

**CITY OF GONZALES
GONZALES, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2013**

CITY OF GONZALES
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CALIFORNIA**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gonzales, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Qualified
Community Development Block Grant Fund	Unmodified
Public Safety Fund	Unmodified
Infrastructure Improvement Fund	Unmodified
Water Fund	Qualified
Sewer Fund	Unmodified
Garbage Fund	Unmodified
Solar Energy Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on the Governmental Activities, Business-Type Activities, General Fund and Water Fund

As described in Note 7A the City advanced the former Redevelopment Agency \$1,000,000 for the purpose of refunding the 2006 Subordinate Tax Allocation Notes. The California Department of Finance has disallowed this advance. Also, as described in Note 7B the Successor Agency's cash position in the City pool was negative and the City has advanced various amounts to the Successor Agency for the purpose of paying enforceable obligations.

As described in Note 9C, with the issuance of the 2011 Lease Revenue Refunding Bonds of the former Redevelopment Agency, the City simultaneously entered into a lease agreement whereby the City leased the Police Station from the former Redevelopment Agency. Concurrently, the City also entered into a reimbursement agreement with the former Redevelopment Agency whereby the former Redevelopment Agency would reimburse the City for all costs incurred with respect to the Police Station lease, including lease payments. The California State Department of Finance has not approved the underlying 2011 Lease Revenue Refunding Bonds as described in Note 14, or the reimbursement agreement to the City.

Management has not recorded an allowance for receivable amounts owed to the City by the Successor Agency, as described above, which have not been approved as enforceable obligations by the California Department of Finance. The receivable amounts are as follows: Lease reimbursement receivable of \$339,309 in the Governmental Activities and General Fund, Cash overdraft due from successor agency of \$738,202 and Advance to successor agency of \$1,000,000 in the Business-Type Activities and Water Fund. As further described in Notes 15B and 15C, the California Department of Finance has disallowed these items as enforceable obligations of the Successor Agency. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for receivables where collection is not probable, which would decrease the assets and net position/fund balances and change the expenses/expenditures in the Governmental Activities, Business-Type Activities, General Fund and Water Fund, respectively. The amount by which this departure would affect the assets, net position/fund balance, and revenues of the above noted opinion units has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinions on Governmental Activities, Business-Type Activities, General Fund and Water Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, Business-Type Activities, General Fund and Water Fund of the City of Gonzales, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Community Development Block Grant Fund, Public Safety Fund, Infrastructure Improvement Fund, Sewer Fund, Garbage Fund, Solar Energy Fund (major funds) and the aggregate remaining fund information of the City of Gonzales, California as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 13, the General Fund ended the fiscal year with a positive unassigned fund balance of \$236,665. Also, as described in Note 17, the City has recorded amounts owed from the Successor Agency of \$339,309 in the General Fund and \$1,738,202 in the Water Fund. Should the City not prevail in obtaining approval for recognizing these items as enforceable obligations, the impact to the City’s General Fund and Water Fund would be material.

As described in Note 1 to the financial statements, the City adopted Statement of Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, and the required supplementary information on pages 5-11 and 64-68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining and Individual Non-Major Fund Financial Statements, Agency Fund Statement of Changes in Assets and Liabilities, and Successor Agency long-term debt schedules 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Rancho Cucamonga, California
May 23, 2014

CITY OF GONZALES, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL STATEMENTS JUNE 30, 2013

The following discussion and analysis of the financial performance of the City of Gonzales (the City) provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the basic financial statements identified in the accompanying table of contents.

Financial Highlights

- The assets of the City of Gonzales exceed its liabilities, at the close of the fiscal year ended June 30, 2013, by \$51,414,956 (*net position*). Of this amount, \$9,482,554 is *unrestricted net position*.
- The City's total net position increased by \$120,655.
- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of \$5,532,891, an increase of \$432,145 in comparison with the prior year.
- As of June 30, 2013, the fund balance for the General Fund was \$252,411, which was a decrease of \$(578,631) from the prior year.

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 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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 can be found on pages 12-14 of this report.

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, use 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.

CITY OF GONZALES, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL STATEMENTS JUNE 30, 2013

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 of 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 45 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, Public Safety 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 schedules* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary funds. The City of Gonzales maintains four separate *proprietary funds*. These funds account for the water, sewer, garbage, and solar energy 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 21-25 of this report.

Fiduciary funds. Fiduciary funds, which consist solely of trust and agency funds, are 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 the fund are *not* available to support the City's own programs. The City's Agency Funds are custodial in nature and, therefore, the accounting used does not involve the measurement of the results of operations. The basic fiduciary fund financial statement can be found on page 26-27 of this report. The Successor Agency Private Purpose Trust Fund is used to account for assets and liabilities of the former Redevelopment Agency which are held in trust.

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 28-63 of this report.

Other 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.

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2013**

The combining information referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining information can be found on pages 68-75 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

As of June 30, 2013, the City's assets exceeded liabilities by \$51,414,956.

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Current and other assets	\$ 9,364,639	\$ 8,567,618	\$ 6,232,981	\$ 7,751,009	\$ 15,597,620	\$ 16,318,627
Capital assets	30,179,543	31,337,828	16,180,714	14,307,678	46,360,257	45,645,506
Total assets	<u>39,544,182</u>	<u>39,905,446</u>	<u>22,413,695</u>	<u>22,058,687</u>	<u>61,957,877</u>	<u>61,964,133</u>
Current and other liabilities	645,540	580,819	473,459	547,030	1,118,999	1,127,849
Long-term liabilities	4,712,151	4,677,678	4,711,771	5,475,509	9,423,922	10,153,187
Total liabilities	<u>5,357,691</u>	<u>5,258,497</u>	<u>5,185,230</u>	<u>6,022,539</u>	<u>10,542,921</u>	<u>11,281,036</u>
Net investment in capital assets	25,625,447	26,856,446	11,331,101	11,281,857	36,956,548	38,138,303
Restricted	4,975,854	4,482,352	-	-	4,975,854	4,482,352
Unrestricted	3,585,190	3,308,151	5,897,364	5,365,495	9,482,554	8,673,646
Total net position	<u>\$ 34,186,491</u>	<u>\$ 34,646,949</u>	<u>\$ 17,228,465</u>	<u>\$ 16,647,352</u>	<u>\$ 51,414,956</u>	<u>\$ 51,294,301</u>

As of June 30, 2013, the City reported positive balances in all three categories of net position for the City as a whole, as well as for each of its separate activities. In comparison to the June 30, 2012 balance of \$51,294,301, net position increased by \$120,655.

The largest portion of the City's net position at \$36,956,548 (72 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 decreased the City's net position by \$460,458. This was the result of a weaker economy, a reduced rate of return on investments and depreciation of fixed assets.

Business-type Activities - Business type Activities increased the City's net position by \$581,113. This was the result of net increases for both the City's Water and Sewer Utility operations.

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2013**

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Program revenues:						
Charges for services	\$ 485,133	\$ 253,765	\$ 3,341,157	\$ 3,108,697	\$ 3,826,290	\$ 3,362,462
Operating contributions and grants	1,806,546	2,155,738	-	-	1,806,546	2,155,738
Capital contributions and grants	377,118	408,003	-	-	377,118	408,003
General revenues:						
Property taxes	1,132,646	1,790,159	-	-	1,132,646	1,790,159
Other taxes	991,273	856,860	-	-	991,273	856,860
Other	597,928	688,816	9,892	7,493	607,820	696,309
Total revenues	<u>5,390,644</u>	<u>6,153,341</u>	<u>3,351,049</u>	<u>3,116,190</u>	<u>8,741,693</u>	<u>9,269,531</u>
Expenses:						
General government	817,547	1,104,892	-	-	817,547	1,104,892
Public safety	3,016,933	2,868,956	-	-	3,016,933	2,868,956
Public works	1,327,678	1,253,305	-	-	1,327,678	1,253,305
Park and recreation	556,091	642,833	-	-	556,091	642,833
Community development	204	3,804	-	-	204	3,804
Streets and roads	317,649	583,309	-	-	317,649	583,309
Interest on long-term debt	-	506,512	-	-	-	506,512
Water	-	-	1,020,225	1,026,598	1,020,225	1,026,598
Sewer	-	-	571,407	554,687	571,407	554,687
Garbage	-	-	838,999	794,439	838,999	794,439
Solary Energy	-	-	154,305	500	154,305	500
Total expenses	<u>6,036,102</u>	<u>6,963,611</u>	<u>2,584,936</u>	<u>2,376,224</u>	<u>8,621,038</u>	<u>9,339,835</u>
Excess before Transfers	(645,458)	(810,270)	766,113	739,966	120,655	(70,304)
Transfers	185,000	234,000	(185,000)	(234,000)	-	-
Total general revenues and transfers	<u>(460,458)</u>	<u>(576,270)</u>	<u>581,113</u>	<u>505,966</u>	<u>120,655</u>	<u>(70,304)</u>
Extraordinary gain (loss)	-	7,943,561	-	-	-	7,943,561
Change in net position	<u>(460,458)</u>	<u>7,367,291</u>	<u>581,113</u>	<u>505,966</u>	<u>120,655</u>	<u>7,873,257</u>
Net position - Beginning (restated)	34,646,949	27,279,658	16,647,352	16,141,386	51,294,301	43,421,044
Net position - Ending	<u>\$ 34,186,491</u>	<u>\$ 34,646,949</u>	<u>\$ 17,228,465</u>	<u>\$ 16,647,352</u>	<u>\$ 51,414,956</u>	<u>\$ 51,294,301</u>

