059</u>	<u>18,709,877</u>
<u>\$ 10,407,090</u>	<u>\$ 7,368,948</u>	<u>\$ 17,776,038</u>

City of Guadalupe
Balance Sheet – Governmental Funds
June 30, 2014

	<u>Special Revenue</u>			<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Community Development</u>	<u>CDBG American Legion Retrofit</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
Assets					
Cash and investments	\$	\$ 124,780	\$	\$ 1,402,706	\$ 1,527,486
Accounts receivable	215,605	1,446	338,153	207,522	762,726
Prepaid expenses	152,364			29,950	182,314
Loans receivable		69,051			69,051
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 367,969</u>	<u>\$ 195,277</u>	<u>\$ 338,153</u>	<u>\$ 1,640,178</u>	<u>\$ 2,541,577</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$ 588,189	\$	\$ 413,905	\$ 94,545	\$ 1,096,639
Accrued wages and benefits	80,817			10,396	91,213
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>669,006</u>		<u>413,905</u>	<u>104,941</u>	<u>1,187,852</u>
Fund balance:					
Nonspendable:					
Long-term loans receivable		69,051			69,051
Restricted for:					
Street maintenance				751,713	751,713
Other capital projects				390,682	390,682
Community development		126,226			126,226
Bikeway and pedestrian paths				4,028	4,028
Public safety				102,546	102,546
Utility infrastructure				1,403	1,403
Debt service				19,700	19,700
Committed to:					
Lighting and landscape				302,538	302,538
Public safety				1,232	1,232
Unassigned	(301,037)		(75,752)	(38,605)	(415,394)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>(301,037)</u>	<u>195,277</u>	<u>(75,752)</u>	<u>1,535,237</u>	<u>1,353,725</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 367,969</u>	<u>\$ 195,277</u>	<u>\$ 338,153</u>	<u>\$ 1,640,178</u>	<u>\$ 2,541,577</u>

The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014

Total fund balance - governmental funds \$ 1,353,725

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

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation. Net capital assets relating to governmental activities consisted of:

Capital assets at estimated historical cost	\$ 14,030,615	
Accumulated depreciation	(4,349,723)	
		9,680,892

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of:

Sewer bonds	74,000	
OPEB	160,966	
Compensated absences	212,962	
Insurance claim payable	179,599	
		(627,527)

Total net position - governmental activities \$ 10,407,090

The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2014

	General	Special Revenue		Other	Total
		Community Development	CDBG American Legion Retrofit	Governmental Funds	Governmental Funds
Revenues:					
Taxes	\$ 1,508,073	\$	\$	\$ 877,603	\$ 2,385,676
Licenses and permits	59,060				59,060
Fines and penalties	17,036				17,036
Revenues from other agencies	177,002	439,620	338,153	264,148	1,218,923
Charges for current services	8,451			1,388	9,839
Interest	183	33		341	557
Other revenues	328,268				328,268
Total revenues	2,098,073	439,653	338,153	1,143,480	4,019,359
Expenditures:					
Personnel services	2,390,725			399,790	2,790,515
Maintenance and operations	753,149	1,645	413,905	311,893	1,480,592
Capital outlay	15,140			104,764	119,904
Debt service:					
Principal	15,525			13,000	28,525
Interest and fiscal charges	978			4,350	5,328
Total expenditures	3,175,517	1,645	413,905	833,797	4,424,864
Excess of revenues over expenditures	(1,077,444)	438,008	(75,752)	309,683	(405,505)
Other financing sources (uses):					
Operating transfers in	600,000	59,052		160,374	819,426
Operating transfers out	(150,409)	(408,278)		(237,965)	(796,652)
Total other financing sources (uses)	449,591	(349,226)		(77,591)	22,774
Change in fund balance	(627,853)	88,782	(75,752)	232,092	(382,731)
Fund balance (deficiency) - beginning of year	304,251	106,495	-	1,240,854	1,651,600
Prior year restatement	22,565			62,291	84,856
Fund balance (deficiency) - beginning of year, restated	326,816	106,495	-	1,303,145	1,736,456
Fund balance - end of year	\$ (301,037)	\$ 195,277	\$ (75,752)	\$ 1,535,237	\$ 1,353,725

The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Year Ended June 30, 2014

Total net change in fund balance - governmental funds \$ (382,731)

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

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the year was:

Expenditures for capital outlay - governmental funds	\$ 118,044	
Depreciation expense	<u>(515,379)</u>	
		(397,335)

Loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss was: (43,121)

Debt service: In governmental funds, repayments of long-term liabilities are recognized as expenditures. In the statement of activities, repayments of long-term liabilities are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term liabilities were: 28,525

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The differences between compensated absences paid and compensated absences earned was: (12,863)

OPEB: In governmental funds, other post employment benefits are measured by the amounts paid during the period. In the statement of activities, other post employment benefits are measured by the amounts accrued. The differences between other post employment benefits paid and compensated absences accrued was: (43,203)

Total change in net position - governmental activities \$ (850,728)

The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Statement of Net Position
Proprietary Funds
June 30, 2014

	Enterprise Funds		
	Water	Wastewater Treatment	Solid Waste
Assets			
Current assets:			
Cash and investments	\$ 509,521	\$	\$
Accounts receivable, net of allowance	261,127	141,582	92,748
Prepaid expenses	35,044	25,745	
Total current assets	<u>805,692</u>	<u>167,327</u>	<u>92,748</u>
Noncurrent assets:			
Land	29,464	165,531	
Work in progress		67,115	
Buildings, structures and improvements	4,869,896	4,576,677	
Vehicles	28,843		
Equipment	371,746	94,174	
Infrastructure		6,980,188	
Less accumulated depreciation	(2,281,707)	(5,591,277)	
Total noncurrent assets	<u>3,018,242</u>	<u>6,292,408</u>	
Total assets	<u>3,823,934</u>	<u>6,459,735</u>	<u>92,748</u>
Liabilities			
Current liabilities:			
Accounts payable	51,101	403,562	220,868
Deposits payable	21,393		
Accrued wages and benefits	3,332	5,782	
Interest payable	22,588	17,402	
Current portion of insurance claim payable	1,640	5,820	
Current portion of certificates of participation	34,327	18,720	
Current portion of loans payable to Successor Agency Trust Fund		150,000	50,000
Total current liabilities	<u>134,381</u>	<u>601,286</u>	<u>270,868</u>
Noncurrent liabilities:			
Insurance claim payable	41,738	30,577	
Certificates of participation, net of current portion	1,236,607	904,987	
Loans payable to Successor Agency Trust Fund, net of current portion		306,910	52,629
Total noncurrent liabilities	<u>1,278,345</u>	<u>1,242,474</u>	<u>52,629</u>
Total liabilities	<u>1,412,726</u>	<u>1,843,760</u>	<u>323,497</u>
Net Position			
Net investment in capital assets	1,747,308	4,911,791	
Restricted for debt service	88,522	58,578	
Unrestricted	575,378	(354,394)	(230,749)
Total net position	<u>\$ 2,411,208</u>	<u>\$ 4,615,975</u>	<u>\$ (230,749)</u>

The notes to the financial statements are an integral part of these financial statements.

Transit	Total
\$ 220,106	\$ 729,627
38,912	534,369
	60,789
259,018	1,324,785
	194,995
	67,115
17,344	9,463,917
974,882	1,003,725
10,610	476,530
	6,980,188
(647,269)	(8,520,253)
355,567	9,666,217
614,585	10,991,002
42,071	717,602
	21,393
	9,114
	39,990
	7,460
	53,047
	200,000
42,071	1,048,606
	72,315
	2,141,594
	359,539
	2,573,448
42,071	3,622,054
355,567	7,014,666
	147,100
216,947	207,182
\$ 572,514	\$ 7,368,948

City of Guadalupe
Statement of Revenues, Expenditures and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2014

	Enterprise Funds		
	Water	Wastewater Treatment	Solid Waste
Operating revenues:			
Water sales	\$ 1,769,651	\$	\$
Standby charges	31,929		
Connection fees	60,184	2,325	
Sewer service charges		876,408	
Refuse service charges			530,256
Revenues from other agencies			5,000
Other revenues	292		
Total operating revenues	<u>1,862,056</u>	<u>878,733</u>	<u>535,256</u>
Operating expenses:			
Personnel services	131,148	217,355	
Maintenance and operations	1,044,095	646,886	553,915
Depreciation	163,999	443,379	
Total operating expenses	<u>1,339,242</u>	<u>1,307,620</u>	<u>553,915</u>
Operating income (loss)	<u>522,814</u>	<u>(428,887)</u>	<u>(18,659)</u>
Nonoperating revenues and expenses:			
Interest	(52,337)	(41,490)	
Operating transfers in	167,113	182,113	28,000
Operating transfers out	(208,700)	(156,300)	
Total nonoperating revenues and expenses	<u>(93,924)</u>	<u>(15,677)</u>	<u>28,000</u>
Net income (loss)	<u>428,890</u>	<u>(444,564)</u>	<u>9,341</u>
Net position (deficiency) - beginning of year	2,263,943	6,013,737	(240,090)
Prior year restatements	<u>(281,625)</u>	<u>(953,198)</u>	
Net position (deficiency) - beginning of year, restated	<u>1,982,318</u>	<u>5,060,539</u>	<u>(240,090)</u>
Net position (deficiency) - end of year	<u>\$ 2,411,208</u>	<u>\$ 4,615,975</u>	<u>\$ (230,749)</u>

The notes to the financial statements are an integral part of these financial statements.

