

**CITY OF AVENAL
CALIFORNIA**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2016**

**CITY OF AVENAL
JUNE 30, 2016**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	4
Statement of Activities.....	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	9
Statement of Revenues, Expenditures and Changes in Fund Balances.....	10
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	11
Proprietary Funds:	
Statement of Net Position	14
Statement of Revenues, Expenses and Changes in Net Position.....	15
Statement of Cash Flows.....	16
Fiduciary Funds:	
Statement of Fiduciary Net Position – Successor Agency of the Redevelopment Agency.....	17
Statement of Changes in Fiduciary Net Position – Successor Agency of the Redevelopment Agency.....	18
Notes to the Basic Financial Statements.....	20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for Other Postemployment Benefits.....	52
Proportionate Share of Net Pension Liability.....	53
Schedule of Contributions	54

TABLE OF CONTENTS
(Continued)

Page

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual:	
General Fund	55
CalHOME Special Revenue Fund	56
Home Program Income Special Revenue Fund	57
CDBG Program Income Special Revenue Fund	58
Home Investment Special Revenue Fund	59
Notes to the Required Supplementary Information.....	60

OTHER SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds	62
-----------------------------------	----

Combining Nonmajor Governmental Funds Statements:

Combining Balance Sheet – Nonmajor Governmental Funds	63
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	64
Combining Balance Sheet – Nonmajor Special Revenue Funds	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds.....	66
Combining Balance Sheet – Nonmajor Capital Projects Fund	67
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Capital Projects Fund	68
Schedule of Expenditures of Federal Awards.....	69
Notes to the Schedule of Expenditures of Federal Awards	70

OTHER INDEPENDENT AUDITOR'S REPORT

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 <i>Government Auditing Standards</i>	73
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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	75
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FINDINGS AND QUESTIONED COSTS

Schedule of Findings and Questioned Costs.....	78
Summary Schedule of Prior Audit Findings	81
Management Responses to Findings	83



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Avenal, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avenal, California (the City), as of and for the year ended June 30, 2016, 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 Avenal, as of June 30, 2016, 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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Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of funding progress for other postemployment benefits on page 52, the proportionate share of net pension liability on page 53, the schedule of contributions on page 54, and budgetary comparison information on pages 55-60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards 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 expenditures of federal awards 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 December 22, 2016, 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 Pange & Company

Clovis, California
December 22, 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF AVENAL
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 9,373,687	\$ 5,819,035	\$ 15,192,722
Cash with fiscal agent	658,441	-	658,441
Receivables:			
Consumer receivables	-	496,889	496,889
Taxes	142,220	-	142,220
Intergovernmental	1,072,636	-	1,072,636
Community loans	12,636,759	-	12,636,759
Notes	101,492	-	101,492
Internal balances	3,774,430	(3,774,430)	-
Due from Successor Agency	2,885,000	-	2,885,000
Inventories	-	89,769	89,769
Other assets	-	12,962	12,962
Capital assets:			
Non-depreciable	1,833,913	101,000	1,934,913
Depreciable, net of accumulated depreciation	<u>20,609,204</u>	<u>14,581,191</u>	<u>35,190,395</u>
Total assets	<u>53,087,782</u>	<u>17,326,416</u>	<u>70,414,198</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	<u>975,658</u>	<u>173,114</u>	<u>1,148,772</u>
Total deferred outflows of resources	<u>975,658</u>	<u>173,114</u>	<u>1,148,772</u>
LIABILITIES			
Accounts payable	586,432	166,817	753,249
Accrued interest payable	111,319	-	111,319
Consumer deposits	-	32,794	32,794
Due to Successor Agency	327,870	-	327,870
Due in one year:			
Compensated absences	110,066	38,223	148,289
Revenue bond payable	330,000	-	330,000
Noncurrent liabilities:			
Compensated absences	16,573	32,542	49,115
Revenue bond payable	6,660,000	-	6,660,000
Net pension liability	1,078,081	866,284	1,944,365
Other postemployment benefit obligation	<u>2,156,533</u>	<u>1,301,686</u>	<u>3,458,219</u>
Total liabilities	<u>11,376,874</u>	<u>2,438,346</u>	<u>13,815,220</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pensions	<u>381,337</u>	<u>141,631</u>	<u>522,968</u>
Total deferred inflows of resources	<u>381,337</u>	<u>141,631</u>	<u>522,968</u>
NET POSITION			
Net investment in capital assets	15,453,117	14,682,191	30,135,308
Restricted for:			
Highway and streets	1,620,667	-	1,620,667
Community development	872,874	-	872,874
Unrestricted	<u>24,358,571</u>	<u>237,362</u>	<u>24,595,933</u>
Total net position	<u>\$ 42,305,229</u>	<u>\$ 14,919,553</u>	<u>\$ 57,224,782</u>

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

**CITY OF AVENAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government	\$ 1,167,366	\$ 81,612	\$ 117,096	\$ -	\$ (968,658)	\$ -	\$ (968,658)
Building regulations	141,078	-	-	-	(141,078)	-	(141,078)
Planning	-	99,603	-	-	99,603	-	99,603
Community development	3,384,297	305,956	4,397,053	-	1,318,712	-	1,318,712
Public safety:							
Law enforcement	2,741,790	152,879	239,000	-	(2,349,911)	-	(2,349,911)
Animal control	239,727	53,849	-	-	(185,878)	-	(185,878)
Parks and recreation	324,055	7,290	-	-	(316,765)	-	(316,765)
Streets	1,246,347	-	874,259	-	(372,088)	-	(372,088)
Interest on long-term debt	336,161	-	-	-	(336,161)	-	(336,161)
Total governmental activities	9,580,821	701,189	5,627,408	-	(3,252,224)	-	(3,252,224)
Business-type activities:							
Water	3,465,641	2,349,580	-	-	-	(1,116,061)	(1,116,061)
Sewer	1,296,726	1,570,456	-	-	-	273,730	273,730
Solid waste	917,406	554,229	114,120	-	-	(249,057)	(249,057)
Street light	68,326	56,642	-	-	-	(11,684)	(11,684)
Total business-type activities	5,748,099	4,530,907	114,120	-	-	(1,103,072)	(1,103,072)
Total	\$ 15,328,920	\$ 5,232,096	\$ 5,741,528	\$ -	(3,252,224)	(1,103,072)	(4,355,296)
General revenues:							
Taxes:							
Property taxes				414,872	-		414,872
Sales taxes				359,444	-		359,444
Franchise taxes				264,585	-		264,585
Other taxes				6,696	-		6,696
Motor vehicle in-lieu				2,097,215	-		2,097,215
Rental income				235,247	-		235,247
Investment income				15,716	8,476		24,192
Miscellaneous				434,013	53,104		487,117
Transfers				(52,022)	52,022		-
Total general revenues and transfers				3,775,766	113,602		3,889,368
Change in net position				523,542	(989,470)		(465,928)
Net position - beginning				41,781,687	15,909,023		57,690,710
Net position - ending				\$ 42,305,229	\$ 14,919,553		\$ 57,224,782

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

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FUND FINANCIAL STATEMENTS

**CITY OF AVENAL
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Avenal Public Financing Authority Debt Service Fund	CalHOME Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	Home Investment Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and investments	\$ 6,984,168	\$ -	\$ -	\$ 9,131	\$ -	\$ 13,446	\$ 2,366,942	\$ 9,373,687
Cash with fiscal agent	-	658,440	-	-	-	-	-	658,440
Receivables:								
Taxes	142,220	-	-	-	-	-	-	142,220
Intergovernmental	-	-	-	-	-	828,145	244,490	1,072,635
Community loans	-	-	2,644,590	5,635,600	4,356,569	-	-	12,636,759
Notes	101,492	-	-	-	-	-	-	101,492
Interfund receivables	80,702	-	-	-	-	-	-	80,702
Due from Successor Agency	-	2,885,000	-	-	-	-	-	2,885,000
Advances to other funds	-	4,105,000	-	-	-	-	-	4,105,000
Total assets	\$ 7,308,582	\$ 7,648,440	\$ 2,644,590	\$ 5,644,731	\$ 4,356,569	\$ 841,591	\$ 2,611,432	\$ 31,055,935
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 241,662	\$ -	\$ 45,095	\$ -	\$ -	\$ -	\$ 299,673	\$ 586,430
Due to Successor Agency	-	327,870	-	-	-	-	-	327,870
Interfund payables	-	-	77,853	-	-	-	2,849	80,702
Advances from other funds	-	330,570	-	-	-	-	-	330,570
Total liabilities	241,662	658,440	122,948	-	-	-	302,522	1,325,572
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues - loans	-	-	2,644,590	5,635,600	4,356,569	-	-	12,636,759
Total deferred inflows of resources	-	-	2,644,590	5,635,600	4,356,569	-	-	12,636,759
Fund balances:								
Nonspendable:								
Notes receivable	101,492	-	-	-	-	-	-	101,492
Restricted for:								
Public safety	195,538	-	-	-	-	-	-	195,538
Highways and streets	-	-	-	-	-	841,591	779,076	1,620,667
Community development	-	-	-	9,131	-	-	863,743	872,874
Debt service	-	6,990,000	-	-	-	-	-	6,990,000
Committed:								
Capital projects	615,725	-	-	-	-	-	669,109	1,284,834
Assigned:								
General government	7,500	-	-	-	-	-	-	7,500
Unassigned	6,146,665	-	(122,948)	-	-	-	(3,018)	6,020,699
Total fund balances	7,066,920	6,990,000	(122,948)	9,131	-	841,591	2,308,910	17,093,604
Total liabilities and fund balances	\$ 7,308,582	\$ 7,648,440	\$ 2,644,590	\$ 5,644,731	\$ 4,356,569	\$ 841,591	\$ 2,611,432	\$ 31,055,935