- Operating Grants and Contributions the decrease of \$349,192, is largely contributed to the Streets and Roads component, which is due to the elimination of the TDA funding from the County.
- General Governmental Expenditures decreased by \$287,345, mostly due to the transition of the former redevelopment agency to a private purpose trust fund, therefore the expenditures are not included in the current fiscal year general government expenditures.
- General government interest expense decreased from \$506,512 to zero as a result of transferring the former Redevelopment Agency’s debt to the Successor Agency Private Purpose Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2013**

GOVERNMENTAL FUNDS

General Fund

The fund balance for the fiscal year ended June 30, 2013 is \$252,411. The net change in fund balance is a decrease in the amount of \$(578,631). This number includes revenues of \$3,249,511, expenditures of \$3,611,263, and transfers and capital leases of \$(216,879). The Fund Balance of the General Fund's balance has averaged \$994,370 since fiscal year 2009. This trend is reflected in the following summary:

	FY 09	FY 10	FY 11	FY 12	FY 13
Total Revenues	\$ 3,134,678	\$ 2,947,692	\$ 2,842,581	\$ 2,911,957	\$ 3,249,511
Total Expenditures	3,952,920	3,565,282	3,458,020	3,435,236	3,611,263
Other Financial Sources (Uses)	806,863	427,530	485,623	422,360	(216,879)
Excess of revenues and other financing sources over (under) expenditures and other financing sources	(11,379)	(190,060)	(129,816)	(100,919)	(578,631)
Fund Balance - July 1	1,263,216	1,251,837	1,061,777	931,961	831,042
Fund Balance - June 30	\$ 1,251,837	\$ 1,061,777	\$ 931,961	\$ 831,042	\$ 252,411

From an administrative standpoint, it has been a goal to maintain the fund balance at a minimum of \$1 million. 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. For example, a few years ago the City negotiated an Agreement with the Salinas Valley Solid Waste Authority which among other things is now generating revenue to the City General fund of \$250,000 annually. 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 is 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, 2013 is \$194,384, an increase of \$109,528 from the previous year. The activities projected under this fund during the next fiscal year include continuation of CDBG grant programs in housing rehabilitation and various technical studies.

Public Safety Fund

The fund balance for the fiscal year ended June 30, 2013 is \$0, an increase of \$447,589 from the previous year. The primary activity was a transfer in from the General Fund to cover the fund deficit.

Infrastructure Improvement Fund

Fund Balance of the Infrastructure Improvement Fund increased by \$34,438 from \$250,228 at the beginning of the fiscal year to \$284,666 at June 30, 2013 as a result of interest collected on notes receivable.

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Other Governmental Funds

The fund balance of non-major governmental funds for the fiscal year ended June 30, 2013, is \$4,801,430. The net change in fund balances is an increase in the amount of \$419,221. This number includes revenues of \$1,231,781, expenditures of \$681,786, and other financing sources (uses) of (\$130,774).

PROPRIETARY FUNDS

The City's Proprietary Funds provide the same type of information found in the government-wide financial statements.

At the end of the fiscal year, the unrestricted net position were \$4,576,800 for the City's Water Utility Fund, \$1,211,035 for the City's Sewer Utility Fund, \$2,668 for the City's Garbage Enterprise Fund, and \$106,861 for the City's Solar Energy Fund. At year end, cash and cash equivalents were \$2,115,694 for the City's Water Utility Fund, \$1,133,661 for the City's Sewer Utility Fund, zero for the City's Garbage Enterprise Fund, and \$267,048 for the City's Solar Energy Fund.

The City has \$2,360,131 in outstanding long-term debt for capital improvements made under the Water and Sewer Utility Funds. In addition, \$2,659,007 in outstanding long-term debt is reflected in the Solar Energy Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund revenues were short of the final budget amount by \$59,871. Expenditures exceeded the budget by \$51,136. The final budgeted revenues and appropriations increased by \$2,845 and increased \$483,009, respectively, during the fiscal year. The increases were attributed to an increase in taxes and assessments revenues and increased general government expenditures.

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, 2013, amounts to \$30,179,543 and \$16,180,714 (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 increase in capital assets was \$714,751.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Land	\$ 9,043,436	\$ 9,043,436	\$ 604,807	\$ 604,807	\$ 9,648,243	\$ 9,648,243
Structures and improvements	6,946,859	7,169,388	20,698	115,750	6,967,557	7,285,138
Equipment and vehicles	438,215	386,540	23,910	1,392,782	462,125	1,779,322
Infrastructure	13,751,033	14,738,464	12,976,518	11,626,374	26,727,551	26,364,838
Construction in progress	-	-	2,554,781	567,965	2,554,781	567,965
Total	<u>\$ 30,179,543</u>	<u>\$ 31,337,828</u>	<u>\$ 16,180,714</u>	<u>\$ 14,307,678</u>	<u>\$ 46,360,257</u>	<u>\$ 45,645,506</u>

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

CITY OF GONZALES, CALIFORNIA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
JUNE 30, 2013**

DESCRIPTION OF CAPITAL PROJECT ACTIVITIES

For Fiscal Year 2012-2013 the City substantially completed a \$2.6 million solar project.

Long-term debt. At the end of the current fiscal year, the City of Gonzales had total governmental activities debt outstanding of \$4,768,783. Business-type activities debt outstanding amounted to \$5,019,138.

City of Gonzales Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Capital lease payable	\$ 4,554,096	\$ 4,481,382	\$ 2,691,862	\$ 2,745,744	\$ 7,245,958	\$ 7,227,126
Employee compensated absence	214,687	222,347	-	-	214,687	222,347
Note payable	-	-	2,327,276	2,475,000	2,327,276	2,475,000
Total	<u>\$ 4,768,783</u>	<u>\$ 4,703,729</u>	<u>\$ 5,019,138</u>	<u>\$ 5,220,744</u>	<u>\$ 9,787,921</u>	<u>\$ 9,924,473</u>

The City’s total debt decreased by \$136,552 during the current fiscal year.

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 2012-2013 and as a result property tax revenues came in as budgeted. For FY 2013-2014, even though property tax values increased, the City’s Approved Budget remained very conservative and reflected a slight increase over FY 2012-2013 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.
- As described at Notes 9C, 14 and 15B, several obligations of the Successor Agency have not been deemed enforceable by the State Department of Finance.

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 POSITION
JUNE 30, 2013**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 6,051,947	\$ 3,516,403	\$ 9,568,350
Accounts receivable	342,460	456,492	798,952
Interest receivable	1,154	1,227	2,381
Notes and loans receivable	2,903,531		2,903,531
Due from successor agency (SERAF)	230,000		230,000
Lease reimbursement receivable (Note 9C)	339,309		339,309
Cash overdraft-due from successor agency (Note 7B)		738,202	738,202
Advance to successor agency (Note 7A)		1,000,000	1,000,000
Other assets-deposits	15,746		15,746
Internal balances	(519,508)	519,508	-
Deferred charges - net of accumulated amortization		1,149	1,149
Capital assets:			
Nondepreciable:			
Land	9,043,436	604,807	9,648,243
Construction in progress		2,554,781	2,554,781
Depreciable, net of accumulated depreciation			
Structures and improvements	8,040,235	46,939	8,087,174
Equipment and vehicles	1,941,965	327,224	2,269,189
Infrastructure	32,465,844	19,228,797	51,694,641
Accumulated depreciation	(21,311,937)	(6,581,834)	(27,893,771)
Total Assets	<u>39,544,182</u>	<u>22,413,695</u>	<u>61,957,877</u>
LIABILITIES			
Accounts payable	286,452	95,090	381,542
Accrued wages	64,459	7,500	71,959
Deposits payable	237,997	63,502	301,499
Noncurrent liabilities:			
Due within one year	56,632	307,367	363,999
Due in more than one year	4,712,151	4,711,771	9,423,922
Total Liabilities	<u>5,357,691</u>	<u>5,185,230</u>	<u>10,542,921</u>
NET POSITION			
Net investment in capital assets	25,625,447	11,331,101	36,956,548
Restricted:			
Restricted for parks and recreation	78,876		78,876
Restricted for community development and housing	475,905		475,905
Restricted for public safety	141,581		141,581
Restricted for public works	3,156,464		3,156,464
Restricted for streets and roads	1,123,028		1,123,028
Unrestricted	3,585,190	5,897,364	9,482,554
Total Net Position	<u>\$ 34,186,491</u>	<u>\$ 17,228,465</u>	<u>\$ 51,414,956</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 817,547	\$ 12,347	\$ 191,022	
Public safety	3,016,933	49,740	461,259	\$ 46,134
Parks and recreation	556,091	140,068	451,436	69
Public works	1,327,678	282,978	259,408	126,737
Streets and roads	317,649		393,421	
Community development	204		50,000	204,178
Total Governmental Activities	<u>6,036,102</u>	<u>485,133</u>	<u>1,806,546</u>	<u>377,118</u>
Business-Type Activities:				
Water	1,020,225	1,430,405		
Sewer	571,407	865,607		
Garbage	838,999	1,027,452		
Solar Energy	154,305	17,693		
Total Business-Type Activities	<u>2,584,936</u>	<u>3,341,157</u>		
Total Government	<u>\$ 8,621,038</u>	<u>\$ 3,826,290</u>	<u>\$ 1,806,546</u>	<u>\$ 377,118</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

Change in Net Position

Net Position, Beginning of Year

Net Position, End of Year

See accompanying notes to the financial statements.

