

City of Guadalupe

Financial Statements

Year Ended June 30, 2013

**City of Guadalupe
Financial Statements
Year Ended June 30, 2013**

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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, 2013, and the related notes to the financial statements, which collectively 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.

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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, 2013, 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 17 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 17. 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 18 and budgetary comparison information on pages 67 through 68, 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. The

Honorable Mayor and City Council
City of Guadalupe
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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 March 21, 2014, 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

March 21, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013

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, 2013. 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

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by approximately \$19 million.
- The City's total net position decreased by about \$476,344.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.6 million.
- The City's cash and investments at June 30, 2013 increased over the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS



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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has 30 funds that are considered governmental, four funds that are considered proprietary, and a fund that is considered fiduciary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS - continued

Proprietary Funds

The City's four enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. Highlights of the annual activity for these funds have already been presented in the discussion of the business-type activities.

When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Fiduciary Funds

The City has one fiduciary fund that is a Private Purpose Trust Fund (PPTF) which is used to account for resources held for the benefit of parties outside the government. The PPTF is used to account for the Successor Agency funds of the former Redevelopment Agency (RDA). Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is presented with the fund financial statements in the supplemental information section.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Statement of Net Position* presents information on all the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the City is improving or declining.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - continued

Net position may serve over time as an indicator of a government's financial position. For the City Guadalupe, assets exceeded liabilities by \$18,762,053 at June 30, 2013, summarized as follows:

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets	\$ 2,454,704	\$ 620,396	\$ 3,075,100
Noncurrent Assets	<u>10,121,348</u>	<u>10,234,355</u>	<u>20,355,703</u>
Total Assets	<u>12,576,052</u>	<u>10,854,751</u>	<u>23,430,803</u>
Liabilities			
Current Liabilities	1,045,839	437,929	1,483,768
Noncurrent Liabilities	<u>1,455,042</u>	<u>1,729,940</u>	<u>3,184,982</u>
Total Liabilities	<u>2,500,881</u>	<u>2,167,869</u>	<u>4,668,750</u>
Net Position			
Net investment in capital assets	8,898,583	8,446,519	17,345,102
Restricted	346,860	147,100	493,960
Unrestricted	<u>829,728</u>	<u>93,263</u>	<u>922,991</u>
	<u>\$ 10,075,171</u>	<u>\$ 8,686,882</u>	<u>\$ 18,762,053</u>

GOVERNMENT-WIDE FINANCIAL STATEMENTS - continued

The City's net position decreased by \$476,344 during the current fiscal year. Information about changes in net position is summarized below:

	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 50,454	\$ 2,891,145	\$ 2,941,599
Operating grants and contributions	1,177,441	322,237	1,499,678
Capital grants and contributions	27,440	5,000	32,440
General revenue:			
Sales tax	322,799		322,799
Property tax	1,297,204		1,297,204
Utility users tax	234,127		234,127
Gas tax	268,705		268,705
Franchise fees	145,539		145,539
State of California in-lieu	3,647		3,647
Property transfer tax	7,427		7,427
Licenses and permits	50,523		50,523
Rents	429,910		429,910
Interest income	1,229	298	1,527
Other revenues	75,151	1,408	76,559
Total revenues	<u>4,091,596</u>	<u>3,220,088</u>	<u>7,311,684</u>
Program Expenses			
Public safety	2,011,549		2,011,549
Transportation	494,473		494,473
Leisure, culture and social services	81,053		81,053
Community development	551,877		551,877
General government	1,229,869		1,229,869
Business-type activities		3,411,754	3,411,754
Interest on long-term debt	7,453		7,453
Total expenses	<u>4,376,274</u>	<u>3,411,754</u>	<u>7,788,028</u>
Transfers	<u>438,333</u>	<u>(438,333)</u>	<u>-</u>
Change in net position	153,655	(629,999)	(476,344)
Net position - beginning of year	<u>10,218,732</u>	<u>9,316,881</u>	<u>19,535,613</u>
Prior year restatement	<u>(297,216)</u>	<u>-</u>	<u>(297,216)</u>
Net Position - beginning of year, restated	<u>9,921,516</u>	<u>9,316,881</u>	<u>19,238,397</u>
Net position - end of year	<u>\$ 10,075,171</u>	<u>\$ 8,686,882</u>	<u>\$ 18,762,053</u>

GOVERNMENT-WIDE FINANCIAL STATEMENTS - continued

Governmental Activities: Governmental activities decreased the City's net position by \$284,678 (before transfers). This decrease was primarily from a reduction in property tax resulting from the dissolution of the Redevelopment Agency. The City expects to recoup reductions and will continue implementing cost savings measures in fiscal year 2013/2014.

Business-Type Activities: The decrease in net position of \$191,666 (before transfers) is attributable to business-type activities. This decrease primarily results from delays in grant revenue streams from Prop 50 received in the prior year.

As noted earlier, the City of Guadalupe uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds have been classified as governmental, proprietary, or fiduciary.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Major Governmental Funds. There is one major governmental funds highlighted as follows:

General Fund. The General Fund is the chief operating fund of the City. At June 30, 2013, the total fund balance was \$304,251. The prior year negative fund balance was unable to withstand the economic instability from a slow economy and impact of costs re-directed to the General Fund resulting from the dissolution of the Redevelopment Agency. The City continued layoffs, furloughs and expenditure reductions in 12/13 and planned cost-cutting techniques in 13/14. The City strives to bring the General Fund balance to a positive reserve equal to 10% of current year operating expenditures of total General Fund expenditures.

The General Fund balance increased approximately \$643,610 during the fiscal year ended June 30, 2013. A variety of variances from the prior year – both positive and negative – contribute to the increase as follows:

1. Revenues reflect a net increase of approximately \$1,170,000 over the prior fiscal year primarily from the net effect of:
 - Increase in sales tax from a retrospective payment.
 - Revenue from the rental of cell tower property increased under an agreement with AP wireless for one-time payments.
 - Increase in revenue from other agencies due to Chevron's special one-time contribution.
 - Increase in revenue due to renewal of the City's solid waste franchise.
2. Operating expenditures were about \$286,800 lower than the prior fiscal year primarily from:
 - Personnel costs were reduced because of decreases in overtime and salaries for unfilled positions. Furloughs continued in 2013 causing additional savings.
 - Services and Supplies decreased due to an effort to reduce costs across the board in all departments.
3. Net operating transfers decreased but with overall savings in personnel and other operating costs the City still managed to reflect a net increase in overall revenues.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS - continued

Other Governmental Funds. These are non-major funds of the city and are presented in the basic financial statements in the aggregate. Significant portions of these funds are for capital projects. At June 30, 2013, these funds had an aggregate fund balance of \$1,240,854. Of this total, \$1,184,193 or 95% is restricted or committed for capital projects and the unassigned balance is a deficit of \$5,084.

Proprietary Funds. The City's four enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. Highlights of the annual activity for these funds have already been presented in the discussion of the business-type activities. The proprietary funds revenues decreased by \$4,138,871 mostly the result of one-time grant revenue received in the prior year from Proposition 50 for Wastewater Treatment Plant improvements. Expenses increased by about \$396,818 or less than 14% over prior year. This was primarily due to upgrades from the Proposition 50 grant which caused higher maintenance and operations costs.

Fiduciary Fund. The City's one Fiduciary Fund, which is 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 financial statements in the supplemental information section.

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2013 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 2012-2013 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 2012-13:

General Fund	Original Budget	Final Budget	Actual	Variance
Revenues	\$ 1,664,300	\$ 1,884,294	\$ 2,921,938	\$ 1,037,644
Expenditures	2,972,657	2,875,037	2,939,914	(64,877)
Other Financing Sources	967,000	967,000	661,586	(305,414)
Change in fund balances	(341,357)	(23,743)	643,610	(667,353)
Fund balance (deficit) - beginning of year	(339,359)	(339,359)	(339,359)	
Fund balances (deficit) - end of year	\$ (680,716)	\$ (363,102)	\$ 304,251	\$ (667,353)

GENERAL FUND BUDGETARY HIGHLIGHTS - continued

Overall, the ending fund balance is \$304,251, which is \$667,353 higher than the final budget estimate. The net increase results from a variety of adjustments; the key changes are summarized as follows:

- Revenue from property taxes was higher than estimated resulting from a portion of the property tax redirected to the general fund from the RDA dissolution as well as the one-time cell tower payment, Chevron contribution, a one-time settlement received from the Auditor Controller and the one-time Waste Management extension bonus.
- Expenses are down which is a result of staffing reductions, unfilled positions and furloughs which were the major cause of the decrease.

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, 2013, amounts to \$20,355,703 (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.

