

**CITY OF AVENAL
CALIFORNIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2012**

**CITY OF AVENAL
JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avenal, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented the management discussion and analysis that governmental 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 Schedules of Funding Progress for Other Postemployment Benefits and Pension Plan, and budgetary comparison information on pages 48 through 53 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Price Pange & Company

Clovis, California
February 12, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF AVENAL
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and investments	\$ 9,167,661	\$ 3,605,779	\$ 12,773,440
Cash with fiscal agent	658,439	-	658,439
Receivables:			
Consumer	-	775,422	775,422
Taxes	219,629	-	219,629
Intergovernmental	704,845	-	704,845
Grant	-	939,162	939,162
Community loans	11,406,531	-	11,406,531
Other	147,835	-	147,835
Internal balances	4,204,431	(4,204,431)	-
Due from Sucessor Agency	3,645,000	-	3,645,000
Inventories	-	55,232	55,232
Unamortized bond issuance costs	178,187	-	178,187
Other assets	3,770	12,962	16,732
Capital assets:			
Non-depreciable	1,375,906	1,477,363	2,853,269
Depreciable, net of accumulated depreciation	<u>23,309,787</u>	<u>15,755,983</u>	<u>39,065,770</u>
Total assets	<u>55,022,021</u>	<u>18,417,472</u>	<u>73,439,493</u>
<u>LIABILITIES</u>			
Accounts payable	283,319	174,888	458,207
Accrued interest payable	127,404	-	127,404
Consumer deposits	-	12,944	12,944
Unearned revenue	265,093	826,977	1,092,070
Due to Successor Agency	327,870	-	327,870
Due in one year:			
Compensated absences	56,680	47,862	104,542
Capital lease payable	67,066	-	67,066
Revenue bond payable	280,000	-	280,000
Noncurrent liabilities:			
Compensated absences	78,078	41,314	119,392
Capital lease payable	134,132	-	134,132
Revenue bond payable	7,900,000	-	7,900,000
Other postemployment benefit obligation	<u>377,225</u>	<u>351,794</u>	<u>729,019</u>
Total liabilities	<u>9,896,867</u>	<u>1,455,779</u>	<u>11,352,646</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	16,651,561	17,233,346	33,884,907
Restricted for:			
Highway and streets	1,087,610	-	1,087,610
Community development	43,481	-	43,481
Debt service	8,180,000	-	8,180,000
Unrestricted	<u>19,162,502</u>	<u>(271,653)</u>	<u>18,890,849</u>
Total net assets	<u>\$ 45,125,154</u>	<u>\$ 16,961,693</u>	<u>\$ 62,086,847</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, 2012**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government	\$ 1,187,754	\$ 66,773	\$ 72,847	\$ -	\$ (1,048,134)	\$ -	\$ (1,048,134)
Building regulations	160,847	-	-	-	(160,847)	-	(160,847)
Planning	-	12,160	-	-	12,160	-	12,160
Community development	1,441,259	31,396	1,842,953	-	433,090	-	433,090
Public safety:							
Law enforcement	2,477,454	149,136	-	-	(2,328,318)	-	(2,328,318)
Animal control	137,262	48,991	-	-	(88,271)	-	(88,271)
Parks and recreation	303,140	12,755	-	-	(290,385)	-	(290,385)
Streets	1,210,827	-	911,772	-	(299,055)	-	(299,055)
Public works	18,792	-	-	-	(18,792)	-	(18,792)
Interest on long-term debt	387,274	-	-	-	(387,274)	-	(387,274)
Total governmental activities	7,324,609	321,211	2,827,572	-	(4,175,826)	-	(4,175,826)
Business-type activities:							
Water	2,551,507	2,783,838	-	-	-	232,331	232,331
Sewer	1,381,295	1,426,503	-	-	-	45,208	45,208
Solid waste	764,011	562,271	-	-	-	(201,740)	(201,740)
Street light	59,951	71,457	-	-	-	11,506	11,506
Total business-type activities	4,756,764	4,844,069	-	-	-	87,305	87,305
Total	\$ 12,081,373	\$ 5,165,280	\$ 2,827,572	\$ -	(4,175,826)	87,305	(4,088,521)
General revenues:							
Taxes:							
Property taxes					1,145,396	-	1,145,396
Sales taxes					246,195	-	246,195
Franchise taxes					270,731	-	270,731
Other taxes					6,283	-	6,283
Motor vehicle in-lieu taxes					2,402,479	-	2,402,479
Rental income					610,374	-	610,374
Investment income					13,373	8,756	22,129
Miscellaneous					97,724	407,117	504,841
Extraordinary item - RDA dissolution					3,451,129	-	3,451,129
Transfers					(633,381)	(167,166)	(800,547)
Total general revenues and transfers					7,610,303	248,707	7,859,010
Changes in net assets					3,434,477	336,012	3,770,489
Net assets, July 1, 2011					41,690,677	16,482,351	58,173,028
Prior period adjustments					-	143,330	143,330
Net assets, June 30, 2012					\$ 45,125,154	\$ 16,961,693	\$ 62,086,847