Net Revenue (Expense) and Change in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (614,178)		\$ (614,178)
(2,459,800)		(2,459,800)
35,482		35,482
(658,555)		(658,555)
75,772		75,772
253,974		253,974
(3,367,305)		(3,367,305)
	\$ 410,180	410,180
	294,200	294,200
	188,453	188,453
	(136,612)	(136,612)
	756,221	756,221
(3,367,305)	756,221	(2,611,084)
1,132,646		1,132,646
483,990		483,990
1,588		1,588
67,694		67,694
372,323		372,323
52,713		52,713
8,293		8,293
4,672		4,672
88,680	9,892	98,572
509,248		509,248
185,000	(185,000)	-
2,906,847	(175,108)	2,731,739
(460,458)	581,113	120,655
34,646,949	16,647,352	51,294,301
\$ 34,186,491	\$ 17,228,465	\$ 51,414,956

FUND FINANCIAL STATEMENTS

CITY OF GONZALES, CALIFORNIA

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Special Revenue		Debt Service Fund
		Community Development Block Grant Fund	Public Safety Fund	Infrastructure Improvement Fund
ASSETS				
Cash and investments	\$ 1,079,627	\$ 116,870		\$ 289,610
Accounts receivable	180,199	91,966	\$ 27,214	
Interest receivable	84	4		56
Due from other funds	93,876			
Notes receivable		1,286,155		851,574
Lease reimbursement receivable (Note 9C)	339,309			
Advance to Successor Agency (SERAF)				
Other assets - deposits	15,746			
Total Assets	\$ 1,708,841	\$ 1,494,995	\$ 27,214	\$ 1,141,240
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 229,217	\$ 4,219	\$ 23,391	\$ 5,000
Accrued wages	55,907		3,540	
Due to other funds		10,237	283	
Deposits payable	237,997			
Deferred revenue	339,309	1,286,155		851,574
Advances from other funds	594,000			
Total Liabilities	1,456,430	1,300,611	27,214	856,574
FUND BALANCES				
Nonspendable	15,746			
Restricted		194,384		
Assigned				284,666
Unassigned	236,665		-	
Total Fund Balances	252,411	194,384	-	284,666
Total Liabilities and Fund Balances	\$ 1,708,841	\$ 1,494,995	\$ 27,214	\$ 1,141,240

See accompanying notes to the financial statements.

Other Governmental Funds	Totals
\$ 4,565,840	\$ 6,051,947
43,081	342,460
1,010	1,154
	93,876
765,802	2,903,531
	339,309
230,000	230,000
	15,746
<u>\$ 5,605,733</u>	<u>\$ 9,978,023</u>

\$ 24,625	\$ 286,452
5,012	64,459
8,864	19,384
	237,997
765,802	3,242,840
	594,000
<u>804,303</u>	<u>4,445,132</u>

	15,746
4,801,430	4,995,814
	284,666
-	236,665
<u>4,801,430</u>	<u>5,532,891</u>
<u>\$ 5,605,733</u>	<u>\$ 9,978,023</u>

CITY OF GONZALES, CALIFORNIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS -
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

FUND BALANCES - GOVERNMENTAL FUNDS		\$ 5,532,891
Amounts reported for Governmental Activities in the Statement of Net Position 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	\$ 51,491,480	
Less: accumulated depreciation	<u>(21,311,937)</u>	30,179,543
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	(154,096)	
Compensated absences	(214,687)	
Lease-Police Station	<u>(4,400,000)</u>	(4,768,783)
In governmental funds, receivables which are not considered available are deferred. Such items are not deferred in the Statement of Net Position.		<u>3,242,840</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 34,186,491</u></u>

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, 2013**

	General Fund	Special Revenue Fund		Debt Service Fund
		Community Development Block Grant Fund	Public Safety Fund	Infrastructure Improvement Fund
REVENUES				
Taxes and assessments	\$ 2,104,994			
Licenses, permits, and impact fees	25,154		\$ 3,636	
Fines and penalties	22,766			
Use of money and property	88,152	\$ 8,823		\$ 51,142
Intergovernmental revenues	116,882	247,961	272,520	
Charges for services	358,329			
Contributions/Revenues from other agencies	100,000	50,000		
Other revenues	433,234	47,494		10,408
Total Revenues	3,249,511	354,278	276,156	61,550
EXPENDITURES				
Current:				
General government	747,575	113,368		27,112
Public safety	2,358,362		511,467	
Public works	62,088	101,382		
Parks and recreation	321,688			
Community development				
Streets and roads				
Capital outlay	121,550			
Total Expenditures	3,611,263	214,750	511,467	27,112
Excess (Deficiency) of Revenues Over (Under) Expenditures	(361,752)	139,528	(235,311)	34,438
OTHER FINANCING SOURCES (USES)				
Lease proceeds	120,247			
Transfers in	305,694		682,900	
Transfers out	(642,820)	(30,000)		
Total Other Financing Sources (Uses)	(216,879)	(30,000)	682,900	
Net Change in Fund Balances	(578,631)	109,528	447,589	34,438
Fund Balance - July 1, 2012	831,042	84,856	(447,589)	250,228
Fund Balance - June 30, 2013	\$ 252,411	\$ 194,384	\$ -	\$ 284,666

See accompanying notes to the financial statements.

Other Governmental Funds		Totals	
\$	884,492	\$	2,989,486
	23,807		52,597
			22,766
	18,721		166,838
	159,315		796,678
			358,329
			150,000
	145,446		636,582
	<u>1,231,781</u>		<u>5,173,276</u>
	12,823		900,878
	11,167		2,880,996
	136,722		300,192
	158,965		480,653
	204		204
	317,649		317,649
	44,256		165,806
	<u>681,786</u>		<u>5,046,378</u>
	549,995		126,898
			120,247
	165,120		1,153,714
	(295,894)		(968,714)
	<u>(130,774)</u>		<u>305,247</u>
	419,221		432,145
	4,382,209		5,100,746
\$	<u>4,801,430</u>	\$	<u>5,532,891</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, 2013**

NET CHANGE IN FUND BALANCES	\$	432,145
<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</p>		
Cost of assets capitalized	\$	144,959
Book value of assets disposed		(18,525)
Depreciation expense not reported in governmental funds		<u>(1,284,719)</u>
		(1,158,285)
<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		7,660
<p>Capital Leases entered into during the fiscal year are presented as an other financing source. 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 Position and do not result in an expense in the Statement of Activities.</p>		
Capital Lease Payments		47,533
Capital Lease entered into during the fiscal year		(120,247)
<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>		
Accounts receivable earned and not received within the period of availability		<u>330,736</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$</u>	<u>(460,458)</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2013**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solar Energy Fund	
ASSETS					
Current Assets:					
Cash and investments	\$ 2,115,694	\$ 1,133,661		\$ 267,048	\$ 3,516,403
Accounts receivable	206,577	98,393	\$ 142,184	9,338	456,492
Interest receivable	753	474			1,227
Cash overdraft - due from successor agency (Note 7B)	738,202				738,202
Total Current Assets	3,061,226	1,232,528	142,184	276,386	4,712,324
Capital Assets:					
Nondepreciable					
Land	19,247	585,560			604,807
Construction in progress	55,000	10,299		2,489,482	2,554,781
Depreciable:					
Structure and improvements	23,470	23,469			46,939
Equipment and vehicles	106,035	221,189			327,224
Infrastructure	11,137,142	8,091,655			19,228,797
Less: accumulated depreciation	(3,700,352)	(2,881,482)			(6,581,834)
Total Capital Assets	7,640,542	6,050,690		2,489,482	16,180,714
Other Assets:					
Advances to other funds	594,000				594,000
Advances to Successor Agency	1,000,000				1,000,000
Deferred bond costs, net	1,149				1,149
Total Other Assets	1,595,149				1,595,149
Total Assets	\$ 12,296,917	\$ 7,283,218	\$ 142,184	\$ 2,765,868	\$ 22,488,187

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION (CONTINUED)
JUNE 30, 2013**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solary Energy Fund	
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 12,975	\$ 18,395	\$ 63,720		\$ 95,090
Accrued wages	3,098	3,098	1,304		7,500
Customer deposits	63,502				63,502
Due to other funds			74,492		74,492
Current portion of noncurrent liabilities	168,680			\$ 138,687	307,367
Total Current Liabilities	248,255	21,493	139,516	138,687	547,951
Noncurrent Liabilities:					
Long-term portion of noncurrent liabilities	2,191,451			2,520,320	4,711,771
Total Noncurrent Liabilities	2,191,451			2,520,320	4,711,771
Total Liabilities	2,439,706	21,493	139,516	2,659,007	5,259,722
NET POSITION					
Net investment in capital assets	5,280,411	6,050,690			11,331,101
Unrestricted	4,576,800	1,211,035	2,668	106,861	5,897,364
Total Net Position	\$ 9,857,211	\$ 7,261,725	\$ 2,668	\$ 106,861	\$ 17,228,465

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solar Energy Fund	
OPERATING REVENUES					
Charges for services	\$ 1,396,677	\$ 853,017	\$ 959,261		\$ 3,208,955
Late charges	20,815	12,590	17,004		50,409
Other revenues	12,913		51,187	\$ 17,693	81,793
Total Operating Revenues	1,430,405	865,607	1,027,452	17,693	3,341,157
OPERATING EXPENSES					
Salaries and benefits	272,924	210,017	74,552		557,493
Administrative charges	96,723	93,356	1,453		191,532
Contractual services	189,982	98,410	756,000	10,000	1,054,392
Fuel and oil	8,765	5,197			13,962
Operating supplies	38,034	14,538	2,809		55,381
Special department supplies			4,185		4,185
Travel, conference and training	2,813	1,416			4,229
Utilities	113,461	32,588			146,049
Maintenance	11,050	2,180			13,230
Depreciation and amortization	204,787	113,705			318,492
Total Operating Expense	938,539	571,407	838,999	10,000	2,358,945
Operating Income	491,866	294,200	188,453	7,693	982,212
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	7,477	2,346		69	9,892
Interest expense	(81,686)			(144,305)	(225,991)
Total Nonoperating Revenues (Expenses)	(74,209)	2,346		(144,236)	(216,099)
Income Before Transfers	417,657	296,546	188,453	(136,543)	766,113
TRANSFERS IN	60,000			243,849	303,849
TRANSFERS OUT	(146,309)	(157,540)	(185,000)		(488,849)
Total Transfers	(86,309)	(157,540)	(185,000)	243,849	(185,000)
Change in Net Position	331,348	139,006	3,453	107,306	581,113
Net Position - July 1, 2012	9,525,863	7,122,719	(785)	(445)	16,647,352
Net Position - June 30, 2013	\$ 9,857,211	\$ 7,261,725	\$ 2,668	\$ 106,861	\$ 17,228,465