Transit	Total
\$	\$ 1,769,651
	31,929
	62,509
	876,408
	530,256
367,527	372,527
98,569	98,861
466,096	3,742,141
	348,503
409,801	2,654,697
98,123	705,501
507,924	3,708,701
(41,828)	33,440
50	(93,777)
	377,226
(35,000)	(400,000)
(34,950)	(116,551)
(76,778)	(83,111)
649,292	8,686,882
	(1,234,823)
649,292	7,452,059
\$ 572,514	\$ 7,368,948

City of Guadalupe
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	Enterprise Funds		
	Water	Wastewater Treatment	Solid Waste
Cash flows from operating activities:			
Cash received from customers	\$ 1,747,301	\$ 876,408	\$ 522,754
Cash received from connection fees	60,184	2,325	
Cash received from standby charges and other agencies	31,929	(17,265)	5,000
Cash paid to suppliers for goods and services	(35,044)	(25,745)	
Cash paid to employees and suppliers	(1,175,088)	(516,527)	(505,754)
Net cash provided by operating activities	<u>629,282</u>	<u>319,196</u>	<u>22,000</u>
Cash flows from noncapital financing activities:			
Net operating transfers	(41,587)	25,813	28,000
Net cash provided by (used in) noncapital financing activities	<u>(41,587)</u>	<u>25,813</u>	<u>28,000</u>
Cash flows from capital and related financing activities:			
Principal payments on interfund loan payable	(274,254)	(174,254)	
Principal payments on certificates of participation	(32,956)	(17,940)	
Interest payments on certificates of participation	(54,746)	(42,496)	
Principal payments on loans payable to Successor Agency Trust Fund		(140,000)	(50,000)
Acquisition of capital assets	(28,751)	(108,611)	
Net cash used in capital and related financing activities	<u>(390,707)</u>	<u>(483,301)</u>	<u>(50,000)</u>
Cash flows from investing activities:			
Interest on investments	720	17	
Net cash provided by investing activities	<u>720</u>	<u>17</u>	
Net increase in cash and investments	197,708	(138,275)	-
Cash and investments - beginning of year	<u>311,813</u>	<u>138,275</u>	
Cash and investments - end of year	<u>\$ 509,521</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these financial statements.

Transit	Total
\$ 117,958	\$ 3,264,421
	62,509
367,527	387,191
	(60,789)
(395,088)	(2,592,457)
90,397	1,060,875
(35,000)	(22,774)
(35,000)	(22,774)
	(448,508)
	(50,896)
	(97,242)
	(190,000)
	(137,362)
	(924,008)
50	787
50	787
55,447	114,880
164,659	614,747
\$ 220,106	\$ 729,627

City of Guadalupe
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014
Page 2

	<u>Water</u>	<u>Wastewater Treatment</u>	<u>Solid Waste</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 522,814	\$ (428,887)	\$ (18,659)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	163,999	443,379	
Accounts receivable	(22,642)	(17,265)	(7,502)
Prepaid expenses	(35,044)	(25,745)	
Accounts payable	1,486	345,728	48,161
Deposits payable	(2,345)		
Accrued wages and benefits	1,014	1,986	
Total adjustments	<u>106,468</u>	<u>748,083</u>	<u>40,659</u>
Net cash provided by operating activities	<u>\$ 629,282</u>	<u>\$ 319,196</u>	<u>\$ 22,000</u>

The notes to the financial statements are an integral part of these financial statements.

<u>Transit</u>	<u>Total</u>
<u>\$ (41,828)</u>	<u>\$ 33,440</u>
98,123	705,501
19,389	(28,020)
	(60,789)
14,713	410,088
	(2,345)
	<u>3,000</u>
<u>132,225</u>	<u>1,027,435</u>
<u><u>\$ 90,397</u></u>	<u><u>\$ 1,060,875</u></u>

City of Guadalupe
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private-Purpose Trust Fund	Agency Fund
Assets		
Cash and investments	\$ 757,712	\$ 160,000
Cash with fiscal agent	414,750	
Accounts receivable	118,994	
Loans receivable from City of Guadalupe	559,539	
Loans receivable	469,191	
Property held for resale	972,482	
Capital assets, net of accumulated depreciation	276,376	
Total assets	3,569,044	160,000
Liabilities		
Accounts payable	118,245	
Interest payable	113,000	
Amounts due to others		160,000
Long-term liabilities:		
Due within one year	147,693	
Due after one year	5,328,452	
Total liabilities	5,707,390	\$ 160,000
Net Position		
Held in trust for other governments	\$ (2,138,346)	

The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2014

	Private-Purpose Trust Fund
Additions:	
Property taxes	\$ 604,864
Other revenues	136,279
Total additions	741,143
 Deductions:	
Program expenses	128,253
Administrative expenses	95,008
Interest on long-term liabilities	270,155
Depreciation	9,900
Total deductions	503,316
Change in net position	237,827
 Net position - beginning of year	 (2,376,173)
 Net position - end of year	 \$ (2,138,346)

The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Notes to Financial Statements
June 30, 2014

Note 1: The Reporting Entity

The City of Guadalupe (the City) was incorporated on August 3, 1946. The City is a general law city under the laws of the State of California and operates under a Council-Administrator form of government. The City provides the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning and general administration. Enterprise funds, operated in a manner similar to a private business, include water, wastewater, solid waste, and transit.

The City has defined its reporting entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, amended by GASB Statements No. 39 and 61. These statements provide guidance for determining which organizations, functions and activities of a government should be included in the general purpose financial statements.

The criteria for inclusion in the basic financial statements are generally based upon the ability of the City to exercise oversight responsibility over such organizations, functions and activities. Oversight responsibility is generally defined as the existence of financial interdependency and/or the ability to appoint governing boards, to designate management, to significantly influence operations, to approve operating budgets or control day-to-day activities.

The accompanying financial statements include all activities and reporting entities over which the City exercises oversight responsibility. Effective January 31, 2012, the Community Redevelopment Agency of the City of Guadalupe (the Agency) was dissolved through the Supreme Court decision on Assembly Bill 1X26. This action impacted the reporting entity of the City that previously had reported the Agency as a blended component unit. See Note 14 for additional information on the dissolution and reporting of the Agency as a Private Purpose Trust Fund.

In determining the financial reporting entity for the City of Guadalupe, the following governmental unit has met the criteria for inclusion in the City's financial statements.

Guadalupe Public Financing Authority

The Guadalupe Public Financing Authority (the Authority) was established in 2000, and is a separate government entity under the laws of the State of California. The purpose of the Authority is to provide financing for the construction and acquisition of selected City facilities. The City Council of the City of Guadalupe and the Board of Directors of the Authority are legally separate boards; however, they share a common membership. Activities of the Authority are accounted for in the applicable City governmental or enterprise funds. Separate financial statements are not prepared for the Authority, as it is included in the accompanying financial statements as a blended component unit.

Other Governmental Agencies

Other governmental agencies provide various levels of services to residents of the City, either entirely or partially. The entities include, but are not limited to, the State of California, the County of Santa Barbara, as well as several school

Note 1: The Reporting Entity (Continued)

districts. Each of these agencies has an independently elected governing board or is dependent on an independently elected governing board other than the City Council of the City of Guadalupe.

The City has no ability to appoint or control the management of any of these entities and is not responsible for any operating losses or debts incurred. As a result of the above analysis, financial information for these agencies is not included within the scope of this report.

Note 2: Summary of Significant Accounting Policies

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applied to governmental agencies. The following summary of the City's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The GASB is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the primary government and its blended component units. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note 2: Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Major Funds

GASB Statement No. 34 defines major funds and requires that the City's major governmental funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund type.

Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures/expenses equal to ten percent of their fund-type 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 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 Fund: This fund accounted for the activities associated with providing housing and economic opportunities.

CDBG American Legion Retrofit Fund: This fund accounted for the activities associated with the earthquake retrofit of the American Legion Hall.

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

Water Fund: This enterprise fund accounts for the operation of the City's water utility, a self-supporting activity, which renders a service on a user charge basis to residents and businesses.

Wastewater Treatment Fund: This enterprise fund accounts for the operations of the City's wastewater treatment plant. The fund accounts for the operation of the City's sewer utility, a self-supporting activity, which renders a service on a user charge basis to residents and businesses.

Solid Waste Fund: This enterprise fund accounts for the operations of the City's solid waste collection and disposal services, a self-supporting activity, which renders service on a user charge basis to residents and businesses.

Note 2: Summary of Significant Accounting Policies (Continued)

Transit Fund: This enterprise fund accounts for the operations of the City's transit service within the City and surrounding areas.

Basis of Accounting

The government-wide and proprietary 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 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.

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, revenues from property taxes are 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 grant resources to such programs, followed by general revenues if necessary.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 enterprise funds are charges to customers for sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2: Summary of Significant Accounting Policies (Continued)

Fiduciary funds include a private purpose trust fund and an agency fund. The private purpose trust fund accounts for the assets and liabilities of the former Redevelopment Agency. The agency fund is used to account for funds held by the City for specified purpose that do not belong to the City. The fiduciary funds are accounted for on the accrual basis of accounting.

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. After adoption of the final budget, transfers of appropriations within a General Fund department, or within other funds, can be made by the City Administrator. Budget modifications between funds and increases or decreases to a fund's overall budget, must be approved by the City Council. Numerous properly authorized amendments were made during the fiscal year.

