

**CITY OF ATWATER**  
**CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**  
**JUNE 30, 2013**

**CITY OF ATWATER**  
**CALIFORNIA**

**JUNE 30, 2013**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Atwater, California

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Atwater, California, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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### **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 15 to the basic financial statements, the General, Water and Sanitation Funds have suffered recurring deficits from operations. Additionally, the General and Sanitation Funds have net equity deficiencies and the Water Fund has a net working capital deficiency. These conditions raise substantial doubt about the City's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### **Emphasis of Matter Regarding New Accounting Pronouncements Adopted**

As described in Note 1 to the financial statements, effective July 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13, the schedule of funding progress on page 68, and budgetary comparison information on pages 69-70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Price Page & Company*

Clovis, California  
February 24, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As Management of the City of Atwater (City), we offer readers of the City of Atwater's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We provide this overview information to readers in conjunction with the City's basic financial statements following this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$44,882,825 (net position). Of this amount, \$10,528,279 (unrestricted net position) may be used to meet the City's on-going obligations to citizens and creditors.
- The City's total net position decreased by \$2,185,657. Governmental activities decreased the City's net position by \$2,272,456 and business-type activities increased the City's net position by \$86,799.
- As of June 30, 2013, the City's governmental funds reported combining ending fund balances of \$4,962,219, an increase of \$405,373 in comparison with the prior year.
- At the end of the fiscal year, the unassigned fund balance of the General Fund was a negative (\$4,194,832).
- The City's total assets decreased by \$1,200,485 from \$147,303,930 to \$146,103,445. Current assets increased by \$222,030 while noncurrent assets decreased by \$1,422,516.
- The City's total liabilities increased by \$985,171 in comparison with the prior year from \$100,235,449 to \$101,220,620 due mainly to an increase in the other postemployment benefit liability and an increase in the cash overdraft.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction of 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 basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

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

The *statement of net position* presents information on all of the City's assets and liabilities; the difference between the two is 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 of 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 reported in this statement are for some items that will only result in cash flows for future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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 included general government, public safety, highways and streets, culture and recreation, and urban redevelopment and housing. The business-type activities of the City include water, sewer and sanitation.

The Atwater Public Financing Authority, although legally separate, functions for all practical purposes, as a department of the City and therefore has been included as an integral part of the primary government.

**CITY OF ATWATER**  
**CALIFORNIA**

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

The government-wide financial statements can be found on pages 16-17 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Atwater, 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. Unlike the government-wide financial statements, governmental fund finance statements focus on *near-term inflows 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 the City'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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to compare between *governmental funds* and *governmental activities*.

The City maintains over 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is the City's only major governmental fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 20-23 of this report.

*Proprietary funds.* The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statement. The City uses enterprise funds to account for its water, sewer and sanitation operations. The *internal service fund* is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the internal service fund to account for its building and equipment maintenances, as well as employee benefits fund. Since all of these services predominantly benefit governmental rather than business-type functions they have been included within *governmental activities* in the government-wide financial statements.

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 its water and sewer operations as all of these are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 24-27 of this report.

*Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary 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.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

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

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 32-65 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information related to the funding status of the pension benefit plan, comparative budget information for the City's General Fund, Facility Impact Fee Special Revenue Fund. This required supplementary information can be found on pages 68-71 of this report.

Combining financial statements for the nonmajor governmental, special revenue, debt service and capital projects funds are presented immediately following the required supplementary information. Combining fund statements and schedules can be found on pages 74-88 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position can over time serve as a useful indicator of the City's financial position. City assets exceed liabilities by \$44,882,825 at the close of the most recent fiscal year.

**City of Atwater's Net Position  
As of June 30, 2013 and 2012**

	Governmental		Business-type		Total		Variance
	Activities		Activities				
	2013	2012	2013	2012	2013	2012	
<b>Assets</b>							
Current assets	8,901,193	7,758,404	8,498,437	9,419,196	17,399,630	17,177,600	222,030
Noncurrent assets	28,857,547	29,993,738	99,846,268	100,132,593	128,703,815	130,126,331	(1,422,516)
Total assets	37,758,740	37,752,142	108,344,705	109,551,789	146,103,445	147,303,931	(1,200,486)
<b>Liabilities</b>							
Current liabilities	6,870,699	5,973,424	5,093,558	5,568,636	11,964,257	11,542,060	422,197
Noncurrent liabilities	7,082,440	5,700,661	82,173,923	82,992,728	89,256,363	88,693,389	562,974
Total liabilities	13,953,139	11,674,085	87,267,481	88,561,364	101,220,620	100,235,449	985,171
<b>Net Position</b>							
Net investment in capital							
assets	24,630,519	26,137,808	15,728,626	14,845,055	40,359,145	40,982,863	(623,718)
Restricted	9,220,811	8,629,869	5,831,148	5,831,148	15,051,959	14,461,017	590,942
Unrestricted	(10,045,729)	(8,689,620)	(482,550)	314,222	(10,528,279)	(8,375,398)	(2,152,881)
Total net position	23,805,601	26,078,057	21,077,224	20,990,425	44,882,825	47,068,482	(2,185,657)

Of the total City assets of \$146,103,445, \$108,344,705 or 74 percent is attributable to the City's enterprise activities with the major capital facility being the recently completed wastewater treatment plant. Overall total net position decreased by \$2,185,657 during the fiscal year ended June 30, 2013.

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

A portion of the City's net position, \$15,051,959 or 33 percent, represents resources that are subject to external restrictions on how they may be used. The *unrestricted net position* ended the fiscal year with a negative (\$10,528,279) balance which represents an increase from the negative (\$8,375,398) unrestricted net position balance as of June 30, 2012.

The City's net position decreased by \$2,185,657 or 4 percent. Total assets decreased by \$1,200,486 and total liabilities increased by \$985,171.

**City of Atwater's Change in Net Position  
For the Years Ended June 30, 2013 and 2012**

	Governmental		Business-type		Total		Variance
	Activities	Activities	Activities	Activities	2013	2012	
	2013	2012	2013	2012	2013	2012	
<b>Revenues:</b>							
Program revenues:							
Charges for services	2,844,390	2,752,261	14,980,725	14,795,888	17,825,115	17,548,149	276,966
Operating grants and contributions	1,834,601	1,843,895			1,834,601	1,843,895	(9,294)
Capital grants and contributions	170,369	142,696			170,369	142,696	27,673
General revenues:							
Taxes:							
Property taxes	4,104,132	4,689,307			4,104,132	4,689,307	(585,175)
Sales taxes	2,054,309	2,446,000			2,054,309	2,446,000	(391,691)
Other taxes	655,042	771,410			655,042	771,410	(116,368)
Motor vehicle in-lieu	12,274	14,645			12,274	14,645	(2,371)
Fines	0	0			0	0	0
Earnings on investments	500,676	81,104	119,241	97,006	619,917	178,110	441,807
Miscellaneous	1,213,280	110,265	20,957	16,444	1,234,237	126,709	1,107,528
Extraordinary item - RDA dissolution		5,666,091			0	5,666,091	(5,666,091)
Total general revenues	13,389,073	18,517,674	15,120,923	14,909,338	28,509,996	33,427,012	(4,917,016)
<b>Expenses:</b>							
General government	3,315,080	6,432,081			3,315,080	6,432,081	(3,117,001)
Public Safety	8,179,968	8,768,654			8,179,968	8,768,654	(588,686)
Highways and streets	1,936,026	1,062,431			1,936,026	1,062,431	873,595
Culture and recreation	1,381,797	1,464,074			1,381,797	1,464,074	(82,277)
Urban redevelopment and housing	1,042,782	796,214			1,042,782	796,214	246,568
Interest on long-term debt	0	256,108		4,461,181	0	4,717,289	(4,717,289)
Water			3,061,171	3,384,361	3,061,171	3,384,361	(323,190)
Sewer			8,995,700	4,939,566	8,995,700	4,939,566	4,056,134
Sanitation			2,783,129	2,590,328	2,783,129	2,590,328	192,801
Total Expenses	15,855,653	18,779,562	14,840,000	15,375,436	30,695,653	34,154,998	(3,459,345)
Change in net position before transfers	(2,466,580)	(261,888)	280,923	(466,098)	(2,185,657)	(727,986)	(1,457,671)
Transfers	194,124	152,454	(194,124)	(152,454)	0	0	0
Change in net position	(2,272,456)	(109,434)	86,799	(618,552)	(2,185,657)	(727,986)	(1,457,671)
Net position-beginning	26,078,057	26,240,664	20,990,425	21,608,977	47,068,482	47,849,641	(781,159)
Prior period adjustments	0	(53,173)			0	(53,173)	53,173
Net position-ending	23,805,601	26,078,057	21,077,224	20,990,425	44,882,825	47,068,482	(2,185,657)

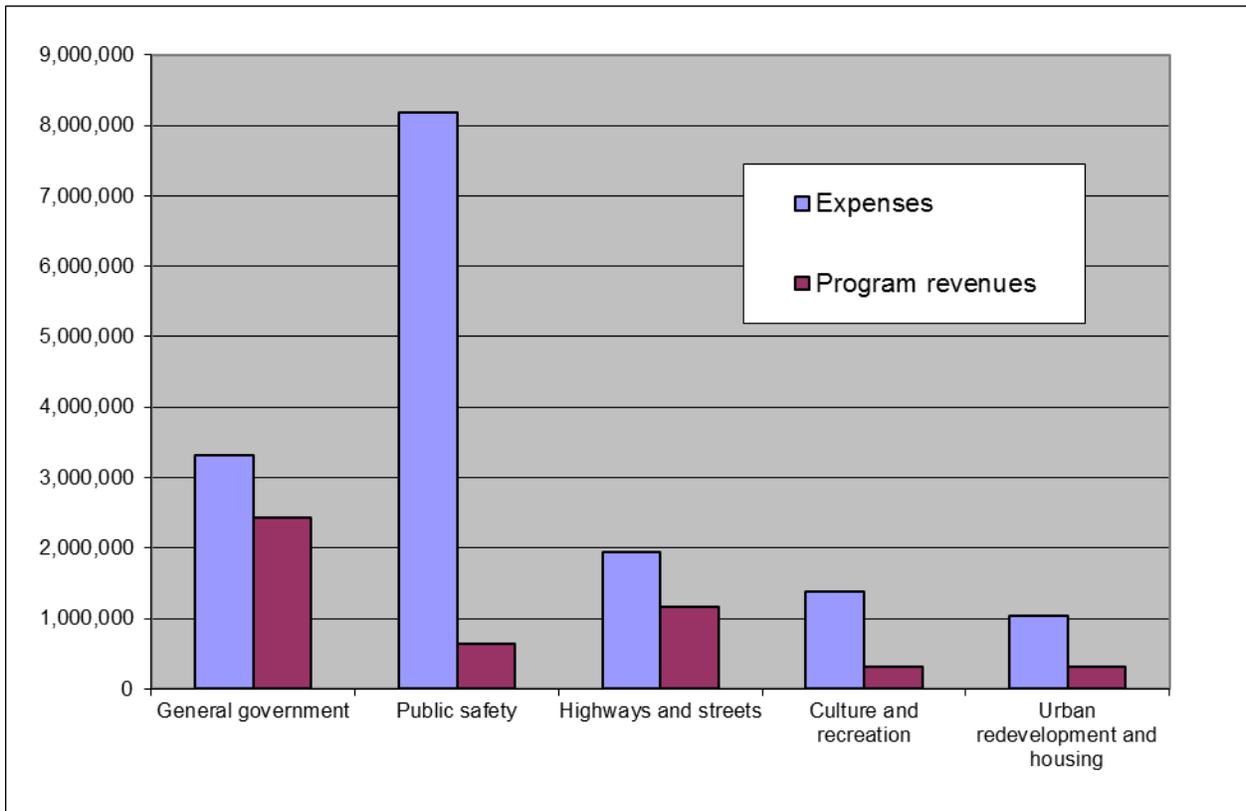
**CITY OF ATWATER  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

Total revenues decreased by \$4,917,016. This reduction was the result of recording the one-time extraordinary revenue item of \$5,666,091 related to the dissolution of the Atwater Redevelopment Agency in the Fiscal Year 2011-12 financial statements. Excluding this one-time unusual item, revenue within the governmental activities category from charges for service, operating and capital grants and property tax increased during the fiscal year ended June 30, 2013. Within the business-type activities category, total revenue increased by \$211,585 due mainly to the receipt of increased revenue from charges for service from the recently approved utility rate increases.

Expenditures within the governmental activities category were reduced by \$2,923,642 or 16 percent from \$18,779,295 to \$15,855,653 as the City continued to implement cost savings measures to respond to the ongoing economic downturn. General government expenditures were reduced by \$3,116,734 (48 percent) and public safety expenditures were reduced by \$588,686 (7 percent).

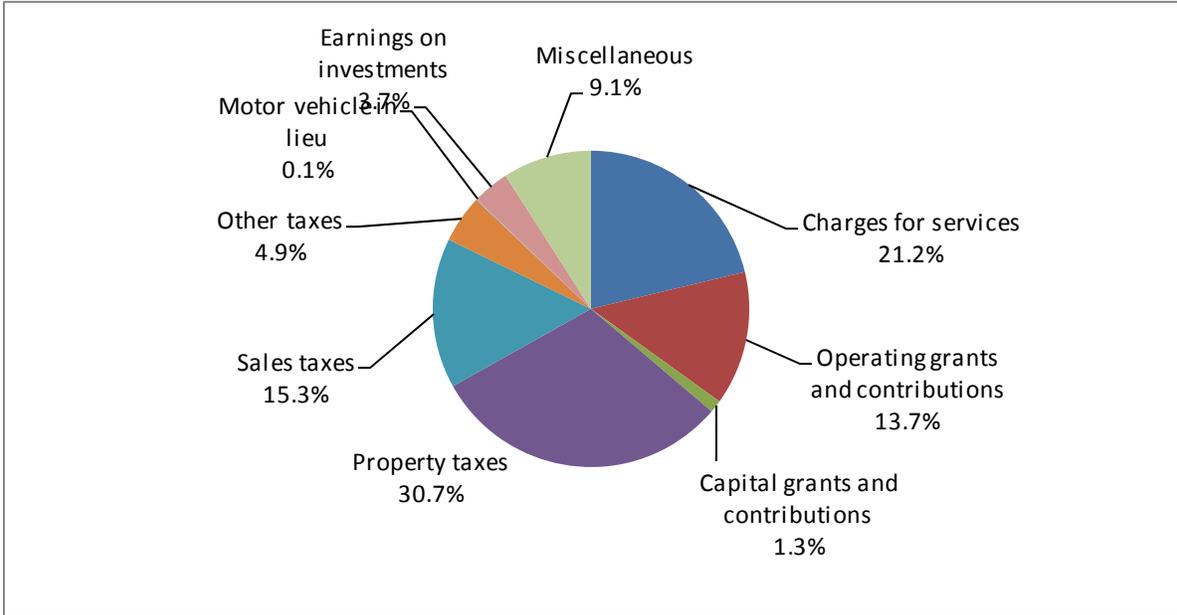
**Expenses and Program Revenue – Governmental Activities**