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013**

	Enterprise Funds				Total
	Water Fund	Sewer Fund	Garbage Fund	Solar Energy Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,361,213	\$ 852,286	\$ 1,012,297	\$ 8,355	\$ 3,234,151
Payments to suppliers	(484,067)	(253,654)	(752,889)	(10,000)	(1,500,610)
Payments to employees	(272,625)	(209,718)	(74,408)		(556,751)
Net Cash Provided by Operating Activities	604,521	388,914	185,000	(1,645)	1,176,790
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest paid on long-term debt	(63,839)			(144,305)	(208,144)
Principal paid on long-term debt	(163,024)			(38,582)	(201,606)
Purchase of fixed assets	(194,584)	(10,128)		(1,986,816)	(2,191,528)
Net Cash Provided (Used) by Capital and Related Financing Activities	(421,447)	(10,128)		(2,169,703)	(2,601,278)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	60,000			243,849	303,849
Transfers out	(146,309)	(157,540)	(185,000)		(488,849)
Cash overdraft loan to Successor Agency	773,893				773,893
Net Cash (Used by) Noncapital Financing Activities	687,584	(157,540)	(185,000)	243,849	588,893
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	7,756	12,688		69	20,513
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	878,414	233,934		(1,927,430)	(815,082)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,237,280	899,727		2,194,478	4,331,485
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,115,694	\$ 1,133,661	\$ -	\$ 267,048	\$ 3,516,403

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

	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	\$ 491,866	\$ 294,200	\$ 188,453	\$ 7,693	\$ 982,212
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Depreciation and amortization	204,787	113,705			318,492
(Increase) Decrease in Operating Assets:					
Accounts receivable	(71,919)	(13,321)	(15,155)	(9,338)	(109,733)
Increase (Decrease) in Operating Liabilities:					
Accounts payable	(23,239)	(5,969)	1,240		(27,968)
Accrued wages	299	299	144		742
Due to other funds			10,318		10,318
Customer deposits	2,727				2,727
Net Cash Provided by Operating Activities	<u>\$ 604,521</u>	<u>\$ 388,914</u>	<u>\$ 185,000</u>	<u>\$ (1,645)</u>	<u>\$ 1,176,790</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	Agency Funds	Redevelopment Successor Agency Private-Purpose Trust Fund
ASSETS		
Current assets:		
Cash and investments	\$ 50,290	\$ 514,900
Restricted cash and investments		1,128,489
Interest receivable	61	31
Total Current Assets	<u>50,351</u>	<u>1,643,420</u>
Noncurrent assets:		
Notes receivable		421,980
Deferred financing costs		773,210
Net investment in lease receivable		4,310,000
Capital assets:		
Land		461,051
Machinery and equipment		99,093
Buildings and building improvements		1,035,776
Less accumulated depreciation		(268,421)
Total Noncurrent Assets		<u>6,832,689</u>
Total Assets	<u>\$ 50,351</u>	<u>8,476,109</u>
LIABILITIES		
Current liabilities:		
Accounts payable		9,251
Salaries payable		2,269
Deposits payable	\$ 50,351	
Unearned revenue (Note 14)		940,981
Due to the City of Gonzales (Note 9C)		339,309
Cash overdraft - Due to City of Gonzales (Note 7B)		738,202
Interest payable		67,114
Bonds-current portion		270,000
Total Current Liabilities	<u>50,351</u>	<u>2,367,126</u>
Noncurrent liabilities:		
Bonds -long term portion		13,693,865
Advance from Housing Successor Fund (SERAF)		230,000
Advance payable to City of Gonzales (Note 7)		1,000,000
Total Noncurrent Liabilities	-	<u>14,923,865</u>
Total Liabilities	<u>\$ 50,351</u>	<u>17,290,991</u>
Net Position:		
Held in trust for other governments		<u>\$ (8,814,882)</u>

See accompanying notes to the financial statements.

CITY OF GONZALES, CALIFORNIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2013**

	<u>Redevelopment Successor Agency Private-Purpose Trust Fund</u>
Additions:	
Taxes	\$ 1,223,678
Interest and use of property	12,110
Other revenues	(56,259)
Total Additions	<u>1,179,529</u>
Deductions:	
Administrative expenses	255,922
Community Development	50,000
Depreciation	36,292
Interest and fiscal expenses	849,722
Total Deductions	<u>1,191,936</u>
Change in net position	(12,407)
Net Position - July 1	<u>(8,802,475)</u>
Net Position - June 30	<u>\$ (8,814,882)</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 is able to impose its will on the Authority and management has the same operational responsibility for the Authority as it does for the rest of the City. The activity of the Authority is included as separate funds in the special revenue fund and debt service fund types. Separate financial statements are not issued by the Authority.

Basis of Presentation

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

Government-wide Statements

The Statement of Net Position 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.

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.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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

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

The following types of governmental funds are used:

General Fund

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

Special Revenue Funds

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

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, 2013**

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.
- *Public Safety Fund* – This fund is used to account for public safety grants restricted for public safety activities which partially fund school resource officers.
- *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.
- **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.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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

- 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 Position, a Statement of Revenues, Expenses, and Change in Net Position, and a Statement of Cash Flows.

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

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

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

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.

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

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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, 2013**

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, 2013**

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. Depreciation is recorded 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, 2013

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

New Pronouncements

Effective in the Current Year

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 was implemented as of July 1, 2012, and did not have a material impact 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 was implemented as of July 1, 2012, and did not have a material impact on the financial statements.

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 statement was implemented as of July 1, 2012, and did not have a material impact 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 position. The statement was implemented as of July 1, 2012.

CITY OF GONZALES, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

Effective in Future Years

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.

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.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for period beginning after December 15, 2013. The City has not determined the effect on the financial statements.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

Effective in Future Years, (Continued)

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The City has not determined the effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 70, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The City has not determined the 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.

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, 2013.

The General Fund had expenditures that exceeded the budget in the amount of \$51,136.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – CASH AND INVESTMENTS

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

Governmental Funds:	
Cash and Investments	\$ 6,051,947
Proprietary Funds	
Cash and Investments	3,516,403
Fiduciary Funds	
Cash and Investments	565,190
Restricted Cash and Investments	1,128,489
	<hr/>
Total Cash and Investments	<u>\$ 11,262,029</u>

Cash and investments at June 30, 2013, consisted of the following:

Demand Deposits:	
Cash on hand	\$ 465
Deposits	1,330,281
	<hr/>
Total Demand Deposits	<u>1,330,746</u>
Investments:	
Local Agency Investment Fund	4,074,709
Certificates of Deposit	195,739
Money Market Accounts	4,532,346
	<hr/>
Total Investments	<u>8,802,794</u>
Investments Held with Fiscal Agent:	
Investment Agreements	597,729
U.S. Treasury Money Market Funds	530,760
	<hr/>
Total Investments Held with Fiscal Agent	<u>1,128,489</u>
	<hr/>
Total Cash and Investments	<u>\$ 11,262,029</u>

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013**

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	\$ 4,074,709	\$ 4,074,709			
Certificates of Deposit	195,739	195,739			
Money Market Accounts	4,532,346	4,532,346			
Held by Bond Trustee:					
Money Market Funds	530,760	530,760			
Investment Agreements	597,729				\$ 597,729
Total	\$ 9,931,283	\$ 9,333,554	\$ -	\$ -	\$ 597,729

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	AAA
Local Agency Investment Fund	\$ 4,074,709	N/A	\$ 4,074,709	
Certificates of Deposit	195,739	N/A	195,739	
Money Market Accounts	4,532,346		4,532,346	
Held by Bond Trustee:				
Money Market Funds	530,760	AAA		\$ 530,760
Investment Agreements	597,729	N/A	597,729	
Total	\$ 9,931,283		\$ 9,400,523	\$ 530,760

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, 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, 2013, the balances held in bank accounts were (comprised of deposits, CD's and money market accounts) collateralized by the pledging financial institution, but not in the City's name. At June 30, 2013, total cash held in bank was \$6,058,837 of which \$5,624,005 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, 2013**

NOTE 4 – NOTES RECEIVABLE AND DEFERRED LOANS RECEIVABLE

Loans as of the fiscal year ended June 30, 2013 were as follows:

Governmental Funds	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Rehabilitation Loans	\$ 1,520,966	\$ 235,792	\$ (53,336)	\$ 1,703,422
Local Business Promissory Notes	372,382		(31,936)	340,446
Developer Loans	836,102			836,102
Sewer and Water Impact Loans	57,654		(34,093)	23,561
Total Governmental Fund Loans	\$ 2,787,104	\$ 235,792	\$ (119,365)	\$ 2,903,531

Rehabilitation Loans

Date of Note	Original Principal	Interest Rate	Maturity Date	Collateral	Balance as of June 30, 2013
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
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	527
September 11, 2008	125,561	3%	September 11, 2038	Deed of Trust	125,561
November 18, 2008	111,184	3%	November 18, 2038	Deed of Trust	128,436
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	20,808
February 20, 2008	21,000	1%	February 20, 2023	Deed of Trust	14,308
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	47,443
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	17,571
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	49,581
July 2, 2012	-	3%	July 2, 2022	Machinery/Equipment	91,862
July 9, 2010	70,000	1%	July 9, 2017	Security Agreement	44,735
January 10, 2011	70,000	1%	January 10, 2018	Security Agreement	43,378
April 20, 2011	70,000	1%	April 20, 2021	Security Agreement	58,970
May 1, 2012	105,000	3%	May 1, 2022	Security Agreement	95,857
				Total	\$ 1,703,422

