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**REPORT TO THE CITY COUNCIL
Council Agenda of May 24, 2016**


Prepared by:
Annette Munoz


Approved by:
Andrew Carter, City Administrator

SUBJECT: Fiscal Year 2014-15 City Audit

RECOMMENDATION:

Adopt Resolution No. 2016-32 which:

- 1) Accepts the 2014-15 Audited Financial Statements prepared by Glenn Burdette.
- 2) Authorizes staff to retain Glenn Burdette for the 2015-16 audit year.
- 3) Authorizes staff to retain Glenn Burdette to apply agreed-upon procedures to the GANN Limit as of June 30, 2017.

BACKGROUND

Glenn Burdette Attest Corporation has served as the City's auditors since 2002/03. In February of 2016 a Request for Proposal (RFP) for audit services was prepared and sent to eight local and semi-local audit firms. In addition, the RFP was posted to the City's website as well as advertised in the Santa Maria Times. On the due date of March 30 the City received one proposal. There was not time to distribute another RFP because the audit season was already in full swing. Auditors were already preparing their audit schedules for the year. The City Administrator and Finance Director decided it was best to retain the services of Glenn Burdette for the 2015-16 audit year and distribute an RFP for audit services in the fall of this year.

It is recommended that Glenn Burdette be retained as the City's auditors for the 2015-16 fiscal year. The audit process will begin at the end of July. Glenn Burdette's fee has ranged from \$55,000 to \$83,000 over the last four years.

It is also recommended that the City retain Glenn Burdette to complete the GANN limit agreed-upon procedures report for the June 30, 2017 budget year at an average cost of \$2,000.

The "Opinion" section on page 5 of the 2014-15 audit states that the financial statements, "present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Guadalupe as of June 15, 2015...in conformity with accounting principles generally accepted in the Unites States of America."

For the fourth year in a row, Glenn Burdette notes that the negative financial conditions facing the City, "raise substantial doubt about the City's ability to continue as a going concern." (See page 5, "Emphasis of Matter Regarding Going Concern," and 2015-01 on page 93.) The general fund had a negative fund balance of (\$670,768) at 6/30/15. City Council approved a \$700,000 loan from the Water Fund and the Lighting District in August of 2015 to cover the General Fund's negative fund balance with a 10 year payback schedule. Revenues received from the

AGENDA ITEM NO.

three tax measures have exceeded the City's expectations through April 2016. Staff is cautiously monitoring the final results as we come to the end of the 15-16 fiscal year.

Mr. Allen E. Eschenbach, principal at Glenn Burdette, will attend tonight's Council meeting to present the audited financial statements to Council and answer Council questions. Mr. Eschenbach has also met with a Council subcommittee consisting of Mayor John Lizalde and Mayor Pro Tem Ariston Julian to review the audit.

During its questioning, Council may want to focus on the Audit Findings and Recommendations Section which begins on page 93.

ATTACHMENTS

2014-15 City of Guadalupe Audited Financial Statements

RESOLUTION NO. 2016-32

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GUADALUPE, CALIFORNIA, ACCEPTING THE 2014-15 AUDITED FINANCIAL STATEMENTS AND AUTHORIZING STAFF TO RETAIN GLENN BURDETTE ATTEST CORPORATION TO COMPLETE THE 2015-16 AUDIT AND PREPARE THE 2016-17 GANN LIMIT REPORT

WHEREAS, every city in California is required to retain an independent certified public accountant firm to prepare audited financial statements every fiscal year; and

WHEREAS, the City of Guadalupe has retained Glenn Burdette Attest Corporation to prepare the City's 2014-15 audited financial statements; and

WHEREAS, Glenn Burdette has completed that audit and presented it to City Council.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Guadalupe as follows:

SECTION 1 City Council accepts the 2014-15 audited financial statements prepared by Glenn Burdette Attest Corporation.

SECTION 2 City Council authorizes staff to retain Glenn Burdette Attest Corporation to prepare the 2015-16 audit. The estimated cost is \$55,000 to \$83,000.

SECTION 3 City Council also authorizes staff to retain Glenn Burdette Attest Corporation to complete and attest to the State-required GANN Limit report for 2016-17. This estimated cost is not more than \$2,000.

PASSED AND ADOPTED at a regular meeting on the 24th of May 2016 by the following vote:

Motion:

AYES:

NOES:

ABSENT:

ABSTAIN

I, **Andrew Carter**, Deputy City Clerk of the City of Guadalupe, **DO HEREBY CERTIFY** that the foregoing Resolution, being **Resolution No. 2016-32** has been duly signed by the Mayor and attested by the City Clerk, all at a regular meeting of the City Council, held May 24, 2016 and that same was approved and adopted.

ATTEST:

Andrew Carter
Deputy City Clerk

John Lizalde
Mayor

City of Guadalupe
Financial Statements
Year Ended June 30, 2015

City of Guadalupe
Financial Statements
Year Ended June 30, 2015

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Financial Statements
Year Ended June 30, 2015
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Independents Auditors' Report

Honorable Mayor and City Council
City of Guadalupe
Guadalupe, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Guadalupe, California, (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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Honorable Mayor and City Council
City of Guadalupe
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Guadalupe as of June 30, 2015, and the changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 17 to the financial statements, in 2015 the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Going Concern

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

Other Matters

Required Supplementary Information

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

**Honorable Mayor and City Council
City of Guadalupe
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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Guadalupe's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2016, on our consideration of the City of Guadalupe's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reports or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Guadalupe's internal control over financial reporting and compliance.

GLENN BURDETTE ATTEST CORPORATION

Glenn Burdette Attest Corporation
San Luis Obispo, California

April 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2015

INTRODUCTION

This discussion and analysis of the City of Guadalupe financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. For the most complete picture of the City, please read this document in conjunction with the City's basic financial statements, and the accompanying notes to the basic financial statements. Comparisons between this year and the prior year are presented showing percentage changes.

FINANCIAL HIGHLIGHTS

- In November 2014 voters approved three General Fund revenue measures V, W and X. Measure V eliminated the utility user tax cap for large utility users. Measure V took effect in December 2014 and resulted in a \$71 thousand increase in utility user tax for the General Fund in FY 14-15. The full impact of Measure V in FY 15-16 is expected to be \$135 thousand. Measure W established a general business tax based on gross receipts rather than the prior process of a flat fee. Measure W became effective July 1, 2015. Revenues for business license tax are projected to be \$300 thousand for FY 15-16, a \$286 thousand increase vs. FY 14-15. Measure X increased local sales tax by a quarter of a percent. Measure X became effective April 1, 2015. Revenues from Measure X will be fully realized in FY 15-16. At June 30, 2015 sales tax revenues from the local sales tax increased \$10 thousand. The full year impact in FY 15-16 is expected to be \$75 thousand.
- In February 2015, construction commenced for a residential and commercial development within the City. The "Pasadera Development" will include approximately 800 homes and approximately 250,000 square feet of commercial space. Project build out is estimated to occur within 10 to 15 years.
- In March 2014 the City began the American Legion Hall Remediation & Seismic Improvement Project. This project was funded by a Community Development Block Grant as well as residual 2003 bond proceeds from the former Redevelopment Agency. The project was completed in August of 2014.
- In FY 14-15, the City completed work on a Wastewater Master Plan and updated its Water Master Plan. Among other things, the two master plans identified the 10-year Capital Improvement Plan (CIP) needs for the two utility systems. The City then began work on a Water and Wastewater Rate Study to develop go-forward water and wastewater rates for FY 15-16 through FY 20-21. Those go-forward rates are designed to fund long-term CIP needs and pay for increased staffing including a Utilities Director.
- The City's total net position decreased by \$2 million in 2015. The net position of governmental activities decreased \$2.3 million and the net position of business-type activities increased \$238 thousand.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.5 million.
- In FY 14-15, the City adopted two Governmental Accounting Standards Board (GASB) statements of financial accounting standards related to pension activities. GASB Statement No. 68 (GASB 68), "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." The impact to the City's implementation of GASB 68 is the reporting of the City's unfunded pension liability on the full accrual basis of accounting in the government-wide financial statements as well as new note disclosure requirements and supplementary schedules required by the Statement. See Note 8 for additional information. The City did not reflect these pension standards in the 2014 results because the necessary actuarial information from the California Employees' Retirement System was not provided or required for the prior years presented.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

The City has three types of fund financial statements:

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

Additional information regarding the City's ability to continue as a going concern is available in Note 18 of the Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS - continued



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

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

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

Notes to the Basic Financial Statements

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

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS

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

**City of Guadalupe
 Summary of Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government		Total Percent Change
	2015	2014	2015	2014	2015	2014	
Assets							
Current Assets	\$ 2,751,271	\$ 2,472,525	\$ 2,300,283	\$ 1,324,785	\$ 5,051,554	\$ 3,797,310	33.0%
Noncurrent Assets	9,362,214	9,749,943	9,294,723	9,666,217	18,656,937	19,416,160	-3.9%
Total Assets	12,113,485	12,222,468	11,595,006	10,991,002	23,708,491	23,213,470	2.1%
Deferred Outflows of Resources							
Deferred pensions	312,333	-	18,167	-	330,500	-	
Liabilities							
Current Liabilities	1,570,391	1,409,586	1,500,958	1,048,606	\$ 3,071,349	\$ 2,458,192	24.9%
Noncurrent Liabilities	2,286,089	405,792	2,469,644	2,573,448	4,755,733	2,979,240	59.6%
Total Liabilities	3,856,480	1,815,378	3,970,602	3,622,054	7,827,082	5,437,432	43.9%
Deferred Inflows of Resources							
Deferred pensions	479,982	-	35,785	-	515,767	-	
Net Position							
Net investment in capital assets	9,246,082	9,606,892	6,846,219	7,014,666	\$ 16,092,301	\$ 16,621,558	-3.2%
Restricted	808,756	644,585	147,100	147,100	955,856	791,685	20.7%
Unrestricted	(1,965,482)	155,613	613,467	207,182	(1,352,015)	362,795	-472.7%
	\$ 8,089,356	\$ 10,407,090	\$ 7,606,786	\$ 7,368,948	\$ 15,696,142	\$ 17,776,038	-11.7%

Analysis of net position

Total net position of the primary government decreased \$2 million this year. Total assets increased \$495 thousand, deferred outflows of resources increased \$331 thousand, total liabilities increased \$2.4 million and deferred inflows of resources increased \$516 thousand. The following analysis of governmental and business-type activities provides more detailed information for these changes.

Governmental activities:

Current assets increased \$279 thousand due to cash and investments increase of \$467 thousand for road maintenance and repair planned for FY 15-16, offset by a decrease in accounts receivable of \$248 thousand due to the 2014 receivable set up for CDBG funds expected for the reimbursement of the earthquake retrofit at the Legion Hall and an increase of \$60 thousand in prepaid expenses due to the increase in workers compensation and general liability insurance.

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

Non-current assets decreased by \$388 thousand due to current year depreciation of \$449 thousand which was offset by additions of \$75 thousand. Loan receivables were reduced by \$14 thousand due to loan recipient payments received in FY 14-15.

Deferred outflows of resources for deferred pensions increased \$312 thousand. More detailed Pension Plan information is located in Note 8 to the financials.

Current liabilities increased \$160 thousand due to an increase of \$566 thousand of deficient cash in the general fund, and a net increase in accounts payable of \$4 thousand for Gas Tax Fund, Local Transportation Fund, Lighting District Fund, Public Safety Fund and Measure A Fund. These increases were off-set by a decrease in accounts payable for the following: \$414 thousand for the Legion Hall retrofit that was paid off in FY 14-15 through a CDBG grant, \$73 thousand for Proposition 84 Fund safe drinking water program that was reimbursed by the State in FY 14-15. Added to that difference is unearned revenue of \$46 thousand for FY 15-16 business license fees and \$31 thousand increase in retrospective insurance payable due in one year.

Non-current liabilities increased \$1.8 million due to the implementation of GASB 68 and the reporting the City's net pension liability for all qualified permanent and probationary employees. More detailed Pension Plan information is located in Note 8 to the financial statements.

Deferred inflows of resources for deferred pensions increased \$480 thousand. More detailed Pension Plan information is located in Note 8 to the financials.

Business-type activities:

Current assets increased \$975 thousand. Cash and investments increased \$254 thousand due to a reduction of principal payments due on inter-fund loans for the water fund and an increase in cash received from other agencies for the local transportation fund. Prepaid expense increased \$725 thousand due to prepaid Central Coast Water Authority payments due in FY 15-16. These increases were offset by a reduction of \$4 thousand in accounts receivable.

