

**CITY OF GONZALES
GONZALES, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2012**

CITY OF GONZALES
TABLE OF CONTENTS
JUNE 30, 2012

FINANCIAL SECTION	PAGE
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Governmental Funds - Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Net Change in Fund Balances - Total Governmental Funds with the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenues, Expenses, and Change in Net Assets	22
Statement of Cash Flows	23
Fiduciary Funds:	
Statement of Fiduciary Net Assets	25
Statement of Changes in Fiduciary Net Assets	26
Notes to Basic Financial Statements	27
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	
General Fund	64
Community Development Block Grant Fund	65
Public Safety Fund	66
Note to the Required Supplementary Information	67

**CITY OF GONZALES,
CALIFORNIA**

TABLE OF CONTENTS

JUNE 30, 2012

OTHER SUPPLEMENTARY INFORMATION

Non-major Governmental Funds:

Combining Balance Sheet	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	75

Agency Fund:

Statement of Changes in Assets and Liabilities	81
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OTHER INFORMATION

Successor Agency Long-term Debt Schedules	82
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INDEPENDENT AUDITORS' REPORT

The Honorable City Council of
The City of Gonzales
Gonzales, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gonzales, California, (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14 to the financial statements, Redevelopment Agency of the City of Gonzales was dissolved on February 1, 2012 pursuant to Assembly Bill (AB)x1 26. Housing assets of the former Redevelopment Agency were transferred to the City's Housing Successor Fund pursuant to Health and Safety Code Section 34176. All other remaining assets and liabilities were transferred to the Successor Agency Private Purpose Trust resulting in an extraordinary loss. Additionally, as described at Notes 15B and 15C, the City has disclosed contingencies regarding certain obligations including advances to the Successor Agency in the amount of \$1,000,000 in the Water Fund and a \$4,400,000 reimbursement agreement relating to the Police Station Capital Lease. Such obligations have been denied by the State of California Department of Finance as enforceable obligations. Should the City not prevail in obtaining approval recognizing these obligations as enforceable obligations, there could be a significant financial impact to the City's Water Fund and General Fund, respectively. Also, as of June 30, 2012, the Successor Agency has a cash overdraft position in the City pool of \$1,512,095 as described in Note 7B.

As more fully disclosed at Note 13 to the financial statements, the City's General Fund has ended the fiscal year June 30, 2012 with a positive fund balance of \$831,042, and an unassigned fund balance of \$164,566. However, when combined with other funds that have negative fund balance, including the Public Safety Fund's negative fund balance of \$447,589, the General Fund's unassigned balance is further reduced to a negative unassigned balance of \$283,023.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2013, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3 through 10 and pages 64 through 67, respectively, 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements, the agency fund statement of changes in assets and liabilities, and the other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Rancho Cucamonga, California

May 20, 2013

CITY OF GONZALES, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL STATEMENTS JUNE 30, 2012

In accordance with Statement No. 34 of the Governmental Accounting Standards Board, the following narrative discussion and analysis is provided by Management for the financial activity of the City of Gonzales for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the City of Gonzales exceed its liabilities, at the close of the fiscal year ended June 30, 2012, by \$51,294,301 (*net assets*). Of this amount, \$8,673,646 is *unrestricted net assets*.
- The City's total net assets increased by \$7,873,257.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$5,100,746, an increase of \$804,018 in comparison with the prior year.
- As of June 30, 2012, the fund balance for the General Fund was \$831,042, which was a decrease of \$100,919 from the prior year. This decrease was anticipated and the FY 2012/13 budget was approved and balanced to stop any further decrease and to start moving the fund balance back up to the \$1 million budget policy goal.
- The City of Gonzales Redevelopment Agency was dissolved on January 31, 2012 pursuant to AB X1 26.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information and other information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Gonzales is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, and streets and roads.

The government-wide financial statements include not only the City of Gonzales itself (known as the *primary government*), but also the seven months of activity of the former redevelopment agency, a legally separate Redevelopment Agency of the City of Gonzales which was dissolved on January 31, 2012 (refer to Note 14 to the financial statements). Financial information for this *component unit* has been included as an integral part of the primary government through the date of its dissolution.

The government-wide financial statements can be found on pages 11-13 of this report.

CITY OF GONZALES, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL STATEMENTS JUNE 30, 2012

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Gonzales, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Gonzales maintains 44 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Community Development Block Grant Fund, the Housing Successor Fund, the Public Safety Fund, the Redevelopment Agency Debt Service Fund, and the Infrastructure Improvement Fund all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds are provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14-19 of this report.

Proprietary funds. The City of Gonzales maintains four separate *proprietary funds*. These funds account for the water, sewer, garbage, and the solar panel activities of the City of Gonzales.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Each proprietary fund is considered major and is presented individually in the fund financial statements.

The Proprietary funds financial statements can be found on pages 20-24 of this report.

Fiduciary funds. Fiduciary funds, which consist of agency funds, and a Private-Purpose Trust Fund used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the *government-wide financial statements* because the resources of these funds are *not* available to support the City's own programs. The City's fiduciary funds are custodial in nature and the accounting used for the Agency Funds does not involve the measurement of the results of operations, however it does for the Private-Purpose Trust Fund. The basic fiduciary fund financial statement can be found on pages 25-26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-63 of this report.

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2012**

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* including budgetary comparison schedules for the General Fund and Major Special Revenue Funds. Required supplementary information can be found on pages 64-67 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining statements can be found on pages 68-81 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Statement of Net Assets reports all financial and capital resources for the City. The City presents the statement in a format that displays assets less liabilities equal net assets. Over a long-term period, the increases and decreases in net assets may serve as a useful indicator of any improvements or deteriorations in the City's financial position.

As of June 30, 2012, the City's assets exceeded liabilities by \$51,294,301.

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Current and other assets	\$ 8,567,618	\$ 9,024,075	\$ 7,751,009	\$ 5,049,367	\$ 16,318,627	\$ 14,073,442
Capital assets	31,337,828	33,978,397	14,307,678	13,974,162	45,645,506	47,952,559
Total assets	39,905,446	43,002,472	22,058,687	19,023,529	61,964,133	62,026,001
Current and other liabilities	580,819	1,253,049	190,591	431,510	771,410	1,684,559
Long-term liabilities	4,677,678	14,469,765	5,220,744	2,450,633	9,898,422	16,920,398
Total liabilities	5,258,497	15,722,814	5,411,335	2,882,143	10,669,832	18,604,957
Invested in capital assets, net of related debt	26,856,446	19,397,690	11,281,857	11,380,493	38,138,303	30,778,183
Restricted	4,482,352	4,819,102	-	-	4,482,352	4,819,102
Unrestricted	3,308,151	3,062,866	5,365,495	4,760,893	8,673,646	7,823,759
Total net assets	\$ 34,646,949	\$ 27,279,658	\$ 16,647,352	\$ 16,141,386	\$ 51,294,301	\$ 43,421,044

As of June 30, 2012, the City reported positive balances in all three categories of net assets for the City as a whole, as well as for each of its separate activities. In comparison to the June 30, 2011 balance of \$43,421,044, net assets increased by \$7,873,257. The increase in the Governmental Activities was due to the dissolution of the former redevelopment agency (as further explained at Note 14) which included the transferring of the related assets and debt to the Successor Agency Private Purpose Trust Fund. The change in Business-Type Activities was not significant however during the year a loan was refinanced and a new lease was entered into (see Note 8).

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2012**

The largest portion of the City's net assets at \$38,138,303 (75 percent) reflects its investment in capital assets (i.e., infrastructure, land, buildings, improvements other than buildings, vehicles, and equipment); less any related debt used to acquire those assets still outstanding. The City utilizes these capital assets to provide services to citizens. These assets are therefore not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be utilized to liquidate these liabilities.

Governmental Activities - Governmental Activities increased the City's net assets by \$7,367,291. This was largely due to the dissolution of the former RDA which included the transferring of debt to the Successor Agency Private Purpose Trust Fund (a Fiduciary Fund). The extraordinary gain of \$7,943,561 was the direct result of the dissolution.

Business-type Activities - Business type Activities increased the City's net assets by \$505,966. This was the result of net increases for both the City's Water and Sewer Utility operations.

The following table presents condensed financial activity for the years ended:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Program revenues:						
Charges for services	\$ 253,765	\$ 230,665	\$ 3,108,697	\$ 3,032,053	\$ 3,362,462	\$ 3,262,718
Operating contributions and grants	2,155,738	2,104,620	-	-	2,155,738	2,104,620
Capital contributions and grants	408,003	387,731	-	-	408,003	387,731
General revenues:						
Property taxes	1,790,159	2,155,106	-	-	1,790,159	2,155,106
Other taxes	852,351	871,048	-	-	852,351	871,048
Other	693,325	395,532	7,493	19,785	700,818	415,317
Total revenues	<u>6,153,341</u>	<u>6,144,702</u>	<u>3,116,190</u>	<u>3,051,838</u>	<u>9,269,531</u>	<u>9,196,540</u>
Expenses:						
General government	1,104,892	1,207,990	-	-	1,104,892	1,207,990
Public safety	2,868,956	2,888,447	-	-	2,868,956	2,888,447
Public works	1,253,305	1,339,620	-	-	1,253,305	1,339,620
Park and recreation	642,833	573,011	-	-	642,833	573,011
Community development	3,804	121,723	-	-	3,804	121,723
Streets and roads	583,309	533,646	-	-	583,309	533,646
Interest on long-term debt	506,512	989,201	-	-	506,512	989,201
Water	-	-	1,026,598	917,930	1,026,598	917,930
Sewer	-	-	554,687	529,826	554,687	529,826
Garbage	-	-	794,439	772,994	794,439	772,994
Solar Energy	-	-	500	-	500	-
Total expenses	<u>6,963,611</u>	<u>7,653,638</u>	<u>2,376,224</u>	<u>2,220,750</u>	<u>9,339,835</u>	<u>9,874,388</u>
Excess before Transfers	(810,270)	(1,508,936)	739,966	831,088	(70,304)	(677,848)
Transfers	234,000	199,883	(234,000)	(199,883)	-	-
Total general revenues and transfers	<u>(576,270)</u>	<u>(1,309,053)</u>	<u>505,966</u>	<u>631,205</u>	<u>(70,304)</u>	<u>(677,848)</u>
Extraordinary gain (loss)	7,943,561	-	-	-	7,943,561	-
Change in net assets	<u>7,367,291</u>	<u>(1,309,053)</u>	<u>505,966</u>	<u>631,205</u>	<u>7,873,257</u>	<u>(677,848)</u>
Net assets - Beginning (restated)	<u>27,279,658</u>	<u>28,588,711</u>	<u>16,141,386</u>	<u>15,510,181</u>	<u>43,421,044</u>	<u>45,743,770</u>
Net assets - Ending	<u>\$ 34,646,949</u>	<u>\$ 27,279,658</u>	<u>\$ 16,647,352</u>	<u>\$ 16,141,386</u>	<u>\$ 51,294,301</u>	<u>\$ 45,065,922</u>

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City of Gonzales utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

General Fund

The fund balance for the fiscal year ended June 30, 2012 is \$831,042. The net change in fund balance is a decrease in the amount of \$100,919. This number includes revenues of \$2,911,957, expenditures of \$3,435,236, and transfers-in of \$422,360. The fund balance of the General Fund has averaged \$1.07 million since fiscal year 2008. This trend is reflected in the following summary:

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Total Revenues	\$ 2,799,151	\$ 3,134,678	\$ 2,947,692	\$ 2,842,581	\$ 2,911,957
Total Expenditures	3,466,843	3,952,920	3,565,282	3,458,020	3,435,236
Other Financial Sources (Uses)	485,100	806,863	427,530	485,623	422,360
Excess of revenues and other financing sources over (under) expenditures and other financing sources	(182,592)	(11,379)	(190,060)	(129,816)	(100,919)
Fund Balance - July 1	1,445,808	1,263,216	1,251,837	1,061,777	931,961
Fund Balance - June 30	<u>\$ 1,263,216</u>	<u>\$ 1,251,837</u>	<u>\$ 1,061,777</u>	<u>\$ 931,961</u>	<u>\$ 831,042</u>

From an administrative standpoint, it has been a goal to maintain the fund balance at a minimum of \$1 million total fund balance, which for the period since 2008 has been over 25 percent of the General Fund's expenditures. While this goal has not been without its challenges to meet, the City continuously strives to improve efficiencies, reduce and/or control expenditures and enhance revenues. In addition, the City consolidated Police and Fire Services into a Public Safety Department and in fiscal year 2009-2010 adopted a 3-Year Budget Alignment Plan.

In a continuing effort to maintain the fund balance at the target goal in Fiscal Year 2011-12 the City updated the 3-Year Budget Alignment Plan and adopted a 5-Year Budget plan that included additional cost reductions. These reductions included employees picking up 50% of the employee share of retirement costs (PERS) and annual savings of at least \$50,000 in health and benefit costs. Through collective bargaining and working with an employee health benefit committee, both of these cost saving targets were achieved.

Community Development Block Grant

The fund balance for the fiscal year ended June 30, 2012 is \$84,856, a decrease of \$1,605 from the previous year. The decrease is due to continued program activities. The activities projected under this fund during the next fiscal year include continuation of CDBG grant programs in housing rehabilitation and various technical studies.

CITY OF GONZALES, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL STATEMENTS JUNE 30, 2012

Housing Successor Fund

As disclosed at Note 14, the Redevelopment Agency of the City of Gonzales was dissolved as of January 31, 2012. The City of Gonzales elected to become the Housing Successor for the former Agency and accepted the assets of the former Low and Moderate Income Housing Fund assets. For further information regarding the former Gonzales Redevelopment Agency (RDA), please see Note 14, beginning on page 57 of the financial statements.

Redevelopment Agency Debt Service Fund

As disclosed at Note 14, the Redevelopment Agency of the City of Gonzales was dissolved as of January 31, 2012. All assets of the former Agency were transferred to the Successor Agency Private Purpose Trust Fund. The Redevelopment Agency Debt Service Fund reports only revenue and expenditure activities through January 31, 2012. For further information regarding the former Agency, please see Note 14 beginning on page 57 of the financial statements.

Public Safety Fund

The Public Safety Fund accounts for Public Safety grant funds and the activities relating to a school safety program which is only partially funded through grants. The deficit in fund balance is expected to be funded through transfers from the General Fund.