(Continued)

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013</u>
February 1, 2009	\$ 35,000	3%	February 1, 2014	Security Agreement	\$ 15,473
September 30, 2011	191,135	2%	November 1, 2020	Deed of Trust	153,069
April 1, 2011	200,000	2%	October 1, 2024	Security Agreement	171,904
				Total	<u>\$ 340,446</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, 2013</u>
February 19, 2008	\$ 836,120	4%	January 1, 2028	Deed of Trust	\$ 836,102
					<u>\$ 836,102</u>

Sewer & Water Impact Loans

					<u>Balance as of June 30, 2013</u>
Business Assistance Program Loans **					<u>\$ 23,561</u>
				Total all Loans	<u>\$ 2,903,531</u>

**Long term receivables in the amount of \$23,561 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, 2013 included \$2,903,531 for loans receivable.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – CAPITAL ASSETS

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

Governmental Activities:	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Capital Assets Not Being Depreciated:				
Land	\$ 9,043,436			\$ 9,043,436
Total Capital Assets Not Being Depreciated	9,043,436			9,043,436
Capital Assets, Being Depreciated:				
Structures and improvements	8,114,344		\$ (74,109)	8,040,235
Equipment and vehicles	1,821,718	\$ 120,247		1,941,965
Infrastructure	32,441,132	24,712		32,465,844
Total Capital Assets Being Depreciated	42,377,194	144,959	(74,109)	42,448,044
Less Accumulated Depreciation for:				
Structures and improvements	(944,956)	(204,004)	55,584	(1,093,376)
Equipment and vehicles	(1,435,178)	(68,572)		(1,503,750)
Infrastructure	(17,702,668)	(1,012,143)		(18,714,811)
Total Accumulated Depreciation	(20,082,802)	(1,284,719)	55,584	(21,311,937)
Total Capital Assets, Being Depreciated, Net	22,294,392	(1,139,760)	(18,525)	21,136,107
Governmental Capital Assets, Net	\$ 31,337,828	\$ (1,139,760)	\$ (18,525)	\$ 30,179,543

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – CAPITAL ASSETS, (CONTINUED)

Business-Type Activities:	Balance at June 30, 2012	Reclass Entries	Additions	Deletions	Balance at June 30, 2013
Capital Assets Not Being Depreciated:					
Land	\$ 604,807				\$ 604,807
Construction in progress	567,965		\$ 1,986,816		2,554,781
Total Capital Assets Not Being Depreciated	1,172,772		1,986,816		3,159,588
Capital Assets, Being Depreciated:					
Structures and improvements	140,584	\$ (93,645)			46,939
Equipment and vehicles	2,133,201	(1,805,977)			327,224
Infrastructure	17,145,327	1,899,622	183,848		19,228,797
Total Capital Assets Being Depreciated	19,419,112		183,848		19,602,960
Less Accumulated Depreciation for:					
Structures and improvements	(24,834)	(469)	(938)		(26,241)
Equipment and vehicles	(740,419)	438,387	(1,282)		(303,314)
Infrastructure	(5,518,953)	(437,559)	(295,767)		(6,252,279)
Total Accumulated Depreciation	(6,284,206)	359	(297,987)		(6,581,834)
Net Depreciable Capital Assets	13,134,906	359	(114,139)		13,021,126
Net Capital Assets	\$ 14,307,678	\$ 359	\$ 1,872,677	\$ -	\$ 16,180,714

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	\$ 40,741
Parks and recreation	75,438
Public works	1,006,639
Public safety	161,901
Total Depreciation Expense-Governmental Activities	\$ 1,284,719
Business-type Activities	
Water	\$ 194,407
Sewer	103,580
Total Depreciation Expense-Business-type Activities	\$ 297,987

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 – INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

Due From/To Other Funds

Current interfund balances and other short-term borrowings between funds were attributed to negative cash balances and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of interfund balances as of June 30, 2013.

		Due From
		General Fund
Due To	Governmental Funds	
	Public Safety Fund	\$ 283
	Community Development Block Grant Fund	10,237
	Non-major Governmental Funds	8,864
	Proprietary (Enterprise) Funds	
	Garbage Fund	74,492
	Total	\$ 93,876

Advances

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

Advances at June 30, 2013 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. During fiscal year 2012-2013, the General Fund did not make any payments.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

Major Proprietary Funds

- The Water and Sewer Funds transferred \$146,309, and \$97,540, respectively to the Solar Energy Fund for capital project costs.
- The Garbage Fund transferred \$185,000 to the General Fund for reimbursement of administrative costs.
- The Sewer Fund transferred \$60,000 to the Water Fund for its share of the water tank and sewer expansion note payable.

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

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 during fiscal year 2011-2012. Repayment of the loan is subject to the approval of the California Department of Finance, and as more fully described at Note 15B, the State Department of Finance (DOF) has disallowed this advance. Further, the City’s management has not evaluated the likelihood or timing of potential cash flows for any potential repayments.

The scheduled annual minimum debt services requirements (based on the agreement) for the Successor Agency repayment to the Water Fund at June 30, 2013, are as follows:

Fiscal Year Ending June 30,	2011 Advance		
	Principal	Interest	Total
2014		\$ 20,000	\$ 20,000
2015		20,000	20,000
2016		20,000	20,000
2017	\$ 200,000	20,000	220,000
2018	200,000	20,000	220,000
2019-2021	600,000	20,000	620,000
	<u>\$ 1,000,000</u>	<u>\$ 120,000</u>	<u>\$ 1,120,000</u>

The \$20,000 was not paid by the Successor Agency during fiscal year 2011-2012 and 2012-2013 as the amounts were not approved by the State of California as noted at Note 15B. The past due amounts have not been accrued, pending resolution with the State Department of Finance

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013 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, 2013 in the amount of \$738,202. At June 30, 2013 this amount was reclassified for financial statement presentation purposes, as a liability to the City of Gonzales’s Water Fund. Also, the City has advanced amounts during the year to the Successor Agency for the payment of enforceable obligations as the Successor Agency has not had sufficient cash available.

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

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

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One year
Governmental Activities:					
Capital Leases:					
Police Vehicles & Equipment Lease (Note 9A)	\$ 81,382		\$ (25,964)	\$ 55,418	\$ 27,186
Lease of Police Station from Successor Agency (Note 9C)	4,400,000			4,400,000	
Radio Equipment Lease (Note 9D)		\$ 120,247	(21,569)	98,678	29,446
Compensated Absences	222,347		(7,660)	214,687	
Governmental activity long-term liabilities	<u>\$ 4,703,729</u>	<u>\$ 120,247</u>	<u>\$ (55,193)</u>	<u>\$ 4,768,783</u>	<u>\$ 56,632</u>
Business-type Activities:					
Note Payable:					
2005 Water Tank & Sewer Expansion Refinance (Note 10)	\$ 2,475,000		\$ (147,724)	\$ 2,327,276	\$ 152,714
Capital Leases:					
Solar Panel Energy Lease (Note 9B)	2,697,589		(38,582)	2,659,007	138,687
Equipment Lease (Note 9A)	48,155		(15,300)	32,855	15,966
Business-type activity Long-term liabilities	<u>\$ 5,220,744</u>	<u>\$ -</u>	<u>\$ (201,606)</u>	<u>\$ 5,019,138</u>	<u>\$ 307,367</u>

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 – CAPITAL AND OPERATING LEASES

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 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>
2014	\$ 29,608	\$ 17,388	\$ 46,996
2015	29,607	17,388	46,995
Total minimum lease payments	<u>\$ 59,215</u>	<u>\$ 34,776</u>	<u>\$ 93,991</u>
Less: amount representing interest	<u>(3,797)</u>	<u>(1,921)</u>	<u>(5,718)</u>
Present value of minimal lease payments	<u><u>\$ 55,418</u></u>	<u><u>\$ 32,855</u></u>	<u><u>\$ 88,273</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>
2014	\$ 138,687	\$ 110,355	\$ 249,042
2015	152,929	104,191	257,120
2016	168,500	97,392	265,892
2017	185,186	89,910	275,096
2018	157,299	82,341	239,640
2019-2023	989,186	300,041	1,289,227
2024-2026	867,220	59,343	926,563
	<u><u>\$ 2,659,007</u></u>	<u><u>\$ 843,573</u></u>	<u><u>\$ 3,502,580</u></u>

C. Capital Lease - Police Station from Successor Agency

During fiscal year 2010-2011, the former Gonzales Redevelopment Agency issued the 2011 Lease Revenue Refunding Bonds in the amount of \$4,440,000. Simultaneously, the former Agency and the City of Gonzales entered into a lease agreement whereby the City leased the Police Station building from the former Agency. The bonds, issued by the former Agency, are secured by lease payments from the City which are equal to the debt service payments for the 2011 Lease Revenue Refunding Bonds. The lease is recorded as a Capital Lease liability in the City's Government-Wide Statement of Net Position. A corresponding lease receivable and the 2011 Lease Revenue Refunding Bonds are recorded in the Private-Purpose Trust Fund. 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.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 – CAPITAL AND OPERATING LEASES, (CONTINUED)

C. Capital Lease - Police Station from Successor Agency, (Continued)

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, 2013, the City had paid \$339,309 in lease payments to the Successor Agency in connection with this lease, which is considered reimbursable costs to the City under the agreement. This amount is recorded as a receivable at the Governmental Funds Balance Sheet and the Government Wide Statement of Net Position.