Budgetary control is enhanced by integrating the budget into the general ledger accounts. Encumbrance accounting is employed (e.g., purchase orders) to avoid expenditures over budget. Encumbrances outstanding at fiscal year-end are automatically re-budgeted in the following fiscal year.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The proprietary funds' "deposits" in the City-wide cash management pool are, in substance, demand deposits and are, therefore, considered cash equivalents for purposes of the statement of cash flows.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

All trade and property tax receivables are shown net of any allowance for uncollectible accounts. The allowance for uncollectible accounts was \$18,924 as of June 30, 2014.

Property Taxes

California Constitution Article XIII A limits the combined property tax rate to one percent of a property's assessed valuation. Additional taxes may be imposed with voter approval. Assessed value is calculated at one hundred percent

Note 2: Summary of Significant Accounting Policies (Continued)

of a property’s fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless a change in ownership occurs. The state legislature has determined the method of distributing the one percent tax levy among the various taxing jurisdictions.

Property tax revenues are recognized in the fiscal year for which taxes have been levied, and collected within sixty days of fiscal year-end. Property tax assessment and collection is administered by the County of Santa Barbara. Property taxes are billed and collected as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/Lien Date(s)	January 1	January 1
Levy Date(s)	September 1	January 1
Due Date(s)	November 1 (50%) February 1 (50%)	Upon Billing
Delinquency Date(s)	December 10 (Nov.) April 10 (Feb.)	August 31

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City’s policy is to capitalize all capital assets with costs exceeding certain minimum of \$2,500 and with useful lives exceeding one year.

With the implementation of GASB Statement No. 34, the City has recorded all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each fiscal year represents that fiscal year’s pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each fiscal year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Buildings and improvements	20-50 years
Vehicles	5-10 years
Equipment	5-15 years
Infrastructure	10-50 years

Note 2: Summary of Significant Accounting Policies (Continued)

Compensated Absences

In compliance with GASB Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental funds, the current liability appears in the respective funds. All vacation paid is accrued when incurred in the government-wide and proprietary funds financial statements. This liability is set up for the current employees at the current rates of pay. If sick leave and vacation are not used by the employee during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Each fiscal year, an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

Net Position

GASB Statement No. 34, amended by GASB Statement No. 63, adds the concept of net position, which is measured on the full accrual basis, to the concept of fund balance, which is measured on the modified accrual basis.

Net position is the excess of all the City's assets plus deferred outflows of resources, over all its liabilities and deferred inflows of resources. Net position is divided into three captions under GASB Statement No. 34, amended by GASB Statement No. 63. These captions apply only to net position, which is determined only at the government-wide level, and are described below:

Net investment in capital assets: Describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted net position: Describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and debt service requirements.

Unrestricted net position: Describes the portion of net position which is not restricted to use.

Fund Equity

The City's fund financial statements report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, identifies five components of fund balance – nonspendable, restricted, committed, assigned, and unassigned.

Note 2: Summary of Significant Accounting Policies (Continued)

Nonspendable: This component consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed: This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority which includes the City Municipal Code, Ordinances and Resolutions. Those committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (City Municipal Code, Ordinance and Resolution) it employed previously to commit those amounts.

Assigned: This component consists of amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions.

Unassigned: This component consists of amounts that have not been restricted, committed or assigned to specific purposes.

Fund Balance Spending Policy

The City has formally adopted a spending policy regarding the order in which restricted, committed, assigned, and unassigned fund balances are spent when more than one amount is available for a specific purpose. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the City's policy to use committed resources first, then assigned, and then unassigned as they are needed.

Note 2: Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, 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.

Note 3: Cash and Investments

At June 30, 2014, cash and investments consisted of the following:

Deposits:		
Cash in bank	\$	1,953,152
Pooled investment funds:		
Cash in Local Agency Investment Fund (LAIF)		<u>303,961</u>
Total	\$	<u><u>2,257,113</u></u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk in addition to the California Government Code collateral requirements. All deposits held by financial institutions are fully insured or collateralized with securities, held by the pledging financial institutions’ trust departments in the City’s name.

Investment Policy

Cash balances from all funds are combined and invested to the extent possible, pursuant to the City Council approved Investment Policy and Guidelines, and State Government Code. The earnings from these investments are allocated monthly to each fund, based on an average of monthly opening and closing balances of cash and investments. Investments are stated at fair value.

Note 3: Cash and Investments (Continued)

Local Agency Investment Fund (LAIF)

The City maintained investments with the State of California Local Agency Investment Fund (LAIF). The LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of the LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. State statutes, bond resolutions, and LAIF investment policy resolutions allow investments in United States government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds and other investments. The LAIF's report discloses the required information in accordance with GASB Statements No. 3 and 40. Pooled investments are not required to be categorized by risk category.

Interest Rate Risk

The City's formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City's investments in the LAIF represented 15.1% of total cash and investments.

Note 4: Loans Receivable

The City has made various loans under Community Development Block Grants to qualified homeowners and businesses. Under the terms of the agreements, repayments of the loans are only required upon the sale of the home or business. The outstanding balance of the loans receivable was \$69,051 at June 30, 2014.

City of Guadalupe
Notes to Financial Statements
June 30, 2014
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Note 4: Loans Receivable (Continued)

At June 30, 2014, the aggregate maturities of loans receivable were as follows:

<u>For the Year Ending June 30,</u>	
2015	\$ 13,488
2016	13,488
2017	8,648
2018	4,300
2019	<u>29,127</u>
Total	<u>\$ 69,051</u>

Note 5: Capital Assets

For the year ended June 30, 2014, governmental activities capital assets activity was as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and</u> <u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 343,131	\$	\$	\$ 343,131
Construction in progress	<u>73,622</u>		<u>(73,622)</u>	<u>-</u>
Total capital assets not being depreciated	<u>416,753</u>		<u>(73,622)</u>	<u>343,131</u>
Capital assets being depreciated:				
Buildings and improvements	5,197,860			5,197,860
Vehicles	868,854	21,636		890,490
Equipment	603,858	8,024		611,882
Infrastructure	<u>6,868,367</u>	<u>88,384</u>	<u>30,501</u>	<u>6,987,252</u>
Total capital assets being depreciated	<u>13,538,939</u>	<u>118,044</u>	<u>30,501</u>	<u>13,687,484</u>
Less accumulated depreciation for:				
Buildings and improvements	931,022	142,284		1,073,306
Vehicles	836,410	29,953		866,363
Equipment	572,266	15,286		587,552
Infrastructure	<u>1,494,646</u>	<u>327,856</u>		<u>1,822,502</u>
Total accumulated depreciation	<u>3,834,344</u>	<u>515,379</u>		<u>4,349,723</u>
Total capital assets being depreciated, net	<u>9,704,595</u>	<u>(397,335)</u>	<u>30,501</u>	<u>9,337,761</u>
Governmental activities capital assets, net	<u>\$ 10,121,348</u>	<u>\$ (397,335)</u>	<u>\$ (43,121)</u>	<u>\$ 9,680,892</u>

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Note 5: Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:	
Public safety	\$ 36,770
Leisure, cultural & social services	36,137
Community development	412,814
General government	<u>29,658</u>
Total governmental activities depreciation expense	<u><u>\$ 515,379</u></u>

Governmental activities capital assets include assets under capital leases. Assets under capital leases included in vehicles was \$72,204 with related accumulated depreciation of \$67,390 as of June 30, 2014.

For the year ended June 30, 2014, business-type capital assets activity was as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and</u> <u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 194,995	\$	\$	\$ 194,995
Construction in progress		<u>67,115</u>		<u>67,115</u>
Total capital assets not being depreciated	<u>194,995</u>	<u>67,115</u>		<u>262,110</u>
Capital assets being depreciated:				
Buildings and improvements	9,463,917			9,463,917
Vehicles	1,003,725			1,003,725
Equipment	436,816	39,714		476,530
Infrastructure	6,949,655	30,533		6,980,188
Total capital assets being depreciated	<u>17,854,113</u>	<u>70,247</u>		<u>17,924,360</u>
Less accumulated depreciation for:				
Buildings, infrastructure and improvements	5,707,796	608,495		6,316,291
Vehicles	554,468	93,688		648,156
Equipment	432,941	3,318		436,259
Infrastructure	1,119,547			1,119,547
Total accumulated depreciation	<u>7,814,752</u>	<u>705,501</u>		<u>8,520,253</u>
Total capital assets being depreciated, net	<u>10,039,361</u>	<u>(635,254)</u>		<u>9,404,107</u>
Business-type activities capital assets, net	<u><u>\$ 10,234,356</u></u>	<u><u>\$ (568,139)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,666,217</u></u>

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Note 5: Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 163,999
Waste water	443,379
Transit	<u>98,123</u>
 Total business-type activities depreciation expense	 <u><u>\$ 705,501</u></u>

Note 6: Long-Term Liabilities

For the year ended June 30, 2014, governmental activities long-term liabilities activity was as follows:

	Balance			Balance	Due Within
	June 30, 2013	Additions	Deductions	June 30, 2014	One Year
Sewer bonds	\$ 87,000	\$	\$ 13,000	\$ 74,000	\$ 13,000
OPEB	117,763	43,203		160,966	
Compensated absences	200,099	12,863		212,962	192,130
Insurance claim payable	179,599			179,599	16,605
Capital leases payable	<u>15,525</u>		<u>15,525</u>	<u>-</u>	
 Total	 <u><u>\$ 599,986</u></u>	 <u><u>\$ 56,066</u></u>	 <u><u>\$ 28,525</u></u>	 <u><u>\$ 627,527</u></u>	 <u><u>\$ 221,735</u></u>

Compensated absences in the governmental funds are generally liquidated by the General Fund on a pay as you go basis. Total interest incurred during the year ended June 30, 2014 was \$5,328. See Note 12 for detail of insurance claim payable.