Infrastructure Improvement Fund

Fund Balance of the Infrastructure Improvement Fund decreased by \$468,460 from \$718,688 at the beginning of the fiscal year to \$250,228 at June 30, 2012. The decrease was largely due to a transfer of \$500,000 to the former RDA Capital Projects fund for its share of project costs.

Other Governmental Funds

The fund balance of non-major governmental funds for the fiscal year ended June 30, 2012, is \$4,113,072. The net change in fund balances is an increase in the amount of \$905,509. This number includes revenues of \$1,738,532, expenditures of \$1,158,715, other financing sources (uses) of \$383,140, and dissolution of RDA of \$(57,448). The most significant changes occurred as a result of the dissolution of the RDA which involved the transferring of assets including the elimination of beginning fund balances that were negative.

PROPRIETARY FUNDS

At the end of the fiscal year, the unrestricted net assets were \$4,398,273 for the City's Water Utility Fund, \$968,452 for the City's Sewer Utility Fund, \$(785) for the City's Garbage Enterprise Fund and \$(445) for the Solar Energy Fund. For the same period, cash and cash equivalents were \$1,237,280 for the City's Water Utility Fund, \$899,727 for the City's Sewer Utility Fund, zero for the City's Garbage Enterprise Fund, and \$2,194,478 for the Solar Energy Fund.

The City has \$5,220,744 in outstanding long-term debt for capital improvements made under the Water Utility Fund, Sewer Utility Fund, and Solar Energy Funds.

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2012**

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund original revenue budget compared to the final budget, decreased by \$4,453,952. This was primarily due to the budgeting of debt proceeds in fiscal year 11-12 (budgeted as “other revenue”); however, the issuance of debt occurred in fiscal year 10-11. The actual revenues exceeded the final budget by \$6,176. Actual expenditures were less than the final budget by \$108,197. The largest contributor was in Public Safety, due to vacancies and continued cost containment measure.

As indicated previously, the fund balance decrease was anticipated and was due to the net impact on the General Fund resulting from the state dissolution of redevelopment. However, the FY 2012/13 Budget was approved without use of the fund balance and stops any further decreases. In addition, to all the adjustments and decreases that have been done over the last few years, one administrative position was eliminated from an already lean staff and in FY 2013/14 one management position is scheduled for elimination that will result in recovering more than \$100,000; thereby bringing the fund balance back up to the \$1 million in total fund balance, which is the budget policy goal.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets. The City’s investment in capital assets for its governmental activities and business-type activities as of June 30, 2012, amounts to \$31,337,828 and \$14,307,678 (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings, park improvements, vehicles, computer equipment, and furniture and other equipment. During the current fiscal year, the City’s net decrease in capital assets was \$2,307,053, which was primarily the result of the dissolution of the former redevelopment agency that required the transfer of assets and liabilities to the Successor Agency’s Private-Purpose Trust Fund. Refer to Note 14 for additional details.

**City of Gonzales Capital Assets
(Net of Accumulated Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Land	\$ 9,043,436	\$ 9,504,487	\$ 604,807	\$ 604,807	\$ 9,648,243	\$ 10,109,294
Structures and improvements	7,169,388	8,243,212	115,750	22,574	7,285,138	8,265,786
Equipment and vehicles	386,540	528,741	1,392,782	1,395,823	1,779,322	1,924,564
Infrastructure	14,738,464	15,701,957	11,626,374	11,864,144	26,364,838	27,566,101
Construction in progress	-	-	567,965	86,814	567,965	86,814
Total	\$ 31,337,828	\$ 33,978,397	\$ 14,307,678	\$ 13,974,162	\$ 45,645,506	\$ 47,952,559

Additional information on the City’s capital assets can be found in Note 5 on pages 45 and 46 of this report.

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2012**

DESCRIPTION OF CAPITAL PROJECT ACTIVITIES

For Fiscal Year 2011-2012, the City initiated a \$2.6 million solar project in the Solar Energy Fund.

Long-term debt. At the end of the current fiscal year, the City of Gonzales had total governmental activities debt outstanding of \$4,703,729. Business-type activities debt outstanding amounted to \$5,220,744.

City of Gonzales Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Tax allocation bonds/notes payable	\$ -	\$ 13,826,024	\$ -	\$ -	\$ -	\$ 13,826,024
Loan payable	-	608,842	-	-	-	608,842
Capital lease payable	4,481,382	145,841	2,745,744	64,703	7,227,126	210,544
Employee compensated absence	222,347	208,517	-	-	222,347	208,517
Note payable	-	-	2,475,000	2,528,966	2,475,000	2,528,966
Total	<u>\$ 4,703,729</u>	<u>\$ 14,789,224</u>	<u>\$ 5,220,744</u>	<u>\$ 2,593,669</u>	<u>\$ 9,924,473</u>	<u>\$ 17,382,893</u>

The City’s total debt decreased by \$7,458,420 during the current fiscal year as a result of transferring liabilities of the former Agency to the Successor Agency Private Purpose Trust Fund as a result of dissolving on January 31, 2012 (also refer to Note 14).

Additional information on the City’s long-term debt can be found in Notes 8-10 on pages 50-53 of this report.

Economic Factors and Next Year’s Budgets and Rates

- Local property values remained fairly stable for FY 2011-2012 and as a result property tax revenues came in as budgeted. For FY 2012-2013, even though property tax values increased, the City’s Approved Budget remained very conservative and reflected no change over FY 2011-2012 property tax revenue levels.
- State budget issues continue to be a concern for the City. The City will closely monitor activities related to the State’s budget and the effects it may have on the City.
- The decrease in General Fund Balance was anticipated and the FY 2012/13 budget was approved and balanced to stop any further decrease and to start moving the fund balance back up to the \$1 million budget policy goal.

Requests for Information

This financial report is designed to provide a general overview of the financial position of the City of Gonzales for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Gonzales, 147 Fourth Street, Gonzales, California 93926.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF GONZALES, CALIFORNIA

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 5,624,518	\$ 4,331,485	\$ 9,956,003
Accounts receivable	313,326	346,759	660,085
Interest receivable	1,750	1,723	3,473
Notes and loans receivable	2,787,104		2,787,104
Due from successor agency (SERAF)	230,000		230,000
Lease reimbursement receivable (Note 9C)	125,000		125,000
Cash overdraft-due from successor agency (Note 7B)		1,512,095	1,512,095
Advance to successor agency		1,000,000	1,000,000
Other assets-deposits	15,746		15,746
Internal balances	(529,826)	529,826	
Deferred charges - net of accumulated amortization		29,121	29,121
Capital assets:			
Nondepreciable:			
Land	9,043,436	604,807	9,648,243
Construction in progress		567,965	567,965
Depreciable, net of accumulated depreciation			
Structures and improvements	8,114,344	140,584	8,254,928
Equipment and vehicles	1,821,718	2,133,201	3,954,919
Infrastructure	32,441,132	17,145,327	49,586,459
Accumulated depreciation	(20,082,802)	(6,284,206)	(26,367,008)
Total Assets	<u>39,905,446</u>	<u>22,058,687</u>	<u>61,964,133</u>
LIABILITIES			
Accounts payable	223,904	123,058	346,962
Accrued wages	54,467	6,758	61,225
Deposits payable	276,397	60,775	337,172
Noncurrent liabilities:			
Due within one year	26,051	292,265	318,316
Due in more than one year	4,677,678	4,928,479	9,606,157
Total Liabilities	<u>5,258,497</u>	<u>5,411,335</u>	<u>10,669,832</u>
NET ASSETS			
Invested in capital assets, net of related debt	26,856,446	11,281,857	38,138,303
Restricted:			
Restricted for parks and recreation	74,048		74,048
Restricted for community development and housing	353,993		353,993
Restricted for public safety	127,513		127,513
Restricted for public works	2,914,886		2,914,886
Restricted for streets and roads	969,907		969,907
Restricted for debt service	42,005		42,005
Unrestricted	3,308,151	5,365,495	8,673,646
Total Net Assets	<u>\$ 34,646,949</u>	<u>\$ 16,647,352</u>	<u>\$ 51,294,301</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 1,104,892	\$ 11,146	\$ 214,437	
Public safety	2,868,956	54,217	566,507	\$ 87,745
Parks and recreation	642,833	137,764	408,312	132
Public works	1,253,305	50,638	218,680	178,368
Streets and roads	583,309		747,802	
Community development	3,804			141,758
Interest on long-term debt	506,512			
Total Governmental Activities	<u>6,963,611</u>	<u>253,765</u>	<u>2,155,738</u>	<u>408,003</u>
Business-Type Activities:				
Water	1,026,598	1,324,377		
Sewer	554,687	840,666		
Garbage	794,439	943,654		
Solar Energy	500			
Total Business-Type Activities	<u>2,375,724</u>	<u>3,108,697</u>		
Total Government	<u>\$ 9,339,335</u>	<u>\$ 3,362,462</u>	<u>\$ 2,155,738</u>	<u>\$ 408,003</u>

General Revenues:

Taxes:
Secured and unsecured property taxes
Sales and use taxes
Transient lodging tax
Franchise taxes
Utility users tax
Business license tax
Other taxes
Motor vehicle in lieu fees
Investment income
Other
Transfers
Total General Revenues and Transfers
Extraordinary gain (loss) (Note 14)
Change in Net Assets
Net Assets, Beginning of Year
Net Assets, End of Year

See accompanying notes to the financial statements.

Net Revenue (Expense) and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (879,309)		\$ (879,309)
(2,160,487)		(2,160,487)
(96,625)		(96,625)
(805,619)		(805,619)
164,493		164,493
137,954		137,954
(506,512)		(506,512)
<u>(4,146,105)</u>		<u>(4,146,105)</u>
	\$ 297,779	297,779
	285,979	285,979
	149,215	149,215
	(500)	(500)
	<u>732,473</u>	<u>732,473</u>
<u>(4,146,105)</u>	<u>732,473</u>	<u>(3,413,632)</u>
1,790,159		1,790,159
456,274		456,274
1,862		1,862
76,409		76,409
256,017		256,017
52,005		52,005
9,784		9,784
4,509		4,509
124,521	7,493	132,014
564,295		564,295
234,000	(234,000)	
<u>3,569,835</u>	<u>(226,507)</u>	<u>3,343,328</u>
<u>7,943,561</u>		<u>7,943,561</u>
7,367,291	505,966	7,873,257
<u>27,279,658</u>	<u>16,141,386</u>	<u>43,421,044</u>
<u>\$ 34,646,949</u>	<u>\$ 16,647,352</u>	<u>\$ 51,294,301</u>

FUND FINANCIAL STATEMENTS

CITY OF GONZALES, CALIFORNIA

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	Special Revenue			
	General Fund	Community Development Block Grant Fund	Housing Successor Fund	Public Safety Fund
ASSETS				
Cash and investments	\$ 1,139,891		\$ 39,137	
Accounts receivable	116,841	\$ 115,580		
Interest receivable		5		
Due from other funds	650,730			
Notes receivable		1,097,759	423,206	
Lease reimbursement receivable (Note 9C)	125,000			
Advance to Successor Agency (SERAF)			230,000	
Other assets - deposits	15,746			
Total Assets	<u>\$ 2,048,208</u>	<u>\$ 1,213,344</u>	<u>\$ 692,343</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 175,478	\$ 6,955		\$ 701
Accrued wages	46,291			3,557
Due to other funds		23,774		443,331
Deposits payable	276,397			
Deferred revenue	125,000	1,097,759	\$ 423,206	
Advances from other funds	594,000			
Total Liabilities	<u>1,217,166</u>	<u>1,128,488</u>	<u>423,206</u>	<u>447,589</u>
FUND BALANCES				
Nonspendable	666,476			
Restricted		84,856	269,137	
Assigned				
Unassigned	164,566			(447,589)
Total Fund Balances	<u>831,042</u>	<u>84,856</u>	<u>269,137</u>	<u>(447,589)</u>
Total Liabilities and Fund Balances	<u>\$ 2,048,208</u>	<u>\$ 1,213,344</u>	<u>\$ 692,343</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Debt Service Fund			
Redevelopment Agency Debt Service Fund	Infrastructure Improvement Fund	Other Governmental Funds	Totals
	\$ 251,066	\$ 4,194,424	\$ 5,624,518
	600	80,305	313,326
	62	1,683	1,750
			650,730
	854,038	412,101	2,787,104
			125,000
			230,000
			15,746
<u>\$ -</u>	<u>\$ 1,105,766</u>	<u>\$ 4,688,513</u>	<u>\$ 9,748,174</u>
	\$ 1,500	\$ 39,270	\$ 223,904
		4,619	54,467
		119,451	586,556
			276,397
	854,038	412,101	2,912,104
			594,000
	855,538	575,441	4,647,428
			666,476
		4,199,019	4,553,012
	250,228		250,228
		(85,947)	(368,970)
<u>-</u>	<u>250,228</u>	<u>4,113,072</u>	<u>5,100,746</u>
<u>\$ -</u>	<u>\$ 1,105,766</u>	<u>\$ 4,688,513</u>	<u>\$ 9,748,174</u>

CITY OF GONZALES, CALIFORNIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS -
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

FUND BALANCES - GOVERNMENTAL FUNDS \$ 5,100,746

Amounts reported for Governmental Activities in the Statement of Net Assets differ from those reported in the Governmental Funds Balance Sheet because of the following:

Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

Capital assets	\$ 51,420,630	
Less: accumulated depreciation	<u>(20,082,802)</u>	31,337,828

The liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.

Capital leases payable	(81,382)	
Compensated absences	(222,347)	
Lease-Police Station	<u>(4,400,000)</u>	(4,703,729)

In governmental funds, receivables which are not considered available are deferred. This revenue is not deferred in the Statement of Net Assets.