Non-current assets decreased \$371 thousand due to current year depreciation of \$718 thousand offset by additions of \$347 thousand. More detailed capital asset information is located in Note 5 to the financial statements.

Deferred outflows of resources for deferred pensions increased \$18 thousand. More detailed Pension Plan information is located in Note 8 to the financials.

Current liabilities increased \$452 thousand mainly due to the increase in the deficient cash balance in the Wastewater Fund of \$446 thousand. Accounts payable for the Solid Waste Fund increased \$34 thousand mainly due to the accrual of the June solid waste service invoice. Unearned revenue increased \$80,000 thousand due to the deferral of transit program revenues for FY 15-16. Long term liabilities due in one year increased \$17 thousand mainly due to the increase of retrospective insurance payable. These increases were offset by a \$115 thousand reduction to accounts payable and accrued wages for the Water, Wastewater and Transit Funds and a reduction of \$10,000 for Solid Waste Fund deficient cash.

Non-current liabilities decreased \$104 thousand due to a decrease of \$237 thousand for liabilities due after one year offset by an increase in net pension liability of \$134 thousand due to the implementation of GASB 68 and the reporting the City's net pension liability for all qualified permanent and probationary employees. More detailed Pension Plan information is located in Note 8 to the financial statements. Deferred inflows of resources for deferred pensions increased \$36 thousand. More detailed Pension Plan information is located in Note 8 to the financials.

City of Guadalupe
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

The City's net position decreased by \$436,969 during the current fiscal year. Information about changes in net position is summarized below.

City of Guadalupe
Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014
(In thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percent Change
	2015	2014	2015	2014	2015	2014	
Revenues							
Program revenues:							
Charges for services	\$ 94,004	\$ 86,104	\$ 3,370,785	\$ 3,363,597	\$ 3,464,789	\$ 3,449,701	0.4%
Operating grants and contributions	783,644	1,130,705	348,752	372,527	1,132,396	1,503,232	-24.7%
Capital grants and contributions	8,958	368,409			8,958	368,409	-97.6%
General revenue:							
Sales tax	260,783	252,003			260,783	252,003	3.5%
Property tax	973,140	1,005,653			973,140	1,005,653	-3.2%
Utility users tax	299,249	228,274			299,249	228,274	31.1%
Gas tax	311,438	324,295			311,438	324,295	-4.0%
Franchise fees	185,710	172,006			185,710	172,006	8.0%
State of California in-lieu	2,928	3,019			2,928	3,019	-3.0%
Property transfer tax	6,730	4,019			6,730	4,019	67.5%
Licenses and permits	114,441	59,060			114,441	59,060	93.8%
Rents	72,311	245,268			72,311	245,268	-70.5%
Interest income	2,279	1,304	244	240	2,523	1,544	63.4%
Other revenues	500,137	145,281	39,681	6,017	539,818	151,298	256.8%
Total revenues	<u>3,615,752</u>	<u>4,025,400</u>	<u>3,759,462</u>	<u>3,742,381</u>	<u>7,375,214</u>	<u>7,767,781</u>	-5.1%
Program Expenses							
Public safety	1,864,794	2,082,192			1,864,794	2,082,192	-10.4%
Transportation	283,099	442,468			283,099	442,468	-36.0%
Leisure, culture and social services	173,403	127,861			173,403	127,861	35.6%
Community development	875,960	1,063,160			875,960	1,063,160	-17.6%
General government	999,453	1,177,893			999,453	1,177,893	-15.1%
Business-type activities			3,611,774	3,802,718	3,611,774	3,802,718	-5.0%
Interest on long-term debt	3,700	5,328			3,700	5,328	-30.6%
Total expenses	<u>4,200,409</u>	<u>4,898,902</u>	<u>3,611,774</u>	<u>3,802,718</u>	<u>7,812,183</u>	<u>8,701,620</u>	-10.2%
Transfers	<u>428,293</u>	<u>22,774</u>	<u>(428,293)</u>	<u>(22,774)</u>	-	-	-
Change in net position	(156,364)	(850,728)	(280,605)	(83,111)	(436,969)	(933,839)	-53.2%
Net position - beginning of year	<u>10,407,090</u>	<u>10,075,171</u>	<u>7,368,948</u>	<u>8,686,882</u>	<u>17,776,038</u>	<u>18,762,053</u>	-5.3%
Prior year restatement	(2,161,370)	1,182,647	518,443	(1,234,823)	(1,642,927)	(52,176)	3048.8%
Net Position - beginning of year, restated	<u>8,245,720</u>	<u>11,257,818</u>	<u>7,887,391</u>	<u>7,452,059</u>	<u>16,133,111</u>	<u>18,709,877</u>	-13.8%
Net position - end of year	<u>\$ 8,089,356</u>	<u>\$ 10,407,090</u>	<u>\$ 7,606,786</u>	<u>\$ 7,368,948</u>	<u>\$ 15,696,142</u>	<u>\$ 17,776,038</u>	-11.7%

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

Analysis of the changes in net position:

Total government-wide revenues of the primary government decreased \$393 thousand, a 5.1% decrease from the prior year, and total expenses decreased \$889 thousand, a 10.2 % decrease. These changes are discussed in more detail below.

Governmental Activities:

Total revenues for governmental activities decreased \$410 thousand from the prior year. Total expenses decreased \$698 thousand, and transfers increased \$406 thousand, from the prior year. Transfers consist of indirect cost allocations to the General Fund and were higher than 2014 primarily due to the prior year pay-off of inter-fund loans for the elevated water tank. Prior year restatement increased \$3.3 million due primarily to the implementation of GASB 68 for the year ended June 30, 2015. For more information about the pension prior year restatements see Notes 8 and 17 to the financial statements.

Revenue

Operating grants and contributions decreased \$347 thousand primarily due to the prior year grant received for the elevated water tank.

Capital grants and contributions decreased by \$359 thousand mostly due to the prior year CDBG grant received for the earthquake retrofit for the Legion Hall.

Rents decreased \$173 thousand due to prior year one time-payment received for half the sale of the water tank tower.

Other revenues increased \$355 thousand mainly due to the Legion Hall retrofit, successor agency administrative costs reimbursement and a donation from Chevron.

Expenses

Public safety decreased \$217 thousand of which 67% of the decrease was due to the pension adjustment for recording deferred inflows of resources. Transportation decreased \$159 due to prior year expenditures for bike and pedestrian grant and a reduction to insurance allocation premiums. Community development decreased \$187 thousand due primarily to the prior year seismic retrofit work completed at the Legion Hall. General government expenses decreased \$178 thousand due to prior year street employee allocation to building maintenance and parks departments, the prior year Measure A maintenance of effort, prior year projects written off and a current year reduction to expense for a resolved liability paid.

Business-Type Activities:

Total revenues for business-type activities increased \$17 thousand from the prior year, a .5% increase. Total expenses decreased \$191 thousand and transfers increased \$406 thousand. Transfers consist of indirect cost allocations to the General Fund and were higher than 2014 primarily due to the prior year pay-off of inter-fund loans for the elevated water tank

Revenue

Charges for services increased slightly by \$7 thousand. Operating grants and contributions decreased \$24 thousand due to a decline in local transportation funds. Other revenues increased \$34 thousand due to a reimbursement for solid waste overcharges.

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS - continued

Expenses

Wastewater professional services expense decreased by \$221 thousand due to the prior year Truss Pro sewer line break. Water expenses increased by \$40 thousand due to an increase in liability insurance allocation premiums.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

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

Governmental Funds:

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Total fund balance for governmental funds increased by \$134 thousand during fiscal year 2015. Total revenues for governmental funds decreased \$404 thousand, total expenditures for governmental funds decreased \$479 thousand, and net other financing sources increased \$406 thousand.. Reasons for these changes are discussed in more detail below.

General Fund

Total General Fund revenues increased \$219 thousand in the current year. Taxes increased \$50 thousand mainly due to the elimination of the utility user cap. Licenses and permits increased \$55 thousand due to the residential and commercial development that broke ground in February 2015. Fines and penalties increased \$35 thousand due to a summary judgement on a bond forfeiture. Revenues from other agencies increased \$102 thousand due to the COPS grant reported in General Fund instead of other government funds beginning FY 14-15. Other revenues decreased \$23 thousand mostly due to a decrease in rents of \$173 thousand due to prior year one time-payment received for half the sale of the water tank tower offset by a \$150 thousand contribution from Chevron.

Total General Fund expenditures increased \$93 thousand and total other financing sources increased \$96 thousand this year. This is mainly due to increases in the Police department personnel services related to the Supplemental Law Enforcement Safety Fund (SLESF) and the Santa Barbara Regional Narcotic Enforcement Team (SBRNT) Funds being consolidated to the Police department in the General Fund from other governmental funds in FY 14-15.

Measure A Fund

Revenues increased \$57 thousand due to an increase of Measure A revenues for FY 14-15. Expenditures decreased \$41 thousand mainly due to a reduction in street maintenance in FY 14-15.

Other Governmental Funds

Total other governmental funds revenues increased \$98 thousand. This is primarily due to an increase of revenues from other agencies for the American Legion Retrofit. Total other government fund expenditures decreased \$115 thousand primarily due to other government police funds, SLESF and SBRNT, being consolidated to the Police department in the General Fund. Total other financing sources decreased \$50 thousand due primarily to the implementation of a comprehensive indirect cost allocation plan in the prior year

FINANCIAL ANALYSIS OF THE FUND STATEMENTS - continued

Enterprise Funds:

The City's four enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. Total operating revenues increased by \$17 thousand total operating expenses decreased by \$191 thousand or 5% over prior year. Total non-operating revenues and expenses increased \$406 thousand and prior year restatements increased beginning fund balance by \$518 thousand. The discussion below provides a detailed explanation for each business-type fund.

Water Fund

Water fund operating revenue decreased \$51 thousand compared to the prior year. The decrease resulted from decreased water usage due to water conservation efforts by city residents. Operating expenses in the current year increased \$41 thousand due to an increase in liability insurance allocation premiums. Total non-operating revenues and expenses increased \$191 thousand due primarily to the transfer-in of \$167 thousand from the Community Development Fund for the elevated water tank inter-fund loan repayment from the prior year. Prior year restatements increased beginning fund balance \$621 thousand due to the proper recording of the annual prepaid amount to the Central Coast Water Authority as well as the implementation of GASB 68's recording of pension liabilities. For more information about pension plans see Note 8 to the financials and Note 17 for prior year restatement information.

Wastewater Fund

Wastewater fund revenue increased \$60 thousand compared to the prior year due to a wastewater increase effective June 1, 2015. Operating expenses decreased \$207 thousand primarily due to the Truss Pro sewer line break in the prior year. Total non-operating revenues and expenses increased \$215 thousand due primarily to the prior year transfer-in of \$167 thousand from the Community Development Fund for the elevated water tank inter-fund loan repayment, \$15,000 prior year transfer-in from the public facilities fund and the current year transfer out of \$33 thousand to Proposition 84 Fund. Prior year restatements decreased beginning fund balance \$102 thousand due to the implementation of GASB 68's recording of pension liabilities. For more information about pension plans see Note 8 to the financial.

Solid Waste Fund

Solid Waste revenue increased \$36 thousand compared to the prior year due primarily to a reimbursement for solid waste overcharges and a solid waste increase effective June 1, 2015. Operating expenses increased \$19 thousand due primarily to an increase in solid waste services.

Transit Fund

Transit Fund revenue decreased \$29 thousand compared to the prior year primarily due to a decline in local transportation fund revenue. Operating expenses decreased \$44 thousand primarily due to the prior year creation of a Short Range Transit Plan.

Fiduciary Funds:

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

GENERAL FUND BUDGETARY HIGHLIGHTS



A detailed budgetary comparison schedule for the year ended June 30, 2015 is presented as required supplementary information following the notes to the financial statements. The final budget amounts (which are the focus of this discussion and accompanying financial statements) are different from those presented in the 2014-15 Budget Document. This is due to changes that occurred between the Preliminary Budget and year-end final budget approvals.