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

**CITY OF AVENAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

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

Total fund balances - governmental funds	\$	17,093,604
Capital assets used in governmental activities were not current financial resources and, therefore, were not reported in the governmental funds.		22,443,117
Long-term liabilities were not due and payable in the current period; therefore, they are not reported in the governmental funds balance sheet:		
Net pension liability		(1,078,081)
Other postemployment benefits		(2,156,533)
Loan payable		(6,990,000)
Compensated absences		(126,639)
Unmatured interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.		(111,319)
Pension related deferrals are reported as deferred outflows and inflows of resources on the Statement of Net Position.		594,321
Other long-term assets are not available to pay for current period expenditures and, therefore, they are deferred in the governmental funds.		<u>12,636,759</u>
Net position of governmental activities	\$	<u><u>42,305,229</u></u>

CITY OF AVENAL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Avenal Public Financing Authority Debt Service Fund	CalHOME Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	Home Investment Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
REVENUES								
Property taxes	\$ 2,535,794	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,535,794
Other taxes	606,687	-	-	-	-	-	-	606,687
Intergovernmental revenues	549,532	-	-	-	-	3,893,218	1,350,272	5,793,022
Charges for services	175,822	-	-	-	-	-	-	175,822
Licenses and permits	359,166	-	-	-	-	-	-	359,166
Fines and penalties	52,363	-	-	-	-	-	-	52,363
Investment income	14,358	-	37	1	4	1	1,315	15,716
Rents	235,247	-	-	-	-	-	-	235,247
Loan repayments	-	-	500	10,600	6,542	-	-	17,642
Other revenue	44,771	340,571	-	-	-	-	-	385,342
Total revenues	4,573,740	340,571	537	10,601	6,546	3,893,219	1,351,587	10,176,801
EXPENDITURES								
Current:								
General government	434,349	-	-	-	-	-	-	434,349
Building regulation	125,935	-	-	-	-	-	-	125,935
Community development	278,467	-	196,699	2,430	-	3,052,472	114,835	3,644,903
Public safety:								
Law enforcement	2,649,613	-	-	-	-	-	-	2,649,613
Animal control	168,324	-	-	-	-	-	-	168,324
Parks and recreation	454,629	-	-	-	-	-	22,730	477,359
Highways and streets	-	-	-	-	-	-	283,923	283,923
Capital outlay:								
General government	118,843	-	-	-	-	-	-	118,843
Parks and recreation	54,276	-	-	-	-	-	241,775	296,051
Highways and streets	-	-	-	-	-	-	388,155	388,155
Debt service:								
Principal	-	315,000	-	-	-	-	-	315,000
Interest	-	340,571	-	-	-	-	-	340,571
Total expenditures	4,284,436	655,571	196,699	2,430	-	3,052,472	1,051,418	9,243,026
Excess (deficiency) of revenues over (under) expenditures	289,304	(315,000)	(196,162)	8,171	6,546	840,747	300,169	933,775
OTHER FINANCING SOURCES (USES)								
Transfers in	6,557	-	-	-	-	-	284,500	291,057
Transfers out	(297,533)	-	-	-	(6,557)	-	(38,989)	(343,079)
Total other financing sources (uses)	(290,976)	-	-	-	(6,557)	-	245,511	(52,022)
Net change in fund balances	(1,672)	(315,000)	(196,162)	8,171	(11)	840,747	545,680	881,753
Fund balances - beginning	7,068,592	7,305,000	73,214	960	11	844	1,763,230	16,211,851
Fund balances - ending	\$ 7,066,920	\$ 6,990,000	\$ (122,948)	\$ 9,131	\$ -	\$ 841,591	\$ 2,308,910	\$ 17,093,604

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

**CITY OF AVENAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

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

Net change in fund balances - total governmental funds	\$	881,753
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the costs of those assets are capitalized. This is the amount of capital assets recorded.		783,772
Depreciation expense on capital assets is reported in the government-wide statement as changes in net position, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.		(1,461,007)
Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		384,944
Community loans are reported in the governmental funds as expenditures and are not expenses in the statement of activities. This is the amount of community loans given.		211,201
Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is reported as an expenditure in the governmental funds.		(19,095)
Repayment of long-term principal is an expenditure in governmental funds, but the repayment reduced long-term liabilities in the government-wide statement of net position.		315,000
Other post-employment 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.		(577,436)
Change in accrued interest calculated on bonds and notes payable.		4,410
Change in net position of governmental activities	\$	523,542

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

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PROPRIETARY FUNDS

**CITY OF AVENAL
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
ASSETS					
Current assets:					
Cash and investments	\$ 2,160,110	\$ 2,608,255	\$ 616,429	\$ 434,241	\$ 5,819,035
Consumer receivables	276,093	140,765	73,114	6,917	496,889
Supplies inventory	53,566	36,203	-	-	89,769
Other assets	<u>12,962</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,962</u>
Total current assets	<u>2,502,731</u>	<u>2,785,223</u>	<u>689,543</u>	<u>441,158</u>	<u>6,418,655</u>
Noncurrent assets:					
Advances to other funds	330,570	-	-	-	330,570
Capital assets:					
Nondepreciable	100,000	-	1,000	-	101,000
Depreciable, net	<u>11,067,337</u>	<u>2,867,974</u>	<u>-</u>	<u>645,880</u>	<u>14,581,191</u>
Total noncurrent assets	<u>11,497,907</u>	<u>2,867,974</u>	<u>1,000</u>	<u>645,880</u>	<u>15,012,761</u>
Total assets	<u>14,000,638</u>	<u>5,653,197</u>	<u>690,543</u>	<u>1,087,038</u>	<u>21,431,416</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows from pensions	<u>87,814</u>	<u>56,906</u>	<u>28,394</u>	<u>-</u>	<u>173,114</u>
Total deferred outflows of resources	<u>87,814</u>	<u>56,906</u>	<u>28,394</u>	<u>-</u>	<u>173,114</u>
LIABILITIES					
Current liabilities:					
Accounts payable	104,733	12,117	48,237	1,674	166,761
Deposits	32,850	-	-	-	32,850
Compensated absences	<u>16,368</u>	<u>19,263</u>	<u>2,592</u>	<u>-</u>	<u>38,223</u>
Total current liabilities	<u>153,951</u>	<u>31,380</u>	<u>50,829</u>	<u>1,674</u>	<u>237,834</u>
Noncurrent liabilities:					
Advances from other funds	4,105,000	-	-	-	4,105,000
Compensated absences	13,935	16,400	2,207	-	32,542
Net pension liability	439,431	284,766	142,087	-	866,284
Other postemployment benefits obligation	<u>650,843</u>	<u>650,843</u>	<u>-</u>	<u>-</u>	<u>1,301,686</u>
Total noncurrent liabilities	<u>5,209,209</u>	<u>952,009</u>	<u>144,294</u>	<u>-</u>	<u>6,305,512</u>
Total liabilities	<u>5,363,160</u>	<u>983,389</u>	<u>195,123</u>	<u>1,674</u>	<u>6,543,346</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows from pensions	<u>73,558</u>	<u>46,128</u>	<u>21,945</u>	<u>-</u>	<u>141,631</u>
Total deferred inflows of resources	<u>73,558</u>	<u>46,128</u>	<u>21,945</u>	<u>-</u>	<u>141,631</u>
NET POSITION					
Net investment in capital assets	11,167,337	2,867,974	1,000	645,880	14,682,191
Unrestricted	<u>(2,515,603)</u>	<u>1,812,612</u>	<u>500,869</u>	<u>439,484</u>	<u>237,362</u>
Total net position	<u>\$ 8,651,734</u>	<u>\$ 4,680,586</u>	<u>\$ 501,869</u>	<u>\$ 1,085,364</u>	<u>\$ 14,919,553</u>

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

**CITY OF AVENAL
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
Operating revenues					
Charges for services	\$ 2,320,170	\$ 1,535,911	\$ 554,229	\$ 56,642	\$ 4,466,952
Operating expenses:					
Personnel costs	839,565	472,287	186,538	2,560	1,500,950
Operations	403,066	151,517	-	-	554,583
Contract services	-	-	679,021	-	679,021
Franchise	69,899	-	-	-	69,899
Utilities	775,524	147,143	-	37,555	960,222
Administration	306,216	364,129	50,654	-	720,999
Depreciation	869,348	161,650	1,193	28,211	1,060,402
Total operating expenses	<u>3,263,618</u>	<u>1,296,726</u>	<u>917,406</u>	<u>68,326</u>	<u>5,546,076</u>
Operating income (loss)	<u>(943,448)</u>	<u>239,185</u>	<u>(363,177)</u>	<u>(11,684)</u>	<u>(1,079,124)</u>
Nonoperating revenues (expenses):					
Connection fees	29,410	25,894	-	-	55,304
Other revenue	34,906	-	12,062	6,136	53,104
Other surcharges and surtaxes	-	-	114,120	-	114,120
Interest income	5,168	2,394	697	217	8,476
Department of Corrections - water plant	-	8,651	-	-	8,651
Interest expense	<u>(202,023)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(202,023)</u>
Total nonoperating revenues (expenses)	<u>(132,539)</u>	<u>36,939</u>	<u>126,879</u>	<u>6,353</u>	<u>37,632</u>
Other financing sources (uses):					
Transfers in	38,989	-	129,533	-	168,522
Transfers out	<u>(73,500)</u>	<u>(43,000)</u>	<u>-</u>	<u>-</u>	<u>(116,500)</u>
Total other financing sources (uses)	<u>(34,511)</u>	<u>(43,000)</u>	<u>129,533</u>	<u>-</u>	<u>52,022</u>
Change in net position	(1,110,498)	233,124	(106,765)	(5,331)	(989,470)
Net position - beginning	<u>9,762,232</u>	<u>4,447,462</u>	<u>608,634</u>	<u>1,090,695</u>	<u>15,909,023</u>
Net position - ending	<u>\$ 8,651,734</u>	<u>\$ 4,680,586</u>	<u>\$ 501,869</u>	<u>\$ 1,085,364</u>	<u>\$ 14,919,553</u>