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, 2012

	General Fund	Avenal Public Financing Authority Debt Service Fund	Avenal Redevelopment Agency Bond Debt Service Fund	CalHOME Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and investments	\$ 7,219,819	\$ -	\$ -	\$ 178,933	\$ -	\$ -	\$ 1,768,909	\$ 9,167,661
Cash with fiscal agent	-	658,439	-	-	-	-	-	658,439
Receivables:								
Taxes	219,629	-	-	-	-	-	-	219,629
Intergovernmental	-	-	-	29,972	-	-	674,873	704,845
Community loans	-	-	-	2,103,989	5,293,166	4,009,376	-	11,406,531
Other	147,835	-	-	-	-	-	-	147,835
Interfund receivables	248,871	-	-	-	-	-	-	248,871
Due from Sucessor Agency	-	3,645,000	-	-	-	-	-	3,645,000
Advances to other funds	-	4,535,000	-	-	-	-	-	4,535,000
Other assets	3,770	-	-	-	-	-	-	3,770
Total assets	\$ 7,839,924	\$ 8,838,439	\$ -	\$ 2,312,894	\$ 5,293,166	\$ 4,009,376	\$ 2,443,782	\$ 30,737,581
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 89,685	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 193,634	\$ 283,319
Due to Sucessor Agency	-	327,870	-	-	-	-	-	327,870
Interfund payables	-	-	-	-	-	-	248,871	248,871
Advances from other funds	-	330,569	-	-	-	-	-	330,569
Deferred revenue	148,518	-	-	2,269,413	5,293,166	4,009,376	121,089	11,841,562
Total liabilities	238,203	658,439	-	2,269,413	5,293,166	4,009,376	563,594	13,032,191
Fund balances:								
Restricted for:								
Highways and streets	-	-	-	-	-	-	1,087,610	1,087,610
Community development	-	-	-	43,481	-	-	-	43,481
Debt service	-	8,180,000	-	-	-	-	-	8,180,000
Committed:								
Capital projects	-	-	-	-	-	-	913,668	913,668
Unassigned	7,601,721	-	-	-	-	-	(121,090)	7,480,631
Total fund balances	7,601,721	8,180,000	-	43,481	-	-	1,880,188	17,705,390
Total liabilities and fund balances	\$ 7,839,924	\$ 8,838,439	\$ -	\$ 2,312,894	\$ 5,293,166	\$ 4,009,376	\$ 2,443,782	\$ 30,737,581

**CITY OF AVENAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total fund balances - governmental funds	\$ 17,705,390
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities were not current financial resources and, therefore, were not reported in the governmental funds.</p>	24,685,693
<p>Long-term liabilities were not due and payable in the current period; therefore, they are not reported in the governmental funds balance sheet:</p>	
Other post employment benefits	(377,225)
Loan payable	(8,180,000)
Capital lease payable	(201,198)
Compensated absences	(134,758)
<p>Unmatured interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.</p>	(127,404)
<p>Unamortized bond issuance costs used in governmental activities, not reported in the governmental funds.</p>	178,187
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, they are deferred in the governmental funds.</p>	<u>11,576,470</u>
Net assets of governmental activities	<u>\$ 45,125,154</u>