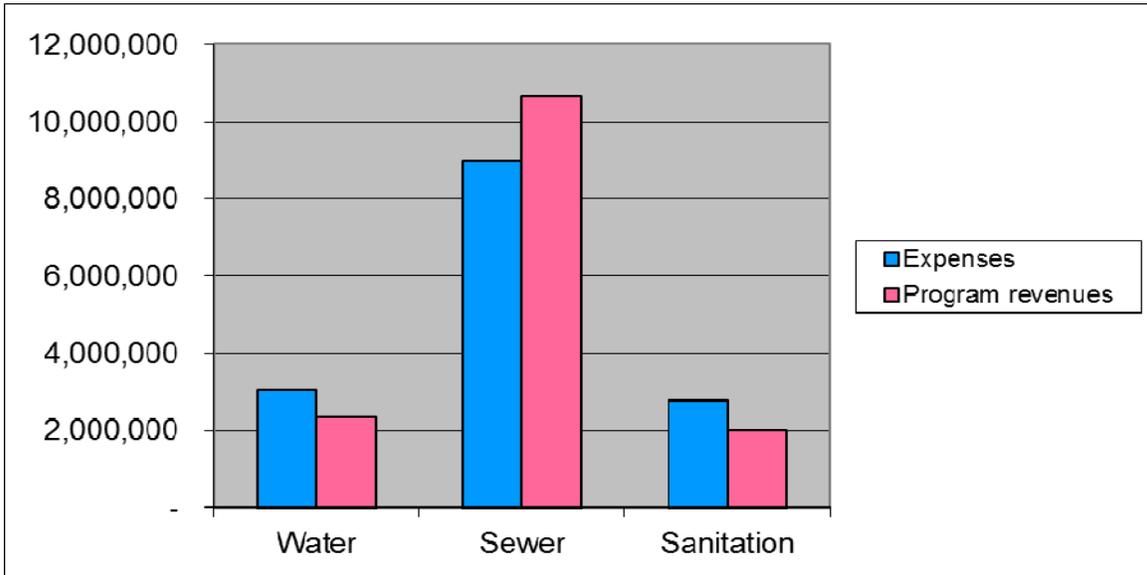
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**Revenues by Source – Governmental Activities**



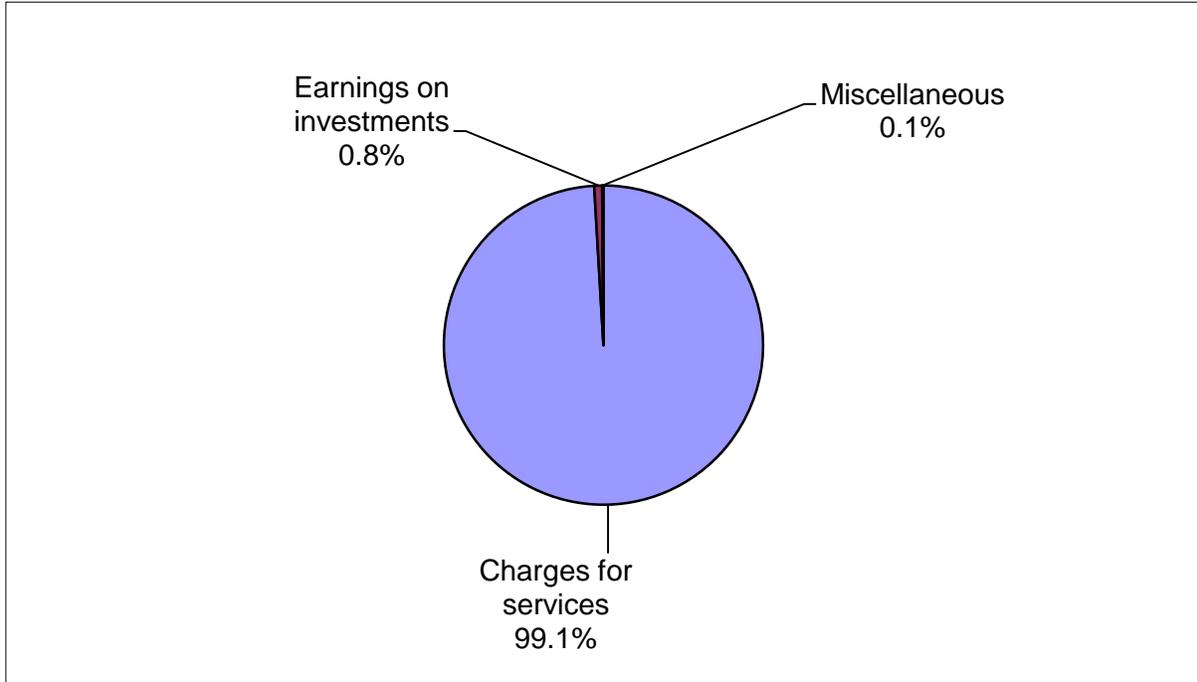
**Expenses and Program Revenue – Business-type Activities**



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

**Revenues by Source – Business-type Activities**



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City of Atwater uses fund accounting to ensure and demonstrate compliance with finance-related legal and accounting requirements. Under the Government Accounting Standards Board Statement No. 54, fund balances are now classified as Nonspendable, Restricted, Committed, Assigned and Unassigned. Nonspendable fund balances are amounts that are inherently nonspendable, i.e. cannot be spent because of their form or because they must be maintained intact. Restricted fund balances are amounts with externally enforceable limitations on use, such as limitations imposed by creditors or grantors, and limitations imposed by other governments. Assigned fund balances are amounts constrained by the City's intent to be used for specific purposes. Unassigned fund balances, residual net resources, represent the amounts in excess of nonspendable, restricted, committed and assigned amounts. Negative fund balances are included in the unassigned fund balance category.

**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.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,962,219, an increase of \$405,373 in comparison with the prior year. Of the total governmental funds fund balance, \$10,580 was classified as nonspendable, \$9,220,811 was restricted, \$521,332 was assigned for capital projects and the unassigned fund balance category had a negative fund balance of (\$4,790,504).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The General Fund is the chief operating fund of the City. At the end of the current fiscal year the total fund balance of the General Fund was a negative (\$4,184,252) compared to the negative fund balance of (\$3,913,630) at June 30, 2012. While the fund balance of the General Fund declined by \$270,622 during the current fiscal year, this reduction was significantly less than the \$3,634,683 fund balance decline realized in the prior fiscal year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year ended June 30, 2013, General Fund revenues totaled \$10,970,749 which was \$767,154 more than the budgeted amount. General Fund expenditures for the fiscal year ended June 30, 2013 totaled \$11,118,701 or \$38,829 more than the budgeted amount. While the adopted budget anticipated a shortfall of \$980,902, the actual decline in fund balance was \$270,622. The General Fund ended the year with a negative fund balance of (\$4,184,252).

The following table provides an explanation of revenues by source that changed significantly over the prior year:

<b>Revenue by Source General Fund</b>						
	<u>FY 2013</u>		<u>FY 2012</u>		<u>Increase/(Decrease)</u>	
	Amount	% of Total	Amount	% of Total	Amount	%vs prior yr
Taxes	7,015,989	64.0%	6,902,875	76.0%	113,114	1.6%
Licenses and permits	87,967	0.8%	88,564	1.0%	(597)	-0.7%
Intergovernmental	605,712	5.5%	442,170	4.9%	163,542	37.0%
Charges for services	1,501,455	13.7%	1,384,329	15.2%	117,126	8.5%
Fines	52,722	0.5%	80,670	0.9%	(27,948)	-34.6%
Revenue from the use of money and property	496,065	4.5%	87,564	1.0%	408,501	466.5%
Miscellaneous	<u>1,210,839</u>	11.0%	<u>91,524</u>	1.0%	<u>1,119,315</u>	1223.0%
<b>Total</b>	<u><u>10,970,749</u></u>	<u>100.0%</u>	<u><u>9,077,696</u></u>	<u>100.0%</u>	<u><u>1,893,053</u></u>	<u>20.9%</u>

- Taxes increased by \$113,114 or 1.6 percent primarily due to increased property tax revenue.
- Intergovernmental revenue increased by \$163,542 or 37.0 percent due to increased revenue from grants.
- Intergovernmental revenue increased by \$163,542 or 37 percent due to the receipt of a public safety grant.
- Charges for services increased by \$117,126 or 8.5 percent due mainly to receipt of payment for assessment district administrative fees.
- Use of money and property increased by \$408,501 or 466.5 percent due to the prepayment of facility rental according to the terms of an updated sanitation franchise agreement.
- Miscellaneous revenue increased by \$1,119,315 (1,223 percent) due mainly to the receipt of revenue from the Successor Agency of the Former Redevelopment Agency and additional franchise fee revenue.

**CITY OF ATWATER**  
**CALIFORNIA**

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

The following table provides an explanation of expenditures by function that changed significantly over the prior year:

**Expenditures by Function**  
**General Fund**

	<u>FY 2013</u>		<u>FY 2012</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% vs prior yr</u>
General government	2,941,543	26.5%	4,096,034	31.8%	(1,154,491)	-28.2%
Public safety	6,938,064	62.4%	7,545,670	58.7%	(607,606)	-8.1%
Culture and recreation	1,079,148	9.7%	1,198,056	9.3%	(118,908)	-9.9%
Capital outlays	159,946	1.4%	24,806	0.2%	135,140	544.8%
<b>Total</b>	<b><u>11,118,701</u></b>	<b><u>100.0%</u></b>	<b><u>12,864,566</u></b>	<b><u>100.0%</u></b>	<b><u>(1,745,865)</u></b>	<b><u>-13.6%</u></b>

- Overall, General Fund expenditures decreased by \$1,745,865, or 13.6 percent, due to the implementation of cost savings measures including reduced staffing, reduced employee compensation and reduced operating costs.
- Capital outlay expenditures increased by \$135,140, or 544.8 percent, due to the expenditure of grant funding for capital equipment.

**Proprietary funds.** The City's proprietary funds include the Water, Sewer and Sanitation enterprise funds. Total net position as of June 30, 2013 amounted to \$21,077,224 which is an increase of \$86,799 from the prior year. The net position of the Water Fund totaled \$5,731,333. The net position of the Sewer Fund totaled \$19,515,991. The Sanitation Fund ended the year with a negative net position balance of (\$4,170,100).

**CITY OF ATWATER  
CALIFORNIA**

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

**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 totaled \$115,590,641 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, construction in progress, and roads. The City's investments in capital assets for the current fiscal year decreased by 1.5 percent.

	Governmental		Business-type		Total		Variance	% change
	Activities		Activities		Total			
	2013	2012	2013	2012	2013	2012		
Land	299,383	299,383	764,902	764,902	1,064,285	1,064,285	0	0.0%
Construction in progress	270,731	1,085,969	72,273,222	71,303,371	72,543,953	72,389,340	154,613	0.2%
Building/improvements	7,844,740	8,282,802	14,225,770	14,956,237	22,070,510	23,239,039	(1,168,529)	-5.0%
Equipment	836,523	640,363	3,696,228	4,119,875	4,532,751	4,760,238	(227,487)	-4.8%
Infrastructure	987,599	353,217	0	0	987,599	387,892	599,707	154.6%
Roads	14,391,543	15,476,074	0	0	14,391,543	15,476,074	(1,084,531)	-7.0%
<b>Total assets</b>	<b>24,630,519</b>	<b>26,137,808</b>	<b>90,960,122</b>	<b>91,144,385</b>	<b>115,590,641</b>	<b>117,316,868</b>	<b>(1,726,227)</b>	<b>-1.5%</b>

Additional information on the City's capital assets can be found in Note 5 on pages 47-48 of this report.

**Long-term debt.** As of June 30, 2013, the City had total debt outstanding of \$81,578,053 of which \$1,208,323 is due within one year and the remaining \$80,369,730 is due in more than one year. Additional information on the City's long-term debt can be found in Note 6 on pages 49-53 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City continues to implement a financial recovery plan. It appears that the economic climate has begun to stabilize after several years of revenue reductions caused by the nation-wide recession. A number of difficult cost saving measures have been implemented over the past several years and have brought operating costs more in line with available financial resources. The adopted budget for Fiscal Year 2013-14 is a balanced budget with sufficient revenues anticipated to be available to fund the current level of reduced operating costs. The City Council has taken action to provide for the future stability of the City's water and sanitation systems by approving an orderly series of rate adjustments over the next several years to ensure that funding is available to continue to provide quality utility service to the citizens and business of this community. The citizens of the City of Atwater also recently approved a sales tax measure, Measure H, which will provide much needed funding for enhanced public safety costs over the next ten year period.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City of Atwater's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Atwater, 750 Bellevue Road, Atwater, CA 95301.

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## GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF ATWATER  
CALIFORNIA**

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 7,043,950	\$ 7,369,984	\$ 14,413,934
Accounts receivable, net of allowance for uncollectibles	1,111,819	1,126,456	2,238,275
Taxes receivable	416,122	-	416,122
Interest receivable	65	142	207
Other receivable	11,449	-	11,449
Due from other government	259,265	-	259,265
Prepaid expenses	58,523	1,855	60,378
Land held for resale	3,855,930	-	3,855,930
Deferred charges	-	3,054,998	3,054,998
Restricted assets:			
Cash with fiscal agents	-	5,831,148	5,831,148
Loan receivable	371,098	-	371,098
Capital assets:			
Nondepreciable	570,114	73,038,124	73,608,238
Depreciable, net of accumulated depreciation	<u>24,060,405</u>	<u>17,921,998</u>	<u>41,982,403</u>
Total assets	<u>37,758,740</u>	<u>108,344,705</u>	<u>146,103,445</u>
<b>LIABILITIES</b>			
Cash overdraft	4,045,393	3,246,010	7,291,403
Accounts payable	2,275,594	787,442	3,063,036
Accrued payroll and related liabilities	377,392	27,934	405,326
Accrued interest	-	779,452	779,452
Deposits	147,252	252,720	399,972
Due to property owners	9,866	-	9,866
Unearned revenue	15,202	-	15,202
Unfunded other postemployment benefit liability	6,651,187	1,027,123	7,678,310
Due within one year:			
Certificates of participation	-	1,155,000	1,155,000
Compensated absences payable	46,760	6,563	53,323
Due in more than one year:			
Certificates of participation, net of unamortized discounts	-	79,907,644	79,907,644
Compensated absences payable	<u>384,493</u>	<u>77,593</u>	<u>462,086</u>
Total liabilities	<u>13,953,139</u>	<u>87,267,481</u>	<u>101,220,620</u>
<b>NET POSITION</b>			
Net investment in capital assets	24,630,519	15,728,626	40,359,145
Restricted for:			
Capital projects	-	5,831,148	5,831,148
Community development	6,441,204	-	6,441,204
Highway and streets	1,389,482	-	1,389,482
Capital maintenance	1,384,758	-	1,384,758
Other purposes	5,367	-	5,367
Unrestricted	<u>(10,045,729)</u>	<u>(482,550)</u>	<u>(10,528,279)</u>
Total net position	<u>\$ 23,805,601</u>	<u>\$ 21,077,224</u>	<u>\$ 44,882,825</u>

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

**CITY OF ATWATER  
CALIFORNIA**

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 3,315,080	\$ 2,279,929	\$ 153,609	\$ -	\$ (881,542)	\$ -	\$ (881,542)
Public safety	8,179,968	322,802	309,717	-	(7,547,449)	-	(7,547,449)
Highways and streets	1,936,026	-	992,983	170,369	(772,674)	-	(772,674)
Culture and recreation	1,381,797	172,832	139,705	-	(1,069,260)	-	(1,069,260)
Urban redevelopment and housing	<u>1,042,782</u>	<u>68,827</u>	<u>238,587</u>	<u>-</u>	<u>(735,368)</u>	<u>-</u>	<u>(735,368)</u>
Total governmental activities	<u>15,855,653</u>	<u>2,844,390</u>	<u>1,834,601</u>	<u>170,369</u>	<u>(11,006,293)</u>	<u>-</u>	<u>(11,006,293)</u>
<b>Business-Type Activities:</b>							
Water	3,061,171	2,346,631	-	-	-	(714,540)	(714,540)
Sewer	8,995,700	10,639,613	-	-	-	1,643,913	1,643,913
Sanitation	<u>2,783,129</u>	<u>1,994,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(788,648)</u>	<u>(788,648)</u>
Total business-type activities	<u>14,840,000</u>	<u>14,980,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,725</u>	<u>140,725</u>
Total primary government	<u>\$ 30,695,653</u>	<u>\$ 17,825,115</u>	<u>\$ 1,834,601</u>	<u>\$ 170,369</u>	<u>(11,006,293)</u>	<u>140,725</u>	<u>(10,865,568)</u>
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes					4,104,132	-	4,104,132
Sales taxes					2,054,309	-	2,054,309
Other taxes					655,042	-	655,042
Motor vehicle in-lieu					12,274	-	12,274
Earnings on investments					500,676	119,241	619,917
Miscellaneous					1,213,280	20,957	1,234,237
Transfers					<u>194,124</u>	<u>(194,124)</u>	<u>-</u>
Total general revenues and transfers					<u>8,733,837</u>	<u>(53,926)</u>	<u>8,679,911</u>
Change in net position					(2,272,456)	86,799	(2,185,657)
Net position - beginning					<u>26,078,057</u>	<u>20,990,425</u>	<u>47,068,482</u>
Net position - ending					<u>\$ 23,805,601</u>	<u>\$ 21,077,224</u>	<u>\$ 44,882,825</u>