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

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 2011-2012.

E. Capital Lease

On July 9, 2012, the city entered into a lease purchase agreement for the purchase of radio equipment. The amount financed was \$120,247 and is payable over a four year term with quarterly lease payments commencing October 19, 2012. The lease payments and related interest are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 29,446	\$ 2,375	\$ 31,821
2015	30,251	1,570	31,821
2016	31,079	742	31,821
2017	7,902	53	7,955
	<u>\$ 98,678</u>	<u>\$ 4,740</u>	<u>\$ 103,418</u>

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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. 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.

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
2014	\$ 152,714	\$ 76,696	\$ 229,410
2015	157,873	71,537	229,410
2016	163,206	66,204	229,410
2017	168,719	60,691	229,410
2018	174,418	54,992	229,410
2019-2023	964,553	182,492	1,147,045
2024-2026	545,793	27,730	573,523
	<u>\$ 2,327,276</u>	<u>\$ 540,342</u>	<u>\$ 2,867,618</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.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 11 – RISK MANAGEMENT, (CONTINUED)

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.

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.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 12 – DEFINED BENEFIT PENSION PLAN, (CONTINUED)

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, 2013, the City covers half (3.5 percent) of the employee's required share of 7 percent.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2012-2013 was 15.361 percent for miscellaneous members and 16.134 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 2012-2013, the City's annual pension cost was \$402,171.

Three-Year Trend Information tables:

Safety

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
6/30/2011	\$ 182,455	100%	-
6/30/2012	204,052	100%	-
6/30/2013	187,065	100%	-

Miscellaneous

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
6/30/2011	\$ 219,483	100%	-
6/30/2012	203,253	100%	-
6/30/2013	215,108	100%	-

NOTE 13 – NET POSITION AND FUND BALANCES

Net Position

Net Position is the excess of all the City's assets over all its liabilities, for the government-wide financial statements, and proprietary funds. Net Position is divided into the following three classifications.

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

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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

Unrestricted describes the portion of net position which is not restricted as to use.

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	Public Safety Fund	Infrastructure Improvement Fund		
Nonspendable:						
Deposits	15,746					\$ 15,746
Restricted for:						
Low-mod housing					\$ 281,521	281,521
Community programs		\$ 194,384				194,384
Grant programs					126,799	126,799
Highway maintenance					690,451	690,451
Maintenance assessments					2,184,186	2,184,186
Developer impact projects					1,518,473	1,518,473
Assigned for:						
Capital projects				\$ 284,666		284,666
Unassigned	236,665					236,665
Total Fund Balance	\$ 252,411	\$ 194,384	\$ -	\$ 284,666	\$ 4,801,430	\$ 5,532,891

Nonspendable for:

Deposits

These amounts represent deposits with others are not current available resources.

Unassigned Fund Balance:

General Fund's Financial Position

At June 30, 2013 fund balance for the General Fund was \$252,411. Refer to Note 17 for conditions and contingencies related to the General Fund.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 provided that upon dissolution of a redevelopment agency, either the city or another unit of local government would 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 transferred 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. The Asset Transfer Review was performed and approved by the State Controller’s Office in January of 2013.

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.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

On June 4, 2013, the City received a Finding of Completion from the State of California Department of Finance (DOF). The Finding of Completion allows the Successor Agency Oversight Board to approve the interfund advances from the City to the former Redevelopment Agency on the Recognized Obligation Payment Schedule (ROPS) beginning on July 1, 2014. The Finding of Completion also allows the Successor Agency to utilize proceeds derived from bonds issued prior to January 1, 2011, in a manner consistent with the original bond covenants, per HSC Section 34191.4(c).

Disclosures pertaining to the Successor Agency-Private Purpose Trust Fund are as follows:

Successor Agency Capital Assets

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
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	1,035,776			1,035,776
Equipment and vehicles	99,093			99,093
Total Capital Assets Being Depreciated	1,134,869			1,134,869
Less Accumulated Depreciation for:				
Buildings and improvements	(200,677)	\$ (22,136)		(222,813)
Equipment and vehicles	(31,452)	(14,156)		(45,608)
Total Accumulated Depreciation	(232,129)	(36,292)		(268,421)
Total Capital Assets, Being Depreciated, Net	902,740	(36,292)		866,448
Governmental Capital Assets, Net	\$ 1,363,791	\$ (36,292)	\$ -	\$ 1,327,499

Net 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 Net Investment in Lease Receivable with an outstanding balance of \$4,310,000 at June 30, 2013, which is equal to the outstanding balance on the bonds. Additionally, a corresponding balance of "Unearned Revenue" is reflected on the balance sheet which represents the difference between the book value of the property and the balance of the lease receivable. The balance of unearned revenue at June 30, 2013 is \$940,981 and will be recognized over the life of the bonds on a straight-line basis.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

Successor Agency Long-term Debt

	Balance at July 1, 2012	Additions	Reductions	Balance at June 30, 2013	Due Within One year
Bonds Payable:					
2003 Tax Allocation Refunding Bonds	\$ 7,580,000		\$ (195,000)	\$ 7,385,000	\$ 205,000
2011 Refunding Lease Revenue Bonds	4,370,000		(60,000)	4,310,000	65,000
Original issue premium	125,207		(4,318)	120,889	
2011 Refunding Tax Allocation Bonds	1,535,000			1,535,000	
Original issue discount	(42,184)		1,318	(40,866)	
Advance from the City of Gonzales (Note 15C)	1,000,000			1,000,000	
CalFHA Loan	623,842	\$ 30,000		653,842	
Advance from the Housing Successor Fund	230,000			230,000	
Governmental activity long-term liabilities	<u>\$ 15,421,865</u>	<u>\$ 30,000</u>	<u>\$ (258,000)</u>	<u>\$ 15,193,865</u>	<u>\$ 270,000</u>

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, 2013, were \$7,385,000.

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) has disallowed the 2011 Lease Revenue Refunding Bonds and the reimbursement agreement associated with the lease (Note 9C). As of June 30, 2013, repayment of the bonds by the Successor Agency was made from lease payments from the City. The balance of the bonds at June 30, 2013 was \$4,310,000.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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, 2013 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, 2013 was \$773,210.

California Housing Finance Agency (CAL FHA) Loan Payable

On October 15, 2003, the City entered into an agreement with the California Housing Finance Agency (CAL HFA) 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, 2013, the outstanding loan balance was \$500,000 with accumulated interest of \$123,842.

Advance from the City of Gonzales 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.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, the monthly payment was \$6,078. During fiscal year 2012-2013, the City paid the resident a total of \$70,128.

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

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), the 2011 Lease Revenue Refunding Bonds (Note 14) and the related 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 \$339,309 as of June 30, 2013. 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.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 15 – COMMITMENTS AND CONTINGENCIES, (CONTINUED)

C. Advance and Lease Reimbursement 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, 2013, the balance of the obligation to the City from the former Agency of \$1,000,000 was denied by the State Department of Finance as an enforceable obligation. Further, the City's management has not evaluated the likelihood or timing of potential cash flows.

As described at 9C, with the issuance of the 2011 Lease Revenue Refunding Bonds of the former Redevelopment Agency, the City simultaneously entered into a lease agreement whereby the City leased the Police Station from the former Redevelopment Agency. Concurrently, the City also entered into a reimbursement agreement with the former Redevelopment Agency whereby the former Redevelopment Agency would reimburse the City for all costs incurred with respect to the Police Station lease, including lease payments. The California State Department of Finance has not approved the underlying 2011 Lease Revenue Refunding Bonds as described in Note 14, or the reimbursement agreement to the City. Further, the City's management has not evaluated the likelihood or timing of potential cash flows.

The City's management has asserted, with agreement from legal counsel, that the loans are 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, 2013, the \$1,000,000 and \$339,309 loan balance is recorded as a liability in the Successor Agency's Private Purpose Trust Fund Statement of Fiduciary Net Position and as a receivable by the City. The City is continuing 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 City. Further, should the City prevail, the City's management has not evaluated the likelihood or timing of potential cash flows.

The City of Gonzales continues to work with the California Department of Finance on the issues related to the 2011 Lease Revenue Refunding Bonds. As such the City has been successful in escalating the issues related to the denial of these items through the "Meet and Discuss" process with higher levels of the Department of Finance which in turn have forwarded the issues on to the state legal team for review. The Department of Finance understands the issues related to the City of Gonzales and is working to find a solution.

D. Cash Overdraft

As further described at Note 7B, the Successor Agency's cash balance at June 30, 2013, included a negative cash balance within the City's cash pool of \$738,202. This amount is reflected as a receivable within the City's Water Fund. The negative amount is attributed to the beginning negative cash position of the Successor Agency at the date of dissolution of the former Redevelopment Agency. This amount has not been approved as an enforceable obligation by the State Department of Finance. As noted above at Note 15B, the City continues with the "Meet and Confer" proceedings with the State in order to dispute obligations that have been disallowed.

CITY OF GONZALES, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, is \$260,000.

NOTE 17 – FINANCIAL CONDITION

General Fund

As described in Note 13, the General Fund had an unassigned fund balance of \$236,665 at June 30. Also, as described at 9C, with the issuance of the 2011 Lease Revenue Refunding Bonds of the former Redevelopment Agency, the City simultaneously entered into a lease agreement whereby the City leased the Police Station from the former Redevelopment Agency. Concurrently, the City also entered into a reimbursement agreement with the former Redevelopment Agency whereby the former Redevelopment Agency would reimburse the City for all costs incurred with respect to the Police Station lease, including lease payments. As described in Note 14, the California State Department of Finance has not approved the underlying 2011 Lease Revenue Refunding Bonds or the reimbursement agreement to the City. As a result, the General Fund is making the lease payments to the Successor Agency for the repayment of debt service on the 2011 Lease Revenue Refunding Bonds and accruing a Lease Reimbursement Receivable, which as described above, has not been approved by the California State Department of Finance as an enforceable obligation of the Successor Agency. As of June 30, the outstanding obligation on the 2011 Lease Revenue Refunding Bonds was \$4,310,000 with principal and interest debt service payments of \$367,819 due in fiscal year 2013/14. Based on the debt service maturity schedule, total principal and interest payments through maturity in 2041 total \$10,303,960. As described in Note 15C, should the City not prevail in obtaining approval for recognizing the loans as enforceable obligations, the impact to the City's General Fund would be material.