A summary of the City's capital assets at June 30, 2013 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	5,373,721	5,830,108	11,203,829
Buildings and Improvements	4,266,838	3,756,120	8,022,958
Vehicles	32,444	449,257	481,701
Equipment	31,592	3,875	35,467
Construction in Progress	73,622		73,622
	<u>\$ 10,121,348</u>	<u>\$ 10,234,355</u>	<u>\$ 20,355,703</u>

Major capital asset expenditures during the fiscal year include:

- Street Circulation Improvements
- Street Reconstruction and Maintenance
- Water system 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	10-75
Buildings and Structures	20-100
Improvements other than buildings	20-100
Equipment	5-25

CAPITAL ASSETS - continued

Capital assets activity for the fiscal year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities:				
Land	\$ 343,131	\$	\$	\$ 343,131
Construction in progress	43,121	30,501		73,622
Infrastructure	5,817,831		1,050,536	6,868,367
Accumulated depreciation	(1,203,975)	(290,671)		(1,494,646)
Buildings and improvements	6,248,396		(1,050,536)	5,197,860
Accumulated depreciation	(809,107)	(121,915)		(931,022)
Vehicles	868,854			868,854
Accumulated depreciation	(798,523)	(37,887)		(836,410)
Equipment	587,498	23,348	(6,988)	603,858
Accumulated depreciation	(571,409)	(7,845)	6,988	(572,266)
Total governmental capital assets, net	<u>\$ 10,525,817</u>	<u>\$ (404,469)</u>	<u>\$ -</u>	<u>\$ 10,121,348</u>
Business-Type Activities:				
Land	\$ 194,995	\$	\$	\$ 194,995
Construction in progress				-
Buildings and improvements	9,463,916			9,463,916
Accumulated depreciation	(5,445,697)	(262,099)		(5,707,796)
Vehicles	1,003,725			1,003,725
Accumulated depreciation	(455,713)	(98,755)		(554,468)
Equipment	435,057	1,759		436,816
Accumulated depreciation	(430,819)	(2,122)		(432,941)
Infrastructure	6,949,655			6,949,655
Accumulated depreciation	(772,064)	(347,483)		(1,119,547)
Total governmental capital assets, net	<u>\$ 10,943,055</u>	<u>\$ (708,700)</u>	<u>\$ -</u>	<u>\$ 10,234,355</u>

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
Public safety	\$ 44,078
Leisure, cultural & social services	36,137
Community development	252,900
General government	125,203
Total governmental activities depreciation expense	<u>\$ 458,318</u>
Business-type activities:	
Water	\$ 163,226
Waste water	442,887
Transit	104,346
Total business-type activities depreciation expense	<u>\$ 710,459</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, 2013, the City of Guadalupe has \$3,097,601 in long-term debt outstanding as summarized below:

Long-Term Debt	Governmental Activities	Business-type Activities	Total
Sewer Bonds	\$ 87,000	\$	\$ 87,000
Certificates of participation	1,207,240	1,038,297	2,245,537
Compensated absences	388,012		
Loans payable to successor agency trust fund		749,539	749,539
Capital leases payable	15,525		15,525
	<u>\$ 1,697,777</u>	<u>\$ 1,787,836</u>	<u>\$ 3,097,601</u>

Long-term debt governmental activity for the fiscal year ended June 30, 2013 was as follows:

Governmental activities:	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Sewer bonds	\$ 99,000		\$ 12,000	\$ 87,000
Certificates of participation	1,220,800		13,560	1,207,240
Compensated absences	192,077	195,935		388,012
Capital leases payable	30,130		14,605	15,525
Total	<u>\$ 1,542,007</u>	<u>\$ 195,935</u>	<u>\$ 40,165</u>	<u>\$ 1,697,777</u>

Long-term debt business-type activity for the fiscal year ended June 30, 2013 was as follows:

Business-Type Activities:	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Short-term loan	\$ 2,500,000	\$	\$ 2,500,000	\$ -
Certificates of participation	1,064,027		25,730	1,038,297
Loans payable to Successor Agency Trust Fund	779,539		30,000	749,539
Total	<u>\$ 4,343,566</u>	<u>\$ -</u>	<u>\$ 2,555,730</u>	<u>\$ 1,787,836</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 July 10, 2012 the Council adopted the 2012-2013 budget (Resolution No. 2012-12). The City continues to strive to meet the fund balance policy to reserve 10% of budgeted operating expenditures by implementing spending reductions at every level. Revenue reductions from economic downturns remain unchanged as expected. Economic factors from the State of California are a significant issue as we face anticipated cutbacks in the future.

AB 1X26 and AB1484 eliminated all redevelopment agencies in the State of California and included the process of their winding down. The former Guadalupe Redevelopment Agency funds were reported in prior year financial statements as fiduciary funds and also in the same section of this financial report.

Fiscal Outlook. The City's primary focus is on increasing revenue. City Council adopted a new Master Fee Schedule in September 2013. Council will be considering increases to water and sewer rates during the first quarter of 2014. During 2014, Council will also be looking at Development Impact Fees, Business License Fees and revisions to the City's Utility Users Tax. (Any changes to the Utility Users Tax would have to be approved by voters in November 2014.) In addition, Property Taxes are expected to show steady improvement. That will particularly be the case in 2015 and beyond as the DJ Farms build-out takes place. As always, the City will strive to control expenditures, but significant additional cuts in operating costs, whether personnel or non-personnel related, are not likely.

CONDENSED FINANCIAL INFORMATION

Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Assets		
Current Assets	\$ 3,075,100	\$ 6,481,006
Noncurrent Assets	20,355,703	21,766,088
Total Assets	<u>23,430,803</u>	<u>28,247,094</u>
Liabilities		
Current Liabilities	1,483,768	5,486,304
Noncurrent Liabilities	3,184,982	3,225,177
Total Liabilities	<u>4,668,750</u>	<u>8,711,481</u>
Net Position		
Net investment in capital assets	17,345,102	16,151,592
Restricted	493,960	838,811
Unrestricted	922,991	2,545,210
	<u>\$ 18,762,053</u>	<u>\$ 19,535,613</u>

CONDENSED FINANCIAL INFORMATION - continued



Statement of Activities

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Revenues		
Program revenues:		
Governmental	\$ 1,255,335	\$ 1,343,704
Business-type	3,218,382	7,353,333
General revenue:		
Taxes	2,329,971	2,560,936
Interest income	1,527	26,014
Other revenues	506,469	244,809
Total revenues	<u>7,311,684</u>	<u>11,528,796</u>
Program Expenses		
Governmental	4,368,821	4,453,376
Business-type	3,411,754	3,023,025
Governmental interest on long-term debt	7,453	314,595
Total expenses	<u>7,788,028</u>	<u>7,790,996</u>
Extraordinary gain on dissolution of Redevelopment Agency	-	494,029
Change in net position	(476,344)	4,231,829
Net position - beginning of year	<u>19,535,613</u>	<u>15,303,784</u>
Prior year restatement	<u>(297,216)</u>	<u>-</u>
Net Position - beginning of year, restated	<u>19,238,397</u>	<u>15,303,784</u>
Net position - end of year	<u>\$ 18,762,053</u>	<u>\$ 19,535,613</u>

Statement of Revenues, Expenses and Changes in Fund Balance

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Revenues	<u>\$ 4,092,133</u>	<u>\$ 4,169,060</u>
Expenditures	<u>3,816,572</u>	<u>5,006,862</u>
Other Financing Sources	<u>438,333</u>	<u>656,130</u>
Extraordinary Loss	-	(5,216,033)
Change in fund balances	<u>713,894</u>	<u>(5,397,705)</u>
Fund balances - beginning of year	937,706	6,335,411
Fund balances (deficit) - end of year	<u>\$ 1,651,600</u>	<u>\$ 937,706</u>

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 specific focus in the future will be improvements to our wastewater collection and water distribution systems. During fiscal year 2012-13, a grant award from the Department of Transportation was used to develop a Bike and Pedestrian Master Plan, Measure A funding was used for street maintenance projects and Proposition 50 and Proposition 84 funds have been used for major improvements at our wastewater treatment facility. In fiscal year 2013-14, Community Development Block Grant funds from the federal government and the County of Santa Barbara will be used to seismically upgrade the American Legion Hall.