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

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## FUND FINANCIAL STATEMENTS

**CITY OF ATWATER  
CALIFORNIA**

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

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ -	\$ 6,112,508	\$ 6,112,508
Accounts receivable	556,748	554,970	1,111,718
Taxes receivable	379,757	36,365	416,122
Interest receivable	1	58	59
Other receivable	-	5,894	5,894
Due from other funds	175,000	240,000	415,000
Due from other government	-	259,265	259,265
Loan receivable	371,098	-	371,098
Prepaid expenses	10,580	-	10,580
Land held for resale	-	3,855,930	3,855,930
	<u>\$ 1,493,184</u>	<u>\$ 11,064,990</u>	<u>\$ 12,558,174</u>
<b>LIABILITIES</b>			
Cash overdraft	\$ 3,141,199	\$ 904,194	\$ 4,045,393
Accounts payable	2,106,545	83,886	2,190,431
Accrued payroll and related liabilities	342,562	31,502	374,064
Due to other funds	-	415,000	415,000
Deposits	35,252	112,000	147,252
Due to property owners	9,866	-	9,866
Unearned revenue	10,337	471	10,808
	<u>5,645,761</u>	<u>1,547,053</u>	<u>7,192,814</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	31,675	371,466	403,141
	<u>31,675</u>	<u>371,466</u>	<u>403,141</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid expenses	10,580	-	10,580
Restricted for:			
Community development	-	6,441,204	6,441,204
Highway and streets	-	1,389,482	1,389,482
Capital maintenance	-	1,384,758	1,384,758
Other purposes	-	5,367	5,367
Assigned for:			
Capital projects	-	521,332	521,332
Unassigned	(4,194,832)	(595,672)	(4,790,504)
	<u>(4,184,252)</u>	<u>9,146,471</u>	<u>4,962,219</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,493,184</u>	<u>\$ 11,064,990</u>	<u>\$ 12,558,174</u>

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

**CITY OF ATWATER**  
**CALIFORNIA**

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

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

Total fund balances - governmental funds \$ 4,962,219

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$67,910,637 and the accumulated depreciation is \$(44,631,121). 23,277,517

Other long-term assets are not available to pay for current period expenditures; therefore, they are deferred in the governmental funds. 403,141

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Other postemployment benefit liability	\$ (6,651,187)	
Compensated absences payable	<u>(417,336)</u>	(7,068,523)

Internal service funds are used by management to charge the costs of certain activities to the individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 2,231,247

Net position of governmental activities \$ 23,805,601

**CITY OF ATWATER**  
**CALIFORNIA**

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

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 7,015,989	\$ 9,717	\$ 7,025,706
Licenses and permits	87,967	-	87,967
Intergovernmental	605,712	1,645,865	2,251,577
Charges for services	1,501,455	768,027	2,269,482
Fines	52,722	-	52,722
Revenue from the use of money and property	496,065	49,517	545,582
Miscellaneous	1,210,839	7,171	1,218,010
Total revenues	<u>10,970,749</u>	<u>2,480,297</u>	<u>13,451,046</u>
<b>EXPENDITURES</b>			
Current:			
General government	2,941,543	4,426	2,945,969
Public safety	6,938,064	532,072	7,470,136
Highways and streets	-	358,907	358,907
Culture and recreation	1,079,148	-	1,079,148
Urban redevelopment and housing	-	1,008,738	1,008,738
Capital outlays	159,946	216,953	376,899
Total expenditures	<u>11,118,701</u>	<u>2,121,096</u>	<u>13,239,797</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(147,952)</u>	<u>359,201</u>	<u>211,249</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	152,375	482,354	634,729
Transfers out	<u>(275,045)</u>	<u>(165,560)</u>	<u>(440,605)</u>
Total other financing sources (uses)	<u>(122,670)</u>	<u>316,794</u>	<u>194,124</u>
Net change in fund balances	(270,622)	675,995	405,373
Fund balances - beginning	<u>(3,913,630)</u>	<u>8,470,476</u>	<u>4,556,846</u>
Fund balances - ending	<u>\$ (4,184,252)</u>	<u>\$ 9,146,471</u>	<u>\$ 4,962,219</u>

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

**CITY OF ATWATER**  
**CALIFORNIA**

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

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

Net change in fund balances - total governmental funds	\$ 405,373
Other long-term assets are not available to pay for current period expenditures; therefore, they are deferred in the governmental funds.	(20,849)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is capitalized. This is the amount of capital assets recorded.	375,925
Depreciation expense on capital assets is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.	(1,792,614)
Other postemployment benefit expense is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, the expense is not reported as an expenditure in the governmental funds.	(1,471,820)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid).	84,995
Internal service funds are used by the management to charge the costs of activities to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	<u>146,534</u>
Change in net position of governmental activities	<u>\$ (2,272,456)</u>

**CITY OF ATWATER  
CALIFORNIA**

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

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities
	Water Fund	Sewer Fund	Sanitation Fund		Internal Service Fund
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ -	\$ 7,369,984	\$ -	\$ 7,369,984	\$ 931,442
Accounts receivable, net of allowance for uncollectibles	190,057	818,845	117,554	1,126,456	101
Interest receivable	81	61	-	142	6
Other receivable	-	-	-	-	5,555
Due from other funds	500,000	1,938,000	-	2,438,000	-
Prepaid expenses	-	1,855	-	1,855	47,943
Deferred charges	-	3,054,998	-	3,054,998	-
Total current assets	<u>690,138</u>	<u>13,183,743</u>	<u>117,554</u>	<u>13,991,435</u>	<u>985,047</u>
Noncurrent assets:					
Restricted assets:					
Cash with fiscal agents	-	5,831,148	-	5,831,148	-
Capital assets:					
Nondepreciable	116,481	72,836,129	85,514	73,038,124	-
Depreciable, net	7,315,259	10,559,975	46,764	17,921,998	1,353,002
Total noncurrent assets	<u>7,431,740</u>	<u>89,227,252</u>	<u>132,278</u>	<u>96,791,270</u>	<u>1,353,002</u>
Total assets	<u>8,121,878</u>	<u>102,410,995</u>	<u>249,832</u>	<u>110,782,705</u>	<u>2,338,049</u>
<b>LIABILITIES</b>					
Current liabilities:					
Cash overdraft	1,157,314	-	2,088,696	3,246,010	-
Accounts payable	140,630	446,736	200,076	787,442	85,163
Accrued payroll and related liabilities	13,210	11,935	2,789	27,934	2,936
Accrued interest	-	779,452	-	779,452	-
Deposits	191,715	61,005	-	252,720	-
Due to other funds	338,000	-	2,100,000	2,438,000	-
Compensated absences payable	4,155	1,926	482	6,563	1,525
Unearned revenue	-	-	-	-	4,394
Revenue bond payable, net of unamortized discounts	-	1,155,000	-	1,155,000	-
Total current liabilities	<u>1,845,024</u>	<u>2,456,054</u>	<u>4,392,043</u>	<u>8,693,121</u>	<u>94,018</u>
Noncurrent liabilities:					
Compensated absences payable	30,392	28,727	18,474	77,593	12,784
Unfunded other postemployment benefit liability	515,129	502,579	9,415	1,027,123	-
Revenue bond payable	-	79,907,644	-	79,907,644	-
Total noncurrent liabilities	<u>545,521</u>	<u>80,438,950</u>	<u>27,889</u>	<u>81,012,360</u>	<u>12,784</u>
Total liabilities	<u>2,390,545</u>	<u>82,895,004</u>	<u>4,419,932</u>	<u>89,705,481</u>	<u>106,802</u>
<b>NET POSITION</b>					
Net investment in capital assets	7,431,740	8,164,608	132,278	15,728,626	1,353,002
Restricted for:					
Capital projects	-	5,831,148	-	5,831,148	-
Unrestricted	<u>(1,700,407)</u>	<u>5,520,235</u>	<u>(4,302,378)</u>	<u>(482,550)</u>	<u>878,245</u>
Total net position	<u>\$ 5,731,333</u>	<u>\$ 19,515,991</u>	<u>\$ (4,170,100)</u>	<u>\$ 21,077,224</u>	<u>\$ 2,231,247</u>

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

**CITY OF ATWATER  
CALIFORNIA**

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

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Total	
Operating revenues:					
Charges for services	\$ 2,346,631	\$ 10,639,613	\$ 1,994,481	\$ 14,980,725	\$ 2,528,550
Other operating revenues	<u>20,522</u>	<u>285</u>	<u>150</u>	<u>20,957</u>	<u>26,306</u>
Total operating revenues	<u>2,367,153</u>	<u>10,639,898</u>	<u>1,994,631</u>	<u>15,001,682</u>	<u>2,554,856</u>
Operating expenses:					
Personnel costs	583,815	596,545	148,382	1,328,742	1,156,685
Services	462,505	1,619,015	2,520,695	4,602,215	80,353
Materials and supplies	104,118	42,756	5,151	152,025	976,718
Utilities	1,245,756	1,523,775	91,836	2,861,367	115,663
Amortization	-	172,844	-	172,844	-
Depreciation	<u>664,519</u>	<u>790,365</u>	<u>17,065</u>	<u>1,471,949</u>	<u>90,595</u>
Total operating expenses	<u>3,060,713</u>	<u>4,745,300</u>	<u>2,783,129</u>	<u>10,589,142</u>	<u>2,420,014</u>
Operating income (loss)	<u>(693,560)</u>	<u>5,894,598</u>	<u>(788,498)</u>	<u>4,412,540</u>	<u>134,842</u>
Non-operating revenue (expenses):					
Interest income	67,498	51,743	-	119,241	6,516
Intergovernmental revenues	-	-	-	-	5,176
Interest expense	<u>(458)</u>	<u>(4,250,400)</u>	<u>-</u>	<u>(4,250,858)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>67,040</u>	<u>(4,198,657)</u>	<u>-</u>	<u>(4,131,617)</u>	<u>11,692</u>
Income (loss) before transfers	<u>(626,520)</u>	<u>1,695,941</u>	<u>(788,498)</u>	<u>280,923</u>	<u>146,534</u>
Transfers:					
Operating transfers out	<u>(152,375)</u>	<u>(20,000)</u>	<u>(21,749)</u>	<u>(194,124)</u>	<u>-</u>
Total transfers	<u>(152,375)</u>	<u>(20,000)</u>	<u>(21,749)</u>	<u>(194,124)</u>	<u>-</u>
Change in net position	(778,895)	1,675,941	(810,247)	86,799	146,534
Net position - beginning	<u>6,510,228</u>	<u>17,840,050</u>	<u>(3,359,853)</u>	<u>20,990,425</u>	<u>2,084,713</u>
Net position - ending	<u>\$ 5,731,333</u>	<u>\$ 19,515,991</u>	<u>\$ (4,170,100)</u>	<u>\$ 21,077,224</u>	<u>\$ 2,231,247</u>

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

**CITY OF ATWATER  
CALIFORNIA**

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

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Total	
Cash flows from operating activities:					
Receipts from customers	\$ 2,300,838	\$ 11,176,003	\$ 1,981,381	\$ 15,458,222	\$ 2,672,996
Payments to suppliers	(1,808,662)	(4,632,508)	(2,707,317)	(9,148,487)	(1,282,217)
Payments to employees	(465,729)	(483,305)	(134,042)	(1,083,076)	(1,163,887)
Other receipts	20,522	285	150	20,957	26,647
Net cash provided (used) by operating activities	<u>46,969</u>	<u>6,060,475</u>	<u>(859,828)</u>	<u>5,247,616</u>	<u>253,539</u>
Cash flows from non-capital financing activities:					
Operating transfers from (to) other funds	(152,375)	(20,000)	(21,748)	(194,123)	-
Grant proceeds	-	-	-	-	5,176
Net cash provided (used) by non-capital financing activities	<u>(152,375)</u>	<u>(20,000)</u>	<u>(21,748)</u>	<u>(194,123)</u>	<u>5,176</u>
Cash flows from capital and related financing activities:					
Principal and interest paid	(29,076)	(5,275,138)	-	(5,304,214)	-
Acquisition or construction of capital assets	-	(1,287,688)	-	(1,287,688)	-
Net cash provided (used) by capital and related financing activities	<u>(29,076)</u>	<u>(6,562,826)</u>	<u>-</u>	<u>(6,591,902)</u>	<u>-</u>
Cash flows from investing activities:					
Interest and dividends on investments	67,985	52,220	-	120,205	6,539
Net cash provided (used) by investing activities	<u>67,985</u>	<u>52,220</u>	<u>-</u>	<u>120,205</u>	<u>6,539</u>
Net increase (decrease) in cash	(66,497)	(470,131)	(881,576)	(1,418,204)	265,254
Cash and cash equivalents, July 1	<u>(1,090,817)</u>	<u>13,671,263</u>	<u>(1,207,120)</u>	<u>11,373,326</u>	<u>666,188</u>
Cash and cash equivalents, June 30	<u>\$ (1,157,314)</u>	<u>\$ 13,201,132</u>	<u>\$ (2,088,696)</u>	<u>\$ 9,955,122</u>	<u>\$ 931,442</u>

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

**CITY OF ATWATER  
CALIFORNIA**

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

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Total	
Operating income (loss)	\$ (693,560)	\$ 5,894,598	\$ (788,498)	\$ 4,412,540	\$ 134,842
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	664,520	790,365	17,065	1,471,950	90,596
Amortization	-	172,844	-	172,844	-
<i>Change in Assets and Liabilities:</i>					
(Increase) decrease in receivables	(71,773)	536,389	(13,099)	451,517	144,445
(Increase) decrease in prepaid expenses	-	(1,855)	-	(1,855)	(47,772)
Increase (decrease) in accounts payable	3,717	(1,049,388)	(89,636)	(1,135,307)	(61,710)
Increase (decrease) in contracts payable	-	(395,719)	-	(395,719)	-
Increase (decrease) in compensated absences	145	(3,203)	12,487	9,429	(5,046)
Increase (decrease) in accrued payroll and related liabilities	(1,859)	(3,355)	1,853	(3,361)	(2,157)
Increase (decrease) in unearned revenues	-	-	-	-	341
Increase (decrease) in OPEB liability	119,800	119,799	-	239,599	-
Increase (decrease) in deposits	25,979	-	-	25,979	-
Net cash provided (used) by operating activities	<u>\$ 46,969</u>	<u>\$ 6,060,475</u>	<u>\$ (859,828)</u>	<u>\$ 5,247,616</u>	<u>\$ 253,539</u>
Reconciliation of cash and cash equivalents to the balance sheet:					
Cash and investments	\$ -	\$ 7,369,984	\$ -	\$ 7,369,984	\$ 931,442
Cash with fiscal agent	-	5,831,148	-	5,831,148	-
Total	<u>\$ -</u>	<u>\$ 13,201,132</u>	<u>\$ -</u>	<u>\$ 13,201,132</u>	<u>\$ 931,442</u>

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

**CITY OF ATWATER**  
**CALIFORNIA**

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

	<u>Successor Agency Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and investments	\$ 509,578	\$ 1,575,869
Cash and investments - restricted	2,572,413	689,427
Taxes receivable	-	72,224
Interest receivable	6	13
Loan receivable	111,437	-
Unamortized bond issuance	269,116	-
Land held for resale	63,440	-
Capital assets - net	<u>841,873</u>	<u>-</u>
 Total assets	 <u>\$ 4,367,863</u>	 <u>\$ 2,337,533</u>
<b>LIABILITIES</b>		
Deposits	\$ -	\$ 1,684
Due to property owners	-	2,335,849
Unearned revenue	57	-
Long-term liabilities:		
Due within one year	941,098	-
Due in more than one year	<u>9,456,356</u>	<u>-</u>
 Total liabilities	 <u>\$ 10,397,511</u>	 <u>\$ 2,337,533</u>
<b>NET POSITION</b>		
Net position held in trust for Successor Agency activities	<u>\$ (6,029,648)</u>	<u>\$ -</u>

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

**CITY OF ATWATER**  
**CALIFORNIA**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Successor Agency Trust Fund</u>
<b>ADDITIONS</b>	
ROPS distributions	\$ 1,292,254
Interest	3,729
Rent and leases revenue	<u>10,874</u>
Total additions	<u>1,306,857</u>
<b>DEDUCTIONS</b>	
General and administrative	\$ 391,479
Interest and fiscal charges	496,552
Return of funds to DOF	471,340
Depreciation	<u>23,637</u>
Total deductions	<u>1,383,008</u>
Change in net position	(76,151)
Net position - beginning	<u>(5,953,497)</u>
Net position - ending	<u><u>\$ (6,029,648)</u></u>

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

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## NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

The City was incorporated on August 16, 1922, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city. It is governed by an elected five-member council and provides the following services to the community: public safety (police, fire, and animal control), water, sanitation (solid waste disposal and sanitary wastewater), parks and recreation, community development, childcare, public works, and general administrative services.