Sewer Bonds

Principal payments on the 1971 Sewer Bonds Series B and the 1978 Sewer Bonds are due on April 1st each year with interest due semi-annually at 5% per annum. The bonds mature in April 2019. These payments are being made to the Farmers Home Administration, the purchaser of the bonds. At June 30, 2014, the principal balance outstanding was \$74,000.

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Note 6: Long-Term Liabilities (Continued)

At June 30, 2014, the aggregate maturities of the sewer bonds were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2015	\$ 13,000	\$ 3,100	\$ 16,100
2016	14,000	2,400	16,400
2017	15,000	1,650	16,650
2018	16,000	850	16,850
2019	16,000	100	16,100
Total	\$ 74,000	\$ 8,100	\$ 82,100

For the year ended June 30, 2014, business-type activities long-term liabilities activity was as follows:

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year
Certificates of participation	\$ 2,245,537	\$	\$ 50,896	\$ 2,194,641	\$ 53,047
Loans payable to Successor Agency Trust Fund	749,539		190,000	559,539	200,000
Insurance claim payable	79,775			79,775	7,460
Total	\$ 3,074,851	\$ -	\$ 240,896	\$ 2,833,955	\$ 260,507

Total interest incurred for business-type activities during the year ended June 30, 2014 was \$94,017. See Note 12 for detail of insurance claim payable.

Certificates of Participation

On December 21, 2000, the City issued certificates of participation through the Guadalupe Financing Authority which were purchased by the US Department of Agriculture (USDA) Rural Utilities Service (RUS), amounting to \$1,429,800, in an agreement which included a grant of \$875,200 for water and sewer line replacement. Under the terms of the agreement, the City has pledged tax increment revenues for the payment of debt service. Where tax increment revenues are no longer available for the payment of debt service, the City has pledged net water revenues for the payment of debt service. The certificates of participation bear interest at 4.5% per annum, with principal and interest payments due semiannually through August 1, 2041. At June 30, 2014, the principal balance outstanding was \$1,184,240.

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Note 6: Long-Term Liabilities (Continued)

At June 30, 2014, the aggregate maturities of the certificates of participation were as follows:

For the Year			
Ending June 30,	Principal	Interest	Total
2015	\$ 24,000	\$ 53,546	\$ 77,546
2016	25,000	52,456	77,456
2017	26,000	51,297	77,297
2018	28,000	50,094	78,094
2019	28,000	48,822	76,822
2020-2024	163,000	223,372	386,372
2025-2029	205,000	182,331	387,331
2030-2034	257,000	130,571	387,571
2035-2039	318,000	66,205	384,205
2040-2042	110,240	5,074	115,314
Total	<u>\$ 1,184,240</u>	<u>\$ 863,768</u>	<u>\$ 2,048,008</u>

On July 27, 2005, the City issued certificates of participation which were purchased by the US Department of Agriculture (USDA) Rural Utilities Service (RUS), amounting to \$1,203,900, in an agreement which included a grant for water tank construction and upgrades. Under the terms of the agreement, the City has pledged tax increment revenues for the payment of debt service. Where tax increment revenues are no longer available for the payment of debt service, the City has pledged net water revenues for the payment of debt service. The certificates of participation bear interest at 4.125% per annum, with principal and interest payments due semiannually through July 28, 2035. At June 30, 2014, the principal balance outstanding was \$1,010,401.

At June 30, 2014, the aggregate maturities of the certificates of participation were as follows:

For the Year			
Ending June 30,	Principal	Interest	Total
2015	\$ 29,047	\$ 42,432	\$ 71,479
2016	30,245	41,211	71,456
2017	31,492	39,939	71,431
2018	32,792	38,615	71,407
2019	34,144	37,237	71,381
2020-2024	193,047	163,430	356,477
2025-2029	236,286	119,365	355,651
2030-2034	289,212	65,429	354,641
2035-2036	134,136	8,449	142,585
Total	<u>\$ 1,010,401</u>	<u>\$ 556,107</u>	<u>\$ 1,566,508</u>

Note 6: Long-Term Liabilities (Continued)

Loans Payable to Successor Agency Trust Fund

In August 2006, the 2003 Bond Refinance Fund of the former Redevelopment Agency made a loan to the Wastewater Treatment Fund in the amount of \$1,011,901 for purposes of construction of the Wastewater Treatment Plant. The loan bears no interest and payments are due annually through June 30, 2017. Due to the dissolution of the Redevelopment Agency on February 1, 2012, this loan is payable now to the Successor Agency Trust Fund, a fiduciary fund of the City. The outstanding balance of the loan as of June 30, 2014 was \$456,910.

In June 2002, the Affordable Housing Fund of the former Redevelopment Agency made a loan to the Solid Waste Fund in the amount of \$167,629 for purposes of eliminating the deficit in the Solid Waste Fund. The loan bears no interest and payments are due annually through June 30, 2016. Due to the dissolution of the Redevelopment Agency on February 1, 2012, this loan is payable now to the Successor Agency Trust Fund, a fiduciary fund of the City. The outstanding balance of the loan as of June 30, 2014 was \$102,629.

At June 30, 2014, the aggregate maturities of the loans payable to the successor agency trust fund were as follows:

For the Year Ending June 30,	Wastewater Fund	Solid Waste Fund	Total
2015	\$ 150,000	\$ 50,000	\$ 200,000
2016	150,000	52,629	202,629
2017	156,910		156,910
Total	<u>\$ 456,910</u>	<u>\$ 102,629</u>	<u>\$ 559,539</u>

Note 7: Other Post-Employment Benefits

Plan Description

The City's other post-employment benefits (OPEB) cost obligation is for retiree health benefits under its election to participate in the California Public Employees' Retirement System (PERS) Health Benefit Program, an agent multiple-employer defined benefit OPEB plan. The City entered the PERS medical insurance program in 1990 under the Public Employees' Medical and Hospital Care Act (PEMHCA). The required employer contribution was \$119 per month in 2014.

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Note 7: Other Post-Employment Benefits (Continued)

The City provides post-employment health care insurance to all employees who retire from the City on or after attaining age 50 with at least 5 years of PERS credited service. For employees first covered under PERS on or after January 1, 2013, the eligibility requirement is the later of age 52 and 5 years of PERS credited service. Currently, four retirees meet those eligibility requirements.

Funding Policy

The contribution requirements of the plan members and the City are established and may be amended by the City. The City's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The City's ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The ARC for the fiscal year 2013-2014 was \$49,013. For the fiscal year 2013-2014, the City contributed \$5,810 to the Plan which represented the City's contributions to the Plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the City's annual OPEB cost, the actual amount contributed to the plan, and changes in the City's OPEB obligation:

Annual Required Contributions	\$ 49,013
Interest on Net OPEB obligation	-
Adjustment to Annual Required Contributions	-
Annual OPEB Cost	<u>49,013</u>
Contributions made	<u>(5,810)</u>
Change in net OPEB obligation	43,203
Net OPEB obligation - beginning of year	<u>117,763</u>
Net OPEB obligation - end of year	<u><u>\$ 160,966</u></u>

Note 7: Other Post-Employment Benefits (Continued)

The City Retiree Medical annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30 2014 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 49,013	\$ 5,810	11.9%	\$ 43,203

Funded Status and Funding Progress

The funded status of the plan of July 1, 2013, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 268,068
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 268,068
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 1,853,700
UAAL as a percentage of covered payroll	14.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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Note 7: Other Post-Employment Benefits (Continued)

In the July 1, 2013 actuarial valuation, the projected unit cost actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return. The initial health care cost trend rates were 5.0 to 8.0%. The method of determining the actuarial value of assets is not applicable as the plan has no assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years on an open basis. The remaining amortization period at June 30, 2014 was 30 years.

Note 8: City Employees' Retirement Benefits

Public Employees Retirement System

Plan Description

The City contributes to the 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 is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS) which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statutes with the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

The City contributes the employee and employer shares for the Miscellaneous Plan and the Safety Plan. 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 years ended June 30, 2014, 2013, and 2012 were 12.866%, 11.729, and 11.179 percent for miscellaneous employees, respectively, and 13.456%, 13.688% and 13.620%, respectively, for safety employees. The contribution requirements of the plan members are established by the State statute and the employer contribution rate is established and may be amended by CalPERS. The City's contributions to CalPERS for the years ended June 30, 2014, 2013, and 2012 were \$367,547, \$332,852, and \$329,686, respectively, and were equal to 100% of the City's annual required contributions.

Deferred Compensation Plan

The City offers its employees an optional deferred compensation plan with an administrator, The Hartford, created in accordance with Internal Revenue Code Section 457. Amounts so deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating undue financial hardship for the employee.

Note 9: Interfund Transactions

Interfund Receivables and Payables (Due to/Due From)

Interfund receivables and payables include temporary negative cash balances that result from the timing of cash flows at year end and the time lag between the dates that transactions are recorded in the accounting system and payment between funds are made. Liquidation of interfund receivables and payables typically occurs in the first quarter of the subsequent fiscal year. Interfund balances between governmental funds are not included in the government-wide statement of net position. At June 30, 2014, there were no interfund receivables and payables.