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, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	\$ 1,446,049	\$ 562,555	\$ 2,008,604
Accounts receivable, net of allowance	464,318	506,349	970,667
Interfund loans	448,508	(448,508)	-
Loans receivable	95,829		95,829
Land	343,131	194,995	538,126
Construction in progress	73,622		73,622
Depreciable capital assets, net of accumulated depreciation	9,704,595	10,039,360	19,743,955
Total assets	<u>12,576,052</u>	<u>10,854,751</u>	<u>23,430,803</u>
Liabilities			
Accounts payable and accrued liabilities	803,104	337,366	1,140,470
Interest payable		42,667	42,667
Long-term liabilities:			
Due within one year	242,735	57,896	300,631
Due after one year	1,455,042	1,729,940	3,184,982
Total liabilities	<u>2,500,881</u>	<u>2,167,869</u>	<u>4,668,750</u>
Net Position			
Net investment in capital assets	8,898,583	8,446,519	17,345,102
Restricted for debt service	18,614	147,100	165,714
Restricted for other purposes	328,246		328,246
Unrestricted	829,728	93,263	922,991
Total net position	<u>\$ 10,075,171</u>	<u>\$ 8,686,882</u>	<u>\$ 18,762,053</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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Public safety	\$ 2,011,549	\$ 40,105	\$ 191,672	\$ 27,440
Transportation	494,473		429,784	
Leisure, cultural and social services	81,053			
Community development	551,877	9,574		
General government	1,229,869	775	555,985	
Interest on long-term debt	7,453			
Total governmental activities	4,376,274	50,454	1,177,441	27,440
Business-type activities:				
Water	1,344,674	1,514,074		
Wastewater	1,080,244	801,090		
Solid waste	523,205	480,752		5,000
Transit	463,631	95,229	322,237	
Total business-type activities	3,411,754	2,891,145	322,237	5,000
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>
\$ (1,779,772)	\$	\$ (1,779,772)
(37,249)		(37,249)
(81,053)		(81,053)
(542,303)		(542,303)
(673,109)		(673,109)
(7,453)		(7,453)
<u>(3,120,939)</u>		<u>(3,120,939)</u>
	169,400	169,400
	(279,154)	(279,154)
	(37,453)	(37,453)
	(46,165)	(46,165)
	<u>(193,372)</u>	<u>(193,372)</u>
322,799		322,799
1,297,204		1,297,204
234,127		234,127
268,705		268,705
145,539		145,539
3,647		3,647
7,427		7,427
50,523		50,523
429,910		429,910
1,229	298	1,527
75,151	1,408	76,559
438,333	(438,333)	-
<u>3,274,594</u>	<u>(436,627)</u>	<u>2,837,967</u>
153,655	(629,999)	(476,344)
<u>10,218,732</u>	<u>9,316,881</u>	<u>19,535,613</u>
(297,216)	-	(297,216)
<u>9,921,516</u>	<u>9,316,881</u>	<u>19,238,397</u>
<u>\$ 10,075,171</u>	<u>\$ 8,686,882</u>	<u>\$ 18,762,053</u>

City of Guadalupe
Balance Sheet – Governmental Funds
June 30, 2013

	<u>General</u>	<u>Special Revenue Community Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and investments	\$ 380,991	\$	\$ 1,065,058	\$ 1,446,049
Accounts receivable	149,572		314,746	464,318
Interfund loans receivable		448,508		448,508
Loans receivable		95,829		95,829
	<u>530,563</u>	<u>544,337</u>	<u>1,379,804</u>	<u>2,454,704</u>
Total assets	<u>\$ 530,563</u>	<u>\$ 544,337</u>	<u>\$ 1,379,804</u>	<u>\$ 2,454,704</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 162,111	\$ 437,842	\$ 131,413	\$ 731,366
Accrued wages and benefits	64,201		7,537	71,738
	<u>226,312</u>	<u>437,842</u>	<u>138,950</u>	<u>803,104</u>
Total liabilities	<u>226,312</u>	<u>437,842</u>	<u>138,950</u>	<u>803,104</u>
Fund balance:				
Nonspendable:				
Long-term loans receivable		106,495		106,495
Restricted for:				
Street maintenance			649,672	649,672
Other capital projects			265,794	265,794
Bikeway and pedestrian paths			5,252	5,252
Public safety			41,899	41,899
Utility infrastructure			15,301	15,301
Debt service			18,614	18,614
Committed to:				
Lighting and landscape			248,174	248,174
Public safety			1,232	1,232
Unassigned	304,251		(5,084)	299,167
	<u>304,251</u>	<u>106,495</u>	<u>1,240,854</u>	<u>1,651,600</u>
Total fund balance	<u>304,251</u>	<u>106,495</u>	<u>1,240,854</u>	<u>1,651,600</u>
Total liabilities and fund balance	<u>\$ 530,563</u>	<u>\$ 544,337</u>	<u>\$ 1,379,804</u>	<u>\$ 2,454,704</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, 2013

Total fund balance - governmental funds \$ 1,651,600

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	\$ 13,955,692	
Accumulated depreciation	(3,834,344)	
	<u>10,121,348</u>	10,121,348

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	87,000	
Certificates of participation	1,207,240	
Compensated absences	388,012	
Capital leases payable	15,525	
	<u>(1,697,777)</u>	(1,697,777)

Total net position - governmental activities \$ 10,075,171

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, 2013

	<u>General</u>	<u>Special Revenue Community Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 1,780,259	\$	\$ 920,710	\$ 2,700,969
Licenses and permits	50,523			50,523
Fines and penalties	16,123			16,123
Revenues from other agencies	559,561		248,380	807,941
Charges for current services	5,275			5,275
Interest	65	57	504	626
Other revenues	510,132		544	510,676
Total revenues	<u>2,921,938</u>	<u>57</u>	<u>1,170,138</u>	<u>4,092,133</u>
Expenditures:				
Personnel services	2,325,016		487,570	2,812,586
Maintenance and operations	585,866		275,004	860,870
Capital outlay	12,529		97,134	109,663
Debt service:				
Principal	14,000		12,000	26,000
Interest and fiscal charges	2,503		4,950	7,453
Total expenditures	<u>2,939,914</u>		<u>876,658</u>	<u>3,816,572</u>
Excess of revenues over expenditures	<u>(17,976)</u>	<u>57</u>	<u>293,480</u>	<u>275,561</u>
Other financing sources (uses):				
Operating transfers in	738,586		261,567	1,000,153
Operating transfers out	<u>(77,000)</u>		<u>(484,820)</u>	<u>(561,820)</u>
Total other financing sources (uses)	<u>661,586</u>		<u>(223,253)</u>	<u>438,333</u>
Change in fund balance	643,610	57	70,227	713,894
Fund balance (deficiency) - beginning of year	<u>(339,359)</u>	<u>106,438</u>	<u>1,170,627</u>	<u>937,706</u>
Fund balance - end of year	<u>\$ 304,251</u>	<u>\$ 106,495</u>	<u>\$ 1,240,854</u>	<u>\$ 1,651,600</u>

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, 2013

Total net change in fund balance - governmental funds \$ 713,894

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	\$	53,849	
Depreciation expense		(458,318)	
		(404,469)	(404,469)

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: 40,165

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: (195,935)

Total change in net position - governmental activities \$ 153,655

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

City of Guadalupe
Statement of Net Position
Enterprise Funds
June 30, 2013

	<u>Water</u>	<u>Wastewater Treatment</u>	<u>Solid Waste</u>
Assets			
Current assets:			
Cash and investments	\$ 284,467	\$ 113,429	\$
Accounts receivable, net of allowance	238,485	124,317	85,246
Total current assets	<u>522,952</u>	<u>237,746</u>	85,246
Noncurrent assets:			
Land	29,464	165,531	
Buildings, structures and improvements	4,869,896	4,576,676	
Vehicles	28,843		
Equipment	342,995	83,211	
Infrastructure		6,949,655	
Less accumulated depreciation	<u>(2,117,709)</u>	<u>(5,147,897)</u>	
Total noncurrent assets	<u>3,153,489</u>	<u>6,627,176</u>	
Total assets	<u>3,676,441</u>	<u>6,864,922</u>	<u>85,246</u>
Liabilities			
Current liabilities:			
Accounts payable	49,615	57,834	172,707
Deposits payable	23,738		
Accrued wages and benefits	2,318	3,796	
Interest payable	24,276	18,391	
Current portion of interfund loans payable	60,000	10,000	
Current portion of certificates of participation	27,896		
Current portion of loans payable to Successor Agency Trust Fund		20,000	10,000
Total current liabilities	<u>187,843</u>	<u>110,021</u>	<u>182,707</u>
Noncurrent liabilities:			
Interfund loans payable, net of current portion	214,254	164,254	
Certificates of participation, net of current portion	1,010,401		
Loans payable to Successor Agency Trust Fund		576,910	142,629
Total noncurrent liabilities	<u>1,224,655</u>	<u>741,164</u>	<u>142,629</u>
Total liabilities	<u>1,412,498</u>	<u>851,185</u>	<u>325,336</u>
Net Position			
Net investment in capital assets	2,115,192	6,050,266	
Restricted for debt service	88,522	58,578	
Unrestricted	60,229	(95,107)	(240,090)
Total net position	<u>\$ 2,263,943</u>	<u>\$ 6,013,737</u>	<u>\$ (240,090)</u>

