

**CITY OF AVENAL
CALIFORNIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014**

**CITY OF AVENAL
JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Avenal, 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 Avenal, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avenal, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the schedule of funding progress for other postemployment benefits on page 46, the schedule of funding progress for pension plan on page 47, and budgetary comparison information on pages 48-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Price Pange & Company

Clovis, California
November 7, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF AVENAL
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 9,329,942	\$ 5,672,800	\$ 15,002,742
Cash with fiscal agent	658,439	-	658,439
Receivables:			
Consumer	-	531,107	531,107
Taxes	129,683	-	129,683
Intergovernmental	696,907	-	696,907
Community loans	12,187,531	-	12,187,531
Other	134,435	-	134,435
Internal balances	3,999,431	(3,999,431)	-
Due from Successor Agency	3,280,000	-	3,280,000
Inventories	-	97,624	97,624
Other assets	-	12,962	12,962
Capital assets:			
Non-depreciable	1,196,253	101,000	1,297,253
Depreciable, net of accumulated depreciation	<u>22,422,407</u>	<u>16,675,701</u>	<u>39,098,108</u>
Total assets	<u>54,035,028</u>	<u>19,091,763</u>	<u>73,126,791</u>
LIABILITIES			
Accounts payable	186,314	126,516	312,830
Accrued interest payable	119,897	-	119,897
Consumer deposits	-	15,944	15,944
Unearned revenue	244,652	-	244,652
Due to Successor Agency	327,870	-	327,870
Due in one year:			
Compensated absences	45,395	55,350	100,745
Capital lease payable	67,066	-	67,066
Revenue bond payable	305,000	-	305,000
Noncurrent liabilities:			
Compensated absences	68,557	14,702	83,259
Revenue bond payable	7,305,000	-	7,305,000
Other postemployment benefit obligation	<u>1,347,221</u>	<u>647,158</u>	<u>1,994,379</u>
Total liabilities	<u>10,016,972</u>	<u>859,670</u>	<u>10,876,642</u>
NET POSITION			
Net investment in capital assets	15,941,594	16,776,701	32,718,295
Restricted for:			
Highway and streets	1,598,489	-	1,598,489
Community development	200,535	-	200,535
Debt service	7,610,000	-	7,610,000
Unrestricted	<u>18,667,438</u>	<u>1,455,392</u>	<u>20,122,830</u>
Total net position	<u>\$ 44,018,056</u>	<u>\$ 18,232,093</u>	<u>\$ 62,250,149</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF AVENAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government	\$ 1,191,572	\$ 103,044	\$ 67,038	\$ -	\$ (1,021,490)	\$ -	\$ (1,021,490)
Building regulations	79,892	-	-	-	(79,892)	-	(79,892)
Planning	-	1,645	-	-	1,645	-	1,645
Community development	1,152,967	43,208	1,677,754	-	567,995	-	567,995
Public safety:							
Law enforcement	2,877,082	131,081	-	-	(2,746,001)	-	(2,746,001)
Animal control	133,749	50,811	-	-	(82,938)	-	(82,938)
Parks and recreation	317,062	6,900	-	-	(310,162)	-	(310,162)
Streets	1,130,682	-	909,845	-	(220,837)	-	(220,837)
Interest on long-term debt	365,491	-	-	-	(365,491)	-	(365,491)
Total governmental activities	7,248,497	336,689	2,654,637	-	(4,257,171)	-	(4,257,171)
Business-type activities:							
Water	3,173,075	2,772,807	-	-	-	(400,268)	(400,268)
Sewer	1,541,612	1,557,381	-	-	-	15,769	15,769
Solid waste	761,897	561,173	115,893	-	-	(84,831)	(84,831)
Street light	60,014	58,119	-	-	-	(1,895)	(1,895)
Total business-type activities	5,536,598	4,949,480	115,893	-	-	(471,225)	(471,225)
Total	\$ 12,785,095	\$ 5,286,169	\$ 2,770,530	\$ -	(4,257,171)	(471,225)	(4,728,396)
General revenues:							
Taxes:							
Property taxes					631,529	-	631,529
Sales taxes					296,467	-	296,467
Franchise taxes					261,633	-	261,633
Other taxes					5,456	-	5,456
Motor vehicle in-lieu taxes					1,870,363	-	1,870,363
Rental income					676,294	-	676,294
Investment income					7,918	5,458	13,376
Miscellaneous					419,849	103,842	523,691
Transfers					(99,957)	99,957	-
Total general revenues and transfers					4,069,552	209,257	4,278,809
Change in net position					(187,619)	(261,968)	(449,587)
Net position - beginning					44,205,675	18,494,061	62,699,736
Net position - ending					\$ 44,018,056	\$ 18,232,093	\$ 62,250,149

The notes to the basic financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

**CITY OF AVENAL
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Avenal Public Financing Authority Debt Service Fund	CalHOME Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	\$ 7,245,694	\$ -	\$ 317,030	\$ 980	\$ 120,172	\$ 1,646,066	\$ 9,329,942
Cash with fiscal agent	-	658,439	-	-	-	-	658,439
Receivables:							
Taxes	129,683	-	-	-	-	-	129,683
Intergovernmental	-	-	800	-	-	696,107	696,907
Community loans	-	-	2,467,473	5,471,189	4,248,869	-	12,187,531
Other	134,435	-	-	-	-	-	134,435
Interfund receivables	279,893	-	-	-	-	-	279,893
Due from Successor Agency	-	3,280,000	-	-	-	-	3,280,000
Advances to other funds	-	4,330,000	-	-	-	-	4,330,000
Total assets	\$ 7,789,705	\$ 8,268,439	\$ 2,785,303	\$ 5,472,169	\$ 4,369,041	\$ 2,342,173	\$ 31,026,830
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 166,810	\$ -	\$ -	\$ 20	\$ -	\$ 19,484	\$ 186,314
Due to Successor Agency	-	327,870	-	-	-	-	327,870
Interfund payables	-	-	-	-	-	279,893	279,893
Advances from other funds	-	330,569	-	-	-	-	330,569
Unearned revenue	-	-	244,652	-	-	165,055	409,707
Total liabilities	166,810	658,439	244,652	20	-	464,432	1,534,353
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues	5,213	-	2,467,473	5,471,189	4,248,869	113,870	12,306,614
Total deferred inflows of resources	5,213	-	2,467,473	5,471,189	4,248,869	113,870	12,306,614
Fund balances:							
Restricted for:							
Public safety	229,069	-	-	-	-	-	229,069
Highways and streets	-	-	-	-	-	1,598,489	1,598,489
Community development	6,225	-	73,178	960	120,172	-	200,535
Debt service	-	7,610,000	-	-	-	-	7,610,000
Committed:							
Capital projects	160,000	-	-	-	-	447,668	607,668
Assigned:							
General government	13,045	-	-	-	-	-	13,045
Unassigned	7,209,343	-	-	-	-	(282,286)	6,927,057
Total fund balances	7,617,682	7,610,000	73,178	960	120,172	1,763,871	17,185,863
Total liabilities and fund balances	\$ 7,789,705	\$ 8,268,439	\$ 2,785,303	\$ 5,472,169	\$ 4,369,041	\$ 2,342,173	\$ 31,026,830

The notes to the basic financial statements are an integral part of this statement.