**Basis of Presentation**

*Management’s Discussion and Analysis* – GASB Statement No. 34 requires that financial statements be accompanied by narrative introduction and analytical overview of the City’s financial activities in the form of “management discussion and analysis” (MD&A). This analysis is similar to the analysis provided in the annual reports of the private-sector organizations.

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

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

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

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated: Due to/Due from Other Funds, Interfund Note Receivable/Interfund Long-term Debt, and Transfers In/Transfers Out.

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

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

The City reports the following major governmental fund:

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

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

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

The City reports the following major enterprise funds:

- The *Water Fund* accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.
- The *Sewer Fund* accounts for the operation and maintenance of the City's sewer system.
- The *Sanitation Fund* accounts for the operation and maintenance of the City's sanitation system.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

The City reports the following additional fund types:

- The *Internal Service Fund* accounts for building and equipment maintenance provided to other departments on a cost-reimbursement basis.
- The *Fiduciary Funds* account for assets held by the City as an agent for various individuals, private organizations, and other governmental units. Agency funds are custodial in nature and do not involve measurement of results of operations.

The City's fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fund's activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The City uses an agency fund to account for assets held for, due to, and other. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. Fiduciary funds are presented on an economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements.

The City reports the following fiduciary funds:

- The *Section 125 Dependent Care* accounts for employees' pre-tax dollars used to pay for dependent care expenses.
- The *Section 125 Medical* accounts for employees' pre-tax dollars used to pay for medical expenses.
- The *CFD No. 1* accounts for the levy and collection of a special tax purpose or servicing bonded indebtedness to pay for facilities and improvements in the CFD District.
- The *Successor Agency Trust Fund* is used to account for assets and liabilities of the former redevelopment agency until they are distributed to other units of state and local government as a result of the dissolution of the redevelopment agency.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting**

*Government-Wide, Proprietary and Fiduciary Fund Financial Statements* – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

**Assets, Liabilities and Net Position**

**Cash and Cash Equivalents**

For the purpose of the accompanying statement of cash flows, the enterprise and internal service funds consider all highly liquid investments with maturity of three months or less when acquired as cash and cash equivalents. The City follows the practice of pooling the cash from all funds for investment purposes.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position (Continued)**

**Restricted Assets**

Certain proceeds of general obligation debt and enterprise debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants. "Cash with Fiscal Agent" is used to report resources set aside for potential deficiencies in the repayment ability of the debt service fund and enterprise funds, and for payment of construction projects undertaken by the City.

**Receivables**

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

**Interfund Transactions**

Interfund transactions are reflected as loans, services provided or used, or reimbursements or transfers. Loans reported as receivables and payables as, appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans).

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**Property Tax Calendar**

Property taxes are levied on the first day of October by the County Assessor, and payable to the County Tax Collector in two installments. The first installment is due November 1st, and delinquent by December 10th. The second installment is due February 1st, and delinquent April 10th. Taxes become a lien on the property on March 1st, and on the date of transfer of title, and the date of new construction. The minimum property value which is taxed is \$1,000. However, tax bills are prepared for properties valued at less than \$1,000 if there is a special assessment to be collected. Delinquent taxes are assessed a 10% penalty plus a \$5.00 handling fee.

The City accounts for property taxes in conformance with NCGA Interpretation 3 which requires that:

- (1) taxes relating to the current budget and collected within 60 days after the end of the budget period be recognized as revenue currently; and
- (2) a property tax assessment made during the current year, for the purpose of financing the budget of the following fiscal period, be recorded as a receivable and the related revenue deferred to the period for which it was levied.

**CITY OF ATWATER**  
**CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position (Continued)**

**Discount on Bonds**

The City's bond or debt discount is recorded as expenditures in the year they are incurred for governmental fund debt and are amortized over the life of the bond for debt service fund.

**Bond Issuance Costs**

The City's bond or debt issuance costs are recorded as assets in the year they are incurred for governmental fund debt and are amortized over the life of the bond for debt service fund.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (e.g. road, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Contributed assets are reported at fair market value as of the date received. The government reports infrastructure assets on a network and subsystem basis. The government amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized, but are expensed as incurred. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Building and Improvements .....	20-40 years
Equipment.....	5-40 years
Infrastructure.....	5-40 years
Roads .....	10-40 years

**Risk Management**

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

**Interest Payable**

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

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

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position (Continued)**

**Compensated Absences**

It is the City's policy to permit employees to accumulate earned, but unused, vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Unearned Revenue**

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

**Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services.

**Budgetary and Budgetary Accounting**

Budgets are adopted annually for the general funds, special revenue funds, capital funds, enterprise funds, and internal service funds. Formal budgetary integration is employed as a management control device during the year for these funds. The annual budgets are prepared on the basis of accounting utilized by the fund.

Proprietary fund budgeting parallels that of private business enterprise.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position (Continued)**

**Budgetary and Budgetary Accounting (Continued)**

Expenditures may not legally exceed budgeted appropriations at the fund level. The City Manager is authorized to make budget transfers between accounts within any fund. All revisions must be reported to the City Council.

All unencumbered and unexpended appropriations lapse at the end of the fiscal year. Encumbrances are reappropriated in the ensuing year's budget.

**Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Classification of Net Position**

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

- ***Net investment in capital assets*** – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.
- ***Restricted net position*** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted net position*** – This category represents the net position of the City, in which assets are not restricted for any project or other purpose.

When both restricted and unrestricted resources are available, restricted resources are depleted first before the unrestricted resources are used.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position (Continued)**

**Fund Balances**

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

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

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

**New Accounting Pronouncements Not Yet Adopted**

**Governmental Accounting Standards Board Statement No. 65**

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for the City fiscal year ending June 30, 2014.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**New Accounting Pronouncements Not Yet Adopted (Continued)**

*Governmental Accounting Standards Board Statement No. 68*

In June 30, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. The primary objective of the Statement is to improve accounting and financial reporting by state and local governments for pension. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pensions plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

*Governmental Accounting Standards Board Statement No. 69*

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

*Governmental Accounting Standards Board Statement No. 70*

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

**CITY OF ATWATER**  
**CALIFORNIA**

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

**NOTE 2 – DEPOSITS AND INVESTMENTS**

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City invests to enhance interest earnings. The pooled interest earned is allocated quarterly to each fund based upon average cash and investments.

**Summary of Deposits and Investments**

A reconciliation of the City's deposit and investment balances as of June 30, 2013 is as follows:

Cash on hand	\$ 450
Deposits with financial institutions	6,598,995
Investments	<u>11,701,521</u>
Total cash and investments	<u>\$ 18,300,966</u>
Government-Wide:	
Statement of Net Position:	
Cash and investments	\$ 14,413,934
Cash with fiscal agents	5,831,148
Cash overdraft	(7,291,403)
Fiduciary Funds:	
Statement of Net Position:	
Cash and investments	<u>5,347,287</u>
Total cash and investments	<u>\$ 18,300,966</u>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio (5)	Maximum Investment in On Issuer
Local Agency Investment Fund (LAIF)	None	\$400,000 (1)	None
U.S. Treasury Bills	None	None	None
U.S. Treasury Notes	None	None	None
Negotiable Certificates of Deposit	5 years	30% (2)	5% (4)
Time Certificates of Deposit	5 years	30% (2)	None
Banker’s Acceptances	270 days	30% (2)	5% (4)
Commercial Paper	180 days	30% (2)	None
Passbook Deposits	None	10% (3)	None
Repurchase Agreement	1 year	10% (3)	None
Medium-Term Notes	5 years	30% (2)	None

- (1) As permitted by law. LAIF investments are considered safe and liquid. The law permits a local municipality to invest a maximum of \$40,000,000.
- (2) Total purchases should not exceed thirty percent (30%) of surplus funds.
- (3) Total purchases should not exceed ten percent (10%) of surplus funds.
- (4) No more than five percent (5%) of the City’s deposit portfolio shall be invested in any one institution.
- (5) Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

**Investments Authorized by the Debt Agreements**

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio (5)	Maximum Investment in On Issuer
U.S. Treasury Bonds/Bills	None	None	None
U.S. Government Agency Bonds	None	None	None
Negotiable Certificates of Deposit	365 days	None	None
Time Certificates of Deposit	365 days	None	None
Banker’s Acceptances	365 days	None	None
Commercial Paper	365 days	None	None
Money Market Fund	None	None	None

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

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

**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 maintaining funds in liquid, short-term investments which can be converted to cash when necessary to meet disbursement requirements.

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

Investment Type	Remaining Maturity (in Months)			
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
State investment pool	\$ 376,209	\$ 376,209	\$ -	\$ -
RMA investment pool	1,001,894	1,001,894	-	-
Money Market Mutual Fund	1,230,432	1,230,432	-	-
Held by bond trustee:				
Dreyfus inst'l res treasury	8,174,036	8,174,036	-	-
Dreyfus govt prime cash mgmt	675,453	675,453	-	-
Treasury obligation bond	243,497	243,497	-	-
<b>Total</b>	<b>\$ 11,701,521</b>	<b>\$ 11,701,521</b>	<b>\$ -</b>	<b>\$ -</b>

**Credit Risk**

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

Investment Type		Exempt From Disclosure	Rating as of Year-End	
			AAA	Not Rated
State investment pool	\$ 376,209	\$ -	\$ -	\$ 376,209
RMA investment pool	1,001,894	-	-	1,001,894
Money Market Mutual Fund	1,230,432	-	1,230,432	-
Held by bond trustee:				
Dreyfus inst'l res treasury	8,174,036	-	8,174,036	-
Dreyfus govt prime cash mgmt	675,453	-	675,453	-
Treasury obligation bond	243,497	-	243,497	-
<b>Total</b>	<b>\$ 11,701,521</b>	<b>\$ -</b>	<b>\$ 10,323,418</b>	<b>\$ 1,378,103</b>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a City will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterpart (e.g. broker-dealer) to a transaction, a City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under the state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

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

As of June 30, 2013, the carrying amount of the City's bank deposits was \$6,599,444, and the respective bank balances totaled \$6,613,646 of the total bank balance.

**Local Agency Investment Fund**

The City participates in an external investment pool, as defined by the Government Accounting Standards Board (GASB) Statement No. 31, by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the City's shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the City's position in the pool. The City's portion of the June 30, 2013 balance was \$376,209.

**Due To and Due From Other Funds**

Due to/from balances have primarily been recorded when funds overdraw their share of pooled cash. Activities within fund types have been eliminated within the government-wide financial statements.

	Due From	Due To	Purpose
<u>Major Governmental Funds:</u>			
General	\$ 175,000	\$ -	Interfund payments
<u>Non-Major Governmental Funds:</u>			
Local Transportation Special Revenue Fund	240,000	-	Interfund payments
Gas Tax Special Revenue Fund	-	415,000	Interfund payments
<u>Major Enterprise Funds:</u>			
Water Fund	500,000	338,000	Interfund payments
Sewer Fund	1,938,000	-	Interfund payments
Sanitation Fund	-	2,100,000	Interfund payments
Total	<u>\$ 2,853,000</u>	<u>\$ 2,853,000</u>	

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 3 – INTERFUND TRANSACTIONS**

**Transfers In and Transfers Out**

Funds are transferred from one fund to support expenditures of other funds in accordance with the authority established for the individual fund. Transfers within fund types have been eliminated with the government-wide financial statements.

Transfers during the year ended June 30, 2013 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Purpose</u>
<u>Major Governmental Fund:</u>			
General	\$ 152,375	\$ 275,045	Interfund payments
<u>Non-Major Governmental Funds:</u>			
Police Grant Special Revenue Fund	257,000	-	Reimbursement of grant expenses
Gas Tax Fund	-	34,901	Prop1B funds
CDBG Program Income	-	130,659	Program income
HOME Investment Partnership Program	130,659	-	
<u>Capital Projects Funds:</u>			
General Capital Project Fund	94,695	-	Prop1B funds
<u>Major Enterprise Funds:</u>			
Water Fund	-	152,375	Interfund payments
Sewer Fund	-	20,000	Interfund payments
Refuse Fund	-	21,749	Prop1B funds
Total	<u>\$ 634,729</u>	<u>\$ 634,729</u>	

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable as of year-end for the enterprise's individual major funds, including applicable allowances for uncollectible accounts, are as follows:

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Accounts receivable	\$ 238,434	\$ 982,510	\$ 155,675	\$ 1,376,619
Less: allowance for doubtful accounts	<u>(48,377)</u>	<u>(163,665)</u>	<u>(38,121)</u>	<u>(250,163)</u>
Net total accounts receivable	<u>\$ 190,057</u>	<u>\$ 818,845</u>	<u>\$ 117,554</u>	<u>\$ 1,126,456</u>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity of the governmental activities for the year ended June 30, 2013 is as follows:

	<u>Balances July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2013</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 299,383	\$ -	\$ -	\$ 299,383
Construction in progress	<u>1,085,969</u>	<u>28,007</u>	<u>(843,245)</u>	<u>270,731</u>
 Total capital assets, not being depreciated	 <u>1,385,352</u>	 <u>28,007</u>	 <u>(843,245)</u>	 <u>570,114</u>
Capital assets, being depreciated:				
Buildings and improvements	14,169,914	17,976	-	14,187,890
Infrastructure	492,705	664,141	-	1,156,846
Equipment	4,641,689	339,234	-	4,980,923
Roads	<u>48,899,885</u>	<u>169,807</u>	<u>-</u>	<u>49,069,692</u>
 Total capital assets, being depreciated	 <u>68,204,193</u>	 <u>1,191,158</u>	 <u>-</u>	 <u>69,395,351</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,887,112)	(456,038)	-	(6,343,150)
Infrastructure	(139,488)	(29,759)	-	(169,247)
Equipment	(4,001,326)	(143,074)	-	(4,144,400)
Roads	<u>(33,423,811)</u>	<u>(1,254,338)</u>	<u>-</u>	<u>(34,678,149)</u>
 Total accumulated depreciation	 <u>(43,451,737)</u>	 <u>(1,883,209)</u>	 <u>-</u>	 <u>(45,334,946)</u>
 Total capital assets, being depreciated, net	 <u>24,752,456</u>	 <u>(692,051)</u>	 <u>-</u>	 <u>24,060,405</u>
 Governmental activities capital assets, net	 <u>\$ 26,137,808</u>	 <u>\$ (664,044)</u>	 <u>\$ (843,245)</u>	 <u>\$ 24,630,519</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 190,417
Public safety	96,479
Highways and streets	1,331,533
Culture and recreation	165,256
Urban redevelopment and housing	8,929
Internal service fund	<u>90,595</u>
 Total	 <u>\$ 1,883,209</u>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 5 – CAPITAL ASSETS (Continued)**