The following summarizes the original and final budget compared with actual results for 2014-15:

General Fund	Original Budget	Final Budget	Actual	Variance
Revenues	\$ 2,015,000	\$ 2,160,000	\$ 2,316,625	\$ 156,625
Expenditures	(2,896,700)	(3,030,592)	(3,268,825)	(238,233)
Other Financing Sources	547,200	481,200	545,921	64,721
Change in fund balances	(334,500)	(389,392)	(406,279)	(16,887)
Fund balance - beginning of year	(301,037)	(301,037)	(301,037)	-
Prior year restatements			36,548	36,548
Fund balance (deficit) - beginning of year, restated	(301,037)	(301,037)	(264,489)	36,548
Fund balances (deficit) - end of year	\$ (635,537)	\$ (690,429)	\$ (670,768)	\$ 19,661

Overall, the ending fund balance is (\$671) thousand, which is \$20 thousand less than the final budget estimate. The net decrease results from a variety of adjustments; the key changes are summarized as follows:

- Revenue was \$157 thousand higher than estimated primarily due to the SLESF and SBRNT other government funds being consolidated to the Police department in the General Fund.
- Expenditures were \$238 thousand higher than estimated primarily due to the SLESF and SBRNT other government fund expenditures of \$198,000 that were consolidated to Police department in the General Fund, \$30 thousand for city attorney professional services and approximately \$10 thousand for finance department professional services.
- Other financing sources were \$65 thousand lower than estimated mainly due to SLESF transfer no longer processed as of FY 14-15.

CAPITAL ASSETS



Capital Assets Summary. The City of Guadalupe's investment in capital assets for its governmental and business type activities as of June 30, 2015, amounts to \$18,601,806 (net of accumulated depreciation). The investment in capital assets includes land, park improvements, buildings and improvements, vehicles and equipment, streets, bikeways, water, wastewater and storm drain systems.

CAPITAL ASSETS - continued

A summary of the City's capital assets at June 30, 2015 follows:

<u>Capital Assets, Net of Accumulated Depreciation</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 343,131	\$ 248,425	\$ 591,556
Infrastructure	4,900,437	5,172,952	10,073,389
Buildings and Improvements	3,998,036	3,540,284	7,538,320
Vehicles	45,892	264,002	309,894
Equipment	19,586	31,976	51,562
Construction in Progress		37,084	37,084
	<u>\$ 9,307,082</u>	<u>\$ 9,294,723</u>	<u>\$ 18,601,805</u>

Major capital asset expenditures during the fiscal year include:

- Facilities improvements
- Pavement upgrades
- Water system improvements
- Wastewater improvements

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

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

CAPITAL ASSETS - continued

Capital assets activity for the fiscal year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities:				
Land	\$ 343,131	\$	\$	\$ 343,131
Infrastructure	6,987,252	11,635		6,998,887
Accumulated depreciation	(1,822,502)	(275,948)		(2,098,450)
Buildings and improvements	5,197,860	15,650		5,213,510
Accumulated depreciation	(1,073,306)	(142,168)		(1,215,474)
Vehicles	890,490	48,000	(2,000)	936,490
Accumulated depreciation	(866,363)	(26,235)	2,000	(890,598)
Equipment	611,882		(126,369)	485,513
Accumulated depreciation	(587,552)	(4,744)	126,369	(465,927)
Total governmental capital assets, net	\$ 9,680,892	\$ (373,810)	\$ -	\$ 9,307,082
Business-Type Activities:				
Land	\$ 194,995	\$ 53,430	\$	\$ 248,425
Construction in progress	67,115	37,084	(67,115)	37,084
Buildings and improvements	9,463,917	237,990	67,115	9,769,022
Accumulated depreciation	(5,968,683)	(260,055)		(6,228,738)
Vehicles	1,003,725			1,003,725
Accumulated depreciation	(648,156)	(91,567)		(739,723)
Equipment	476,530			476,530
Accumulated depreciation	(436,259)	(8,295)		(444,554)
Infrastructure	6,980,188	18,700		6,998,888
Accumulated depreciation	(1,467,155)	(358,781)		(1,825,936)
Total governmental capital assets, net	\$ 9,666,217	\$ (371,494)	\$ -	\$ 9,294,723

Depreciation expense was charged to functions/programs as follows.

Governmental activities:	
Public safety	\$ 30,516
Leisure, cultural & social services	35,499
Community development	354,838
General government	28,242
Total governmental activities depreciation expense	\$ 449,095
Business-type activities:	
Water	\$ 171,114
Waste water	456,017
Transit	91,567
Total business-type activities depreciation expense	\$ 718,698

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

LONG-TERM DEBT

At June 30, 2015, the City of Guadalupe has \$3,346,811 in long-term debt outstanding as summarized below:

Long-Term Debt	Governmental Activities	Business-type Activities	Total
Sewer Bonds	\$ 61,000	\$	\$ 61,000
OPEB	205,268		205,268
Certificates of participation		2,141,594	2,141,594
Compensated absences	203,133		203,133
Loans payable to successor agency trust fund		359,539	359,539
Insurance claim payable	263,394	112,883	376,277
	<u>\$ 732,795</u>	<u>\$ 2,614,016</u>	<u>\$ 3,346,811</u>

Long-term debt governmental activity for the fiscal year ended June 30, 2015 was as follows:

Governmental activities:	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Sewer bonds	\$ 74,000	\$	\$ 13,000	\$ 61,000
OPEB	160,966	44,302		205,268
Compensated absences	212,962		9,829	203,133
Insurance claim payable	179,599	158,184	74,389	263,394
Total	<u>\$ 627,527</u>	<u>\$ 202,486</u>	<u>\$ 97,218</u>	<u>\$ 732,795</u>

Long-term debt business-type activity for the fiscal year ended June 30, 2015 was as follows:

Business-Type Activities:	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Certificates of participation	\$ 2,194,641	\$	\$ 53,047	\$ 2,141,594
Loans payable to Successor Agency Trust Fund	559,539		200,000	359,539
Insurance claim payable	79,775	52,119	19,011	112,883
Total	<u>\$ 2,833,955</u>	<u>\$ 52,119</u>	<u>\$ 272,058</u>	<u>\$ 2,614,016</u>

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

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES



On June 23, 2015 the Council adopted the 2015-16 budget (Resolution No. 2015-29). The General Fund portion of that budget contains a balanced budget. Mid-way through FY 2015-16 the general fund deficit is projected to be \$100 thousand.

Fiscal Outlook. In November 2014 voters passed three measures that will have a significant impact on future sustainable revenues for the General Fund. The measures included a quarter-cent sales tax increase, removal of the City's utility users' tax cap, and annual business licenses being calculated on gross receipts. Combined, the three measures should generate \$500 thousand in new revenue. The Pasadera Development (formally DJ Farms) broke ground in early 2015. During build-out, Pasadera will drive increased building permit revenue for the General Fund. Pasadera will also increase the property tax base. Once built, the shopping center in Pasadera will lead to increased sales tax receipts. In 2016, the City expects to create a Solid Waste roll-off franchise to increase franchise fees for the General Fund – potential revenue of \$50 thousand per year. The 2014-15 actual deficit in the General Fund is \$671 thousand. In 2015-16 the General Fund deficit is projected to be \$100 thousand. The goal is to have a balanced General Fund budget in FY 2016-17.

CITY OF GUADALUPE ACTIVITIES



The City of Guadalupe utilizes grants as much as possible to carry out capital projects. Excellent success has been achieved through this process. In conjunction with grants, the city seeks low interest loans when available. Infrastructure improvements continue to be a high priority. A continued focus for the future is improvements to the wastewater collection and water distribution systems. Measure A funding is used for street maintenance projects and Proposition 50 funds have been used for major improvements at our wastewater treatment facility. In FY 14-15 a USDA grant was awarded to the City for the Tognazzini intertie line.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

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

City of Guadalupe
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	\$ 1,994,305	\$ 983,970	\$ 2,978,275
Accounts receivable, net of allowance	514,693	530,161	1,044,854
Prepaid expenses	242,273	786,152	1,028,425
Loans receivable	55,132		55,132
Land	343,131	248,425	591,556
Construction in progress		37,084	37,084
Depreciable capital assets, net of accumulated depreciation	<u>8,963,951</u>	<u>9,009,214</u>	<u>17,973,165</u>
Total assets	<u>12,113,485</u>	<u>11,595,006</u>	<u>23,708,491</u>
Deferred Outflows of Resources			
Deferred pensions	<u>312,333</u>	<u>18,167</u>	<u>330,500</u>
Liabilities			
Accounts payable and accrued liabilities	1,271,881	1,103,175	2,375,056
Unearned revenue	46,332	79,756	126,088
Interest payable		39,990	39,990
Long-term liabilities:			
Due within one year	252,178	278,037	530,215
Due after one year	480,617	2,335,979	2,816,596
Net pension liability	<u>1,805,472</u>	<u>133,665</u>	<u>1,939,137</u>
Total liabilities	<u>3,856,480</u>	<u>3,970,602</u>	<u>7,827,082</u>
Deferred Inflows of Resources			
Deferred pensions	<u>479,982</u>	<u>35,785</u>	<u>515,767</u>
Net Position			
Net investment in capital assets	9,246,082	6,846,219	16,092,301
Restricted for debt service	21,186	147,100	168,286
Restricted for other purposes	787,570		787,570
Unrestricted	<u>(1,965,482)</u>	<u>613,467</u>	<u>(1,352,015)</u>
Total net position	<u>\$ 8,089,356</u>	<u>\$ 7,606,786</u>	<u>\$ 15,696,142</u>

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

City of Guadalupe
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Public safety	\$ 1,864,794	\$ 69,306	\$ 56,933	\$
Transportation	283,099		458,307	
Leisure, cultural and social services	173,403	2,943		
Community development	875,960	21,230	95,000	8,958
General government	999,453	525	173,404	
Interest on long-term debt	3,700			
Total governmental activities	<u>4,200,409</u>	<u>94,004</u>	<u>783,644</u>	<u>8,958</u>
Business-type activities:				
Water	1,432,948	1,810,956		
Wastewater	1,141,897	933,002		
Solid waste	572,565	538,344		
Transit	464,364	88,483	348,752	
Total business-type activities	<u>3,611,774</u>	<u>3,370,785</u>	<u>348,752</u>	<u>-</u>
General revenues:				
Sales taxes				
Property taxes				
Utility users tax (UUT)				
Gas tax				
Franchise fees				
State of California in-lieu				
Property transfer tax				
Licenses and permits				
Rental income				
Interest income				
Other revenues				
Transfers				
Total general revenues				
Change in net position				
Net position - beginning of year				
Prior year restatement				
Net position - beginning of year, restated				
Net position - end of year				

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

Net Revenues (Expenses) and Changes in Net Position

<u>Total Governmental Activities</u>	<u>Total Business-Type Activities</u>	<u>Total</u>
\$ (1,738,555)	\$	\$ (1,738,555)
175,208		175,208
(170,460)		(170,460)
(750,772)		(750,772)
(825,524)		(825,524)
(3,700)		(3,700)
<u>(3,313,803)</u>		<u>(3,313,803)</u>
	378,008	378,008
	(208,895)	(208,895)
	(34,221)	(34,221)
	(27,129)	(27,129)
	<u>107,763</u>	<u>107,763</u>
260,783		260,783
973,140		973,140
299,249		299,249
311,438		311,438
185,710		185,710
2,928		2,928
6,730		6,730
114,441		114,441
72,311		72,311
2,279	244	2,523
500,137	39,681	539,818
428,293	(428,293)	-
<u>3,157,439</u>	<u>(388,368)</u>	<u>2,769,071</u>
(156,364)	(280,605)	(436,969)
<u>10,407,090</u>	<u>7,368,948</u>	<u>17,776,038</u>
<u>(2,161,370)</u>	<u>518,443</u>	<u>(1,642,927)</u>
<u>8,245,720</u>	<u>7,887,391</u>	<u>16,133,111</u>
<u>\$ 8,089,356</u>	<u>\$ 7,606,786</u>	<u>\$ 15,696,142</u>

City of Guadalupe
Balance Sheet – Governmental Funds
June 30, 2015

	General	Special Revenue	Other	Total
		Measure A	Governmental Funds	Governmental Funds
Assets				
Cash and investments	\$ 37,134	\$ 740,624	\$ 1,216,547	\$ 1,994,305
Accounts receivable	349,233	32,875	132,585	514,693
Prepaid expenses	224,534	7,370	10,369	242,273
Loans receivable			55,132	55,132
Total assets	<u>\$ 610,901</u>	<u>\$ 780,869</u>	<u>\$ 1,414,633</u>	<u>\$ 2,806,403</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 1,131,450	\$ 10,173	\$ 22,080	\$ 1,163,703
Accrued wages and benefits	103,887	2,173	2,118	108,178
Unearned revenue	46,332			46,332
Total liabilities	<u>1,281,669</u>	<u>12,346</u>	<u>24,198</u>	<u>1,318,213</u>
Fund balance:				
Nonspendable:				
Long-term loans receivable			55,132	55,132
Restricted for:				
Street maintenance		768,523	199,174	967,697
Other capital projects			555,029	555,029
Community development			125,180	125,180
Public safety			104,335	104,335
Utility infrastructure			3,026	3,026
Debt service			21,186	21,186
Committed to:				
Lighting and landscape			327,373	327,373
Unassigned	<u>(670,768)</u>			<u>(670,768)</u>
Total fund balance (deficiency)	<u>(670,768)</u>	<u>768,523</u>	<u>1,390,435</u>	<u>1,488,190</u>
Total liabilities and fund balance (deficiency)	<u>\$ 610,901</u>	<u>\$ 780,869</u>	<u>\$ 1,414,633</u>	<u>\$ 2,806,403</u>

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

City of Guadalupe
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2015

Total fund balance - governmental funds \$ 1,488,190

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

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

Capital assets at estimated historical cost	\$ 13,977,531	
Accumulated depreciation	(4,670,449)	
	<u>9,307,082</u>	9,307,082

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

Sewer bonds	61,000	
OPEB	205,268	
Compensated absences	203,133	
Insurance claim payable	263,394	
Net pension liability	1,805,472	
	<u>(2,538,267)</u>	(2,538,267)

Deferred inflows and outflows: The deferred inflows and outflows are not current assets or resources; and they are not due in the current period and therefore are not reported in the governmental funds.