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

**CITY OF AVENAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
Cash flows from operating activities:					
Cash received from customers	\$ 2,308,988	\$ 1,541,854	\$ 567,396	\$ 57,822	\$ 4,476,060
Cash payments to suppliers for goods and services	(1,505,061)	(649,728)	(729,605)	(36,282)	(2,920,676)
Cash payments to employees for services	(689,837)	(693,245)	(95,433)	(2,560)	(1,481,075)
Net cash provided (used) by operating activities	<u>114,090</u>	<u>198,881</u>	<u>(257,642)</u>	<u>18,980</u>	<u>74,309</u>
Cash flows from noncapital financing activities:					
Cash received/paid from other funds	(149,511)	(43,000)	129,533	6,136	(56,842)
Cash received for connection fees	64,316	34,545	126,182	-	225,043
Net cash provided (used) by noncapital financing activities	<u>(85,195)</u>	<u>(8,455)</u>	<u>255,715</u>	<u>6,136</u>	<u>168,201</u>
Cash flows from capital and related financing activities:					
Interest paid on capital debt	(202,023)	-	-	-	(202,023)
Net cash provided (used) by capital and related financing activities	<u>(202,023)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(202,023)</u>
Cash flows from investing activities:					
Interest on investments	5,168	2,394	697	217	8,476
Net cash provided (used) by investing activities	<u>5,168</u>	<u>2,394</u>	<u>697</u>	<u>217</u>	<u>8,476</u>
Increase (decrease) in cash and cash equivalents	(167,960)	192,820	(1,230)	25,333	48,963
Cash and cash equivalents - July 1	<u>2,328,070</u>	<u>2,415,435</u>	<u>617,659</u>	<u>408,908</u>	<u>5,770,072</u>
Cash and cash equivalents - June 30	<u>\$ 2,160,110</u>	<u>\$ 2,608,255</u>	<u>\$ 616,429</u>	<u>\$ 434,241</u>	<u>\$ 5,819,035</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating income (loss)	\$ (943,448)	\$ 239,185	\$ (363,177)	\$ (11,684)	\$ (1,079,124)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	869,348	161,650	1,193	28,211	1,060,402
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:					
(Increase) decrease in consumer receivables	(11,182)	5,943	13,167	1,179	9,107
(Increase) decrease in supplies inventory	(7,618)	2,685	-	-	(4,933)
(Increase) decrease in deferred outflows of resources for pensions	(13,196)	22,603	(17,109)	-	(7,702)
Increase (decrease) in accounts payable	39,725	10,376	70	1,274	51,445
Increase (decrease) in consumer deposits	17,537	-	-	-	17,537
Increase (decrease) in compensated absences payable	2,748	3,258	415	-	6,421
Increase (decrease) in other postemployment benefits obligation	75,622	75,622	-	-	151,244
Increase (decrease) in net pension liability	159,313	(220,962)	108,737	-	47,088
Increase (decrease) in deferred inflows of resources for pensions	(74,759)	(101,479)	(938)	-	(177,176)
Net cash provided (used) by operating activities	<u>\$ 114,090</u>	<u>\$ 198,881</u>	<u>\$ (257,642)</u>	<u>\$ 18,980</u>	<u>\$ 74,309</u>

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

**CITY OF AVENAL
STATEMENT OF FIDUCIARY NET POSITION
SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY
JUNE 30, 2016**

	Trust Funds
ASSETS	
Current assets:	
Cash and investments	\$ 806,389
Due from City of Avenal	327,870
Total current assets	1,134,259
Total assets	1,134,259
LIABILITIES	
Noncurrent liabilities:	
Due to City of Avenal Public Finance Authority	2,885,000
Total noncurrent liabilities	2,885,000
Total liabilities	2,885,000
NET POSITION	
Held in trust	\$ (1,750,741)

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

CITY OF AVENAL
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY
JUNE 30, 2016

	Trust Funds
ADDITIONS	
Intergovernmental revenues	\$ 663,626
Interest	56
Total additions	663,682
DEDUCTIONS	
Planning and community development	130,905
Interest and fiscal charges	138,549
Total deductions	269,454
Change in net position	394,228
Net position - beginning	(2,144,969)
Net position - ending	\$ (1,750,741)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City of Avenal (the "City") was incorporated in 1979 as a general law city. The City has a council/manager form of government and is governed by a five-member elected council. The City Manager is appointed by the City Council. The City provides the following services: public safety (law enforcement, animal control, and emergency services), water utility, sanitation (solid waste disposal and sanitary wastewater), parks and recreation, planning and community development, public works, street maintenance, building regulation and general administrative services.

The accompanying basic financial statements include the financial activities of the City; the primary government; and its component unit, the Avenal Public Financing Authority (the "Authority"). Financial information for the City and this component unit are accounted for in the accompanying financial statements in accordance with principles defining the governmental reporting entity adopted by the Governmental Accounting Standards Board. The City Council members, in separate session, serve as the governing board of the Authority. As such, this entity is presented on a blended basis. No separate annual financial statements are prepared for the Authority.

Blended Component Units

The **Avenal Public Financing Authority** (the Authority) is a joint exercise of powers authority organized and existing under and pursuant to a Joint Exercise of Powers Agreement dated March 20, 1989. The agreement is between the City and the Authority, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code for the purpose of financing the acquisition of bonds, notes and other obligations to provide financing for public capital improvements to be owned by the City or the Authority. The City Council acts as the governing board of the Authority and is responsible for the Authority's fiscal and administrative activities. The funds of the Authority have been included in the governmental activities of the financial statements.

Basis of Presentation

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.

The statement of net position and the statement of activities display information about the primary government (the City) and its component unit. 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 are generally 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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's business-type activities and for each 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.

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, interfund 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, Advance to Other Funds/Advance from Other Funds, and Transfers In/Transfer Out.

Fund Financial Statements – The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financials 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. All accompanying schedules are 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.

Propriety 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. Nonoperating 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 nonoperating expenses.

The City reports the following major governmental funds:

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

The **Avenal Public Financing Authority Debt Service Fund** is used to account for the repayment of debt issued by the Avenal Public Financing Authority.

The **CalHOME Special Revenue Fund** is used to account for CalHOME grant activities.

The **HOME Program Income Special Revenue Fund** is used to account for HOME Investment Partnership loan repayments. Receipts are transferred to the appropriate funds.

The **CDBG Program Income Special Revenue Fund** is used to account for community development block grant loan repayments.

The **HOME Investment Special Revenue Funds** is used for federal HOME Investment Partnership grants activity.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

The City has four enterprise funds – the Water, Sewer, Solid Waste, and Street Light – 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 the 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 proprietary funds:

The **Water Fund** is used to account for financial activity of the water utility system.

The **Sewer Fund** is used to account for the financial activity of the sewage collections wastewater treatment utility system.

The **Solid Waste Fund** is used to account for the financial activity of the solid waste utility system.

The **Street Light Fund** is used to account for the financial activity of the street light system.

The City's fiduciary funds represent agency trust funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency trust funds are accounted for on an *economic resources* measurement focus and accrual basis of accounting.

The City reports the following fiduciary fund:

The **Successor Agency of the Redevelopment Agency** is used to account for assets 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.

Measurement Focus, Basis of Accounting

Government-Wide and Proprietary Fund Financial Statements – The government-wide and proprietary 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 flow takes place. Non-exchange 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 taxes 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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting (Continued)

Governmental Fund Financial Statements – Governmental funds are reported using current financial resources measurement focus and 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 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 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, and 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 non-operating expenses.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

All cash and cash equivalents of the proprietary funds are pooled with the City's pooled cash and cash equivalents.

The City follows the practice of pooling the cash from all funds for investment purposes.

Receivables

Proprietary 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.

Grant and entitlement revenues are recorded as receivables in the funds when all eligibility requirements have been met. The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. Proprietary fund revenues are recorded as non-operating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received.

The City accrues as receivable all property taxes received during the first sixty (60) days of the new fiscal year.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Supplies Inventory and Prepaid Items

Inventory items are recorded as expenditures at the time of purchase. Records are not maintained for inventory and supplies on hand.

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

Interfund Transactions

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “interfund receivables/payables” (i.e. the current interfund loans) or “advances to/advances from” (i.e. the noncurrent interfund loans). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

The City’s assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. The City has chosen not to capitalize infrastructure in place prior to the adoption of GASB Statement No. 34. Gifts or contributions of capital assets are recorded at fair value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings.....	10-50 years
Improvements.....	5-10 years
Machinery and equipment.....	3-25 years
Infrastructure	15-50 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments’ basic financial statements. In accordance with this statement, the City has included the value of all infrastructure capital assets acquired since the beginning of the 2003 fiscal year into the current year basic financial statements.

The City defines infrastructure as capital assets that are stationary and have expected useful lives significantly in excess of most capital assets. The assets include the street system, water purification and distribution system, sewer collection and treatment system, parks and recreation improvement, storm water conveyance system, and buildings combined with the site amenities, such as parking and landscaped areas used by the City in the conduct of its business.

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

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 intergovernmental revenues (primarily grants and subventions) received but not earned (qualifying expenditures not yet incurred).

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Unavailable Revenue

In the fund financial statements, unavailable revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unavailable revenue for transactions for which revenues have been earned, but for which funds are not available to meet current financial obligations. Typical transactions for which unavailable revenue is recorded are intergovernmental revenues when funding requirements have been met, but the related funding is not yet available.