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

<u>Transit</u>	<u>Total</u>
\$ 164,659	\$ 562,555
58,301	506,349
<u>222,960</u>	<u>1,068,904</u>
	194,995
17,344	9,463,916
974,882	1,003,725
10,610	436,816
	6,949,655
<u>(549,146)</u>	<u>(7,814,752)</u>
<u>453,690</u>	<u>10,234,355</u>
<u>676,650</u>	<u>11,303,259</u>
	307,514
27,358	23,738
	6,114
	42,667
	70,000
	27,896
	<u>30,000</u>
<u>27,358</u>	<u>507,929</u>
	378,508
	1,010,401
	719,539
	<u>2,108,448</u>
<u>27,358</u>	<u>2,616,377</u>
453,690	8,619,148
	147,100
<u>195,602</u>	<u>(79,366)</u>
<u>\$ 649,292</u>	<u>\$ 8,686,882</u>

City of Guadalupe
Statement of Revenues, Expenditures and Changes in Fund Net Position
Enterprise Funds
Year Ended June 30, 2013

	<u>Water</u>	<u>Wastewater Treatment</u>	<u>Solid Waste</u>
Operating revenues:			
Water sales	\$ 1,462,443	\$	\$
Standby charges	32,051		
Connection fees	19,580	37,580	
Sewer service charges		763,510	
Refuse service charges			480,752
Revenues from other agencies			5,000
Other revenues	859	549	
Total operating revenues	<u>1,514,933</u>	<u>801,639</u>	<u>485,752</u>
Operating expenses:			
Personnel services	147,138	188,874	
Maintenance and operations	968,614	383,802	523,205
Depreciation	163,226	442,887	
Total operating expenses	<u>1,278,978</u>	<u>1,015,563</u>	<u>523,205</u>
Operating income (loss)	<u>235,955</u>	<u>(213,924)</u>	<u>(37,453)</u>
Nonoperating revenues and expenses:			
Principal payments on certificates of participation	(4,840)	(17,160)	
Interest	(60,637)	(47,507)	
Operating transfers in			11,667
Operating transfers out	(300,000)	(125,000)	
Total nonoperating revenues and expenses	<u>(365,477)</u>	<u>(189,667)</u>	<u>11,667</u>
Net loss	(129,522)	(403,591)	(25,786)
Net position - beginning of year	<u>2,393,465</u>	<u>6,417,328</u>	<u>(214,304)</u>
Net position - end of year	<u>\$ 2,263,943</u>	<u>\$ 6,013,737</u>	<u>\$ (240,090)</u>

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

<u>Transit</u>	<u>Total</u>
\$	\$ 1,462,443
	32,051
	57,160
	763,510
	480,752
322,237	327,237
95,229	96,637
<u>417,466</u>	<u>3,219,790</u>
	336,012
359,285	2,234,906
104,346	710,459
<u>463,631</u>	<u>3,281,377</u>
<u>(46,165)</u>	<u>(61,587)</u>
	(22,000)
65	(108,079)
	11,667
(25,000)	(450,000)
<u>(24,935)</u>	<u>(568,412)</u>
(71,100)	(629,999)
<u>720,392</u>	<u>9,316,881</u>
<u>\$ 649,292</u>	<u>\$ 8,686,882</u>

City of Guadalupe
Statement of Cash Flows
Enterprise Funds
Year Ended June 30, 2013

	<u>Water</u>	<u>Wastewater Treatment</u>	<u>Solid Waste</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,522,824	\$ 764,059	\$ 472,902
Cash received from connection fees	19,580	37,580	
Cash received from standby charges and other agencies	32,051	3,625,451	5,000
Internal activity - cash paid from (to) other funds	(150,000)		
Cash paid to employees and suppliers	(1,095,127)	(1,634,143)	(479,569)
Net cash provided by (used in) operating activities	<u>329,328</u>	<u>2,792,947</u>	<u>(1,667)</u>
Cash flows from noncapital financing activities:			
Net operating transfers	(300,000)	(125,000)	11,667
Net cash provided by (used in) noncapital financing activities	<u>(300,000)</u>	<u>(125,000)</u>	<u>11,667</u>
Cash flows from capital and related financing activities:			
Proceeds from loan		(2,500,000)	
Principal payments on interfund loan payable	90,000	(10,000)	
Principal payments on certificates of participation	(30,570)	(17,160)	
Interest payments on certificates of participation	(60,856)	(56,024)	
Principal payments on loans payable to Successor Agency Trust Fund		(20,000)	(10,000)
Acquisition of capital assets	(1,759)		
Net cash used in capital and related financing activities	<u>(3,185)</u>	<u>(2,603,184)</u>	<u>(10,000)</u>
Cash flows from investing activities:			
Interest on investments	219	14	
Net cash provided by investing activities	<u>219</u>	<u>14</u>	
Net increase in cash and investments	26,362	64,777	-
Cash and investments - beginning of year	<u>258,105</u>	<u>48,652</u>	
Cash and investments - end of year	<u><u>\$ 284,467</u></u>	<u><u>\$ 113,429</u></u>	<u><u>\$ -</u></u>

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

City of Guadalupe
Statement of Cash Flows
Enterprise Funds
Year Ended June 30, 2013
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)	\$ 235,955	\$ (213,924)	\$ (37,453)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	163,226	442,887	
Accounts receivable	59,522	3,625,451	(7,850)
Accounts payable	22,582	(1,061,900)	43,636
Due to other funds	(150,000)		
Deposits payable	(1,893)		
Accrued wages and benefits	(64)	433	
Total adjustments	<u>93,373</u>	<u>3,006,871</u>	<u>35,786</u>
Net cash provided by (used in) operating activities	<u>\$ 329,328</u>	<u>\$ 2,792,947</u>	<u>\$ (1,667)</u>

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

<u>Transit</u>	<u>Total</u>
<u>\$ (46,165)</u>	<u>\$ (61,587)</u>
104,346	710,459
20,826	3,697,949
(4,362)	(1,000,044)
	(150,000)
	(1,893)
	369
<u>120,810</u>	<u>3,256,840</u>
<u>\$ 74,645</u>	<u>\$ 3,195,253</u>

City of Guadalupe
Statement of Fiduciary Net Position
Private-Purpose Trust Fund
June 30, 2013

Assets

Cash and investments	\$ 461,331
Cash with fiscal agent	414,750
Accounts receivable	16,225
Loans receivable from City of Guadalupe	749,539
Loans receivable	476,609
Property held for resale	222,482
Capital assets, net of accumulated depreciation	<u>1,036,276</u>
 Total assets	 <u>3,377,212</u>

Liabilities

Accounts payable	17,786
Interest payable	115,000
Long-term liabilities:	
Due within one year	142,462
Due after one year	<u>5,478,137</u>
 Total liabilities	 <u>5,753,385</u>

Net Position

Held in trust for other governments	<u><u>\$ (2,376,173)</u></u>
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The notes to the financial statements are an integral part of these financial statements.

City of Guadalupe
Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Fund
Year Ended June 30, 2013

Additions:	
Property taxes	\$ 546,886
Other revenues	79,843
Total additions	<u>626,729</u>
 Deductions:	
Program expenses	1,956,161
Administrative expenses	185,000
Interest on long-term liabilities	253,074
Depreciation	9,900
Total deductions	<u>2,404,135</u>
Change in net position	<u>(1,777,406)</u>
Net position - beginning of year	(456,727)
Prior year restatement	<u>(142,040)</u>
Net position - beginning of year, restated	<u>(598,767)</u>
Net position - end of year	<u>\$ (2,376,173)</u>

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

City of Guadalupe
Notes to Financial Statements
June 30, 2013

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 provides 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 Governmental Accounting Standards Board (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 enterprise 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.

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

Water Fund: This 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 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 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.

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

Note 2: Summary of Significant Accounting Policies (Continued)

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 that accounts for the assets and liabilities of the former Redevelopment Agency. The private purpose trust fund is 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 \$19,380 as of June 30, 2013.

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 of a property's fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless

Note 2: Summary of Significant Accounting Policies (Continued)

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.

Subsequent Events

Events subsequent to June 30, 2013, have been evaluated through March 21, 2014, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Cash and Investments

At June 30, 2013, cash and investments consisted of the following:

Deposits:		
Cash in bank	\$	1,705,392
Pooled investment funds:		
Cash in Local Agency Investment Fund (LAIF)		<u>303,212</u>
Total	\$	<u><u>2,008,604</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 \$95,829 at June 30, 2013.