Deferred outflows	312,333	
Deferred inflows	(479,982)	
	<u>312,333</u>	312,333

Total net position - governmental activities \$ 8,089,356

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

City of Guadalupe
Statement of Revenues, Expenditures and Changes in Fund Balance (Deficiency)
Governmental Funds
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Other</u>	<u>Total</u>
		<u>Measure A</u>	<u>Governmental</u>	<u>Governmental</u>
			<u>Funds</u>	<u>Funds</u>
Revenues:				
Taxes	\$ 1,558,244	\$ 453,284	\$ 478,806	\$ 2,490,334
Licenses and permits	114,441			114,441
Fines and penalties	51,700			51,700
Revenues from other agencies	279,444		353,150	632,594
Charges for current services	15,476		3,010	18,486
Interest	2	145	288	435
Other revenues	297,318	3,362	7,082	307,762
Total revenues	<u>2,316,625</u>	<u>456,791</u>	<u>842,336</u>	<u>3,615,752</u>
Expenditures:				
Personnel services	2,509,797	61,063	80,210	2,651,070
Maintenance and operations	737,428	66,456	291,746	1,095,630
Capital outlay	21,600	41,568	119,560	182,728
Debt service:				
Principal			13,000	13,000
Interest and fiscal charges			3,700	3,700
Total expenditures	<u>3,268,825</u>	<u>169,087</u>	<u>508,216</u>	<u>3,946,128</u>
Excess of revenues over expenditures	<u>(952,200)</u>	<u>287,704</u>	<u>334,120</u>	<u>(330,376)</u>
Other financing sources (uses):				
Operating transfers in	545,921		33,189	579,110
Operating transfers out		(67,986)	(82,831)	(150,817)
Total other financing sources (uses)	<u>545,921</u>	<u>(67,986)</u>	<u>(49,642)</u>	<u>428,293</u>
Change in fund balance	(406,279)	219,718	284,478	97,917
Fund balance (deficiency) - beginning of year	(301,037)	548,805	1,105,957	1,353,725
Prior year restatement	<u>36,548</u>			<u>36,548</u>
Fund balance (deficiency) - beginning of year, restated	(264,489)	548,805	1,105,957	1,390,273
Fund balance (deficiency) - end of year	\$ (670,768)	\$ 768,523	\$ 1,390,435	\$ 1,488,190

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

City of Guadalupe
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Year Ended June 30, 2015

Total net change in fund balance - governmental funds \$ 97,917

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

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

Expenditures for capital outlay - governmental funds	\$ 75,285	
Depreciation expense	<u>(449,095)</u>	
		(373,810)

Debt service: In governmental funds, repayments of long-term liabilities are recognized as expenditures. In the statement of activities, repayments of long-term liabilities are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term liabilities were: 13,000

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The differences between compensated absences paid and compensated absences earned was: 9,829

Insurance loan payable: In governmental funds, insurance expenses are measured by the amounts paid during the period. In the statement of activities, the long-term insurance loan payable activity is reported as increases and decreases of the liability. (83,795)

OPEB: In governmental funds, other post employment benefits are measured by the amounts paid during the period. In the statement of activities, other post employment benefits are measured by the amounts accrued. The differences between other post employment benefits paid and compensated absences accrued was: (44,302)

Pension expense: In governmental funds, pension expenses are included in the statement of activities, however they do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds: 224,797

Total change in net position - governmental activities \$ (156,364)

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

City of Guadalupe
Statement of Net Position
Proprietary Funds
June 30, 2015

	Enterprise Funds		
	Water	Wastewater Treatment	Solid Waste
Assets			
Current assets:			
Cash and investments	\$ 651,563	\$	\$
Accounts receivable, net of allowance	247,660	167,943	93,808
Prepaid expenses	764,811	21,341	
Total current assets	<u>1,664,034</u>	<u>189,284</u>	<u>93,808</u>
Noncurrent assets:			
Land	29,464	218,961	
Work in progress	37,084		
Buildings, structures and improvements	4,933,128	4,818,550	
Vehicles	28,843		
Equipment	371,746	94,174	
Infrastructure		6,998,888	
Less accumulated depreciation	<u>(2,452,821)</u>	<u>(6,047,294)</u>	
Total noncurrent assets	<u>2,947,444</u>	<u>6,083,279</u>	
Total assets	<u>4,611,478</u>	<u>6,272,563</u>	<u>93,808</u>
Deferred Outflows of Resources			
Deferred Pensions	<u>6,841</u>	<u>11,326</u>	

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

<u>Transit</u>	<u>Total</u>
\$ 332,407	\$ 983,970
20,750	530,161
	786,152
353,157	2,300,283
	248,425
	37,084
17,344	9,769,022
974,882	1,003,725
10,610	476,530
	6,998,888
(738,836)	(9,238,951)
264,000	9,294,723
617,157	11,595,006
	18,167

City of Guadalupe
Statement of Net Position
Proprietary Funds
June 30, 2015
Page 2

	Enterprise Funds		
	Water	Wastewater Treatment	Solid Waste
Liabilities			
Current liabilities:			
Accounts payable	\$ 30,694	\$ 768,310	\$ 244,840
Deposits payable	22,585		
Accrued wages and benefits	3,973	5,808	
Unearned revenue			
Interest payable	22,588	17,402	
Current portion of insurance claim payable	4,436	15,727	
Current portion of certificates of participation	35,745	19,500	
Current portion of loans payable to Successor Agency Trust Fund		150,000	52,629
Total current liabilities	120,021	976,747	297,469
Noncurrent liabilities:			
Insurance claim payable	55,769	36,951	
Certificates of participation, net of current portion	1,200,862	885,487	
Loans payable to Successor Agency Trust Fund, net of current portion		156,910	
Net pension liability	50,333	83,332	
Total noncurrent liabilities	1,306,964	1,162,680	
Total liabilities	1,426,985	2,139,427	297,469
Deferred Inflows of Resources			
Deferred pensions	13,475	22,310	
Net Position			
Net investment in capital assets	1,710,837	4,871,382	
Restricted for debt service	88,522	58,578	
Unrestricted	1,378,500	(807,808)	(203,661)
Total net position	\$ 3,177,859	\$ 4,122,152	\$ (203,661)

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

Transit	Total
\$ 26,965	\$ 1,070,809
	22,585
	9,781
79,756	79,756
	39,990
	20,163
	55,245
	202,629
106,721	1,500,958
	92,720
	2,086,349
	156,910
	133,665
	2,469,644
106,721	3,970,602
	35,785
	6,846,219
264,000	147,100
246,436	613,467
\$ 510,436	\$ 7,606,786

City of Guadalupe
Statement of Revenues, Expenditures and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2015

	Enterprise Funds		
	Water	Wastewater Treatment	Solid Waste
Operating revenues:			
Water sales	\$ 1,721,143	\$	\$
Standby charges	32,697		
Connection fees	57,400		
Sewer service charges		939,091	
Refuse service charges			538,344
Revenues from other agencies			
Other revenues	190		33,309
Total operating revenues	1,811,430	939,091	571,653
Operating expenses:			
Personnel services	128,553	201,450	
Maintenance and operations	1,080,491	442,758	572,565
Depreciation	171,114	456,017	
Total operating expenses	1,380,158	1,100,225	572,565
Operating income (loss)	431,272	(161,134)	(912)
Nonoperating revenues and expenses:			
Interest	(52,790)	(41,672)	
Operating transfers in			28,000
Operating transfers out	(232,402)	(188,889)	
Total nonoperating revenues and expenses	(285,192)	(230,561)	28,000
Net income (loss)	146,080	(391,695)	27,088
Net position (deficiency) - beginning of year	2,411,208	4,615,975	(230,749)
Prior year restatements	620,571	(102,128)	
Net position (deficiency) - beginning of year, restated	3,031,779	4,513,847	(230,749)
Net position (deficiency) - end of year	\$ 3,177,859	\$ 4,122,152	\$ (203,661)

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

<u>Transit</u>	<u>Total</u>
\$	\$ 1,721,143
	32,697
	57,400
	939,091
	538,344
348,752	348,752
88,483	121,982
<u>437,235</u>	<u>3,759,409</u>
	330,003
372,797	2,468,611
91,567	718,698
<u>464,364</u>	<u>3,517,312</u>
<u>(27,129)</u>	<u>242,097</u>
53	(94,409)
	28,000
(35,002)	(456,293)
<u>(34,949)</u>	<u>(522,702)</u>
<u>(62,078)</u>	<u>(280,605)</u>
572,514	7,368,948
	518,443
<u>572,514</u>	<u>7,887,391</u>
<u>\$ 510,436</u>	<u>\$ 7,606,786</u>

City of Guadalupe
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Enterprise Funds		
	Water	Wastewater Treatment	Solid Waste
Cash flows from operating activities:			
Cash received from customers	\$ 1,734,800	\$ 912,730	\$ 570,593
Cash received from connection fees	57,400		
Cash received from standby charges and other agencies	32,697		
Cash paid to suppliers for goods and services	(1,147,216)	(73,606)	(548,593)
Cash paid to employees and related benefits	(132,630)	(209,236)	
 Net cash provided by operating activities	 <u>545,051</u>	 <u>629,888</u>	 <u>22,000</u>
Cash flows from noncapital financing activities:			
Net operating transfers	(232,402)	(188,889)	28,000
 Net cash provided by (used in) noncapital financing activities	 <u>(232,402)</u>	 <u>(188,889)</u>	 <u>28,000</u>
Cash flows from capital and related financing activities:			
Increase of insurance payable, net of principal payments	16,827	16,281	
Principal payments on certificates of participation	(34,327)	(18,720)	
Interest payments on certificates of participation	(52,981)	(41,672)	
Principal payments on loans payable to Successor Agency Trust Fund		(150,000)	(50,000)
Acquisition of capital assets	(100,316)	(246,888)	
 Net cash used in capital and related financing activities	 <u>(170,797)</u>	 <u>(440,999)</u>	 <u>(50,000)</u>
Cash flows from investing activities:			
Interest on investments	190		
 Net cash provided by investing activities	 <u>190</u>		
 Net increase in cash and investments	 142,042		
 Cash and investments - beginning of year	 <u>509,521</u>	 -	 -
 Cash and investments - end of year	 <u>\$ 651,563</u>	 <u>\$ -</u>	 <u>\$ -</u>