Compensated Absences Payable

It is the City's policy to permit employees to accumulate a maximum amount of 320 hours of earned or unused vacation and sick leave. Sick leave is accumulated at 8 hours per month for full-time regular employees. Vacation is accumulated at 10 days per year for full-time regular employees with less than five years of service and employees earn an additional day for each year after five years. This amount is included as a liability in the government-wide and proprietary fund financial statements.

Long-Term Debt

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

Pensions

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

Property Tax Calendar

Property taxes are assessed, collected and allocated by Kings County throughout the fiscal year according to the following property tax calendar.

Lien Date	January 1
Levy Date	July 1 to June 30
Due Dates	November 1, 1 st installment; February 1, 2 nd installment
Delinquent Dates	December 10, 1 st installment; April 10, 2 nd installment

Revenues from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year-end.

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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

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 by laws or regulations of other governments, and restrictions imposed by law through constitutional provisions and enabling legislation. Additionally, this category presents restrictions placed on the categories of capital projects, and specific projects and programs as established by the City Council.

Unrestricted net position – This category consists of all resources that do not meet the definition of “net investment in capital assets” or “restricted net position.”

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City’s policy is to apply restricted resources first and then unrestricted resources as needed.

Fund Balance Classification

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. The City has classified inventories and prepaid items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **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. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.
- **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 resources 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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Use of Estimates

The preparation of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments in all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the month-end cash and investment balances.

Summary of Deposits and Investments

A reconciliation of the City's deposit and investment balances as of June 30, 2016 is as follows:

Cash on hand	\$ 350
Primary government deposits	12,707,676
Local Agency Investment Fund	3,291,085
U.S. government securities	<u>658,441</u>
 Total cash and investments	 <u>\$ 16,657,552</u>
 Government-Wide:	
Statement of Net Position:	
Cash and investments	\$ 15,192,722
Cash with fiscal agent	658,441
 Fiduciary Funds	 <u>806,389</u>
 Total	 <u>\$ 16,657,552</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

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

- Securities of U.S. Government, or its agencies
- Certificates of Deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Local Agency Investment Fund deposits (state pool)
- Repurchase Agreements (Repos)
- Passbook savings account demand deposits

Investments Authorized by the Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in Non Issuer</u>
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
Commerical Paper	365 days	None	None
Money Market Fund	None	None	None

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

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – CASH 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 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	Total	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	More than 60 Months
State investment pool	\$ 3,291,085	\$ 3,291,085	\$ -	\$ -
Held by bond trustee:				
Treasury obligation funds	658,441	658,441	-	-
Total	\$ 3,949,526	\$ 3,949,526	\$ -	\$ -

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.

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 (where applicable) by 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 Statement No. 40 does not require disclosure as to credit risk:

Investment Type	Total	Exempt from Disclosure	Rating as of Year-End	
			AAAm	Not Rated
State investment pool	\$ 3,291,085	\$ 3,291,085	\$ -	\$ -
Held by bond trustee:				
Treasury obligation funds	658,441	-	658,441	-
Total	\$ 3,949,526	\$ 3,291,085	\$ 658,441	\$ -

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a 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:

As of June 30, 2016, the carrying amount of the City’s bank deposits was \$12,707,675. Bank balances before reconciling items were \$13,267,839 at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City’s name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus collateral for cash deposits is considered to be held in the City’s name.

According to California law, the fair value of pledged securities with banking institutions must equal at least 110% of the City’s cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgages having a value of 150% of the City’s total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

Local Agency Investment Fund

The City participates in an external investment pool, as defined by the Governmental 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, 2016 balance was \$3,291,083. A breakdown of the investments included in the balance is not available at the balance sheet date.

Investment Valuation

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Fair value measurements of the City’s investments are as follows at June 30, 2016:

<u>Investments</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Held by bond trustee:				
Treasury obligation funds	\$ 658,441	\$ -	\$ 658,441	\$ -
Total	<u>\$ 658,441</u>	<u>\$ -</u>	<u>\$ 658,441</u>	<u>\$ -</u>

Treasury obligations categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 – INTERFUND ACTIVITIES

Interfund balances for the purpose of the government-wide statements have been eliminated. The composition of interfund balances in the fund level statements as of June 30, 2016 is as follows:

Interfund Receivables/Payables

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2016, the interfund balances are as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General Fund	CalHOME Special Revenue Fund	\$ 77,853
General Fund	Tire Amnesty Special Revenue Fund	<u>2,849</u>
	Total	<u>\$ 80,702</u>

Long-Term Interfund Advances

At June 30, 2016, the funds below have made advances that were not expected to be repaid in one year or less.

<u>Advances From</u>	<u>Advances To</u>	<u>Amount</u>
Avenal Public Financing Authority Debt Service Fund	Water Fund	\$ 4,105,000
Water Fund	Avenal Public Financing Authority Debt Service Fund	<u>330,570</u>
	Total	<u>\$ 4,435,570</u>

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditures on behalf of another fund. Current year transfers included activity to recognize the refunding of debt. Transfers in and out consisted of the following as of June 30, 2016:

	<u>Transfers</u>		<u>Reasons</u>
	<u>In</u>	<u>Out</u>	
Major Funds:			
Governmental funds:			
General Fund	\$ 6,557	\$ 297,533	20% Cost of Refuse Service to Residents and capital improvement projects.
CDBG Program Income Special Revenue Fund	-	6,557	Miscellaneous program income
Other governmental funds:			
Parks and Recreation Capital Improvement Project Fund	25,000	-	City match for park grant
Fund	259,500	38,989	Capital improvement projects
Enterprise funds:			
Water Fund	38,989	73,500	Capital improvement projects
Sewer Fund	-	43,000	Capital improvement projects
Solid Waste Fund	<u>129,533</u>	-	20% Cost of Refuse Service to Residents
Total	<u>\$ 459,579</u>	<u>\$ 459,579</u>	

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 – NOTES RECEIVABLE

On October 3, 2007, the City entered into an agreement with Avenal Sand Drags Association for the sale of land that includes the sand drag tracks with a sales price of \$68,000 payable to the City. In 2014, the City approved an addendum to the agreement. The terms of the revised agreement call for five annual interest only payments commencing September 18, 2014, followed by 10 annual principal payments of \$6,800 each, together with accrued interest commencing on September 18, 2019. The interest is a 5% fixed rate, simple interest. If the City determines that the sand drags tracks and/or other use conducted by Avenal Sand Drags Association are no longer in the best interest of the City, the City retains the right to repurchase the property for the original sales price. As of June 30, 2016, the balance of this note receivable was \$68,000.

On October 3, 2007, the City also entered into an agreement with Avenal Sand Drags Association, secured on a second position behind the \$68,000 note described above, for the sale of sand drag equipment and materials with a total sales price of \$21,000 payable to the City. In January 2014, the City approved an addendum to the agreement. The revised agreement required a single principal payment of \$3,400 plus accrued interest due January 31, 2014. Annual interest only payments commencing on September 18, 2014, and continuing thereafter on September 18 of each year for the following 11 years, following by one principal payment of \$17,600, together with accrued interest due and payable on September 18, 2026. The interest is a 5% fixed rate, simple interest. During the fiscal year ended June 30, 2016, the balance of this note receivable was forgiven in the amount \$17,600.

On November 10, 2011, the City entered into an agreement with Avenal District Hospital for purchase of a vehicle with a sales price of \$59,300 payable to the City over a term of 7 years with no interest and no principal payment for the first year, followed by 5 annual principal payments of \$10,000 each, together with accrued interest of 1-2%, commencing on November 1, 2013, and a final payment of \$9,300 plus accrued interest of 2% payable on November 1, 2018. As of June 30, 2016, the balance of this note receivable was \$28,835.

On February 3, 2015, the City entered into an agreement with Reel Time Entertainment, Inc. for assistance with on-going business expenses in the amount of \$9,886.05 payable to the City over a term of 9 months, payable bi-weekly in the amount of \$500.00 each, commencing on February 25, 2015 and a final payment due December 10, 2015. The interest is a 3% fixed rate, simple interest. As of June 30, 2016, the balance of this note receivable was \$4,657.

NOTE 5 – HOUSING LOANS RECEIVABLE

The housing grant funds expended are recorded as expenditures in the year the loans are made to participants even though the amounts will be recovered as the loans are paid. The City maintains detailed records of these loans and records loan principal and interest payments as program revenues in the year that such payments are received. Loans which have monthly/annual activity are “performing” loans and are included as receivables and unavailable revenue. Such loans totaled \$38,257 as of June 30, 2016. Deferred payment loans are not required to be paid back until the participating homeowner sells, transfers title to the property, or discontinues residence in the dwelling, at which time the full amount of the deferred loan is due. Deferred payment loans are “non-performing” loans that are also recorded as receivables and unavailable revenue. Such loans totaled \$12,598,502 as of June 30, 2016.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure additions as of the beginning of the 2002-03 fiscal year in the government-wide statement of net position. The City elected to use the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following tables present summary information on capital assets:

	Balances July 1, 2015	Increases	Decreases	Balances June 30, 2016
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,131,601	\$ -	\$ -	\$ 1,131,601
Construction in progress	<u>58,940</u>	<u>740,306</u>	<u>(96,934)</u>	<u>702,312</u>
Total capital assets not being depreciated	<u>1,190,541</u>	<u>740,306</u>	<u>(96,934)</u>	<u>1,833,913</u>
Capital assets being depreciated:				
Buildings and improvements	10,351,971	23,620	-	10,375,591
Machinery and equipment	3,474,057	68,098	-	3,542,155
Infrastructure	<u>23,599,807</u>	<u>48,682</u>	<u>-</u>	<u>23,648,489</u>
Total capital assets being depreciated	<u>37,425,835</u>	<u>140,400</u>	<u>-</u>	<u>37,566,235</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,028,675)	(283,097)	-	(2,311,772)
Machinery and equipment	(1,966,778)	(216,797)	-	(2,183,575)
Infrastructure	<u>(11,500,571)</u>	<u>(961,113)</u>	<u>-</u>	<u>(12,461,684)</u>
Total accumulated depreciation	<u>(15,496,024)</u>	<u>(1,461,007)</u>	<u>-</u>	<u>(16,957,031)</u>
Total capital assets being depreciated, net	<u>21,929,811</u>	<u>(1,320,607)</u>	<u>-</u>	<u>20,609,204</u>
Governmental activities capital assets, net	<u>\$ 23,120,352</u>	<u>\$ (580,301)</u>	<u>\$ (96,934)</u>	<u>\$ 22,443,117</u>

Depreciation expense on capital assets was charged to the governmental functions as follows:

General government	\$ 274,273
Parks and recreation	170,676
Highway and streets	910,331
Public safety	69,271
Public works	<u>36,456</u>
Total	<u>\$ 1,461,007</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 – CAPITAL ASSETS (Continued)

	<u>Balances July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2016</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Total capital assets not being depreciated	<u>101,000</u>	<u>-</u>	<u>-</u>	<u>101,000</u>
Capital assets being depreciated:				
Buildings and improvements	7,933,079	-	-	7,933,079
Machinery and equipment	1,317,567	-	-	1,317,567
Utility system	20,225,347	-	-	20,225,347
Infrastructure	<u>1,506,715</u>	<u>-</u>	<u>-</u>	<u>1,506,715</u>
Total capital assets being depreciated	<u>30,982,708</u>	<u>-</u>	<u>-</u>	<u>30,982,708</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,616,894)	(210,281)	-	(3,827,175)
Machinery and equipment	(833,472)	(79,548)	-	(913,020)
Utility system	(10,058,127)	(742,362)	-	(10,800,489)
Infrastructure	<u>(832,622)</u>	<u>(28,211)</u>	<u>-</u>	<u>(860,833)</u>
Total accumulated depreciation	<u>(15,341,115)</u>	<u>(1,060,402)</u>	<u>-</u>	<u>(16,401,517)</u>
Total capital assets being depreciated, net	<u>15,641,593</u>	<u>(1,060,402)</u>	<u>-</u>	<u>14,581,191</u>
Business-type activities capital assets, net	<u>\$ 15,742,593</u>	<u>\$ (1,060,402)</u>	<u>\$ -</u>	<u>\$ 14,682,191</u>
Total capital assets	<u>\$ 38,862,945</u>	<u>\$ (1,640,703)</u>	<u>\$ (96,934)</u>	<u>\$ 37,125,308</u>

Depreciation expense on capital assets was charged to the business-type functions as follows:

Water	\$ 869,348
Sewer	161,650
Solid Waste	1,193
Streetlight	<u>28,211</u>
Total	<u>\$ 1,060,402</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

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.

GASB Statement No. 65 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.

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 a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

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 are as follows:

	CalHome Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	<u>Total</u>
CalHOME loans	\$ 2,644,590	\$ -	\$ -	\$ 2,644,590
HOME loans	-	5,635,600	-	5,635,600
CDBG loan	-	-	4,356,569	4,356,569
Total	<u>\$ 2,644,590</u>	<u>\$ 5,635,600</u>	<u>\$ 4,356,569</u>	<u>\$ 12,636,759</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 – OPERATING LEASES

Rental Expense

The City entered into two lease agreements effective May 1, 2015 with Stanton Office Machine Company to lease copiers for City Hall and the Police Department. The City Hall copier lease is payable for 60 months with payments of \$363 per month plus applicable taxes. The Police Department copier lease is also payable for 60 months with payments of \$218 per month plus applicable taxes. The total lease payment for the year ended June 30, 2016 was \$6,977.

The City entered into a lease agreement effective March 1, 2015 with Avaya Financial Services to lease telephone equipment for City Hall. The telephone equipment lease is payable for 60 months with payments of \$169 per month plus applicable taxes. The total lease payment for the year ended June 30, 2016 was \$2,028.

Future minimum operating lease commitments are as follows:

Year Ending June 30,		
2017	\$	9,004
2018		9,004
2019		7,916
	\$	<u>25,924</u>

NOTE 9 – COMPENSATED ABSENCES

The City's policy relating to compensated absences is described in Note 1. As shown in the table below, the long-term portion of this debt, amounting to \$16,573 for governmental activities and \$32,541 for business-type activities at June 30, 2016 is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds.

	Balance July 1, 2015	Incurred	Satisfied	Balance June 30, 2016	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Compensated absences	<u>\$ 107,544</u>	<u>\$ 143,696</u>	<u>\$ (124,601)</u>	<u>\$ 126,639</u>	<u>\$ 110,066</u>	<u>\$ 16,573</u>
Business-Type Activities:						
Compensated absences	<u>\$ 64,344</u>	<u>\$ 21,301</u>	<u>\$ (14,880)</u>	<u>\$ 70,765</u>	<u>\$ 38,223</u>	<u>\$ 32,542</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for governmental activities for the year ended June 30, 2016:

	Balance July 1, 2015	Incurred or Issued	Satisfied or Matured	Balance June 30, 2016	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Revenue bonds	\$ 7,305,000	\$ -	\$ (315,000)	\$ 6,990,000	\$ 330,000	\$ 6,660,000
Total governmental activities	<u>\$ 7,305,000</u>	<u>\$ -</u>	<u>\$ (315,000)</u>	<u>\$ 6,990,000</u>	<u>\$ 330,000</u>	<u>\$ 6,660,000</u>

Revenue Bonds

2005 Avenal Public Financing Authority Revenue Bonds

In September 2005, the City issued \$9,660,000 in revenue bonds. The bonds refinance the 1997 Avenal Public Financing Authority Refunding Revenue Bonds. The bonds authorized and issued have stated interest rates for each payment starting at 2.875% per annum and increasing annually to prescribed increments not exceeding .5% through the term of the bonds to a maximum of 5.0% per annum. The interest rate at June 30, 2016 was 4.20% per annum. These bonds are special obligations of the Authority and are payable solely from Public Finance Authority revenues. The Public Financing Authority maintains \$658,440 as a minimum reserve for the authorized bonds. Below is a schedule of remaining debt service:

Fiscal Years Ending	2005 Avenal Public Financing Authority Refunding Revenue Bonds		
	Principal	Interest	Total
2017	\$ 330,000	\$ 326,861	\$ 656,861
2018	345,000	312,219	657,219
2019	360,000	296,798	656,798
2020	370,000	280,829	650,829
2021	390,000	264,155	654,155
2022-2026	2,230,000	1,025,788	3,255,788
2027-2031	1,350,000	545,000	1,895,000
2032-2036	1,310,000	246,750	1,556,750
2037-2038	<u>305,000</u>	<u>7,625</u>	<u>312,625</u>
Totals	<u>\$ 6,990,000</u>	<u>\$ 3,306,025</u>	<u>\$ 10,296,025</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – PENSION PLAN

A. General Information about the Pension Plans

Plan Description – All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost Sharing Multiple-Employer Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other.) Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City of Avenal's (City) sponsors four rate plans (two miscellaneous and two safety.) Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The rate plan provisions and benefits in effect at June 30, 2016 are summarized as follows:

	<u>Miscellaneous 1st Tier</u>	<u>Miscellaneous PEPRA</u>
	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	8.003%	6.237%
	<u>Safety 1st Tier</u>	<u>Safety PEPRA</u>
	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire date		
Benefit formula	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	2.4% to 3.0%	1.426% to 2.0%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	15.627%	11.153%

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability was \$107,580 for the fiscal year ended June 30, 2016.

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

The City's contributions to the plan for the ended June 30, 2016 were \$505,516.

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

As of June 30, 2016, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$1,944,365.

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	0.0311%
Proportion - June 30, 2015	0.0283%
Change - Increase (Decrease)	-0.0028%

For the year ended June 30, 2016, the City recognized pension credit of \$17,218. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 505,516	\$ -
Changes in assumptions	-	243,684
Differences between actual and expected experience	6,607	25,161
Net differences between projected and actual earnings on plan investments	-	122,915
Changes in employer's proportions	308,723	115,603
Differences between the employer's actual contributions and the employer's proportionate share of contributions	327,926	15,605
Total	\$ 1,148,772	\$ 522,968

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

\$505,516 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflow of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2017	\$ (4,134)
2018	(4,793)
2019	(24,382)
2020	153,596
Thereafter	-

C. Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30% to 14.20% ⁽¹⁾
Investment Rate of Return	7.5% ⁽²⁾
	Derived using CalPERS'
Mortality	Membership Data for all Funds ⁽³⁾

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

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

⁽³⁾ The mortality table was developed based on CalPERS specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scale BB

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experiences Study can be found on the CalPERS website.

Change of Assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expenses but without reduction for pension plan administrative expenses. The discount rate of 7.50 percent used the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expenses.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – PENSION PLAN (Continued)

D. Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10^(a)</u>	<u>Real Return Years 11+^(b)</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.5%	5.13%
Infrastructure and Forestland	2.0%	4.5%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	100%		

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

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

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – PENSION PLAN (Continued)

D. Discount Rate (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Discount Rate is -1% 6.65%	Current Discount Rate 7.65%	Discount Rate +1% 8.65%
\$ 3,161,144	\$ 1,944,365	\$ 940,504

E. Pension Plan Fiduciary Net Position

Detailed information about the Plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

F. Payable to the Pension Plan

The City did not have a payable for the outstanding amount of contributions to the pension plan for the year ended June 30, 2016.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Plan Description

The City provides a self-funded, single employer, defined benefit plan to provide medical coverage for all eligible active and retired City employees. Retirees are currently covered by the CalPERS medical program as permitted under the Public Employees Medical and Hospital and Care Act (PEMHCA). As such, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree’s lifetime or until coverage is discontinued. This coverage is available for employees who satisfy the requirements for retirement under CalPERS (attained age 50 with 5 years of State or public agency service or approved disability retirement). An employee cannot terminate employment before meeting the age condition and be entitled to receive benefits.