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Note 3: Loans Receivable (Continued)

At June 30, 2013, the aggregate maturities of loans receivable were as follows:

<u>For the Year Ending June 30,</u>	
2014	\$ 23,642
2015	13,488
2016	13,488
2017	8,648
2018	4,300
Thereafter	<u>32,263</u>
Total	<u>\$ 95,829</u>

Note 5: Capital Assets

For the year ended June 30, 2013, governmental activities capital assets activity was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and</u> <u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 343,131	\$	\$	\$ 343,131
Construction in progress	43,121	30,501		73,622
Total capital assets not being depreciated	<u>386,252</u>	<u>30,501</u>		<u>416,753</u>
Capital assets being depreciated:				
Buildings and improvements	6,248,396		(1,050,536)	5,197,860
Vehicles	868,854			868,854
Equipment	587,498	23,348	(6,988)	603,858
Infrastructure	5,817,831		1,050,536	6,868,367
Total capital assets being depreciated	<u>13,522,579</u>	<u>23,348</u>	<u>(6,988)</u>	<u>13,538,939</u>
Less accumulated depreciation for:				
Buildings and improvements	809,107	121,915		931,022
Vehicles	798,523	37,887		836,410
Equipment	571,409	7,845	(6,988)	572,266
Infrastructure	1,203,975	290,671		1,494,646
Total accumulated depreciation	<u>3,383,014</u>	<u>458,318</u>	<u>(6,988)</u>	<u>3,834,344</u>
Total capital assets being depreciated, net	<u>10,139,565</u>	<u>(434,970)</u>	<u>-</u>	<u>9,704,595</u>
Governmental activities capital assets, net	<u>\$ 10,525,817</u>	<u>\$ (404,469)</u>	<u>\$ -</u>	<u>\$ 10,121,348</u>

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June 30, 2013
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Note 5: Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:	
Public safety	\$ 44,078
Leisure, cultural & social services	36,137
Community development	252,900
General government	<u>125,203</u>
Total governmental activities depreciation expense	<u><u>\$ 458,318</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 \$52,950 as of June 30, 2013.

For the year ended June 30, 2013, business-type capital assets activity was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and</u> <u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 194,995	\$	\$	\$ 194,995
Total capital assets not being depreciated	<u>194,995</u>			<u>194,995</u>
Capital assets being depreciated:				
Buildings and improvements	9,463,916			9,463,916
Vehicles	1,003,725			1,003,725
Equipment	435,057	1,759		436,816
Infrastructure	6,949,655			6,949,655
Total capital assets being depreciated	<u>17,852,353</u>	<u>1,759</u>		<u>17,854,112</u>
Less accumulated depreciation for:				
Buildings, infrastructure and improvements	5,445,697	262,099		5,707,796
Vehicles	455,713	98,755		554,468
Equipment	430,819	2,122		432,941
Infrastructure	772,064	347,483		1,119,547
Total accumulated depreciation	<u>7,104,293</u>	<u>710,459</u>		<u>7,814,752</u>
Total capital assets being depreciated, net	<u>10,748,060</u>	<u>(708,700)</u>		<u>10,039,360</u>
Business-type activities capital assets, net	<u><u>\$ 10,943,055</u></u>	<u><u>\$ (708,700)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,234,355</u></u>

City of Guadalupe
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June 30, 2013
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Note 5: Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Business-type activities:		
Water	\$	163,226
Waste water		442,887
Transit		<u>104,346</u>
Total business-type activities depreciation expense	\$	<u><u>710,459</u></u>

Note 6: Long-Term Liabilities

For the year ended June 30, 2013, governmental activities long-term liabilities activity was as follows:

	Balance			Balance	Due Within
	June 30, 2012	Additions	Deductions	June 30, 2013	One Year
Sewer bonds	\$ 99,000	\$	\$ 12,000	\$ 87,000	\$ 13,000
Certificates of participation	1,220,800		13,560	1,207,240	23,000
Compensated absences	192,077	195,935		388,012	192,130
Capital leases payable	<u>30,130</u>		<u>14,605</u>	<u>15,525</u>	<u>14,605</u>
Total	<u><u>\$ 1,542,007</u></u>	<u><u>\$ 195,935</u></u>	<u><u>\$ 40,165</u></u>	<u><u>\$ 1,697,777</u></u>	<u><u>\$ 242,735</u></u>

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, 2013, the principal balance outstanding was \$87,000.

At June 30, 2013, the aggregate maturities of the sewer bonds were as follows:

	For the Year			
	Ending June 30,	Principal	Interest	Total
2014		\$ 13,000	\$ 3,750	\$ 16,750
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
2019-2019		<u>16,000</u>	<u>100</u>	<u>16,100</u>
Total		<u><u>\$ 87,000</u></u>	<u><u>\$ 11,850</u></u>	<u><u>\$ 98,850</u></u>

Note 6: Long-Term Liabilities (Continued)

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 semi annually through August 1, 2041. At June 30, 2013, the principal balance outstanding was \$1,198,800.

At June 30, 2013, the aggregate maturities of the certificates of participation were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2014	\$ 23,000	\$ 54,613	\$ 77,613
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
2019-2023	155,000	230,504	385,504
2024-2028	196,000	191,325	387,325
2029-2033	246,000	141,881	387,881
2034-2038	305,000	80,196	385,196
2039-2042	179,240	12,469	191,709
Total	<u>\$ 1,207,240</u>	<u>\$ 918,381</u>	<u>\$ 2,125,621</u>

Capital Leases Payable

The City leases vehicles and equipment under capital leases that expire through November 2013. At June 30, 2013, future minimum payments on capital leases were as follows:

For the Year Ending June 30,	
2014	\$ 16,503
Less interest	<u>(978)</u>
Present value of minimum lease payments	15,525
Less current portion	<u>(14,605)</u>
Long-term principal obligations	<u>\$ 920</u>

City of Guadalupe
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Note 6: Long-Term Liabilities (Continued)

For the year ended June 30, 2013, business-type activities long-term liabilities activity was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Short-term loan	\$ 2,500,000	\$	\$ 2,500,000	\$ -	\$
Certificates of participation	1,064,027		25,730	1,038,297	27,896
Loans payable to Successor Agency Trust Fund	<u>779,539</u>		<u>30,000</u>	<u>749,539</u>	<u>30,000</u>
Total	<u>\$ 4,343,566</u>	<u>\$ -</u>	<u>\$ 2,555,730</u>	<u>\$ 1,787,836</u>	<u>\$ 57,896</u>

Certificates of Participation

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 semi annually through July 28, 2035. At June 30, 2013, the principal balance outstanding was \$1,038,297.

At June 30, 2013, the aggregate maturities of the certificates of participation were as follows:

<u>For the Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 27,896	\$ 43,604	\$ 71,500
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
2019-2023	185,399	171,225	356,624
2024-2028	226,925	128,904	355,829
2029-2033	277,754	77,105	354,859
2034-2037	<u>196,747</u>	<u>16,676</u>	<u>213,423</u>
Total	<u>\$ 1,038,297</u>	<u>\$ 599,711</u>	<u>\$ 1,638,008</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, 2018. 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, 2013 was \$596,910.

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, 2018. 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, 2013 was \$152,629.

At June 30, 2013, 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
2014	\$ 20,000	\$ 10,000	\$ 30,000
2015	150,000	20,000	170,000
2016	150,000	20,000	170,000
2017	150,000	50,000	200,000
2018	126,910	52,629	179,539
Total	<u>\$ 596,910</u>	<u>\$ 152,629</u>	<u>\$ 749,539</u>

Note 7: 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 \$14,347 for the year ended June 30, 2013.

Note 7: Operating Leases (Continued)

At June 30, 2013, future minimum lease payments under these operating leases were as follows:

<u>For the Year Ending June 30.</u>	
2014	\$ 13,740
2015	13,274
2016	8,148
2017	<u>2,716</u>
Total	<u>\$ 37,878</u>

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, 2013, 2012, and 2011 were 11.729%, 11.179, and 10.088 percent for miscellaneous employees, respectively, and 13.688%, 13.620% and 10.256%, 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, 2013, 2012, and 2011 were \$332,852, \$329,686, and \$271,518, respectively, and were equal to 100% of the City's annual required contributions.

Note 8: City Employees' Retirement Benefits (Continued)

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, 2013, there were no interfund receivables and payables.

Interfund Loans

The City has converted or established various interfund receivables and payables into loans that have repayment terms longer than one year.

At June 30, 2013, interfund loans between governmental and enterprise funds were as follows:

	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
Community Development Fund	\$ 448,508	\$
Water Fund		274,254
Wastewater Treatment Fund		174,254
Total	<u>\$ 448,508</u>	<u>\$ 448,508</u>

In June 2011, the Water and Wastewater Funds made loans to the Community Development Fund in the amount of \$184,254 each for the purpose of financing capital outlay expenditures in excess of grant funding for the Wastewater and Water infrastructure improvements. The loans bear no interest.

City of Guadalupe
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Note 9: Interfund Transactions (Continued)

In February 2011, the Water Fund made a loan to the Community Development Fund in the amount of \$100,000 for the purpose of financing the water line improvement project. The loan bears no interest.