Water Fund

As disclosed at Notes 6B and 15C, 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, 2013, 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. In addition, the Water Fund has also advanced \$738,202 to the Successor Agency for deficit cash positions as described in Note 15D; this amount has not been approved as an enforceable obligation by the State Department of Finance. Should the City not prevail in obtaining approval for recognizing these items as enforceable obligations, the impact to the City's Water Fund would be material.

NOTE 18 – SUBSEQUENT EVENT

On August 16, 2013, an Amendment to the California Housing Financing Agency (CAL HFA) Loan Agreement was entered into which extended the terms of the agreement with payments to be made through October 2020. The CAL HFA Loan is an enforceable obligation of the Successor Agency (Note 14).

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and assessments	\$ 2,064,100	\$ 2,099,100	\$ 2,104,994	\$ 5,894
Licenses, permits, and impact fees	98,691	56,310	25,154	(31,156)
Fines and penalties	20,000	20,000	22,766	2,766
Use of money and property	97,000	97,000	88,152	(8,848)
Intergovernmental	139,000	139,000	116,882	(22,118)
Charges for services	332,814	334,309	358,329	24,020
Contributions/Revenues from other agencies	100,000	50,000	100,000	50,000
Other revenues	454,932	513,663	433,234	(80,429)
Total Revenues	<u>3,306,537</u>	<u>3,309,382</u>	<u>3,249,511</u>	<u>(59,871)</u>
EXPENDITURES				
Current:				
General government	674,072	768,906	747,575	21,331
Public safety	2,060,753	2,392,755	2,358,362	34,393
Public works	54,570	66,256	62,088	4,168
Parks and recreation	285,723	330,210	321,688	8,522
Capital outlay	2,000	2,000	121,550	(119,550)
Total Expenditures	<u>3,077,118</u>	<u>3,560,127</u>	<u>3,611,263</u>	<u>(51,136)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>229,419</u>	<u>(250,745)</u>	<u>(361,752)</u>	<u>(111,007)</u>
OTHER FINANCING SOURCES (USES)				
Lease Proceeds			120,247	120,247
Transfers in	206,400	267,805	305,694	37,889
Transfers out			(642,820)	(642,820)
Total Other Financing Sources (Uses)	<u>206,400</u>	<u>267,805</u>	<u>(216,879)</u>	<u>(484,684)</u>
Net Change in Fund Balance	435,819	17,060	(578,631)	(595,691)
Fund Balance - July 1, 2012	831,042	831,042	831,042	-
Fund Balance - June 30, 2013	<u>\$ 1,266,861</u>	<u>\$ 848,102</u>	<u>\$ 252,411</u>	<u>\$ (595,691)</u>

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
TDA revenue				
Use of money and property	\$ 5,110	\$ 5,110	\$ 8,823	\$ 3,713
Contributions/Revenues from other agencies		50,000	50,000	-
Intergovernmental	352,660	352,200	247,961	(104,239)
Other revenues	118,100	38,100	47,494	9,394
Total Revenues	475,870	445,410	354,278	(91,132)
EXPENDITURES				
Current:				
General government	114,800	114,800	113,368	1,432
Public works	138,750	116,750	101,382	15,368
Total Expenditures	253,550	231,550	214,750	16,800
Excess (Deficiency) of Revenues Over (Under) Expenditures	222,320	213,860	139,528	(74,332)
OTHER FINANCING SOURCES (USES)				
Transfers out	(30,000)	(30,000)	(30,000)	
Net Change in Fund Balance	192,320	183,860	109,528	(74,332)
Fund Balance - July 1, 2012	84,856	84,856	84,856	-
Fund Balance - June 30, 2013	277,176	268,716	\$ 194,384	\$ (74,332)

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses, permits, impact fees	\$ 500	\$ 500	\$ 3,636	\$ 3,136
Intergovernmental	180,000	272,520	272,520	-
Total Revenues	180,500	273,020	276,156	3,136
EXPENDITURES				
Current:				
Public safety	416,053	501,497	511,467	(9,970)
Total Expenditures	416,053	501,497	511,467	(9,970)
Excess (deficiencies) of Revenues Over (Under) Expenditures	(235,553)	(228,477)	(235,311)	(6,834)
OTHER FINANCING SOURCES (USES)				
Transfers in	140,000	140,000	682,900	542,900
Total Other Financing Sources (Uses)	140,000	140,000	682,900	542,900
Net Change in Fund Balance	(95,553)	(88,477)	447,589	536,066
Fund Balance - July 1, 2012	(447,589)	(447,589)	(447,589)	
Fund Balance - June 30, 2013	\$ (543,142)	\$ (536,066)	\$ -	\$ 536,066

See accompanying notes to required supplementary information.

CITY OF GONZALES, CALIFORNIA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

***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 INFORMATION

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	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	\$ 432,540		\$ 359,022	\$ 16,150	\$ 60,549
Accounts receivable		\$ 8,864			
Interest receivable	37		133		
Notes and loans receivable					
Advance to Successor Agency (SERAF)					
Total Assets	<u>\$ 432,577</u>	<u>\$ 8,864</u>	<u>\$ 359,155</u>	<u>\$ 16,150</u>	<u>\$ 60,549</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable			\$ 4,258		
Accrued wages			891		
Due to other funds		\$ 8,864			
Deferred revenue					
Total Liabilities		<u>8,864</u>	<u>5,149</u>		
FUND BALANCES					
Restricted	<u>\$ 432,577</u>		<u>354,006</u>	<u>\$ 16,150</u>	<u>60,549</u>
Total Fund Balances	<u>432,577</u>		<u>354,006</u>	<u>16,150</u>	<u>60,549</u>
Total Liabilities and Fund Balances	<u>\$ 432,577</u>	<u>\$ 8,864</u>	<u>\$ 359,155</u>	<u>\$ 16,150</u>	<u>\$ 60,549</u>

Special Revenue Funds

Fire Impact Fund	Gas Tax Fund	Gas Tax 2105 Fund	General Plan Impact Fund	Canyon Creek Park Maintenance Fund	Circulation System Impact Fund	Cipriani Estates Park Maintenance	Cipriani Estates Maintenance
\$ 88,491	\$ 446,859	\$ 221,615		\$ 696,296	\$ 137,836	\$ 121,319	\$ 263,775
12	27,713 24	6,504 101		233	153,069	80	104
<u>\$ 88,503</u>	<u>\$ 474,596</u>	<u>\$ 228,220</u>	<u>\$ -</u>	<u>\$ 696,529</u>	<u>\$ 290,905</u>	<u>\$ 121,399</u>	<u>\$ 263,879</u>
	\$ 9,044 3,321			\$ 4,505 800	\$ 709	\$ 920	\$ 529
	12,365			5,305	153,069 153,778	920	529
88,503	462,231	\$ 228,220		691,224	137,127	120,479	263,350
88,503	462,231	228,220		691,224	137,127	120,479	263,350
<u>\$ 88,503</u>	<u>\$ 474,596</u>	<u>\$ 228,220</u>	<u>\$ -</u>	<u>\$ 696,529</u>	<u>\$ 290,905</u>	<u>\$ 121,399</u>	<u>\$ 263,879</u>

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, (CONTINUED)
JUNE 30, 2013**

	Special Revenue Funds				
	Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment	Storm Drainage Facility Impact Fund	Public Facilities Impact Fund	Public Uses
ASSETS					
Cash and investments	\$ 154,394	\$ 152,349	\$ 173,856	\$ 58,803	\$ 17,915
Accounts receivable	64	43	15	31	9
Interest receivable					
Notes and loans receivable					
Advance to Successor Agency (SERAF)					
Total Assets	<u>\$ 154,458</u>	<u>\$ 152,392</u>	<u>\$ 173,871</u>	<u>\$ 58,834</u>	<u>\$ 17,924</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,217	\$ 1,007	\$ 2,436		
Accrued wages					
Due to other funds					
Deferred revenue					
Total Liabilities	<u>1,217</u>	<u>1,007</u>	<u>2,436</u>		
FUND BALANCES					
Restricted	<u>153,241</u>	<u>151,385</u>	<u>171,435</u>	<u>\$ 58,834</u>	<u>\$ 17,924</u>
Total Fund Balances	<u>153,241</u>	<u>151,385</u>	<u>171,435</u>	<u>58,834</u>	<u>17,924</u>
Total Liabilities and Fund Balances	<u>\$ 154,458</u>	<u>\$ 152,392</u>	<u>\$ 173,871</u>	<u>\$ 58,834</u>	<u>\$ 17,924</u>

Special Revenue Funds

Sewer Impact Fund	Water Impact Fund	Ag. Industrial Park Federal Grant	AQMD	EECBG	Sphere of Influence Impact	Housing Successor Fund
\$ 190,798	\$ 794,967	\$ 18,313	\$ 36,928		\$ 71,544	\$ 51,521
49	61	14				
10,172	13,388		171,905			417,268
						230,000
<u>\$ 201,019</u>	<u>\$ 808,416</u>	<u>\$ 18,327</u>	<u>\$ 208,833</u>	<u>\$ -</u>	<u>\$ 71,544</u>	<u>\$ 698,789</u>
10,172	13,388		\$ 171,905			\$ 417,268
10,172	13,388		171,905			417,268
190,847	795,028	\$ 18,327	36,928		\$ 71,544	281,521
190,847	795,028	18,327	36,928		71,544	281,521
<u>\$ 201,019</u>	<u>\$ 808,416</u>	<u>\$ 18,327</u>	<u>\$ 208,833</u>	<u>\$ -</u>	<u>\$ 71,544</u>	<u>\$ 698,789</u>