2,912,104

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 34,646,949

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012**

	Special Revenue Fund			
	General Fund	Community Development Block Grant Fund	Housing Successor Fund	Public Safety Fund
REVENUES				
Taxes and assessments	\$ 2,016,353		\$ 2,615	
Licenses, permits, and impact fees	44,898			
Fines and penalties	29,511			
Use of money and property	95,198	\$ 2,495	357	
Intergovernmental revenues	81,915	124,216		\$ 299,657
Charges for services	366,067			
Other revenues	278,015	34,520		
Total Revenues	<u>2,911,957</u>	<u>161,231</u>	<u>2,972</u>	<u>299,657</u>
EXPENDITURES				
Current:				
General government	792,190	105,913		
Public safety	2,285,160			544,387
Public works	56,180	21,923		
Parks and recreation	301,706			
Community development			142	
Streets and roads				
Capital outlay				
Debt service:				
Principal				
Interest				
Total Expenditures	<u>3,435,236</u>	<u>127,836</u>	<u>142</u>	<u>544,387</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(523,279)</u>	<u>33,395</u>	<u>2,830</u>	<u>(244,730)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	422,360			142,000
Transfers out		(35,000)		
Total Other Financing Sources (Uses)	<u>422,360</u>	<u>(35,000)</u>		<u>142,000</u>
Extraordinary Items				
Dissolution of Redevelopment Agency - Gain (Loss)			266,307	
Net Change in Fund Balances	(100,919)	(1,605)	269,137	(102,730)
Fund Balance - July 1, 2011	931,961	86,461		(344,859)
Fund Balance - June 30, 2012	<u>\$ 831,042</u>	<u>\$ 84,856</u>	<u>269,137</u>	<u>(447,589)</u>

See accompanying notes to the financial statements.

Debt Service Fund			
Redevelopment Agency Debt Service Fund	Infrastructure Improvement Fund	Other Governmental Funds	Totals
\$ 540,166		\$ 1,065,544	\$ 3,624,678
		140,361	185,259
			29,511
25,063	\$ 101,676	25,820	250,609
		454,734	960,522
			366,067
	14,793	52,073	379,401
<u>565,229</u>	<u>116,469</u>	<u>1,738,532</u>	<u>5,796,047</u>
	16,283	132,676	1,047,062
		951	2,830,498
		131,594	209,697
		139,100	440,806
2,015		1,647	3,804
		583,309	583,309
		169,438	169,438
185,000			185,000
<u>385,201</u>			<u>385,201</u>
<u>572,216</u>	<u>16,283</u>	<u>1,158,715</u>	<u>5,854,815</u>
(6,987)	100,186	579,817	(58,768)
		815,581	1,379,941
<u>(109,854)</u>	<u>(568,646)</u>	<u>(432,441)</u>	<u>(1,145,941)</u>
<u>(109,854)</u>	<u>(568,646)</u>	<u>383,140</u>	<u>234,000</u>
<u>419,927</u>		<u>(57,448)</u>	<u>628,786</u>
303,086	(468,460)	905,509	804,018
<u>(303,086)</u>	<u>718,688</u>	<u>3,207,563</u>	<u>4,296,728</u>
<u>\$ -</u>	<u>\$ 250,228</u>	<u>\$ 4,113,072</u>	<u>\$ 5,100,746</u>

CITY OF GONZALES, CALIFORNIA

**RECONCILIATION OF THE NET CHANGE IN FUND BALANCES -
TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

NET CHANGE IN FUND BALANCES	\$	804,018
<p>Amounts reported for governmental activities in the Statement of Activities are different because of the following:</p>		
<p>Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense.</p>		
Cost of assets capitalized	\$ 117,393	
Depreciation expense not reported in governmental funds	<u>(1,340,507)</u>	(1,223,114)
<p>Compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences - change in current year liability		(13,830)
<p>Repayment of principal on long-term liabilities is an expenditure in the governmental funds and thus, has the effect of reducing the fund balances because current financial resources have been used. As a whole, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.</p>		
Capital Lease Payments	64,459	
Interest accrued on the Cal FHA Loan throughout the live of the loan and will be paid in a lump sum upon maturity. This amount represents the amount accrued during fiscal year 2011-12 and up through January 31, 2012 (the dissolution of the former redevelopment agency).	(15,000)	
Principal payments on long-term debt (prior to January 31, 2012) related to the former Agency.	<u>185,000</u>	234,459
<p>As more fully explained at Note 14, on February 1, 2012, all redevelopment agencies in the State of California were dissolved. Prior to being dissolved, the Gonzales Redevelopment Agency, was considered a blended component unit of the City and its activities, assets and liabilities were blended with that of the City. As a result, the following assets and liabilities are no longer required to be presented in the City's statement of net assets and represent a net increase to net assets as of June 30, 2012 and are considered an extraordinary gain or (loss) for fiscal year 2012:</p>		
Capital Assets transferred to the Successor Agency	(4,844,026)	
2003 Tax Allocation Bonds	7,580,000	
2011 Tax Allocation Refunding Bonds, net of related issuance discount	1,491,498	
2011 Lease Revenue Refunding Bonds, net or related issuance premium	4,569,526	
CalFHA Loan Payable	623,842	
Interest payable	138,897	
Original costs of issuance related to former Agency debt	<u>(839,790)</u>	8,719,947
<p>As more fully described at Note 9C to the Financial Statements, the City leases the Police Station from the Successor Agency as a result of an agreement entered into related to the issuance of 2011 Lease Revenue Bonds issued by the former redevelopment agency.</p>		
The Police Station capital lease is carried on the City's financial statements as a long term liability (extraordinary loss)	(4,400,000)	
The Police Station is carried on the City's financial statements as a capital asset (extraordinary gain)	<u>3,426,571</u>	(973,429)
<p>The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and, therefore are not reported as revenue or expenditure in governmental funds (net change):</p>		
Accrued interest payable through January 31, 2012	(106,311)	
Accounts receivable earned and not received within the period of availability	<u>(74,449)</u>	(180,760)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>7,367,291</u></u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solar Energy Fund	
ASSETS					
Current Assets:					
Cash and investments	\$ 1,237,280	\$ 899,727		\$ 2,194,478	\$ 4,331,485
Accounts receivable	134,658	85,072	\$ 127,029		346,759
Interest receivable	1,032	691			1,723
Cash overdraft - due from successor agency (Note 7B)	1,512,095				1,512,095
Total Current Assets	2,885,065	985,490	127,029	2,194,478	6,192,062
Capital Assets:					
Nondepreciable					
Land	19,247	585,560			604,807
Construction in progress	55,000	10,299		502,666	567,965
Depreciable:					
Structure and improvements	117,115	23,469			140,584
Equipment and vehicles	1,272,247	860,954			2,133,201
Infrastructure	9,693,440	7,451,887			17,145,327
Less: accumulated depreciation	(3,506,304)	(2,777,902)			(6,284,206)
Total Capital Assets	7,650,745	6,154,267		502,666	14,307,678
Other Assets					
Advances to other funds	594,000				594,000
Advances to Successor Agency	1,000,000				1,000,000
Deferred bond costs, net	18,996	10,125			29,121
Total Other Assets	1,612,996	10,125			1,623,121
Total Assets	\$ 12,148,806	\$ 7,149,882	\$ 127,029	\$ 2,697,144	\$ 22,122,861

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2012**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solary Energy Fund	
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 36,214	\$ 24,364	\$ 62,480		\$ 123,058
Accrued wages	2,799	2,799	1,160		6,758
Customer deposits	60,775				60,775
Due to other funds			64,174		64,174
Current portion of noncurrent liabilities	163,023			\$ 129,242	292,265
Total Current Liabilities	<u>262,811</u>	<u>27,163</u>	<u>127,814</u>	<u>129,242</u>	<u>547,030</u>
Noncurrent Liabilities					
Long-term portion of noncurrent liabilities	2,360,132			2,568,347	4,928,479
Total Noncurrent Liabilities	<u>2,360,132</u>			<u>2,568,347</u>	<u>4,928,479</u>
Total Liabilities	<u>2,622,943</u>	<u>27,163</u>	<u>127,814</u>	<u>2,697,589</u>	<u>5,475,509</u>
NET ASSETS					
Invested in capital assets, net of related debt	5,127,590	6,154,267			11,281,857
Unrestricted	4,398,273	968,452	(785)	(445)	5,365,495
Total Net Assets	<u>\$ 9,525,863</u>	<u>\$ 7,122,719</u>	<u>\$ (785)</u>	<u>\$ (445)</u>	<u>\$ 16,647,352</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solar Energy Fund	
OPERATING REVENUES					
Charges for services	\$ 1,307,791	\$ 828,131	\$ 902,684		\$ 3,038,606
Late charges	16,586	12,535	16,717		45,838
Other revenues			24,253		24,253
Total Operating Revenues	1,324,377	840,666	943,654		3,108,697
OPERATING EXPENSES					
Salaries and benefits	210,334	209,836	79,455		499,625
Administrative charges	83,593	50,085	3,469		137,147
Contractual services	108,719	98,871	703,905		911,495
Fuel and oil	7,738	4,953			12,691
Operating supplies	13,024	14,444	4,052		31,520
Special department supplies			3,558		3,558
Travel, conference and training	1,945	2,100			4,045
Utilities	171,961	70,361			242,322
Capital outlay	49,867				49,867
Depreciation	193,250	104,037			297,287
Total Operating Expense	840,431	554,687	794,439		2,189,557
Operating Income	483,946	285,979	149,215		919,140
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	4,512	2,926		\$ 55	7,493
Interest expense	(186,167)			(500)	(186,667)
Total Nonoperating Revenues (Expenses)	(181,655)	2,926		(445)	(179,174)
Income Before Transfers	302,291	288,905	149,215	(445)	739,966
TRANSFERS IN	60,000				60,000
TRANSFERS OUT	(50,000)	(94,000)	(150,000)		(294,000)
Total Transfers	10,000	(94,000)	(150,000)		(234,000)
Change in Net Assets	312,291	194,905	(785)	(445)	505,966
Net Assets - July 1, 2011	9,213,572	6,927,814			16,141,386
Net Assets - June 30, 2012	<u>\$ 9,525,863</u>	<u>\$ 7,122,719</u>	<u>\$ (785)</u>	<u>\$ (445)</u>	<u>\$ 16,647,352</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solar Energy Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,335,890	\$ 828,777	\$ 936,888		\$ 3,101,555
Payments to suppliers	(418,275)	(345,596)	(707,615)		(1,471,486)
Payments to employees	(209,563)	(209,065)	(79,285)		(497,913)
Net Cash Provided by Operating Activities	708,052	274,116	149,988		1,132,156
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest paid on long-term debt	(186,167)			\$ (500)	(186,667)
Principal paid on long-term debt	(70,514)				(70,514)
Long-term debt issuance costs paid	750				750
Proceeds from capital lease financing				2,697,589	2,697,589
Purchase of fixed assets	(62,582)	(65,555)		(502,666)	(630,803)
Net Cash Provided (Used) by Capital and Related Financing Activities	(318,513)	(65,555)		2,194,423	1,810,355
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	60,000				60,000
Transfers out	(50,000)	(94,000)	(150,000)		(294,000)
Cash overdraft loan to Successor Agency	(1,512,095)				(1,512,095)
Repayment of Loan to Successor Agency	1,000,000				1,000,000
Net Cash (Used by) Noncapital Financing Activities	(502,095)	(94,000)	(150,000)		(746,095)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	7,143	4,196	12	55	11,406
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(105,413)	118,757		2,194,478	2,207,822
CASH AND CASH EQUIVALENTS, Beginning of Year	1,342,693	780,970			2,123,663
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,237,280	\$ 899,727	\$ -	\$ 2,194,478	\$ 4,331,485

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2012**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solar Engery Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 483,946	\$ 285,979	\$ 149,215	\$ -	\$ 919,140
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Depreciation and amortization	193,250	104,037			297,287
(Increase) Decrease in Operating Assets:					
Accounts receivable	10,358	(11,889)	(6,766)		(8,297)
Increase (Decrease) in Operating Liabilities:					
Accounts payable	18,572	(104,782)	(14,540)		(100,750)
Accrued wages	771	771	170		1,712
Due to other funds			21,909		21,909
Customer deposits	1,155				1,155
Net Cash Provided by Operating Activities	\$ 708,052	\$ 274,116	\$ 149,988	\$ -	\$ 1,132,156

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	Agency Funds	Redevelopment Successor Agency Private-Purpose Trust Fund
ASSETS		
Current assets:		
Cash and investments	\$ 148,032	\$ 958,925
Restricted cash and investments		1,354,465
Interest receivable	89	45
Total Current Assets	<u>148,121</u>	<u>2,313,435</u>
Noncurrent assets:		
Notes receivable-long term portion		431,746
Deferred financing costs-long term portion		806,500
Gross investment in lease receivable		4,400,000
Capital assets:		
Land		461,051
Machinery and equipment		99,093
Buildings and building improvements		1,035,776
Less accumulated depreciation		<u>(232,129)</u>
Total Noncurrent Assets		<u>7,002,037</u>
Total Assets	<u>\$ 148,121</u>	<u>9,315,472</u>
LIABILITIES		
Current liabilities		
Accounts payable		13,400
Salaries payable		2,001
Deposits payable	\$ 148,121	1,000
Unearned revenue		973,429
Due to the City of Gonzales		125,000
Cash overdraft - Due to City of Gonzales (Note 7B)		1,512,095
Interest payable		69,157
Bonds-current portion		255,000
Total Current Liabilities	<u>148,121</u>	<u>2,951,082</u>
Noncurrent liabilities:		
Bonds -long term portion		13,936,865
Advance from Housing Successor Fund (SERAF)		230,000
Advance payable to City of Gonzales (Note 7)		1,000,000
Total Noncurrent Liabilities	<u>-</u>	<u>15,166,865</u>
Total Liabilities	<u>\$ 148,121</u>	<u>18,117,947</u>
Net Assets:		
Held in trust for other governments		<u>\$ (8,802,475)</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

	Redevelopment Successor Agency Private-Purpose Trust Fund
Additions:	
Taxes	\$ 628,464
Interest and use of property	138,970
Total Additions	<u>767,434</u>
Deductions:	
Administrative expenses	97,012
Depreciation	53,664
Interest and fiscal expenses	502,243
Total Deductions	<u>652,919</u>
Extraordinary gain (loss)	<u>(8,916,990)</u>
	<u>(8,916,990)</u>
Change in net assets	(8,802,475)
Net Assets - February 1	-
Net Assets - June 30	<u>\$ (8,802,475)</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Reporting Entity

The City of Gonzales (the City) is a municipal corporation, operating as a general law city, and governed by a city council of five members. As required by accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the City of Gonzales (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Individual Component Unit Disclosures

Blended Component Units

The Gonzales Public Financing Authority (the Authority) is governed by the City Council of the City of Gonzales. Although, it is legally separate from the City, the Authority is reported as if it were part of the primary government because the City Council is the governing board and is able to impose its will on the Authority. The activity of the Authority is included as separate funds in the special revenue fund and debt service fund types.