Interfund Transfers

Interfund transfers are used to move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due and to move unrestricted fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as matching funds for various grant programs.

For the year ended June 30, 2014, interfund transfers were as follows:

Transfer from Other Governmental Funds to the General Fund	\$ 200,000
Transfer from the Water Fund to the General Fund	208,700
Transfer from the Wastewater Treatment Fund to the General Fund	156,300
Transfer from the Transit Fund to the General Fund	35,000
Transfer from the General Fund to Other Governmental Funds	150,409
Transfer from the Public Facilities Fund to the Wastewater Treatment Fund	15,000
Transfer from the Community Development Fund to the Water Fund	167,113
Transfer from the Community Development Fund to the Wastewater Treatment	167,113
Transfer from Other Governmental Funds to Solid Waste Fund	28,000
Transfer between Other Governmental Funds	<u>69,017</u>
Total	<u><u>\$ 1,196,652</u></u>

Note 10: Revenue Limitations Imposed By California Proposition 218

Proposition 218, which was approved by voters in November 1996, regulates the City’s ability to impose, increase and extend taxes, assessments, and fees. Any new, increase, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters. Therefore, the City’s ability to finance the services for which the taxes, assessments, and fees were imposed may be significantly impaired.

Note 11: Excess of Expenditures over Appropriations

At June 30, 2014, expenditures exceeded appropriations in individual major funds as follows:

	<u>Excess Expenditures</u>
General Fund:	
Administration	\$ 63,874
Finance and city treasurer	30,580
Building inspections and maintenance	680
Fire	589
Parks and recreation	11,742
CDBG American Legion Retrofit Fund:	
Maintenance and operations	413,905

Note 12: Joint Ventures (Joint Power Agreements)

The City of Guadalupe participates in two joint ventures under joint powers agreements.

Central Coast Water Authority

The Central Coast Water Authority (CCWA) is a joint powers authority organized in 1991 for the purpose of providing the financing, construction, operation and maintenance of certain local (non-state owned) facilities required to deliver water from the State Water Project to certain water purveyors and users in Santa Barbara County. CCWA is composed of eight members, all of which are public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned between the entities based upon each entity’s pro-rata share of the water provided by the project.

Note 12: Joint Ventures (Joint Power Agreements) (Continued)

Each participant is required to pay to CCWA an amount equal to its share of the total cost of “fixed project costs” and certain other costs in the proportion established in the Water Supply Agreement. This includes the participant’s share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs. Each participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. State water payments were \$750,014 for the year ended June 30, 2014. The City’s allocation of CCWA’s operating expenses for the year ended June 30, 2014 was \$109,523.

In November 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA’s \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000.

Additional information and complete financial statements for the CCWA may be obtained by contacting The Central Coast Water Authority at 255 Industrial Way, Buellton, CA 93427.

California Joint Powers Insurance Authority

The City is a member of the California Joint Powers Insurance Authority (CJPIA). CJPIA is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of CJPIA 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 coverages. The CJPIA’s pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Self-Insurance Program of CJPIA:

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Note 12: Joint Ventures (Joint Power Agreements) (Continued)

Liability: In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of the other members. A variable credibility factor is determined for each member, which established the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from the \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. The \$2.5 million annual aggregate deductible is fully covered under a separate policy; as no such portion of it is retained by CJPIA. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. The \$3.0 million annual aggregate deductible is fully retained by CJPIA. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$25 million per occurrence. This \$25 million subsidence sub-limit is composed of (a) \$5 million retained with the pool's SIR, (b) \$10 million in reinsurance and (c) \$10 million in excess insurance. The excess insurance layer has a \$10 million annual aggregate.

Workers' Compensation: The City also participates in the worker's compensation pool administered by CJIPA. In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of the other members. A variable credibility factor is determined for each member, which established the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Note 12: Joint Ventures (Joint Power Agreements) (Continued)

Employer’s Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer’s Liability losses from \$5 million to \$10 million are pooled among members.

Purchased Insurance under CJPIA:

Property Insurance: The City participates in the all-risk property protection program of CJPIA. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to CJPIA. City property currently has all-risk property insurance protection in the amount of \$12,785,885. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Adequacy of Protection under CJPIA:

During the past three fiscal years, the above programs of protection have had no settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage in 2013-14.

Insurance Claim Payable:

During 2013, the Authority assessed a retrospective claims liability balance to pool members. The City’s share of the liability was \$259,374 at June 30, 2013 and was recorded in accounts payable in the applicable funds. As the repayment of the liability is long-term, the balances due have been reclassified to a long term liability in the business-type activities. The long term liability applicable to governmental type activities have been recorded as a governmental long term liability and have been removed from the governmental funds accounts payable in accordance with the modified accrual basis of accounting. See the effects of this prior year restatement in Note 17. At June 30, 2014, the aggregate future maturities of the insurance claim payable were as follows:

For the Year			
Ending June 30,	Governmental	Business-Type	Total
2015	\$ 16,605	\$ 7,460	\$ 24,065
2016	29,933	13,296	43,229
2017	29,933	13,296	43,229
2018	29,933	13,296	43,229
2019	29,933	13,296	43,229
Thereafter	43,262	19,131	62,393
Total	<u>\$ 179,599</u>	<u>\$ 79,775</u>	<u>\$ 259,374</u>

Separate financial statements are available from the CJPIA at 8081 Moody Street, La Palma, CA 90623.

Note 13: Fund Balance and Net Position Deficiencies

At June 30, 2014, the City had ending fund and net deficiencies as follows:

General Fund	\$	301,037
CDBG American Legion Retrofit Fund	\$	75,752
Proposition 84 Fund	\$	38,605
Solid Waste Fund	\$	230,749

The City intends to address the ending fund deficiencies and net deficiency with cost reductions, furloughs, solid waste rate increases and new revenue sources. See information about going concern at Note 18.

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Guadalupe that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the City of another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-08.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure of encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency of the Bill.

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is a considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency were transferred to and are reported in a fiduciary fund (private-purpose trust fund, the Trust Fund) in the financial statements of the City.

Cash and Investments

The City maintained investments with the State of California Local Agency Investment Fund (LAIF) for all City activities, including the Trust Fund. The Trust had \$757,712 in cash and investments as of June 30, 2014, that was held in LAIF. The City manages the Trust Fund's cash and investments in a consistent manner as the rest of its cash and investment pool. Refer to Note 3 for additional information regarding LAIF.

Cash with Fiscal Agent

The Trust Fund had \$414,750 in cash and investments as of June 30, 2014, held by fiscal agents pledged for the payment or security of certain bonds. The California Government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Trust's general investment policy. In no instance have additional types of investments, not permitted by the Trust's general investment policy, been authorized.

Loans Receivable from City of Guadalupe

The Trust Fund had \$559,539 in loans receivable due from the City as of June 30, 2014. Refer to Note 6 for additional information on the terms and the aggregate maturities of the loans receivable as of June 30, 2014.

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

Loans Receivable

During 2007, the former redevelopment agency made a loan to a nonprofit organization for land purchase and low income housing construction within the City's project area. Under terms of the agreement, repayment on the loan will begin upon completion of the project. At June 30, 2014, there has been no activity on the project. The balance on the loan was \$450,000 at June 30, 2014.

The former redevelopment agency has made various loans to businesses in the City's project area. The loans' interest rates are 0%, with maturities through May 2018. The balance on the loans was \$19,191 at June 30, 2014.

At June 30, 2014, the aggregate maturities of loans receivable were as follows:

<u>For the Year Ending June 30,</u>	
2015	\$ 4,900
2016	4,900
2017	4,900
2018	4,491
2019	-
Thereafter	<u>450,000</u>
Total	<u>\$ 469,191</u>

Capital Assets

For the year ended June 30, 2014, capital assets activity was as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Transfers/</u> <u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Construction in progress	\$ 73,416	\$	\$	\$ 73,416
Capital assets being depreciated:				
Infrastructure	201,197			201,197
Structures and improvements	83,333			83,333
Less accumulated depreciation	<u>(71,670)</u>	<u>(9,900)</u>		<u>(81,570)</u>
Net capital assets	<u>\$ 286,276</u>	<u>\$ (9,900)</u>	<u>\$</u>	<u>\$ 276,376</u>

City of Guadalupe
Notes to Financial Statements
June 30, 2014
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Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

Long-term Liabilities

For the year ended June 30, 2014, long-term liabilities activity was as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Note payable	\$ 25,599	\$	\$ 4,454	\$ 21,145	\$ 2,693
Tax allocation bonds	5,595,000		140,000	5,455,000	145,000
Total	<u>\$ 5,620,599</u>	<u>\$ -</u>	<u>\$ 144,454</u>	<u>\$ 5,476,145</u>	<u>\$ 147,693</u>

Note Payable

The Trust Fund had a note payable to a private party related to the purchase of property currently held for resale. Principal and interest payments on the note payable are due on the 16th of each month and the note matures June 2020. Interest accrues at 9.0% per annum. At June 30, 2014, the principal balance outstanding was \$21,145.

At June 30, 2014, the aggregate maturities of the note payable were as follows:

<u>For the Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,693	\$ 2,166	\$ 4,859
2016	2,945	1,913	4,858
2017	3,222	1,637	4,859
2018	3,524	1,335	4,859
2019	3,854	1,004	4,858
2020	4,907	892	5,799
Total	<u>\$ 21,145</u>	<u>\$ 8,947</u>	<u>\$ 30,092</u>

Tax Allocation Bonds

On April 3, 2003, the former redevelopment agency issued \$6,455,000 of tax allocation bonds for a current refunding of Series 1997 Tax Allocation Bonds. The refunding was undertaken to reduce total future debt service payments. The former redevelopment agency determined that there was an economic gain on the refunding; however, the amount was not material. The bonds mature through August 1, 2035, with interest rates from 2.0 to 5.125%. At June 30, 2014, the principal balance outstanding was \$5,455,000.