At June 30, 2013, aggregate maturities of the interfund loans payable were as follows:

<u>For the Year Ending June 30,</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
2014	\$ 60,000	\$ 10,000	\$ 70,000
2015	60,000	10,000	70,000
2016	10,000	10,000	20,000
2017	15,000	15,000	30,000
2018	25,000	25,000	50,000
2019-2023	<u>104,254</u>	<u>104,254</u>	<u>208,508</u>
Total	<u>\$ 274,254</u>	<u>\$ 174,254</u>	<u>\$ 448,508</u>

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, 2013, interfund transfers were as follows:

Transfer from Other Governmental Funds to the General Fund	\$ 288,586
Transfer from the Water Fund to the General Fund	300,000
Transfer from the Wastewater Treatment Fund to the General Fund	125,000
Transfer from the Transit Fund to the General Fund	25,000
Transfer from Other Governmental Funds to the Transit Fund	11,667
Transfer from the General Fund to Other Governmental Funds	77,000
Transfer between Other Governmental Funds	<u>184,567</u>
Total	<u>\$ 1,011,820</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, 2013, expenditures exceeded appropriations in individual major funds as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
City council	\$ 97
City Attorney	980
Police	106,872
Fire	16,099

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.

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

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

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 \$672,385 for the year ended June 30, 2013. The City's allocation of CCWA's operating expenses for the year ended June 30, 2013 was \$105,645.

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.

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

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

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.

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.

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

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 2012-13.

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, 2013, the City had ending fund deficiency in the Proposition 84 Fund of \$3,084.

At June 30, 2013, the City had ending negative net position in the Solid Waste Fund of \$240,090.

The City intends to address the ending fund deficiency and net deficiency with cost reductions, furloughs, transfers from other funds, and solid waste rate increases in fiscal year 2013-14. See information about going concern at Note 17.

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.

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

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.

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 \$461,331 in cash and investments as of June 30, 2013, 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.

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

Cash with Fiscal Agent

The Trust Fund had \$414,750 in cash and investments as of June 30, 2013, 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 \$749,539 in loans receivable due from the City as of June 30, 2013. Refer to Note 6 for additional information on the terms and the aggregate maturities of the loans receivable as of June 30, 2013.

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, 2013, there has been no activity on the project. The balance on the loan was \$452,518 at June 30, 2013.

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 \$24,091 at June 30, 2013.

On June 30, 2007, construction in progress on the Lantern Hotel was completed and all costs incurred were converted to a loan receivable from the developer. During the year ended June 30, 2013, the developer defaulted on the loan resulting in a reduction of the loan balance from \$1,449,440 to the property's appraised value of \$750,000 which will be held in the Trust Fund as redevelopment property.

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

At June 30, 2013, the aggregate maturities of loans receivable were as follows:

<u>For the Year Ending June 30,</u>	
2014	\$ 4,900
2015	4,900
2016	4,900
2017	4,900
2018	4,491
Thereafter	<u>452,518</u>
Total	<u>\$ 476,609</u>

Capital Assets

For the year ended June 30, 2013, capital assets activity was as follows:

	<u>Balance June 30, 2012</u>	<u>Transfers/ Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Construction in progress	\$ 79,804	\$ 13,120	\$ (19,508)	\$ 73,416
Redevelopment property		750,000		750,000
Capital assets being depreciated:				
Infrastructure	201,197			201,197
Structures and improvements	83,333			83,333
Less accumulated depreciation	<u>(61,770)</u>	<u>(9,900)</u>		<u>(71,670)</u>
Net capital assets	<u>\$ 302,564</u>	<u>\$ 753,220</u>	<u>\$ (19,508)</u>	<u>\$ 1,036,276</u>

Long-term Liabilities

For the year ended June 30, 2013, long-term liabilities activity was as follows:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Note payable	\$ 57,256	\$	\$ 31,657	\$ 25,599	\$ 2,462
Tax allocation bonds	<u>5,730,000</u>		<u>135,000</u>	<u>5,595,000</u>	<u>140,000</u>
Total	<u>\$ 5,787,256</u>	<u>\$ -</u>	<u>\$ 166,657</u>	<u>\$ 5,620,599</u>	<u>\$ 142,462</u>

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

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, 2013, the principal balance outstanding was \$25,599.

At June 30, 2013, 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>
2014	\$ 2,462	\$ 2,397	\$ 4,859
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
2019-2020	<u>10,753</u>	<u>1,896</u>	<u>12,649</u>
Total	<u>\$ 25,599</u>	<u>\$ 11,344</u>	<u>\$ 36,943</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, 2013, the principal balance outstanding was \$5,595,000.

At June 30, 2013, 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>
2014	\$ 140,000	\$ 272,155	\$ 412,155
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
2019-2023	930,000	1,124,751	2,054,751
2024-2028	1,210,000	852,797	2,062,797
2029-2033	1,560,000	500,453	2,060,453
2034-2036	<u>1,140,000</u>	<u>484,174</u>	<u>1,624,174</u>
Total	<u>\$ 5,595,000</u>	<u>\$ 4,267,440</u>	<u>\$ 9,862,440</u>

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

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 2008/2009 through 2011/2012, the former redevelopment agency expended a total of \$188,607 towards the cleanup costs. Clean up costs incurred but not paid in 2012/2013 total \$17,382 and are included as 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 2012/2013 included site assessment, first semi-annual monitoring, corrective action plan, regulatory technical assistance, management and consulting, budgetary analysis, remediation services and waste profiling and removal services. Tasks associated with the cleanup costs in 2011/2012 included preparation of an interim remedial plan, drilling and sampling of initial borings at site, well installation activities and reporting. Prior to fiscal year 2010/2011, the former redevelopment agency incurred cleanup costs for tasks associated with well monitoring and reporting.

The estimated liability in 2013/2014 is \$70,000. Tasks associated with these cleanup costs will include placing remediation equipment on the site to implement active remediation processes. Estimated future costs beyond June 30, 2014 are expected to be approximately \$1.2 million 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 \$1.5 million.

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.

Prior Year Restatement

A prior year restatement was required to properly record bond interest payable at June 30, 2012. The effect was to decrease beginning net position and interest expense by \$142,040 as of and for the year ended June 30, 2013.

Note 15: Contingencies and Commitments

Contingent Liabilities

As of June 30, 2013, 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.

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 16: Prior Year Restatement

During the year ended June 30, 2013, the City identified construction in progress that had been placed into service in previous years. A prior year restatement was required to reclassify \$2,495,570 of governmental activity infrastructure assets out of construction in progress. In addition, a prior year restatement was required to record \$297,216 of depreciation related to prior years that resulted in an increase to accumulated depreciation and a decrease to net position of governmental activities as of June 30, 2013.

Note 17: Going Concern

In fiscal year 2012/2013, the City's General Fund adjusted to the economic struggles caused by the State's decision to dissolve all Redevelopment Agencies. Cost-cutting measures resulted in savings that helped the General Fund achieve steady improvement. One-time revenues from key sources coupled with spending cuts resulted in a positive net effect on the General Fund.

The General Fund finished the year with unreserved, undesignated fund balance of \$364,998 compared to \$(339,359) in the prior fiscal year. Overall, the Fund's assets exceeded liabilities, resulting in this positive effect on fund balance at the end of the year of \$364,998. The fact that the City reversed the negative trend within one year is a good indication of fiscal responsibility. The consistency of key revenue sources still remain unproven. The General Fund must experience the reversed trend over the long-term in order to be considered permanently solvent. This set of circumstances has raised substantial doubt about the City's ability to continue as a going concern.

Note 17: Going Concern (Continued)

The June 30, 2014 adopted budget was approved with several cost savings measures and revenue enhancement plans. Key revenue increases are expected with a focus on consistent and permanent allocations for future years. Cost-cutting measures included reductions in positions, merging Parks with Recreation departments and transferring a Parks employee to the Street Department, eliminating the Planning and Recreation Commissions, privatizing Building Maintenance and Landscape services. Revenue increases are expected in General Fund user fees and utility rates.

Current projections for fiscal year 2013/2014 show that revenues will exceed expenditures and, as of the date of this report, the City is meeting its obligations with sufficient revenue sources. The City's objective is to achieve permanent financial stability and believes that success is attainable. The City is currently operating in a prudent financial manner and assures continued fiscal operations into the future.