**CITY OF AVENAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

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

Total fund balances - governmental funds	\$ 17,185,863
Capital assets used in governmental activities were not current financial resources and, therefore, were not reported in the governmental funds.	23,618,660
Long-term liabilities were not due and payable in the current period; therefore, they are not reported in the governmental funds balance sheet:	
Other postemployment benefits	(1,347,221)
Loan payable	(7,610,000)
Capital lease payable	(67,066)
Compensated absences	(113,952)
Unmatured interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(119,897)
Other long-term assets are not available to pay for current period expenditures and, therefore, they are deferred in the governmental funds.	<u>12,471,669</u>
Net position of governmental activities	<u>\$ 44,018,056</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF AVENAL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Avenal Public Financing Authority Debt Service Fund	CalHOME Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes	\$ 2,561,543	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,561,543
Other taxes	496,459	-	-	-	-	-	496,459
Intergovernmental revenues	217,025	-	180,000	-	-	1,713,039	2,110,064
Charges for services	75,355	-	-	-	-	-	75,355
Licenses and permits	108,932	-	-	-	-	-	108,932
Fines and penalties	33,451	-	-	-	-	-	33,451
Investment income	6,964	-	37	-	33	884	7,918
Rents	676,294	-	-	-	-	-	676,294
Loan repayments	-	-	800	2,000	107,208	-	110,008
Other revenue	94,620	365,491	-	-	-	-	460,111
Total revenues	4,270,643	365,491	180,837	2,000	107,241	1,713,923	6,640,135
EXPENDITURES							
Current:							
General government	501,035	-	-	-	-	-	501,035
Building regulation	79,892	-	-	-	-	-	79,892
Community development	242,210	-	179,999	5,991	26,535	698,231	1,152,966
Public safety:							
Law enforcement	2,558,922	-	-	-	-	-	2,558,922
Animal control	133,749	-	-	-	-	-	133,749
Parks and recreation	430,359	-	-	-	-	-	430,359
Highways and streets	-	-	-	-	-	204,266	204,266
Capital outlay:							
Community development	34,925	-	-	-	-	-	34,925
Parks and recreation	167,020	-	-	-	-	130,461	297,481
Highways and streets	-	-	-	-	-	147,848	147,848
Debt service:							
Principal	67,066	290,000	-	-	-	-	357,066
Interest	-	365,491	-	-	-	-	365,491
Total expenditures	4,215,178	655,491	179,999	5,991	26,535	1,180,806	6,264,000
Excess (deficiency) of revenues over (under) expenditures	55,465	(290,000)	838	(3,991)	80,706	533,117	376,135
OTHER FINANCING SOURCES (USES)							
Transfers in	39,965	-	-	-	-	69,000	108,965
Transfers out	(128,382)	-	-	-	-	(80,540)	(208,922)
Total other financing sources (uses)	(88,417)	-	-	-	-	(11,540)	(99,957)
Net change in fund balances	(32,952)	(290,000)	838	(3,991)	80,706	521,577	276,178
Fund balances - beginning	7,650,634	7,900,000	72,340	4,951	39,466	1,242,294	16,909,685
Fund balances - ending	\$ 7,617,682	\$ 7,610,000	\$ 73,178	\$ 960	\$ 120,172	\$ 1,763,871	\$ 17,185,863

The notes to the basic financial statements are an integral part of this statement.

**CITY OF AVENAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

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

Net change in fund balances - total governmental funds	\$ 276,178
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the costs of those assets are capitalized. This is the amount of capital assets recorded.	456,553
Depreciation expense on capital assets is reported in the government-wide statement as changes in net position, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.	(1,431,109)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	25,681
Community loans are reported in the governmental funds as expenditures and are not expenses in the statement of activities. This is the amount of community loans given.	495,019
Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is reported as an expenditure in the governmental funds.	34,106
Repayment of long-term principal is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the government-wide statement of net position.	357,066
Other post-employment benefit expense is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, the expense is not reported as an expenditure in the governmental funds.	(404,980)
Change in accrued interest calculated on bonds and notes payable.	<u>3,867</u>
Change in net position of governmental activities	<u>\$ (187,619)</u>

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PROPRIETARY FUNDS

**CITY OF AVENAL
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
ASSETS					
Current assets:					
Cash and investments	\$ 2,403,340	\$ 2,296,694	\$ 585,913	\$ 386,853	\$ 5,672,800
Consumer receivables	306,946	142,088	75,275	6,798	531,107
Supplies inventory	57,668	39,956	-	-	97,624
Other assets	<u>12,962</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,962</u>
Total current assets	<u>2,780,916</u>	<u>2,478,738</u>	<u>661,188</u>	<u>393,651</u>	<u>6,314,493</u>
Noncurrent assets:					
Advances to other funds	330,569	-	-	-	330,569
Capital assets:					
Nondepreciable	100,000	-	1,000	-	101,000
Depreciable, net	<u>12,801,640</u>	<u>3,168,178</u>	<u>3,581</u>	<u>702,302</u>	<u>16,675,701</u>
Total noncurrent assets	<u>13,232,209</u>	<u>3,168,178</u>	<u>4,581</u>	<u>702,302</u>	<u>17,107,270</u>
Total assets	<u>16,013,125</u>	<u>5,646,916</u>	<u>665,769</u>	<u>1,095,953</u>	<u>23,421,763</u>
LIABILITIES					
Current liabilities:					
Accounts payable	70,522	7,379	48,023	592	126,516
Deposits	15,944	-	-	-	15,944
Compensated absences	<u>20,142</u>	<u>32,490</u>	<u>2,718</u>	<u>-</u>	<u>55,350</u>
Total current liabilities	<u>106,608</u>	<u>39,869</u>	<u>50,741</u>	<u>592</u>	<u>197,810</u>
Noncurrent liabilities:					
Advances from other funds	4,330,000	-	-	-	4,330,000
Compensated absences	5,351	8,630	721	-	14,702
Other postemployment benefits obligation	<u>323,579</u>	<u>323,579</u>	<u>-</u>	<u>-</u>	<u>647,158</u>
Total noncurrent liabilities	<u>4,658,930</u>	<u>332,209</u>	<u>721</u>	<u>-</u>	<u>4,991,860</u>
Total liabilities	<u>4,765,538</u>	<u>372,078</u>	<u>51,462</u>	<u>592</u>	<u>5,189,670</u>
NET POSITION					
Net investment in capital assets	12,901,640	3,168,178	4,581	702,302	16,776,701
Unrestricted	<u>(1,654,053)</u>	<u>2,106,660</u>	<u>609,726</u>	<u>393,059</u>	<u>1,455,392</u>
Total net position	<u>\$ 11,247,587</u>	<u>\$ 5,274,838</u>	<u>\$ 614,307</u>	<u>\$ 1,095,361</u>	<u>\$ 18,232,093</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF AVENAL
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
Operating revenues:					
Charges for services	\$ 2,766,705	\$ 1,539,636	\$ 561,173	\$ 58,119	\$ 4,925,633
Operating expenses:					
Personnel costs	524,788	721,614	64,273	-	1,310,675
Operations	388,515	121,037	-	-	509,552
Contract services	-	-	672,419	-	672,419
Franchise	82,946	-	-	-	82,946
Utilities	824,453	186,474	-	31,803	1,042,730
Administration	320,893	354,148	22,817	-	697,858
Depreciation	820,432	158,339	2,388	28,211	1,009,370
Total operating expenses	2,962,027	1,541,612	761,897	60,014	5,325,550
Operating income (loss)	(195,322)	(1,976)	(200,724)	(1,895)	(399,917)
Nonoperating revenues (expenses):					
Connection fees	6,102	5,966	-	-	12,068
Other revenue	75,394	4,782	11,049	12,617	103,842
Other surcharges and surtaxes	-	-	115,893	-	115,893
Interest income	3,174	1,639	458	187	5,458
Department of Corrections - water plant	-	11,779	-	-	11,779
Interest expense	(211,048)	-	-	-	(211,048)
Total nonoperating revenues (expenses)	(126,378)	24,166	127,400	12,804	37,992
Other financing sources (uses):					
Transfers in	-	40,575	128,382	-	168,957
Transfers out	(47,000)	(22,000)	-	-	(69,000)
Total other financing sources (uses)	(47,000)	18,575	128,382	-	99,957
Change in net position	(368,700)	40,765	55,058	10,909	(261,968)
Net position - beginning	11,616,287	5,234,073	559,249	1,084,452	18,494,061
Net position - ending	\$ 11,247,587	\$ 5,274,838	\$ 614,307	\$ 1,095,361	\$ 18,232,093

The notes to the basic financial statements are an integral part of this statement.

**CITY OF AVENAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
Cash flows from operating activities:					
Cash received from customers	\$ 2,805,831	\$ 1,536,361	\$ 562,930	\$ 58,196	\$ 4,963,318
Cash payments to suppliers for goods and services	(1,610,776)	(679,736)	(694,409)	(32,592)	(3,017,513)
Cash payments to employees for services	(461,828)	(661,386)	(62,539)	-	(1,185,753)
Net cash provided (used) by operating activities	<u>733,227</u>	<u>195,239</u>	<u>(194,018)</u>	<u>25,604</u>	<u>760,052</u>
Cash flows from noncapital financing activities:					
Cash received/paid from other funds	(152,000)	18,575	128,382	12,617	7,574
Cash received for connection fees	81,496	22,527	126,942	-	230,965
Net cash provided (used) by noncapital financing activities	<u>(70,504)</u>	<u>41,102</u>	<u>255,324</u>	<u>12,617</u>	<u>238,539</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(408,784)	(50,596)	-	-	(459,380)
Interest paid on capital debt	(211,048)	-	-	-	(211,048)
Net cash provided (used) by capital and related financing activities	<u>(619,832)</u>	<u>(50,596)</u>	<u>-</u>	<u>-</u>	<u>(670,428)</u>
Cash flows from investing activities:					
Interest on investments	3,174	1,639	458	187	5,458
Net cash provided (used) by investing activities	<u>3,174</u>	<u>1,639</u>	<u>458</u>	<u>187</u>	<u>5,458</u>
Increase (decrease) in cash and cash equivalents	46,065	187,384	61,764	38,408	333,621
Cash and cash equivalents - July 1	<u>2,357,275</u>	<u>2,109,310</u>	<u>524,149</u>	<u>348,445</u>	<u>5,339,179</u>
Cash and cash equivalents - June 30	<u>\$ 2,403,340</u>	<u>\$ 2,296,694</u>	<u>\$ 585,913</u>	<u>\$ 386,853</u>	<u>\$ 5,672,800</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating income (loss)	\$ (195,322)	\$ (1,976)	\$ (200,724)	\$ (1,895)	\$ (399,917)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	820,431	158,339	2,388	28,211	1,009,369
Changes in assets and liabilities:					
(Increase) decrease in consumer receivables	39,127	(3,275)	1,758	76	37,686
(Increase) decrease in supplies inventory	14,157	(4,028)	-	-	10,129
Increase (decrease) in accounts payable	(8,159)	(14,049)	826	(788)	(22,170)
Increase (decrease) in consumer deposits	33	-	-	-	33
Increase (decrease) in compensated absences payable	1,486	(1,246)	1,734	-	1,974
Increase (decrease) in other postemployment benefits obligation	61,474	61,474	-	-	122,948
Net cash provided (used) by operating activities	<u>\$ 733,227</u>	<u>\$ 195,239</u>	<u>\$ (194,018)</u>	<u>\$ 25,604</u>	<u>\$ 760,052</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF AVENAL
STATEMENT OF FIDUCIARY NET POSITION
SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY
JUNE 30, 2014**

