

CITY OF LINDSAY
AUDITED BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

**CITY OF LINDSAY
 BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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INTRODUCTORY SECTION



March 27, 2014

To the Honorable Mayor, Members of the City Council, and the Citizens of the City of Lindsay:

State law requires that all general-purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a licensed certified public accountant. Pursuant to the requirement, we hereby issue this annual financial report of the City of Lindsay (the City) for the fiscal year ended June 30, 2013.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Brown Armstrong Accountancy Corporation, a licensed certified public accountant firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2013, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that

there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the City's financial statements is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require that agencies expending more than \$500,000 in federal monies be required to have the independent auditor report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. That report is issued separately.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Lindsay incorporated in 1910, as a general law city of the State of California, and reclassified to a Charter City January 8, 1996, filed with the State of California in April 1996. Lindsay is located in the middle of the state in the Central San Joaquin Valley. The Central Valley is considered to be a national and world leader in the agricultural industry, with dairy, citrus and deciduous crops the primary commodity around the Lindsay area. The City of Lindsay currently occupies an incorporated area of 2.41 square miles with an urban development boundary of 3.9 miles and serves a population of 12,833 (2012) - an increase of 24.6% since 2000.

The City of Lindsay operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with two council members elected in one election and three elected in another election, separated by two years. The mayor is selected from among the council members by the council members and serves a two-year term. All five council members of the governing board are elected at large. The council is responsible, among other things, for passing ordinances, adopting the budget, representing the City on other governmental committees, and hiring the City's manager and attorney. The city manager is responsible for carrying out polices and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The City of Lindsay provides a full range of services, including police and fire protection; the construction, maintenance, and cleaning of streets and other infrastructure; planning and development services; water services; contracting for refuse collection, disposal, and recycling services; sewer service; storm drainage; contracting for transit services; recreation activities; and general administration and loan programs for First-Time Homebuyers, Home Rehabilitation, and Curb & Gutter.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy: The local economy is showing signs of improvement as evidenced by the 18.75% increase in retail sales tax revenue over the previous year, much of which is attributable to the used car sales lot on Hwy 65 that has boosted the retail sales tax base. Per the www.city-data.com website, home sales values increased moderately in 2013 from an average median price of \$95,000 per home in 2012 to an average median price of \$122,000 per home in 2013 which resulted in a slight increase in property tax revenue. While the average 2013 unemployment rate for the City of Lindsay was 17.2%, which was 3.2% higher than the County of Tulare's average for 2013, it did decline by 2.00% from 2012. Job creation and business development continue to be a high priority for staff which assisted with the location of the Dollar Retail store in the Savemart Plaza, the completion of the Vita Pact Expansion project, and completion of the China's Alley renovation project. Prospects for the sale of the former Tulare Frozen Foods site are quite positive; the city manager is working with the potential buyer and business development group that would provide approximately 300 new jobs if the deal goes through. Drought conditions for the state of California remain a matter of concern for the City of Lindsay for both residential water use and the fact that the economic base is still largely agrarian; we are bracing for a direct negative impact the lack of water resources could have on our local growers, farm workers, and packing houses, with the related indirect negative impact on our local retailers as the labor force has less money to spend.

Long-Term Financial Planning

Continuing investment in the City's infrastructure is an important goal. The City has completed numerous construction in progress (CIP) projects during the fiscal year to improve the City's infrastructure, facilities and parks, improve drainage problems, and improve the overall look of the community. The following projects were completed in fiscal year (FY) 13 and added to the capital assets schedule:

PARKS: Completion of Main city park renovation project, Ono City memorial bench project, completion of the Horseshoe Pit recreation area, Memorial Parking lot renovation

STREETS: The following projects were completed in FY13: Tulare Road/Sequoia Avenue ramp installation (3-way stop), Ono City Parkway, Mirage Avenue

The FY 2013-14 budget contains \$1,100,000 for capital improvement projects of which \$740,000 is set aside for street renovation projects.

Cash Management Policies and Practices

Cash temporarily idle during the fiscal year was primarily invested in the Local Agency Investment Fund (LAIF), a State investment pool that provided an average annual yield of 0.246%. The City also maintains a 180 day certificate of deposit (CD) for the Asset Forfeiture Account and a 90 day CD for other temporarily idle cash that provided an average annual yield of 0.402%. It is the goal of this administration to increase the City's reserve cash.

Risk Management

The City of Lindsay participates in a 54-member city Joint Powers Authority - the Central San Joaquin Valley Risk Management Authority - for all property, liability, workmen's compensation, and employee assistance program coverage. Additional information can be found in NOTE 11 - JOINT VENTURE - SELF-INSURANCE PROGRAM in the notes to the basic financial statements.

Pension and Other Postemployment Benefits

The City participates in the defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS) for all full-time employees. Each fiscal year, CalPERS calculates the amount of the annual contribution the City must make to the pension plan to ensure the plan will be able to fully meet its obligation to retired employees on a timely basis.

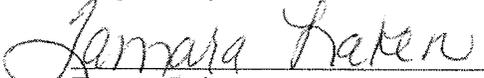
The City also provides post-retirement health benefits for retirees that meet the eligibility requirements. As of the end of the current fiscal year, there were seven (7) retired employees receiving these benefits, with the current portion financed on a pay-as-you-go-basis with the retiree paying a portion and the City paying a portion that is included in the annual budget.

Additional information on the City's pension arrangements and postemployment benefits can be found in NOTE 8 - LONG-TERM DEBT, NOTE 9 - RETIREMENT PLANS and NOTE 12 - POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN in the notes to the basic financial statements.

Acknowledgements

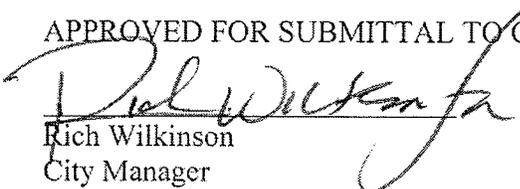
Staff would like to acknowledge the professionalism and thoroughness of the audit team of Brown Armstrong who not only identified the negative conditions in past audits, but over the past three years has provided detailed recommendations within each audit report that staff has implemented to improve the financial reporting and restore the integrity and viability of the City of Lindsay. The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and City Council for their diligent support for maintaining the highest standards of professionalism in the management of the City of Lindsay's finances.

Respectfully submitted,



Tamara Laken
Director of Finance

APPROVED FOR SUBMITTAL TO CITY COUNCIL:



Rich Wilkinson
City Manager

CITY OF LINDSAY DEPARTMENT ORGANIZATION

CITY OF LINDSAY DEPARTMENT ORGANIZATION

CITIZENS

CITY COUNCIL

Mayor
Ramona Padilla
Mayor Pro-tem
Danny Salinas

Councilmembers
Pam Kimball
Steve Mecum
Rosaena Sanchez

CITY MANAGER

Rich Wilkinson

Phone: 559-562-7103

CITY ATTORNEY

Julia Lew

ASSISTANT CITY MGR

Vacant

The following departments are responsible directly to the City Manager:

PUBLIC SAFETY DEPT
Chief Rich Wilkinson
Lt. Chris Hughes
Emergency Response
Police & Fire Protection
Animal Control Svcs
Code Enforcement
Weed Abatement
Vehicle Abatement
Phone: 559-562-2511

FINANCE DEPT
Tamara Laken
Utility Billing
Risk Management
Business License
Financial Mng & Records
Phone: 559-562-5927

CITY CLERK
Carmen Wilson
DEPUTY CITY CLERK
Maria Knutson
Phone: 559-562-7102

COMMUNITY SERVICES
Bill Zigler
Economic Development
Planning & GIS
Phone: 559-562-7117

HUMAN RESOURCES
Mari Carrillo
Personnel
Phone: 559-562-7120

CITY SERVICES DEPT
Mike Camarena
Water, Sewer, Refuse
Street Sweeping & Maint
Storm Drain & Fleet Maint
CIP Projects, Parks Maint.
Phone: 559-562-5945

WELLNESS CENTER
Marie Arroyo
Programming
Aquatics
Phone: 559-562-5196

MCDERMONT FIELD
HOUSE
Clint Ashcraft
McDermont Field House
Recreation
Red Zone Academy
Tim Culver
Phone: 559-562-3326

CITY OF LINDSAY
PRINCIPAL CITY OFFICIALS
JUNE 30, 2013

City Council

Ramona Villarreal-Padilla
Danny Salinas
Pamela Kimball
Rosaena Sanchez
Steven Mecum

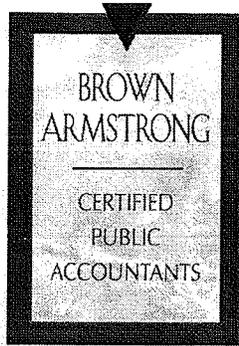
Mayor
Mayor Pro-Tem
Council Member
Council Member
Council Member

Administrative Officials and Department Heads

Rich Wilkinson
Tamara Laken
Michael Camarena
Clint Ashcraft
Marie Arroyo
William Zigler
Carmen Wilson

City Manager/Public Safety Director
Finance Director/City Treasurer
City Services Director
McDermont Field House Director
Wellness Center Director
Planning and Economic Development
City Clerk

FINANCIAL SECTION



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Of the City of Lindsay, 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 City of Lindsay (the City), California as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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TEL 209.451.4833



REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

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, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated March 27, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
March 27, 2014

CITY OF LINDSAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

As management of the City of Lindsay (the City), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

(All Amounts in Thousands)

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$56,190 (*net position*). Of this amount, \$(21,041) (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City governmental funds reported combined ending fund balances of \$9,058.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include water, sewer, and refuse services, as well as the Lindsay Wellness Center and McDermont Field House Sports and Recreation Center (the McDermont Sports Complex) that provide fee-based entertainment, facility rental, and recreational events and activities for the community and other valley residents.

The government-wide financial statements have changed substantially from previous years due to the dissolution of the Lindsay Redevelopment Agency (LRA); all financial information relevant to the former LRA is now accounted for, as an integral part of these financial statements, in the Private-Purpose Trust Fund, a fiduciary fund established to manage the assets and debt of the former agency. The Water, Sewer, Refuse, Wellness Center, and McDermont Sports Complex Departments function for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

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

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

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

The City maintains nine individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Community Development Funds, both of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains one proprietary fund type called Enterprise Funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center Funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center Funds, all of which are considered to be major funds of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Please see the table of contents for page numbers.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found by referring to the index of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lindsay, assets exceeded liabilities by \$56,190 at the close of the most recent fiscal year.

Of the City's net position, the investment in capital assets portion represents its investment in capital assets (e.g., land buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lindsay's Net Position (amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 29,265	\$ 29,490	\$ (9,522)	\$ (9,850)	\$ 19,743	\$ 19,640
Capital assets	25,659	29,733	52,414	52,497	78,073	82,230
Total assets	54,924	59,223	42,892	42,647	97,816	101,870
Long-term liabilities	22,546	23,234	15,491	14,723	38,037	37,957
Other liabilities	358	913	3,231	2,474	3,589	3,387
Total liabilities	22,904	24,147	18,722	17,197	41,626	41,344
Net assets:						
Net investment in capital assets	22,768	26,686	37,634	38,237	60,402	64,923
Restricted	16,829	2,638	-	-	16,829	2,638
Unrestricted	(7,577)	5,752	(13,464)	(12,787)	(21,041)	(7,035)
Total net assets	\$ 32,020	\$ 35,076	\$ 24,170	\$ 25,450	\$ 56,190	\$ 60,526

A portion of the City's net position, \$17,874 represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$(21,041), represents the governmental activities negative balance of \$7,577, combined with the business-type activities negative balance of \$13,464. At fiscal year-end, the City reported negative balances in the unrestricted categories of net position, both for the government as a whole, as well as for the General Fund and Gas Tax Fund of its separate governmental activities. The other non-major governmental funds had a combined positive fund balance at year-end.