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

<u>Transit</u>	<u>Total</u>
\$ 106,645	\$ 3,324,768
	57,400
428,508	461,205
(387,903)	(2,157,318)
	<u>(341,866)</u>
<u>147,250</u>	<u>1,344,189</u>
<u>(35,002)</u>	<u>(428,293)</u>
<u>(35,002)</u>	<u>(428,293)</u>
	33,108
	(53,047)
	(94,653)
	(200,000)
	<u>(347,204)</u>
	<u>(661,796)</u>
<u>53</u>	<u>243</u>
<u>53</u>	<u>243</u>
112,301	254,343
<u>220,106</u>	<u>729,627</u>
<u>\$ 332,407</u>	<u>\$ 983,970</u>

City of Guadalupe
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015
Page 2

	<u>Water</u>	<u>Wastewater Treatment</u>	<u>Solid Waste</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 431,272	\$ (161,134)	\$ (912)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	171,114	456,017	
Accounts receivable	13,467	(26,361)	(1,060)
Prepaid expenses	(47,510)	4,404	
Accounts payable	(20,407)	364,748	23,972
Unearned revenue			
Deposits payable	1,192		
Accrued wages and benefits	641	26	
Deferred pensions and net pension liability	(4,718)	(7,812)	
Total adjustments	<u>113,779</u>	<u>791,022</u>	<u>22,912</u>
Net cash provided by operating activities	<u>\$ 545,051</u>	<u>\$ 629,888</u>	<u>\$ 22,000</u>

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

<u>Transit</u>	<u>Total</u>
\$ (27,129)	\$ 242,097
91,567	718,698
18,162	4,208
	(43,106)
(15,106)	353,207
79,756	79,756
	1,192
	667
	(12,530)
<u>174,379</u>	<u>1,102,092</u>
<u>\$ 147,250</u>	<u>\$ 1,344,189</u>

City of Guadalupe
Statement of Fiduciary Net Deficiency
Fiduciary Funds
June 30, 2015

	<u>Private-Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash and investments	\$ 747,501	\$ 252,990
Cash with fiscal agent	414,750	
Accounts receivable	34,706	
Loans receivable from City of Guadalupe	359,539	
Loans receivable	464,291	
Property held for resale	972,482	
Capital assets, net of accumulated depreciation	<u>193,060</u>	
 Total assets	 <u>3,186,329</u>	 <u>\$ 252,990</u>
Liabilities		
Accounts payable	\$ 134,804	\$ 3,270
Interest payable	113,000	
Amounts due to others		249,720
Long-term liabilities:		
Due within one year	147,693	
Due after one year	<u>5,182,574</u>	
 Total liabilities	 <u>5,578,071</u>	 <u>\$ 252,990</u>
Net Deficiency		
Held in trust for other governments	<u>\$ (2,391,742)</u>	

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

City of Guadalupe
Statement of Changes in Fiduciary Net Deficiency
Fiduciary Funds
Year Ended June 30, 2015

	Private-Purpose Trust Fund
Additions:	
Property taxes	\$ 459,014
Revenue from other agencies	25,000
Other revenues	49,040
Total additions	533,054
Deductions:	
Program expenses	359,311
Administrative expenses	73,400
Interest on long-term liabilities	270,423
Depreciation	9,900
Total deductions	713,034
Change in net position	(179,980)
Net deficiency - beginning of year	(2,138,346)
Prior year restatement	(73,416)
Net deficiency - beginning of year, restated	(2,211,762)
Net deficiency - end of year	\$ (2,391,742)

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

City of Guadalupe
Notes to Financial Statements
June 30, 2015

Note 1: The Reporting Entity

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

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

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

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

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

Guadalupe Public Financing Authority

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

Other Governmental Agencies

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

Note 1: The Reporting Entity (Continued)

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

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

Note 2: Summary of Significant Accounting Policies

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

Basis of Presentation

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

Government-Wide and Fund Financial Statements

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

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

Major Funds

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

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

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

General Fund: This fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.

Measure A Fund: This fund accounts for the activities associated with maintaining, improving or constructing roadways, bridges and bicycle and pedestrian bridges, safe routes to school improvements, storm damage repair to transportation facilities, roadway drainage facilities, and landscaping maintenance.

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

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

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

Basis of Accounting

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

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

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

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

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

Budgetary Information

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

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

Cash and Cash Equivalents

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

Receivables and Payables

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

All trade and property tax receivables are shown net of any allowance for uncollectible accounts. The allowance for uncollectible accounts was \$7,910 as of June 30, 2015.

Property Taxes

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

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

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

Capital Assets

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

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

Compensated Absences

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

Pensions and Net Pension Liability

The City recognizes a net pension liability, which represents the City's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial reports provided by the California Public Employees' Retirement System (CalPERS) plans (Plans). The net pension liability is measured as of the City's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in the net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's CalPERS Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Projected earnings on pension investments are recognized as a component of pension expense.

Net Position

Net position is the excess of all the City's assets plus deferred outflows of resources, over all its liabilities and deferred inflows of resources. Net position is divided into three captions under GASB Statement No. 34, amended by GASB

Note 2: Summary of Significant Accounting Policies (Continued)

Statement No. 63. These captions apply only to net position, which is determined only at the government-wide level, and are described below:

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

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

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

Fund Equity

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

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

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

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

Fund Balance Spending Policy

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Events subsequent to June 30, 2015, have been evaluated through April 6, 2016, which is the date the financial statements were available to be issued. Management did not identify any subsequent events requiring disclosure.

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Note 3: Cash and Investments

At June 30, 2015, cash and investments consisted of the following:

Deposits:		
Cash in bank	\$	2,673,571
Pooled investment funds:		
Cash in Local Agency Investment Fund (LAIF)		<u>304,704</u>
Total	\$	<u><u>2,978,275</u></u>

Custodial Credit Risk - Deposits

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

Investment Policy

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

Local Agency Investment Fund (LAIF)

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

Note 3: Cash and Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City's investments in the LAIF represented 10.4% of total cash and investments.

Note 4: Loans Receivable

The City has made various loans under Community Development Block Grants to qualified homeowners and businesses. Under the terms of the agreements, repayments of the loans are only required upon the sale of the home or business. The outstanding balance of the loans receivable was \$55,132 at June 30, 2015.

At June 30, 2015, the aggregate maturities of loans receivable were as follows:

<u>For the Year Ending June 30,</u>	
2016	\$ 13,488
2017	8,648
2018	5,160
2019	5,160
2020	<u>22,676</u>
Total	<u>\$ 55,132</u>

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Note 5: Capital Assets

For the year ended June 30, 2015, governmental activities capital assets activity was as follows:

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Transfers and Deductions</u>	<u>Balance June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 343,131	\$	\$	\$ 343,131
Total capital assets not being depreciated	<u>343,131</u>			<u>343,131</u>
Capital assets being depreciated:				
Buildings and improvements	5,197,860	15,650		5,213,510
Vehicles	890,490	48,000	(2,000)	936,490
Equipment	611,882		(126,369)	485,513
Infrastructure	6,987,252	11,635		6,998,887
Total capital assets being depreciated	<u>13,687,484</u>	<u>75,285</u>	<u>(128,369)</u>	<u>13,634,400</u>
Less accumulated depreciation for:				
Buildings and improvements	1,073,306	142,168		1,215,474
Vehicles	866,363	26,235	(2,000)	890,598
Equipment	587,552	4,744	(126,369)	465,927
Infrastructure	1,822,502	275,948		2,098,450
Total accumulated depreciation	<u>4,349,723</u>	<u>449,095</u>	<u>(128,369)</u>	<u>4,670,449</u>
Total capital assets being depreciated, net	<u>9,337,761</u>	<u>(373,810)</u>	<u>-</u>	<u>8,963,951</u>
Governmental activities capital assets, net	<u>\$ 9,680,892</u>	<u>\$ (373,810)</u>	<u>\$ -</u>	<u>\$ 9,307,082</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Public safety	\$ 30,516
Leisure, cultural & social services	35,499
Community development	354,838
General government	<u>28,242</u>
Total governmental activities depreciation expense	<u>\$ 449,095</u>

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Note 5: Capital Assets (Continued)

For the year ended June 30, 2015, business-type capital assets activity was as follows:

	Balance June 30, 2014	Additions	Transfers and Deductions	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 194,995	\$ 53,430	\$	\$ 248,425
Construction in progress	67,115	37,084	(67,115)	37,084
Total capital assets not being depreciated	<u>262,110</u>	<u>90,514</u>	<u>(67,115)</u>	<u>285,509</u>
Capital assets being depreciated:				
Buildings and improvements	9,463,917	237,990	67,115	9,769,022
Vehicles	1,003,725			1,003,725
Equipment	476,530			476,530
Infrastructure	6,980,188	18,700		6,998,888
Total capital assets being depreciated	<u>17,924,360</u>	<u>256,690</u>	<u>67,115</u>	<u>18,248,165</u>
Less accumulated depreciation for:				
Buildings and improvements	5,968,683	260,055		6,228,738
Vehicles	648,156	91,567		739,723
Equipment	436,259	8,295		444,554
Infrastructure	1,467,155	358,781		1,825,936
Total accumulated depreciation	<u>8,520,253</u>	<u>718,698</u>		<u>9,238,951</u>
Total capital assets being depreciated, net	<u>9,404,107</u>	<u>(462,008)</u>	<u>67,115</u>	<u>9,009,214</u>
Business-type activities capital assets, net	<u>\$ 9,666,217</u>	<u>\$ (371,494)</u>	<u>\$ -</u>	<u>\$ 9,294,723</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 171,114
Waste water	456,017
Transit	<u>91,567</u>
Total business-type activities depreciation expense	<u>\$ 718,698</u>

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Note 6: Long-Term Liabilities

For the year ended June 30, 2015, governmental activities long-term liabilities activity was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
Sewer bonds	\$ 74,000	\$	\$ 13,000	\$ 61,000	\$ 13,000
OPEB	160,966	44,302		205,268	
Compensated absences	212,962		9,829	203,133	192,130
Insurance claim payable	179,599	158,184	74,389	263,394	47,048
Total	<u>\$ 627,527</u>	<u>\$ 202,486</u>	<u>\$ 97,218</u>	<u>\$ 732,795</u>	<u>\$ 252,178</u>

Compensated absences in the governmental funds are generally liquidated by the General Fund on a pay as you go basis. Total interest incurred during the year ended June 30, 2015 was \$3,700. See Note 12 for detail of insurance claim payable.

Sewer Bonds

Principal payments on the 1971 Sewer Bonds Series B and the 1978 Sewer Bonds are due on April 1st each year with interest due semi-annually at 5% per annum. The bonds mature in April 2019. These payments are being made to the Farmers Home Administration, the purchaser of the bonds. At June 30, 2015, the principal balance outstanding was \$61,000.

At June 30, 2015, the aggregate maturities of the sewer bonds were as follows:

<u>For the Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 14,000	\$ 2,400	\$ 16,400
2017	15,000	1,650	16,650
2018	16,000	850	16,850
2019	16,000	100	16,100
Total	<u>\$ 61,000</u>	<u>\$ 5,000</u>	<u>\$ 66,000</u>

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

For the year ended June 30, 2015, business-type activities long-term liabilities activity was as follows:

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015	Due Within One Year
Certificates of participation	\$ 2,194,641	\$	\$ 53,047	\$ 2,141,594	\$ 55,245
Loans payable to Successor Agency Trust Fund	559,539		200,000	359,539	202,629
Insurance claim payable	79,775	52,119	19,011	112,883	20,163
Total	\$ 2,833,955	\$ 52,119	\$ 272,058	\$ 2,614,016	\$ 278,037

Total interest incurred for business-type activities during the year ended June 30, 2015 was \$94,653. See Note 12 for detail of insurance claim payable.

Certificates of Participation

On December 21, 2000, the City issued certificates of participation through the Guadalupe Financing Authority which were purchased by the US Department of Agriculture (USDA) Rural Utilities Service (RUS), amounting to \$1,429,800, in an agreement which included a grant of \$875,200 for water and sewer line replacement. Under the terms of the agreement, the City has pledged tax increment revenues for the payment of debt service. Where tax increment revenues are no longer available for the payment of debt service, the City has pledged net water revenues for the payment of debt service. The certificates of participation bear interest at 4.5% per annum, with principal and interest payments due semiannually through August 1, 2041. At June 30, 2015, the principal balance outstanding was \$1,152,800.