Required Supplementary Information
(Unaudited)

City of Guadalupe
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2013

	General Fund			Variance with Budget Positive (Negative)
	Budget	Final	Actual (GAAP Basis)	
Revenues:				
Taxes	\$ 1,347,950	\$ 1,298,744	\$ 1,780,259	\$ 481,515
Licenses and permits	56,000	62,550	50,523	(12,027)
Fines and penalties	12,800	12,800	16,123	3,323
Revenues from other agencies	53,500	83,000	559,561	476,561
Charges for current services	39,050	3,000	5,275	2,275
Interest			65	65
Other revenues	155,000	424,200	510,132	85,932
Total revenues	<u>1,664,300</u>	<u>1,884,294</u>	<u>2,921,938</u>	<u>1,037,644</u>
Expenditures:				
City council	9,050	9,050	9,147	(97)
Administration	404,129	547,181	541,122	6,059
City attorney	60,000	60,000	60,980	(980)
Finance and city treasurer	321,322	321,322	319,366	1,956
Building inspections and maintenance	242,600	213,178	175,206	37,972
Police	1,427,136	1,235,136	1,342,008	(106,872)
Fire	460,320	431,070	447,169	(16,099)
Parks and recreation	48,100	58,100	44,916	13,184
Total expenditures	<u>2,972,657</u>	<u>2,875,037</u>	<u>2,939,914</u>	<u>(64,877)</u>
Excess (deficiency) of revenues under expenditures	<u>(1,308,357)</u>	<u>(990,743)</u>	<u>(17,976)</u>	<u>972,767</u>
Other financing sources (uses):				
Operating transfers in	1,044,000	1,044,000	738,586	(305,414)
Operating transfers out	(77,000)	(77,000)	(77,000)	-
Total other financing sources (uses)	<u>967,000</u>	<u>967,000</u>	<u>661,586</u>	<u>(305,414)</u>
Change in fund balance	(341,357)	(23,743)	643,610	667,353
Fund deficiency - beginning of year	<u>(339,359)</u>	<u>(339,359)</u>	<u>(339,359)</u>	<u>-</u>
Fund balance - end of year	<u>\$ (680,716)</u>	<u>\$ (363,102)</u>	<u>\$ 304,251</u>	<u>\$ 667,353</u>

See independent auditors' report.

City of Guadalupe
Budgetary Comparison Schedule – Community Development Fund
Seven Months Ended June 30, 2013

	<u>Community Development Fund</u>			Variance with Budget Positive (Negative)
	<u>Budget</u>	<u>Final</u>	<u>Actual (GAAP Basis)</u>	
Revenues:				
Interest	\$	\$	\$ 57	\$ 57
Total revenues			<u>57</u>	<u>57</u>
Change in fund balance			57	57
Fund deficiency - beginning of year	<u>106,438</u>	<u>106,438</u>	<u>106,438</u>	<u>-</u>
Fund balance (deficiency) - end of year	<u>\$ 106,438</u>	<u>\$ 106,438</u>	<u>\$ 106,495</u>	<u>\$ 57</u>

See independent auditors' report.

Other Information and Combining Fund Statements

**City of Guadalupe
Combining Balance Sheet
Other Governmental Funds
Year Ended June 30, 2013**

	Gas Tax	Measure D	Local Transportation	Library
Assets				
Cash and investments	\$ 179,671	\$	\$ 246,423	\$
Accounts receivable	105,202			
Total assets	\$ 284,873	\$ -	\$ 246,423	\$ -
Liabilities and Fund Balance (Deficiency)				
Liabilities:				
Accounts payable	\$ 22,500	\$	\$ 4,864	\$
Accrued wages and benefits	1,493			
Total liabilities	23,993		4,864	
Fund balance (deficiency):				
Restricted for:				
Street maintenance			241,559	
Other capital projects	260,880			
Bikeway and pedestrian paths				
Public safety				
Utility infrastructure				
Debt service				
Committed to:				
Lighting and landscape				
Public safety				
Unassigned:				
Total fund balance (deficiency)	260,880		241,559	
Total liabilities and fund balance (deficiency)	\$ 284,873	\$ -	\$ 246,423	\$ -

See independent auditors' report.

<u>Public Facilities</u>	<u>Park Development</u>	<u>Asset Seizure</u>	<u>Guadalupe Lighting and Assessment</u>	<u>Public Safety</u>	<u>Measure A</u>	<u>Proposition 84</u>
\$ 15,301	\$ 4,914	\$ 1,232	\$ 248,174	\$ 60,332	\$ 347,713 106,982	\$ 39,994
<u>\$ 15,301</u>	<u>\$ 4,914</u>	<u>\$ 1,232</u>	<u>\$ 248,174</u>	<u>\$ 60,332</u>	<u>\$ 454,695</u>	<u>\$ 39,994</u>
				\$ 15,398 3,035 <u>18,433</u>	\$ 45,573 3,009 <u>48,582</u>	\$ 43,078 <u>43,078</u>
	4,914				408,113	
15,301				41,899		
			248,174			
		1,232			(2,000)	(3,084)
<u>15,301</u>	<u>4,914</u>	<u>1,232</u>	<u>248,174</u>	<u>41,899</u>	<u>406,113</u>	<u>(3,084)</u>
<u>\$ 15,301</u>	<u>\$ 4,914</u>	<u>\$ 1,232</u>	<u>\$ 248,174</u>	<u>\$ 60,332</u>	<u>\$ 454,695</u>	<u>\$ 39,994</u>

**City of Guadalupe
Combining Balance Sheet
Other Governmental Funds
Year Ended June 30, 2013
Page 2**

	<u>Bike and Pedestrian</u>	<u>Sewer Bond Debt Service</u>	<u>Highway 1 Improvement Capital Projects</u>	<u>Total Other Governmental Funds</u>
Assets				
Cash and investments	\$ 3,016	\$ 18,614	\$	\$ 1,065,058
Accounts receivable	<u>2,236</u>			<u>314,746</u>
Total assets	<u>\$ 5,252</u>	<u>\$ 18,614</u>	<u>\$ -</u>	<u>\$ 1,379,804</u>
Liabilities and Fund Balance (Deficiency)				
Liabilities:				
Accounts payable	\$	\$	\$	\$ 131,413
Accrued wages and benefits				<u>7,537</u>
Total liabilities				<u>138,950</u>
Fund balance (deficiency):				
Restricted for:				
Street maintenance				649,672
Other capital projects				265,794
Bikeway and pedestrian paths	5,252			5,252
Public safety				41,899
Utility infrastructure				15,301
Debt service		18,614		18,614
Committed to:				
Lighting and landscape				248,174
Public safety				1,232
Unassigned:				<u>(5,084)</u>
Total fund balance (deficiency)	<u>5,252</u>	<u>18,614</u>		<u>1,240,854</u>
Total liabilities and fund balance (deficiency)	<u>\$ 5,252</u>	<u>\$ 18,614</u>	<u>\$ -</u>	<u>\$ 1,379,804</u>

See independent auditors' report.

City of Guadalupe
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance (Deficiency) –
Other Governmental Funds
Year Ended June 30, 2013

	<u>Gas Tax</u>	<u>Measure D</u>	<u>Local Transportation</u>	<u>Library</u>
Revenues:				
Taxes	\$ 268,486	\$	\$	\$
Revenues from other agencies			4,617	
Interest	83		128	
Other revenues				537
Total revenues	<u>268,569</u>		<u>4,745</u>	<u>537</u>
Expenditures:				
Personnel services	119,585			
Maintenance and operations	90,360		4,864	
Capital outlay	7,272			
Debt service:				
Principal				
Interest and fiscal charges				
Total expenditures	<u>217,217</u>		<u>4,864</u>	
Excess of revenues over (under) expenditures	<u>51,352</u>		<u>(119)</u>	<u>537</u>
Other financing sources (uses):				
Operating transfers in				
Operating transfers out	<u>(60,000)</u>	<u>(243,181)</u>	<u>(25,000)</u>	
Total other financing sources (uses)	<u>(60,000)</u>	<u>(243,181)</u>	<u>(25,000)</u>	
Change in fund balance	(8,648)	(243,181)	(25,119)	537
Fund balance (deficiency) - beginning of year	<u>269,528</u>	<u>243,181</u>	<u>266,678</u>	<u>(537)</u>
Fund balance (deficiency) - end of year	<u>\$ 260,880</u>	<u>\$ -</u>	<u>\$ 241,559</u>	<u>\$ -</u>

See independent auditors' report.