Capital assets activity of the business-type activities for the year ended June 30, 2013 is as follows:

	Balances July 1, 2012	Additions	Deletions	Balances June 30, 2013
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 764,902	\$ -	\$ -	\$ 764,902
Construction in progress	<u>71,303,371</u>	<u>1,287,686</u>	<u>(317,837)</u>	<u>72,273,220</u>
 Total capital assets, not being depreciated	 <u>72,068,273</u>	 <u>1,287,686</u>	 <u>(317,837)</u>	 <u>73,038,122</u>
Capital assets, being depreciated:				
Buildings and improvements	36,726,630	317,837	-	37,044,467
Equipment	<u>9,465,090</u>	<u>-</u>	<u>-</u>	<u>9,465,090</u>
 Total capital assets, being depreciated	 <u>46,191,720</u>	 <u>317,837</u>	 <u>-</u>	 <u>46,509,557</u>
Less accumulated depreciation for:				
Buildings and improvements	(21,770,393)	(1,048,300)	-	(22,818,693)
Equipment	<u>(5,345,215)</u>	<u>(423,649)</u>	<u>-</u>	<u>(5,768,864)</u>
 Total accumulated depreciation	 <u>(27,115,608)</u>	 <u>(1,471,949)</u>	 <u>-</u>	 <u>(28,587,557)</u>
 Total capital assets, being depreciated, net	 <u>19,076,112</u>	 <u>(1,154,112)</u>	 <u>-</u>	 <u>17,922,000</u>
 Business-type activities capital assets, net	 <u>\$ 91,144,385</u>	 <u>\$ 133,574</u>	 <u>\$ (317,837)</u>	 <u>\$ 90,960,122</u>

Depreciation expense was charged to business-type functions as follows:

Business-type activities:	
Water	\$ 664,519
Sewer	790,365
Sanitation	<u>17,065</u>
 Total	 <u>\$ 1,471,949</u>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 6 – LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2013:

	<u>Outstanding 6/30/2012</u>	<u>Issued/ Transferred</u>	<u>Retired/ Transferred</u>	<u>Outstanding 6/30/2013</u>	<u>Due Within One Year</u>	<u>Due More Than One Year</u>
<b>Governmental Activities:</b>						
Compensated Absences	\$ 521,294	\$ -	\$ (90,041)	\$ 431,253	\$ 46,760	\$ 384,493
<b>Total Government Activities Long-Term Debt</b>	<u>\$ 521,294</u>	<u>\$ -</u>	<u>\$ (90,041)</u>	<u>\$ 431,253</u>	<u>\$ 46,760</u>	<u>\$ 384,493</u>
<b>Business-Type Activities:</b>						
1991 State Safe Water Bond	\$ 28,614	\$ -	\$ (28,614)	\$ -	\$ -	\$ -
2008 Wastewater Revenue Refunding Deferred loss on refunding	19,630,000 (1,269,089)	- -	(405,000) 80,350	19,225,000 (1,188,739)	425,000 -	18,800,000 (1,188,739)
2010 Wastewater Revenue Refunding Unamortized bond premiums	53,560,000 418,131	- -	(580,000) (12,832)	52,980,000 405,299	600,000 -	52,380,000 405,299
2011 Wastewater Revenue Refunding Unamortized bond discount	9,870,000 (107,181)	- -	(125,000) 3,265	9,745,000 (103,916)	130,000 -	9,615,000 (103,916)
Compensated Absences	<u>74,726</u>	<u>9,430</u>	<u>-</u>	<u>84,156</u>	<u>6,563</u>	<u>77,593</u>
<b>Total Business-Type Activities Long-Term Debt</b>	<u>\$ 82,205,201</u>	<u>\$ 9,430</u>	<u>\$ (1,067,831)</u>	<u>\$ 81,146,800</u>	<u>\$ 1,161,563</u>	<u>\$ 79,985,237</u>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 6 – LONG-TERM DEBT (Continued)**

**Business-Type Activities**

***Revenue Bonds:***

**2008 Wastewater Revenue Bonds (Sewer)** – In May 2008, the Atwater Public Financing Authority issued its 2008 Wastewater Revenue Bonds, to provide funds: (i) to finance the acquisition and construction of certain improvements to the Wastewater System; (ii) to fund a debt service reserve fund for the 2008 Bonds; and (iii) to pay cost of issuance of the 2008 Bonds. The term of this agreements ends on May 1, 2038. Each payment includes interest at an annual rate between 4.5 and 5.0%. Interest on the bonds is payable on May 1 and November 1 of each year. Principal of the bonds is payable on May 1 of each year beginning May 1, 2012. This bond is the refunding of the 2003 Water Revenue Refunding Bonds. At June 30, 2013, the total principal outstanding is \$19,225,000 and the unamortized discounts total \$1,188,739, resulting in a net outstanding balance of \$18,036,261.

Below is a schedule for the remaining debt service:

<b>2008 Wastewater Revenue Bonds</b>			
Year Ended June 30	Principal	Interest	Total
2014	\$ 425,000	\$ 922,932	\$ 1,347,932
2015	445,000	903,807	1,348,807
2016	465,000	883,781	1,348,781
2017	485,000	862,856	1,347,856
2018	510,000	841,031	1,351,031
2019	530,000	818,081	1,348,081
2020	550,000	796,881	1,346,881
2021	575,000	773,506	1,348,506
2022	600,000	748,350	1,348,350
2023	625,000	722,100	1,347,100
2024	655,000	693,975	1,348,975
2025	685,000	664,500	1,349,500
2026	715,000	631,963	1,346,963
2027	750,000	598,000	1,348,000
2028	790,000	560,500	1,350,500
2029	830,000	521,000	1,351,000
2030	870,000	479,500	1,349,500
2031	915,000	436,000	1,351,000
2032	960,000	390,250	1,350,250
2033	1,005,000	342,250	1,347,250
2034	1,055,000	292,000	1,347,000
2035	1,110,000	239,250	1,349,250
2036	1,165,000	183,750	1,348,750
2037	1,225,000	125,500	1,350,500
2038	1,285,000	64,250	1,349,250
	19,225,000	14,496,013	33,721,013
Deferred loss on refunding	(1,188,739)	-	(1,188,739)
Total	\$ 18,036,261	\$ 14,496,013	\$ 32,532,274

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 6 – LONG-TERM DEBT (Continued)**

**Business-Type Activities (Continued)**

**Revenue Bonds: (Continued)**

**2010 Wastewater Revenue Bonds (Sewer)** – In January 2010, the Atwater Public Financing Authority issued its 2010 Wastewater Revenue Bonds, to provide funds: (i) to finance the acquisition and construction of certain improvements to the Wastewater System; (ii) to fund a debt service reserve fund for the 2010 Bonds; and (iii) to pay cost of issuance of the 2010 Bonds. The term of this agreements ends on May 1, 2045. Each payment includes interest at an annual rate between 4.0 and 5.25%. Interest on the bonds is payable on May 1 and November 1 of each year. Principal of the bonds is payable on May 1 of each year beginning May 1, 2011. At June 30, 2013, the total principal outstanding is \$52,980,000, and the unamortized premiums total \$405,299, resulting in a net outstanding balance of \$53,385,299.

Below is a schedule for the remaining debt service:

<b>2010 Wastewater Revenue Bonds</b>			
Year Ended June 30	Principal	Interest	Total
2014	\$ 600,000	\$ 2,644,030	\$ 3,244,030
2015	625,000	2,620,030	3,245,030
2016	650,000	2,595,030	3,245,030
2017	675,000	2,569,030	3,244,030
2018	700,000	2,542,030	3,242,030
2019	735,000	2,507,030	3,242,030
2020	775,000	2,470,280	3,245,280
2021	805,000	2,439,280	3,244,280
2022	835,000	2,405,872	3,240,872
2023	875,000	2,369,968	3,244,968
2024	910,000	2,331,468	3,241,468
2025	950,000	2,290,517	3,240,517
2026	1,000,000	2,246,817	3,246,817
2027	1,045,000	2,199,817	3,244,817
2028	1,090,000	2,150,180	3,240,180
2029	1,145,000	2,097,860	3,242,860
2030	1,200,000	2,042,900	3,242,900
2031	1,255,000	1,984,100	3,239,100
2032	1,320,000	1,921,350	3,241,350
2033	1,390,000	1,855,350	3,245,350
2034	1,460,000	1,785,850	3,245,850
2035	1,530,000	1,712,850	3,242,850
2036	1,610,000	1,634,437	3,244,437
2037	1,690,000	1,551,925	3,241,925
2038	1,775,000	1,465,312	3,240,312
2039	3,215,000	1,374,343	4,589,343
2040	3,380,000	1,209,575	4,589,575
2041	3,555,000	1,036,350	4,591,350
2042	3,740,000	849,712	4,589,712
2043	3,940,000	653,362	4,593,362
2044	4,145,000	446,512	4,591,512
2045	4,360,000	228,900	4,588,900
	52,980,000	60,232,067	113,212,067
Unamortized bond premiums	405,299	-	405,299
Total	<u>\$ 53,385,299</u>	<u>\$ 60,232,067</u>	<u>\$ 113,617,366</u>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 6 – LONG-TERM DEBT (Continued)**

**Business-Type Activities (Continued)**

***Revenue Bonds:* (Continued)**

**2011 Wastewater Revenue Bonds (Sewer)** – In April 2011, the Atwater Public Financing Authority issued its 2011 Wastewater Revenue Bonds, to provide funds: (i) to finance the acquisition and construction of certain improvements to the Wastewater System; (ii) to pay the premium for a reserve surety bond for 2011 bonds; and (iii) to pay cost of issuing the 2011 Bonds. The term of this agreements ends on May 1, 2045. Each payment includes interest at an annual rate between 2.00% and 6.125%. Interest on the bonds is payable on May 1 and November 1 of each year. Principal of the bonds is payable on May 1 of each year beginning May 1, 2012. At June 30, 2013, the total principal outstanding is \$9,745,000 and the unamortized discounts total \$103,916, resulting in a net outstanding balance of \$9,641,084.

Below is a schedule for the remaining debt service:

<b>2011 Wastewater Revenue Bonds</b>			
Year Ended June 30	Principal	Interest	Total
2014	\$ 130,000	\$ 553,000	\$ 683,000
2015	135,000	549,100	684,100
2016	140,000	543,700	683,700
2017	145,000	538,100	683,100
2018	150,000	532,300	682,300
2019	155,000	526,300	681,300
2020	165,000	519,906	684,906
2021	170,000	512,687	682,687
2022	180,000	504,867	684,867
2023	185,000	496,318	681,318
2024	195,000	487,298	682,298
2025	205,000	477,548	682,548
2026	215,000	466,888	681,888
2027	225,000	455,494	680,494
2028	240,000	442,838	682,838
2029	255,000	429,338	684,338
2030	270,000	414,994	684,994
2031	285,000	399,806	684,806
2032	300,000	383,776	683,776
2033	315,000	365,776	680,776
2034	335,000	346,876	681,876
2035	355,000	326,776	681,776
2036	375,000	305,476	680,476
2037	400,000	282,974	682,974
2038	425,000	258,474	683,474
2039	450,000	232,442	682,442
2040	480,000	204,880	684,880
2041	505,000	175,482	680,482
2042	540,000	144,550	684,550
2043	570,000	111,476	681,476
2044	605,000	76,562	681,562
2045	645,000	39,506	684,506
	9,745,000	12,105,508	21,850,508
Unamortized bond discount	(103,916)	-	(103,916)
Total	<u>\$ 9,641,084</u>	<u>\$ 12,105,508</u>	<u>\$ 21,746,592</u>

**CITY OF ATWATER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 6 – LONG-TERM DEBT (Continued)**

**Business-Type Activities (Continued)**

***Compensated Absences:***

Because of the nature of compensated absences and uncertainty over when vacations will be taken, a statement of debt service requirements to maturity of compensated absences has not been presented. At June 30, 2013, the balance is \$431,253 for governmental activities and \$84,156 for the business-type activities.

**NOTE 7 – NON-OBLIGATORY DEBT**

The City of Atwater City Council serves as a fiduciary in governing the Community Facilities District No. 1-90 ("CFD 1-90"). This special tax district, formed in 1990 under state law, provides for the collection of taxes from among property owners in the eastern portion of the City. These taxes are used to pay debt service on limited tax obligation bonds originally issued in 1990. The original bond proceeds were used to pay for public improvements within CFD 1-90. The obligation for these bonds rests on the property owners within CFD 1-90 and not with the City or any of its revenues. Since the City is a fiduciary of these funds, the City has chosen not to present the revenues and expenditures of CFD 1-90 anywhere in the City's financial statements. The City is only required to show the amount of cash it holds for the benefit of the bondholders in an agency fund.

The original limited tax obligation bonds issued in 1991 were refinanced in 1995. The bond transactions are known as the \$10,600,000 City of Atwater Community Facilities District No. 1-90 Series 1995A ("Series A Bonds") and the \$6,900,000 City of Atwater Community Facilities District No. 1-90 Series 1995B ("Series B Bonds"). These bonds were divided in two series, Series A that were tendered to the general public and Series B that were sold to private parties. As of June 30, 2013, there is \$4,810,000 outstanding.

**NOTE 8 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

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

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

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

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 8 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds for unavailable revenues totaled \$403,141.

**NOTE 9 – PENSION PLAN**

Plan Description

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

All full-time City employees are eligible to participate in CalPERS. Benefits vest after five years of service. City employees who retire at or after age 50 with five or more years of credited service are entitled to an annual retirement benefit, payable monthly for life (an amount based on the percentage of pay to which the individual employee is entitled for each year of service, which is determined by age at retirement, times the average monthly pay rate for the last consecutive 36 months of employment). The system also provides death and disability benefits.

Funding Policy

Active plan members in the Safety and Miscellaneous Plans are required to contribute 9% and 7% of their annual covered salary, respectively. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 56.810% and 26.843% for public safety and miscellaneous employees, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. City employees are covered by Social Security. Therefore, a rate of zero is charged for the first \$133.33 per month.

**CITY OF ATWATER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 9 – PENSION PLAN (Continued)**

Annual Pension Cost and Net Pension Obligation

For the fiscal year 2012/2013, the City's combined annual pension cost of \$1,764,096 was equal to the annual requirement contribution. The current year's required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for members of both plans; and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a 15-year period (smoothed market value). The Miscellaneous and Safety Plans' unfunded actuarial liabilities are being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2009 was 8 years.

The City's annual pension cost (APC) and net pension obligation as of and for the year ended June 30, 2013 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Miscellaneous Plan</u>			
6/30/2011	\$ 1,083,896	100%	\$ -
6/30/2012	\$ 852,456	100%	\$ -
6/30/2013	\$ 616,175	100%	\$ -
<u>Safety Plan</u>			
6/30/2011	\$ 1,185,241	100%	\$ -
6/30/2012	\$ 1,431,081	100%	\$ -
6/30/2013	\$ 1,147,921	100%	\$ -

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 9 – PENSION PLAN (Continued)**

**Funded Status and Progress**

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as of % of Covered Payroll</u>
<u>6/30/2012</u>						
Miscellaneous	\$ 1,081,962,506	\$ 903,410,915	\$ 178,551,591	83.5%	\$ 153,161,984	116.6%
Safety	\$ 11,724,021,480	\$ 9,854,787,710	\$ 1,869,233,770	84.1%	\$ 947,734,809	197.2%

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

**NOTE 10 – RISK MANAGEMENT**

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

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each worker's compensation claim through the 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 \$50,000 and worker's compensation losses under \$100,000. The CSJVRMA participates in an excess pool which provides worker's compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

The CSJVRMA is a consortium of fifty-four (54) cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et. seq. The 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 employed by the CSJVRMA.