	<u>Trust Funds</u>
ASSETS	
Current assets:	
Cash and investments	\$ 422,634
Due from City of Avenal	<u>327,870</u>
Total current assets	<u>750,504</u>
Total assets	<u>750,504</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>-</u>
Total current liabilities	<u>-</u>
Noncurrent liabilities:	
Due to City of Avenal Public Finance Authority	<u>3,280,000</u>
Total noncurrent liabilities	<u>3,280,000</u>
Total liabilities	<u>3,280,000</u>
NET POSITION	
Held in trust	<u>\$ (2,529,496)</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF AVENAL
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY
JUNE 30, 2014**

	Trust Funds
ADDITIONS	
Intergovernmental revenues	\$ 555,601
Interest	85
Total additions	555,686
 DEDUCTIONS	
Planning and community development	340,770
Interest and fiscal charges	154,444
Total deductions	495,214
Change in net position	60,472
Net position - beginning	(2,589,968)
Net position - ending	\$ (2,529,496)

The notes to the basic financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Avenal have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the government's accounting principles are described below.

Reporting Entity

The City of Avenal (the "City") was incorporated in 1979 as a general law city. The City has a council/manager form of government and is governed by a five-member elected council. The City Manager is appointed by the City Council. The City provides the following services: public safety (law enforcement, animal control, and emergency services), water utility, sanitation (solid waste disposal and sanitary wastewater), parks and recreation, planning and community development, public works, street maintenance, building regulation and general administrative services.

The accompanying basic financial statements include the financial activities of the City; the primary government; and its component unit, the Avenal Public Financing Authority (the "Authority"). Financial information for the City and this component unit are accounted for in the accompanying financial statements in accordance with principles defining the governmental reporting entity adopted by the Governmental Accounting Standards Board. The City Council members, in separate session, serve as the governing board of the Authority. As such, this entity is presented on a blended basis. No separate annual financial statements are prepared for the Authority.

Blended Component Units

The **Avenal Public Financing Authority** (the Authority) is a joint exercise of powers authority organized and existing under and pursuant to a Joint Exercise of Powers Agreement dated March 20, 1989. The agreement is between the City and the Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code for the purpose of financing the acquisition of bonds, notes and other obligations to provide financing for public capital improvements to be owned by the City or the Authority. The City Council acts as the governing board of the Authority and is responsible for the Authority's fiscal and administrative activities. The funds of the Authority have been included in the governmental activities of the financial statements.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The statement of net position and the statement of activities display information about the primary government (the City) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's business-type activities and for each of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are included in the program expense reported for individual function. Certain indirect costs, which cannot be identified and broken down, are included in the program expense reported for individual functions and activities. Program revenues include 1) fines, fees, and charges paid by the recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes are presented instead as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated, except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, interfund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated: Due to/Due from Other Funds, Advance to Other Funds/Advance from Other Funds, and Transfers In/Transfer Out.

Fund Financial Statements – The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financials is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. All accompanying schedules are presented to reconcile and explain the differences in funds and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

Propriety fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City reports the following major governmental funds:

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

The **Avenal Public Financing Authority Debt Service Fund** is used to account for the repayment of debt issued by the Avenal Public Financing Authority.

The **CalHOME Special Revenue Fund** is used to account for CalHOME grant activities.

The **HOME Program Income Special Revenue Fund** is used to account for community development block grant loan repayments. Receipts are transferred to the appropriate funds.

The **CDBG Program Income Special Revenue Fund** is used to account for community development block grant loan repayments. Receipts are transferred to the appropriate funds.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Enterprise fund financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows for each major enterprise fund.

The City has four enterprise funds – the Water, Sewer, Solid Waste, and Street Light – which are used to account for operations that are financed and operated in a manner similar to private business enterprise. In an enterprise fund, the intent of the City Council is that the costs (expenses, including depreciation) of providing services to the general public, on a continuing basis, be financed or recovered primarily through user charges.

The City reports the following major proprietary funds:

The **Water Fund** is used to account for financial activity of the water utility system.

The **Sewer Fund** is used to account for the financial activity of the sewage collections wastewater treatment utility system.

The **Solid Waste Fund** is used to account for the financial activity of the solid waste utility system.

The **Street Light Fund** is used to account for the financial activity of the street light system.

The City's fiduciary funds represent agency trust funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency trust funds are accounted for on an *economic resources* measurement focus and accrual basis of accounting.

The City reports the following fiduciary fund:

The **Successor Agency of the Redevelopment Agency** is used to account for assets liabilities of the former redevelopment agency until they are distributed to other units of state and local government as a result of the dissolution of the redevelopment agency.

Measurement Focus, Basis of Accounting

Government-Wide and Proprietary Fund Financial Statements – The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the 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 flow takes place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements – Governmental funds are reported using current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting (Continued)

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. In addition, the City applies all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements, to its business-type activities.

Propriety funds distinguish operating revenues and expenses from non-operating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of each fund. Nonoperating revenues, such as interest income, state and federal grants, and subsidies, result from nonexchange transactions or ancillary activities. Operating expenses include costs for providing services and delivering goods such as administrative expenses and depreciation on capital assets. All other expenses not meeting this definition are reported as non-operating expenses.

Assets, Liabilities and Net Position

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.

All cash and cash equivalents of the proprietary funds are pooled with the City's pooled cash and cash equivalents.

The City follows the practice of pooling the cash from all funds for investment purposes.

Receivables

Proprietary fund receivables are shown net of allowance for uncollectible accounts. All customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Grant and entitlement revenues are recorded as receivables in the funds when all eligibility requirements have been met. The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. Proprietary fund revenues are recorded as non-operating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received.

The City accrues as receivable all property taxes received during the first sixty (60) days of the new fiscal year.

Supplies Inventory and Prepaid Items

Inventory items are recorded as expenditures at the time of purchase. Records are not maintained for inventory and supplies on hand.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Interfund Transactions

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “interfund receivables/payables” (i.e. the current interfund loans) or “advances to/advances from” (i.e. the noncurrent interfund loans). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

The City’s assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. The City has chosen not to capitalize infrastructure in place prior to the adoption of GASB Statement No. 34. Gifts or contributions of capital assets are recorded at fair value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings.....	10-50 years
Improvements.....	5-10 years
Machinery and equipment.....	3-25 years
Infrastructure	15-50 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments’ basic financial statements. In accordance with this statement, the City has included the value of all infrastructure capital assets acquired since the beginning of the 2003 fiscal year into the 2013-2014 basic financial statements.

The City defines infrastructure as capital assets that are stationary and have expected useful lives significantly in excess of most capital assets. The assets include the street system, water purification and distribution system, sewer collection and treatment system, parks and recreation improvement, storm water conveyance system, and buildings combined with the site amenities, such as parking and landscaped areas used by the City in the conduct of its business.

Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for government fund types and proprietary fund types.

In the fund financial statements, proprietary fund types recognize the interest payable when the liability is incurred.

Unearned Revenue

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

Compensated Absences Payable

It is the City’s policy to permit employees to accumulate a maximum amount of 320 hours of earned or unused vacation and sick leave. Sick leave is accumulated at 8 hours per month for full-time regular employees. Vacation is accumulated at 10 days per year for full-time regular employees with less than five years of service and employees earn an additional day for each year after five years. This amount is included as a liability in the government-wide and proprietary fund financial statements.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Long-Term Debt

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

Property Tax Calendar

Property taxes are assessed, collected and allocated by Kings County throughout the fiscal year according to the following property tax calendar.