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, (CONTINUED)
JUNE 30, 2013**

	<u>Debt Service Funds</u>		
	Shopping Center Fund	Bridge Fund	Totals
ASSETS			\$ 4,565,840
Cash and investments			43,081
Accounts receivable			1,010
Interest receivable			765,802
Notes and loans receivable			230,000
Advance to Successor Agency (SERAF)			230,000
	\$ -	\$ -	\$ 5,605,733
Total Assets			<u>5,605,733</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable			\$ 24,625
Accrued wages			5,012
Due to other funds			8,864
Deferred revenue			765,802
			<u>804,303</u>
Total Liabilities			<u>804,303</u>
 FUND BALANCES			
Restricted			<u>4,801,430</u>
			<u>4,801,430</u>
Total Fund Balances			<u>4,801,430</u>
Total Liabilities and Fund Balances	\$ -	\$ -	<u>\$ 5,605,733</u>

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds					
	Signalization Fund	Supplemental Local Law Enforcement Fund	California Breeze Maintenance District Fund	Police Impact Fund	Park Impact Fund	Fire Impact Fund
REVENUES						
Taxes and assessments			\$ 152,576			
License, permits, and impact fees						\$ 12,501
Use of money and property	\$ 1,509		747	\$ 95	\$ 198	250
Intergovernmental revenues		\$ 126,027				
Other revenues					11,500	5,434
Total Revenues	1,509	126,027	153,323	95	11,698	18,185
EXPENDITURES						
Current:						
General government						7,823
Public safety				11,167		
Public works						
Parks and recreation			79,884		1,940	
Community development						
Streets and roads						
Capital outlay						776
Total Expenditures			79,884	11,167	1,940	8,599
Excess (Deficiencies) of Revenues Over (Under) Expenditures	1,509	126,027	73,439	(11,072)	9,758	9,586
OTHER FINANCING SOURCES (USES)						
Transfers in		38,334				
Transfers out		(140,000)	(32,800)			
Total Other Financing Sources (Uses)		(101,666)	(32,800)			
EXTRAORDINARY ITEMS						
Net Change in Fund Balances	1,509	24,361	40,639	(11,072)	9,758	9,586
Fund Balances - July 1, 2012	431,068	(24,361)	313,367	27,222	50,791	78,917
Fund Balances - June 30, 2013	\$ 432,577	\$ -	\$ 354,006	\$ 16,150	\$ 60,549	\$ 88,503

Special Revenue Funds

Gas Tax Fund	Gas Tax 2105 Fund	General Plan Impact Fund	Canyon Creek Park Maintenance Fund	Circulation System Impact Fund	Cipriani Estates Park Maintenance	Cipriani Estates Maintenance	Gonzales Industrial Park Landscape Maintenance	Gonzales Industrial Park Benefit Assessment
\$ 299,063	\$ 39,434		\$ 209,565		\$ 33,382	\$ 47,988	\$ 41,614	\$ 41,614
215	499		1,341	\$ 3,789	396	605	315	258
64,850				33,288				
364,128	39,933		210,906	54,561	33,778	48,593	41,929	41,872
				22,229	36,613	4,720	11,780	21,094
310,809	6,840		77,141					
			6,256		30,968		6,256	
310,809	6,840		83,397	22,229	67,581	4,720	18,036	21,094
53,319	33,093		127,509	32,332	(33,803)	43,873	23,893	20,778
65,200		14,453						
			(41,900)		(5,000)	(13,100)	(4,700)	(9,100)
65,200		14,453	(41,900)		(5,000)	(13,100)	(4,700)	(9,100)
118,519	33,093	14,453	85,609	32,332	(38,803)	30,773	19,193	11,678
343,712	195,127	\$ (14,453)	605,615	104,795	159,282	232,577	134,048	139,707
\$ 462,231	\$ 228,220	\$ -	\$ 691,224	\$ 137,127	\$ 120,479	\$ 263,350	\$ 153,241	\$ 151,385

CITY OF GONZALES, CALIFORNIA

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES, (CONTINUED)
YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds					
	Storm Drainage Facility Impact Fund	Public Facilities Impact Fund	Public Uses	Sewer Impact Fund	Water Impact Fund	Ag. Industrial Park Federal Grant
REVENUES						
Taxes and assessments						
License, permits, and impact fees				\$ 8,403	\$ 2,903	
Use of money and property	\$ 643	\$ 152	\$ 45	1,003	2,402	\$ 70
Intergovernmental revenues						
Other revenues				7,310	26,882	
Total Revenues	643	152	45	16,716	32,187	70
EXPENDITURES						
Current:						
General government						5,000
Public safety						
Public works	7,182			23,949	1,543	
Parks and recreation						
Community development						
Streets and roads						
Capital outlay						
Total Expenditures	7,182			23,949	1,543	5,000
Excess (Deficiencies) of Revenues Over (Under) Expenditures	(6,539)	152	45	(7,233)	30,644	(4,930)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers out						
Total Other Financing Sources (Uses)						
EXTRAORDINARY ITEMS						
Net Change in Fund Balances	(6,539)	152	45	(7,233)	30,644	(4,930)
Fund Balances - July 1, 2012	177,974	58,682	17,879	198,080	764,384	23,257
Fund Balances - June 30, 2013	\$ 171,435	\$ 58,834	\$ 17,924	\$ 190,847	\$ 795,028	\$ 18,327

Special Revenue Funds			Debt Service Funds			
AQMD	EECBG	Sphere of Influence Impact	Housing Successor Fund	Shopping Center Fund	Bridge Fund	Totals
			\$ 12,060	\$ 7,196		\$ 884,492
\$ 3,568			528		\$ 93	23,807
11,986						18,721
15,554			12,588	7,196	93	159,315
						145,446
						1,231,781
						12,823
						11,167
		\$ 7,612				136,722
			204			158,965
						204
						317,649
						44,256
		7,612	204			681,786
15,554		(7,612)	12,384	7,196	93	549,995
	47,133					165,120
				(7,196)	(42,098)	(295,894)
	47,133			(7,196)	(42,098)	(130,774)
15,554	47,133	(7,612)	12,384		(42,005)	419,221
21,374	\$ (47,133)	79,156	269,137		42,005	4,382,209
\$ 36,928	\$ -	\$ 71,544	\$ 281,521	\$ -	\$ -	\$ 4,801,430

CITY OF GONZALES, CALIFORNIA

**AGENCY FUND
STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2013**

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
ASSETS				
Cash and investments	\$ 148,032	\$ 54,251	\$ (151,993)	\$ 50,290
Interest receivable	89	61	(89)	61
Total Assets	<u>\$ 148,121</u>	<u>\$ 54,312</u>	<u>\$ (152,082)</u>	<u>\$ 50,351</u>
LIABILITIES				
Deposits payable	\$ 148,121	\$ 54,312	\$ (152,082)	\$ 50,351
Total Liabilities	<u>\$ 148,121</u>	<u>\$ 54,312</u>	<u>\$ (152,082)</u>	<u>\$ 50,351</u>

CITY OF GONZALES, CALIFORNIA

**SUCCESSOR AGENCY LONG-TERM DEBT SCHEDULES
YEAR ENDED JUNE 30, 2013**

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, 2013, are as follows:

Fiscal Year Ending June 30,	2003 Tax Allocation Refunding Bonds		
	Principal	Interest	Total
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	250,000	346,935	596,935
2019-2023	1,435,000	1,541,780	2,976,780
2024-2028	1,850,000	1,128,375	2,978,375
2029-2033	2,405,000	566,500	2,971,500
2034	565,000	31,075	596,075
	<u>\$ 7,385,000</u>	<u>\$ 5,111,181</u>	<u>\$ 12,496,181</u>

The bonds outstanding at June 30, 2013 were \$4,370,000. The scheduled annual minimum debt service requirements at June 30, 2013, are as follows:

Fiscal Year Ending June 30,	2011 Tax Allocation Refunding Bonds		
	Principal	Interest	Total
2014		\$ 122,800	\$ 122,800
2015		122,800	122,800
2016		122,800	122,800
2017		122,800	122,800
2018		122,800	122,800
2019-2023		614,000	614,000
2024-2028		614,000	614,000
2029-2033		614,000	614,000
2034-2038	\$ 540,000	534,400	1,074,400
2039-2043	795,000	280,800	1,075,800
2044	200,000	16,000	216,000
	<u>\$ 1,535,000</u>	<u>\$ 3,287,200</u>	<u>\$ 4,822,200</u>

CITY OF GONZALES, CALIFORNIA

**SUCCESSOR AGENCY LONG-TERM DEBT SCHEDULES (CONTINUED)
YEAR ENDED JUNE 30, 2013**

The scheduled annual minimum debt service requirements at June 30, 2013, are as follows:

Fiscal Year Ending June 30,	2011 Lease Revenue Refunding Bonds		
	Principal	Interest	Total
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	75,000	290,969	365,969
2019-2023	450,000	1,393,881	1,843,881
2024-2028	595,000	1,246,074	1,841,074
2029-2033	805,000	1,030,600	1,835,600
2034-2038	1,160,000	681,687	1,841,687
2039-2041	945,000	157,625	1,102,625
	<u>\$ 4,310,000</u>	<u>\$ 5,993,960</u>	<u>\$ 10,303,960</u>