B. Funding Policy

The City funds the benefits on a pay-as-you-go basis. The City’s contribution for each employee shall be the amount necessary to pay the full cost of an employee’s enrollment in a health benefit plan. Dependent coverage is available but, if elected, is paid by the employee. A covered spouse who survives the retiree, if entitled to survivor benefits under the CalPERS retirement program, may continue coverage and receive the premium subsidy for the remainder of his or her lifetime as well, provided they apply for benefits within 60 days of the employee’s death.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

B. Funding Policy (Continued)

The City’s annual other postemployment benefits (OPEB) cost for the first year of implementation of GASB Statement No. 45 is equal to the annual required contribution (ARC), an amount calculated in accordance with the parameters set forth in Statement No. 45. In subsequent years, the annual OPEB cost will be equal to the ARC plus an adjustment if the ARC is not funded each year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial accrued liabilities (UAAL) amortized over 28 years. The ARC rate is 20% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation

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 plan:

Annual required contribution	\$ 876,724
Interest on net OPEB obligation	122,829
Adjustment to annual required contribution	<u>(136,016)</u>
Annual OPEB cost (expense)	863,537
Contribution made	<u>(134,857)</u>
Increase in net OPEB obligation	728,680
Net OPEB obligation - beginning of year	<u>2,729,539</u>
Net OPEB obligation - end of year	<u>\$ 3,458,219</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 is as follows:

<u>Fiscal Years Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
6/30/2014	\$ 572,478	7.8%	\$ 1,994,379
6/30/2015	\$ 807,141	8.9%	\$ 2,729,539
6/30/2016	\$ 863,537	15.6%	\$ 3,458,219

D. Funded Status of Funding Progress

As of July 1, 2014, the actuarial accrued liability for benefits was \$5,151,665, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,251,674, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 229%.

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 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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

E. Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding funding 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 supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and actual value of assets, consistent with long-term perspective of the calculations.

Projections of benefits for financial reporting purposes are based on the following actuarial assumption:

In the July 1, 2014, actuarial valuation, the entry age normal cost, level percent of pay method was used. The actuarial assumptions included a 4.5% discount rate and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 6% after four years. Both rates include a 3% inflation assumption. The actuarial value of plan assets was based on market value of assets, which was \$0 as the plan had not been funded.

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk of loss is primarily handled through the Central San Joaquin Valley Risk Management Authority (CSJVRMA). CSJVRMA is a consortium of cities for workers' compensation programs and the pooled liability program in the San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et. seq. CSJVRMA is governed by a Board of Directors which meets three to four 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 CSJVRMA.

CSJVRMA provides \$4,500,000 coverage limits in excess of the retained limit of \$500,000 and also participates in the California Association of Counties Excess Insurance Authority (CSAC-EIA) for coverage in excess of \$5,000,000 up to the statutory limit.

Under the pooled liability program, expected claims are actuarially determined and deposited with CSJVRMA along with all estimated operating costs. Each year is retrospectively adjusted five years following its conclusion and any funds remaining are returned to the City. Likewise, funds paid out in excess of the City's original deposit are collected from the City. The risk sharing pool covers the first \$1,000,000 of losses. CSJVRMA is a member of the California Affiliated Risk Management Authorities (CARMA), which provides coverage in excess of the retained limit up to \$29,000,000.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 13 – RISK MANAGEMENT (Continued)

The latest audited financial information and the most current information available for CSJVRMA for the fiscal year ended June 30, 2016:

Total assets	\$ 92,743,162
Total liabilities	<u>77,308,330</u>
Member's equity	<u>\$ 15,434,832</u>
Total revenues	\$ 40,680,321
Total expenses	<u>38,202,139</u>
Excess of income (loss) over expenses	<u>\$ 2,478,182</u>

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

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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 has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

Landfill

The City entered into a lease agreement with Madera Disposal Systems, Inc., a California Corporation. Madera Disposal Systems, Inc. will lease the City's landfill site. They will assume all liabilities associated with the landfill and in return they will pay the City a set rental fee plus \$30 per ton of waste accepted over 300 tons daily. The City will also have a guaranteed rate on tipping fees for City waste. The lease is for the permitted life on the landfill which ends in year 2029.

NOTE 15 – DEFICIT FUND EQUITY

The following funds had deficit fund balances as of June 30, 2016:

Governmental Funds:

Major Funds:	
CalHOME Special Revenue Fund	\$ 122,948
Nonmajor Funds:	
Tire Amnesty Special Revenue Fund	\$ 2,849
Parks and Recreation Special Revenue Fund	\$ 10,099

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 16 – SUCCESSOR AGENCY TRUST FUND

On January 26, 2013, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Assembly Bill 1X26 as part of City Resolution Number 2013-11.

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 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, 2016 was comprised of the following:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Avenal 2005 Revenue Refunding Bond	<u>\$ 3,085,000</u>	<u>\$ -</u>	<u>\$ (200,000)</u>	<u>\$ 2,885,000</u>	<u>\$ 210,000</u>

2005 Avenal Public Finance Authority Refunding Revenue Bonds

In September 2005, the Agency issued \$4,585,000 in Refunding Revenue Bonds. The proceeds were used to refinance the 1997 Tax Allocation Bonds. The bonds authorized and issued have stated interest rates for each payment starting at 2.875% per annum and increasing annually in prescribed increments not exceeding .5% through the term of the bonds to a minimum of 5.0% per annum. The interest rate at June 30, 2013, was 3.75% per annum. The 2005 Revenue Refunding Bonds are repaid from the property tax revenues collected on properties within the redevelopment project area. The debt agreement requires a reserve account to be held by the trustee. Interest earned on the reserve account is applied to the interest owed.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 16 – SUCCESSOR AGENCY TRUST FUND (Continued)

Long Term Debt (Continued)

Annual debt service requirements to maturity for the Avenal 2005 Revenue Refunding Bonds are as follows:

<u>Fiscal Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 210,000	\$ 129,833	\$ 339,833
2018	220,000	120,506	340,506
2019	230,000	110,663	340,663
2020	235,000	100,491	335,491
2021	250,000	89,850	339,850
2022-2026	1,415,000	253,575	1,668,575
2027	<u>325,000</u>	<u>16,250</u>	<u>341,250</u>
Total	<u>\$ 2,885,000</u>	<u>\$ 821,168</u>	<u>\$ 3,706,168</u>

NOTE 17 – PRONOUNCEMENTS

(1) New Accounting Pronouncements Adopted

Governmental Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement was adopted by the City during the current fiscal year.

Governmental Accounting Standards Board Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement were considered but had no effect on the City’s current fiscal year.

Governmental Accounting Standards Board Statement No. 79

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this statement. The requirements of this statement were considered but had no effect on the City’s current fiscal year.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 17 – PRONOUNCEMENTS (Continued)

(1) New Accounting Pronouncements Adopted (Continued)

Governmental Accounting Standards Board Statement No. 82

In March 2016, GASB issued Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement was adopted by the City during the current fiscal year. The effects of the adoption of this statement included a change in the manner covered payroll is reported in the following required supplementary schedules: Proportionate Share of Net Pension Liability (Asset) and Schedule of Contributions. These changes were required to be applied retroactively and, accordingly, the covered payroll for fiscal year 2015 was restated.

(2) New Accounting Pronouncements Not Yet Adopted

Governmental Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (*other* postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The requirements of this statement are effective for the City's fiscal year ending June 30, 2018.

Governmental Accounting Standards Board Statement No. 77

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement are effective for the City's fiscal year ending June 30, 2017.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 17 – PRONOUNCEMENTS (Continued)

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

Governmental Accounting Standards Board Statement No. 80

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this statement are effective for the City's fiscal year ending June 30, 2017.

Governmental Accounting Standards Board Statement No. 81

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for the City's fiscal year ending June 30, 2018, and should be applied retroactively.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AVENAL
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b - a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b - a)/c) UAAL as a percentage of covered payroll
7/1/2014	\$ -	\$ 5,151,665	\$ 5,151,665	0%	\$ 2,251,674	229%

**CITY OF AVENAL
REQUIRED SUPPLEMENTARY INFORMATION**

**PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS***

	<u>2015</u>	<u>2016</u>
Proportion of the net pension liability	0.0311%	0.0283%
Proportionate share of the net pension liability	\$ 1,953,362	\$ 1,944,365
Covered payroll	\$ 2,326,691	\$ 2,516,715
Proportionate share of the net pension liability as percentage of covered payroll	83.95%	77.26%
Plan fiduciary net position as a percentage of the total pension liability	76.37%	78.22%

NOTES TO SCHEDULE

Changes in Benefit Terms - None

Changes in Assumptions

The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**CITY OF AVENAL
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS***

	2015	2016
Actuarily required contribution (actuarially determined)	\$ 515,087	\$ 536,542
Contributions in relation to the actuarially determined contributions	515,087	536,542
Contribution deficiency (excess)	\$ -	\$ -
 Covered payroll	 \$ 2,326,691	 \$ 2,516,715
 Contributions as a percentage of covered payroll	 22.14%	 21.32%