<u>Public Facilities</u>	<u>Park Development</u>	<u>Asset Seizure</u>	<u>Guadalupe Lighting and Assessment</u>	<u>Public Safety</u>	<u>Measure A</u>	<u>Proposition 84</u>
\$	\$	\$	\$ 195,244	\$ 14,746	\$ 425,167	\$
			105	176,329		39,994
		7		31	144	
		<u>7</u>	<u>195,349</u>	<u>191,106</u>	<u>425,311</u>	<u>39,994</u>
				186,087	181,898	
			94,808	5,428	37,021	42,523
				3,887	55,695	
			<u>94,808</u>	<u>195,402</u>	<u>274,614</u>	<u>42,523</u>
		7	100,541	<u>(4,296)</u>	<u>150,697</u>	<u>(2,529)</u>
				77,000	176,314	
				<u>(69,586)</u>	<u>(86,920)</u>	
				<u>7,414</u>	<u>89,394</u>	
		7	100,541	3,118	240,091	(2,529)
<u>15,301</u>	<u>4,914</u>	<u>1,225</u>	<u>147,633</u>	<u>38,781</u>	<u>166,022</u>	<u>(555)</u>
<u>\$ 15,301</u>	<u>\$ 4,914</u>	<u>\$ 1,232</u>	<u>\$ 248,174</u>	<u>\$ 41,899</u>	<u>\$ 406,113</u>	<u>\$ (3,084)</u>

City of Guadalupe
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance (Deficiency) –
Other Governmental Funds
Year Ended June 30, 2013
Page 2

	<u>Bike and Pedestrian</u>	<u>Sewer Bond Debt Service</u>	<u>Highway 1 Improvement Capital Projects</u>	<u>Total Other Governmental Funds</u>
Revenues:				
Taxes	\$	\$ 17,067	\$	\$ 920,710
Revenues from other agencies	27,440			248,380
Interest		12	1	504
Other revenues				544
Total revenues	<u>27,440</u>	<u>17,079</u>	<u>1</u>	<u>1,170,138</u>
Expenditures:				
Personnel services				487,570
Maintenance and operations				275,004
Capital outlay	30,280			97,134
Debt service:				
Principal		12,000		12,000
Interest and fiscal charges		4,950		4,950
Total expenditures	<u>30,280</u>	<u>16,950</u>		<u>876,658</u>
Excess of revenues over (under) expenditures	<u>(2,840)</u>	129	<u>1</u>	<u>293,480</u>
Other financing sources (uses):				
Operating transfers in	8,253			261,567
Operating transfers out			(133)	(484,820)
Total other financing sources (uses)	<u>8,253</u>		<u>(133)</u>	<u>(223,253)</u>
Change in fund balance	5,413	129	(132)	70,227
Fund balance (deficiency) - beginning of year	<u>(161)</u>	<u>18,485</u>	<u>132</u>	<u>1,170,627</u>
Fund balance (deficiency) - end of year	<u>\$ 5,252</u>	<u>\$ 18,614</u>	<u>\$ -</u>	<u>\$ 1,240,854</u>

See independent auditors' report.

**City of Guadalupe
Organization
June 30, 2013**

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

Carolyn Galloway-Cooper, CPA
Finance Director

Michael Pena
Public Works Director

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, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 2014.

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 and significant deficiencies.

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

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

severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 2013-01, 2013-02, 2013-03, 2013-04 and 2013-05 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*.

We noted certain matters that we reported to management of the City of Guadalupe in a separate letter dated March 21, 2014.

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

March 21, 2014

Audit Findings and Recommendations Section

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2013

2013-01 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 and total liabilities exceed total assets.

Condition: The Solid Waste Fund has ending net position at the year ended June 30, 2013. This is a repeat finding from the years ended June 30, 2005 through 2012 and has not been addressed for 2013.

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

Recommendation: The City should continue to ensure the Solid Waste Fund remains solvent by requiring balancing their operating budget. This most likely will be through increased revenues through rate changes, reduced costs through operating efficiencies, supplemental funding from the City's General Fund, or some combination.

City Response: Under the new Solid Waste franchise agreement which was signed in FY 2012-13, the City's solid waste contractor has taken over responsibility for City street sweeping. Street sweeping is an activity which can be covered by Measure A revenue. As a result, the City is now making an annual transfer from the Measure A Fund to the Solid Waste Fund to acknowledge the value of the street sweeping being done by the solid waste contractor. By itself, this would bring the Solid Waste Fund into balance over multiple years. To balance the Solid Waste Fund more quickly, during the first quarter of 2014, City staff plans to bring a recommendation to City Council to increase garbage rates.

2013-02 Accrued Liabilities (Material Weakness)

Criteria: The City should be performing regular monthly and year-end analysis of all accounts payable and other accrued liabilities to verify that all are recognized in the correct period and on a timely basis.

Condition: During our testwork of liabilities, we noted various invoices that had not yet been properly accrued as of June 30, 2013. Although the City performs regular monthly accruals for accounts payable, additional adjusting journal entries were required as of June 30, 2013 to the general ledger.

Effect: Various adjusting journal entries were required to correct the liabilities as of June 30, 2013. If liabilities are not recorded in the correct period, internal financial reports may prove unreliable and the chance of accounting errors being caught is less likely if in-depth reconciliations are only done as part of the year-end audit.

Recommendation: We recommend that the City adopt policies over the year-end liability reconciliation process to ensure they are recorded in a timely and accurate manner.

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2013
Page 2

2013-02 Accrued Liabilities (Material Weakness) (Continued)

City Response: The City has implemented year-end procedures to track and properly record liabilities. This procedure was put in to place prior to fiscal year-end June 30, 2013. The procedure includes the final reconciliation process to ensure timely and accurate liabilities related to accounts payable. Accounts payable staff will continue to work emphatically to resolve this issue.

2013-03 Accrual Accounting in Fiduciary Funds (Material Weakness)

Criteria: The City, as the Successor Agency of the former redevelopment agency, should be maintaining the accounting records of the private purpose trust fund on the accrual basis of accounting, as required for fiduciary funds under generally accepted accounting principles.

Condition: During our testwork of liabilities and capital assets, we noted current year capital asset activity had not been recorded in the general ledger on an accrual basis of accounting. We also noted that the prior year accounts payable and bond interest payable had not been recorded accurately.

Effect: Various adjusting journal entries were required to correct balances in the general ledger as of June 30, 2013. In addition, a prior period restatement was required to record bond interest payable and correctly recognize accounts payable at June 30, 2012.

Recommendation: We recommend that the City record all capital assets and long-term debt activity on the accrual basis of accounting as required under generally accepted accounting principles.

City Response: The City agrees and will maintain the records of the private purpose trust fund on the accrual basis of accounting. The City understands the methodology and 2013 was the City's first year of encountering private purpose trust fund activities.

2013-04 Capital Assets (Material Weakness)

Criteria: Accounting principles generally accepted in the United States of America require local governments to report capital assets and related accumulated depreciation and depreciation expense at the government-wide level for governmental type activities. Local governments are also required to maintain a complete listing of capital assets, including land, building, improvements, equipment, infrastructure and construction in progress, at cost or estimated historical cost basis.

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2013
Page 3

2013-04 Capital Assets (Material Weakness) (Continued)

Condition: Infrastructure assets that had been placed in service during prior years were not properly removed from construction in progress and classified as infrastructure capital assets. In addition the infrastructure capital assets placed into service were not being depreciated during that time period.

Effect: A prior year restatement was required to reclassify \$2,495,570 of governmental activity infrastructure assets out of construction in progress. In addition, a prior year restatement was required to record \$297,216 of depreciation related to prior years that resulted in an increase to accumulated depreciation and a decrease to net position of governmental activities as of June 30, 2013.

Recommendation: We recommend that the City establish procedures to timely identify construction in progress projects that are completed to properly transfer the capital assets to the appropriate asset classification and to begin depreciating the capital asset when it is placed in service.

City Response: The City Administrator and Finance Director will establish a reconciliation of construction in progress prior to the end of the fiscal year to determine which projects are completed and make the necessary adjustments to reclassify construction in progress to the appropriate asset account as well as begin depreciation when the asset is placed in service.

2013-05 Payroll Tax Liability (Material Weakness)

Criteria: Payroll taxes must be remitted and reported within federal and other government authority timelines.

Condition: The City did not accurately correct W-2 forms related to the 2006 tax year in accordance with IRS records. The W-2's were filed twice in error which resulted in discrepancies between the IRS and City records and the underpayment of payroll taxes. The correspondence related to this matter between the City and the IRS did not resolve the matter timely resulting in additional interest and penalties that the City is currently working to abate.

Effect: A liability was recorded in the applicable funds as of June 30, 2013 for the potential payroll tax liability including penalties and interest in anticipation of resolving the issue with the IRS.

Recommendation: We recommend that the City adopt policies over the payroll tax filing process to ensure they are reported correctly and in a timely and accurate manner to all required authorities. The City should also be responsive in a timely manner to any correspondence from other government authorities.

City Response: The Finance Director has implemented a quarterly reconciliation process for the payroll taxes to ensure all taxes are paid for the quarter in a timely manner. The City will also be responsive to any and all correspondence from other government authorities.

City of Guadalupe
Summary Schedule of Prior Year Audit Findings and Recommendations – June 30, 2012
Year Ended June 30, 2013

<u>Findings/Recommendation</u>	<u>Current Year</u>	<u>City Explanation if Not Implemented</u>
We recommended the City continue to analyze all potential cost cutting measures and review these options to establish a budget plan for the General Fund to recoup the negative fund balance.	Implemented	
We recommended the City 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 2013-01.
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.	Partially Implemented	See current year finding 2013-02.
We recommend the City establish a policy of reconciling their total cash balance and bank statements for cash held with fiscal agents to the general ledger on a monthly and timely basis, and that Council establish a method of monitoring compliance with this policy.	Implemented	