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

For the year ended June 30, 2014, the aggregate maturities of the tax allocation bonds were as follows:

<u>For the Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 145,000	\$ 266,847	\$ 411,847
2016	150,000	261,352	411,352
2017	155,000	255,556	410,556
2018	165,000	249,355	414,355
2019	170,000	242,738	412,738
2020-2024	980,000	1,076,763	2,056,763
2025-2029	1,270,000	789,246	2,059,246
2030-2034	1,645,000	418,325	2,063,325
2035-2039	775,000	435,103	1,210,103
Total	<u>\$ 5,455,000</u>	<u>\$ 3,995,285</u>	<u>\$ 9,450,285</u>

Pollution Remediation

The Trust owns property designated by the Santa Barbara County Fire Department as a Leaking Underground Fuel Tank (LUFT Site #52010). The former redevelopment agency was accepted into the State of California Underground Storage Tank Cleanup Fund (USTCF), which approved a total Letter of Commitment (LOC) in the amount of \$1.5 million to subsidize the cleanup costs required by the Trust Fund.

In fiscal year 2008-09 through 2012-13, the former redevelopment agency expended a total of \$205,713 towards the cleanup costs. Clean up costs incurred but not paid in 2013-14 total \$118,177 and are included in accounts payable of the Trust Fund. Payments for tasks performed are due within six months of invoice date or upon receipt of USTCF claim reimbursement.

Tasks associated with the cleanup costs in 2013-14 included management and consulting, budgetary analysis, remediation services, corrective action plan, semi-annual monitoring, regulatory technical assistance, waste profiling and removal services, and installation, startup and operation of ozone sparge remediation system.

Tasks associated with these cleanup costs will include operation and maintenance of the remediation system and semi-annual monitoring. Estimated future costs beyond June 30, 2014 are expected to be approximately \$75,000 to \$150,000 and include the continuation of active remediation. The Trust Fund will continue to request reimbursement from the USTCF for all costs incurred in full for a total cleanup cost of approximately \$500,000 to \$600,000.

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

The estimated future liability was calculated with the following assumptions: use of a Rate Schedule approved by the USTCF and time factors for tasks to be performed. Cost estimates are based on the tasks expected to be implemented in Phase I and Phase II under the contract. Cost guidelines from USTCF are part of the current contract with DMI-EMK Environmental Services. Unforeseen costs resulting from contamination have not been factored in and could increase the estimate.

Note 15: Operating Leases

The City leases equipment under operating leases with lease terms in excess of one year. The agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors but it is unlikely that the City will cancel the agreements prior to the expiration date. Rent expense under operating leases was \$15,628 for the year ended June 30, 2014.

At June 30, 2014, future minimum lease payments under these operating leases were as follows:

<u>For the Year Ending June 30,</u>	
2015	\$ 14,183
2016	8,314
2017	5,379
2018	5,379
2019	<u>3,138</u>
Total	<u>\$ 36,393</u>

Note 16: Contingencies and Commitments

Contingent Liabilities

As of June 30, 2014, the City has accrued an estimated payroll tax liability with related interest and penalties of \$60,000 for 2006 payroll taxes that were underpaid. This was a result of duplicate documentation filed with the IRS incorrectly. The City is working with the IRS to resolve the outstanding payroll tax liability including the abatement of interest and penalties, and has not determined if there is any affect with any other taxing authority.

According to the City's attorney, no lawsuits are pending of any significant financial consequence.

Note 16: Contingencies and Commitments (Continued)

Grant Commitments

The City had received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

Note 17: Prior Year Restatements

During 2013, the City's pooled self-insurance fund assessed a retrospective claims liability balance to pool members. The City's share of the liability was \$259,374 at June 30, 2013 and was recorded in accounts payable in the applicable funds. As the repayment of the liability will not begin until July 1, 2016, the balances due have been reclassified to a long term liability in the business-type activities. The long term liability applicable to governmental type activities have been recorded as a governmental long term liability and have been removed from the governmental funds accounts payable in accordance with the modified accrual basis of accounting. The effect of this prior year restatement in the governmental funds was to decrease accounts payable and increase fund balance in the General Fund and Other Governmental Funds by \$22,565 and \$62,291, respectively. The effect of this prior year restatement was to decrease accounts payable and increase net position by \$27,346 and \$24,846 in the Water Fund and Wastewater Fund, respectively, and to increase insurance claim payable and decrease net position by \$43,378 and \$36,397, in the Water Fund and Wastewater Fund, respectively.

During 2014, the City determined that the 2000 certificates of participation should be accounted for in the Enterprise Funds to appropriately match to the debt service requirements under the terms of the agreement. A prior year restatement was recorded to move the principal balance outstanding as of June 30, 2013 out of governmental activities net position and into the business-type activities Enterprise Funds. The effect of this prior year restatement was to increase governmental activities beginning net position by \$1,207,240 and decrease the net position in the Water Fund and Wastewater Treatment Fund by \$265,593 and \$941,647, respectively.

During 2014, the City recorded the annual net OPEB obligation related to prior years that had previously not been calculated as the City had not obtained an actuary report until July 1, 2013. A prior year restatement was recorded to establish the beginning balance of the net OPEB obligation by increasing the Net OPEB Obligation and decreasing governmental activities beginning net position by \$117,763.

During 2014, the City discovered a mathematical calculation error related to compensated absences that resulted in the government-wide liability being overstated at June 30, 2013. A prior year restatement was recorded to increase beginning government-wide net position and decrease the beginning balance of compensated absence liability by \$187,913.

Note 18: Going Concern

In prior fiscal years, the City's focus was on decreasing costs. That included headcount reductions in 2009-10 and 2012-13. In 2013-14, that trend continued when a retiring full-time Account Clerk in Finance was replaced by a part-time Account Clerk. The City also held open the part-time Community Services Technician position in Police when the incumbent resigned. In 2013-14, the City began to focus on increasing revenue. In September 2013, City Council adopted a new Fee for Service schedule to make sure the City fees cover all direct and indirect costs. More importantly, in May 2014, City Council placed three General Fund tax measures on the November 2014 general election ballot to address the structural General Fund deficit.

The three measures were as follows:

- 1.) A measure to eliminate the \$2,250 Utility Users Tax cap. It is estimated that doing so will result in \$100,000 of additional General Fund revenue annually.
- 2.) A measure to convert the City's Business License fees to a Gross Receipts Tax. It is estimated that doing so will result in \$50,000 of additional General Fund revenue annually.
- 3.) A measure to adopt a local Sales Tax add-on of 0.25%. It is estimated that doing so will result in \$62,500 of additional General Fund revenue annually.

The adopted 2014-15 budget was approved with the understanding that the three tax measures would help eliminate future General Fund deficits, but would not do so immediately due to timing issues. The elimination of the Utility User Tax cap would not take effect until December 19, 2014. The Gross Receipts tax would not take effect until the end of 2014-15 since the billing to businesses is sent out annually in May. The local Sales Tax add-on would not take effect until April 1, 2015 and revenue would not be received from the Board of Equalization until July of 2015. In November 2014 all three tax measures were passed by the voters.

In 2014-15 the City has continued cost-cutting measures. That has included a temporary 5% cut in pay and benefits for all employees. It has also included negotiating on-going reductions in telephone, IT, landscaping, and janitorial costs. Finally, it has included holding open a full-time Records Technician position in Police when the incumbent resigned.

Note 19: Subsequent Event

Events subsequent to June 30, 2014, have been evaluated through April 28, 2015, which is the date the financial statements were available to be issued. The Grand Jury of Santa Barbara County issued a report on April 10, 2015 on the financial condition of the City and recommended the City consider disincorporation. The impact of this grand jury report on these financial statements is unknown.

Required Supplementary Information
(Unaudited)

City of Guadalupe
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2014

	General Fund			Variance with Budget Positive (Negative)
	Budget	Final	Actual (GAAP Basis)	
Revenues:				
Taxes	\$ 1,455,000	\$ 1,470,000	\$ 1,508,073	\$ 38,073
Licenses and permits	57,500	60,000	59,060	(940)
Fines and penalties	12,000	12,000	17,036	5,036
Revenues from other agencies	44,300	104,300	177,002	72,702
Charges for current services	33,200	33,200	8,451	(24,749)
Interest			183	183
Other revenues	485,000	302,500	328,268	25,768
Total revenues	<u>2,087,000</u>	<u>1,982,000</u>	<u>2,098,073</u>	<u>116,073</u>
Expenditures:				
City council	10,000	10,000	9,989	11
Administration	465,325	475,325	539,199	(63,874)
City attorney	85,000	74,000	73,323	677
Finance and city treasurer	373,075	355,075	385,655	(30,580)
Building inspections and maintenance	212,125	226,626	227,306	(680)
Police	1,458,575	1,426,075	1,390,814	35,261
Fire	434,225	414,225	414,814	(589)
Parks and recreation	32,675	122,675	134,417	(11,742)
Total expenditures	<u>3,071,000</u>	<u>3,104,001</u>	<u>3,175,517</u>	<u>(71,516)</u>
Excess (deficiency) of revenues over expenditures	<u>(984,000)</u>	<u>(1,122,001)</u>	<u>(1,077,444)</u>	<u>44,557</u>
Other financing sources (uses):				
Operating transfers in	1,100,000	600,000	600,000	-
Operating transfers out	(91,000)	(91,000)	(150,409)	(59,409)
Total other financing sources (uses)	<u>1,009,000</u>	<u>509,000</u>	<u>449,591</u>	<u>(59,409)</u>
Change in fund balance	<u>25,000</u>	<u>(613,001)</u>	<u>(627,853)</u>	<u>(14,852)</u>
Fund balance - beginning of year	304,251	304,251	304,251	
Prior year restatements			22,565	22,565
Fund balance - beginning of year, restated	<u>304,251</u>	<u>304,251</u>	<u>326,816</u>	<u>22,565</u>
Fund balance (deficiency) - end of year	<u>\$ 329,251</u>	<u>\$ (308,750)</u>	<u>\$ (301,037)</u>	<u>\$ 7,713</u>

See independent auditors' report.