City of Lindsay's Changes in Net Position
(amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 391	\$ 93	\$ 6,601	\$ 6,773	\$ 6,992	\$ 6,866
Operating grants and contributions	-	216	480	1,076	480	1,292
Capital grants and contributions	1,808	1,418	-	285	1,808	1,703
General revenues:						
Property taxes	491	487	-	-	491	487
Other taxes	3,646	3,592	-	-	3,646	3,592
Miscellaneous	1,092	835	1	10	1,093	845
Transfers	(155)	(6,356)	155	6,356	-	-
Total revenues	7,273	285	7,237	14,500	14,510	14,785
Expenses:						
General government	2,208	2,414	-	-	2,208	2,414
Public safety	2,425	2,501	-	-	2,425	2,501
Parks and recreation	267	212	-	-	267	212
Public works	354	444	-	-	354	444
Street and transportation	497	503	-	-	497	503
Community development	1,085	1,227	-	-	1,085	1,227
Interest on long-term debt	51	432	-	-	51	432
Water fund	-	-	1,960	1,797	1,960	1,797
Sewer fund	-	-	1,712	1,669	1,712	1,669
Refuse fund	-	-	1,265	1,331	1,265	1,331
McDermont sport complex fund	-	-	3,485	3,607	3,485	3,607
Wellness center fund	-	-	727	393	727	393
Total expenses	6,887	7,733	9,149	8,797	16,036	16,530
Change in net position before extraordinary items	386	(7,448)	(1,912)	5,703	(1,526)	(1,745)
Extraordinary items	-	14,143	-	-	-	14,143
Change in net position	386	6,695	(1,912)	5,703	(1,526)	12,398
Net position - beginning	35,076	28,555	25,450	20,102	60,526	48,657
Prior period adjustment	(3,442)	(174)	632	(355)	(2,810)	(529)
Net position - beginning, restated	31,634	28,381	26,082	19,747	57,716	48,128
Net position - ending	\$ 32,020	\$ 35,076	\$ 24,170	\$ 25,450	\$ 56,190	\$ 60,526

Governmental activities. Governmental activities increased the City's net position by \$386.

Business-type activities. Business-type activities decreased the City's net position by \$1,912.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,058.

The fund balance of the City's General Fund increased by \$156 during the current fiscal year. Key factors in this increase are as follows:

- There were several prior year adjustments made during the year, see Note 16.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water, Sewer, Refuse, McDermont Sports Complex, and Wellness Center activities at the end of the year amounted to \$(13,464). The decrease in net position for all these funds was \$1,912 due primarily to the losses in the McDermont Sports Complex and Wellness Center Funds.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$78,073 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Completion of all construction on CCPI Main Project and reclassification as complete. Construction in progress as of the end of the current fiscal year had reached \$1,503.

City of Lindsay's Capital Assets
(Net of depreciation)
(amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 797	\$ 2,293	\$ 684	\$ 1,521	\$ 1,481	\$ 3,814
Right of way	-	247	-	-	-	247
Buildings and improvements	3,169	3,250	37,101	37,997	40,270	41,247
Machinery and equipment	394	480	415	516	809	996
Infrastructure	19,796	20,184	14,214	12,080	34,010	32,264
Construction in progress	1,503	3,279	-	383	1,503	3,662
Total	\$ 25,659	\$ 29,733	\$ 52,414	\$ 52,497	\$ 78,073	\$ 82,230

City of Lindsay's Outstanding Debt
(amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 5	\$ 5	\$ -	\$ -	\$ 5	\$ 5
Notes payable	-	-	-	1,500	-	1,500
Certificates of participation	1,894	1,969	2,221	1,688	4,115	3,657
Revenue bonds	-	-	10,011	8,416	10,011	8,416
Capital lease	-	29	18	35	18	64
Lindsay Olive Grower pond closure	-	-	2,571	2,571	2,571	2,571
Compensated absences	164	155	87	75	251	230
Other postemployment benefits	614	462	583	438	1,197	900
Total	\$ 2,677	\$ 2,620	\$ 15,491	\$ 14,723	\$ 18,168	\$ 17,343

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$18,168.

The City does not maintain ratings from any of the services for general obligation debt. The General Obligation Bond listed above is outstanding from an old issue that has not been claimed.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation (\$315,588 for fiscal year 2012 per Tulare County Assessor). The current debt limitation for the City is \$19,201, which is not in excess of the City's outstanding general obligation debt and in compliance with State statutes. The Mid-Valley loan (McDermont Field House), which had a balloon payment of \$1.5 million in December 2012, was refinanced into a long-term Certificate of Participation Lease bond in fiscal year 2013 with semi-annual payments that will reduce the principal. The construction of the Wellness Center, for which \$3 million has been authorized by the U.S. Department of Agriculture (USDA), will also come in *under* budget with the final long-term debt amount not to exceed \$2.6 million, thus substantially reducing the annual debt service for that loan. All City debt has an identified and secure repayment mechanism; the City is in no danger of defaulting on any debt obligation. Staff has worked diligently to restructure debt with high interest and balloon payment features and to limit additional debt to ensure reasonable cash flow throughout the year. The City, acting as Successor Agent for the former LRA, was successful in negotiations with CalHFA to restructure two short-term debt instruments, that had \$4.6 million in balloon payments due, into longer-terms with more reasonable repayment features and a reduction in the interest rate.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for the City is currently 17.2%, which is a decrease over the previous year of 2.0%; the growth factor provided by the State Department of Finance (May 2013) indicates Lindsay is the 5th fastest growing city of the 8 incorporated cities in Tulare County. Retail Sales Tax revenue has increased by over 25% since fiscal year 2010 due in large part to the success of the Friday Night Market, McDermont Sports Complex, and a used car lot that has located within the City's boundaries. Property values increased moderately which resulted in a slight increase to property tax revenue. Staff is working with retailers, such as the Dollar Tree Retail Store to locate in Lindsay and continues to make economic development and job creation a top priority.
- Completion of the Wellness Center has provided the City with another revenue stream in programming and rental fees associated with that facility. We wish to acknowledge the contributions of the Lindsay District Hospital Board to this facility which provides health and wellness opportunities to the citizens of Lindsay and the outlying rural areas. This enterprise fund is expected to be self-sufficient by the end of fiscal year (FY) 14.
- The number of issued building permits in fiscal year 2013 was 229 with a valuation of \$8.231 million compared to 209 issued in 2012 (\$4.29 million valuation). Zoning and permit fees collected totaled \$275,739 (up from \$111,700 in 2012) and included activities associated with Dollar Tree Retail store, the Vita Pact Expansion project, China's Alley renovation project, and the Sequoia Villas housing project. Three subdivisions – Pelous Ranch, Maple Valley, and Silvercrest – are expected to resume building single-family homes as the real estate market shows optimistic improvement.

- The administration is actively courting development companies to take over the site of the former Tulare Frozen Foods which would provide a marked increase to available jobs and the overall economic base of the city
- Pension costs, the Affordable Care Act, health care premiums, and workmen's compensation rates continue to increase and strain the City's resources. There will be no cost-of-living adjustment (COLA) increases in FY14 and staff will begin exploring options to shift some of the burden of the cost of benefits to the employees.
- Priority of city spendable resources will be dedicated to improvement of city streets.
- The Curb & Gutter loan program will be reprised in FY14 up to available resources which are currently \$34,000.

Additional Information

FUND RECLASSIFICATION:

There were no new Fund Reclassifications in FY13. In FY14 the Gas Tax and Transportation Fund will be separated and the Street Improvement fees collected as part of the utility billing will be accounted for within a separate internal service fund (ISF). Staff continues to strive to achieve the highest level of transparency and clarity to our citizens.

MAJOR ACHIEVEMENTS AND INITIATIVES:

- Restructuring of debt obligations that had balloon payments was the top priority in FY13. Staff was able to avoid default and successfully restructure, or refinance, the following debts: CalHFA – RDLF Loan (\$3.69 million), CalHFA HELP Loan (\$1.25 million), Midvalley Services Loan (\$1.5 million). With the restructured agreements, the City is not in default or at risk of having any large loan called, thus eliminating the "going concern" designation we have carried for the past three years.
- The Wellness Center was completed and updated from construction in progress (CIP) to a fully depreciable asset in FY12. Activity at that facility continues to increase monthly due in large part to the dedication of the facility Director, Marie Arroyo. New fitness equipment was added thanks to the generosity of the Lindsay District Hospital Board who also supplied the funding for a new audio/video system that expands the teaching and class instruction opportunities at the center, enhancing its attractiveness as a meeting and rental venue. In addition to many community service events held at the center and the availability of affordable exercise opportunities for all citizens, the Wellness Center also hosts a chair exercise class, free to seniors, as well as offers a reduced membership rate to those covered by medicare, thus filling the needs of our senior and/or disabled population.
- Cooperative agreements with Lindsay Unified School District (LUSD) provided funding for youth recreation and 1,000 children were provided swim lessons via the STARS program.
- The City Park renovation project neared completion in FY13 and the annual Orange Blossom Festival (OBF) was returned to the park in April 2013. A competitive horseshoe pit area was added, with the financial contribution of the OBF committee, and has been a popular attraction in the renovated park which will be completed with the addition of playground equipment and fencing in FY14.
- The Memorial Parking Lot renovation project was completed in FY13 which provides overflow parking for the Wellness Center, the park, and the golf course, as well as access to the walking path that surrounds the park.
- The Ono City Parkway was completed and dedicated in FY13.

- The Ono City Memorial Bench and Flag area was completed, with a contribution from the Sister City Committee, and dedicated in FY13 when dignitaries from Ono City, Japan, visited the City in honor of the 40th year anniversary of our association as sister cities.
- Council and staff have dedicated all available resources toward the Streets Renovation program – this dedication will continue into FY14 and beyond as we have completed all projects started in previous years and now brought to closure.
- Continuing to strictly enforce internal control policies, reducing labor costs through attrition, and conservative project management are resulting in an improvement in the City's cash flow and restoration of the City's cash reserves – a top priority for this administration.

SUMMARY:

Staff is pleased with the progress made in our internal controls that has resulted in a "clean" audit for fiscal year 2012-2013, the removal of the "going concern" designation, and timeliness in the submission of the report. These three factors are crucial as we move forward with refunding of the 2009 Bond issue, and negotiations with State and Federal agencies who have audited the City for past projects (2005-2010) and have deemed some expenditures ineligible; the repayment or forgiveness of these amounts is still in the review stages, but is disclosed in the NOTES - SUBSEQUENT EVENTS section of this audit report.

In addition to my dedicated staff, I would like to acknowledge and thank the following cooperative partners that help make Lindsay a great place to work, live, and play: Lindsay District Hospital Board, Orange Blossom Festival Committee, Lindsay Unified School District, Lindsay Healthy Start, the Lindsay Chamber of Commerce, Lindsay Police Officer's Association, and the Ono City Sister Committee.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P.O. Box 369, City of Lindsay, CA 93247 (559) 562-5927.

BASIC FINANCIAL STATEMENTS

**CITY OF LINDSAY
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,468,471	\$ 1,109,089	\$ 2,577,560
Accounts receivable, net	150,806	275,840	426,646
Interest receivable	757	342	1,099
Internal balances	11,028,892	(11,028,892)	-
Due from other governments	552,292	22,500	574,792
Notes receivable	16,063,425	-	16,063,425
Noncurrent assets			
Debt issuance costs	-	99,101	99,101
Capital assets (net of accumulated depreciation)			
Land	796,733	683,671	1,480,404
Buildings and improvements	3,168,938	37,101,113	40,270,051
Infrastructure	19,796,403	14,213,894	34,010,297
Equipment	393,656	414,916	808,572
Construction in progress	1,503,029	-	1,503,029
Net Capital Assets	<u>25,658,759</u>	<u>52,413,594</u>	<u>78,072,353</u>
Total Assets	<u>\$ 54,923,402</u>	<u>\$ 42,891,574</u>	<u>\$ 97,814,976</u>
LIABILITIES			
Cash overdraft	\$ -	\$ 2,235,606	\$ 2,235,606
Accounts and other payables	242,799	475,442	718,241
Accrued wages	78,885	32,940	111,825
Accrued interest	19,983	255,308	275,291
Refundable deposits	16,333	231,527	247,860
Long-term - other			
Due to other governments	996,021	-	996,021
Advances from private purpose trust fund	2,820,678	-	2,820,678
Unearned revenue	16,051,794	-	16,051,794
Long-term debt			
Due within one year	137,119	366,377	503,496
Due in more than one year	2,539,878	15,124,151	17,664,029
Total Liabilities	<u>22,903,490</u>	<u>18,721,351</u>	<u>41,624,841</u>
NET POSITION			
Net investment in capital assets	22,768,371	37,633,892	60,402,263
Restricted	16,828,965	-	16,828,965
Unrestricted	<u>(7,577,424)</u>	<u>(13,463,669)</u>	<u>(21,041,093)</u>
Total Net Position	<u>32,019,912</u>	<u>24,170,223</u>	<u>56,190,135</u>
Total Liabilities and Net Position	<u>\$ 54,923,402</u>	<u>\$ 42,891,574</u>	<u>\$ 97,814,976</u>