At June 30, 2015, the aggregate maturities of the certificates of participation were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2016	\$ 25,000	\$ 52,456	\$ 77,456
2017	26,000	51,297	77,297
2018	28,000	50,094	78,094
2019	28,000	48,822	76,822
2020	30,000	47,527	77,527
2021-2025	170,000	215,900	385,900
2026-2030	215,000	172,905	387,905
2031-2035	268,000	118,761	386,761
2036-2040	333,000	51,601	384,601
2041-2042	29,800	859	30,659
Total	\$ 1,152,800	\$ 810,222	\$ 1,963,022

City of Guadalupe
Notes to Financial Statements
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Note 6: Long-Term Liabilities (Continued)

On July 27, 2005, the City issued certificates of participation which were purchased by the US Department of Agriculture (USDA) Rural Utilities Service (RUS), amounting to \$1,203,900, in an agreement which included a grant for water tank construction and upgrades. Under the terms of the agreement, the City has pledged tax increment revenues for the payment of debt service. Where tax increment revenues are no longer available for the payment of debt service, the City has pledged net water revenues for the payment of debt service. The certificates of participation bear interest at 4.125% per annum, with principal and interest payments due semiannually through July 28, 2035. At June 30, 2015, the principal balance outstanding was \$988,794.

At June 30, 2015, the aggregate maturities of the certificates of participation were as follows:

For the Year			
Ending June 30,	Principal	Interest	Total
2016	\$ 30,245	\$ 41,211	\$ 71,456
2017	31,492	39,939	71,431
2018	32,792	38,615	71,407
2019	34,144	37,237	71,381
2020	35,553	35,801	71,354
2021-2025	201,011	155,315	356,326
2026-2030	246,033	109,431	355,464
2031-2035	309,642	53,272	362,914
2036	67,882	2,854	70,736
Total	<u>\$ 988,794</u>	<u>\$ 513,675</u>	<u>\$ 1,502,469</u>

Loans Payable to Successor Agency Trust Fund

In August 2006, the 2003 Bond Refinance Fund of the former Redevelopment Agency made a loan to the Wastewater Treatment Fund in the amount of \$1,011,901 for purposes of construction of the Wastewater Treatment Plant. The loan bears no interest and payments are due annually through June 30, 2017. Due to the dissolution of the Redevelopment Agency on February 1, 2012, this loan is payable now to the Successor Agency Trust Fund, a fiduciary fund of the City. The outstanding balance of the loan as of June 30, 2015 was \$306,910.

In June 2002, the Affordable Housing Fund of the former Redevelopment Agency made a loan to the Solid Waste Fund in the amount of \$167,629 for purposes of eliminating the deficit in the Solid Waste Fund. The loan bears no interest and payments are due annually through June 30, 2016. Due to the dissolution of the Redevelopment Agency on February 1, 2012, this loan is payable now to the Successor Agency Trust Fund, a fiduciary fund of the City. The outstanding balance of the loan as of June 30, 2015 was \$52,629.

Note 6: Long-Term Liabilities (Continued)

At June 30, 2015, the aggregate maturities of the loans payable to the successor agency trust fund were as follows:

<u>For the Year</u> <u>Ending June 30,</u>	<u>Wastewater</u> <u>Fund</u>	<u>Solid Waste</u> <u>Fund</u>	<u>Total</u>
2016	\$ 150,000	\$ 52,629	\$ 202,629
2017	156,910		156,910
Total	<u>\$ 306,910</u>	<u>\$ 52,629</u>	<u>\$ 359,539</u>

Note 7: Other Post-Employment Benefits

Plan Description

The City's other post-employment benefits (OPEB) cost obligation is for retiree health benefits under its election to participate in the California Public Employees' Retirement System (PERS) Health Benefit Program, an agent multiple-employer defined benefit OPEB plan. The City entered the PERS medical insurance program in 1990 under the Public Employees' Medical and Hospital Care Act (PEMHCA). The required employer contribution was \$122 per month in 2015.

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

Funding Policy

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

The City's ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The ARC for the fiscal year 2014-2015 was \$49,013. For the fiscal year 2014-2015, the City contributed \$5,784 to the Plan which represented the City's contributions to the Plan on a pay-as-you-go basis.

Note 7: Other Post-Employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contributions	\$ 49,013
Interest on Net OPEB obligation	6,439
Adjustment to Annual Required Contributions	<u>(5,366)</u>
Annual OPEB Cost	50,086
Contributions made	<u>(5,784)</u>
Change in net OPEB obligation	44,302
Net OPEB obligation - beginning of year	<u>160,966</u>
 Net OPEB obligation - end of year	 <u><u>\$ 205,268</u></u>

The City Retiree Medical annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	\$ 49,013	\$ 5,810	11.9%	\$ 43,203
6/30/15	\$ 50,086	\$ 5,784	11.5%	\$ 44,302

Funded Status and Funding Progress

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

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

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

Note 7: Other Post-Employment Benefits (Continued)

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

Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation, the projected unit cost actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return. The initial health care cost trend rates were 5.0 to 8.0%. The method of determining the actuarial value of assets is not applicable as the plan has no assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years on an open basis. The remaining amortization period at June 30, 2015 was 29 years.

Note 8: Pension Plans

Cost-Sharing Employer Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans (Plans) administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional

Note 8: Pension Plans (Continued)

Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	Safety	PEPRA Miscellaneous	PEPRA Safety
	Prior to January 1, 2013	Prior to January 1, 2013	On or After January 1, 2013	On or After January 1, 2013
Hire date				
Benefit formula	2.0% @ 55	2.0% @ 55	2.0% @ 62	2.0% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	55	62	57
Monthly benefits, as a % of eligible compensation	2%	2%	2%	2%
Required employee contribution rates	7%	7%	6.25%	9.50%
Required employer contribution rates	12.866%	13.456%	6.25%	9.50%

While the Miscellaneous and Safety Plans are not closed to new entrants, Classic Members as defined by CalPERS entering the City's Miscellaneous and Safety Plans would enter the 2% @ 55 Miscellaneous and Safety Plan pools, while New Members as defined by CalPERS would enter the City's PEPRA Miscellaneous and PEPRA Safety Plans.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous	Safety	PEPRA Miscellaneous	PEPRA Safety
Contributions - employer	\$ 131,564	\$ 118,166	\$ 3	\$ 124

Note 8: Pension Plans (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability			
	Miscellaneous	Safety	PEPRA Miscellaneous	PEPRA Safety
Plan's Proportionate Share of the Net Pension Liability	\$ 1,136,946	\$ 801,164	\$ 27	\$ 1,000

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Proportionate Share of Net Pension Liability			
	Miscellaneous	Safety	PEPRA Miscellaneous	PEPRA Safety
Proportionate share				
Percentage share at 6/30/2013	0.04557%	0.02335%	0.000001%	0.00003%
Percentage share at 6/30/2014	0.04600%	0.02136%	0.000001%	0.00003%
Change - Increase/(Decrease)	0.00043%	-0.00199%	0.000000%	0.00000%

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Note 8: Pension Plans (Continued)

For the year ended June 30, 2015, the City recognized pension expense of \$77,299 for the Plans. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>All Plans</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 314,627	\$
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of	13,201	(36,144)
Net differences between projected and actual earnings on pension plan investments		(466,579)
Adjustment due to difference in proportions	<u>2,672</u>	<u>(13,044)</u>
Total	<u>\$ 330,500</u>	<u>\$ (515,767)</u>

Pension contributions subsequent to the measurement date of \$314,627 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension income as follows:

<u>All Plans</u>	
<u>Year Ended June 30</u>	<u>Amount</u>
2016	\$ (169,481)
2017	(168,331)
2018	<u>(162,082)</u>
	<u>\$ (499,894)</u>

Note 8: Pension Plans (Continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations for all Plans were determined using the following actuarial assumptions:

	<u>All Plans</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	Varies by Entry Age and Service
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Depending on age, service and type of employment.

(2) Net of pension plan investment expenses, including inflation.

(3) Derived using CalPERS' Membership Data for all Funds

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate. The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate

Note 8: Pension Plans (Continued)

has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	All Plans		
	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Note 8: Pension Plans (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>PEPRA Miscellaneous</u>	<u>PEPRA Safety</u>
1% Decrease	6.50%	6.50%	6.50%	6.50%
Net Pension Liability	\$ 1,933,210	\$ 1,467,553	\$ 47	\$ 1,722
Current Discount Rate	7.50%	7.50%	7.50%	7.50%
Net Pension Liability	\$ 1,136,946	\$ 801,164	\$ 27	\$ 1,000
1% Increase	8.50%	8.50%	8.50%	8.50%
Net Pension Liability	\$ 476,122	\$ 252,087	\$ 10	\$ 406

Pension Plan Fiduciary Net Position

Detailed information about each safety plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2015, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 9: Interfund Transactions

Interfund Receivables and Payables (Due to/Due From)

Interfund receivables and payables include temporary negative cash balances that result from the timing of cash flows at year end and the time lag between the dates that transactions are recorded in the accounting system and payment between funds are made. Liquidation of interfund receivables and payables typically occurs in the first quarter of the subsequent fiscal year. Interfund balances between governmental funds are not included in the government-wide statement of net position. At June 30, 2015, there were no interfund receivables and payables.

Note 9: Interfund Transactions (Continued)

Interfund Transfers

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

For the year ended June 30, 2015, interfund transfers were as follows:

Transfer from Other Governmental Funds to the General Fund	\$ 82,831
Transfer from the Water Fund to the General Fund	232,402
Transfer from the Wastewater Treatment Fund to the General Fund	155,700
Transfer from the Transit Fund to the General Fund	35,002
Transfer from the Measure A Fund to the General Fund	39,986
Transfer from the Wastewater Fund to the Proposition 84 Fund	33,189
Transfer from Measure A to Solid Waste Fund	<u>28,000</u>
Total	<u>\$ 607,110</u>

Note 10: Revenue Limitations Imposed By California Proposition 218

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

Note 11: Excess of Expenditures over Appropriations

At June 30, 2015, expenditures exceeded appropriations in individual major funds as follows:

	<u>Excess Expenditures</u>
General Fund:	
City attorney	\$ 30,291
Finance and city treasurer	14,103
Police	197,702
Parks and recreation	4,715
Measure A:	
Capital outlay	41,568

Note 12: Joint Ventures (Joint Power Agreements)

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

Central Coast Water Authority

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

Each participant is required to pay to CCWA an amount equal to its share of the total cost of "fixed project costs" and certain other costs in the proportion established in the Water Supply Agreement. This includes the participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs. Each participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. State water payments were \$741,040 for the year ended June 30, 2015. The City's allocation of CCWA's operating expenses for the year ended June 30, 2015 was \$101,325.

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

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

California Joint Powers Insurance Authority

The City is a member of the California Joint Powers Insurance Authority (CJPIA). CJPIA is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of CJPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other coverages. The CJPIA's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Self-Insurance Program of CJPIA:

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

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

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

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

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

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

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

Purchased Insurance under CJIPA:

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

Adequacy of Protection under CJIPA:

During the past three fiscal years, the above programs of protection have had no settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage in 2014-15.

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

Insurance Claim Payable:

The Authority has assessed a retrospective claims liability balance to pool members. The City's share of the liability is \$344,956 at June 30, 2015. The long term liability applicable to governmental type and business-type activities have been allocated accordingly. At June 30, 2015, the aggregate future maturities of the insurance claim payable were as follows:

For the Year			
Ending June 30,	Governmental	Business-Type	Total
2016	\$ 47,048	\$ 20,163	\$ 67,211
2017	48,031	20,585	68,616
2018	49,034	21,014	70,048
2019	50,057	21,453	71,510
2020	34,257	14,682	48,939
Thereafter	34,967	14,986	49,953
Total	<u>\$ 263,394</u>	<u>\$ 112,883</u>	<u>\$ 376,277</u>

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

Note 13: Fund Balance and Net Position Deficiencies

At June 30, 2015, the City had ending fund and net deficiencies as follows:

General Fund	\$ 670,768
Solid Waste Fund	\$ 203,661

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

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

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

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

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

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

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

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure 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 of the Bill.

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

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

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

Cash and Investments

The City maintained investments with the State of California Local Agency Investment Fund (LAIF) for all City activities, including the Trust Fund. The Trust had \$747,501 in cash and investments as of June 30, 2015, that was held in LAIF. The City manages the Trust Fund's cash and investments in a consistent manner as the rest of its cash and investment pool. Refer to Note 3 for additional information regarding LAIF.