The Redevelopment Agency of the City of Gonzales (the Agency) is governed by the City Council of the City of Gonzales, acting as the Board of Directors of the Agency. Although it is legally separate from the City, the Agency is reported as if it were part of the primary government because the City Council is the governing board, and is able to impose its will on the Agency. The Agency is reported as separate funds in the special revenue fund, capital projects fund, and the debt service fund types. As more fully explained at Note 14, on February 1, 2012 all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund and activity of the former redevelopment agency through January 31, 2012 are reported in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. A stand alone report was not prepared for fiscal year ending June 30, 2012.

Basis of Presentation

The City has conformed to the pronouncements of the GASB, which are the primary authoritative statements of accounting principles generally accepted in the United States of America applicable to state and local governments.

Government-wide Statements

The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational need of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category - *governmental, proprietary, and fiduciary* - are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

Governmental Fund Financial Statements Funds

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

Major funds are defined as funds that have assets, liabilities, revenues, or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The following types of governmental funds are used:

General Fund

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

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources (other than debt service and capital projects) that are restricted or committed to expenditures for specified purposes.

Capital Projects Fund

The capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of major capital facilities.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Debt Service Funds

Debt service funds are used to account for and report the financial resources that are restricted, committed or assigned for the payment of long-term debt principal, interest, and related costs.

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

- *General Fund* – This fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.
- *Community Development Block Grant Special Revenue Fund* – This fund accounts for Federal Grant monies restricted for specific community programs, which includes the activity related to loans provided to homeowners and businesses and the repayment of these loans.
- *Housing Successor Fund* – This fund was created to account for the former low and moderate income housing related assets accepted by the City as the Housing Successor, upon dissolution of the former Redevelopment Agency (also see Note 14) which are restricted for low and moderate income housing activities.
- *Public Safety Fund* – This fund is used to account for public safety grants restricted for public safety activities which partially fund school resource officers.
- *Redevelopment Agency Debt Service Fund* – This fund is used to account for the accumulation of resources for, and the repayment of notes, interest, and related costs in the Redevelopment Agency (see Note 14 for dissolution).
- *Infrastructure Improvement Fund Debt Service Fund* – This fund is used to hold and track impact funds that have been initiated and committed to City infrastructure improvement projects.

Fund Balance Classifications

The City's fund balance policy establishes the procedures for reporting unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the City's governmental funds: General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds.

Definitions

Fund balance is the difference between the assets and liabilities reported in the City's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The five components of fund balance are as follows:

- **Nonspendable:** Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.
- **Restricted:** Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

- **Committed:** Resources that are constrained to specific purposes by a formal action of the City Council such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the City Council. Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- **Assigned:** Resources that are constrained by the City’s intent to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by the City Council or to an official which the City Council has delegated this authority.
- **Unassigned:** Within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Within all other governmental funds, the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

Policy

1. Unless necessary by other requirements and circumstances, when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City’s policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City’s policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.
2. The City’s Fund Balance policy delegates to the Finance Director the authority to assign unrestricted fund balance amounts where the City’s intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Change in Net Assets, and a Statement of Cash Flows.

Proprietary fund types are accounted for using the “economic resources” measurement focus and accrual basis of accounting. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on the Statement of Net Assets. Their reported fund equity presents total net assets. The operating statement of the proprietary funds presents increases (revenues) and decreases (expenses) in total net assets. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, the costs of employee benefits, maintenance of capital assets, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

The City reported the following major proprietary (enterprise) funds:

- *Water Fund* - This fund accounts for the activities for providing water service to the residents of the City.
- *Sewer Fund* - This fund accounts for the activities of providing sewer service to the residents of the City.
- *Garbage Fund* - This fund accounts for the activities of providing garbage service to the residents of the City.
- *Solar Energy Fund* – This fund accounts for the activities, the debt and the resources generated from the installation of solar energy panels.

Fiduciary Fund Financial Statements

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. The City maintains fiduciary funds for the River Road Assessment District, and the Private Purpose Trust Fund for the Successor Agency of the former Redevelopment Agency.

Basis of Accounting

The government-wide, proprietary funds, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both government-wide and proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

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

Compensated Absences

The City has adopted policies on sick leave and vacation leave. Sick leave is accrued at the rate of eight hours per month by all employees. A portion of the accumulated sick leave will be paid to retiring or resigning employees with a minimum of fifteen years of service. All other employees who terminate employment will receive no compensation for accumulated sick leave.

Employees are only allowed to carry forward one year worth of vacation hours as of January 1 of each year. Vacation is accrued for employees as follows:

<u>Years of Service</u>	<u>Monthly Accrual</u>	<u>Annually</u>
0 to 2	6-2/3 hours	Two weeks
3 to 9	10 hours	Three weeks
10 to 15	11-2/3 hours	Three weeks and 2-1/2 days
15+	13-1/3 hours	Four weeks

Upon termination of employment and, after completion of at least six months of service with the City, the accrued vacation leave shall be paid to the terminated employee.

Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only upon termination, retirement, death, or in an emergency as defined by the Plan. The assets of the Plan are not included within the City's financial statements.

Cash and Cash Equivalents

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

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

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

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

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

Property Taxes

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

Property Valuations - are established by the Assessor of the County of Monterey for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100 percent of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies - are limited to 1 percent of assessed value which results in a tax rate of \$1 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1st, proceeding the fiscal year for which the taxes are levied. The fiscal year begins July 1st and ends June 30th of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: The first installment is due on November 1st of the fiscal year and is delinquent, if not paid, by December 10th; and the second installment is due on March 1st of the fiscal year and is delinquent, if not paid, by April 10th. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent, if not paid, by August 31st of the fiscal year. Significant penalties are imposed by the County for late payments.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City's policy is to capitalize all capital assets with costs exceeding \$5,000 and with useful lives exceeding two years.

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

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

Buildings	40	Years
Improvements	20 to 40	Years
Equipment	5 to 15	Years
Streets	20	Years
Parks	40	Years
Curb and Gutter	20	Years
Storm Drains	70	Years
Signs and Streetlights	50	Years

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, require management to make 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 expenses/expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Pronouncements

Effective in the Current Year

GASB Statement No. 57 – In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agency Employers and Agent Multiple-Employer Plans*. The objective of this statement is to address issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple employers other postemployment benefit plans. The statement is effective for periods beginning after June 15, 2011. This statement did not have a material impact on the financial statements of the City.

GASB Statement No. 64 – In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Statement was effective for periods beginning after June 15, 2011. This statement did not have a material impact on the financial statements of the City.

Effective in Future Years

GASB Statement No. 60 – In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, is effective for periods beginning in fiscal 2013. This statement address the issues related to service concession arrangements (SCAs), which, for the purposes of this statement, are arrangements between the transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The statement also provides guidance for governments that are operators in an SCA, and requires disclosures pertaining to an SCA. The provisions of the statement generally are required to be applied retroactively. The statement is effective for fiscal year 2012-2013. The City has not determined its effect on the financial statements.

GASB Statement No. 61 – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. The City has not determined its effect on the financial statements.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Effective in Future Years, (Continued)

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. The City has not determined its effect on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, 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. The Statement is effective for periods beginning after December 15, 2011. The City has not determined its effect on the financial statements.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement 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. The Statement is effective for periods beginning after December 15, 2012. The City has not determined its effect on the financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012. The City has not determined its effect on the financial statements.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Effective in Future Years, (Continued)

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. 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 *Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Statement is effective for periods beginning after December 15, 2013. The City has not determined its effect on the financial statements.

GASB 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. The Statement is effective for periods beginning after June 15, 2014. The City has not determined its effect on the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The City is required by its municipal code to adopt an annual budget on or before June 30, which is the end of its fiscal year, for the ensuing fiscal year. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during each fiscal year. The City Manager is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the City are subject to annual review by the City Council.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, (CONTINUED)

As required by GASB Statement No. 34, budgetary comparison schedules are presented for the General Fund and major Special Revenue Funds. However, a budget was not adopted for the Housing Successor Fund for fiscal year June 30, 2012.

Deficit Fund Balances

The following funds had deficit fund balances at June 30, 2012, as follows:

	Deficit Fund Balance
<u>Major Funds</u>	
Public Safety Special Revenue Fund	\$ 447,589
<u>Non-major Funds</u>	
Special Revenue Funds:	
Supplemental Local Law Enforcement Fund	24,361
General Plan Impact Fund	14,453
EECBG	47,133
Subtotal Non-major Funds	<u>85,947</u>
Total Deficit Fund Balances	<u>\$ 533,536</u>

The Public Safety Fund ended the year with a deficit fund balance of \$447,589. This deficit is expected to be funded through transfers from the City's General Fund. As further discussed at Note 13, the transfer of funds to the Public Safety Fund would further reduce the City's unassigned fund balance of \$164,566 to a negative \$283,023. Additionally, the City also expects to transfer funds from the General Fund to the General Plan Impact Fund to cover the deficit fund balance. The deficits in the Supplemental Law Enforcement Fund and the EECBG Funds are expected to be covered through future grant revenues and are the result of incurring costs in advance of receiving revenue.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CASH AND INVESTMENTS

Cash and investments at June 30, 2012, consisted of the following:

Demand Deposits:	
Cash on hand	\$ 465
Deposits	1,199,732
Total Demand Deposits	<u>1,200,197</u>
Investments:	
Local Agency Investment Fund	4,061,336
Certificates of Deposit	294,225
Money Market Accounts	5,507,202
Total Investments	<u>9,862,763</u>
Investments Held with Fiscal Agent:	
Investment Agreements	609,743
U.S. Treasury Money Market Funds	744,722
Total Investments Held with Fiscal Agent	<u>1,354,465</u>
Total Cash and Investments	<u>\$ 12,417,425</u>

Cash and investments are reported in the basic financial statements as follows:

Governmental Funds:	
Cash and Investments	\$ 5,624,518
Proprietary Funds	
Cash and Investments	4,331,485
Fiduciary Funds	
Cash and Investments	1,106,957
Restricted Cash and Investments	1,354,465
Total Cash and Investments	<u>\$ 12,417,425</u>

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CASH AND INVESTMENTS, (CONTINUED)

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	270 days	40%	30%
Commercial Paper	180 days	15%	10%
Time Certificates of Deposit	3 years	25%	None
Negotiable Certificates of Deposit	3 years	30%	None
Repurchase Agreements	1 year	20%	None
Medium-Term Notes	5 years	30%	15%
Mutual Funds	5 years	20%	10%
Money Market Mutual Funds	5 years	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
County Investment Pool	N/A	None	None

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	365 days
Commercial Paper	None
Negotiable Certificates of Deposit	None
Investment Agreements	None
Repurchase Agreements	30 days
Money Market Mutual Funds	N/A
Local Agency Investment Fund (LAIF)	N/A

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CASH AND INVESTMENTS, (CONTINUED)

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Fair Value	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Local Agency Investment Fund	\$ 4,061,336	\$ 4,061,336			
Certificates of Deposit	294,225	294,225			
Money Market Accounts	5,507,202	5,507,202			
Held by Bond Trustee:					
Money Market Funds	744,722	744,722			
Investment Agreements	609,743				\$ 609,743
Total	<u>\$ 11,217,228</u>	<u>\$ 10,607,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 609,743</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of year end for each investment type:

Investment Type	Amount	Minimum Rating	Unrated	A
Local Agency Investment Fund	\$ 4,061,336	N/A	\$ 4,061,336	
Certificates of Deposit	294,225	N/A	294,225	
Money Market Accounts	5,507,202	N/A	5,507,202	
Held by Bond Trustee:				
Money Market Funds	744,722	A		\$ 744,722
Investment Agreements	609,743	N/A	609,743	
Total	<u>\$ 11,217,228</u>		<u>\$ 10,472,506</u>	<u>\$ 744,722</u>

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CASH AND INVESTMENTS, (CONTINUED)

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. At June 30, 2012, there were no investments in any one issuer that represented 5 percent or more of total City's investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government 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 state or local governmental unit by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

At June 30, 2012, the balances held in bank accounts (comprised of deposits, CD's and money market accounts) collateralized by the pledging financial institution, but not in the City's name. At June 30, 2012, total cash held in bank was \$7,001,159 of which \$6,988,516 was in excess of federal depository insurance limits.