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

**CITY OF LINDSAY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 2,208,361	\$ 391,478	\$ -	\$ 1,807,678
Public safety	2,425,162	-	-	-
Parks and recreation	266,851	-	-	-
Public works	353,754	-	-	-
Streets and transportation	496,810	-	-	-
Community development	1,085,290	-	-	-
Interest on long-term debt	50,977	-	-	-
Total Governmental Activities	6,887,205	391,478	-	1,807,678
Business-Type Activities:				
Water fund	1,960,138	2,080,187	31,636	-
Sewer fund	1,712,035	1,499,834	-	-
Refuse fund	1,265,011	1,151,966	-	-
McDermont sports complex fund	3,485,268	1,747,525	210,000	-
Wellness center fund	727,193	121,884	238,681	-
Total Business-Type Activities	9,149,645	6,601,396	480,317	-
Total Primary Government	\$ 16,036,850	\$ 6,992,874	\$ 480,317	\$ 1,807,678

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

CITY OF LINDSAY
STATEMENT OF ACTIVITIES (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Primary Government:			
Governmental Activities:			
General government	\$ (9,205)	\$ -	\$ (9,205)
Public safety	(2,425,162)	-	(2,425,162)
Parks and recreation	(266,851)	-	(266,851)
Public works	(353,754)	-	(353,754)
Streets and transportation	(496,810)	-	(496,810)
Community development	(1,085,290)	-	(1,085,290)
Interest on long-term debt	(50,977)	-	(50,977)
Total Governmental Activities	<u>(4,688,049)</u>	<u>-</u>	<u>(4,688,049)</u>
Business-Type Activities:			
Water fund	-	151,685	151,685
Sewer fund	-	(212,201)	(212,201)
Refuse fund	-	(113,045)	(113,045)
McDermont sports complex fund	-	(1,527,743)	(1,527,743)
Wellness center fund	-	(366,628)	(366,628)
Total Business-Type Activities	<u>-</u>	<u>(2,067,932)</u>	<u>(2,067,932)</u>
Total Primary Government	<u>(4,688,049)</u>	<u>(2,067,932)</u>	<u>(6,755,981)</u>
General Revenues:			
Property taxes	491,068	-	491,068
Sales tax	645,027	-	645,027
Utility users tax	759,348	-	759,348
Franchise tax	91,660	-	91,660
Transient occupancy tax	39,662	-	39,662
Other taxes	2,110,225	-	2,110,225
Note collections	688,456	-	688,456
Sale of land	29,376	-	29,376
Other income	340,512	281	340,793
Unrestricted investment earnings	33,930	651	34,581
Transfers	(154,916)	154,916	-
Total General Revenues	<u>5,074,348</u>	<u>155,848</u>	<u>5,230,196</u>
Change in Net Position	<u>386,299</u>	<u>(1,912,084)</u>	<u>(1,525,785)</u>
Net Position - Beginning	35,075,808	25,450,164	60,525,972
Prior Period Adjustment	(3,442,195)	632,143	(2,810,052)
Net Position - Ending	<u>\$ 32,019,912</u>	<u>\$ 24,170,223</u>	<u>\$ 56,190,135</u>

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

**CITY OF LINDSAY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General	Community Development	Gas Tax	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 185,727	\$ 411,490	\$ 794,505	\$ 76,749	\$ 1,468,471
Accounts receivable - net	61,107	89,699	-	-	150,806
Interest receivable	107	518	-	132	757
Due from other funds	422,190	1,099,999	947,578	-	2,469,767
Due from other governments	188,013	198,882	162,979	2,418	552,292
Notes receivable	95,159	15,961,564	-	6,702	16,063,425
Advances to other funds	13,476,016	42,000	-	-	13,518,016
Total Assets	\$ 14,428,319	\$ 17,804,152	\$ 1,905,062	\$ 86,001	\$ 34,223,534
Liabilities					
Accounts and other payables	172,291	43,922	17,325	9,261	242,799
Accrued wages	75,475	916	1,412	1,082	78,885
Due to other funds	4,525,177	391,714	-	-	4,916,891
Due to other governments	996,021	-	-	-	996,021
Deferred revenue	83,827	15,961,265	-	6,702	16,051,794
Advances from other funds	2,862,678	-	-	-	2,862,678
Refundable deposits	7,025	9,308	-	-	16,333
Total Liabilities	8,722,494	16,407,125	18,737	17,045	25,165,401
Fund Balances					
Nonspendable	249,120	288,581	162,979	9,120	709,800
Restricted	867,401	15,961,564	-	-	16,828,965
Committed	737,608	158,996	357,898	25,054	1,279,556
Assigned	1,190,757	193,681	1,365,448	34,782	2,784,668
Unassigned	2,660,939	(15,205,795)	-	-	(12,544,856)
Total Fund Balances	5,705,825	1,397,027	1,886,325	68,956	9,058,133
Total Liabilities and Fund Balances	\$ 14,428,319	\$ 17,804,152	\$ 1,905,062	\$ 86,001	\$ 34,223,534

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

CITY OF LINDSAY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Fund balances of governmental funds	\$ 9,058,133
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	45,664,789
Accumulated depreciation has not been included in the governmental funds.	(20,006,030)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund activity.	
Bonds, certification of participation, and capital lease	(1,899,367)
Compensated absences	(163,811)
Other postemployment benefits	(613,819)
Accrued interest payable on long-term debt	(19,983)

Net assets of governmental activities	\$ <u>32,019,912</u>

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

**CITY OF LINDSAY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General	Community Development	Gas Tax	Other Governmental Funds	Total Governmental Funds
REVENUES					
Note collections	\$ 4,273	\$ 682,736	\$ -	\$ 1,447	\$ 688,456
Property taxes	491,068	-	-	-	491,068
Other taxes	3,585,251	-	-	60,671	3,645,922
Licenses and permits	365,378	-	-	-	365,378
Intergovernmental	99,298	835,098	873,282	-	1,807,678
Charges for services	26,100	-	-	-	26,100
Fees and fines	11,104	-	-	-	11,104
Interest revenue	3,871	29,957	81	21	33,930
Other revenue	328,768	30	610	-	329,408
Total revenues	4,915,111	1,547,821	873,973	62,139	7,399,044
EXPENDITURES					
Current:					
General government	1,063,914	-	-	31,635	1,095,549
Public safety	2,425,162	-	-	-	2,425,162
Parks and recreation	232,877	-	-	33,974	266,851
Public works	353,754	-	-	-	353,754
Streets and transportation	175,662	-	321,148	-	496,810
Community development	-	1,085,290	-	-	1,085,290
Debt service:					
Principal	44,416	-	59,256	-	103,672
Interest and administrative charges	40,721	-	-	-	40,721
Capital outlay	105,695	216,819	-	-	322,514
Total expenditures	4,442,201	1,302,109	380,404	65,609	6,190,323
Excess (deficiency) of revenues over (under) expenditures	472,910	245,712	493,569	(3,470)	1,208,721
OTHER FINANCING SOURCES (USES)					
Sale of land	29,376	-	-	-	29,376
Transfers in	4,451	332,365	-	-	336,816
Transfers out	(350,596)	(138,684)	-	(2,452)	(491,732)
Total other financing sources (uses)	(316,769)	193,681	-	(2,452)	(125,540)
Net change in fund balance	156,141	439,393	493,569	(5,922)	1,083,181
Fund balances - beginning	5,549,684	957,634	1,392,756	72,578	7,972,652
Prior period adjustment	-	-	-	2,300	2,300
Fund balances - ending	\$ 5,705,825	\$ 1,397,027	\$ 1,886,325	\$ 68,956	\$ 9,058,133

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

**CITY OF LINDSAY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds	\$ 1,083,181
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$951,951) exceeded capital outlay \$322,514 in the current period.	(629,437)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Change in accrued interest payable	(10,256)
Repayment of long-term debt is reported as an expenditure in governmental funds. In the statement of net assets, the repayment reduces long-term liabilities:	
Bond and note principal	103,672
Long-term compensated absences reported in the statement of activities are not reported as expenditures in governmental funds.	(9,029)
Amortization of net OPEB obligation activities to individual funds.	<u>(151,832)</u>
Change in net assets of governmental activities	<u><u>\$ 386,299</u></u>

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

**CITY OF LINDSAY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Refuse Fund	McDermont Sports Complex Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 585,162	\$ 523,927	\$ -	\$ -
Accounts receivable, net	187,117	51,236	28,487	9,000
Interest receivable	-	342	-	-
Due from other funds	800,000	1,500,000	-	-
Due from other governments	-	-	-	22,500
Total current assets	1,572,279	2,075,505	28,487	31,500
Non-current assets				
Bond issuance cost	-	-	-	99,101
Capital assets				
Land	68,377	216,555	-	217,413
Buildings and improvements	5,104,546	6,800,531	-	22,987,873
Infrastructure	8,775,521	12,602,765	-	-
Equipment	36,546	180,700	-	1,456,523
Less accumulated depreciation	(4,730,514)	(7,622,857)	-	(2,860,395)
Total non-current assets	9,254,476	12,177,694	-	21,900,515
Total assets	10,826,755	14,253,199	28,487	21,932,015
LIABILITIES AND NET POSITION				
Current liabilities				
Cash overdraft	-	-	243,262	1,405,942
Accounts and other payables	115,563	14,459	75,609	74,821
Accrued wages	3,520	3,546	769	21,440
Accrued interest	38,287	117,488	-	58,276
Compensated absences payable	5,016	5,570	1,228	14,733
Due to other funds	-	-	-	167,824
Refundable deposits	24,861	206,666	-	-
Long-term debt - current portion	57,242	143,563	-	99,824
Total current liabilities	244,489	491,292	320,868	1,842,860
Non-current liabilities				
Other postemployment benefits	56,901	51,953	17,317	364,910
Advances from other funds	-	-	-	13,476,016
Long-term debt	1,997,631	8,616,156	2,457	1,735,958
Total non-current liabilities	2,054,532	8,668,109	19,774	15,576,884
Total liabilities	2,299,021	9,159,401	340,642	17,419,744
NET POSITION				
Net investment in capital assets	7,199,603	3,417,975	(2,457)	20,064,733
Unrestricted	1,328,131	1,675,823	(309,698)	(15,552,462)
Total net position	8,527,734	5,093,798	(312,155)	4,512,271
Total liabilities and net position	\$ 10,826,755	\$ 14,253,199	\$ 28,487	\$ 21,932,015

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

CITY OF LINDSAY
STATEMENT OF NET POSITION (Continued)
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities - Enterprise Funds	
	Wellness Center Fund	Total Proprietary Funds
ASSETS		
Current assets		
Cash and cash equivalents	\$ -	\$ 1,109,089
Accounts receivable, net	-	275,840
Interest receivable	-	342
Due from other funds	314,948	2,614,948
Due from other governments	-	22,500
Total current assets	<u>314,948</u>	<u>4,022,719</u>
Non-current assets		
Bond issuance cost	-	99,101
Capital assets		
Land	181,326	683,671
Buildings and improvements	8,595,050	43,488,000
Infrastructure	824,260	22,202,546
Equipment	-	1,673,769
Less accumulated depreciation	<u>(420,626)</u>	<u>(15,634,392)</u>
Total non-current assets	<u>9,180,010</u>	<u>52,512,695</u>
Total assets	<u>9,494,958</u>	<u>56,535,414</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Cash overdraft	586,402	2,235,606
Accounts and other payables	194,990	475,442
Accrued wages	3,665	32,940
Accrued interest	41,257	255,308
Compensated absences payable	2,561	29,108
Due to other funds	-	167,824
Refundable deposits	-	231,527
Long-term debt - current portion	<u>36,640</u>	<u>337,269</u>
Total current liabilities	<u>865,515</u>	<u>3,765,024</u>
Non-current liabilities		
Other postemployment benefits	91,536	582,617
Advances from other funds	-	13,476,016
Long-term debt	<u>2,189,332</u>	<u>14,541,534</u>
Total non-current liabilities	<u>2,280,868</u>	<u>28,600,167</u>
Total liabilities	<u>3,146,383</u>	<u>32,365,191</u>
NET POSITION		
Net investment in capital assets	6,954,038	37,633,892
Unrestricted	<u>(605,463)</u>	<u>(13,463,669)</u>
Total net position	<u>6,348,575</u>	<u>24,170,223</u>
Total liabilities and net position	<u>\$ 9,494,958</u>	<u>\$ 56,535,414</u>