Lien Date	January 1
Levy Date	July 1 to June 30
Due Dates	November 1, 1 st installment; February 1, 2 nd installment
Delinquent Dates	December 10, 1 st installment; April 10, 2 nd installment

Revenues from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year-end.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted resources first, then unrestricted resources as they are needed.

Risk Management

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

Classification of Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in capital assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted net position – This category presents external restrictions imposed by creditors, grantors, contributors, or by laws or regulations of other governments, and restrictions imposed by law through constitutional provisions and enabling legislation. Additionally, this category presents restrictions placed on the categories of capital projects, and specific projects and programs as established by the City Council.

Unrestricted net position – This category consists of all resources that do not meet the definition of “net investment in capital assets” or “restricted net position.”

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Position (Continued)

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified inventories and prepaid items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has committed resources of \$607,668 as of June 30, 2014.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- **Unassigned:** This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the City.

The City would typically use restricted resources first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Use of Estimates

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

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pronouncements

a. New Accounting Pronouncements Adopted

Governmental Accounting Standards Board Statement No. 70

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014. As of July 1, 2013, the City adopted this standard; however, its adoption had no effect on the financial statements for the year ended June 30, 2014.

b. New Accounting Pronouncements Not Yet Adopted

Governmental Accounting Standards Board Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

Governmental Accounting Standards Board Statement No. 69

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

Governmental Accounting Standards Board Statement No. 71

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments in all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the month-end cash and investment balances.

Summary of Deposits and Investments

A reconciliation of the City's deposit and investment balances as of June 30, 2014 is as follows:

Cash on hand	\$ 350
Primary government deposits	12,156,379
Local Agency Investment Fund	3,268,647
U.S. government securities	<u>658,439</u>
 Total cash and investments	 <u>\$ 16,083,815</u>
 Government-Wide:	
Statement of Net Position:	
Cash and investments	\$ 15,002,742
Cash with fiscal agent	658,439
 Fiduciary Funds	 <u>422,634</u>
 Total	 <u>\$ 16,083,815</u>

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

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

Securities of U.S. Government, or its agencies
Certificates of Deposit (or time deposits) placed with
Commercial banks and/or savings and loan companies
Negotiable Certificates of Deposit
Bankers' Acceptances
Local Agency Investment Fund deposits (state pool)
Repurchase Agreements (Repos)
Passbook savings account demand deposits

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in Non Issuer
U.S. Treasury Bonds/Bills	None	None	None
U.S. Government Agency Bonds	None	None	None
Negotiable Certificates of Deposit	365 days	None	None
Time Certificates of Deposit	365 days	None	None
Banker's Acceptances	365 days	None	None
Commerical Paper	365 days	None	None
Money Market Fund	None	None	None

All the City's investment activities were within State statutes and the City's investment policy.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the City manages its exposure to interest rate risk is by maintaining funds in liquid, short-term investments which can be converted to cash when necessary to meet disbursement requirements.

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

Investment Type	Remaining Maturity (in Months)			
	Total	12 Months or Less	13 to 24 Months	More than 60 Months
Held by bond trustee:				
Treasury obligation funds	\$ 658,439	\$ 658,439	\$ -	\$ -
Total	\$ 658,439	\$ 658,439	\$ -	\$ -

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The City does not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City's investments.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type. The column marked “exempt from disclosure” identifies those investment types for which GASB Statement No. 40 does not require disclosure as to credit risk:

Investment Type	Total	Exempt from Disclosure	Rating as of Year-End	
			Aaa	Not Rated
State investment pool	\$ 3,268,647	\$ 3,268,647	\$ -	\$ -
Held by bond trustee:				
Treasury obligation funds	<u>658,439</u>	<u>-</u>	<u>658,439</u>	<u>-</u>
Total	<u>\$ 3,927,086</u>	<u>\$ 3,268,647</u>	<u>\$ 658,439</u>	<u>\$ -</u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a city will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterpart (e.g. broker-dealer) to a transaction, a city will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under the state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

GASB Statement No. 40 requires the following disclosure be made with respect to custodial credit risk relating to deposits and investments.

As of June 30, 2014, the carrying amount of the City’s bank deposits was \$12,159,964, and the respective bank balances totaled \$11,870,911. Of the total bank balance, \$250,000 was insured through the Federal Depository Insurance Company (FDIC). The remaining \$11,620,911 was collateralized with pooled securities held by the financial institution’s trust department. These securities are held in the name of the financial institution and not that of the City.

Local Agency Investment Fund

The City participates in an external investment pool, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 31, by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the City’s shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the City’s position in the pool. The City’s portion of the June 30, 2014 balance was \$3,268,647. A breakdown of the investments included in the balance is not available at the balance sheet date.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – INTERFUND ACTIVITIES

Interfund balances for the purpose of the government-wide statements have been eliminated. The composition of interfund balances in the fund level statements as of June 30, 2014 is as follows:

Interfund Receivables/Payables

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2014, the interfund balances are as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General Fund	Safe Routes to School Special Revenue Fund	\$ 968
General Fund	HOME Investment Special Revenue Fund	113,870
General Fund	CDBG Special Revenue Fund	<u>165,055</u>
	Total	<u>\$ 279,893</u>

Long-Term Interfund Advances

At June 30, 2014, the funds below have made advances that were not expected to be repaid in one year or less.

<u>Advances From</u>	<u>Advances To</u>	<u>Amount</u>
Avenal Public Financing Authority Debt Service Fund	Water Fund	\$ 4,330,000
Water Fund	Avenal Public Financing Authority Debt Service Fund	<u>330,569</u>
	Total	<u>\$ 4,660,569</u>

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditures on behalf of another fund. Current year transfers included activity to recognize the refunding of debt. Transfers in and out consisted of the following as of June 30, 2014:

	<u>Transfers</u>		<u>Reasons</u>
	<u>In</u>	<u>Out</u>	
Major Funds:			
Governmental funds:			
General Fund	\$ 39,965	\$ 128,382	CDBG, Construction in Progress, Administrative Salaries, and Vehicle
Capital Improvement Project Fund	69,000	80,540	Electricity Park Ped
Enterprise funds:			
Water Fund	-	47,000	Bond payments
Sewer Fund	40,575	22,000	Construction in progress
Solid Waste Fund	<u>128,382</u>	<u>-</u>	20% Cost of Refuse Service to Residents
Total	<u>\$ 277,922</u>	<u>\$ 277,922</u>	

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 – NOTES RECEIVABLE

On October 3, 2007, the City entered into an agreement with Avenal Sand Drags Association for the sale of land that includes the sand drag tracks with a sales price of \$68,000 payable to the City. In 2014, the City approved an addendum to the agreement. The terms of the revised agreement call for five annual interest only payments commencing September 18, 2014, followed by 10 annual principal payments of \$6,800 each, together with accrued interest commencing on September 18, 2019. The interest is a 5% fixed rate, simple interest. If the City determines that the sand drags tracks and/or other use conducted by Avenal Sand Drags Association are no longer in the best interest of the City, the City retains the right to repurchase the property for the original sales price

On October 3, 2007, the City also entered into an agreement with Avenal Sand Drags Association, secured on a second position behind the \$68,000 note described above, for the sale of sand drag equipment and materials with a total sales price of \$21,000 payable to the City. In January 2014, the City approved an addendum to the agreement. The revised agreement required a single principal payment of \$3,400 plus accrued interest due January 31, 2014. Annual interest only payments commencing on September 18, 2014, and continuing thereafter on September 18 of each year for the following 11 years, following by one principal payment of \$17,600, together with accrued interest due and payable on September 18, 2026. The interest is a 5% fixed rate, simple interest.

On November 10, 2011, the City entered into an agreement with Avenal District Hospital for purchase of a vehicle with a sales price of \$59,300 payable to the City over a term of 7 years with no interest and no principal payment for the first year, followed by 5 annual principal payments of \$10,000 each, together with accrued interest of 1-2%, commencing on November 1, 2013, and a final payment of \$9,300 plus accrued interest of 2% payable on November 1, 2018. As of June 30, 2014, the balance of this note receivable was \$49,300.