At the termination of the joint venture agreement and after all claims has been settled, any excess or deficit will be divided among the cities in proportion to the aggregate amount of contribution made by each. The financial position results of operations of CSJVRMA are as follows for June 30, 2013:

Total assets	\$ 82,190,005
Total liabilities	<u>66,304,596</u>
Member's equity	<u>\$ 15,885,409</u>
Total revenues	\$ 30,744,973
Total expenses	<u>27,142,583</u>
Excess of expenses (losses) over income	<u>\$ 3,602,390</u>

**CITY OF ATWATER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS**

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 requires employer governments to account for and report the annual cost of other postemployment benefits and related liabilities in the same manner as they do for pensions. As a Phase 2 government, the City implemented the provisions of this statement in the June 30, 2009 fiscal year.

*Plan Description.* The City of Atwater Retired Employees Healthcare Plan is a single-employer defined benefit healthcare plan administered by CalPERS. The City provides medical benefits to eligible retirees, their spouses and dependents. To earn this benefit, employees must have reached the age of fifty with five years of service to the City. The City provides coverage for surviving family members of an enrollee who dies while covered under the plan. Coverage for the enrolled family members then continues until any one of a specific set of circumstances occurs. The Retiree Health Plan does not issue a financial report.

*Funding Policy.* The contribution requirements of plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the City contributed \$577,367 to the plan, the entire amount for current premiums. The City pays the full benefit cost of health care coverage premiums for retired members receiving benefits. The City does not pay for dental and vision insurance premiums for retiree. Those retirees wishing to be covered by dental and vision insurance benefits must pay 100% of the cost for the retirees and their dependents.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the projected unit credit (PUC) cost method. Under the projected unit credit cost method, the actuarial present value of each employee's future retiree health benefit claims costs is allocated over a portion of the employee's employment, the "attribution period". The attribution period for this group begins with the employee's date of employment and ends with the date on which the employee is expected to retire. Accrued Liability for active employees is the portion of benefit liability attributed to service years to date. Normal Cost is the amount of benefit liability attributed to the current employment year. Normal Cost for retired employees is zero. Initial Actuarial Accrued Liability as of the date GASB Statement No. 45 is adopted is amortized as a component of the Annual Required Contribution (ARC). The amortization method is level dollar amortized over a 30-year period. Gains and losses arise from experience and contribution deficiencies and excess contributions in relation to each year's ARC under GASB Statement No. 45. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contribution	\$ 2,292,527
Interest on net OPEB obligation	174,405
Adjustment to annual required contribution	<u>(178,147)</u>
Annual OPEB cost (expense)	2,288,785
Contributions made	<u>(577,367)</u>
Increase in net OPEB obligation	1,711,418
Net OPEB obligation - beginning of year	<u>5,966,892</u>
Net OPEB obligation - end of year	<u>\$ 7,678,310</u>

**CITY OF ATWATER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
6/30/2011	\$ 2,098,339	17.5%	\$ 4,360,133
6/30/2012	\$ 2,097,527	23.4%	\$ 5,966,892
6/30/2013	\$ 2,288,785	25.2%	\$ 7,678,310

*Funded Status and Funding Progress.* As of June 30, 2013, the actuarial accrued liability for benefits was \$17,294,128, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,533,613, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 312.53%.

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

*Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial assumptions come in part from the professional judgment of the Actuary, working within the scope of GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

The following simplifying assumptions were made:

*Retirement age for active employees*—Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 52 for safety and all others at age 58.

*Marital status*—Percent married of members at the calculation date was assumed to be 73-87% for active and continue throughout retirement and actual count is used for retirees.

*Mortality*—Life expectancies were based on the 1994 Group Annuity Mortality Table Projected to 1999 by Scale AA Using 50%/50% Male/Female Split for actives and actual for retirees.

*Turnover*—Non-group-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

*Healthcare cost trend rate*—A rate of 8.0% for 2013; 7.0% for 2014; 6.0% for 2015; and reduced to an ultimate rate of 5.0% thereafter.

*Health insurance premiums*—2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Payroll growth rate*—The expected long-term payroll growth rate was assumed to equal the rate of 2.0%. Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.0% was used. The remaining amortization period at June 30, 2013 was twenty-eight years.

**NOTE 12 – CONTINGENT LIABILITIES**

**General Liability**

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

**Federal Awards and Grants**

The City participates in grant programs which are governed by various rules and regulation of the grantor agencies. Costs charge to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 13 – DEFICIT FUND BALANCE**

The following funds had deficit fund balances as of June 30, 2013:

Major Funds:	
General Fund	\$ 4,184,252
Nonmajor Funds:	
Special Revenue Funds:	
Police Grants	134,789
Local Transportation Fund	447,972
Community Development Block Grants	12,441
CDBG Program Income	470
<b>Enterprise Funds:</b>	
Major Funds:	
Sanitation Fund	4,170,100

**CITY OF ATWATER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 14 – SUCCESSOR AGENCY TRUST FUND**

The City Council elected to become the Successor Agency for the former redevelopment agency in accordance with Assembly Bill 1X26 (the “Bill”) which dissolved all redevelopment agencies in the State of California.

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

Successor agencies are only allocated revenue in the amount that is necessary to pay estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

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

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

***Long-term Debt***

Long-term debt reported in the Successor Agency Trust Fund at June 30, 2013 was comprised of the following:

	<u>Outstanding 7/1/2012</u>	<u>Issued/ Transferred</u>	<u>Retired/ Transferred</u>	<u>Outstanding 6/30/2013</u>	<u>Due Within One Year</u>	<u>Due More Than One Year</u>
1998 Tax Allocating Refunding Bonds - Series A	\$ 1,455,000	\$ -	\$ (110,000)	\$ 1,345,000	\$ 120,000	\$ 1,225,000
2007 Tax Allocating Refunding Bonds - Series A	7,010,000	-	(340,000)	6,670,000	350,000	6,320,000
Unamortized bond discounts	(75,460)	-	5,804	(69,656)	-	(69,656)
2007 Tax Allocating Refunding Bonds - Series B	1,940,000	-	(95,000)	1,845,000	100,000	1,745,000
Unamortized bond discounts	(25,190)	-	1,937	(23,253)	-	(23,253)
<b>Total Long-Term Debt</b>	<b>\$ 10,304,350</b>	<b>\$ -</b>	<b>\$ (537,259)</b>	<b>\$ 9,767,091</b>	<b>\$ 570,000</b>	<b>\$ 9,197,091</b>

**CITY OF ATWATER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 14 – SUCCESSOR AGENCY TRUST FUND (Continued)**

***Tax Allocation Refunding Bonds:***

**1998 Tax Allocation Refunding Bonds – Series A** – In April 1998, the Atwater Redevelopment Agency issued \$2,600,000 Atwater Redevelopment Agency (Downtown Redevelopment Project) Tax Allocation Refunding Bonds, Series A. The proceeds of the bonds will be used to provide moneys to the Agency to enable the Agency to: (i) generally finance redevelopment activities and specifically to refund certain outstanding obligations of the Atwater Public Financing Authority, (ii) fund a reserve fund, and (iii) pay the costs of issuance of the bonds. The final maturity date on the bonds is June 2022. Each payment includes interest at an annual rate between 4.9% and 5.5%. At June 30, 2013, the total principal outstanding is \$1,345,000.

Below is a schedule for the remaining debt service:

<b>1998 Tax Allocation Refunding Bonds - Series A</b>			
Year Ended June 30	Principal	Interest	Total
2014	\$ 120,000	\$ 73,190	\$ 193,190
2015	125,000	66,830	191,830
2016	135,000	60,080	195,080
2017	140,000	52,790	192,790
2018	145,000	45,230	190,230
2019	155,000	37,400	192,400
2020	165,000	28,875	193,875
2021	175,000	19,800	194,800
2022	185,000	10,175	195,175
Total	\$ 1,345,000	\$ 394,370	\$ 1,739,370

**CITY OF ATWATER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 14 – SUCCESSOR AGENCY TRUST FUND (Continued)**

***Tax Allocation Refunding Bonds (Continued):***

**2007 Taxable Housing Tax Allocation Bonds – Series A** – In April 2007, the Atwater Redevelopment Agency issued \$8,475,000 Atwater Redevelopment Agency Tax Allocation Bonds, Series A. The proceeds of the bonds will be used to provide moneys to the Agency to enable the Agency to finance a variety of Agency projects. A portion of the bond proceeds will be used to defease all of the outstanding 1998 B Bonds. The final maturity date on the bonds is June 2026. At June 30, 2013, the total principal outstanding is \$6,670,000 and the unamortized discounts total \$69,656, resulting in a net outstanding balance of \$6,600,344.

Below is a schedule for the remaining debt service:

<b>2007 Taxable Housing Tax Allocation Bonds, Series A</b>			
Year Ended June 30	Principal	Interest	Total
2014	\$ 350,000	\$ 280,896	\$ 630,896
2015	365,000	266,896	631,896
2016	375,000	252,296	627,296
2017	395,000	237,296	632,296
2018	410,000	221,496	631,496
2019	425,000	204,584	629,584
2020	445,000	186,946	631,946
2021	460,000	168,256	628,256
2022	480,000	148,706	628,706
2023	695,000	128,306	823,306
2024	725,000	98,769	823,769
2025	755,000	67,594	822,594
2026	790,000	34,565	824,565
	6,670,000	2,296,606	8,966,606
Unamortized discounts	(69,656)	-	(69,656)
Total	<u>\$ 6,600,344</u>	<u>\$ 2,296,606</u>	<u>\$ 8,896,950</u>

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 14 – SUCCESSOR AGENCY TRUST FUND (Continued)**

***Tax Allocation Refunding Bonds (Continued):***

**2007 Taxable Housing Tax Allocation Bonds – Series B** – In April 2007, the Atwater Redevelopment Agency issued \$2,325,000 Atwater Redevelopment Project Taxable Housing Tax Allocation Bonds, Series B. The bond proceeds will be used to by the Agency (i) finance low and moderate housing redevelopment activities in the Project Area, (ii) pay the premium for a debt service reserve fund surety bond to be deposited in a reserve fund for the bonds, and (iii) pay the costs of issuing the bonds. The final maturity date on the bonds is June 2026. At June 30, 2013, the total principal outstanding is \$1,845,000 and the unamortized discounts total \$23,253, resulting in a net balance of \$1,821,747.

Below is a schedule for the remaining debt service:

**2007 Taxable Housing Tax Allocation Bonds, Series B**

Year Ended June 30	Principal	Interest	Total
2014	\$ 100,000	\$ 109,903	\$ 209,903
2015	105,000	104,252	209,252
2016	110,000	98,320	208,320
2017	115,000	92,105	207,105
2018	125,000	85,607	210,607
2019	130,000	78,045	208,045
2020	140,000	70,180	210,180
2021	145,000	61,710	206,710
2022	155,000	52,938	207,938
2023	165,000	43,560	208,560
2024	175,000	33,578	208,578
2025	185,000	22,990	207,990
2026	195,000	11,798	206,798
	1,845,000	864,986	2,709,986
Unamortized discounts	(23,253)	-	(23,253)
Total	<u>\$ 1,821,747</u>	<u>\$ 864,986</u>	<u>\$ 2,686,733</u>

**NOTE 15 – GOING CONCERN**

**Operating Cash Deficiencies in General Fund, Sanitation Fund, and Water Fund**

The City operated with a cash deficit in three major funds during the 2012-13 fiscal year. The General Fund and Water and Sanitation Enterprise Funds did not generate sufficient revenue in fiscal year 2012-13 to cover actual expenditures. The City Council has developed a plan and has begun implementation of measures to address these funding issues.

**CITY OF ATWATER**  
**CALIFORNIA**

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

**NOTE 15 – GOING CONCERN (Continued)**

**General Fund**

Two major sources of revenue to the City's General Fund are property tax and sales tax. Both of these areas were significantly impacted by the economic downturn over the past several years. The effects of the housing downturn and financial market decline have reduced the City's General Fund revenue base.

This situation was further impacted by State action which reduced local revenues such as motor vehicle license fees and eliminated redevelopment agencies statewide. Rising labor costs through collective bargaining agreements and accounting changes such as reporting Other Post-Employment Benefits (OPEB) have further contributed to the structural imbalance. To address this situation, the City Council has taken action to begin to move the General Fund toward a balanced budget position. The City has worked with employees to reduce current operating costs through early retirements, layoffs and salary and benefit reductions. Actions have also been taken to increase various fees to generate additional revenue. These actions have significantly reduced the magnitude of the operating shortfall. A balanced General Fund budget was adopted for the 2013-14 fiscal year.

**Sanitation Fund**

Sanitation service in the City of Atwater is provided through a service contract with an outside vendor. That ten-year agreement was executed in 2003 and rates have not been adjusted since that time. This has resulted in a fund deficit in the Sanitation Fund. To address this issue, the City Council formed a Sanitation Fund Committee to review options for addressing this issue. A five-year plan for annual rate increases with the first rate increase in the 2012-13 fiscal year was approved by the City Council.

**Water Fund**

The Water Fund's rates were last increased in 1992. Operating costs have increased over the years through labor negotiations, new equipment, and capital needs which resulted in revenues not keeping pace with expenditures. Based upon the results of a recently completed water rate analysis, the City Council, in December 2012, approved changes to the City's water rate structure which resulted in an immediate increase of 40 percent to the average water rate and additional annual rate increases of approximately 15 percent through the year 2017.

**CITY OF ATWATER  
CALIFORNIA**

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

**NOTE 16 – SEGMENT INFORMATION**

The City maintains three enterprise funds that provide water, sewer, and sanitation services. Segment information for the year ended June 30, 2013 is as follows:

	Water Fund	Sewer Fund	Total
<b>CONDENSED STATEMENT OF NET POSITION</b>			
Assets:			
Current assets	\$ 690,138	\$ 13,183,743	\$ 13,873,881
Restricted assets	-	5,831,148	5,831,148
Capital assets (net)	7,431,740	83,396,104	90,827,844
Total assets	8,121,878	102,410,995	110,532,873
Liabilities:			
Current liabilities	1,845,024	2,456,054	4,301,078
Noncurrent liabilities	545,521	80,438,950	80,984,471
Total liabilities	2,390,545	82,895,004	85,285,549
Net Position:			
Net investment in capital assets	7,431,740	8,164,608	15,596,348
Restricted	-	5,831,148	5,831,148
Unrestricted	(1,700,407)	5,520,235	3,819,828
Total net position	\$ 5,731,333	\$ 19,515,991	\$ 25,247,324
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION</b>			
Operating revenues	\$ 2,367,153	\$ 10,639,898	\$ 13,007,051
Depreciation	(664,519)	(790,365)	(1,454,884)
Other operating expenses	(2,396,194)	(3,782,091)	(6,178,285)
Operating income (loss)	(693,560)	6,067,442	5,373,882
Non-operating revenues (expenses):			
Interest income	67,498	51,743	119,241
Interest expense	(458)	(4,250,399)	(4,250,857)
Total non-operating revenues (expenses)	67,040	(4,198,656)	(4,131,616)
Income (loss) before transfers	(626,520)	1,868,786	1,242,266
Transfers:			
Operating transfers out	(152,375)	(20,000)	(172,375)
Total	(152,375)	(20,000)	(172,375)
Change in net position	(778,895)	1,848,786	1,069,891
Net position, June 30, 2012	6,510,228	17,840,050	24,350,278
Net position, June 30, 2013	\$ 5,731,333	\$ 19,688,836	\$ 25,420,169
<b>CONDENSED STATEMENT OF CASH FLOWS</b>			
Net cash provided (used) by:			
Operating activities	\$ 46,969	\$ 6,060,475	\$ 6,107,444
Non-capital financing activities	(152,375)	(20,000)	(172,375)
Capital and related financing activities	(29,076)	(6,562,826)	(6,591,902)
Investing activities	67,985	52,220	120,205
Net increase (decrease) in cash and cash equivalents	(66,497)	(470,131)	(536,628)
Beginning cash and cash equivalents	(1,090,817)	13,671,263	12,580,446
Ending cash and cash equivalents	\$ (1,157,314)	\$ 13,201,132	\$ 12,043,818

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AWATER  
CALIFORNIA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Pension Benefit Plan Funding Progress**

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 of the schedule of funding progress and employer contributions relates to the plan as a whole, of which the City is one participating employer.