Cash with Fiscal Agent

The Trust Fund had \$414,750 in cash and investments as of June 30, 2015, held by fiscal agents pledged for the payment or security of certain bonds. The California Government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Trust's general investment policy. In no instance have additional types of investments, not permitted by the Trust's general investment policy, been authorized.

Loans Receivable from City of Guadalupe

The Trust Fund had \$359,539 in loans receivable due from the City as of June 30, 2015. Refer to Note 6 for additional information on the terms and the aggregate maturities of the loans receivable as of June 30, 2015.

Loans Receivable

During 2007, the former redevelopment agency made a loan to a nonprofit organization for land purchase and low income housing construction within the City's project area. Subsequent to year end, the Housing Authority of the County of Santa Barbara has agreed to be the successor agency on this project. The balance on the loan was \$450,000 at June 30, 2015.

The former redevelopment agency has made various loans to businesses in the City's project area. The loans' interest rates are 0%, with maturities through May 2018. The balance on the loans was \$14,291 at June 30, 2015.

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

At June 30, 2015, the aggregate maturities of loans receivable were as follows:

<u>For the Year Ending June 30,</u>	
2016	\$ 4,900
2017	4,900
2018	4,491
2019	-
2020	-
Thereafter	<u>450,000</u>
Total	<u>\$ 464,291</u>

Capital Assets

For the year ended June 30, 2015, capital assets activity was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Transfers/</u> <u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Construction in progress	\$ 73,416	\$	\$ (73,416)	\$ -
Capital assets being depreciated:				
Infrastructure	201,197			201,197
Structures and improvements	83,333			83,333
Less accumulated depreciation	<u>(81,570)</u>	<u>(9,900)</u>		<u>(91,470)</u>
Net capital assets	<u>\$ 276,376</u>	<u>\$ (9,900)</u>	<u>\$ (73,416)</u>	<u>\$ 193,060</u>

Long-term Liabilities

For the year ended June 30, 2015, long-term liabilities activity was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
Note payable	\$ 21,145	\$	\$ 878	\$ 20,267	\$ 2,693
Tax allocation bonds	<u>5,455,000</u>		<u>145,000</u>	<u>5,310,000</u>	<u>145,000</u>
Total	<u>\$ 5,476,145</u>	<u>\$ -</u>	<u>\$ 145,878</u>	<u>\$ 5,330,267</u>	<u>\$ 147,693</u>

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

Note Payable

The Trust Fund had a note payable to a private party related to the purchase of property currently held for resale. Principal and interest payments on the note payable are due on the 16th of each month and the note matures June 2020. Interest accrues at 9.0% per annum. At June 30, 2015, the principal balance outstanding was \$20,267.

At June 30, 2015, the aggregate maturities of the note payable were as follows:

<u>For the Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,693	\$ 1,913	\$ 4,606
2017	3,222	1,637	4,859
2018	3,524	1,335	4,859
2019	3,854	1,004	4,858
2020	6,974	892	7,866
Total	<u>\$ 20,267</u>	<u>\$ 6,781</u>	<u>\$ 27,048</u>

Tax Allocation Bonds

On April 3, 2003, the former redevelopment agency issued \$6,455,000 of tax allocation bonds for a current refunding of Series 1997 Tax Allocation Bonds. The refunding was undertaken to reduce total future debt service payments. The former redevelopment agency determined that there was an economic gain on the refunding; however, the amount was not material. The bonds mature through August 1, 2035, with interest rates from 2.0 to 5.125%. At June 30, 2015, the principal balance outstanding was \$5,310,000.

For the year ended June 30, 2015, the aggregate maturities of the tax allocation bonds were as follows:

<u>For the Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 150,000	\$ 261,352	\$ 411,352
2017	155,000	255,556	410,556
2018	165,000	249,355	414,355
2019	170,000	242,738	412,738
2020	175,000	234,853	409,853
2021-2025	1,035,000	1,025,128	2,060,128
2026-2030	1,335,000	722,493	2,057,493
2031-2035	1,730,000	331,841	2,061,841
2036	395,000	405,122	800,122
Total	<u>\$ 5,310,000</u>	<u>\$ 3,728,438</u>	<u>\$ 9,038,438</u>

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

Pollution Remediation

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

In fiscal year 2008-09 through 2012-13, the former redevelopment agency expended a total of \$323,890 towards the cleanup costs. Clean up costs incurred but not paid in 2014-15 total \$134,804 and are included in accounts payable of the Trust Fund. Payments for tasks performed are due within six months of invoice date or upon receipt of USTCF claim reimbursement.

Tasks associated with the cleanup costs in 2014-15 included remediation services, progress monitoring, regulatory site review, identifying remedial actions, waste profiling and removal services, and budgetary analysis.

Tasks associated with these cleanup costs will include operation and maintenance of the remediation system and semi-annual monitoring. Estimated future costs beyond June 30, 2015 are expected to be approximately \$75,000 to \$150,000 and include the continuation of active remediation. The Trust Fund will continue to request reimbursement from the USTCF for all costs incurred in full for a total cleanup cost of approximately \$600,000 to \$700,000.

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

Note 15: Operating Leases

The City leases equipment under operating leases with lease terms in excess of one year. The agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors but it is unlikely that the City will cancel the agreements prior to the expiration date. Rent expense under operating leases was \$13,132 for the year ended June 30, 2015.

Note 15: Operating Leases (Continued)

At June 30, 2015, future minimum lease payments under these operating leases were as follows:

<u>For the Year Ending June 30,</u>	
2016	\$ 14,355
2017	8,371
2018	5,379
2019	<u>3,138</u>
Total	<u>\$ 31,243</u>

Note 16: Contingencies and Commitments

Litigation

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

Grant Commitments

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

Note 17: Prior Year Restatements

The City implemented GASB Statement No. 68, *Financial Reporting for Pensions – an amendment of Statement No. 27*, and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, for the year ended June 30, 2015. The City has chosen to present prior year data, but not restate the data for the prior year because all of the information available to restate prior year amounts was not readily available. An adjustment of \$2,361,731 to reduce beginning net position has been made to reflect the cumulative impact of implementing these standards.

The City has recorded an asset that had not been previously recorded in the City's records. A prior year restatement was recorded in the General Fund for \$36,548 to increase assets and fund balance.

In previous years, the City has been recording water payments in the Water Fund as expenditures in the period the payments were made rather than in the period that the payments relate. A prior year restatement was recorded in the Water Fund to increase prepaid expenditures and net position for \$682,256 related to the prepayment of 2014-15 water payments.

Note 18: Going Concern

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

The three measures were as follows:

- 1.) A measure to eliminate the \$2,250 Utility Users Tax cap. It is estimated that doing so will result in \$135,000 of additional General Fund revenue annually.
- 2.) A measure to convert the City's Business License fees to a Gross Receipts Tax. It is estimated that doing so will result in \$275,000 of additional General Fund revenue annually.
- 3.) A measure to adopt a local Sales Tax add-on of 0.25%. It is estimated that doing so will result in \$75,000 of additional General Fund revenue annually.

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

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

Required Supplementary Information
(Unaudited)

City of Guadalupe
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2015

	General Fund			Variance with Budget Positive (Negative)
	Budget	Final	Actual (GAAP Basis)	
Revenues:				
Taxes	\$ 1,547,000	\$ 1,544,000	\$ 1,558,244	\$ 14,244
Licenses and permits	80,000	102,000	114,441	12,441
Fines and penalties	15,000	50,000	51,700	1,700
Revenues from other agencies	161,000	165,000	279,444	114,444
Charges for current services	17,000	24,000	15,476	(8,524)
Interest	1,000	1,000	2	(998)
Other revenues	194,000	274,000	297,318	23,318
Total revenues	<u>2,015,000</u>	<u>2,160,000</u>	<u>2,316,625</u>	<u>156,625</u>
Expenditures:				
City council	9,500	9,861	9,825	36
Administration	464,200	448,750	448,347	403
City attorney	51,000	59,500	89,791	(30,291)
Finance and city treasurer	379,800	381,771	395,874	(14,103)
Building inspections and maintenance	215,400	212,099	209,676	2,423
Police	1,304,700	1,336,360	1,534,062	(197,702)
Fire	354,000	445,892	440,176	5,716
Parks and recreation	118,100	136,359	141,074	(4,715)
Total expenditures	<u>2,896,700</u>	<u>3,030,592</u>	<u>3,268,825</u>	<u>(238,233)</u>
Deficiency of revenues over expenditures	<u>(881,700)</u>	<u>(870,592)</u>	<u>(952,200)</u>	<u>(81,608)</u>
Other financing sources (uses):				
Operating transfers in	600,000	534,000	545,921	11,921
Operating transfers out	(52,800)	(52,800)		52,800
Total other financing sources (uses)	<u>547,200</u>	<u>481,200</u>	<u>545,921</u>	<u>64,721</u>
Change in fund balance	<u>(334,500)</u>	<u>(389,392)</u>	<u>(406,279)</u>	<u>(16,887)</u>
Fund balance (deficiency) - beginning of year	(301,037)	(301,037)	(301,037)	
Prior year restatements			36,548	36,548
Fund balance (deficiency) - beginning of year, restated	<u>(301,037)</u>	<u>(301,037)</u>	<u>(264,489)</u>	<u>36,548</u>
Fund balance (deficiency) - end of year	<u>\$ (635,537)</u>	<u>\$ (690,429)</u>	<u>\$ (670,768)</u>	<u>\$ 19,661</u>

See independent auditors' report.

City of Guadalupe
Budgetary Comparison Schedule – Measure A Fund
Year Ended June 30, 2015

	Measure A			Variance with Budget Positive (Negative)
	Budget	Final	Actual (GAAP Basis)	
Revenues:				
Taxes	\$ 435,000	\$ 435,000	\$ 453,284	\$ 18,284
Interest			145	145
Other revenues			3,362	3,362
Total revenues	<u>435,000</u>	<u>435,000</u>	<u>456,791</u>	<u>21,791</u>
Expenditures:				
Personnel services	65,900	65,906	61,063	4,843
Maintenance and operations	144,100	119,695	66,456	53,239
Capital outlay			41,568	(41,568)
Total expenditures	<u>210,000</u>	<u>185,601</u>	<u>169,087</u>	<u>16,514</u>
Excess of revenues over expenditures	<u>225,000</u>	<u>249,399</u>	<u>287,704</u>	<u>38,305</u>
Other financing sources (uses):				
Operating transfers out	(78,000)	(78,000)	(67,986)	10,014
Total other financing sources (uses)	<u>(78,000)</u>	<u>(78,000)</u>	<u>(67,986)</u>	<u>10,014</u>
Change in fund balance	147,000	171,399	219,718	48,319
Fund balance - beginning of year	<u>548,805</u>	<u>548,805</u>	<u>548,805</u>	<u>-</u>
Fund balance - end of year	<u>\$ 695,805</u>	<u>\$ 720,204</u>	<u>\$ 768,523</u>	<u>\$ 48,319</u>

See independent auditors' report.

City of Guadalupe
Schedule of Funding Progress for OPEB Obligation
Year Ended June 30, 2015

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2013	\$ -	\$ 268,068	\$ 268,068	\$ -	\$ 1,853,700	14.46%

See independent auditors' report.

City of Guadalupe
Schedule of City's Proportionate Share of the Net Pension Liability
As of June 30, 2015
Last 10 Years *

	Miscellaneous	Safety	PEPRA Miscellaneous	PEPRA Safety
Plan's Proportion of the Net Pension Liability	0.01827%	0.01288%	0.00000%	0.00002%
Plan's Proportionate Share of the Net Pension Liability	\$ 1,136,946	\$ 801,164	\$ 27	\$ 1,000
Plan's Covered-Employee Payroll	\$ 919,108	\$ 686,101	\$ 38,199	\$ 45,775
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	123.70%	116.77%	0.07%	2.18%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.06%	83.90%	82.58%	81.43%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 131,564	\$ 118,166	\$ 3	\$ 124

The Plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The Plan's proportionate share of the aggregate contributions is based on the Plan's proportion of fiduciary net position shown as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period. The Plan's proportionate share of aggregate employer contributions is not required to be displayed by GASB 68 but is being shown here because it is used in the calculation of the Plan's pension expense.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown. Information is required only for measurement periods for which GASB 68 is applicable. The measurement period is the year ended June 30, 2014.

See independent auditors' report.