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

**CITY OF LINDSAY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Refuse Fund	McDermont Sports Complex Fund
Operating revenues				
Service fees	\$ 2,080,187	\$ 1,499,834	\$ 1,151,966	\$ 1,747,525
Total operating revenues	<u>2,080,187</u>	<u>1,499,834</u>	<u>1,151,966</u>	<u>1,747,525</u>
Operating expenses				
Salaries	197,400	185,504	41,938	953,849
Benefits	154,074	132,377	29,852	436,894
Materials, services, and supplies	1,259,470	808,434	1,193,221	1,169,975
Depreciation	277,601	375,596	-	732,317
Total operating expenses	<u>1,888,545</u>	<u>1,501,911</u>	<u>1,265,011</u>	<u>3,293,035</u>
Operating income (loss)	<u>191,642</u>	<u>(2,077)</u>	<u>(113,045)</u>	<u>(1,545,510)</u>
Nonoperating revenues (expenses)				
Intergovernmental	31,636	-	-	210,000
Other income	-	281	-	-
Interest earnings	28	392	-	-
Interest expense	(71,593)	(210,124)	-	(192,233)
Total nonoperating revenue (expenses)	<u>(39,929)</u>	<u>(209,451)</u>	<u>-</u>	<u>17,767</u>
Other financing sources (uses)				
Transfers in	-	136,685	-	18,231
Transfers out	-	-	-	(12,000)
Total other financing sources (uses)	<u>-</u>	<u>136,685</u>	<u>-</u>	<u>6,231</u>
Change in net position	151,713	(74,843)	(113,045)	(1,521,512)
Total net position - beginning	8,376,021	3,434,785	(199,110)	6,856,573
Prior period adjustment	-	1,733,856	-	(822,790)
Total net position - ending	<u>\$ 8,527,734</u>	<u>\$ 5,093,798</u>	<u>\$ (312,155)</u>	<u>\$ 4,512,271</u>

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

**CITY OF LINDSAY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION (Continued)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds	
	Wellness Center Fund	Total Proprietary Funds
Operating revenues		
Service fees	\$ 121,884	\$ 6,601,396
Total operating revenues	<u>121,884</u>	<u>6,601,396</u>
Operating expenses		
Salaries	128,249	1,506,940
Benefits	77,626	830,823
Materials, services, and supplies	219,723	4,650,823
Depreciation	187,396	1,572,910
Total operating expenses	<u>612,994</u>	<u>8,561,496</u>
Operating income (loss)	<u>(491,110)</u>	<u>(1,960,100)</u>
Nonoperating revenues (expenses)		
Intergovernmental	238,681	480,317
Other income	-	281
Interest earnings	231	651
Interest expense	(114,199)	(588,149)
Total nonoperating revenue (expenses)	<u>124,713</u>	<u>(106,900)</u>
Other financing sources (uses)		
Transfers in	341,525	496,441
Transfers out	(329,525)	(341,525)
Total other financing sources (uses)	<u>12,000</u>	<u>154,916</u>
Change in net position	(354,397)	(1,912,084)
Total net position - beginning	6,981,895	25,450,164
Prior period adjustment	(278,923)	632,143
Total net position - ending	<u>\$ 6,348,575</u>	<u>\$ 24,170,223</u>

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

**CITY OF LINDSAY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 2,064,741	\$ 1,491,282	\$ 1,143,230
Payments to employees	(339,383)	(304,230)	(68,025)
Payments to suppliers	(1,269,034)	(808,616)	(1,195,394)
Net cash provided (used) by operating activities	<u>456,324</u>	<u>378,436</u>	<u>(120,189)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Other income	-	281	-
Advances from other funds	31,636	-	-
Transfers in	-	130,776	-
Transfers out	-	5,909	-
Net cash provided (used) by noncapital financing activities	<u>31,636</u>	<u>136,966</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Disposal of capital assets	(1,198)	-	5,495
Debt retirement	-	-	-
Proceeds from long-term debt	-	-	-
Purchase of capital assets	-	-	-
Capital expenditures	-	(133,958)	-
Interest paid on long-term debt	(71,593)	(210,124)	-
Principal payments on long-term debt	(55,035)	(138,969)	-
Net cash provided (used) by capital and related financing activities	<u>(127,826)</u>	<u>(483,051)</u>	<u>5,495</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	28	392	-
Net cash provided by investing activities	<u>28</u>	<u>392</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	360,162	32,743	(114,694)
Balances - beginning of year	225,000	491,184	(128,568)
Balances - end of the year	<u>\$ 585,162</u>	<u>\$ 523,927</u>	<u>\$ (243,262)</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 191,642	\$ (2,077)	\$ (113,045)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	277,601	375,596	-
Changes in assets and liabilities:			
(Increase) Decrease in receivables	(15,446)	(8,552)	(8,736)
(Increase) Decrease in due from other funds	-	-	-
(Increase) Decrease in due from other governments	-	-	-
Increase (Decrease) in accounts payable	(12,444)	(182)	(2,173)
Increase (Decrease) in due to other funds	-	-	-
Increase (Decrease) in compensated absences	(683)	922	(317)
Increase (Decrease) in net postemployment benefits	12,743	12,882	4,294
Increase (Decrease) in customer deposits	2,880	-	-
Increase (Decrease) in deferred revenue	-	-	-
Increase (Decrease) in deferred charges	-	-	-
Increase (Decrease) in salaries and benefits payable	31	(153)	(212)
Net cash provided (used) by operating activities	<u>\$ 456,324</u>	<u>\$ 378,436</u>	<u>\$ (120,189)</u>

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

CITY OF LINDSAY
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Business-Type Activities - Enterprise Funds		
McDermont Sports Complex Fund	Wellness Center	Total Proprietary Funds
\$ 1,694,162	\$ 51,406	\$ 6,444,821
(1,285,307)	(183,728)	(2,180,673)
<u>(1,202,938)</u>	<u>(124,722)</u>	<u>(4,600,704)</u>
<u>(794,083)</u>	<u>(257,044)</u>	<u>(336,556)</u>
210,000	238,681	448,962
-	-	31,636
18,231	341,252	490,259
<u>(12,000)</u>	<u>(329,252)</u>	<u>(335,343)</u>
<u>216,231</u>	<u>250,681</u>	<u>635,514</u>
-	-	4,297
(1,500,000)	-	(1,500,000)
1,835,000	567,710	2,402,710
(156,415)	(693,691)	(850,106)
-	382,682	248,724
(192,233)	(114,199)	(588,149)
<u>(63,467)</u>	<u>(35,146)</u>	<u>(292,617)</u>
<u>(77,115)</u>	<u>107,356</u>	<u>(575,141)</u>
-	231	651
<u>-</u>	<u>231</u>	<u>651</u>
(654,967)	101,224	(275,532)
<u>(750,975)</u>	<u>(687,626)</u>	<u>(850,985)</u>
<u>\$ (1,405,942)</u>	<u>\$ (586,402)</u>	<u>\$ (1,126,517)</u>
\$ (1,545,510)	\$ (491,110)	\$ (1,960,100)
732,317	187,396	1,572,910
(93,363)	(72,526)	(198,623)
40,000	42,176	82,176
-	62,936	62,936
108,314	52,825	146,340
(42,176)	-	(42,176)
-	2,045	1,967
90,483	22,697	143,099
-	-	2,880
-	(62,936)	(62,936)
(99,101)	-	(99,101)
<u>14,953</u>	<u>(547)</u>	<u>14,072</u>
<u>\$ (794,083)</u>	<u>\$ (257,044)</u>	<u>\$ (336,556)</u>

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

CITY OF LINDSAY
STATEMENT OF FIDUCIARY NET POSITION (DEFICIT)
FIDUCIARY FUND
JUNE 30, 2013

	<u>Private-Purpose Trust Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,300,741
Notes receivable	1,436,908
Land held for resale	1,705,000
Advances to the City	2,820,678
Bond issuance cost	702,492
Cash with fiscal agent	1,144,082
Non-current assets	
Capital assets, net	<u>746,034</u>
Total assets	<u>9,855,935</u>
LIABILITIES	
Accounts payable	18,419
Accrued salaries	66
Deferred revenue	1,436,908
Due to other Governments	350,000
Accrued interest payable	1,040,790
Long-term debt	
Due within one year	322,974
Due in more than one year	<u>20,585,530</u>
Total liabilities	<u>23,754,687</u>
NET POSITION (DEFICIT)	
Net position held in trust	<u><u>\$ (13,898,752)</u></u>

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

CITY OF LINDSAY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Redevelopment Agency Property Tax Trust Fund	\$ 1,422,022
Loan repayments	23,974
Other income	<u>4,348</u>
Total additions	<u>1,450,344</u>
DEDUCTIONS	
Administrative expenses	614,467
Interest on long term debt	865,550
Amortization	29,644
Depreciation	<u>11,800</u>
Total deductions	<u>1,521,461</u>
Change in net position	<u>(71,117)</u>
Net position, beginning	(13,827,635)
Net position, ending	<u><u>\$ (13,898,752)</u></u>

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

CITY OF LINDSAY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the City of Lindsay (the City) are prepared in conformity with accounting principles generally accepted in the United States of America. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The accompanying financial statements are presented on the basis set forth in GASB Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*; No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*; No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, 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*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives the cash.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Community Development Fund* accounts for all financial transactions having to do with the Community Development Block Grant Program and First-Time Homebuyers Program of the Federal Department of Housing and Urban Development for low-interest housing rehabilitation and mortgage assistance loans.

The *Gas Tax Fund* accounts for all highway users tax revenues collected for the construction, maintenance, and operation of local streets and roads.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the water distribution system.

The *Sewer Fund* accounts for the activities of the sewage pumping stations, treatment plant, and laboratory.

The *Refuse Fund* accounts for the activities of the refuse collection and recycling.

The *McDermont Sports Complex Fund* accounts for the activities of the McDermont Field House Sports and Recreation Center (McDermont Sports Complex).

The *Wellness Center Fund* accounts for the activities of the Wellness Center and Aquatic Center.

Additionally, the City reports the following fiduciary fund type:

The *Private-Purpose Trust Fund* is used to account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this general rule are the fleet management and the risk management charges to the enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include:

- 1) charges to customers or applicants for goods, services, or privileges provided;
- 2) operating grants and contributions; and
- 3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the utility system. Operating expenses for enterprise funds and internal service funds include the cost of 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.

Revenue – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis of accounting when the exchange takes place. On a modified accrual basis of accounting, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, "available" means collectible within the current period or within 60 days after year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements from federal and state projects and programs received before eligibility requirements are met are recorded as deferred revenue. On the governmental funds financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Information

Annual budgets are legally required to be and are adopted by the City Council for all funds and provide for operations, debt service, and capital expenditures of the City. Budgetary accounting controls do not include the use of encumbrances.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgets for the governmental funds are presented in the accompanying basic financial statements on a basis consistent with accounting principles generally accepted in the United States of America.

E. Restricted Assets

Restricted assets are the result of Urban Development Action Grants received in prior years that were allowed to remain in the City for additional revolving loans.

F. Cash, Cash Equivalents, and Investments

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. City investment policy authorizes investment in the State of California Local Agency Investment Fund to a maximum of \$10,000,000, and certificates of deposit and U.S. Governmental Securities with maturities not exceeding five years.

California banks and savings and loan associations are required to secure a city's deposits by pledging government securities as collateral. The fair value of the pledged securities must equal at least 110 percent of a city's deposits. The City Treasurer, at his or her discretion, may waive the 110 percent collateral requirement for deposits that are insured up to \$250,000 by the FDIC. It is the City's policy to waive the collateral requirement in order to receive a higher interest yield on its deposits. It is also the City's policy not to deposit more than \$250,000 in a savings and loan association or a small bank.

California law allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150 percent of a city's total deposits. It is the City's policy not to accept this form of collateral.

G. Accounts Receivable

The enterprise funds use the reserve method of accounting for bad debts. Delinquent accounts that are closed have a lien placed upon the property.

H. Inventory and Prepaids

Governmental funds inventories are valued at average cost using the first-in/first-out (FIFO) method and are recorded as expenditures when consumed rather than when purchased. Business-type funds inventories are stated at cost using the FIFO method and consist of expendable materials and supplies.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventory and Prepaids (Continued)

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

Fund balance is reserved for inventories and prepaids, if any, to indicate that a portion of fund balance is not available for appropriation and not expendable, available financial resources.

Inventory in proprietary funds is comprised of supplies for resale and are slated at the lower of cost or market on a FIFO basis.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

J. Investment in Property

The investment in property is recorded at cost and evaluated annually for impairment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

Accumulated vested unpaid employee vacation and compensatory time-off benefits are recognized as liabilities of the City. Governmental funds recognize the current portion of the liabilities at year-end, while the non-current portion of these liabilities is recognized in the general long-term debt account group. Proprietary funds record the full liability as the vested benefits to the employees accrue.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the City since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that the sick leave is taken.

L. Self-Insurance

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The purpose of this group is to minimize the expense for liability and workers' compensation insurance for the cities of the central San Joaquin Valley of California. The City is self-insured up to \$125,000 through the CSJVRMA and outside insurance is purchased by the CSJVRMA to extend the coverage to \$10,000,000.