City of Guadalupe
Budgetary Comparison Schedule – Community Development Fund
Year Ended June 30, 2014

	Community Development Fund			Variance with
	Budget	Final	Actual	Budget
			(GAAP Basis)	Positive
				(Negative)
Revenues:				
Revenues from other agencies	\$ 70,060	\$ 70,060	\$ 439,620	\$ 369,560
Interest			33	33
Total revenues	<u>70,060</u>	<u>70,060</u>	<u>439,653</u>	<u>369,593</u>
Expenditures:				
Maintenance and operations	90,000	90,000	1,645	88,355
Total expenditures	<u>90,000</u>	<u>90,000</u>	<u>1,645</u>	<u>88,355</u>
Excess (deficiency) of revenues over expenditures	<u>(19,940)</u>	<u>(19,940)</u>	438,008	457,948
Other financing sources (uses):				
Operating transfers in			59,052	59,052
Operating transfers out	(75,000)	(75,000)	(408,278)	(333,278)
Total other financing sources (uses)	<u>(75,000)</u>	<u>(75,000)</u>	<u>(349,226)</u>	<u>(274,226)</u>
Change in fund balance	(94,940)	(94,940)	88,782	183,722
Fund balance - beginning of year	<u>106,438</u>	<u>106,438</u>	<u>106,495</u>	<u>57</u>
Fund balance - end of year	<u>\$ 11,498</u>	<u>\$ 11,498</u>	<u>\$ 195,277</u>	<u>\$ 183,779</u>

See independent auditors' report.

City of Guadalupe
Budgetary Comparison Schedule – CDBG Fund
Year Ended June 30, 2014

CDBG American Legion Retrofit Fund				
	Budget	Final	Actual (GAAP Basis)	Variance with Budget Positive (Negative)
Revenues:				
Revenues from other agencies	\$	\$ 567,500	\$ 338,153	\$ (229,347)
Total revenues		567,500	338,153	(229,347)
Expenditures:				
Maintenance and operations			413,905	(413,905)
Total expenditures			413,905	(413,905)
Excess (deficiency) of revenues over expenditures		567,500	(75,752)	(643,252)
Fund balance - beginning of year		-	-	-
Fund balance (deficiency) - end of year	\$ -	\$ 567,500	\$ (75,752)	\$ (643,252)

See independent auditors' report.

City of Guadalupe
Schedule of Funding Progress for OPEB Obligation
Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2013	\$ -	\$ 268,068	\$ 268,068	-	\$ 1,853,700	0.1446124

Other Information and Combining Fund Statements

City of Guadalupe
Combining Balance Sheet
Other Governmental Funds
Year Ended June 30, 2014

	<u>Special Revenue Funds</u>			
	<u>Gas Tax</u>	<u>Local Transportation</u>	<u>Public Facilities</u>	<u>Park Development</u>
Assets				
Cash and investments	\$ 273,461	\$ 201,570	\$ 1,403	\$ 5,200
Accounts receivable	109,158	853		
Prepaid Expenses	6,825	563		
	<u>389,444</u>	<u>202,986</u>	<u>1,403</u>	<u>5,200</u>
Total assets	<u>\$ 389,444</u>	<u>\$ 202,986</u>	<u>\$ 1,403</u>	<u>\$ 5,200</u>
Liabilities and Fund Balance (Deficiency)				
Liabilities:				
Accounts payable	\$ 2,805	\$ 78	\$	\$
Accrued wages and benefits	1,157			
Total liabilities	<u>3,962</u>	<u>78</u>		
Fund balance (deficiency):				
Restricted for:				
Street maintenance		202,908		
Other capital projects	385,482			5,200
Bikeway and pedestrian paths				
Public safety				
Utility infrastructure			1,403	
Debt service				
Committed to:				
Lighting and landscape				
Public safety				
Unassigned:				
Total fund balance (deficiency)	<u>385,482</u>	<u>202,908</u>	<u>1,403</u>	<u>5,200</u>
Total liabilities and fund balance (deficiency)	<u>\$ 389,444</u>	<u>\$ 202,986</u>	<u>\$ 1,403</u>	<u>\$ 5,200</u>

See independent auditors' report.

Special Revenue Funds

Asset Seizure	Guadalupe Lighting and Assessment	Public Safety	Measure A	Proposition 84	Bike and Pedestrian	Sewer Bond Debt Service	Total Other Governmental Funds
\$ 1,232	\$ 305,177	\$ 65,651	\$ 525,284	\$	\$ 4,028	\$ 19,700	\$ 1,402,706
		31,815	31,731	33,965			207,522
	1,704	12,369	8,489				29,950
<u>\$ 1,232</u>	<u>\$ 306,881</u>	<u>\$ 109,835</u>	<u>\$ 565,504</u>	<u>\$ 33,965</u>	<u>\$ 4,028</u>	<u>\$ 19,700</u>	<u>\$ 1,640,178</u>
\$	\$ 4,343	\$ 2,819	\$ 11,930	\$ 72,570	\$	\$	\$ 94,545
		4,470	4,769				10,396
	<u>4,343</u>	<u>7,289</u>	<u>16,699</u>	<u>72,570</u>			<u>104,941</u>
			548,805				751,713
							390,682
					4,028		4,028
		102,546					102,546
							1,403
						19,700	19,700
	302,538						302,538
1,232				(38,605)			1,232
				(38,605)			(38,605)
<u>1,232</u>	<u>302,538</u>	<u>102,546</u>	<u>548,805</u>	<u>(38,605)</u>	<u>4,028</u>	<u>19,700</u>	<u>1,535,237</u>
<u>\$ 1,232</u>	<u>\$ 306,881</u>	<u>\$ 109,835</u>	<u>\$ 565,504</u>	<u>\$ 33,965</u>	<u>\$ 4,028</u>	<u>\$ 19,700</u>	<u>\$ 1,640,178</u>

City of Guadalupe
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance (Deficiency) –
Other Governmental Funds
Year Ended June 30, 2014

	Special Revenue Funds			
	Gas Tax	Local Transportation	Public Facilities	Park Development
Revenues:				
Taxes	\$ 324,295	\$	\$	\$
Revenues from other agencies		6,387		
Charges for current services			1,102	286
Interest	62	67		
Total revenues	<u>324,357</u>	<u>6,454</u>	<u>1,102</u>	<u>286</u>
Expenditures:				
Personnel services	89,151			
Maintenance and operations	55,837	10,140		
Capital outlay	35,550			
Debt service:				
Principal				
Interest and fiscal charges				
Total expenditures	<u>180,538</u>	<u>10,140</u>		
Excess of revenues over (under) expenditures	<u>143,819</u>	<u>(3,686)</u>	<u>1,102</u>	<u>286</u>
Other financing sources (uses):				
Operating transfers in				
Operating transfers out	(50,000)	(34,965)	(15,000)	
Total other financing sources (uses)	<u>(50,000)</u>	<u>(34,965)</u>	<u>(15,000)</u>	
Change in fund balance	<u>93,819</u>	<u>(38,651)</u>	<u>(13,898)</u>	<u>286</u>
Fund balance (deficiency) - beginning of year	260,880	241,559	15,301	4,914
Prior year restatements	30,783			
Fund balance (deficiency) - beginning of year, restated	<u>291,663</u>	<u>241,559</u>	<u>15,301</u>	<u>4,914</u>
Fund balance (deficiency) - end of year	<u>\$ 385,482</u>	<u>\$ 202,908</u>	<u>\$ 1,403</u>	<u>\$ 5,200</u>

See independent auditors' report.