City of Guadalupe
Schedule of City's Contributions
As of June 30, 2015
Last 10 Years *

	Miscellaneous	Safety	PEPRA	
			Miscellaneous	Safety
Actuarially determined contribution	\$ 105,715	\$ 94,962	\$ 3,075	\$ 14,967
Contributions in relation to the actuarially determined contributions	(105,715)	(94,962)	(3,075)	(14,967)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	919,108	686,101	38,199	45,775
Contributions as a percentage of covered-employee payroll	11.50%	13.84%	8.05%	32.70%

The figures shown do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. There were no changes in assumptions.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown. Information is required only for measurement periods for which GASB 68 is applicable. The measurement period is the year ended June 30, 2014.

See independent auditors' report.

Other Information and Combining Fund Statements

**City of Guadalupe
Combining Balance Sheet
Other Governmental Funds
Year Ended June 30, 2015**

	<u>Special Revenue Funds</u>			
	<u>Gas Tax</u>	<u>Local Transportation</u>	<u>Public Facilities</u>	<u>Park Development</u>
Assets				
Cash and investments	\$ 441,887	\$ 198,274	\$ 3,026	\$ 3,912
Accounts receivable	110,821	376		
Prepaid Expenses	5,844	524		
Loans receivable				
Total assets	<u>\$ 558,552</u>	<u>\$ 199,174</u>	<u>\$ 3,026</u>	<u>\$ 3,912</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 5,474	\$	\$	\$
Accrued wages and benefits	1,961			
Total liabilities	<u>7,435</u>			
Fund balance:				
Nonspendable				
Long-term loans receivable				
Restricted for:				
Street maintenance		199,174		
Other capital projects	551,117			3,912
Community development				
Public safety				
Utility infrastructure			3,026	
Debt service				
Committed to:				
Lighting and landscape				
Total fund balance	<u>551,117</u>	<u>199,174</u>	<u>3,026</u>	<u>3,912</u>
Total liabilities and fund balance	<u>\$ 558,552</u>	<u>\$ 199,174</u>	<u>\$ 3,026</u>	<u>\$ 3,912</u>

See independent auditors' report.

Special Revenue Funds

Asset Seizure	Guadalupe Lighting and Assessment	Public Safety	Community Development	CDBG American Legion Retrofit	Proposition 84	Bike and Pedestrian	Sewer Bond Debt Service	Total Other Governmental Funds
\$	\$ 330,776	\$ 92,306 10,160	\$ 125,180	\$ 8,958	\$ 2,270	\$	\$ 21,186	\$ 1,216,547 132,585 10,369 55,132
	1,586	2,415	55,132					
<u>\$ -</u>	<u>\$ 332,362</u>	<u>\$104,881</u>	<u>\$ 180,312</u>	<u>\$ 8,958</u>	<u>\$ 2,270</u>	<u>\$ -</u>	<u>\$ 21,186</u>	<u>\$ 1,414,633</u>
\$	\$ 4,989	\$ 389 157	\$	\$ 8,958	\$ 2,270	\$	\$	\$ 22,080 2,118 24,198
	<u>4,989</u>	<u>546</u>		<u>8,958</u>	<u>2,270</u>			<u>24,198</u>
			55,132					55,132
								199,174
								555,029
			125,180					125,180
		104,335						104,335
								3,026
							21,186	21,186
	<u>327,373</u>							<u>327,373</u>
	<u>327,373</u>	<u>104,335</u>	<u>180,312</u>				<u>21,186</u>	<u>1,390,435</u>
<u>\$ -</u>	<u>\$ 332,362</u>	<u>\$104,881</u>	<u>\$ 180,312</u>	<u>\$ 8,958</u>	<u>\$ 2,270</u>	<u>\$ -</u>	<u>\$ 21,186</u>	<u>\$ 1,414,633</u>

City of Guadalupe
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance (Deficiency) –
Other Governmental Funds
Year Ended June 30, 2015

	<u>Special Revenue Funds</u>			
	<u>Gas Tax</u>	<u>Local Transportation</u>	<u>Public Facilities</u>	<u>Park Development</u>
Revenues:				
Taxes	\$ 311,438	\$	\$	\$
Revenues from other agencies		5,023		
Charges for current services			1,623	1,387
Interest	91	53		
Other revenues	784	4,028		
Total revenues	<u>312,313</u>	<u>9,104</u>	<u>1,623</u>	<u>1,387</u>
Expenditures:				
Personnel services	63,453			
Maintenance and operations	33,495	9,032		
Capital outlay	20,823			2,675
Debt service:				
Principal				
Interest and fiscal charges				
Total expenditures	<u>117,771</u>	<u>9,032</u>		<u>2,675</u>
Excess of revenues over (under) expenditures	<u>194,542</u>	<u>72</u>	<u>1,623</u>	<u>(1,288)</u>
Other financing sources (uses):				
Operating transfers in				
Operating transfers out	(28,907)	(3,806)		
Total other financing sources (uses)	<u>(28,907)</u>	<u>(3,806)</u>		
Change in fund balance	165,635	(3,734)	1,623	(1,288)
Fund balance (deficiency) - beginning of year	<u>385,482</u>	<u>202,908</u>	<u>1,403</u>	<u>5,200</u>
Fund balance - end of year	<u>\$ 551,117</u>	<u>\$ 199,174</u>	<u>\$ 3,026</u>	<u>\$ 3,912</u>

See independent auditors' report.

Special Revenue Funds

Asset Seizure	Guadalupe Lighting and Assessment	Public Safety	Community Development	CDBG American Legion Retrofit	Proposition 84	Bike and Pedestrian	Sewer Bond Debt Service	Total Other Governmental Funds
\$	\$ 130,123	\$ 19,067 41,023	\$ 95,000	\$ 208,958	\$ 3,146	\$	\$ 18,178	\$ 478,806 353,150 3,010 288 7,082
	78	21	35	2	2,270		8	
	<u>130,201</u>	<u>60,111</u>	<u>95,035</u>	<u>208,960</u>	<u>5,416</u>		<u>18,186</u>	<u>842,336</u>
		16,757 18,917 1,062	95,000	133,208		4,028		80,210 291,746 119,560
	<u>93,066</u>	<u>36,736</u>	<u>95,000</u>	<u>133,208</u>		<u>4,028</u>	13,000 3,700	13,000 3,700
	<u>37,135</u>	<u>23,375</u>	<u>35</u>	<u>75,752</u>	<u>5,416</u>	<u>(4,028)</u>	<u>1,486</u>	<u>334,120</u>
					33,189			33,189
<u>(1,232)</u>	<u>(12,300)</u>	<u>(21,586)</u>	<u>(15,000)</u>		<u>33,189</u>			<u>(82,831)</u>
<u>(1,232)</u>	<u>(12,300)</u>	<u>(21,586)</u>	<u>(15,000)</u>					<u>(49,642)</u>
(1,232)	24,835	1,789	(14,965)	75,752	38,605	(4,028)	1,486	284,478
<u>1,232</u>	<u>302,538</u>	<u>102,546</u>	<u>195,277</u>	<u>(75,752)</u>	<u>(38,605)</u>	<u>4,028</u>	<u>19,700</u>	<u>1,105,957</u>
<u>\$ -</u>	<u>\$ 327,373</u>	<u>\$104,335</u>	<u>\$ 180,312</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,186</u>	<u>\$ 1,390,435</u>

**City of Guadalupe
Organization
June 30, 2015**

City Council

John Lizalde
Mayor

Jerry Beatty
Council Member

John Lizalde
Council Member

Virginia Ponce
Council Member

Gina Rubalcaba
Council Member

Petrona Amido
City Treasurer

Joice Earleen Raguz
City Clerk

Staff

Andrew Carter
City Administrator

Annette Munoz
Finance Director

Michael Pena
Public Works Supervisor

Gary Hoving
Chief of Police/Director of Public
Safety

Jasch Janowicz
City Planner

Dave Fleishman
City Attorney

Other Independent Auditors' Report



**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and City Council
City of Guadalupe
Guadalupe, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Guadalupe (the City) as of and for the year ended June 30, 2015, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Recommendations as findings 2015-01, 2015-02, and 2015-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Guadalupe's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

GLENN BURDETTE ATTEST CORPORATION

Glenn Burdette Attest Corporation
San Luis Obispo, California

April 6, 2016

Audit Findings and Recommendations Section

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2015

2015-01 Full Recovery of General Fund Deficit Fund Balance and Balanced Budget (Material Weakness)

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

Condition: The General Fund has a negative fund balance of as of June 30, 2015. The General Fund finished the year with a deficit fund balance of \$(670,768) compared to a negative fund balance of \$(301,037) in the prior fiscal year. Overall, the fund's liabilities exceeded assets, and has a negative cash balance of \$1,042,000 that is included in accounts payable on the balance sheet. Both General fund final budgeted expenditures exceeded budgeted revenues and final actual expenditures exceeded actual revenues by greater than \$400,000 for the year ended June 30, 2015. This has raised substantial doubt about the City's ability to continue as a going concern as described further in Note 18.

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

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

City Response: The City has continued to work with all departments in keeping costs to a minimum. On August 11, 2015, City Council approved Resolution 2015-40, "Authorizing loans from the Water Operating fund and the Guadalupe Lighting District fund to the General Fund to cover the General Fund's negative fund balance on 6/30/15" for the total amount of \$700 thousand with a ten year payback schedule.

The full effect of the three tax measures approved by voters in November 2014 will take place in FY 2015-16. The projected income for these tax measures was originally \$318 thousand annually. We are now expecting \$535 thousand in new revenue from these measures in FY 2015-16. At March 31, 2016, total actual revenues received for the three measures equaled \$771 thousand compared to the prior year of \$317 thousand received through March 31, 2015. The City has also seen a 16% increase (or \$105 thousand to the General Fund) in permit fees in FY 15-16 due to the Pasadera 800-unit development that broke ground in February 2015. In the long term, the City expects to see an increase in its residential property tax base by over 50% and a 100% increase in sales tax due to the planned Pasadera housing development and associated shopping center.

City of Guadalupe
Schedule of Audit Findings and Recommendations
Year Ended June 30, 2015
Page 2

2015-02 Full Recovery Deficiency in Net Position (Material Weakness)

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

Condition: The Solid Waste Fund has an ending net deficit at the year ended June 30, 2015. This is a repeat finding from the years ended June 30, 2005 through 2014.

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

Recommendation: Although the Solid Waste Fund had positive net income for the years ended June 30, 2014 and 2015, operating income was negative. The City should continue to ensure the fund remains solvent by requiring a balanced operating budget and a plan to recoup the net deficiency.

City Response: The requirement for a balanced budget is a top priority for the City and is evidenced by the positive net income activity over the last two years. The City's plan to recoup the net deficiency was approved by Council on February 24, 2015 through Resolution 2015-430, "Affirming Revising and Setting Fees and Rates for Garbage Collection Services." This five-year plan was implemented on June 1, 2015 for the first 6% increase with subsequent 3% increases beginning August 1, 2015 and every year thereafter for the next four years. With this plan in place the deficit will continue to decrease over time.

2015-03 Prepaid Expenditures (Material Weakness)

Criteria: Accounting principles generally accepted in the United States of America require expenses to be recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Condition: Each fiscal year, the annual water payment in the Water Fund related to the period in which the payment was made rather than in the period that the expense was incurred.

Effect: A prior year restatement was recorded in the Water Fund to increase prepaid expenditures and net position for \$682,256 related to the prepayment of 2014-15 water payments.

Recommendation: Although the expense in the Water Fund was not materially different from year to year, we recommend that the amount recorded in expense relates to the same fiscal period.

City Response: The City has taken steps to ensure that all prepaid expenditures are recorded in the proper period.

City of Guadalupe
Summary Schedule of Prior Year Audit Findings and Recommendations – June 30, 2014
Year Ended June 30, 2015

<u>Findings/Recommendation</u>	<u>Current Year</u>	<u>City Explanation if Not Implemented</u>
We recommended the City analyze cost cutting measures and revenue sources, and to review these options to establish a budget plan for the General Fund to recoup the deficit fund balance.	Not implemented	See current year finding 2015-01.
We recommend the City evaluate and document the year-end process and reconcile all accounts on a timely basis.	Implemented	
We recommend the City evaluate commitments and contingencies of all plans and contracts to record the proper liabilities.	Implemented	
We recommended the City continue to ensure the solvency of the Solid Waste Fund by requiring a balanced operating budget and a plan to recoup the net deficiency.	Partially Implemented	See current year finding 2015-02.