M. Property Taxes

Tulare County is responsible for the assessment, collection, and apportionment of property taxes for all taxing jurisdictions. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and March 1. Unsecured property taxes are payable in one installment on or before August 31. Property taxes are accounted for in the General Fund, the private purpose trust (formally the City's Redevelopment Agency), the Redevelopment Agency Capital Projects Fund, and the Redevelopment Agency Low and Moderate Income Housing Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities.

The City is permitted by Article XIII A of the State of California Constitution (Proposition 13) to levy a maximum tax of 1% of assessed value, plus other increases as approved by the voters.

N. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

O. Use of Estimates

City management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, and reported revenue and expenditures. Actual results could vary from the estimates that management uses.

P. Postemployment Benefits Other than Pensions

The City accounts for health insurance premiums on a pay as you go basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable** - Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- **Restricted** - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the City itself, using the City's highest level of decision-making authority (the City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** - Amounts the City *intends* to use for a specific purpose. Intent can be expressed by the City at either the highest level of decision-making or by an official or body to which the City delegates the authority. This is also the classification for residual funds in the City's special revenue funds.
- **Unassigned** - The residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended 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, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The City strives to achieve and maintain unrestricted fund balance in the General Fund sufficient to cover approximately 6 months of working capital at the close of each fiscal year, which exceeds the recommended level (approximately 60 days working capital) promulgated by the Government Finance Officers Association (GFOA).

R. Current Governmental Accounting Standards Board Statements – Implemented Pronouncement

For the fiscal year ended June 30, 2013, the City implemented the following GASB standard:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. Upon implementation, there was no effect on the City's accounting or financial reporting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Current Governmental Accounting Standards Board Statements – Implemented Pronouncement
(Continued)

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34*, modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. Upon implementation, there was no effect on the City's accounting or financial reporting.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements - Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. The City has implemented this change for the fiscal year ended June 30, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the current Statement of Activities upon implementation for periods beginning after December 15, 2011. Upon implementation, there was no effect on the City's accounting or financial reporting

S. Future Governmental Accounting Standards Board Statements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012, or for City financial statements for the fiscal year ended June 30, 2014.

GASB Statement No. 66, *Items Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012, or for City financial statements for fiscal year ended June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013, or for City financial statements for the fiscal year ended June 30, 2014.

In addition, GASB issued the following statements during the year:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014, or for City financial statements for the fiscal year ended June 30, 2015.

GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements

GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 70 as of the date of the basic financial statements.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments

Cash, cash equivalents, and investments are reported in the accompanying financial statements as follows:

	Governmental Funds	Enterprise Funds	Private-Purpose Trust Fund	Total
Cash and cash equivalents	\$ 1,468,471	\$ 1,109,089	\$ 1,300,741	3,878,301
Investments held by bond trustees	-	-	1,144,082	1,144,082
Cash overdraft	-	(2,235,606)	-	(2,235,606)
Total cash, cash equivalents, and investments	<u>\$ 1,468,471</u>	<u>\$ (1,126,517)</u>	<u>\$ 2,444,823</u>	<u>\$ 2,786,777</u>

Cash, cash equivalents, and investments as of June 30, 2013, consist of the following:

Deposits with fiscal institutions	\$ 467,707
Money Market - U.S. Treasury held with bond trustee	1,144,082
Investments - Local Agency Investment Fund (LAIF)	<u>1,174,988</u>
Total cash, cash equivalents, and investments	<u>\$ 2,786,777</u>

Investments authorized by the California Government Code and the City's investment policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Securities	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	270 days	30%	30%
Certificates of Deposit	5 years	None	10%
Passbook Deposits	N/A	None	None
Repurchase Agreements	1 year	30%	None
Mutual Funds	N/A	15%	None
Money Market Mutual Funds	N/A	25%	10%
Commercial Paper	180 days	30%	None
Local Agency Investment Fund (LAIF)	On Demand	None	None

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

Investment Type	Total	Remaining Maturity (in months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
LAIF	\$ 1,174,988	\$ 1,174,988	\$ -	\$ -	\$ -
Held by bond trustee:					
Money market - U.S. Treasury	1,144,082	\$ 1,144,082	-	-	-
Total	\$ 2,319,070	\$ 2,319,070	\$ -	\$ -	\$ -

Investments with fair values highly sensitive to interest rate fluctuations

The City's investment policy does not permit investment in securities that are highly sensitive to interest rate fluctuations.

Disclosures relating to credit risk

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

Investment Type	Amount	Minimum Legal Rating	Actual Rating		
			AAA	Aa	Not Rated
LAIF	\$1,174,988	N/A	\$ -	\$ -	\$ 1,174,988
Held by bond trustees:					
Money Market - U.S. Treasury	1,144,082		-	-	1,144,082
Total	\$ 2,319,070		\$ -	\$ -	\$ 2,319,070

Concentration of credit risk

The investment policy of the City contains certain limitations on the amount that can be invested in anyone issuer. Investments in anyone issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
None	N/A	\$ -

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Custodial credit risk

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2013, the City's deposits with financial institutions did not exceed federal depository insurance limits and were held in collateralized accounts. The City's deposits held by bond trustees are not federally insured and are held in uncollateralized accounts. As of June 30, 2013, the City's investments in the following investment types were held by its bond trustees:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market - U.S. Treasury Fund	<u>\$ 1,144,082</u>

Investment in State Investment Pool

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

NOTE 3 – INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2013, are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 422,190	\$ 4,525,177
Gas Tax Fund	947,578	
Community Development Fund	1,099,999	391,714
Wellness Center Fund	314,948	
Water Fund	800,000	-
Sewer Fund	1,500,000	-
McDermont Sport Complex Fund	-	167,824
	<u>\$ 5,084,715</u>	<u>\$ 5,084,715</u>

NOTE 4 – TRANSFERS IN AND OUT

The purpose of the majority of transfers is to reimburse a fund which has made expenditures on behalf of another fund. Transfers between funds during the fiscal year ended June 30, 2013, were as follows:

	Purpose	Transfers In	Transfers Out
General Fund			
Community Development Fund	Close fund 872 NSP - GF expense	\$ 1,999	\$ -
Special Assessment District	Proceeds from escrow	2,452	-
Community Development Fund	To reconcile cash balances	-	309,632
McDermont Fieldhouse Fund	Capital outlay expenditures	-	18,231
Community Development Fund	Grant unfunded micro loans - supplement	-	22,733
Total General Fund		<u>4,451</u>	<u>350,596</u>
Community Development Fund			
General Fund	To reconcile cash balances	309,632	-
General Fund	Grant unfunded amount for micro loans	22,733	-
Sewer Fund	Capital outlay expenditures	-	136,685
General Fund	Close fund 872 NSP - GF expense	-	1,999
Total Community Development Fund		<u>332,365</u>	<u>138,684</u>
Nonmajor Governmental Funds			
General Fund	Proceeds from escrow	-	2,452
Sewer Fund			
Community Development	Capital outlay expenditures	136,685	-
Wellness Center			
Community Development	Capital outlay expenditures	307,266	-
Community Development	Sierra View Rd - Correct Fund	22,259	-
McDermont Fieldhouse Fund	To reconcile cash balances	12,000	-
	Capital outlay expenditures	-	329,525
Total Wellness Center Fund		<u>341,525</u>	<u>329,525</u>
McDermont Fieldhouse Fund			
General Fund	Capital outlay expenditures	18,231	-
Wellness Center	To reconcile cash balances	-	12,000
		<u>18,231</u>	<u>12,000</u>
Totals		<u>\$ 833,257</u>	<u>\$ 833,257</u>

NOTE 5 – ADVANCES FROM AND TO OTHER FUNDS

Interfund advances from and to other fund balances at June 30, 2013, are as follows:

	<u>Advances From</u>	<u>Advances To</u>
General Fund	\$ 2,862,678	\$ 13,476,016
McDermont Sports Complex Fund	13,476,016	-
Community Development	-	42,000
Private-Purpose Trust Fund	-	2,820,678
	<u>\$ 16,338,694</u>	<u>\$ 16,338,694</u>

The advances from the General Fund were used to help build the McDermont Sports Complex and revenue earned at the complex will be used to pay back the advance.

The advances from the Private-Purpose Trust Fund were funds that were used to help with the completion of the City's McDermont Sports Complex, various Downtown projects, and for land transactions that occurred between the former City of Lindsay Redevelopment Agency and the City.

NOTE 6 – NOTES RECEIVABLE

The following are notes receivable recorded in various funds at June 30, 2013:

	<u>General Fund</u>	<u>Community Development</u>	<u>Curb and Gutter</u>	<u>Total</u>
Individuals				
7% unsecured notes with annual principal and interest payments of \$5,002.	\$ -	\$ -	\$ 6,702	\$ 6,702
Business loans	95,159	-	-	95,159
Non-interest and below-market rate secured notes with deferred payments of monthly principal and interest payments. Collateralized by trust deeds on improved property.	-	15,961,564	-	15,961,564
	<u>\$ 95,159</u>	<u>\$ 15,961,564</u>	<u>\$ 6,702</u>	<u>\$ 16,063,425</u>

NOTE 7 – CAPITAL ASSETS

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

	June 30, 2012 Balance	Prior Period Adjustment	Additions	Deletions	June 30, 2013 Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 2,293,042	\$ (1,496,309)	\$ -	\$ -	\$ 796,733
Right of way	246,519	(246,519)	-	-	-
Construction in progress	3,279,401	(1,701,667)	322,514	(397,219)	1,503,029
Total capital assets, not being depreciated	5,818,962	(3,444,495)	322,514	(397,219)	2,299,762
Capital assets, being depreciated:					
Buildings	4,359,986	-	-	-	4,359,986
Improvements other than buildings	35,454,924	-	322,451	-	35,777,375
Machinery and equipment	3,184,047	(31,149)	74,768	-	3,227,666
Total capital assets, being depreciated	42,998,957	(31,149)	397,219	-	43,365,027
Less accumulated depreciation for:					
Buildings	(1,109,716)	-	(81,332)	-	(1,191,048)
Improvements other than buildings	(15,271,095)	-	(709,877)	-	(15,980,972)
Machinery and equipment	(2,704,417)	31,149	(160,742)	-	(2,834,010)
Total accumulated depreciation	(19,085,228)	31,149	(951,951)	-	(20,006,030)
Total capital assets, being depreciated, net	23,913,729	-	(554,732)	-	23,358,997
Governmental activities capital assets, net	\$ 29,732,691	\$ (3,444,495)	\$ (232,218)	\$ (397,219)	\$ 25,658,759
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 1,521,360	\$ (837,689)	\$ -	\$ -	\$ 683,671
Construction in progress	382,682	1,733,856	443,951	(2,560,489)	-
Total capital assets, not being depreciated	1,904,042	896,167	443,951	(2,560,489)	683,671
Capital assets, being depreciated:					
Buildings and improvements	43,555,931	-	-	(67,931)	43,488,000
Improvements other than buildings	19,638,314	-	2,564,232	-	22,202,546
Machinery and equipment	1,494,521	-	179,248	-	1,673,769
Total capital assets, not being depreciated	64,688,766	-	2,743,480	(67,931)	67,364,315
Less accumulated depreciation for:					
Buildings and improvements	(5,559,388)	-	(869,760)	42,261	(6,386,887)
Improvements other than buildings	(7,558,062)	-	(430,590)	-	(7,988,652)
Machinery and equipment	(977,867)	(8,426)	(272,560)	-	(1,258,853)
Total accumulated depreciation	(14,095,317)	(8,426)	(1,572,910)	42,261	(15,634,392)
Total capital assets, being depreciated, net	50,593,449	(8,426)	1,170,570	(25,670)	51,729,923
Business-type activities capital assets, net	\$ 52,497,491	\$ 887,741	\$ 1,614,521	\$ (2,586,159)	\$ 52,413,594

NOTE 7 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 951,951
Total depreciation expense - governmental activities	<u>\$ 951,951</u>
Business-type activities:	
Water Fund	\$ 277,601
Sewer Fund	375,596
McDermont Sport Complex Fund	732,317
Wellness Center Fund	<u>187,396</u>
Total depreciation expense - business-type activities	<u>\$ 1,572,910</u>

NOTE 8 – LONG-TERM DEBT

Governmental Activities

General Obligation Bonds

Improvement Bonds Assessment District No. 1 serial bonds issued January 2, 1972, in the amount of \$140,000. The bonds bear interest at 6% payable semi-annually with bonds maturing annually through July 2, 1997. The remaining balance of \$5,000 is a bond not yet submitted for payment.

Certificates of Participation

On October 1, 2008, the City entered into a Certificate of Participation (COP) with the United States Department of Agriculture Rural Development Agency (USDA RD) for Tulare Road in the amount of \$1,600,000. The COP has annual principal and interest of approximately \$120,000 a year at 4.5% through 2029. As of June 30, 2013, the balance of the COP was \$1,377,081.