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
<u>Miscellaneous</u>						
6/30/2010	\$ 945,221,095	\$ 754,858,961	\$ 190,362,134	79.9%	\$ 159,156,834	119.6%
6/30/2011	\$ 1,023,127,404	\$ 825,991,347	\$ 197,136,057	80.7%	\$ 160,900,495	122.5%
6/30/2012	\$ 1,081,962,506	\$ 903,410,915	\$ 178,551,591	83.5%	\$ 153,161,984	116.6%
<u>Safety:</u>						
6/30/2010	\$ 10,165,475,166	\$ 8,470,235,152	\$ 1,695,240,014	83.3%	\$ 955,980,815	177.3%
6/30/2011	\$ 10,951,745,049	\$ 9,135,654,246	\$ 1,816,090,803	83.4%	\$ 949,833,090	191.2%
6/30/2012	\$ 11,724,021,480	\$ 9,854,787,710	\$ 1,869,233,770	84.1%	\$ 947,734,809	197.2%

**Other Post-Employment Benefits (OPEB) Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Liability (AAL) - Simplified Entry Age (b)	Unfunded ALL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2011	\$ -	\$ 17,294,128	\$ 17,294,128	0.00%	\$ 5,533,613	312.53%
6/30/2012	\$ -	\$ 17,294,128	\$ 17,294,128	0.00%	\$ 5,533,613	312.53%
6/30/2013	\$ -	\$ 17,294,128	\$ 17,294,128	0.00%	\$ 5,533,613	312.53%

**CITY OF AWATER  
CALIFORNIA**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 7,077,069	\$ 7,077,069	\$ 7,015,989	\$ (61,080)
Licenses and permits	90,260	90,260	87,967	(2,293)
Intergovernmental	583,757	583,757	605,712	21,955
Charges for services	1,493,210	1,493,210	1,501,455	8,245
Fines	70,000	70,000	52,722	(17,278)
Revenue from the use of money and property	90,505	90,505	496,065	405,560
Miscellaneous	<u>798,794</u>	<u>798,794</u>	<u>1,210,839</u>	<u>412,045</u>
Total revenues	<u>10,203,595</u>	<u>10,203,595</u>	<u>10,970,749</u>	<u>767,154</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,947,104	2,947,104	2,941,543	5,561
Public safety	6,927,370	6,927,370	6,938,064	(10,694)
Culture and recreation	1,061,296	1,061,296	1,079,148	(17,852)
Capital outlay	<u>144,102</u>	<u>144,102</u>	<u>159,946</u>	<u>(15,844)</u>
Total expenditures	<u>11,079,872</u>	<u>11,079,872</u>	<u>11,118,701</u>	<u>(38,829)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(876,277)</u>	<u>(876,277)</u>	<u>(147,952)</u>	<u>728,325</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	156,225	156,225	152,375	(3,850)
Transfers out	<u>(260,850)</u>	<u>(260,850)</u>	<u>(275,045)</u>	<u>(14,195)</u>
Total other financing sources (uses)	<u>(104,625)</u>	<u>(104,625)</u>	<u>(122,670)</u>	<u>(18,045)</u>
Net change in fund balance	(980,902)	(980,902)	(270,622)	710,280
Fund balance - beginning	<u>(3,314,221)</u>	<u>(3,314,221)</u>	<u>(3,913,630)</u>	<u>(599,409)</u>
Fund balances - ending	<u>\$ (4,295,123)</u>	<u>\$ (4,295,123)</u>	<u>\$ (4,184,252)</u>	<u>\$ 110,871</u>

**CITY OF AWATER**  
**CALIFORNIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 – BUDGETARY INFORMATION**

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

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

**CITY OF ATWATER**  
**CALIFORNIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Excess of Expenditures Over Appropriations**

The following funds incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2013:

General Fund:

Current:

Public Safety	\$10,694
Culture and Recreation	\$17,852
Capital Outlay	\$15,844

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## SUPPLEMENTARY INFORMATION

**CITY OF AWATER  
CALIFORNIA**

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

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 5,646,726	\$ 465,782	\$ 6,112,508
Accounts receivable	387,696	167,274	554,970
Taxes receivable	36,365	-	36,365
Interest receivable	55	3	58
Other receivable	5,894	-	5,894
Due from other funds	240,000	-	240,000
Due from other governments	259,265	-	259,265
Land held for resale	<u>3,855,930</u>	<u>-</u>	<u>3,855,930</u>
 Total Assets	 <u>\$ 10,431,931</u>	 <u>\$ 633,059</u>	 <u>\$ 11,064,990</u>
<b>LIABILITIES</b>			
Cash overdraft	\$ 904,194	\$ -	\$ 904,194
Accounts payable	83,825	61	83,886
Accrued payroll and related liabilities	31,502	-	31,502
Due to other funds	415,000	-	415,000
Deposits	334	111,666	112,000
Unearned revenue	<u>471</u>	<u>-</u>	<u>471</u>
 Total liabilities	 <u>1,435,326</u>	 <u>111,727</u>	 <u>1,547,053</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned revenue	<u>371,466</u>	<u>-</u>	<u>371,466</u>
 Total deferred inflows of resources	 <u>371,466</u>	 <u>-</u>	 <u>371,466</u>
<b>FUND BALANCES</b>			
Restricted for:			
Community development	6,441,204	-	6,441,204
Highway and streets	1,389,482	-	1,389,482
Capital maintenance	1,384,758	-	1,384,758
Other purposes	5,367	-	5,367
Assigned for:			
Capital projects	-	521,332	521,332
Unassigned	<u>(595,672)</u>	<u>-</u>	<u>(595,672)</u>
 Total fund balances	 <u>8,625,139</u>	 <u>521,332</u>	 <u>9,146,471</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 10,431,931</u>	 <u>\$ 633,059</u>	 <u>\$ 11,064,990</u>

**CITY OF AWATER  
CALIFORNIA**

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

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Taxes	\$ 9,717	\$ -	\$ 9,717
Intergovernmental	1,448,650	197,215	1,645,865
Charges for services	768,027	-	768,027
Revenue from the use of money and property	46,898	2,619	49,517
Miscellaneous	<u>7,171</u>	<u>-</u>	<u>7,171</u>
Total revenues	<u>2,280,463</u>	<u>199,834</u>	<u>2,480,297</u>
<b>EXPENDITURES</b>			
Current:			
General government	4,426	-	4,426
Public safety	532,072	-	532,072
Highways and streets	358,907	-	358,907
Urban redevelopment and housing	1,008,738	-	1,008,738
Capital outlay	<u>-</u>	<u>216,953</u>	<u>216,953</u>
Total expenditures	<u>1,904,143</u>	<u>216,953</u>	<u>2,121,096</u>
Excess (deficiency) of revenues over (under) expenditures	<u>376,320</u>	<u>(17,119)</u>	<u>359,201</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	387,659	94,695	482,354
Transfers out	<u>(165,560)</u>	<u>-</u>	<u>(165,560)</u>
Total other financing sources (uses)	<u>222,099</u>	<u>94,695</u>	<u>316,794</u>
Net change in fund balance	598,419	77,576	675,995
Fund balances, beginning	<u>8,026,720</u>	<u>443,756</u>	<u>8,470,476</u>
Fund balances, ending	<u>\$ 8,625,139</u>	<u>\$ 521,332</u>	<u>\$ 9,146,471</u>

**CITY OF AWATER  
CALIFORNIA**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2013**

	<u>Police Grants</u>	<u>Gas Tax Fund</u>	<u>Local Transportation Fund</u>	<u>Facility Impact Fee Special Revenue Fund</u>
<b>ASSETS</b>				
Cash and investments	\$ -	\$ 1,126,971	\$ -	\$ 2,147,955
Accounts receivable	46,948	340,524	-	-
Taxes receivable	-	-	-	-
Other receivable	-	5,894	-	-
Interest receivable	-	10	-	19
Due from other funds	-	-	240,000	-
Due from other governments	-	-	-	-
Land held for resale	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 46,948</u>	<u>\$ 1,473,399</u>	<u>\$ 240,000</u>	<u>\$ 2,147,974</u>
<b>LIABILITIES</b>				
Cash overdraft	\$ 139,497	\$ -	\$ 636,072	\$ -
Accounts payable	31,647	14,261	26,148	-
Accrued payroll and related liabilities	10,593	2,173	-	-
Due to other funds	-	415,000	-	-
Due to property owners	-	-	-	-
Contracts payable	-	-	-	-
Deposits	-	-	-	-
Unearned revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>181,737</u>	<u>431,434</u>	<u>662,220</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	<u>-</u>	<u>345,714</u>	<u>25,752</u>	<u>-</u>
Total deferred inflows of resources	<u>-</u>	<u>345,714</u>	<u>25,752</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted for:				
Community development	-	-	-	2,147,974
Highway and streets	-	696,251	-	-
Capital maintenance	-	-	-	-
Other purposes	-	-	-	-
Unassigned	<u>(134,789)</u>	<u>-</u>	<u>(447,972)</u>	<u>-</u>
Total fund balances	<u>(134,789)</u>	<u>696,251</u>	<u>(447,972)</u>	<u>2,147,974</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 46,948</u>	<u>\$ 1,473,399</u>	<u>\$ 240,000</u>	<u>\$ 2,147,974</u>

**CITY OF AWATER  
CALIFORNIA**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2013**

	Community Development Block Grants	CDBG Program Income	HOME Investment Partnership Program	Housing Authority Special Revenue Fund
<b>ASSETS</b>				
Cash and investments	\$ -	\$ -	\$ 130,821	\$ -
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Other receivable	-	-	-	-
Interest receivable	-	1	-	-
Due from other funds	-	-	-	-
Due from other governments	-	-	-	259,265
Land held for resale	-	-	-	3,855,930
	-	-	-	3,855,930
Total assets	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ 130,821</b>	<b>\$ 4,115,195</b>
<b>LIABILITIES</b>				
Cash overdraft	\$ 12,441	\$ -	\$ 116,184	\$ -
Accounts payable	-	-	-	-
Accrued payroll and related liabilities	-	-	-	-
Due to other funds	-	-	-	-
Due to property owners	-	-	-	-
Contracts payable	-	-	-	-
Deposits	-	-	-	-
Unearned revenue	-	471	-	-
	-	471	-	-
Total liabilities	12,441	471	116,184	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	-	-	-	-
	-	-	-	-
Total deferred inflows of resources	-	-	-	-
<b>FUND BALANCES</b>				
Restricted for:				
Community development	-	-	14,637	4,115,195
Highway and streets	-	-	-	-
Capital maintenance	-	-	-	-
Other purposes	-	-	-	-
Unassigned	(12,441)	(470)	-	-
Total fund balances	(12,441)	(470)	14,637	4,115,195
Total liabilities, deferred inflows of resources, and fund balances	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ 130,821</b>	<b>\$ 4,115,195</b>

**CITY OF AWATER  
CALIFORNIA**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2013**

	Bloss Estate Trust Fund	Narcotics Program Trust	Neighborhood Stabilization
<b>ASSETS</b>			
Cash and investments	\$ 5,112	\$ 705	\$ 163,397
Accounts receivable	224	-	-
Taxes receivable	-	-	-
Other receivable	-	-	-
Interest receivable	-	-	1
Due from other funds	-	-	-
Due from other governments	-	-	-
Land held for resale	-	-	-
Total assets	\$ 5,336	\$ 705	\$ 163,398
<b>LIABILITIES</b>			
Cash overdraft	\$ -	\$ -	\$ -
Accounts payable	340	-	-
Accrued payroll and related liabilities	-	-	-
Due to other funds	-	-	-
Due to property owners	-	-	-
Contracts payable	-	-	-
Deposits	334	-	-
Unearned revenue	-	-	-
Total liabilities	674	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	-	-	-
Total deferred inflows of resources	-	-	-
<b>FUND BALANCES</b>			
Restricted for:			
Community development	-	-	163,398
Highway and streets	-	-	-
Capital maintenance	-	-	-
Other purposes	4,662	705	-
Unassigned	-	-	-
Total fund balances	4,662	705	163,398
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,336	\$ 705	\$ 163,398

**CITY OF AWATER  
CALIFORNIA**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2013**

	Applegate Interchange	Maintenance Districts	Total
<b>ASSETS</b>			
Cash and investments	\$ 693,225	\$ 1,378,540	\$ 5,646,726
Accounts receivable	-	-	387,696
Taxes receivable	-	36,365	36,365
Other receivable	-	-	5,894
Interest receivable	6	18	55
Due from other funds	-	-	240,000
Due from other governments	-	-	259,265
Land held for resale	-	-	3,855,930
	<u>\$ 693,231</u>	<u>\$ 1,414,923</u>	<u>\$ 10,431,931</u>
Total assets			
<b>LIABILITIES</b>			
Cash overdraft	\$ -	\$ -	\$ 904,194
Accounts payable	-	11,429	83,825
Accrued payroll and related liabilities	-	18,736	31,502
Due to other funds	-	-	415,000
Due to property owners	-	-	-
Contracts payable	-	-	-
Deposits	-	-	334
Unearned revenue	-	-	471
	<u>-</u>	<u>30,165</u>	<u>1,435,326</u>
Total liabilities			
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	-	-	371,466
	<u>-</u>	<u>-</u>	<u>371,466</u>
Total deferred inflows of resources			
<b>FUND BALANCES</b>			
Restricted for:			
Community development	-	-	6,441,204
Highway and streets	693,231	-	1,389,482
Capital maintenance	-	1,384,758	1,384,758
Other purposes	-	-	5,367
Unassigned	-	-	(595,672)
	<u>693,231</u>	<u>1,384,758</u>	<u>8,625,139</u>
Total fund balances			
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 693,231</u>	<u>\$ 1,414,923</u>	<u>\$ 10,431,931</u>

**CITY OF AWATER  
CALIFORNIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Police Grants	Gas Tax Fund	Local Transportation Fund	Facility Impact Fee Special Revenue Fund
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ 4,530
Intergovernmental	309,717	922,468	-	-
Charges for services	-	-	-	-
Revenue from the use of money and property	-	8,293	-	15,319
Miscellaneous	-	3,120	213	3,012
	309,717	933,881	213	22,861
Total revenues	309,717	933,881	213	22,861
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety	532,072	-	-	-
Highways and streets	-	185,746	173,161	-
Urban redevelopment and housing	-	-	-	-
	532,072	185,746	173,161	-
Total expenditures	532,072	185,746	173,161	-
Excess (deficiency) of revenues over (under) (under) expenditures	(222,355)	748,135	(172,948)	22,861
Other financing sources (uses):				
Transfers in	257,000	-	-	-
Transfers out	-	(34,901)	-	-
	257,000	(34,901)	-	-
Total other financing sources (uses)	257,000	(34,901)	-	-
Net change in fund balances	34,645	713,234	(172,948)	22,861
Fund balances, beginning	(169,434)	(16,983)	(275,024)	2,125,113
Fund balances, ending	\$ (134,789)	\$ 696,251	\$ (447,972)	\$ 2,147,974