Special Revenue Funds

Asset Seizure	Guadalupe Lighting and Assessment	Public Safety	Measure A	Proposition 84	Bike and Pedestrian	Sewer Bond Debt Service	Total Other Governmental Funds
\$	\$ 114,207	\$ 21,247 227,505	\$ 399,426	\$	\$ 30,256	\$ 18,428	\$ 877,603 264,148 1,388 341
	83	19	101		1	8	341
	<u>114,290</u>	<u>248,771</u>	<u>399,527</u>		<u>30,257</u>	<u>18,436</u>	<u>1,143,480</u>
		218,063	92,576				399,790
	59,926	32,193	118,276	35,521			311,893
		28,277	(509)		41,446		104,764
						13,000	13,000
						4,350	4,350
	<u>59,926</u>	<u>278,533</u>	<u>210,343</u>	<u>35,521</u>	<u>41,446</u>	<u>17,350</u>	<u>833,797</u>
	54,364	(29,762)	189,184	(35,521)	(11,189)	1,086	309,683
		150,409			9,965		160,374
		(60,000)	(78,000)				(237,965)
		<u>90,409</u>	<u>(78,000)</u>		<u>9,965</u>		<u>(77,591)</u>
	<u>54,364</u>	<u>60,647</u>	<u>111,184</u>	<u>(35,521)</u>	<u>(1,224)</u>	<u>1,086</u>	<u>232,092</u>
1,232	248,174	41,899	406,113	(3,084)	5,252	18,614	1,240,854
			31,508				62,291
1,232	248,174	41,899	437,621	(3,084)	5,252	18,614	1,303,145
<u>\$ 1,232</u>	<u>\$ 302,538</u>	<u>\$ 102,546</u>	<u>\$ 548,805</u>	<u>\$ (38,605)</u>	<u>\$ 4,028</u>	<u>\$ 19,700</u>	<u>\$ 1,535,237</u>

**City of Guadalupe
Organization
June 30, 2014**

City Council

Frances A. Romero
Mayor

John Sabedra
Council Member

John Lizalde
Council Member

William Gerald Tucker
Council Member

Gina Rubalcaba
Council Member

Petrona Amido
City Treasurer

Joice Earleen Raguz
City Clerk

Staff

Andrew Carter
City Administrator

Annette Munoz
Finance Director

Michael Pena
Public Works Supervisor

Gary Hoving
Chief of Police/Director of Public
Safety

Jasch Janowicz
City Planner

Dave Fleishman
City Attorney

Other Independent Auditors' Report



**Independent Auditors' 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***

Honorable Mayor and City Council
City of Guadalupe
Guadalupe, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements 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 Guadalupe (the City) as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 28, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 misstatements on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Honorable Mayor and City Council
City of Guadalupe
Guadalupe, California
Page 2**

A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Recommendations as findings 2014-01, 2014-02, 2014-03, and 2014-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

City of Guadalupe's Responses to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 purposes.



Glenn Burdette Attest Corporation
San Luis Obispo, California

April 28, 2015

Audit Findings and Recommendations Section

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2014

2014-01 Full Recovery of General Fund Deficit Fund Balance and Balanced Budget (Material Weakness)

Criteria: General-purpose local governments, regardless of size, at a minimum should maintain a fund balance in the general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than 1 to 2 months of regular general fund operating expenditures.

Condition: The General Fund has a negative fund balance of as of June 30, 2014. The General Fund finished the year with a deficit fund balance of \$(301,037) compared to a positive fund balance of \$326,816 in the prior fiscal year. Overall, the fund's liabilities exceeded assets, and has a negative cash balance of \$446,000 that is included in accounts payable on the balance sheet. Both General fund final budgeted expenditures exceeded budgeted revenues and final actual expenditures exceeded actual revenues by greater than \$600,000 for the year ended June 30, 2014. This has raised substantial doubt about the City's ability to continue as a going concern as described further in Note 18.

Effect: As discussed in Note 18, the General Fund's deficiency in fund balance and decrease in revenues have created a budget short fall that will require significant cost cutting measures to reach a budget that will recoup the negative fund balance as well as provide the necessary revenues and financing for continued operations of the City.

Recommendation: We recommend the City continue to analyze all potential cost cutting measures, revenue sources, and review these options to establish a budget plan for the General Fund to recoup the deficit fund balance, as well as provide continued financing for City operations.

City Response: Given the numerous rounds of cost-cutting that have already taken place at the City, there is unfortunately little opportunity to significantly reduce General Fund expense further. There is, however, the opportunity to generate significant new General Fund revenue. In November of 2014, Guadalupe voters approved three tax measures that will increase General Fund revenue over \$300 thousand annually. In addition, the 800-unit Pasadera Development broke ground in early 2015. Over the short term, annual permit fee revenue should increase by at least \$40 thousand more than associated expense. Over the long term, the Pasadera development will increase the City's residential property tax base by more than half. Furthermore, once the planned Pasadera shopping center is built, the City's sales tax base will likely double. This new revenue plus anticipated new franchise fee revenue should enable the City to balance the 2015-16 General Fund budget. To cover the General Fund's current negative fund balance, City Council has decided to borrow from the Water Enterprise and Lighting District Funds with payback to occur over ten years.

2014-02 Significant Audit Adjustments to General Ledger (Material Weakness)

Criteria: The City should have a policy and procedure in place to identify and record year-end closing entries and to accumulate and prepare supporting schedules for year-end balances. Prior to the commencement of the audit and regularly throughout the year the reconciliation process should include review procedures to ensure that all required adjustments have been made to the general ledger.

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2014
Page 2

2014-02 Significant Audit Adjustments to General Ledger (Material Weakness) (Continued)

Condition: Numerous adjustments were required to correct various general ledger accounts after the general ledger had been closed for the year. The year-end reconciliation process was not performed on a timely basis prior to the audit. We worked with City staff to identify accounts that required additional analysis and reconciliation. In excess of 40 adjusting journal entries were proposed and made, with nearly a third being significant audit adjustments related to the recording of annual activity related to fixed assets, long-term debt, interfund loans, and the year-end activity related to accounts payable and accounts receivable. Due to staff turnover in the prior year, current staff went through a rigorous review of all closing entries and procedures that resulted in additional time but also identified entries or processes that could be changed or improved upon.

Effect: Numerous adjustments were needed to be made during the audit process and year-end reports were unreliable until these adjustments had been made.

Recommendation: We recognize that this was a unique year for the City with staffing and transition. We recommend that management evaluate and document the year-end process and reconcile all accounts on a timely basis. We also recommend the City adopt policies and procedures to review the general ledger for all funds prior to the commencement of the audit, as well as continue to identify reconciliation processes that could be changed or improved upon.

City Response: Staff is appreciative of the immense work that went into this year's audit. The year-end closing process has been thoroughly documented to insure timely completion at the end of the 2014-15 fiscal year. In addition, reconciliations are now being processed on a monthly, semi-monthly, and quarterly basis for balance sheet accounts. Staff will also implement a written lead schedule timeline to ensure the next audit goes smoothly.

2014-03 Other Post Employment Benefit (OPEB) Liability (Material Weakness)

Criteria: Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition and display of OPEB expenditures and related liabilities, note disclosures, and required supplementary information in financial reports. Employers that participate in single-employer or agent multiple-employer defined benefit OPEB require employers to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting.

Condition: During the current year, the magnitude of employees eligible for post-employment benefits was identified. Management had previously operated under assumptions that only a small group of employees were part of the plan. We worked with the City and the City's actuary to obtain historical information to identify and quantify the liability and related disclosures.

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2014
Page 3

2014-03 Other Post Employment Benefit (OPEB) Liability (Material Weakness) (Continued)

Effect: A prior year restatement was recorded to establish the beginning balance of the net OPEB obligation by increasing the Net OPEB Obligation and decreasing governmental activities beginning net position by \$117,763.

Recommendation: We recommend that the City understand and evaluate commitments and contingencies of all plans and contracts and record the proper liabilities, if necessary.

City Response: The City understands the need to evaluate commitments and contingencies of all plans and contracts and record proper liabilities.

2014-04 Full Recovery Deficiency in Net Position (Material Weakness)

Criteria: Accounting principles generally accepted in the United States of America mandate the use of an enterprise fund when legal requirements or management policy require that the full cost of providing services (including capital costs) be recovered through fees and charges. The Solid Waste Fund has experienced net losses in previous years and total liabilities exceed total assets.

Condition: The Solid Waste Fund has an ending net deficit at the year ended June 30, 2014. This is a repeat finding from the years ended June 30, 2005 through 2013.

Effect: Any continued net operating losses will erode operating capital for the fund and at some point require supplemental funding from the City if unchecked.

Recommendation: Although the Solid Waste Fund had positive net income for the year ended June 30, 2014, operating income was negative. The City should continue to ensure the fund remains solvent by requiring a balanced operating budget and a plan to recoup the net deficiency.

City Response: On February 24, 2015 the City adopted resolution 2015-430 "Affirming, Revising and Setting Fees and Rates for Garbage Collection Services." The increased garbage rates set by this resolution will balance the Solid Waste Fund over a period of five years. The City has also identified billing discrepancies between the waste hauler database and the city database and is negotiating with the waste hauler to have them take over the billing and bill all residents separately.

City of Guadalupe
Summary Schedule of Prior Year Audit Findings and Recommendations – June 30, 2013
Year Ended June 30, 2014

<u>Findings/Recommendation</u>	<u>Current Year</u>	<u>City Explanation if Not Implemented</u>
We recommended the City continue to take efforts to ensure the solvency of the Solid Waste Fund by increasing revenues through rate changes, reduced costs, supplemental funding from the City's General Fund, or some combination.	Not implemented	See current year finding 2014-04.
We recommend the City adopt policies over the year-end liability reconciliation process to ensure timely and accurate recording of liabilities related to accounts payable.	Not implemented	See current year finding 2014-02.
We recommended the City record capital assets and long-term debt activity on the accrual basis of accounting as required under generally accepted accounting principles.	Not implemented	See current year finding 2014-02.
We recommended the City establish procedures to timely identify construction in progress projects that are completed to properly transfer capital assets to the appropriate asset classification.	Partially Implemented	See current year finding 2014-02.
We recommended the City adopt policies over the payroll tax filing process to ensure reporting is correct and in a timely and accurate manner to the required authorities, and responses are timely to correspondence from other governmental	Implemented	