On May 12, 2010, the City entered into a COP with the USDA RD for the construction of the Library Project in the amount of \$750,000. The COP has annual principal and interest payments of approximately \$37,000 a year at 4.125% through 2040. As of June 30, 2013, the balance of the COP was \$517,286.

Business-Type Activities

Certificates of Participation

On June 20, 2007, the City entered into a COP with USDA RD for the Wellness Center in the amount of \$1,130,689. The total amount of the COP will be \$3,000,000 if totally drawn. The Wellness Center Fund has annual principal and interest payments of approximately \$129,000 a year at 4.25% through 2032. As of June 30, 2013, the balance of the COP was \$2,220,849.

NOTE 8 – LONG-TERM DEBT (Continued)

Business-Type Activities (Continued)

Revenue Bonds Payable

On June 1, 1993, the City refinanced with the California Statewide Communities Development Authority (CSCDA) an existing loan that assisted in financing construction of a project, which enables the City to meet safe drinking water standards. The bond amount of \$197,054 at 7.125% has semi-annual principal and interest payments of \$8,377 through June 1, 2019. The bond is secured by a first pledge of a lien on all of the pledged water revenues. As of June 30, 2013, the balance of the revenue bond was \$80,653.

On November 5, 1999, the City entered into a revenue bond with the USDA RD for the Waste Water Treatment Plant Project for \$7,000,000. The annual principal and interest payments of \$323,470 at 3.25% are through November 27, 2039. As of June 30, 2013, the balance due was \$5,754,622.

On December 11, 2000, the City entered into a revenue bond with the USDA RD for the Water Line Project for \$2,440,000. The annual principal and interest payments of \$109,874 at 3.25% are through December 11, 2040. As of June 30, 2013, the balance due was \$1,964,188.

On June 22, 2004, the City entered into a revenue bond with the USDA RD for the Waste Water Project for \$480,000. The annual principal and interest payments of \$25,623 at 4.375% are through June 28, 2040. As of June 30, 2013, the balance due was \$422,976.

On November 1, 2012, the City entered into a refunding bond with US Bank National Association for refunding of the City's \$1,500,000 Mid Valley Services, Inc. promissory note dated November 19, 2009. The annual principal payments are due annually beginning on January 1, 2014. Interest ranging from 4.0% to 6.4% on the bonds is payable on January 1st and July 1st of each year, commencing on July 1, 2013. As of June 30, 2013, the balance due was \$1,835,000.

Notes Payable

On November 19, 2009, the City entered into a promissory note with Mid Valley Services, Inc., secured by the McDermont Sports Complex property for \$1,500,000. The interest payments of \$187,500 at 12.5% are payable through November 19, 2013, at which time the entire principal amount was due. However, in November 2012 the City issued \$1,835,000 Taxable Lease Refunding Bonds to refund the \$1,500,000 Mid Valley Services Inc. loan. As of June 30, 2013 the Mid Valley Services, Inc. promissory note was paid in full with the proceeds of the 2012 Taxable Lease Refunding Bonds.

The annual requirements to amortize all debt outstanding as of June 30, 2013, including interest, are as follows:

Year Ended June 30,	Governmental Activities				Total
	Bonds Payable General Obligation Bonds	Certificates of Participation			
		2008	2010		
		USDA RD Roads COP	USDA RD Library COP		
2014	\$ 5,000	\$ 120,963	\$ 37,079	\$ 163,042	
2015	-	120,691	37,060	157,751	
2016	-	120,406	37,039	157,445	
2017	-	120,110	37,018	157,128	
2018	-	119,801	36,996	156,797	
2019-2023	-	593,893	184,615	778,508	
2024-2028	-	583,948	183,912	767,860	
2029-2033	-	116,912	183,058	299,970	
2034-2037	-	-	51,122	51,122	
	5,000	1,896,724	787,899	2,689,623	
Less interest	-	(519,643)	(270,613)	(790,256)	
	<u>\$ 5,000</u>	<u>\$ 1,377,081</u>	<u>\$ 517,286</u>	<u>\$ 1,899,367</u>	

NOTE 8 – LONG-TERM DEBT (Continued)

Business-Type Activities (Continued)

Notes Payable (Continued)

Year Ended June 30.	Business-Type Activities					
	Revenue Bonds Payable					COPs
	1993	1999	2000	2004	2012	2007
	CSCDA Refunding Bonds	USDA RD Waste Water	USDA RD Water Line	USDA RD Waste Water	Mid Valley Services Inc. Refunding Bonds	USDA RD Wellness Center
2014	\$ 16,754	\$ 323,470	\$ 109,874	\$ 25,623	\$ 193,951	\$ 129,403
2015	16,754	323,470	109,874	25,623	197,950	129,334
2016	16,754	323,470	109,874	25,623	193,700	129,262
2017	16,754	323,470	109,874	25,623	194,200	129,187
2018	16,754	323,470	109,874	25,623	194,475	129,108
2019-2023	16,754	1,617,350	549,370	128,115	983,475	644,249
2024-2028	-	1,617,350	549,370	128,115	788,988	641,731
2029-2033	-	1,617,350	549,370	128,115	-	638,633
2034-2038	-	1,617,350	549,370	128,115	-	634,816
2039-2043	-	643,397	241,066	125,939	-	619,098
	100,524	8,730,147	2,987,916	766,514	2,746,739	3,824,821
Less interest	(19,871)	(2,975,525)	(1,023,728)	(343,538)	(911,739)	(1,603,972)
	<u>\$ 80,653</u>	<u>\$ 5,754,622</u>	<u>\$ 1,964,188</u>	<u>\$ 422,976</u>	<u>\$ 1,835,000</u>	<u>\$ 2,220,849</u>

Capital Lease

On July 7, 2009, the City acquired the Hippo Slide under the provision of a capital lease with Cypress Financial Corporation in the amount of \$75,000 with an interest rate of 10.55%. The lease expires in June 2014. The lease is being recorded as a capital asset and the amortization of the leased property is included in depreciation expense.

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at June 30, 2013, were as follows:

Total minimum lease payments	\$ 19,369
Less amount representing interest	<u>(1,064)</u>
Present value of net minimum lease payments	18,305
Current maturities of capital lease	<u>18,305</u>
Long-term capital lease less current maturity	<u>\$ -</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Operating Lease

On March 20, 2012, the City entered into an agreement with Ray Morgan Company to lease four copier machines. The lease expires in June 2017.

The future minimum lease payments under the operating lease at June 30, 2013, were as follows:

Operating Lease	
Year Ending June 30,	Amount
2014	\$ 7,320
2015	7,320
2016	7,320
2017	5,490
Total	<u>\$ 27,450</u>

A schedule of changes in long-term debt for the year ended June 30, 2013, is shown below:

	Adjusted Balance July 1, 2012	Additions/ Adjustments	Deductions	Balance June 30, 2013	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000
Capital Lease					
Westamerica - Fire Truck Lease	29,280	-	29,280	-	-
Certificates of Participation (COP)					
2008 USDA RD Roads COP	1,436,337	-	59,256	1,377,081	61,774
2010 USDA RD Library COP	532,422	-	15,136	517,286	15,741
Compensated Absences	154,782	111,169	102,140	163,811	54,604
Net Other Postemployment Benefits Obligation	461,987	183,424	31,592	613,819	-
Governmental Activities Long-Term Liabilities	<u>\$ 2,619,808</u>	<u>\$ 294,593</u>	<u>\$ 237,404</u>	<u>\$ 2,676,997</u>	<u>\$ 137,119</u>
Business-Type Activities					
Revenue Bonds					
1993 CSCDA Refunding Bonds	\$ 91,099	\$ -	\$ 10,446	\$ 80,653	\$ 11,204
1999 USDA RD Waste Water Expansion	5,886,772	-	132,150	5,754,622	136,445
2000 USDA RD Water Line Project	2,008,777	-	44,589	1,964,188	46,038
2004 USDA RD Waste Water Project	429,795	-	6,819	422,976	7,118
2012 Taxable Lease Revenue Refunding Bonds	-	1,835,000	-	1,835,000	85,000
Bond Issuance Discount	-	(48,728)	(1,740)	(46,988)	(3,481)
Total Revenue Bonds	<u>8,416,443</u>	<u>1,786,272</u>	<u>192,264</u>	<u>10,010,451</u>	<u>282,324</u>
Certificates of Participation (COP)					
2007 USDA RD Wellness Center COP	1,688,285	567,710	35,146	2,220,849	36,640
Note Payable					
Mid Valley Services, Inc. Note Payable	1,500,000	-	1,500,000	-	-
Capital Lease					
Cypress Financial Corporation	34,784	-	16,479	18,305	18,305
Lindsay Olive Growers Pond Closure Cost Liability	2,570,981	-	-	2,570,981	-
Compensated Absences	74,673	59,262	46,610	87,325	29,108
Net Other Post Employment Benefits Obligation	438,152	174,442	29,977	582,617	-
Business-Type Activities Long-Term Liabilities	<u>\$ 14,723,318</u>	<u>\$ 2,587,686</u>	<u>\$ 1,820,476</u>	<u>\$ 15,490,528</u>	<u>\$ 366,377</u>

NOTE 9 – RETIREMENT PLANS

Plan Description

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants hired before January 1, 2011, (Classic 1st Tier) are required to contribute 4% (of the 8% employer paid member contribution (EPMC) - Misc / 9% EPMC - Safety) of their annual covered salary; participants hired after January 1, 2011, but before January 1, 2013, (Classic 2nd Tier), are required to contribute the entire EPMC per their employee group; Participants hired after January 1, 2013, are subject to the new Public Employees' Retirement Pension Act (PERPA) regulations which sets the EPMC rates at 6.25% for Misc and 11.5% for Safety with no tax deferred option. The City makes the contributions required of City employees, per the previous statement, on their behalf and for their account. The City is required to contribute at an actuarially determined rate of annual covered payroll: The rate for the fiscal year ended June 30, 2013, was 23.615% for Classic non-safety employees, and 6.25% for PERPA employees; 28.667% for Classic safety employees, 11.5% for PERPA. The contribution of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For fiscal year 2012-13, the City's annual pension cost was \$844,046 and was equal to the City's required and actual contributions. The required contribution for fiscal year 2012-13 was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) 12% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20% for miscellaneous and safety plan members; and (c) 2% cost-of-living adjustment. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the plans' assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a five-year period. The Miscellaneous Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2012, was 19 years for the Miscellaneous Plan and 17 years for the Safety Plan.

Three Year Trend Information

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
<u>Miscellaneous Plan</u>	6/30/2011	\$ 508,918	100%
	6/30/2012	\$ 421,307	100%
	6/30/2013	\$ 408,042	100%
<u>Safety Plan</u>	6/30/2011	\$ 399,012	100%
	6/30/2012	\$ 484,240	100%
	6/30/2013	\$ 436,004	100%

NOTE 10 – HOUSING AND COMMUNITY DEVELOPMENT LOAN PROGRAM

The City uses Housing and Community Development Block Grant funds to provide housing rehabilitation loans and HOME Investment Partnerships Program (HOME) grant funds to provide first-time homebuyer assistance loans and housing rehabilitation loans to eligible applicants. Rehabilitation loans are used to improve, rehabilitate, or replace residences. All loans are made to low and moderate income persons or landlords benefiting these same persons. The City accounts for this program in the Community Development Fund. This fund's primary assets consist of notes receivable from participants, which originated from U.S. Department of Housing and Urban Development (HUD) funds. Since HUD has a claim to any funds remaining when the program is terminated, a fund equity reserve has been recorded for monies received not used in program management in the Community Development Fund.

NOTE 11 – JOINT VENTURE – SELF-INSURANCE PROGRAM

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the CSJVRMA.

The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each workers' compensation claim through CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$25,000 and workers' compensation losses under \$250,000. CSJVRMA participates in an excess pool that provides general liability coverage from \$1,000,000 to \$10,000,000. CSJVRMA participates in an excess pool that provides workers' compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

CSJVRMA is a consortium of fifty-five (55) cities in San Joaquin Valley, California. It was established under the provision of California Government Code Section 6500 et seq. CSJVRMA is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group hired by CSJVRMA.

The most recent condensed financial information of CSJVRMA is as follows:

	<u>For the Year Ended June 30, 2013</u>
Total Assets	\$ 82,190,005
Total Liabilities	<u>66,304,596</u>
Total Net Assets	<u>15,885,409</u>
Total Liabilities and Net Assets	<u>\$ 82,190,005</u>
Revenues	\$ 30,744,973
Expenses	<u>27,142,583</u>
Change in Net Assets	<u>\$ 3,602,390</u>

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

The aforementioned information is not included in the accompanying financial statements. Separate financial statements of CSJVRMA may be obtained at Brickmore Risk Services, 1020 19th Street, Suite 200, Sacramento, California 95814.