**CITY OF AWATER  
CALIFORNIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Community Development Block Grants	CDBG Program Income	HOME Investment Partnership Program	Housing Authority Special Revenue Fund
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Revenue from the use of money and property	-	3,443	160	-
Miscellaneous	-	-	-	-
Total revenues	<u>-</u>	<u>3,443</u>	<u>160</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways and streets	-	-	-	-
Urban redevelopment and housing	-	-	2,915	-
Total expenditures	<u>-</u>	<u>-</u>	<u>2,915</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>3,443</u>	<u>(2,755)</u>	<u>-</u>
Other financing sources (uses):				
Transfers in	-	-	130,659	-
Transfers out	-	(130,659)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(130,659)</u>	<u>130,659</u>	<u>-</u>
Net change in fund balances	-	(127,216)	127,904	-
Fund balances, beginning	<u>(12,441)</u>	<u>126,746</u>	<u>(113,267)</u>	<u>4,115,195</u>
Fund balances, ending	<u>\$ (12,441)</u>	<u>\$ (470)</u>	<u>\$ 14,637</u>	<u>\$ 4,115,195</u>

**CITY OF AWATER  
CALIFORNIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Bloss Estate Trust Fund	Narcotics Program	Neighborhood Stabilization
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	-	216,465
Charges for services	-	-	-
Revenue from the use of money and property	224	5	1,168
Miscellaneous	<u>826</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,050</u>	<u>5</u>	<u>217,633</u>
<b>EXPENDITURES</b>			
Current:			
General government	4,426	-	-
Public safety	-	-	-
Highways and streets	-	-	-
Urban redevelopment and housing	<u>-</u>	<u>-</u>	<u>38,235</u>
Total expenditures	<u>4,426</u>	<u>-</u>	<u>38,235</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,376)</u>	<u>5</u>	<u>179,398</u>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(3,376)	5	179,398
Fund balances, beginning	<u>8,038</u>	<u>700</u>	<u>(16,000)</u>
Fund balances, ending	<u>\$ 4,662</u>	<u>\$ 705</u>	<u>\$ 163,398</u>

**CITY OF AWATER**  
**CALIFORNIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Applegate Interchange	Maintenance Districts	Total
<b>REVENUES</b>			
Taxes	\$ 5,187	\$ -	\$ 9,717
Intergovernmental	-	-	1,448,650
Charges for services	-	768,027	768,027
Revenue from the use of money and property	4,919	13,367	46,898
Miscellaneous	-	-	7,171
	10,106	781,394	2,280,463
<b>EXPENDITURES</b>			
Current:			
General government	-	-	4,426
Public safety	-	-	532,072
Highways and streets	-	-	358,907
Urban redevelopment and housing	-	967,588	1,008,738
	-	967,588	1,904,143
Total expenditures	-	967,588	1,904,143
Excess (deficiency) of revenues over (under) expenditures	10,106	(186,194)	376,320
Other financing sources (uses):			
Transfers in	-	-	387,659
Transfers out	-	-	(165,560)
	-	-	222,099
Total other financing sources (uses)	-	-	222,099
Net change in fund balances	10,106	(186,194)	598,419
Fund balances, beginning	683,125	1,570,952	8,026,720
Fund balances, ending	\$ 693,231	\$ 1,384,758	\$ 8,625,139

**CITY OF AWATER**  
**CALIFORNIA**

**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
**JUNE 30, 2013**

	<u>General Capital Projects Fund</u>	<u>Performance</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 249,379	\$ 216,403	\$ 465,782
Accounts receivable	167,274	-	167,274
Interest receivable	<u>1</u>	<u>2</u>	<u>3</u>
Total assets	<u>\$ 416,654</u>	<u>\$ 216,405</u>	<u>\$ 633,059</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 61	\$ -	\$ 61
Deposits	<u>-</u>	<u>111,666</u>	<u>111,666</u>
Total liabilities	<u>61</u>	<u>111,666</u>	<u>111,727</u>
<b>FUND BALANCES</b>			
Assigned for:			
Capital projects	<u>416,593</u>	<u>104,739</u>	<u>521,332</u>
Total fund balances	<u>416,593</u>	<u>104,739</u>	<u>521,332</u>
Total liabilities and fund balances	<u>\$ 416,654</u>	<u>\$ 216,405</u>	<u>\$ 633,059</u>

**CITY OF AWATER**  
**CALIFORNIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	General Capital Projects Fund	Performance	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Intergovernmental	\$ 197,215	\$ -	\$ 197,215
Revenue from the use of money and property	<u>1,083</u>	<u>1,536</u>	<u>2,619</u>
Total revenues	<u>198,298</u>	<u>1,536</u>	<u>199,834</u>
<b>EXPENDITURES</b>			
Current:			
Capital outlay	<u>216,953</u>	<u>-</u>	<u>216,953</u>
Total expenditures	<u>216,953</u>	<u>-</u>	<u>216,953</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,655)</u>	<u>1,536</u>	<u>(17,119)</u>
Other financing sources (uses):			
Transfers in	<u>94,695</u>	<u>-</u>	<u>94,695</u>
Total other financing sources (uses)	<u>94,695</u>	<u>-</u>	<u>94,695</u>
Net change in fund balances	76,040	1,536	77,576
Fund balances, beginning	<u>340,553</u>	<u>103,203</u>	<u>443,756</u>
Fund balances, ending	<u>\$ 416,593</u>	<u>\$ 104,739</u>	<u>\$ 521,332</u>

**CITY OF AWATER  
CALIFORNIA**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
<b><u>Section 125 Dependent Care:</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 743	\$ 2,100	\$ (1,643)	\$ 1,200
Total assets	<u>\$ 743</u>	<u>\$ 2,100</u>	<u>\$ (1,643)</u>	<u>\$ 1,200</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 1,643	\$ (1,643)	\$ -
Deposits	<u>743</u>	<u>2,100</u>	<u>(1,643)</u>	<u>1,200</u>
Total liabilities	<u>\$ 743</u>	<u>\$ 3,743</u>	<u>\$ (3,286)</u>	<u>\$ 1,200</u>
<b><u>Section 125 Medical:</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ (457)	\$ 5,775	\$ (4,834)	\$ 484
Total assets	<u>\$ (457)</u>	<u>\$ 5,775</u>	<u>\$ (4,834)</u>	<u>\$ 484</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 4,834	\$ (4,834)	\$ -
Deposits	<u>(457)</u>	<u>5,775</u>	<u>(4,834)</u>	<u>484</u>
Total liabilities	<u>\$ (457)</u>	<u>\$ 10,609</u>	<u>\$ (9,668)</u>	<u>\$ 484</u>

**CITY OF AWATER**  
**CALIFORNIA**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b><u>CFD No. 1:</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ (70,353)	\$ 1,934,538	\$ (290,000)	\$ 1,574,185
Restricted cash	572,636	1,855,260	(1,738,469)	689,427
Taxes receivable	-	72,224	-	72,224
Interest receivable	<u>-</u>	<u>13</u>	<u>-</u>	<u>13</u>
Total assets	<u>\$ 502,283</u>	<u>\$ 3,862,035</u>	<u>\$ (2,028,469)</u>	<u>\$ 2,335,849</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 5,125	\$ 78,026	\$ (83,151)	\$ -
Due to property owners	<u>497,158</u>	<u>1,996,289</u>	<u>(157,598)</u>	<u>2,335,849</u>
Total liabilities	<u>\$ 502,283</u>	<u>\$ 2,074,315</u>	<u>\$ (240,749)</u>	<u>\$ 2,335,849</u>

**CITY OF ATWATER**  
**CALIFORNIA**

**SCHEDULE OF NET REVENUE AVAILABLE FOR DEBT SERVICE**  
**FISCAL YEAR ENDING JUNE 30, 2013**

<b>Fiscal Year</b>	<b>Actual 12/13</b>
Service Charges	\$ 10,626,427
Connection Fees	<u>13,186</u>
Total Charges for Services	10,639,613
Interest Earnings	51,743
Other Revenues	<u>285</u>
Total Miscellaneous Revenue	<u>52,028</u>
<b>Total Revenue</b>	<b>10,691,641</b>
Personnel Costs	993,544
Supplies	55,924
Professional Services	1,142,650
Wastewater Treatment Plant Mgmt. Service	1,047,095
Other Charges	<u>466,521</u>
<b>Total Operations and Maintenance</b>	<b><u>3,705,734</u></b>
<b>Net Revenue Available for Debt Service</b>	<b><u>\$ 6,985,907</u></b>
2008 Wastewater Bond	\$ 1,346,156
2010 Wastewater Bond	3,247,230
2011 Wastewater Bond	<u>681,750</u>
<b>Total Debt Service</b>	<b><u>5,275,136</u></b>
<b>Net Revenue After Debt Service</b>	<b><u>\$ 1,710,771</u></b>
<b>Debt Service Coverage</b>	<b>1.32</b>

Note: This schedule was prepared on the cash basis of accounting.

## OTHER AUDITOR'S REPORT

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

To the City Council  
City of Atwater, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Atwater, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 24, 2014.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2013-001 and 2013-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as Findings 2013-003 and 2013-004 to be significant deficiencies.

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Clovis, CA 93612  
  
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## **Compliance and Other Matters**

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

## **City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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

*Price Pange & Company*

Clovis, California  
February 24, 2014

## FINDINGS AND QUESTIONED COSTS

**CITY OF ATWATER**  
**CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiencies identified - not considered to be material weaknesses?	<u>  X  </u> yes	<u>      </u> none reported
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u>

**CITY OF ATWATER**  
**CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2013-001**

**Condition:** During our audit, we noted that there was no review of journal entries prepared to record revenue, unearned revenue and capital assets prior to posting into the accounting system as part of the financial closing process.

**Criteria:** Financial close adjustments were not reviewed and approved prior to being recorded in the accounting records. Enhanced internal control policies and procedures should be established and monitored to ensure account balances are accurately recorded.

**Effect:** Weaknesses in internal controls raise the risk of material misstatements in the financial statements.

**Recommendation:** We recommend that the City take steps to: 1) ensure that proper management is in place to oversee the accounting and finance function, and 2) ensure that all year-end adjustments are identified, approved and posted for accurate financial statement reporting purposes.

**Response:** The City has instituted processes for review and approval of journal entries prior to posting in the accounting system as part of the financial closing process.

**Finding 2013-002**

**Condition:** Revenue balances were incorrectly recorded due to the City misapplying the availability criterion for revenue recognition to enterprise funds, failing to defer revenues in its governmental funds, and failing to defer revenues for funds received in advance, that were not yet earned, as of the fiscal year-end.

**Criteria:** According to Governmental Accounting Standards Board (GASB) Statement No. 33, governmental revenue which is collected more than sixty days after year-end should be recorded as unavailable revenue.

**Effect:** The City's failure to properly defer revenues in its governmental funds resulted in an overstatement of revenue of \$340,524.

**Recommendation:** We recommend that the City implement procedures to review unavailable revenue accrual balances at the close of the fiscal year for accurate financial reporting.

**Response:** City staff plans to implement procedures to review unavailable revenue accrual balances at the close of the fiscal year for accurate financial reporting.

**CITY OF ATWATER**  
**CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2013-003**

**Condition:** The City did not recognize expenditures when liabilities were incurred.

**Criteria:** Expenditures should be recognized when liabilities are incurred.

**Effect:** Accounts payable and expenditures were understated by \$117,869.

**Recommendation:** We recommend that the City implement enhanced procedures to review expenditure accruals at year-end.

**Response:** The City will institute enhanced procedures to avoid understating accounts payable and related expenses at year-end.

**Finding 2013-004**

**Condition:** During our audit, we noted that there were no supervisory approvals of utility billing adjustments made by the accounting clerk. This finding was also noted in the prior year.

**Criteria:** Sound internal control practices and appropriate segregation of duties require that all billing adjustments be reviewed and approved by a person other than the person collecting and recording customer payments.

**Effect:** Lack of segregation of duties in critical areas such as utility billing increase the risk of fraudulent transactions occurring and not being detected.

**Recommendation:** We recommend that the City implement procedures to have a supervisor perform a detailed review of billing adjustments prepared by staff before entering them into the accounting system.

**Response:** City staff plans to institute a process of supervisory review and approval for utility billing adjustments in the accounting records.

**CITY OF ATWATER**  
**CALIFORNIA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2012-01**

**Condition:** The accounting records of the City were not adjusted to reflect the dissolution of the Atwater Redevelopment Agency and the establishment of the Successor Agency.

**Criteria:** On December 29, 2011, the California Supreme Court upheld Assembly Bill x1 26 (“the Bill”), which provided for the dissolution of all redevelopment agencies in the State of California. Under the Bill, the City of Atwater accepted the role of successor agency to serve as custodian for the assets of the dissolved redevelopment agency, pending distribution to the appropriate taxing entities after the payment of enforceable obligations that were in effect as of the signing of the Bill. Based upon the nature of this custodial role, upon dissolution the assets and liabilities of the dissolved redevelopment agency, the activity should have been reported in a fiduciary fund (private-purpose trust fund) of the City in accordance with generally accepted accounting principles.

**Effect:** The City accounting records did not accurately reflect the dissolution of the former redevelopment agency and subsequent custodial role of the successor agency.

**Recommendation:** We recommend that the City’s financial management obtain the necessary training to increase their knowledge of governmental accounting practices and GASB pronouncements. Additionally, the year-end closing process should be enhanced to ensure identification of accounting changes for inclusion in the accounting records.

**Response:** Management understands the importance of accurately reflecting the financial position of the City. Staff plans to implement procedures to enhance this process for accurate financial reporting.

**Status:** Implemented

**Finding 2012-02**

**Condition:** During our audit, we noted that there were no supervisory approvals of utility billing adjustments made by the accounting clerk.

**Criteria:** Sound internal control practices and appropriate segregation of duties require that all billing adjustments be reviewed and approved by a person other than the person collecting and recording customer payments.

**Effect:** Lack of segregation of duties in critical areas such as utility billing increase the risk of fraudulent transactions occurring and not being detected.

**Recommendation:** We recommend that the City implement procedures to have a supervisor perform a detailed review of billing adjustments prepared by staff before entering them into the accounting system.

**Response:** City staff plans to institute a process of supervisory review and approval for utility billing adjustments in the accounting records.

**Status:** Not implemented; see current year findings.

**CITY OF ATWATER**  
**CALIFORNIA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Finding 2012-03**

**Condition:** Detailed utility billing accounts receivable aging records include deleted customer accounts. These deleted accounts have been sent to collections but have not been written off in the accounting records.

**Criteria:** Deleted utility billing accounts sent to collections should be removed from the accounts receivable accounting records to ensure that account balances are accurately recorded.

**Effect:** Utility billing accounts receivable and revenue was overstated across the water, sewer and refuse funds by \$230,119 as of June 30, 2012.

**Recommendation:** The utility accounts receivable aging should be reconciled to the trial balance control account on a monthly basis. A process should be established to promptly remove deleted customer accounts from the subsidiary ledgers and to record the necessary journal entry in the general ledger.

**Response:** City staff plans to institute a process to remove deleted utility accounts receivables sent to collections from the accounting records in a timely manner.

**Status:** Implemented.

**Finding 2012-04**

**Condition:** Revenue balances were incorrectly recorded due to the City misapplying the availability criterion for revenue recognition to enterprise funds, failing to defer revenues in its governmental funds, and failing to defer revenues for funds received in advance, that were not yet earned, as of the fiscal year-end.

**Criteria:** According to Governmental Accounting Standards Board (GASB) Statement No. 33, governmental revenue which is collected more than sixty days after year-end should be recorded as deferred revenue.

**Cause:** Due to staff shortages, there was a lack of oversight to sufficiently record deferred revenue balances.

**Effect:** The misapplication of the availability criterion to the enterprise funds resulted in an understatement of revenue of \$762,047. The City's failure to properly defer revenues in its governmental funds resulted in an overstatement of revenue of \$364,144. The City's failure to record deferred revenues for funds received from Merced Unified High School District and Atwater Elementary School District, which were not yet earned at the fiscal year-end, resulted in an overstatement of revenue of \$364,144.

**Recommendation:** We recommend that the City implement procedures to review deferred revenue accrual balances at the close of the fiscal year for accurate financial reporting.

**Response:** City staff plans to implement procedures to review deferred revenue accrual balances at the close of the fiscal year for accurate financial reporting.

**Status:** Not implemented; see current year findings.