Investment in State Investment Pool

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

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

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – NOTES RECEIVABLE AND DEFERRED LOANS RECEIVABLE

Loans as of the fiscal year ended June 30, 2012 were as follows:

Governmental Funds	Balance	Additions	Deletions	*Transfers to	Balance
	July 1, 2011			the Private	June 30, 2012
				Purpose Trust	
Rehabilitation Loans	\$ 1,572,896		\$ (51,930)		\$ 1,520,966
Local Business Promissory Notes	463,881	\$ 386,774	(46,527)	\$ (431,746)	372,382
Developer Loans	836,120		(18)		836,102
Sewer and Water Impact Loans	70,706		(13,052)		57,654
Total Governmental Fund Loans	<u>\$ 2,943,603</u>	<u>\$ 386,774</u>	<u>\$ (111,527)</u>	<u>\$ (431,746)</u>	<u>\$ 2,787,104</u>

*As more fully explained at Note 14, on February 1, 2012 all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund and activity of the former redevelopment agency through January 31, 2012, are reported in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

Rehabilitation Loans

Date of Note	Original Principal	Interest Rate	Maturity Date	Collateral	Balance as of June 30, 2012
May 24, 2006	\$ 132,400	2%	May 24, 2036	Deed of Trust	\$ 132,400
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	17,500	2%	May 24, 2036	Deed of Trust	17,500
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
May 24, 2006	50,000	2%	May 24, 2036	Deed of Trust	50,000
December 21, 2001	45,800	0%	No specified maturity	Deed of Trust	4,100
September 11, 2008	125,561	3%	September 11, 2038	Deed of Trust	125,561
November 18, 2008	111,184	3%	November 18, 2038	Deed of Trust	111,184
December 23, 2008	97,346	3%	December 23, 2038	Deed of Trust	97,346
May 12, 2004	43,500	3%	March 12, 2024	Deed of Trust	22,698
February 20, 2008	21,000	1%	February 20, 2023	Deed of Trust	15,715
March 5, 2009	16,000	0%	March 5, 2024	Deed of Trust	13,226
April 8, 2008	23,802	0%	April 8, 2023	Deed of Trust	23,714
July 8, 2008	57,440	0%	July 8, 2023	Deed of Trust	57,054
July 22, 2008	48,643	0%	July 22, 2023	Deed of Trust	48,644
February 19, 2008	170,000	4%	February 19, 2028	Deed of Trust	170,000
June 17, 2010	22,450	0%	June 17, 2025	Deed of Trust	19,011
February 3, 2010	53,145	0%	February 3, 2025	Deed of Trust	53,145
May 3, 2010	70,000	1%	May 3, 2020	Machinery/Equipment	55,820
July 9, 2010	70,000	1%	July 9, 2017	Security Agreement	54,592
January 10, 2011	70,000	1%	January 10, 2018	Security Agreement	36,509
April 20, 2011	70,000	1%	April 20, 2021	Security Agreement	62,747
				Total	<u>\$ 1,520,966</u>

(Continued)

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – NOTES RECEIVABLE AND DEFERRED LOANS RECEIVABLE, (CONTINUED)

Local Business Promissory Notes

<u>Date of Note</u>	<u>Original Principal</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Collateral</u>	<u>Balance as of June 30, 2012</u>
February 1, 2009	\$ 35,000	3%	February 1, 2014	Security Agreement	\$ 17,936
September 30, 2011	191,135	2%	November 1, 2020	Deed of Trust	170,554
April 1, 2011	200,000	2%	October 1, 2024	Security Agreement	183,892
				Total	<u><u>\$ 372,382</u></u>

Developer Loans

<u>Date of Note</u>	<u>Original Principal</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Collateral</u>	<u>Balance as of June 30, 2012</u>
February 19, 2008	\$ 836,120	4%	January 1, 2028	Deed of Trust	\$ 836,102
					<u><u>\$ 836,102</u></u>

Sewer & Water Impact Loans

					<u>Balance as of June 30, 2012</u>
Business Assistance Program Loans **					<u><u>\$ 57,654</u></u>
				Total all Loans	<u><u>\$ 2,787,104</u></u>

**Long term receivables in the amount of \$57,654 represent monies loaned to small businesses in connection with the business assistance program.

The deferred revenues in the fund financial statements represent assets that are not available within the City's period of availability. The deferred revenues balance of the City of Gonzales as of June 30, 2012 included \$2,787,104 for loans receivable.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, was as follows:

	Balance at June 30, 2011	*Transfer to Successor Agency	Additions	Deletions	**Adjustments	Balance at June 30, 2012
Governmental Activities:						
Capital Assets Not Being Depreciated:						
Land	\$ 9,504,487	\$ (461,051)				\$ 9,043,436
Total Capital Assets Not Being Depreciated	<u>9,504,487</u>	<u>(461,051)</u>				<u>9,043,436</u>
Capital Assets, Being Depreciated:						
Structures and improvements	9,150,120	(4,634,801)			\$ 3,599,025	8,114,344
Equipment and vehicles	1,914,351	(99,093)	\$ 6,460			1,821,718
Infrastructure	32,330,199		110,933			32,441,132
Total Capital Assets Being Depreciated	<u>43,394,670</u>	<u>(4,733,894)</u>	<u>117,393</u>		<u>3,599,025</u>	<u>42,377,194</u>
Less Accumulated Depreciation for:						
Structures and improvements	(906,908)	325,366	(190,960)		(172,454)	(944,956)
Equipment and vehicles	(1,385,610)	25,553	(75,121)			(1,435,178)
Infrastructure	(16,628,242)		(1,074,426)			(17,702,668)
Total Accumulated Depreciation	<u>(18,920,760)</u>	<u>350,919</u>	<u>(1,340,507)</u>		<u>(172,454)</u>	<u>(20,082,802)</u>
Total Capital Assets, Being Depreciated, Net	<u>24,473,910</u>	<u>(4,382,975)</u>	<u>(1,223,114)</u>		<u>3,426,571</u>	<u>22,294,392</u>
Governmental Capital Assets, Net	<u>\$ 33,978,397</u>	<u>\$ (4,844,026)</u>	<u>\$ (1,223,114)</u>	\$ -	<u>\$ 3,426,571</u>	<u>\$ 31,337,828</u>

*As more fully explained at Note 14, on February 1, 2012 all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund and activity of the former redevelopment agency through January 31, 2012, are reported in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

**The adjustments represent the addition of the police station to the City’s Capital Assets as a result of the capital lease entered into by the City as more fully described at Note 9C.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – CAPITAL ASSETS, (CONTINUED)

Business-Type Activities:	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Capital Assets Not Being Depreciated:				
Land	\$ 604,807			\$ 604,807
Construction in progress	86,814	\$ 567,965	\$ (86,814)	567,965
Total Capital Assets Not Being Depreciated	691,621	567,965	(86,814)	1,172,772
Capital Assets, Being Depreciated:				
Structures and improvements	46,939	6,831	86,814	140,584
Equipment and vehicles	2,133,201			2,133,201
Infrastructure	17,090,820	54,507		17,145,327
Total Capital Assets Being Depreciated	19,270,960	61,338	86,814	19,419,112
Less Accumulated Depreciation for:				
Structures and improvements	(24,365)	(469)		(24,834)
Equipment and vehicles	(737,378)	(3,041)		(740,419)
Infrastructure	(5,226,676)	(292,277)		(5,518,953)
Total Accumulated Depreciation	(5,988,419)	(295,787)		(6,284,206)
Net Depreciable Capital Assets	13,282,541	(234,449)	86,814	13,134,906
Net Capital Assets	\$13,974,162	\$ 333,516	\$ -	\$ 14,307,678

Depreciation Allocations

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program was as follows:

Governmental Activities	
General government	\$ 44,000
Parks and recreation	74,202
Public works	1,072,323
Public safety	149,982
Total Depreciation Expense-Governmental Activities	\$ 1,340,507
Business-type Activities	
Water	\$ 192,500
Sewer	103,287
Total Depreciation Expense-Business-type Activities	\$ 295,787

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

Due From/To Other Funds

Current interfund balances were attributed to negative cash balances and other short-term borrowings between funds are expected to be repaid shortly after the end of the fiscal year. The following is a summary of interfund balances as of June 30, 2012.

		Due From
		General Fund
		Fund
Due To	Governmental Funds	
	Public Safety Fund	\$ 443,331
	Community Development Block Grant Fund	23,774
	Non-major Governmental Funds	119,451
	Proprietary (Enterprise) Funds	
	Garbage Fund	64,174
	Total	\$ 650,730

Advances

Receivable Fund	Payable Fund	Amount
Water Fund	General Fund	\$ 594,000 (A)

Advances at June 30, 2012 represent:

(A) During fiscal year 2009-2010 the City of Gonzales formalized an advance agreement between the City’s General Fund and the Water Fund for the amount of \$594,000. The amount is payable by the General Fund to the Water Fund over a period of 20 years at an interest rate of 1 percent payable in annual payments of \$33,057.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS (CONTINUED)

Interfund Transfers

		Transfers Out								
		Governmental Funds				Proprietary (Enterprise) Funds				
		Community Development Block Grant Fund	Redevelopment Agency Debt Service Fund	Infrastructure Improvement Fund	Non-major Governmental Funds	Water Fund	Sewer Fund	Garbage Fund	Total	
Transfer In	Governmental Funds									
	General Fund	\$ 35,000			\$ 153,360	\$ 50,000	\$ 34,000	\$ 150,000	\$ 422,360	
	Public Safety Fund				142,000				142,000	
	Non-major Governmental Funds		\$ 109,854	\$ 568,646	137,081				815,581	
	Proprietary (Enterprise) Funds						60,000		60,000	
	Water Fund									
	Total	<u>\$ 35,000</u>	<u>\$ 109,854</u>	<u>\$ 568,646</u>	<u>\$ 432,441</u>	<u>\$ 50,000</u>	<u>\$ 94,000</u>	<u>\$ 150,000</u>	<u>\$ 1,439,941</u>	
									Less Total Enterprise - Transfers In	\$ 60,000
									Total governmental Transfers In	<u>\$ 1,379,941</u>
									Less Total Enterprise - Transfers Out	\$ 294,000
									Total governmental Transfers Out	<u>\$ 1,145,941</u>

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use restricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments may become due.

The following describe the significant transfers made during the year:

Major Funds:

- Prior to the dissolution, the former Redevelopment Agency Debt Service Fund transferred \$109,854 to the former Redevelopment Agency’s Special Revenue Fund to finance various programs and administrative costs.
- Prior to the dissolution, the Infrastructure Improvement Fund transferred \$500,000 to the former Redevelopment Agency’s Capital Projects Fund as contribution toward the construction of the police station which occurred in a previous year. Additionally, the Infrastructure Improvement Fund transferred \$68,534 to the Transportation Enhancement Act Program Fund for the purpose of reimbursement of costs.

Non-Major Funds:

- The Supplemental Local Law Enforcement Fund transferred \$142,000 to the Public Safety Fund in order to finance various programs.
- Various nonmajor funds transferred \$153,360 to the General Fund, principally as reimbursements to the General Fund for various costs including administrative costs.
- Various nonmajor funds transferred \$137,081 to the Gas Tax Fund for various street related projects accounted for in the Gas Tax Fund.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS (CONTINUED)

Major Proprietary Funds

- The Water and Sewer Funds transferred \$50,000, and 34,000, respectively, for utility user fees.
- The Garbage Fund transferred \$150,000 for reimbursement of administrative costs.
- The Sewer Fund transferred \$60,000 to the Water Fund for its share of the water tank and sewer expansion note payable.

NOTE 7 – RECEIVABLES DUE FROM SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FUND

A. Advance

On June 1, 2011, the Agency entered into loan agreement with the City for an advance of \$1,000,000 provided to the Agency for the purpose of refunding a portion of the 2006 Subordinate Tax Allocation Notes of the Redevelopment Agency. The advance is payable to the City over ten years maturing on June 1, 2021. The terms of the agreement include the rate of interest at 2 percent payable commencing June 1, 2012 and continuing on each June 1st through June 1, 2016. Commencing on June 1, 2017 the former Agency was scheduled to make principal payments in the amount of \$200,000 along with interest payments until its maturity in 2021. As more fully described at Note 14 on February 1, 2012, all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund. Repayment of the loan is subject to the approval of the California Department of Finance, and as more fully described at Note 15B, the State Department of Finance (DOF) has disallowed this advance.

The scheduled annual minimum debt services requirements (based on the agreement) for the Successor Agency repayment to the Water Fund at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	2011 Advance		
	Principal	Interest	Total
2013		\$ 20,000	\$ 20,000
2014		20,000	20,000
2015		20,000	20,000
2016		20,000	20,000
2017	\$ 200,000	20,000	220,000
2018-2021	800,000	40,000	840,000
	<u>\$ 1,000,000</u>	<u>\$ 140,000</u>	<u>\$ 1,140,000</u>

The \$20,000 was not paid by the Successor Agency during fiscal year 2011/12 as the amount was not approved by the State of California as noted at Note 15B.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 – RECEIVABLES DUE FROM SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FUND

B. Cash Overdraft - Due from Successor Agency

The Successor Agency’s cash balance at June 30, 2012 included balances in a bank account in the name of the Successor Agency which ended the fiscal year in a positive balance. Additionally, the Successor Agency’s cash balance within the City’s cash pool was negative as of June 30, 2012 in the amount of \$1,512,095. At June 30, 2012 this amount was reclassified for financial statement presentation purposes, as a liability to the City of Gonzales’s Water Fund.

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Reductions	Transfers to Successor Agency*	Balance June 30, 2012	Due Within One year
Governmental Activities:						
Bonds Payable:						
2003 Tax Allocation Refunding Bonds	\$ 7,765,000		\$ (185,000)	\$ (7,580,000)		
2011 Tax Allocation Refunding Bonds	1,535,000			(1,535,000)		
Original issue discount	(43,502)			43,502		
2011 Lease Revenue Refunding Bonds	4,440,000			(4,440,000)		
Original issue premium	129,526			(129,526)		
Loan Payable:						
CalFHA loan	608,842	\$ 15,000		(623,842)		
Capital Leases:						
Police Vehicles Lease	7,566		(7,566)			
Lighting Lease	28,715		(28,715)			
Police Vehicles & Equipment Lease (Note 9A)	109,560		(28,178)		\$ 81,382	\$ 26,051
Lease of Police Station from Successor Agency (Note 9C)		4,400,000			4,400,000	
Compensated Absences	208,517	13,830			222,347	
Governmental activity long-term liabilities	<u>\$ 14,789,224</u>	<u>\$ 4,428,830</u>	<u>\$ (249,459)</u>	<u>\$ (14,264,866)</u>	<u>\$ 4,703,729</u>	<u>\$ 26,051</u>
Business-type Activities:						
Note Payable:						
2005 Water Tank & Sewer Expansion (Note 10)	\$ 2,528,966		\$ (2,528,966)			
2005 Water Tank & Sewer Expansion Refinance (Note 10)		\$ 2,475,000			\$ 2,475,000	\$ 147,723
Capital Leases:						
Solar Panel Energy Lease (Note 9B)		2,697,589			2,697,589	129,242
Equipment Lease (Note 9A)	64,703		(16,548)		48,155	15,300
Business-type activity Long-term liabilities	<u>\$ 2,593,669</u>	<u>\$ -</u>	<u>\$ (2,528,966)</u>	<u>\$ -</u>	<u>\$ 5,220,744</u>	<u>\$ 292,265</u>

*As more fully described at Note 14, on February 1, 2012, all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 – CAPITAL LEASES AND OPERATING LEASE

A. Capital Lease - Police Vehicles and Equipment Lease

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

<u>Fiscal Year Ending</u>	<u>Governmental General Fund</u>	<u>Enterprise Water Fund</u>	<u>Total</u>
2013	\$ 29,608	\$ 17,388	\$ 46,996
2014	29,608	17,388	46,996
2015	29,607	17,388	46,995
Total minimum lease payments	<u>\$ 88,823</u>	<u>\$ 52,164</u>	<u>\$ 140,987</u>
Less: amount representing interest	<u>(7,441)</u>	<u>(4,009)</u>	<u>(11,450)</u>
Present value of minimal lease payments	<u><u>\$ 81,382</u></u>	<u><u>\$ 48,155</u></u>	<u><u>\$ 129,537</u></u>

B. Capital Lease - Solar Panel Energy Lease

In February of 2012, the City entered into a lease purchase agreement for the purchase of Solar Panels. The carrying value of the assets purchased to date is \$502,666. The amount financed was \$2,697,589 and is payable over a 14 year term with lease payments commencing in October of 2012. The lease payments and related interest are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 129,242	\$ 114,607	\$ 243,849
2014	141,903	108,870	250,773
2015	156,682	102,553	259,235
2016	172,524	95,588	268,112
2017	189,497	87,928	277,425
2018-2022	915,509	330,260	1,245,769
2023-2027	992,232	148,072	1,140,304
	<u><u>\$ 2,697,589</u></u>	<u><u>\$ 987,878</u></u>	<u><u>\$ 3,685,467</u></u>

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 – CAPITAL LEASES AND OPERATING LEASE, (CONTINUED)

C. Capital Lease - Police Station from Successor Agency

During fiscal year 2010/11, the former Gonzales Redevelopment Agency issued the 2011 Lease Revenue Refunding Bonds in the amount of \$4,440,000. Simultaneously, the former Agency and the City of Gonzales entered into a lease agreement whereby the City leased the Police Station building from the former Agency. The bonds, issued by the former Agency, are secured by lease payments from the City which are equal to the debt service payments for the 2011 Lease Revenue Refunding Bonds. The lease is recorded as a Capital Lease liability in the City's Government-Wide Statement of Net Assets. A corresponding lease receivable and the 2011 Lease Revenue Refunding Bonds are recorded in the Private-Purpose Trust Fund. As more fully described at Note 14, the former Agency was dissolved at January 31, 2012 and the assets and liability of the former Agency were transferred to the Private Purpose Trust Fund.