NOTE 12 – POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

Plan Description

The City provides continuation of medical, dental, and vision coverage to qualifying retiring employees as described below:

- **Access to coverage:** This coverage is available for employees who retire from the City and:
 - Meet the requirements for California Public Employees' Retirement System (CalPERS) service or disability retirement (i.e., retirement at age 50 or older with 5 years of CalPERS membership or an approved disability retirement);
 - Have completed 15 or more years of continuous service with the City; and
 - Have not yet reached age 65.
- **Benefits provided:** For qualifying retirees, the City will contribute 3.5% of the employee-only portion of medical, dental, and/or vision plan premiums for each year of City service, as follows:

Continuous Years of City Service	Percent of Employee-Only Premium Paid	Continuous Years of City Service	Percent of Employee Only Premium Paid	Medical	Dental	Vision
				\$ 530.98	\$ 31.72	\$ 5.80
Less than 15	0.0%	22	77.0%	Rates are per month as of January 1, 2013		
15	52.5%	23	80.5%			
16	56.0%	24	84.0%			
17	59.5%	25	87.5%			
18	63.0%	26	91.0%			
19	66.5%	27	84.5%			
20	70.0%	28	98.0%			
21	73.5%	29 or more	100.0%			

The retiree may choose to cover his or her dependents, but is responsible for paying 100% of the additional premium amounts for dependent coverage.

- There are currently seven retirees receiving these health care benefits which account for current year \$34,437 Explicit Subsidy + \$45,825 Implicit Subsidy for \$80,262 of the total current year benefit of \$84,312 per the actuarial report (Future Retiree Implicit Subsidy is \$4,050).
- The claims experience of active and retired members is co-mingled in setting premium rates for the plans in which City employees and retirees participate which results in an "implicit subsidy":
 - The valuation report performed by Bickmore Risk Services & Consulting includes cost analysis for an implicit subsidy – same premium rates for retirees as active employees which provide a lower premium rate for retiree(s) than if rated separately from younger and healthier active employees.
 - Paragraph 13.a of GASB Statement No. 45 generally requires an implicit subsidy of retiree premium rates be valued as an other postemployment benefits (OPEB) liability.

Funding Policy and Actuarial Assumptions

The City's funding policy for the plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued:

Actuarial Accrued Liability plus the Normal Cost plus Present Value of Future Normal equals Present Value of Future Benefits	Past Years' Costs Current Year's Costs Future Year's Costs Total Benefit Costs
---	---

NOTE 12 – POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN (Continued)

Funding Policy and Actuarial Assumptions (Continued)

In selecting an appropriate discount rate as part of the actuarial assumptions, GASB states that the discount rate should be based on the expected long-term yields of investments used to finance benefits. No OPEB trust has yet been established so there are no funds invested. The City approved calculation of liabilities on a pay-as-you-go basis used a 4.0% discount rate based on the non-funded status. Additional actuarial assumptions included a 3.25% projected annual salary increase, a 9% inflation rate, and a 9.5% health inflation increase. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liability. Actuarial calculations reflect a long-term perspective and actuarial calculations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, the date of the actuarial valuation, is 30 years.

Note: The City will seek to eliminate this benefit for all new hires subsequent to July 1, 2013, which will substantially limit and eventually eliminate this liability, but until this is achieved the current and future calculations and assumptions are based on the current plan as-is.

The City did set aside within its General Fund, the amount of \$27,500 for payment of *explicit* costs for the fiscal year-end June 30, 2013, and will calculate, based on current and immediate participation, the explicit cost to be set aside within the annual City budget equal to one year's explicit subsidy benefit. Accounting principles generally accepted in the United States of America permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's contribution did not meet this requirement, the assets have been excluded from the actuarial study and calculation. This funding policy means that the City contributions are considered to be on a pay-as-you-go basis. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the annual required contribution and the pay-as-you-go contributions as presented below.

Summary of employer contributions for other postemployment benefits is as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Actual Contribution*	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
6/30/2010	\$ 290,344	\$ 74,485	26%	\$ 423,413 **
6/30/2011	\$ 306,048	\$ 80,589	26%	\$ 648,871 **
6/30/2012	\$ 322,362	\$ 71,093	22%	\$ 900,139
6/30/2013	\$ 355,664	\$ 61,569	17%	\$ 1,196,436

*Includes the projected value of the current year's implicit subsidy of retiree premiums

**Based on roll back of the July 1, 2011 actuarial valuation results to July 1, 2008

NOTE 12 – POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN (Continued)

Funding Policy and Actuarial Assumptions (Continued)

OPEB cost for the year ended June 30, 2013, is as follows:

Annual required contribution	\$ 355,664
Interest on net OPEB obligation	36,044
Adjustments to annual required contribution	<u>(33,842)</u>
Annual OPEB cost	357,866
Contributions made	<u>(61,569)</u>
Change in net OPEB obligation (asset)	296,297
Net OPEB obligation (asset) - beginning of year	<u>900,139</u>
Net OPEB obligation (asset) - end of year	<u>\$ 1,196,436</u>

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Federal and State Grants

The City has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Due to the past practices, these audits could generate material expenditure disallowances under terms of the grants.

The California Department of Transportation (Caltrans) completed an audit for grant funding totaling \$3,197,924 for work performed under six agreements during the time period of July 1, 2008 through December 31, 2011. Based on Caltrans audit procedures, it was determined that reimbursed project costs totaling \$1,800,736 were not supported and were not in compliance with respective agreement provisions or state and federal regulations. Although Caltrans is requesting full payment of the \$1,800,736, the city is in the process of contesting these changes. As of June 30, 2013 it is unknown what amount the City will be required to pay as a result of the Caltrans audit report dated February 18, 2014.

Also, during December 2012, the Department of Housing and Community Development (HCD) completed its review of the City's 06-FREZ-2512, 04-STBG-1963, and program income. As a result of its review, the HCD is requesting the City repay \$976,880. The City is currently disputing the full amount requested and seeks mediation with HCD to settle on the final amount actually owed.

There is a possibility of unrecorded commitments that may be required from the State Controller's Office – Division of Gas Tax audit – in the amount of \$400,000 for Prop 1B funds disbursed to city in February 2008, the matter is still pending resolution. With the resolution still pending, it is still unknown what amount the City will be required to repay.

Street Improvement Fee

The City has established a street improvement fee for the Water, Sewer, and Refuse charges that is designed for street repairs, maintenance, and construction. The City will continue to collect this fee into the future. This fee will be transferred to the City's General Fund and then the General Fund will transfer the balance to the Refuse Fund. This is the method that will be used to bring the Refuse Fund into a positive position.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Remediation Liability

The City's Sewer Fund is responsible for the contamination of two water basins at the City's sewer plant. The preliminary cost of the clean up referred to as the Lindsay Olive Growers (LOG) Pond Closure liability is estimated at \$2,570,981. This amount has been accrued as of June 30, 2013. However, additional amounts might be needed in the future in order to clean up the site.

Budgetary Concerns - Cash Overdraft

Both the McDermont Sports Complex and the Wellness Center funds have large cash deficits which are attributable to previous year's activity wherein revenues fell far short of expenditures. The Wellness Center is increasing its revenues annually with increased membership, facility rental, and tenant leases, and is expected to be operating with a positive cash balance by the end of fiscal year 2015 and with only a small deficit at the end of fiscal year 2014.

McDermont Sports Complex has a very large cash deficit that goes back to fiscal year 2012 when that facility suffered a loss in excess of \$1,000,000. While the losses have been reduced under the new administration, that department continues to challenge the City's financial well being. It should be noted that approximately \$100,000 of the deficit is funds expended on community recreation programs that in previous years had been accounted for within the general fund. McDermont Sports Complex has done an excellent job in trimming costs; unfortunately, the revenues continue to fall short of operational costs, thus the note of concern.

Misprint on 3rd paragraph, the year SHOULD BE 2010

NOTE 14 – RELATED PARTY TRANSACTIONS

The City has entered into various loan agreements with City employees and relatives of City employees, under its First-Time Homebuyer and Micro-Loan Programs. The various loan types provided included Deferred Payment Loans (DPL), Deferred No Interest Loans (DNIL), No Interest Loans (NIL), and Below Market Interest Rate Loans (BMIR). Note, the amounts below increased from the prior year due to incomplete data in the prior year. Detail of these related party transactions is provided below:

	<u>June 30, 2013</u>
RELATED PARTY LOANS	
Employee Loans	
Deferred Payment Loans	\$ 1,178,541
Deferred No Interest Loans	400,182
No Interest Loans	7,740
Below Market Interest Rate Loans	<u>333,680</u>
Total Employee Loans	<u>1,920,143</u>
Loans to Employees' Relatives	
Deferred Payment Loans	878,123
Deferred No Interest Loans	135,724
No Interest Loans	18,530
Below Market Interest Loans	<u>273,569</u>
Total Loans to Employees' Relatives	<u>1,305,946</u>
Total All Related Party Loans	<u>\$ 3,226,089</u>

NOTE 15 – SUBSEQUENT EVENTS

In accordance with accounting standards generally accepted in the United States, subsequent events have been evaluated through March 27, 2014, the date in which the financial statements have been issued.

NOTE 16 – PRIOR PERIOD ADJUSTMENTS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets at July 1, 2012, as previously stated	\$ 35,075,808	\$ 25,450,164
Adjust accounts receivable to its true balance	2,300	(259,782)
Reconcile capital assets	<u>(3,444,495)</u>	<u>891,925</u>
Total prior period adjustment	<u>(3,442,195)</u>	<u>632,143</u>
Net assets at July 1, 2012, as restated	<u><u>\$ 31,633,613</u></u>	<u><u>\$ 26,082,307</u></u>

	<u>Enterprise Funds</u>					<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>McDermont Sport Complex Fund</u>	<u>Wellness Center Fund</u>	
Fund balance at July 1, 2012, as previously stated	\$ 8,376,021	\$ 3,434,785	\$ (199,110)	\$ 6,856,573	\$ 6,981,895	\$ 25,450,164
Reconcile capital assets	-	1,733,856	-	(738,257)	(103,674)	891,925
Reconcile AR	-	-	-	(84,533)	(175,249)	(259,782)
Total prior period adjustment	<u>-</u>	<u>1,733,856</u>	<u>-</u>	<u>(822,790)</u>	<u>(278,923)</u>	<u>632,143</u>
Fund balance at July 1, 2012, as restated	<u><u>\$ 8,376,021</u></u>	<u><u>\$ 5,168,641</u></u>	<u><u>\$ (199,110)</u></u>	<u><u>\$ 6,033,783</u></u>	<u><u>\$ 6,702,972</u></u>	<u><u>\$ 26,082,307</u></u>

	<u>Other Governmental Funds</u>
	<u>Special Assessment</u>
Fund balance at July 1, 2012, as previously stated	\$ 37,442
Reconcile due from other governments	<u>2,300</u>
Total prior period adjustment	<u>2,300</u>
Fund balance at July 1, 2012, as restated	<u><u>\$ 39,742</u></u>

NOTE 17 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2013, expenditures exceeded appropriations in the individual major funds as follows:

Fund	Appropriations Category	Excess Expenditures
General Fund	General government	\$ 186,084
	Public works	25,901
	Debt service:	
	Principal	44,416
	Interest and administrative charges	40,721
	Capital outlay	105,695
Community Development Fund	Community Development	1,085,290
	Capital outlay	216,819

NOTE 18 – FUND DEFICIT

The Refuse Fund presently has a total fund deficit. The deficit is expected to be repaid with future General Fund transfers.

NOTE 19 – FUND BALANCE

	General Fund	Community Development	Gas Tax	Other Governmental Funds	Total
Fund balances:					
Nonspendable:					
Receivables	\$ 249,120	\$ 288,581	\$ 162,979	\$ 9,120	\$ 709,800
Restricted for:					
Note receivable	95,159	15,961,564	-	-	16,056,723
Road construction and maintenance	618,188	-	-	-	618,188
Restricted cash	154,054	-	-	-	154,054
Committed to:					
General Fund	165,206	-	-	-	165,206
Road construction and maintenance	-	-	230,210	-	230,210
Community development	-	158,996	-	-	158,996
Wellness Center	32,730	-	-	-	32,730
Debt Service	120,312	-	127,688	-	248,000
McDermont Fieldhouse	194,736	-	-	-	194,736
Construction projects	224,624	-	-	-	224,624
Curb and gutter	-	-	-	25,054	25,054
Assigned to:					
Community development	-	193,681	-	-	193,681
Agency programs	194,736	-	-	-	194,736
Special assessments	-	-	-	34,782	34,782
Gas tax	996,021	-	1,365,448	-	2,361,469
Unassigned:	2,660,939	(15,205,795)	-	-	(12,544,856)
 Total fund balances	 \$ 5,705,825	 \$ 1,397,027	 \$ 1,886,325	 \$ 68,956	 \$ 9,058,133

NOTE 20 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the City that previously had reported a redevelopment agency blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the county 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 10, 2012, the Lindsay City Council adopted a resolution affirming that the City would serve as the successor agency to the former Agency.