*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amount			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 2,801,875	\$ 2,801,875	\$ 2,535,794	\$ (266,081)
Other taxes	509,200	509,200	606,687	97,487
Intergovernmental revenues	825,089	1,064,089	549,532	(514,557)
Charges for services	72,390	72,390	175,822	103,432
Licenses and permits	111,150	111,150	359,166	248,016
Fines and penalties	56,000	56,000	52,363	(3,637)
Investment income	6,200	6,200	14,358	8,158
Rent	524,000	524,000	235,247	(288,753)
Other revenue	163,274	163,274	44,771	(118,503)
Total revenues	5,069,178	5,308,178	4,573,740	(734,438)
EXPENDITURES				
Current services:				
General government	706,610	735,610	434,349	301,261
Building regulations	154,350	154,350	125,935	28,415
Community development	358,800	369,395	278,467	90,928
Public safety:				
Law enforcement	2,913,510	2,915,560	2,649,613	265,947
Animal control	176,450	176,450	168,324	8,126
Parks and recreation	489,226	480,074	454,629	25,445
Capital outlay:				
General government	15,500	255,500	118,843	136,657
Parks and recreation	223,400	212,805	54,276	158,529
Debt service:				
Principal	30,000	30,000	-	30,000
Total expenditures	5,067,846	5,329,744	4,284,436	1,045,308
Excess (deficiency) of revenues over (under) expenditures	1,332	(21,566)	289,304	310,870
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	6,557	6,557
Transfers out	(132,000)	(132,000)	(297,533)	(165,533)
Total other financing sources (uses)	(132,000)	(132,000)	(290,976)	(158,976)
Net change in fund balances	(130,668)	(153,566)	(1,672)	151,894
Fund balance - beginning	7,068,592	7,068,592	7,068,592	-
Fund balance - ending	\$ 6,937,924	\$ 6,915,026	\$ 7,066,920	\$ 151,894

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
CalHOME SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues	\$ 235,884	\$ 235,884	\$ -	\$ (235,884)
Investment income	-	-	37	37
Loan repayments	-	-	500	500
Total revenues	<u>235,884</u>	<u>235,884</u>	<u>537</u>	<u>(235,347)</u>
EXPENDITURES				
Current services:				
Community development	-	-	196,699	(196,699)
Total expenditures	<u>-</u>	<u>-</u>	<u>196,699</u>	<u>(196,699)</u>
Net change in fund balances	235,884	235,884	(196,162)	(432,046)
Fund balance - beginning	<u>73,214</u>	<u>73,214</u>	<u>73,214</u>	<u>-</u>
Fund balance - ending	<u>\$ 309,098</u>	<u>\$ 309,098</u>	<u>\$ (122,948)</u>	<u>\$ (432,046)</u>

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
HOME PROGRAM INCOME SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment income	\$ -	\$ -	\$ 1	\$ 1
Loan repayments	<u>2,000</u>	<u>2,000</u>	<u>10,600</u>	<u>8,600</u>
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>10,601</u>	<u>8,601</u>
EXPENDITURES				
Community development	<u>2,350</u>	<u>2,350</u>	<u>2,430</u>	<u>(80)</u>
Net change in fund balances	(350)	(350)	8,171	8,521
Fund balance - beginning	<u>960</u>	<u>960</u>	<u>960</u>	<u>-</u>
Fund balance - ending	<u>\$ 610</u>	<u>\$ 610</u>	<u>\$ 9,131</u>	<u>\$ 8,521</u>

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
CDBG PROGRAM INCOME SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment income	\$ -	\$ -	\$ 4	\$ 4
Loan repayments	<u>2,800</u>	<u>2,800</u>	<u>6,542</u>	<u>3,742</u>
Total revenues	<u>2,800</u>	<u>2,800</u>	<u>6,546</u>	<u>3,746</u>
EXPENDITURES				
Current services:				
Community development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,800</u>	<u>2,800</u>	<u>6,546</u>	<u>3,746</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>(6,557)</u>	<u>(6,557)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(6,557)</u>	<u>(6,557)</u>
Net change in fund balances	2,800	2,800	(11)	(2,811)
Fund balance - beginning	<u>11</u>	<u>11</u>	<u>11</u>	<u>-</u>
Fund balance - ending	<u>\$ 2,811</u>	<u>\$ 2,811</u>	<u>\$ -</u>	<u>\$ (2,811)</u>

CITY OF AVENAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
HOME INVESTMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues	\$ 4,689,663	\$ 4,689,663	\$ 3,893,218	\$ (796,445)
Investment income	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Total revenues	<u>4,689,663</u>	<u>4,689,663</u>	<u>3,893,219</u>	<u>(796,444)</u>
EXPENDITURES				
Current services:				
Community development	<u>4,600,000</u>	<u>4,600,000</u>	<u>3,052,472</u>	<u>1,547,528</u>
Total expenditures	<u>4,600,000</u>	<u>4,600,000</u>	<u>3,052,472</u>	<u>1,547,528</u>
Excess (deficiency) of revenues over (under) expenditures	<u>89,663</u>	<u>89,663</u>	<u>840,747</u>	<u>751,084</u>
Net change in fund balances	89,663	89,663	840,747	751,084
Fund balance - beginning	<u>844</u>	<u>844</u>	<u>844</u>	<u>-</u>
Fund balance - ending	<u>\$ 90,507</u>	<u>\$ 90,507</u>	<u>\$ 841,591</u>	<u>\$ 751,084</u>

**CITY OF AVENAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – BUDGETARY INFORMATION

The City follows these 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 June 1, the budget is legally adopted through passage of a resolution. 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 revenues, 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) Item delegated to 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 or 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 fund 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 with the same fund, or an entire fund.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

The following fund incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2016:

CalHOME Special Revenue Fund:	
Community development	\$196,699
HOME Program Income Special Revenue Fund:	
Community development	\$ 80

The excess expenditures were covered by available fund balance in the funds.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Local Transportation Funds

To account for Local Transportation Fund tax revenue restricted to street maintenance and construction.

Tire Amnesty Special Revenue Fund

To account for CalRecycle grant funding for the cost of cleanup, abatement and other actions related to the disposal of waste tires at cleanup projects and amnesty events.

Gas Tax Special Revenue Fund

To account for the City's apportioned share of revenue assessed by the State of California on the sale of gasoline in the State. The funds are to be used exclusively for maintenance and improvement of the City's streets and roads.

Community Development Block Grant Funds

To account for annual federal grants that provide for development of a viable urban community by providing suitable housing, principally for low and moderate-income residents.

Parks and Recreation Grants Funds

To account for expenditures of the park and recreation grants from the State of California.

Capital Projects Funds

To account for financial resources to be used for the acquisition or construction of major capital facilities and improvements (other than those financed by proprietary funds).

Capital Improvement Project Fund

To accumulate revenues to fund specific projects designated by the City Council.

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>Nonmajor Special Revenue</u>	<u>Nonmajor Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,697,833	\$ 669,109	\$ 2,366,942
Receivables:			
Intergovernmental	<u>244,490</u>	<u>-</u>	<u>244,490</u>
Total assets	<u>\$ 1,942,323</u>	<u>\$ 669,109</u>	<u>\$ 2,611,432</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 299,673	\$ -	\$ 299,673
Interfund payables	<u>2,849</u>	<u>-</u>	<u>2,849</u>
Total liabilities	<u>302,522</u>	<u>-</u>	<u>302,522</u>
Fund balances:			
Restricted for:			
Highways and streets	779,076	-	779,076
Community development	863,743	-	863,743
Committed:			
Capital projects	-	669,109	669,109
Unassigned	<u>(3,018)</u>	<u>-</u>	<u>(3,018)</u>
Total fund balances	<u>1,639,801</u>	<u>669,109</u>	<u>2,308,910</u>
Total liabilities and fund balances	<u>\$ 1,942,323</u>	<u>\$ 669,109</u>	<u>\$ 2,611,432</u>

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental revenues	\$ 1,350,272	\$ -	\$ 1,350,272
Investment income	<u>781</u>	<u>534</u>	<u>1,315</u>
Total revenues	<u>1,351,053</u>	<u>534</u>	<u>1,351,587</u>
EXPENDITURES			
Current:			
Community development	114,835	-	114,835
Parks and recreation	22,730	-	22,730
Highways and streets	283,923	-	283,923
Capital outlay:			
Parks and recreation	241,775	-	241,775
Highways and streets	<u>388,155</u>	<u>-</u>	<u>388,155</u>
Total expenditures	<u>1,051,418</u>	<u>-</u>	<u>1,051,418</u>
Excess (deficiency) of revenues over (under) expenditures	<u>299,635</u>	<u>534</u>	<u>300,169</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	25,000	259,500	284,500
Transfers out	<u>-</u>	<u>(38,989)</u>	<u>(38,989)</u>
Total other financing sources (uses)	<u>25,000</u>	<u>220,511</u>	<u>245,511</u>
Net change in fund balances	324,635	221,045	545,680
Fund balances - beginning	<u>1,315,166</u>	<u>448,064</u>	<u>1,763,230</u>
Fund balances - ending	<u>\$ 1,639,801</u>	<u>\$ 669,109</u>	<u>\$ 2,308,910</u>