In addition, the City and former Agency entered into a separate reimbursement agreement whereby the former Agency is to reimburse the City for all costs incurred by the City related to the above noted lease including but not limited to lease principal (up to \$4,400,000) and lease interest payments made by the City. As of June 30, 2012, the City had paid \$125,000 reimbursement costs to the Successor Agency in connection with this lease, which are considered reimbursable costs to the City under the agreement. This amount is recorded as a receivable at the Governmental Funds Balance Sheet and the Government Wide Statement of Net Assets.

D. Operation Lease – Rooftops for Solar Panels

On March 2012, the City entered into a lease agreement with a Winery, for the rental of their rooftops in connection with the solar panels purchased by the City (also refer to Note 9C). The lease rental payments are equal to \$5,000 annually for the first ten years and \$10,000 for the sixteenth year, with a three percent annual escalator applied to each subsequent year of the agreement which terminates on December 31, 2042. No amounts were required to be paid during fiscal year 2011/12.

NOTE 10 – LOAN AND NOTE PAYABLE

Note Payable – Water Tank and Sewer Expansion

On November 1, 2005 the Gonzales Public Financing Authority entered into a funding agreement with a financial institution to provide \$3,131,500 for the Sewer Expansion and Water Tank Projects (the Project). The Note accrues interest at a rate of 4.55 percent. Principal and interest payments are due semi-annually on June 30th and December 30th.

The Financing Authority simultaneously entered into an installment sale agreement with the City of Gonzales where the Authority sells the Project to the City and the City purchases the Project from the Authority. The installment sale agreement accrues interest at the rate of 4.55 percent (the same rate as the Note) and the City is required to make semi-annual installment payments to the Authority in the same amounts due under the Note 1. The Authority has assigned the right to receive these installment payments to the Note holder.

In June of 2012, the above note was refinanced. The amount financed was \$2,475,000 at the interest rate of 3.35 percent and payable in semi-annual installments on December 29th and June 29th of each year beginning on December 29, 2012.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – LOAN AND NOTE PAYABLE, (CONTINUED)

Remaining principal and interest payments due under the Note are as follows:

Fiscal Year Ending June 30,	2012 Water Tank and Sewer Expansion Loan		
	Principal	Interest	Total
2013	\$ 147,723	\$ 81,685	\$ 229,408
2014	152,713	76,696	229,409
2015	157,873	71,537	229,410
2016	163,206	66,204	229,410
2017	168,719	60,691	229,410
2018-2022	933,035	214,011	1,147,046
2023-2026	751,731	51,202	802,933
	<u>\$ 2,475,000</u>	<u>\$ 622,026</u>	<u>\$ 3,097,026</u>

NOTE 11 – RISK MANAGEMENT

The City provides for workers' compensation and liability through a self-funded joint powers agency, Monterey Bay Area Self Insurance Authorities. Joint Powers Agreement (JPA) accounts are not separately maintained for each participant.

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the Monterey Bay Area Self Insurance Authority (MBASIA). MBASIA is composed of 10 California public entities and is organized under a joint powers agreement pursuant to California Government Code 6500 et seq. The purpose of MBASIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverage.

MBASIA Insurance Programs

General Liability: The City is self-insured for the first \$10,000 of each liability claims. Claims above \$10,000 up to \$490,000 are paid by MBASIA. Claims above \$490,000 up to \$19.5 million are covered by insurance purchased by MBASIA.

Workers' Compensation: The City does not retain a self-insured portion of workers' compensation claims. Annual premiums for coverage up to statutory levels are paid to MBASIA based on the level of claims activity. A third party claims administrator is contracted by MBASIA to manage claims activity.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 11 – RISK MANAGEMENT, (CONTINUED)

Adequacy of Protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded insured coverage. There have been no significant reductions in insured liability coverage from coverage in the prior year.

Summary financial information of the JPA for the fiscal year ended June 30, 2011(most recent audited information available), is as follows:

Total Assets	\$ 14,355,298
Total Liabilities	<u>16,618,345</u>
Net Assets	<u>\$ (2,263,047)</u>
Total Revenues	\$ 5,022,254
Total Expenses	<u>3,259,526</u>
Change in Net Assets	<u>\$ 1,762,728</u>

NOTE 12 – DEFINED BENEFIT PENSION PLAN

Plan Description

The City's defined benefit pension plan, the California Public Employees' Retirement System, provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The California Public Employees' Retirement System is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), a cost-sharing employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law.

The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members in the City's defined pension plan are required to contribute 7 percent of their annual covered salary for miscellaneous employees and 7 percent of their annual covered salary for safety employees. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. As of June 30, 2012, the City covers half (3.5 percent) of the employee's required share of 7 percent.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 12 – DEFINED BENEFIT PENSION PLAN, (CONTINUED)

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2011-2012 was 14.175 percent for miscellaneous members and 12.573 percent for safety members. 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.

Annual Pension Cost

For fiscal year 2011-2012, the City's annual pension cost was \$407,305.

Three-Year Trend Information for the City

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
6/30/2010	\$ 420,788	100%	-
6/30/2011	401,938	100%	-
6/30/2012	407,305	100%	-

NOTE 13 – NET ASSETS AND FUND BALANCES

Net Assets

Net Assets are the excess of all the City's assets over all its liabilities, for the government-wide financial statements, and proprietary funds. Net assets are divided into three captions under GASB Statement No. 34. These captions apply only to net assets, which are determined only at the government-wide level and the proprietary fund levels.

Invested in capital assets, net of related debt describes the portion of net assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes. Unrestricted describes the portion of net assets which is not restricted as to use.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 13 – NET ASSETS AND FUND BALANCES, (CONTINUED)

Fund Balances

The fund balances represent the net current assets of each fund in the fund financial statements. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be restricted or assigned for future expenditure.

	General Fund	Special Revenue			Debt Service	Non-major Governmental Funds	Total
		Community Development Block Grant	Housing Successor Fund	Public Safety Fund	Infrastructure Improvement Fund		
Nonspendable:							
Due From Other Funds	\$ 650,730						\$ 650,730
Deposits	15,746						15,746
Restricted for:							
Low-Mod Housing			\$ 269,137				269,137
Debt Service						\$ 42,005	42,005
Community Programs		\$ 84,856				79,156	164,012
Grant Programs						44,631	44,631
Highway maintenance						538,839	538,839
Maintenance Assessments						2,015,664	2,015,664
Developer Impact Projects						1,478,724	1,478,724
Assigned for:							
Capital Projects					\$ 250,228		250,228
Unassigned	164,566			\$ (447,589)		(85,947)	(368,970)
Total Fund Balance	\$ 831,042	\$ 84,856	\$ 269,137	\$ (447,589)	\$ 250,228	\$ 4,113,072	\$ 5,100,746

Nonspendable for:

Due from Other Funds

These amounts represent short-term receivables from other funds however the funds expected to repay the amounts do not have current available resources to repay the balances or have negative fund balances.

Unassigned Fund Balance:

General Fund's Financial Position

At June 30, 2012 fund balance for the General Fund was \$831,042. After deducting \$650,730 and \$15,746 for non-spendable amounts, unassigned fund balance was \$164,566. The non-spendable amount of \$650,730 represents interfund borrowings to cover negative cash balances of various funds at June 30, 2012, including the Public Safety Fund. In addition, as noted above, the Public Safety Fund ended the year with a deficit fund balance of \$447,589 which is expected by management to be covered through transfers from the General Fund. This would further reduce the General Fund's unassigned fund balance to a negative \$283,023 as of June 30, 2012. Management is aware and is continuing its efforts to improve the General Fund's financial position.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

General Discussion

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

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 17, 2012, the City of Gonzales adopted resolution number 2012-02 designating the City of Gonzales as the successor agency under Part 1, 85 of the Health & Safety Code, which essentially transfers the operations to the successor Agency effective February 1, 2012.

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

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

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

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

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months (July 1, 2011 through January 31, 2012) of the activity of the redevelopment agency continued to be reported in the governmental funds of the City and included the Redevelopment Agency Debt Service Fund, the Redevelopment Agency Capital Projects Fund, the Redevelopment Agency Special Revenue Fund and the Redevelopment Agency Low/Moderate Income Housing Fund. 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.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

**NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY,
(CONTINUED)**

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Reconciliation of Extraordinary Gain (Loss)

Total extraordinary gain reported in governmental funds - decrease to net assets of the Successor Agency Trust Fund	\$ (628,786)
Capital assets recorded in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	4,844,026
Accrued bond interest reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	(138,897)
Long-term debt reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund :	
Bonds Payable	(13,555,000)
Original Issue Discount related to bonds	43,502
Original issue Premium related to bonds	(129,526)
Loans Payable	(623,842)
Issuance Costs related to bonds	839,790
Deferred revenue reported in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	<u>431,743</u>
Net increase (decrease) to net assets of the Successor Agency Trust Fund as a result of initial transfers.	(8,916,990)
Adjustments to Statement of Activities of the City for the recognition of unearned income in connection with the capital lease between the City and former Agency (Note 9C)	<u>973,429</u>
Net increase to City's net assets equal to amount of extraordinary gain reported in the government-wide Statement of Activities of the City at page 13.	<u><u>\$ (7,943,561)</u></u>

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

**NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY,
(CONTINUED)**

Successor Agency Capital Assets

	Transferred in February 1, 2012	Additions	Deletions	Adjustments	Balance at June 30, 2012
Capital Assets Not Being Depreciated:					
Land	\$ 461,051				\$ 461,051
Total Capital Assets Not Being Depreciated	461,051				461,051
Capital Assets, Being Depreciated:					
Buildings and improvements	4,634,801			\$ (3,599,025)	1,035,776
Equipment and vehicles	99,093				99,093
Total Capital Assets Being Depreciated	4,733,894			(3,599,025)	1,134,869
Less Accumulated Depreciation for:					
Buildings and improvements	(325,366)	\$ (47,765)		172,454	(200,677)
Equipment and vehicles	(25,553)	(5,899)			(31,452)
Total Accumulated Depreciation	(350,919)	(53,664)		172,454	(232,129)
Total Capital Assets, Being Depreciated, Net	4,382,975	(53,664)		(3,426,571)	902,740
Governmental Capital Assets, Net	\$ 4,844,026	\$ (53,664)	\$ -	\$ (3,426,571)	\$ 1,363,791

Gross Investment in Lease Receivable

The former redevelopment agency entered into a lease agreement with the City of Gonzales in June of 2011 in connection with the issuance of the 2011 Lease Revenue Bonds whereby property was leased to the City of Gonzales for lease payments that are equal to the debt service due on the 2011 Lease Revenue Bonds. The financial statements of the Successor Agency are presented on the accrual basis of accounting and uses the Direct Financing Lease Method to record the lease. Under this method, the asset leased by the City is carried on the City's financial statements (the lessee) along with the Lease Payable. The Successor Agency carries the lease receivable in the Private Purpose Trust Fund as Gross Investment in Lease Receivable with an outstanding balance of \$4,400,000 at June 30, 2012.

Successor Agency Long-term Debt

	Transferred In February 1, 2012	Additions	Reductions	Balance June 30, 2012	Due Within One year
Bonds Payable:					
2003 Tax Allocation Refunding Bonds	\$ 7,580,000			\$ 7,580,000	\$ 195,000
2011 Refunding Tax Allocation Bonds	1,535,000			1,535,000	
Original issue discount	(43,502)		\$ 1,318	(42,184)	
2011 Refunding Lease Revenue Bonds	4,440,000		(70,000)	4,370,000	60,000
Original issue premium	129,526		(4,319)	125,207	
Advance from the City of Gonzales	1,000,000			1,000,000	
CalFHA Loan	623,842			623,842	
Advance from the Housing Successor Fund	230,000			230,000	
Governmental activity long-term liabilities	\$ 15,494,866	\$ -	\$ (73,001)	\$ 15,421,865	\$ 255,000

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

***NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY,
(CONTINUED)***

2003 Tax Allocation Refunding Bonds

On October 30, 2003, the Redevelopment Agency of the City of Gonzales adopted a Resolution authorizing the sale of \$8,575,000 aggregated principal amount of Gonzales Redevelopment Project 2003 Tax Allocation Refunding Bonds at a variable interest rate of 2.0 percent to 5.5 percent for the purpose of refinancing the 2000, and 2002 Tax Allocation Notes and financing redevelopment projects within the Redevelopment Agency of the City of Gonzales. Principal payments are due annually starting December 1, 2005 with the interest payable semi-annually on December 1 and June 1. The bonds mature on December 1, 2033. The bonds outstanding at June 30, 2012, were \$7,580,000.