NOTE 5 – LOANS RECEIVABLE/UNEARNED REVENUE

The housing grant funds expended are recorded as expenditures in the year the loans are made to participants even though the amounts will be recovered as the loans are paid. The City maintains detailed records of these loans and records loan principal and interest payments as program revenues in the year that such payments are received. Loans which have monthly/annual activity are “performing” loans and are included as receivables. Such loans totaled \$54,157 as of June 30, 2014. Deferred payment loans are not required to be paid back until the participating homeowner sells, transfers title to the property, or discontinues residence in the dwelling, at which time the full amount of the deferred loan is due. Deferred payment loans are “non-performing” loans that are recorded as receivable and unearned revenue. Such loans totaled \$12,133,374 as of June 30, 2014.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure additions as of the beginning of the 2002-03 fiscal year in the government-wide statement of net position. The City elected to use the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following tables present summary information on capital assets:

	<u>Balances July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2014</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,119,551	\$ -	\$ -	\$ 1,119,551
Construction in progress	<u>654,777</u>	<u>295,067</u>	<u>(873,142)</u>	<u>76,702</u>
Total capital assets not being depreciated	<u>1,774,328</u>	<u>295,067</u>	<u>(873,142)</u>	<u>1,196,253</u>
Capital assets being depreciated:				
Buildings and improvements	9,963,291	159,235	-	10,122,526
Machinery and equipment	2,790,893	642,159	(23,701)	3,409,351
Infrastructure	<u>22,688,626</u>	<u>256,935</u>	<u>-</u>	<u>22,945,561</u>
Total capital assets being depreciated	<u>35,442,810</u>	<u>1,058,329</u>	<u>(23,701)</u>	<u>36,477,438</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,488,400)	(266,651)	-	(1,755,051)
Machinery and equipment	(1,514,947)	(230,343)	-	(1,745,290)
Infrastructure	<u>(9,620,575)</u>	<u>(934,115)</u>	<u>-</u>	<u>(10,554,690)</u>
Total accumulated depreciation	<u>(12,623,922)</u>	<u>(1,431,109)</u>	<u>-</u>	<u>(14,055,031)</u>
Total capital assets being depreciated, net	<u>22,818,888</u>	<u>(372,780)</u>	<u>(23,701)</u>	<u>22,422,407</u>
Governmental activities capital assets, net	<u>\$ 24,593,216</u>	<u>\$ (77,713)</u>	<u>\$ (896,843)</u>	<u>\$ 23,618,660</u>

Depreciation expense on capital assets was charged to the governmental functions as follows:

General government	\$ 280,032
Parks and recreation	140,648
Highway and streets	909,034
Public safety	73,693
Public works	<u>27,702</u>
Total	<u>\$ 1,431,109</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – CAPITAL ASSETS (Continued)

	<u>Balances July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2014</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Construction in progress	<u>863,231</u>	<u>366,266</u>	<u>(1,229,497)</u>	<u>-</u>
Total capital assets not being depreciated	<u>964,231</u>	<u>366,266</u>	<u>(1,229,497)</u>	<u>101,000</u>
Capital assets being depreciated:				
Buildings and improvements	7,933,079	-	-	7,933,079
Machinery and equipment	1,231,265	80,802	-	1,312,067
Utility system	18,960,008	1,241,810	-	20,201,818
Infrastructure	<u>1,506,715</u>	<u>-</u>	<u>-</u>	<u>1,506,715</u>
Total capital assets being depreciated	<u>29,631,067</u>	<u>1,322,612</u>	<u>-</u>	<u>30,953,679</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,190,056)	(213,419)	-	(3,403,475)
Machinery and equipment	(674,604)	(77,371)	-	(751,975)
Utility system	(8,627,749)	(690,368)	-	(9,318,117)
Infrastructure	<u>(776,200)</u>	<u>(28,211)</u>	<u>-</u>	<u>(804,411)</u>
Total accumulated depreciation	<u>(13,268,609)</u>	<u>(1,009,369)</u>	<u>-</u>	<u>(14,277,978)</u>
Total capital assets being depreciated, net	<u>16,362,458</u>	<u>313,243</u>	<u>-</u>	<u>16,675,701</u>
Business-type activities capital assets, net	<u>\$ 17,326,689</u>	<u>\$ 679,509</u>	<u>\$ (1,229,497)</u>	<u>\$ 16,776,701</u>
Total capital assets	<u>\$ 41,919,905</u>	<u>\$ 601,796</u>	<u>\$ (2,126,340)</u>	<u>\$ 40,395,361</u>

Depreciation expense on capital assets was charged to the business-type functions as follows:

Water	\$ 820,431
Sewer	158,339
Solid Waste	2,388
Streetlight	<u>28,211</u>
Total	<u>\$ 1,009,369</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 – DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities as of June 30, 2013*.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds for unavailable revenues are as follows:

	General Fund	CalHome Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	Other Governmental Funds	Total
CalHOME loans	\$ -	\$ 2,467,473	\$ -	\$ -	\$ -	\$ 2,467,473
HOME loans	-	-	5,471,189	-	-	5,471,189
CDBG loan	-	-	-	4,248,869	-	4,248,869
Vehicle abatement	2,344	-	-	-	-	2,344
Animal control	2,869	-	-	-	-	2,869
Intergovernmental	-	-	-	-	113,870	113,870
Total	\$ 5,213	\$ 2,467,473	\$ 5,471,189	\$ 4,248,869	\$ 113,870	\$ 12,306,614

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – OPERATING LEASES

Rental Income

The City entered into a lease agreement effective May 1, 2012, with Reel Time Entertainment, Inc. to lease the Avenal Theater. Monthly rent of 5% of gross receipts from the operations of the theater is required for the first year. The monthly rent will escalate by .5% each year for the remaining 4 years of the lease, resulting in a monthly rent of 7% of gross receipts from the operations of the theater in the fifth year. There is an option to extend the lease for an additional five years with a monthly rent of 8% of gross receipts from the operations of the theater for the duration of the extension. For the entire duration of this lease and any extension, the City will receive 40% of the rent received from the use of the non-theater areas. Monthly rent is due by the 30th of each month. There was no rental income for the year ended June 30, 2014. The future minimum lease payments for this lease are not presented because the gross receipts from the operations of the theater were undeterminable as of the date of these financial statements. The initial total cost of leased assets as of June 30, 2014 is \$5,972,810 with related accumulated depreciation of \$497,734.

NOTE 9 – COMPENSATED ABSENCES

The City's policy relating to compensated absences is described in Note 1. As shown in the table below, the long-term portion of this debt, amounting to \$68,557 for governmental activities and \$14,702 for business-type activities at June 30, 2014 is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds.

	Balance July 1, 2013	Incurred	Satisfied	Balance June 30, 2014	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Compensated absences	\$ 148,058	\$ 126,991	\$ (161,097)	\$ 113,952	\$ 45,395	\$ 68,557
Business-Type Activities:						
Compensated absences	\$ 68,078	\$ 16,300	\$ (14,326)	\$ 70,052	\$ 55,350	\$ 14,702

NOTE 10 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for governmental activities for the year ended June 30, 2014:

	Balance July 1, 2013	Incurred or Issued	Satisfied or Matured	Balance June 30, 2014	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Revenue bonds	\$ 7,900,000	\$ -	\$ (290,000)	\$ 7,610,000	\$ 305,000	\$ 7,305,000
Capital lease	134,132	-	(67,066)	67,066	67,066	-
Total governmental activities	\$ 8,034,132	\$ -	\$ (357,066)	\$ 7,677,066	\$ 372,066	\$ 7,305,000

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds

2005 Avenal Public Financing Authority Revenue Bonds

In September 2005, the City issued \$9,660,000 in revenue bonds. The bonds refinance the 1997 Avenal Public Financing Authority Refunding Revenue Bonds. The bonds authorized and issued have stated interest rates for each payment starting at 2.875% per annum and increasing annually to prescribed increments not exceeding .5% through the term of the bonds to a maximum of 5.0% per annum. The interest rate at June 30, 2014 was 3.90% per annum. These bonds are special obligations of the Authority and are payable solely from Public Finance Authority revenues. The Public Financing Authority maintains \$658,439 as a minimum reserve for the authorized bonds. Below is a schedule of remaining debt service:

2005 Avenal Public Financing Authority Refunding Revenue Bonds			
Fiscal Years Ending	Principal	Interest	Total
2015	\$ 305,000	\$ 353,439	\$ 658,439
2016	315,000	340,572	655,572
2017	330,000	326,861	656,861
2018	345,000	312,219	657,219
2019	360,000	296,797	656,797
2020-2024	2,035,000	1,225,898	3,260,898
2025-2029	1,865,000	706,125	2,571,125
2030-2034	1,185,000	371,375	1,556,375
2035-2038	870,000	66,750	936,750
Totals	\$ 7,610,000	\$ 4,000,036	\$ 11,610,036

Capital Lease

The City has entered into a lease agreement as lessee for financing the acquisition of police vehicles. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Machinery and equipment	\$ 335,330
Less accumulated depreciation	(268,264)
Total	\$ 67,066

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 are as follows:

Fiscal Years Ending	Principal
2015	\$ 67,066
Total minimum lease payments	\$ 67,066

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 – PENSION PLAN

Plan Description

The City-defined pension plans, the Miscellaneous Plan and the Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous and the Safety Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan administered by CalPERS, which acts a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the Safety and Miscellaneous Plan are required to contribute 7.00% of their annual covered salary. 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 fiscal year 2013-2014 was 11.300% for miscellaneous employees and 24.573% for safety employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. City employees are covered by Social Security; therefore, a rate of zero is charged for the first \$133.33 per month.