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 are only to be allocated tax increment 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.

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

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

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

After the date of dissolution, as allowed under Section 341716(a) of the Bill, the City elected to transfer the housing assets and functions previously performed by the former Redevelopment Agency (RDA). The remaining assets, liabilities, and activities of the dissolved RDA are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

NOTE 20 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY
(Continued)

Successor Agency Capital Assets

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

<u>Capital Assets - Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Private-Purpose Trust Activities:				
Capital assets, not being depreciated:				
Land	\$ 270,398	\$ -	\$ -	\$270,398
Total capital assets not being depreciated	270,398	-	-	270,398
Capital assets, being depreciated:				
Buildings and improvements	589,993	-	-	589,993
Equipment/vehicles	53,649	-	-	53,649
Total capital assets being depreciated	643,642	-	-	643,642
Less accumulated depreciation for:				
Buildings and improvements	(102,557)	(11,800)	-	(114,357)
Equipment/vehicles	(53,649)	-	-	(53,649)
Total accumulated depreciation	(156,206)	(11,800)	-	(168,006)
Total capital assets, being depreciated, net	487,436	(11,800)	-	475,636
Private-Purpose Trust Activities Capital Assets, Net	\$ 757,834	\$ (11,800)	\$ -	\$746,034

Depreciation expense at June 30, 2013, was \$11,800.

Successor Agency Long-Term Debt

In accordance with the provisions of the Bill and the court case, the obligations of the former redevelopment agency became vested with the funds established for the successor agency upon the date of dissolution, February 1, 2012. Tax increment revenue is pledged to fund the debts of the Successor Agency Trust subject to the reapportionment of such revenues as provided by the Bill.

NOTE 20 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY
(Continued)

Successor Agency Long-Term Debt (Continued)

The debt of the Successor Agency Trust as of June 30, 2013, is as follows:

<u>Year Ending June 30,</u>	<u>Successor Agency Trust</u>	
	<u>Principal</u>	<u>Interest</u>
2014	315,000	770,304
2015	1,330,000	731,187
2016	340,000	691,317
2017	355,000	677,672
2018	370,000	662,989
2019-2023	7,050,000	3,777,240
2024-2028	2,695,000	2,464,158
2029-2033	3,455,000	1,702,539
2034-2038	4,812,237	721,688
Sub-total	20,722,237	12,199,094
Add: Original issue premium	186,267	-
Total	<u>\$ 20,908,504</u>	<u>\$ 12,199,094</u>

Tax Allocation Bonds Payable

The Agency refunded 1994 tax allocation bonds in the amount of \$1,655,000, with the refunding issue of 2005 in the amount of \$4,700,000. The bonds have principal payments each August 1 through 2035 and accrue interest at 2.25% – 5.0%, which is payable semiannually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2013, the balance on the bonds was \$4,025,000.

The Agency issued a 2007 tax allocation bond series in the amount of \$7,880,000 on March 29, 2007. These bonds also have principal payments each August 1 through 2037 and accrue interest at 3.50% – 5.0%, which is payable semiannually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2013, the balance on the bonds was \$7,055,000.

The Agency issued a 2008 tax allocation bond series in the amount of \$3,710,000 on April 3, 2008. These bonds also have principal payments each August 1 through 2037 and accrue interest at 5.7351%, which is payable semi-annually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2013, the balance on the bonds was \$3,325,000.

On November 17, 2009, the Agency issued a 2009 tax allocation bond series in the amount of \$1,000,000 at a 5.4% interest rate. These bonds have interest payments each April 1 and October 1 through 2014, with the final interest and total principal payment being made on October 1, 2014. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2013, the balance on the bonds was \$1,000,000.

NOTE 20 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY
(Continued)

Notes Payable

On March 30, 2004, the Agency entered into a loan agreement with the CalHFA for the purpose of assisting the Agency in operating a local housing program through the CalHFA HELP program. The loan is in the amount of \$1,250,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 10 years from date of the note. As of June 30, 2013 there remained an unpaid balance due on the CalHFA HELP loan of \$1,250,000. On July 30, 2013 the Agency obtained an amendment to the original loan extending the unpaid balance due date to March 30, 2019.

On May 5, 2004, the Agency entered into a Deferred Payment Loan Agreement in the amount of \$377,237 with the City's Housing Program, which provided funding to purchase the Ashland Apartments. There is a 15 year restriction on the rental income conditions to make affordable rental housing available to low and very low income families. The note is due in 2035 and accrues interest at a rate of 0% per annum. As of June 30, 2013, the balance of the loan was \$377,237.

On August 7, 2007, the Agency entered into a loan agreement with CalHFA for the purpose of assisting the Agency in operating a local housing program through the CalHFA Residential Development Loan Program (RDLP). The loan is in the amount of \$3,690,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 5 years from date of the note. As of June 30, 2013 there remained an unpaid balance due on the CalHFA loan of \$3,690,000. On July 30, 2013 the Agency obtained an amendment to the original loan extending the unpaid balance due date to May 7, 2021.

Changes in Long-Term Liabilities

Successor Agency long-term liabilities activity for the fiscal year ended June 30, 2013, was as follows:

Successor Agency Trust Activities:	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable					
2005 Tax Allocation Bond	\$ 4,120,000	\$ -	\$ (95,000)	\$ 4,025,000	\$ 100,000
2007 Tax Allocation Bond	7,205,000	-	(150,000)	7,055,000	160,000
2008 Tax Allocation Bond	3,380,000	-	(55,000)	3,325,000	55,000
2009 Tax Allocation Bond	1,000,000	-	-	1,000,000	-
Subtotal bonds payable	15,705,000	-	(300,000)	15,405,000	315,000
Add: bond premiums	194,241	-	(7,974)	186,267	7,974
Total bonds payable	15,899,241	-	(307,974)	15,591,267	322,974
Notes payable					
CalHFA - RDLP Loan	3,690,000	-	-	3,690,000	-
CalHFA - HELP Loan	1,250,000	-	-	1,250,000	-
COL Housing Program Loan	377,237	-	-	377,237	-
Total notes payable	5,317,237	-	-	5,317,237	-
Total Successor Agency Trust Activities	\$ 21,216,478	\$ -	\$ (307,974)	\$ 20,908,504	\$ 322,974

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LINDSAY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Note collections	\$ -	\$ -	\$ 4,273	\$ 4,273
Property taxes	333,500	333,500	491,068	157,568
Other taxes	1,682,418	1,682,418	3,585,251	1,902,833
Licenses and permits	161,000	161,000	365,378	204,378
Intergovernmental	951,787	951,787	99,298	(852,489)
Charges for services	-	-	26,100	26,100
Fees and fines	-	-	11,104	11,104
Interest revenue	46,700	46,700	3,871	(42,829)
Other revenue	1,790,495	1,790,495	328,768	(1,461,727)
Total revenues	4,965,900	4,965,900	4,915,111	(55,062)
EXPENDITURES				
Current:				
General government	877,830	877,830	1,063,914	(186,084)
Public safety	2,482,280	2,482,280	2,425,162	57,118
Parks and recreation	235,965	235,965	232,877	3,088
Public works	327,853	327,853	353,754	(25,901)
Streets and transportation	238,513	238,513	175,662	62,851
Debt service:				
Principal	-	-	44,416	(44,416)
Interest and administrative charges	-	-	40,721	(40,721)
Capital outlay	-	-	105,695	(105,695)
Total expenditures	4,162,441	4,162,441	4,442,201	(279,760)
Excess (deficiency) of revenues over (under) expenditures	803,459	803,459	472,910	(334,822)
OTHER FINANCING SOURCES (USES)				
Sale of Land	-	-	29,376	29,376
Transfers in	-	-	4,451	4,451
Transfers out	-	-	(350,596)	(350,596)
Total other financing sources (uses)	-	-	(316,769)	(316,769)
Net change in fund balance	\$ 803,459	\$ 803,459	156,141	\$ (651,591)
Fund balance - beginning			5,549,684	
Prior period adjustment			-	
Fund balance - ending			\$ 5,705,825	

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

**CITY OF LINDSAY
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 COMMUNITY DEVELOPMENT FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Note collections	\$ -	\$ -	\$ 682,736	\$ 682,736
Intergovernmental	-	-	835,098	835,098
Interest revenue	-	-	29,957	29,957
Total revenues	-	-	1,547,821	1,547,791
EXPENDITURES				
Current:				
Community development	-	-	1,085,290	(1,085,290)
Capital outlay	-	-	216,819	(216,819)
Total expenditures	-	-	1,302,109	(1,302,109)
Excess (deficiency) of revenues over (under) expenditures	-	-	245,712	245,682
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	470,260	470,260
Transfers out	-	-	(276,579)	(276,579)
Total other financing sources (uses)	-	-	193,681	193,681
Net change in fund balance	\$ -	\$ -	439,393	\$ 439,363
Fund balance - beginning			957,634	
Prior period adjustment			-	
Fund balance - ending			<u>\$ 1,397,027</u>	

*Note that a formal budget for the community development fund was not established for fiscal year 2013. Community Development Block Grant (CDBG) program income was frozen during fiscal year 2013 and the City's housing department was out-sourced to Self-Help Enterprises which precluded the need for the establishment of a community development operations budget.

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

**CITY OF LINDSAY
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2013**

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded Actuarial Liability as Percent of Covered Payroll
Miscellaneous Plan*						
6/30/2010	2,297,871,345	1,815,671,616	482,199,729	79.0%	434,023,381	111.1%
6/30/2011	2,486,708,579	1,981,073,089	505,635,490	79.7%	427,300,410	118.3%
6/30/2012	2,680,181,441	2,178,799,790	501,381,651	81.3%	417,600,034	120.1%
Safety Plan						
6/30/2010	1,915,095,826	1,628,915,283	286,180,543	85.1%	224,562,008	127.4%
6/30/2011	2,061,923,933	1,759,286,797	302,637,136	85.3%	225,026,216	134.5%
6/30/2012	2,183,549,942	1,896,139,291	287,410,651	86.8%	232,078,083	123.8%

* The City was unable to obtain the information for the Miscellaneous Plan or Safety Plan for the year ended June 30, 2013.

CITY OF LINDSAY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	\$ -	\$ 2,669,745	\$ 2,669,745	0%	\$ 2,713,321	98.39%

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

SUPPLEMENTARY INFORMATION

CITY OF LINDSAY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Special Assessment Districts</u>	<u>Curb and Gutter</u>	
Assets			
Cash and cash equivalents	\$ 45,125	\$ 31,624	\$ 76,749
Interest receivable	-	132	132
Due from other governments	2,418	-	2,418
Notes receivable	-	6,702	6,702
Total assets	\$ 47,543	\$ 38,458	\$ 86,001
Liabilities			
Accounts and other payables	\$ 9,261	\$ -	\$ 9,261
Accrued wages	1,082	-	1,082
Deferred revenue	-	6,702	6,702
Total liabilities	10,343	6,702	17,045
Fund balances			
Nonspendable	2,418	6,702	9,120
Restricted	-	-	-
Committed	-	25,054	25,054
Assigned	34,782	-	34,782
Unassigned	-	-	-
Total fund balances	37,200	31,756	68,956
Total liabilities and fund balances	\$ 47,543	\$ 38,458	\$ 86,001

**CITY OF LINDSAY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
	Special Assessment Districts	Curb and Gutter	
REVENUES			
Note collections	\$ -	\$ 1,447	\$ 1,447
Other taxes	60,671	-	60,671
Interest revenue	-	21	21
Total revenues	<u>60,671</u>	<u>1,468</u>	<u>62,139</u>
EXPENDITURES			
Current:			
General government	26,787	4,848	31,635
Parks and recreation	33,974	-	33,974
Total expenditures	<u>60,761</u>	<u>4,848</u>	<u>65,609</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(90)</u>	<u>(3,380)</u>	<u>(3,470)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	-	-	-
Transfer out	(2,452)	-	(2,452)
Total other financing sources (uses)	<u>(2,452)</u>	<u>-</u>	<u>(2,452)</u>
Net change in fund balances	(2,542)	(3,380)	(5,922)
Fund balances - beginning	37,442	35,136	72,578
Prior period adjustment	2,300	-	2,300
Fund balances - ending	<u>\$ 37,200</u>	<u>\$ 31,756</u>	<u>\$ 68,956</u>