2011 Lease Revenue Refunding Bonds

On June 14, 2011, the Redevelopment Agency of the City of Gonzales issued the 2011 Gonzales Redevelopment Agency Lease Revenue Refunding Bonds in the principal amount of \$4,440,000, at fixed interest rates ranging from 4 percent to 5.375 percent for the purpose of refunding a portion of its outstanding Gonzales Redevelopment Project Area No. One Subordinate Tax Allocation Notes Series 2006. The bonds mature on June 1, 2041, with interest payable semi-annually on December 1st and June 1st.

Pursuant to a lease agreement dated as of June 1, 2011, by and between the City and the Agency, the City leases the real property and the building and related improvements thereon consisting of the Gonzales Police Station from the Agency. The 2011 Bonds are limited obligations of the former Agency payable solely from the trust estate which consists of all lease payments and other payments paid by or for the benefit of the City and received by the trustee pursuant to the lease agreement and the trust agreement, and amounts held by the trustee in certain funds. The term of the lease shall end on June 1, 2041 and lease payments to the Agency by the City are equal to the debt service payments for the 2011 Lease Revenue Refunding Bonds as noted above.

As described at Note 15B, the State Department of Finance (DOF) disallowed the reimbursement agreement associated with the lease (Note 9C). The balance of the bonds at June 30, 2012 was \$4,370,000.

2011 Refunding Tax Allocation Bonds

On June 14, 2011, the Redevelopment Agency of the City of Gonzales issued the 2011 Gonzales Redevelopment Agency Tax Allocation Refunding Bonds (tax-exempt) in the principal amount of \$1,535,000, at an 8 percent fixed rate of interest for the purpose of refunding a portion of its outstanding Gonzales Redevelopment Project Area No. One Subordinate Tax Allocation Notes Series 2006. The 2011 Bonds are limited obligations of the Agency payable from and secured by pledged tax revenues. The bonds mature on December 1, 2044, with interest payable semi-annually on December 1st and June 1st. The bonds outstanding at June 30, 2012 were \$1,535,000.

Deferred Charges

Deferred charges (issuance costs) related to the 2003 and 2011 bonds are being amortized over the life of the bonds on a straight-line basis. The remaining balance at June 30, 2012 was \$806,500.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

***NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY,
(CONTINUED)***

CAL FHA Loan

Loan Payable

On October 15, 2003, the City entered into an agreement with the California Housing Finance Agency for a loan in the amount of \$500,000. The purpose of the loan is to assist in the development of Canyon Creek, a 36-unit apartment complex. The interest rate is 3.0 percent annually and is due with the principal in one lump sum of \$650,000 ten years from the effective date of the agreement on December 10, 2013. At June 30, 2012, the outstanding loan balance was \$500,000 with accumulated interest of \$123,842.

Advance from Housing Successor Fund

Prior to the dissolution of the former redevelopment agency, the agency's Debt Service Fund borrowed \$230,000 from the agency's Low and Moderate Income Housing for the purpose of paying the SERAF amount due to the County. The date of repayment of this amount to the Housing Successor Fund is unknown; however it has not been disallowed by the State and will be included on future Recognized Obligation Payment Schedule (ROPS) for payment.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

A. General

There are certain legal actions pending against the City which management considers incident to normal operations, some of which seek substantial monetary damages. In the opinion of management, after consultation with counsel, the ultimate resolution of such actions is not expected to have a significant effect on the financial position or the results of operations of the City.

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

The City is party to an agreement under which it must pay a sum of money to a resident for the remainder of the resident's life. The payment increases by 4 percent annually. As of June 30, 2012, the monthly payment was \$5,619. During fiscal year 2011-2012, the City paid the resident a total of \$67,431.

The City is a member of the Monterey Bay Area Self Insurance Fund, (see Note 11). The Fund has deficit net assets of \$2,263,047 as of June 30, 2011 (most recent information available).

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – COMMITMENTS AND CONTINGENCIES, (CONTINUED)

B. Enforceable Obligations

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

The legislation requires DOF to review the enforceable obligations on the ROPS which are to be funded using property tax. As part of this review, the DOF has disallowed several obligations listed on the ROPS submitted by the Successor Agency, including the Advance from the Water Fund in the amount of \$1,000,000 (Note 7) and the reimbursement agreement (with a principal amount up to \$4,400,000) relating to the Police Station Capital Lease (Note 9C) with an outstanding reimbursable balance of \$125,000 as of June 30, 2012. The legislation provides for a “meet and confer” process for items under dispute. The City is proceeding with the “Meet and Confer” process with the State in order to dispute obligations that have been disallowed, and intends to pursue collection of these obligations; however, the outcome as of the date of this report is unknown. Should the City not prevail in obtaining approval for recognizing these obligations as enforceable, there could be a significant impact to the City’s Water Fund and General Fund, respectively.

C. Advance Receivable from the Successor Agency Private Purpose Trust Fund

As disclosed at Note 6B, the former redevelopment agency borrowed funds from the City’s Water Fund for the purpose of refunding a portion of the 2006 Subordinate Tax Allocation Bonds which had a balloon payment due on August 1, 2011. As of June 30, 2012, the balance of the obligation to the City from the former Agency of \$1,000,000 was denied by the State Department of Finance as an enforceable obligation.

The City’s management has asserted, with agreement from legal counsel, that the loan is an enforceable obligation consistent with HSC 34171(d)(2). Further, the City has asserted, with agreement from legal counsel that it will continue to note the loan on the ROPS and proceed with working with the Oversight Board for the Successor Agency to find and determine that the loan is an enforceable obligation pursuant to HSC 34191.4(b).

As of June 30, 2012, the \$1,000,000 loan balance is recorded as a liability in the Successor Agency’s Private Purpose Trust Fund Statement of Fiduciary Net Assets, and as a receivable in the City’s Water Fund. The City is proceeding with the “Meet and Confer” process with the State and intends to pursue the collection of the loan; however, the outcome as of the date of this report is unknown. Should the City not prevail in obtaining approval for recognizing the loans as enforceable obligations, there could be a significant impact to the Water Fund.

D. Due Diligence Review (DDR)

The City’s required Due Diligence Review (“DDR”) report for the All Other Funds has been submitted to the State which is currently under review. The ultimate outcome of the review process is unknown as of the date of this report.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 16 – SPECIAL ASSESSMENT IMPROVEMENT BONDS

Special Assessment District Debt with No City Commitment

The Gonzales River Road Assessment District has issued debt to finance infrastructure improvements and facilities within its boundary. The City is the collecting agent for the debt issued by the District, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not included in the long-term debt of the City. The outstanding balance as of June 30, 2012, is \$295,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GONZALES, CALIFORNIA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes and assessments	\$ 1,915,400	\$ 1,954,400	\$ 2,016,353	\$ 61,953
Licenses, permits, and impact fees	69,429	26,250	44,898	18,648
Fines and penalties	18,000	20,000	29,511	9,511
Use of money and property	114,000	114,000	95,198	(18,802)
Intergovernmental	67,500	89,699	81,915	(7,784)
Charges for services	327,692	302,732	366,067	63,335
Other revenues	4,847,712	398,700	278,015	(120,685)
Total Revenues	7,359,733	2,905,781	2,911,957	6,176
EXPENDITURES				
Current:				
General government	852,664	880,598	792,190	88,408
Public safety	2,045,023	2,270,767	2,285,160	(14,393)
Public works	61,019	67,695	56,180	11,515
Parks and recreation	265,707	312,873	301,706	11,167
Capital outlay	11,500	11,500		11,500
Total Expenditures	3,235,913	3,543,433	3,435,236	108,197
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,123,820	(637,652)	(523,279)	114,373
OTHER FINANCING SOURCES (USES)				
Transfers in	684,329	316,200	422,360	106,160
Transfer to Successor Agency, Private Purpose Trust		(125,000)	-	125,000
Total Other Financing Sources (Uses)	684,329	191,200	422,360	231,160
Net Change in Fund Balance	4,808,149	(446,452)	(100,919)	345,533
Fund Balance - July 1, 2011	931,961	931,961	931,961	216,903
Fund Balance - June 30, 2012	\$ 5,740,110	\$ 485,509	\$ 831,042	\$ 562,436

See accompanying notes to required supplementary information.

CITY OF GONZALES, CALIFORNIA

**COMMUNITY DEVELOPMENT BLOCK GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Use of money and property	\$ 2,550	\$ 2,600	\$ 2,495	\$ (105)
Intergovernmental	351,200	332,400	124,216	(208,184)
Other revenues			34,520	34,520
Total Revenues	<u>324,350</u>	<u>364,400</u>	<u>161,231</u>	<u>(203,169)</u>
EXPENDITURES				
Current:				
General government	166,200	218,150	105,913	112,237
Public works	<u>166,000</u>	<u>112,350</u>	<u>21,923</u>	<u>90,427</u>
Total Expenditures	<u>332,200</u>	<u>330,500</u>	<u>127,836</u>	<u>202,664</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,850)</u>	<u>33,900</u>	<u>33,395</u>	<u>(505)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(35,000)</u>	<u>(35,000)</u>	<u>(35,000)</u>	
Net Change in Fund Balance	(42,850)	(1,100)	(1,605)	(505)
Fund Balance - July 1, 2011	<u>86,461</u>	<u>86,461</u>	<u>86,461</u>	<u>406,508</u>
Fund Balance - June 30, 2012	<u>43,611</u>	<u>85,361</u>	<u>\$ 84,856</u>	<u>\$ 406,003</u>

See accompanying notes to required supplementary information.

CITY OF GONZALES, CALIFORNIA

**PUBLIC SAFETY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 185,000	\$ 250,000	\$ 299,657	\$ 49,657
Total Revenues	<u>185,000</u>	<u>250,000</u>	<u>299,657</u>	<u>49,657</u>
EXPENDITURES				
Current:				
Public safety	<u>376,955</u>	<u>558,631</u>	<u>544,387</u>	<u>14,244</u>
Total Expenditures	<u>376,955</u>	<u>558,631</u>	<u>544,387</u>	<u>14,244</u>
Excess (deficiencies) of Revenues Over (Under) Expenditures	<u>(191,955)</u>	<u>(308,631)</u>	<u>(244,730)</u>	<u>63,901</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>376,955</u>	<u>558,631</u>	<u>142,000</u>	<u>(416,631)</u>
Total Other Financing Sources (Uses)	<u>376,955</u>	<u>558,631</u>	<u>142,000</u>	<u>(416,631)</u>
Net Change in Fund Balance	185,000	250,000	(102,730)	(352,730)
Fund Balance - July 1, 2011	<u>(344,859)</u>	<u>(344,859)</u>	<u>(344,859)</u>	
Fund Balance - June 30, 2012	<u>\$ (159,859)</u>	<u>\$ (94,859)</u>	<u>\$ (447,589)</u>	<u>\$ (352,730)</u>

See accompanying notes to required supplementary information.

CITY OF GONZALES, CALIFORNIA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012**

***NOTE 1 – SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL***

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been recorded.

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

OTHER SUPPLEMENTARY INFORMATION

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Special Revenue Funds				
	Signalization Fund	Supplemental Local Law Enforcement Fund	California Breeze Maintenance District Fund	Police Impact Fund	Park Impact Fund
ASSETS					
Cash and investments	\$ 431,014		\$ 318,097	\$ 27,219	\$ 54,831
Accounts receivable		\$ 33,504			
Interest receivable	54		195	3	
Notes and loans receivable					
Total Assets	<u>\$ 431,068</u>	<u>\$ 33,504</u>	<u>\$ 318,292</u>	<u>\$ 27,222</u>	<u>\$ 54,831</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable			\$ 4,187		\$ 4,040
Accrued wages			738		
Due to other funds		\$ 57,865			
Deferred revenue					
Total Liabilities		<u>57,865</u>	<u>4,925</u>		<u>4,040</u>
FUND BALANCES					
Restricted	\$ 431,068		313,367	\$ 27,222	50,791
Unassigned		(24,361)			
Total Fund Balances	<u>431,068</u>	<u>(24,361)</u>	<u>313,367</u>	<u>27,222</u>	<u>50,791</u>
Total Liabilities and Fund Balances	<u>\$ 431,068</u>	<u>\$ 33,504</u>	<u>\$ 318,292</u>	<u>\$ 27,222</u>	<u>\$ 54,831</u>

Special Revenue Funds

Fire Impact Fund	Gas Tax Fund	Gas Tax 2105 Fund	State Congestion Relief Program Fund	General Plan Impact Fund	Canyon Creek Park Maintenance Fund
\$ 80,128	\$ 315,538	\$ 187,969			\$ 610,759
	39,856	6,945			
18	36	213			339
<u>\$ 80,146</u>	<u>\$ 355,430</u>	<u>\$ 195,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 611,098</u>
\$ 1,229	\$ 8,509				\$ 4,811
	3,209				672
				\$ 14,453	
<u>1,229</u>	<u>11,718</u>			<u>14,453</u>	<u>5,483</u>
78,917	343,712	\$ 195,127			605,615
				(14,453)	
<u>78,917</u>	<u>343,712</u>	<u>195,127</u>		<u>(14,453)</u>	<u>605,615</u>
<u>\$ 80,146</u>	<u>\$ 355,430</u>	<u>\$ 195,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 611,098</u>

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, (CONTINUED)
JUNE 30, 2012**

	Special Revenue Funds				
	Recreation Services Fund	Cal Trans Federal Grant Fund	Circulation System Impact Fund	Cipriani Estates Park Maintenance	Cipriani Estates Maintenance
ASSETS					
Cash and investments			\$ 108,670	\$ 161,418	\$ 233,894
Accounts receivable					
Interest receivable				117	152
Notes and loans receivable			170,554		
Total Assets	\$ -	\$ -	\$ 279,224	\$ 161,535	\$ 234,046
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable			\$ 3,875	\$ 2,253	\$ 1,469
Accrued wages					
Due to other funds					
Deferred revenue			170,554		
Total Liabilities			174,429	2,253	1,469
FUND BALANCES					
Restricted			104,795	159,282	232,577
Unassigned					
Total Fund Balances			104,795	159,282	232,577
Total Liabilities and Fund	\$ -	\$ -	\$ 279,224	\$ 161,535	\$ 234,046