Annual Pension Cost and Net Pension Obligation

For the fiscal year 2013-2014, the City's combined annual pension cost of \$547,598 was equal to the annual required contribution. The current year's required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for members of both plans; and (c) 3.25% cost of living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the Miscellaneous and Safety Plans' assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. The Miscellaneous and Safety Plans' unfunded actuarial liabilities are being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period as of June 30, 2011 was 8 years.

The City's annual pension cost (APC) and net pension obligation as of and for the year ended June 30, 2014 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Miscellaneous Plan</u>			
6/30/2012	\$ 231,165	100%	\$ -
6/30/2013	\$ 248,563	100%	\$ -
6/30/2014	\$ 247,343	100%	\$ -
<u>Safety Plan</u>			
6/30/2012	\$ 256,810	100%	\$ -
6/30/2013	\$ 282,727	100%	\$ -
6/30/2014	\$ 300,255	100%	\$ -

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 – PENSION PLAN (Continued)

Funded Status and Progress

The funded status of each plan as of the most recent actuarial valuation date presented below related to the plan as a whole, of which the City is a participating employer.

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Accrued Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL a % of Covered Payroll
6/30/2012						
Miscellaneous	\$ 4,175,139,166	\$ 3,686,598,343	\$ 488,540,823	88.3%	\$ 757,045,663	64.5%
Safety	\$ 2,183,549,942	\$ 1,896,139,291	\$ 287,410,651	86.8%	\$ 232,078,083	123.8%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Plan Description

The City provides a self-funded, single employer, defined benefit plan to provide medical coverage for all eligible active and retired City employees. Retirees are currently covered by the CalPERS medical program as permitted under the Public Employees Medical and Hospital and Care Act (PEMHCA). As such, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. This coverage is available for employees who satisfy the requirements for retirement under CalPERS (attained age 50 with 5 years of State or public agency service or approved disability retirement). An employee cannot terminate employment before meeting the age condition and be entitled to receive benefits.

B. Funding Policy

The City funds the benefits on a pay-as-you-go basis. The City's contribution for each employee shall be the amount necessary to pay the full cost of an employee's enrollment in a health benefit plan. Dependent coverage is available but, if elected, is paid by the employee. A covered spouse who survives the retiree, if entitled to survivor benefits under the CalPERS retirement program, may continue coverage and receive the premium subsidy for the remainder of his or her lifetime as well, provided they apply for benefits within 60 days of the employee's death.

The City's annual other postemployment benefits (OPEB) cost for the first year of implementation of GASB Statement No. 45 is equal to the annual required contribution (ARC), an amount calculated in accordance with the parameters set forth in Statement No. 45. In subsequent years, the annual OPEB cost will be equal to the ARC plus an adjustment if the ARC is not funded each year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial accrued liabilities (UAAL) amortized over 28 years. The ARC rate is 20% of annual covered payroll.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 574,717
Interest on net OPEB obligation	65,990
Adjustment to annual required contribution	<u>(68,229)</u>
Annual OPEB cost (expense)	572,478
Contribution made	<u>(44,551)</u>
Increase in net OPEB obligation	527,927
Net OPEB obligation - beginning of year	<u>1,466,452</u>
Net OPEB obligation - end of year	<u>\$ 1,994,379</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 is as follows:

<u>Fiscal Years Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Cost Contributed</u>	<u>OPEB Obligation</u>
6/30/2012	\$ 277,021	7.4%	\$ 729,020
6/30/2013	\$ 533,691	2.9%	\$ 2,203,882
6/30/2014	\$ 572,478	7.8%	\$ 1,994,379

D. Funded Status of Funding Progress

As of June 30, 2014, the actuarial accrued liability for benefits was \$3,453,641, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,823,098, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 122%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

E. Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and actual value of assets, consistent with long-term perspective of the calculations.

Projections of benefits for financial reporting purposes are based on the following actuarial assumption:

In the July 1, 2012, actuarial valuation, the entry age normal cost, level percent of pay method was used. The actuarial assumptions included a 4.5% discount rate and an annual healthcare cost trend rate of 7% initially, reduced by decrements to an ultimate rate of 4.5% after eight years. Both rates include a 3.25% inflation assumption. The actuarial value of plan assets was based on market value of assets, which was \$0 as the plan had not been funded.

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk of loss is primarily handled through the Central San Joaquin Valley Risk Management Authority (CSJVRMA). CSJVRMA is a consortium of cities for workers' compensation programs and the pooled liability program in the San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et. seq. CSJVRMA is governed by a Board of Directors which meets three to four times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by CSJVRMA.

CSJVRMA provides \$4,500,000 coverage limits in excess of the retained limit of \$500,000 and also participates in the California Association of Counties Excess Insurance Authority (CSAC-EIA) for coverage in excess of \$5,000,000 up to the statutory limit.

Under the pooled liability program, expected claims are actuarially determined and deposited with CSJVRMA along with all estimated operating costs. Each year is retrospectively adjusted five years following its conclusion and any funds remaining are returned to the City. Likewise, funds paid out in excess of the City's original deposit are collected from the City. The risk sharing pool covers the first \$1,000,000 of losses. CSJVRMA is a member of the California Affiliated Risk Management Authorities (CARMA), which provides coverage in excess of the retained limit up to \$29,000,000.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 – RISK MANAGEMENT (Continued)

The latest audited financial information and the most current information available for CSJVRMA for the fiscal year ended June 30, 2013:

Total assets	\$ 82,190,005
Total liabilities	<u>66,304,596</u>
Member's equity	<u>\$ 15,885,409</u>
Total revenues	\$ 31,386,818
Total expenses	<u>27,784,428</u>
Excess of income (loss) over expenses	<u>\$ 3,602,390</u>

At the termination of the joint powers agreement and after all claims have been settled, any excess or deficit will be divided among the cities in accordance with governing documents.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

General Liability

There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

Federal Awards and Grants

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

Landfill

The City entered into a lease agreement with Madera Disposal Systems, Inc., a California Corporation. Madera Disposal Systems, Inc. will lease the City's landfill site. They will assume all liabilities associated with the landfill and in return they will pay the City a set rental fee plus \$30 per ton of waste accepted over 300 tons daily. The City will also have a guaranteed rate on tipping fees for City waste. The lease is for the permitted life on the landfill which ends in year 2029.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 15 – DEFICIT FUND EQUITY

The following funds had deficit fund balances as of June 30, 2014:

Governmental Funds:

Nonmajor Funds:

HOME Investment Special Revenue Fund	\$ 114,385
Community Block Grant Special Revenue Fund	\$ 167,901

NOTE 16 – SUCCESSOR AGENCY TRUST FUND

On January 26, 2013, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Assembly Bill 1X26 as part of City Resolution Number 2013-11.

Under the control of an oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution of the redevelopment agency (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies are only allocated revenue in the amount that is necessary to pay 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.

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 considerable 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 favorably for the City.

After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

Long term Debt

Long-term debt reported in the Successor Agency Trust Fund at June 30, 2014 was comprised of the following:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Avenal 2005 Revenue Refunding Bond	<u>\$ 3,465,000</u>	<u>\$ -</u>	<u>\$ (185,000)</u>	<u>\$ 3,280,000</u>	<u>\$ 195,000</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 16 – SUCCESSOR AGENCY TRUST FUND (Continued)

Long term Debt (Continued)

2005 Avenal Public Finance Authority Refunding Revenue Bonds

In September 2005, the Agency issued \$4,585,000 in Refunding Revenue Bonds. The proceeds were used to refinance the 1997 Tax Allocation Bonds. The bonds authorized and issued have stated interest rates for each payment starting at 2.875% per annum and increasing annually in prescribed increments not exceeding .5% through the term of the bonds to a minimum of 5.0% per annum. The interest rate at June 30, 2013, was 3.75% per annum. The 2005 Revenue Refunding Bonds are repaid from the property tax revenues collected on properties within the redevelopment project area. The debt agreement requires a reserve account to be held by the trustee. Interest earned on the reserve account is applied to the interest owed.