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2016**

	Local Transportation	Tire Amnesty	Gas Tax Fund	Community Development Block Grant Funds	Parks and Recreation	Totals
ASSETS						
Cash and investments	\$ 924,661	\$ -	\$ 738,758	\$ 9,930	\$ 24,484	\$ 1,697,833
Receivables:						
Intergovernmental	<u>107,819</u>	<u>-</u>	<u>136,671</u>	<u>-</u>	<u>-</u>	<u>244,490</u>
Total assets	<u>\$ 1,032,480</u>	<u>\$ -</u>	<u>\$ 875,429</u>	<u>\$ 9,930</u>	<u>\$ 24,484</u>	<u>\$ 1,942,323</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 253,404	\$ -	\$ 11,686	\$ -	\$ 34,583	\$ 299,673
Interfund payables	<u>-</u>	<u>2,849</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,849</u>
Total liabilities	<u>253,404</u>	<u>2,849</u>	<u>11,686</u>	<u>-</u>	<u>34,583</u>	<u>302,522</u>
Fund balances:						
Restricted:						
Highways and streets	779,076	-	-	-	-	779,076
Community development	-	-	863,743	-	-	863,743
Unassigned	<u>-</u>	<u>(2,849)</u>	<u>-</u>	<u>9,930</u>	<u>(10,099)</u>	<u>(3,018)</u>
Total fund balances	<u>779,076</u>	<u>(2,849)</u>	<u>863,743</u>	<u>9,930</u>	<u>(10,099)</u>	<u>1,639,801</u>
Total liabilities and fund balances	<u>\$ 1,032,480</u>	<u>\$ -</u>	<u>\$ 875,429</u>	<u>\$ 9,930</u>	<u>\$ 24,484</u>	<u>\$ 1,942,323</u>

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Local Transportation	Tire Amnesty	Gas Tax Fund	Community Development Block Grant Funds	Parks and Recreation	Totals
REVENUES						
Intergovernmental revenues	\$ 410,164	\$ -	\$ 411,095	\$ 289,813	\$ 239,200	\$ 1,350,272
Investment income	390	-	387	4	-	781
Total revenues	<u>410,554</u>	<u>-</u>	<u>411,482</u>	<u>289,817</u>	<u>239,200</u>	<u>1,351,053</u>
EXPENDITURES						
Current:						
Community development	-	2,849	-	111,986	-	114,835
Parks and recreation	-	-	-	-	22,730	22,730
Streets	4,408	-	279,515	-	-	283,923
Capital outlay:						
Parks and recreation	-	-	-	-	241,775	241,775
Streets	299,177	-	88,978	-	-	388,155
Total expenditures	<u>303,585</u>	<u>2,849</u>	<u>368,493</u>	<u>111,986</u>	<u>264,505</u>	<u>1,051,418</u>
Excess (deficiency) of revenues over (under) expenditures	<u>106,969</u>	<u>(2,849)</u>	<u>42,989</u>	<u>177,831</u>	<u>(25,305)</u>	<u>299,635</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	25,000	25,000
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Net change in fund balances	106,969	(2,849)	42,989	177,831	(305)	324,635
Fund balances - beginning	<u>672,107</u>	<u>-</u>	<u>820,754</u>	<u>(167,901)</u>	<u>(9,794)</u>	<u>1,315,166</u>
Fund balances - ending	<u>\$ 779,076</u>	<u>\$ (2,849)</u>	<u>\$ 863,743</u>	<u>\$ 9,930</u>	<u>\$ (10,099)</u>	<u>\$ 1,639,801</u>

**CITY OF AVENAL
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUND
 JUNE 30, 2016**

	<u>Capital Improvement Project Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>669,109</u>
Total assets	\$ <u>669,109</u>
LIABILITIES	
Accounts payable	\$ <u>-</u>
Total liabilities	<u>-</u>
FUND BALANCE	
Fund balance:	
Committed:	
Capital projects	<u>669,109</u>
Total fund balance	<u>669,109</u>
Total liabilities and fund balance	<u>\$ <u>669,109</u></u>

**CITY OF AVENAL
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Capital Improvement Project Fund</u>
REVENUES	
Investment income	\$ <u>534</u>
Total revenues	<u>534</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	259,500
Transfers out	<u>(38,989)</u>
Total other financing sources (uses)	<u>220,511</u>
Net change in fund balance	221,045
Fund balance - beginning	<u>448,064</u>
Fund balance - ending	<u>\$ 669,109</u>

**CITY OF AVENAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through California Department of Housing and Urban Development			
Home Investment Partnerships Program	14.239	15-HOME-10091	\$ 3,049,072
Home Investment Partnerships Program	14.239	11-HOME-7657	400
Community Development Block Grant Program	14.228	12-STBG-8373	<u>111,987</u>
Total U.S. Department of Housing and Urban Development			<u>3,161,459</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Award:			
COPS Hiring Program	16.710	2012UMWX0187	<u>6,500</u>
Total U.S. Department of Justice			<u>6,500</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,167,959</u>

CITY OF AVENAL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Avenal. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included in the schedule. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

BASIS OF ACCOUNTING

The accompanying SEFA is presented using the modified accrual basis of accounting except for programs recorded in the City's enterprise funds, which are presented using the accrual basis of accounting, which is described in Note 1 of the City's basic financial statements.

RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

INDIRECT COST RATE

The City has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

OTHER INDEPENDENT AUDITOR'S REPORTS

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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 Honorable Mayor and City Council
City of Avenal, 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 City of Avenal, California (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2016-001, 2016-002 and 2016-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

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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 Finding

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
December 22, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Honorable Mayor and City Council
City of Avenal, California

Report on Compliance for Each Major Federal Program

We have audited the City of Avenal, California's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Avenal, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

677 Scott Avenue
Clovis, CA 93612

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Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Price Pange & Company

Clovis, California
December 22, 2016

FINDINGS AND QUESTIONED COSTS

**CITY OF AVENAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weaknesses identified? X Yes No
 Significant deficiencies identified that
 are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 Material weaknesses identified? Yes X No
 Significant deficiencies identified that
 are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance
 for major programs: Unmodified

Any audit findings disclosed that are required
 to be reported in accordance with
 2 CFR section 200.516(a)? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Investment Partnerships Program

Dollar threshold used to distinguish between Type A
 and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

**CITY OF AVENAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2016-001

Condition: We have determined that the operating bank account reconciliation did not reconcile to the cash balances recorded on the trial balance as of June 30, 2016.

Criteria: An effective internal controls system provides reasonable assurance for the safeguarding of assets and it requires that general ledger account balances be properly reconciled.

Cause: Prior year turnover in the City's finance department resulted in a significant learning curve for the staff, which created difficulty for the staff to complete the reconciliations using the prior staff's reconciliation schedules. Though reconciliation schedules were completed, the final step of comparing to the general ledger balances was not performed.

Effect: The City did not have a complete and accurate bank reconciliation as of June 30, 2016.

Recommendation: We recommend that the City ensures that monthly bank reconciliations are prepared timely and are properly reconciled to the balances recorded in the general ledger.

Finding 2016-002

Condition: We have determined that the accounts receivable balances in the governmental and enterprise funds were materially overstated.

Criteria: A strong system of internal controls and management review requires that year-end closing procedures include review of the general ledger account balances at year-end to ensure the proper inclusion of current year accruals and the reversal of prior year accruals.

Cause: The prior year accrual for various accounts receivable general ledger accounts was not reversed in the current year.

Effect: As a result of this condition, the accounts receivable and revenue balances were overstated by \$704,029.

Recommendation: We recommend the City review all year-end accruals and prepare proper reversing journal entries in the subsequent fiscal year. In addition, we recommend that as a part of the year-end closing procedures, the City compares all year-end balances with the supporting schedules to ensure that balances recorded in the general ledger are correct.

**CITY OF AVENAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2016-003

Condition: The year-end journal entry to accrue of accounts payable was recorded incorrectly.

Criteria: A strong system of internal controls and management review requires that transactions be properly recorded in the correct accounts.

Cause: During the year-end closing procedures, the journal entry that was recorded to accrue accounts payable as of year-end was recorded to incorrect accounts.

Effect: As a result of this condition, cash and expenses were understated by \$592,588.

Recommendation: We recommend that all journal entries that are posted into the accounting system are reviewed to ensure that the ending balances for all accounts reconcile to the City's supporting schedules.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**CITY OF AVENAL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENT FINDINGS

Finding 2015-001

Condition: We have determined that processes utilized for closing and reporting of financial activity for the fiscal year ended June 30, 2015 were not effective. The closing process was not complete and, as a result, material audit adjustments were required and there were significant delays in completing the audit.

Recommendation: We recommend that the City create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

Current Status: Partially implemented.

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City of Avenal

919 Skyline Blvd.
Avenal, CA 93204
Phone (559) 386-5766
Fax (559) 386-0629

To: Melissa Whitten, City Manager
From: Dawn Perkins, Administrative Analyst
Cc: Price, Paige, and Company, CPAs
Re: Fiscal Year 2015/2016 Audit

The City agrees that there are some modifications that can be made to the year-end fiscal procedures to ensure there are no errors prior to the beginning of audit procedures.

For each recommendation included in the audit report, the following is our corrective action(s) taken.

Audit Recommendation:

1. *We recommend that the City ensures that monthly bank reconciliations are prepared timely and are properly reconciled to the balances recorded in the general ledger.*
2. *We recommend the City review all year-end accruals and prepare proper reversing journal entries in the subsequent fiscal year. In addition, we recommend that as a part of the year end closing procedures, the City compares all year-end balances with the supporting schedules to ensure that balances recorded in the general ledger are correct.*
3. *We recommend that all journal entries that are posted into the accounting system are reviewed to ensure that the ending balances for all accounts reconcile to the City's supporting schedules.*

Implementation Plan of Action(s):

1. The monthly reconciliation is completed timely and will be completed using the accounting system's reconciliation as soon as the software upgrade is complete. The formatting issues have been resolved in Excel, the current method of reconciliation.
2. Corrections were immediately completed by City Staff upon discovery. A checklist has been constructed for year-end procedures for staff to complete all necessary reconciliations and reporting. All schedules will be reviewed and rechecked for completeness.
3. Corrections were immediately completed by City Staff upon discovery. A reconciliation for completeness will be reviewed for each journal entry prior to posting.

Implementation Date:

1. November, 2016.
2. November, 2016.
3. November, 2016.

Person Responsible for Implementation:

City Finance Department Staff