Special Revenue Funds

Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment	Storm Drainage Facility Impact Fund	Public Facilities Impact Fund	Public Uses	Aquatics Facilities	Animal Control Facilities
\$ 135,050	\$ 142,214	\$ 182,371	\$ 58,637	\$ 17,866		
93	63	31	45	13		
<u>\$ 135,143</u>	<u>\$ 142,277</u>	<u>\$ 182,402</u>	<u>\$ 58,682</u>	<u>\$ 17,879</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,095	\$ 2,570	\$ 4,428				
<u>1,095</u>	<u>2,570</u>	<u>4,428</u>				
134,048	139,707	177,974	\$ 58,682	\$ 17,879		
<u>134,048</u>	<u>139,707</u>	<u>177,974</u>	<u>58,682</u>	<u>17,879</u>		
<u>\$ 135,143</u>	<u>\$ 142,277</u>	<u>\$ 182,402</u>	<u>\$ 58,682</u>	<u>\$ 17,879</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, (CONTINUED)
JUNE 30, 2012**

	Special Revenue Funds				
	Transportation Enhancement Act Program Fund	Sewer Impact Fund	Water Impact Fund	Ag. Industrial Park Federal Grant	TDA Fund
ASSETS					
Cash and investments		\$ 198,411	\$ 764,697	\$ 23,229	
Accounts receivable					
Interest receivable		71	89	28	
Notes and loans receivable		17,530	40,126		
Total Assets	\$ -	\$ 216,012	\$ 804,912	\$ 23,257	\$ -
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable		\$ 402	402		
Accrued wages					
Due to other funds					
Deferred revenue		17,530	\$ 40,126		
Total Liabilities		17,932	40,528		
FUND BALANCES					
Restricted		198,080	764,384	\$ 23,257	
Unassigned					
Total Fund Balances		198,080	764,384	23,257	
Total Liabilities and Fund	\$ -	\$ 216,012	\$ 804,912	\$ 23,257	\$ -

Special Revenue Funds

CDBG: 7th and 10th Street Project	Redevelopment Agency Special Revenue Fund	AQMD	EECBG	Sphere of Influence Impact	Redevelopment Agency Low/Moderate Income Housing Fund
		\$ 21,374		\$ 79,156	
		183,891			
\$ -	\$ -	\$ 205,265	\$ -	\$ 79,156	\$ -
			\$ 47,133		
		183,891			
		183,891	47,133		
		21,374		\$ 79,156	
			(47,133)		
		21,374	(47,133)	79,156	
\$ -	\$ -	\$ 205,265	\$ -	\$ 79,156	\$ -

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, (CONTINUED)
JUNE 30, 2012**

	Debt Service Funds			Capital Projects	Totals
	Shopping Center Fund	Bridge Fund	Sewer Assessment Fund	Redevelopment Agency Capital Projects Fund	
ASSETS					
Cash and investments		\$ 41,882			\$ 4,194,424
Accounts receivable					80,305
Interest receivable		123			1,683
Notes and loans receivable					412,101
Total Assets	\$ -	\$ 42,005	\$ -	\$ -	\$ 4,688,513
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable					\$ 39,270
Accrued wages					4,619
Due to other funds					119,451
Deferred revenue					412,101
Total Liabilities					575,441
FUND BALANCES					
Restricted		\$ 42,005			4,199,019
Unassigned					(85,947)
Total Fund Balances		42,005			4,113,072
Total Liabilities and Fund	\$ -	\$ 42,005	\$ -	\$ -	\$ 4,688,513

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds			
	Signalization Fund	Supplemental Local Law Enforcement Fund	California Breeze Maintenance District Fund	Police Impact Fund
REVENUES				
Taxes and assessments			\$ 144,458	
License, permits, and impact fees				
Use of money and property	\$ 2,105		948	\$ 151
Intergovernmental revenues		\$ 147,494		
Other revenues				
Total Revenues	2,105	147,494	145,406	151
EXPENDITURES				
Current:				
General government				
Public safety				951
Public works				
Parks and recreation			71,017	
Community development				
Streets and roads				
Capital outlay				
Total Expenditures			71,017	951
Excess (Deficiencies) of Revenues Over (Under) Expenditures	2,105	147,494	74,389	(800)
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers out		(142,000)	(32,610)	
Total Other Financing Sources (Uses)		(142,000)	(32,610)	
EXTRAORDINARY ITEMS				
Dissolution of redevelopment agency				
Net Change in Fund Balances	2,105	5,494	41,779	(800)
Fund Balances - July 1, 2011	428,963	(29,855)	271,588	28,022
Fund Balances - June 30, 2012	\$ 431,068	\$ (24,361)	\$ 313,367	\$ 27,222

Special Revenue Funds

Park Impact Fund	Fire Impact Fund	Gas Tax Fund	Gas Tax 2105 Fund	State Congestion Relief Program Fund	General Plan Impact Fund	Canyon Creek Park Maintenance Fund	Recreation Services Fund	CalTrans Federal Grant Fund
		\$ 372,041	\$ 41,469			\$ 205,699		
\$ 485	\$ 5,149 344	134	689	\$ 288	\$ 20,699	1,706		
		6,005						
485	5,493	378,180	42,158	288	20,699	207,405		
	3,092							
3,757						61,511		
40,438		300,463 3,190	14,906 3,030	22,499				
44,195	3,092	303,653	17,936	22,499		61,511		
(43,710)	2,401	74,527	24,222	(22,211)	20,699	145,894		
		137,081				(41,898)	\$ 63,705	\$ (1,310)
		137,081				(41,898)	63,705	(1,310)
(43,710)	2,401	211,608	24,222	(22,211)	20,699	103,996	63,705	(1,310)
94,501	76,516	132,104	170,905	22,211	(35,152)	501,619	(63,705)	1,310
\$ 50,791	\$ 78,917	\$ 343,712	\$ 195,127	\$ -	\$ (14,453)	\$ 605,615	\$ -	\$ -

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES, (CONTINUED)
YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds				
	Circulation System Impact Fund	Cipriani Estates Park Maintenance	Cipriani Estates Maintenance	Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment
REVENUES					
Taxes and assessments		\$ 31,980	\$ 46,228	\$ 22,634	\$ 58,798
License, permits, and impact fees	\$ 20,581				
Use of money and property	850	494	770	393	330
Intergovernmental revenues					
Other revenues					
Total Revenues	21,431	32,474	46,998	23,027	59,128
EXPENDITURES					
Current:					
General government					
Public safety					
Public works	24,079	21,922	5,252	5,950	19,364
Parks and recreation					
Community development					
Streets and roads					
Capital outlay		13,900			
Total Expenditures	24,079	35,822	5,252	5,950	19,364
Excess (Deficiencies) of Revenues Over (Under) Expenditures	(2,648)	(3,348)	41,746	17,077	39,764
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers out		(5,000)	(13,066)	(4,666)	(9,000)
Total Other Financing Sources (Uses)		(5,000)	(13,066)	(4,666)	(9,000)
EXTRAORDINARY ITEMS					
Dissolution of redevelopment agency					
Net Change in Fund Balances	(2,648)	(8,348)	28,680	12,411	30,764
Fund Balances - July 1, 2011	107,443	167,630	203,897	121,637	108,943
Fund Balances - June 30, 2012	\$ 104,795	\$ 159,282	\$ 232,577	\$ 134,048	\$ 139,707

Special Revenue Funds

Storm Drainage Facility Impact Fund	Public Facilities Impact Fund	Public Uses	Aquatics Facilities	Animal Control Facilities	Transportation Enhancement Act Program Fund	Sewer Impact Fund	Water Impact Fund
\$ 950	\$ 189	\$ 56			\$ 151	\$ 8,928 1,226	\$ 2,903 4,211
						4,453	8,597
<u>950</u>	<u>189</u>	<u>56</u>			<u>151</u>	<u>14,607</u>	<u>15,711</u>
				\$ 2,951			
27,465		2,815				11,394	13,223
				1,137			
<u>27,465</u>		<u>2,815</u>		<u>4,088</u>		<u>11,394</u>	<u>13,223</u>
(26,515)	189	(2,759)		(4,088)	151	3,213	2,488
			\$ 38	545	(68,534)		
			38	545	(68,534)		
(26,515)	189	(2,759)	38	(3,543)	(68,383)	3,213	2,488
204,489	58,493	20,638	(38)	3,543	68,383	194,867	761,896
<u>\$ 177,974</u>	<u>\$ 58,682</u>	<u>\$ 17,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,080</u>	<u>\$ 764,384</u>

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES, (CONTINUED)
YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds				
	Ag. Industrial Park Federal Grant	TDA Fund	CDBG: 7th and 10th Street Project	Redevelopment Agency Special Revenue Fund	AQMD
REVENUES					
Taxes and assessments					
License, permits, and impact fees					
Use of money and property	\$ 132	\$ 988		\$ 1,206	\$ 3,806
Intergovernmental revenues		307,240			
Other revenues				2,250	11,749
Total Revenues	132	308,228		3,456	15,555
EXPENDITURES					
Current:					
General government	13,323			113,310	
Public safety					
Public works					
Parks and recreation					
Community development					
Streets and roads		245,441			
Capital outlay		60,610			
Total Expenditures	13,323	306,051		113,310	
Excess (Deficiencies) of Revenues Over (Under) Expenditures	(13,191)	2,177		(109,854)	15,555
OTHER FINANCING SOURCES (USES)					
Transfers in				109,854	
Transfers out		(2,177)			
Total Other Financing Sources (Uses)		(2,177)		109,854	
EXTRAORDINARY ITEMS					
Dissolution of redevelopment agency				248,273	
Net Change in Fund Balances	(13,191)			248,273	15,555
Fund Balances - July 1, 2011	36,448			(248,273)	5,819
Fund Balances - June 30, 2012	\$ 23,257	\$ -	\$ -	\$ -	\$ 21,374

Special Revenue Funds			Debt Service Funds			Capital Projects	
EECCBG	Sphere of Influence Impact	Redevelopment Agency Low/Moderate Income Housing Fund	Shopping Center Fund	Bridge Fund	Sewer Assessment Fund	Redevelopment Agency Capital Projects Fund	Totals
	\$ 82,101	\$ 135,041	\$ 7,196				\$ 1,065,544
		653		\$ 521		\$ 2,044	140,361
		14,250				4,769	25,820
	82,101	149,944	7,196	521		6,813	454,734
							52,073
							132,676
	2,945						951
		1,486				161	131,594
\$ 47,133							139,100
47,133	2,945	1,486				161	1,647
(47,133)	79,156	148,458	7,196	521		6,652	583,309
					\$ 4,358	500,000	169,438
			(12,180)	(100,000)			815,581
			(12,180)	(100,000)	4,358	500,000	(432,441)
		(266,308)				(39,413)	383,140
(47,133)	79,156	(117,850)	(4,984)	(99,479)	4,358	467,239	(57,448)
		117,850	4,984	141,484	(4,358)	(467,239)	905,509
\$ (47,133)	\$ 79,156	\$ -	\$ -	\$ 42,005	\$ -	\$ -	3,207,563
							\$ 4,113,072

CITY OF GONZALES, CALIFORNIA

**AGENCY FUND
STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2012**

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
ASSETS				
Cash and investments	\$ 156,986	\$ 56,365	\$ (65,319)	\$ 148,032
Interest receivable	124		(35)	89
Total Assets	<u>\$ 157,110</u>	<u>\$ 56,365</u>	<u>\$ (65,354)</u>	<u>\$ 148,121</u>
LIABILITIES				
Deposits payable	\$ 157,110	\$ 56,365	\$ (65,354)	\$ 148,121
Total Liabilities	<u>\$ 157,110</u>	<u>\$ 56,365</u>	<u>\$ (65,354)</u>	<u>\$ 148,121</u>

OTHER INFORMATION

CITY OF GONZALES, CALIFORNIA

**SUCCESSOR AGENCY LONG-TERM DEBT SCHEDULES
YEAR ENDED JUNE 30, 2012**

As previously disclosed, the former Successor Agency was dissolved on January 31, 2012. The following debt service schedules relate to outstanding debt of the Successor Agency.

The scheduled annual minimum debt service requirements at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	2003 Tax Allocation Refunding Bonds		
	Principal	Interest	Total
2013	\$ 195,000	\$ 401,266	\$ 596,266
2014	205,000	391,029	596,029
2015	215,000	379,754	594,754
2016	225,000	367,929	592,929
2017	235,000	357,804	592,804
2018-2022	1,370,000	1,609,035	592,804
2023-2027	1,755,000	1,222,156	2,979,035
2028-2032	2,280,000	691,900	2,977,156
2033-2034	1,100,000	91,575	2,971,900
	<u>\$ 7,580,000</u>	<u>\$ 5,512,448</u>	<u>\$ 12,493,677</u>

The bonds outstanding at June 30, 2012 were \$4,370,000. The scheduled annual minimum debt service requirements at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	2011 Tax Allocation Refunding Bonds		
	Principal	Interest	Total
2013		\$ 122,800	\$ 122,800
2014		122,800	122,800
2015		122,800	122,800
2016		122,800	122,800
2017		122,800	122,800
2018-2022		614,000	614,000
2023-2027		614,000	614,000
2028-2032		614,000	614,000
2033-2037	\$ 300,000	581,600	881,600
2038-2042	680,000	394,000	1,074,000
2043-2044	555,000	91,200	646,200
	<u>\$ 1,535,000</u>	<u>\$ 3,522,800</u>	<u>\$ 5,057,800</u>

CITY OF GONZALES, CALIFORNIA

**SUCCESSOR AGENCY LONG-TERM DEBT SCHEDULES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

The scheduled annual minimum debt service requirements at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	2011 Lease Revenue Refunding Bonds		
	Principal	Interest	Total
2013	\$ 60,000	\$ 305,819	\$ 365,819
2014	65,000	302,819	367,819
2015	70,000	299,569	369,569
2016	70,000	296,767	366,767
2017	75,000	293,969	368,969
2018-2022	425,000	1,415,795	1,840,795
2023-2027	560,000	1,281,025	1,841,025
2028-2032	760,000	1,079,050	1,839,050
2033-2037	1,070,000	768,626	1,838,626
2038-2041	1,215,000	256,344	1,471,344
	<u>\$ 4,370,000</u>	<u>\$ 6,299,783</u>	<u>\$ 10,669,783</u>