Annual debt service requirements to maturity for the Avenal 2005 Revenue Refunding Bonds are as follows:

<u>Fiscal Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 195,000	\$ 146,746	\$ 341,746
2016	200,000	138,548	338,548
2017	210,000	129,833	339,833
2018	220,000	120,506	340,506
2019	230,000	110,663	340,663
2020-2024	1,295,000	388,916	1,683,916
2025-2027	<u>930,000</u>	<u>71,250</u>	<u>1,001,250</u>
Total	<u>\$ 3,280,000</u>	<u>\$ 1,106,462</u>	<u>\$ 4,386,462</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AVENAL
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2014**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b - a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b - a)/c) UAAL as a percentage of covered payroll
7/1/2010	\$ -	\$ 2,548,636	\$ 2,548,636	0%	\$ 2,800,732	91%
7/1/2011	\$ -	\$ 2,946,112	\$ 2,946,112	0%	\$ 2,695,163	109%
7/1/2012	\$ -	\$ 3,453,641	\$ 3,453,641	0%	\$ 2,823,098	122%

**CITY OF AVENAL
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

Both of the City's defined benefit pension plans, the Miscellaneous and the Safety plan, are cost-sharing multiple-employer defined benefit pension plans that provided retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The information presented below of the schedule of funding progress and employer contributions relates to the plan as a whole, of which the City is one participating employer.

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Accrued Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL a % of Covered Payroll
6/30/2012						
Miscellaneous	\$ 4,175,139,166	\$ 3,686,598,343	\$ 488,540,823	88.3%	\$ 757,045,663	64.5%
Safety	\$ 2,183,549,942	\$ 1,896,139,291	\$ 287,410,651	86.8%	\$ 232,078,083	123.8%

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amount</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Property taxes	\$ 2,807,000	\$ 2,887,421	\$ 2,561,543	\$ (325,878)
Other taxes	468,360	473,134	496,459	23,325
Intergovernmental revenues	161,906	252,606	217,025	(35,581)
Charges for services	75,750	80,820	75,355	(5,465)
Licenses and permits	256,792	262,668	108,932	(153,736)
Fines and penalties	34,000	35,175	33,451	(1,724)
Investment income	10,516	10,920	6,964	(3,956)
Rent	557,000	699,760	676,294	(23,466)
Other revenue	<u>67,000</u>	<u>107,889</u>	<u>94,620</u>	<u>(13,269)</u>
Total revenues	<u>4,438,324</u>	<u>4,810,393</u>	<u>4,270,643</u>	<u>(539,750)</u>
EXPENDITURES				
Current services:				
General government	360,258	518,933	501,035	17,898
Building regulations	146,950	100,273	79,892	20,381
Community development	274,700	328,540	242,210	86,330
Public safety:				
Law enforcement	2,949,679	2,998,750	2,558,922	439,828
Animal control	153,900	142,028	133,749	8,279
Parks and recreation	432,570	432,827	430,359	2,468
Capital outlay:				
General government	5,000	5,000	-	5,000
Community development	8,000	39,715	34,925	4,790
Parks and recreation	809,144	746,794	167,020	579,774
Public safety:				
Law enforcement	20,000	-	-	-
Debt service:				
Principal	<u>68,000</u>	<u>68,000</u>	<u>67,066</u>	<u>934</u>
Total expenditures	<u>5,228,201</u>	<u>5,380,860</u>	<u>4,215,178</u>	<u>1,165,682</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(789,877)</u>	<u>(570,467)</u>	<u>55,465</u>	<u>625,932</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	60,000	39,965	39,965	-
Transfers out	<u>(132,000)</u>	<u>(132,000)</u>	<u>(128,382)</u>	<u>3,618</u>
Total other financing sources (uses)	<u>(72,000)</u>	<u>(92,035)</u>	<u>(88,417)</u>	<u>3,618</u>
Net change in fund balances	(861,877)	(662,502)	(32,952)	629,550
Fund balance - beginning	<u>7,650,634</u>	<u>7,650,634</u>	<u>7,650,634</u>	<u>-</u>
Fund balance - ending	<u>\$ 6,788,757</u>	<u>\$ 6,988,132</u>	<u>\$ 7,617,682</u>	<u>\$ 629,550</u>

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
CDBG PROGRAM INCOME SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment income	\$ -	\$ 33	\$ 33	\$ -
Loan repayments	<u>-</u>	<u>107,208</u>	<u>107,208</u>	<u>-</u>
Total revenues	<u>-</u>	<u>107,241</u>	<u>107,241</u>	<u>-</u>
EXPENDITURES				
Current services:				
Community development	<u>-</u>	<u>-</u>	<u>26,535</u>	<u>(26,535)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>26,535</u>	<u>(26,535)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>107,241</u>	<u>80,706</u>	<u>(26,535)</u>
Net change in fund balances	-	107,241	80,706	(26,535)
Fund balance - beginning	<u>39,466</u>	<u>39,466</u>	<u>39,466</u>	<u>-</u>
Fund balance - ending	<u>\$ 39,466</u>	<u>\$ 146,707</u>	<u>\$ 120,172</u>	<u>\$ (26,535)</u>

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
CalHOME SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues	\$ 235,884	\$ 235,884	\$ 180,000	\$ (55,884)
Investment income	-	40	37	(3)
Loan repayments	-	-	800	800
Total revenues	<u>235,884</u>	<u>235,924</u>	<u>180,837</u>	<u>(55,087)</u>
EXPENDITURES				
Current services:				
Community development	<u>235,884</u>	<u>355,884</u>	<u>179,999</u>	<u>175,885</u>
Total expenditures	<u>235,884</u>	<u>355,884</u>	<u>179,999</u>	<u>175,885</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(119,960)</u>	<u>838</u>	<u>120,798</u>
Net change in fund balances	-	(119,960)	838	120,798
Fund balance - beginning	<u>72,340</u>	<u>72,340</u>	<u>72,340</u>	<u>-</u>
Fund balance - ending	<u>\$ 72,340</u>	<u>\$ (47,620)</u>	<u>\$ 73,178</u>	<u>\$ 120,798</u>

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
HOME PROGRAM INCOME SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Loan repayments	\$ -	\$ 2,000	\$ 2,000	\$ -
Total revenues	-	2,000	2,000	-
EXPENDITURES				
Community development	-	6,425	5,991	434
Net change in fund balances	-	(4,425)	(3,991)	434
Fund balance - beginning	4,951	4,951	4,951	-
Fund balance - ending	<u>\$ 4,951</u>	<u>\$ 526</u>	<u>\$ 960</u>	<u>\$ 434</u>

**CITY OF AVENAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 – BUDGETARY INFORMATION

The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to June 1, the budget is legally adopted through passage of a resolution. This budget is reported as Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the adopted budget may be authorized as follows:
 - a) Items requiring City Council action – appropriation of fund balance revenues, transfers of appropriations between funds, appropriation of any non-departmental revenue, new interfund loans or advances, and creation of new capital projects or increases to existing capital projects.
 - b) Items delegated to the City Manager – transfers between departments within funds, appropriation of unbudgeted departmental revenues, and approval of transfers which increase salary and benefit appropriations.
 - c) Item delegated to department head – allocation of departmental appropriations to line item level.
5. Formal budgetary integration is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue or enterprise funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on that basis in the required supplementary information. A debt service payment schedule for the debt service fund is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called “department”. A “department” for legal appropriation purposes may be a single organization, or an entire department having multiple organizations with the same fund, or an entire fund.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

The following fund incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2014:

CDBG Program Income Special Revenue Fund:

Community development	\$ 26,535
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The excess expenditures were covered by available fund balance in the funds.

OTHER SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Local Transportation Funds

To account for Local Transportation Fund tax revenue restricted to street maintenance and construction.

Gas Tax Funds

To account for revenues and expenditures apportioned to the City under the Streets and Highway Code, Sections 2105, 2106, 2107 and 2107.5 and Proposition 1B for the State of California. Expenditures for administration, maintenance and construction must be street related.

Tire Amnesty Grant Fund

To account for a one-year State funded grant to assist with safe and clean recycling and disposal of old tires.

Parks and Recreation Grants Funds

To account for expenditures of the park and recreation grants from the State of California.

San Joaquin Valley Unified Air Pollution Control District Public Benefit Grant Fund

To account for the purchase of two plug-in fuel efficient vehicles with a grant from the SJVAPCD.

HOME Investment Special Revenue Funds

To account for federal HOME grants activity.

Community Development Block Grant Funds

To account for annual federal grants that provide for development of a viable urban community by providing suitable housing, principally for low and moderate-income residents.

The **Capital Projects Funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements (other than those financed by proprietary funds).

Capital Improvement Project Fund

To accumulate revenues to fund specific projects designated by the City Council.

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Nonmajor Special Revenue</u>	<u>Nonmajor Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,198,398	\$ 447,668	\$ 1,646,066
Receivables:			
Intergovernmental	<u>696,107</u>	<u>-</u>	<u>696,107</u>
Total assets	<u>\$ 1,894,505</u>	<u>\$ 447,668</u>	<u>\$ 2,342,173</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 19,484	\$ -	\$ 19,484
Interfund payables	279,893	-	279,893
Unearned revenue	<u>165,055</u>	<u>-</u>	<u>165,055</u>
Total liabilities	<u>464,432</u>	<u>-</u>	<u>464,432</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	<u>113,870</u>	<u>-</u>	<u>113,870</u>
Total deferred inflows of resources	<u>113,870</u>	<u>-</u>	<u>113,870</u>
Fund balances:			
Restricted for:			
Highways and streets	1,598,489	-	1,598,489
Committed:			
Capital projects	-	447,668	447,668
Unassigned	<u>(282,286)</u>	<u>-</u>	<u>(282,286)</u>
Total fund balances	<u>1,316,203</u>	<u>447,668</u>	<u>1,763,871</u>
Total liabilities and fund balances	<u>\$ 1,894,505</u>	<u>\$ 447,668</u>	<u>\$ 2,342,173</u>

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental revenues	\$ 1,713,039	\$ -	\$ 1,713,039
Investment income	<u>500</u>	<u>384</u>	<u>884</u>
Total revenues	<u>1,713,539</u>	<u>384</u>	<u>1,713,923</u>
EXPENDITURES			
Current:			
Community development	698,231	-	698,231
Highways and streets	204,266	-	204,266
Capital outlay:			
Parks and recreation	130,461	-	130,461
Highways and streets	<u>147,848</u>	<u>-</u>	<u>147,848</u>
Total expenditures	<u>1,180,806</u>	<u>-</u>	<u>1,180,806</u>
Excess (deficiency) of revenues over (under) expenditures	<u>532,733</u>	<u>384</u>	<u>533,117</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	69,000	69,000
Transfers out	<u>-</u>	<u>(80,540)</u>	<u>(80,540)</u>
Total other financing sources (uses)	<u>-</u>	<u>(11,540)</u>	<u>(11,540)</u>
Net change in fund balances	532,733	(11,156)	521,577
Fund balances - beginning	<u>783,470</u>	<u>458,824</u>	<u>1,242,294</u>
Fund balances - ending	<u>\$ 1,316,203</u>	<u>\$ 447,668</u>	<u>\$ 1,763,871</u>

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014**

	Local Transportation	Gas Tax	Tire Amnesty	HOME Investment Special Revenue Funds
ASSETS				
Cash and investments	\$ 436,370	\$ 762,028	\$ -	\$ -
Receivables:				
Intergovernmental	<u>232,074</u>	<u>184,140</u>	<u>968</u>	<u>113,870</u>
Total assets	<u>\$ 668,444</u>	<u>\$ 946,168</u>	<u>\$ 968</u>	<u>\$ 113,870</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 16,123	\$ -	\$ 515
Interfund payables	-	-	968	113,870
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>16,123</u>	<u>968</u>	<u>114,385</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,870</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,870</u>
Fund balances:				
Restricted:				
Highways and streets	668,444	930,045	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>(114,385)</u>
Total fund balances	<u>668,444</u>	<u>930,045</u>	<u>-</u>	<u>(114,385)</u>
Total liabilities and fund balances	<u>\$ 668,444</u>	<u>\$ 946,168</u>	<u>\$ 968</u>	<u>\$ 113,870</u>

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014**

	Community Development Block Grant Funds	Parks and Recreation	SJVUAPCD Grant	Totals
ASSETS				
Cash and investments	\$ -	\$ -	\$ -	\$ 1,198,398
Receivables:				
Intergovernmental	<u>165,055</u>	<u>-</u>	<u>-</u>	<u>696,107</u>
Total assets	<u>\$ 165,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,894,505</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,846	\$ -	\$ -	\$ 19,484
Interfund payables	165,055	-	-	279,893
Unearned revenue	<u>165,055</u>	<u>-</u>	<u>-</u>	<u>165,055</u>
Total liabilities	<u>332,956</u>	<u>-</u>	<u>-</u>	<u>464,432</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,870</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,870</u>
Fund balances:				
Restricted:				
Highways and streets	-	-	-	1,598,489
Unassigned	<u>(167,901)</u>	<u>-</u>	<u>-</u>	<u>(282,286)</u>
Total fund balances	<u>(167,901)</u>	<u>-</u>	<u>-</u>	<u>1,316,203</u>
Total liabilities and fund balances	<u>\$ 165,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,894,505</u>

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Local Transportation	Gas Tax	Tire Amnesty	HOME Investment Special Revenue Funds
REVENUES				
Intergovernmental revenues	\$ 236,074	\$ 644,044	\$ 2,620	\$ 136,304
Investment income	<u>213</u>	<u>287</u>	-	-
Total revenues	<u>236,287</u>	<u>644,331</u>	<u>2,620</u>	<u>136,304</u>
EXPENDITURES				
Current:				
Community development	-	-	2,620	246,054
Streets	1,500	202,766	-	-
Capital outlay:				
Parks and recreation	-	-	-	-
Streets	<u>-</u>	<u>118,121</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,500</u>	<u>320,887</u>	<u>2,620</u>	<u>246,054</u>
Excess (deficiency) of revenues over (under) expenditures	<u>234,787</u>	<u>323,444</u>	<u>-</u>	<u>(109,750)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	234,787	323,444	-	(109,750)
Fund balances - beginning	<u>433,657</u>	<u>606,601</u>	<u>-</u>	<u>(4,635)</u>
Fund balances - ending	<u>\$ 668,444</u>	<u>\$ 930,045</u>	<u>\$ -</u>	<u>\$ (114,385)</u>

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Community Development Block Grant Funds	Parks and Recreation	SJVUAPCD Grant	Totals
REVENUES				
Intergovernmental revenues	\$ 421,265	\$ 243,005	\$ 29,727	\$ 1,713,039
Investment income	-	-	-	500
Total revenues	<u>421,265</u>	<u>243,005</u>	<u>29,727</u>	<u>1,713,539</u>
EXPENDITURES				
Current:				
Community development	449,557	-	-	698,231
Highways and streets	-	-	-	204,266
Capital outlay:				
Parks and recreation	-	130,461	-	130,461
Highways and streets	-	-	<u>29,727</u>	<u>147,848</u>
Total expenditures	<u>449,557</u>	<u>130,461</u>	<u>29,727</u>	<u>1,180,806</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(28,292)</u>	<u>112,544</u>	<u>-</u>	<u>532,733</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(28,292)	112,544	-	532,733
Fund balances - beginning	<u>(139,609)</u>	<u>(112,544)</u>	<u>-</u>	<u>783,470</u>
Fund balances - ending	<u>\$ (167,901)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,316,203</u>

**CITY OF AVENAL
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUND
 JUNE 30, 2014**

	<u>Capital Improvement Project Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>447,668</u>
Total assets	<u>\$ 447,668</u>
FUND BALANCE	
Fund balance:	
Committed:	
Capital projects	\$ <u>447,668</u>
Total fund balance	<u>447,668</u>
Total liabilities and fund balance	<u>\$ 447,668</u>

**CITY OF AVENAL
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Capital Improvement Project Fund</u>
REVENUES	
Investment income	\$ 384
Total revenues	<u>384</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	69,000
Transfers out	<u>(80,540)</u>
Total other financing sources (uses)	<u>(11,540)</u>
Net change in fund balance	(11,156)
Fund balance - beginning	<u>458,824</u>
Fund balance - ending	<u>\$ 447,668</u>

**CITY OF AVENAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Pass-Through Entity Identifying Number	Grant Period		Program Award	Federal Expenditures
			From	To		
U.S. Department of Housing and Urban Development (HUD):						
Passed through the State of California:						
Community Development Block Grant	14.228	12-CDBG-8373	12/21/12	09/30/15	1,100,000	\$ 449,557
Community Development Block Grant (Program Income)	14.228					<u>26,535</u>
Total Community Development Block Grants						<u>476,092</u>
HOME Investment Partnership Program:						
(State HOME Program)	14.239	11-HOME-7657	3/8/2012	2/28/2015	700,000	<u>246,054</u>
Total HOME Investment Partnership Program						<u>246,054</u>
Total U.S. Department of Housing and Urban Development (HUD)						<u>722,146</u>
Total Expenditures of Federal Awards						<u>\$ 722,146</u>

CITY OF AVENAL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Avenal and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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OTHER INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Avenal, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 7, 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 opinions 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 City'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 City of Avenal's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Price Pange & Company

Clovis, California
November 7, 2014

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Avenal, California's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Avenal, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Price Pange & Company

Clovis, California
November 7, 2014

FINDINGS AND QUESTIONED COSTS

**CITY OF AVENAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiencies identified that
 are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiencies identified that
 are not considered to be material weaknesses? _____ Yes X None reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

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

Auditee qualified as low-risk auditee? _____ Yes X No

**CITY OF AVENAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**CITY OF AVENAL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.