CITY OF AVENAL
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Avenal Public Financing Authority Debt Service Fund	Avenal Redevelopment Agency Bond Debt Service Fund	CalHOME Special Revenue Fund	HOME Program Income Special Revenue Fund	CDBG Program Income Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Property taxes	\$ 2,927,284	\$ -	\$ 529,232	\$ -	\$ -	\$ -	\$ 132,308	\$ 3,588,824
Other taxes	473,970	-	-	-	-	-	-	473,970
Intergovernmental revenues	174,191	-	-	563,400	-	-	2,065,448	2,803,039
Charges for services	89,417	-	-	-	-	-	-	89,417
Licenses and permits	82,534	-	-	-	-	-	-	82,534
Fines and penalties	39,341	-	-	-	-	-	-	39,341
Investment income	10,485	-	12	33	-	39	2,803	13,372
Rents	610,374	-	-	-	-	-	-	610,374
Loan repayments	-	-	-	21,645	90,344	13,577	-	125,566
Other revenue	114,587	-	-	-	-	-	-	114,587
Total revenues	4,522,183	-	529,244	585,078	90,344	13,616	2,200,559	7,941,024
EXPENDITURES:								
Current:								
General government	498,363	-	-	-	-	-	-	498,363
Building regulation	160,360	-	-	-	-	-	-	160,360
Community development	243,209	-	38,667	362,609	90,344	-	693,832	1,428,661
Public safety:								
Law enforcement	2,405,958	-	-	-	-	-	-	2,405,958
Animal control	137,262	-	-	-	-	-	-	137,262
Parks and recreation	472,151	-	-	-	-	-	15,775	487,926
Highways and streets	-	-	-	-	-	-	181,642	181,642
Capital outlay:								
General government	67,924	-	-	-	-	-	-	67,924
Community development	25,582	-	-	-	-	-	86,797	112,379
Parks and recreation	396,741	-	-	-	-	-	-	396,741
Public safety:								
Law enforcement	8,575	-	-	-	-	-	-	8,575
Highways and streets	-	-	-	-	-	-	878,898	878,898
Debt service:								
Principal	67,066	270,000	-	-	-	-	-	337,066
Interest	-	387,274	-	-	-	-	-	387,274
Total expenditures	4,483,191	657,274	38,667	362,609	90,344	-	1,856,944	7,489,029
Excess (deficiency) of revenues over (under) expenditures	38,992	(657,274)	490,577	222,469	-	13,616	343,615	451,995
OTHER FINANCING SOURCES (USES):								
Transfers in	454,938	657,274	132,408	-	-	-	127,645	1,372,265
Transfers out	(900,738)	(270,000)	(622,985)	-	-	(79,615)	(132,308)	(2,005,646)
Total other financing sources (uses)	(445,800)	387,274	(490,577)	-	-	(79,615)	(4,663)	(633,381)
EXTRAORDINARY ITEM:								
RDA Dissolution	-	-	3,473,146	-	-	-	(22,017)	3,451,129
Net changes in fund balances	(406,808)	(270,000)	3,473,146	222,469	-	(65,999)	316,935	3,269,743
Fund balances, July 1, 2011	8,008,529	8,450,000	(3,473,146)	(178,988)	-	65,999	1,563,253	14,435,647
Fund balances, June 30, 2012	\$ 7,601,721	\$ 8,180,000	\$ -	\$ 43,481	\$ -	\$ -	\$ 1,880,188	\$ 17,705,390

**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, 2012**

Net changes in fund balances - total governmental funds	\$ 3,269,743
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	1,464,517
<p>Depreciation expense on capital assets is reported in the government-wide statement as changes in net assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.</p>	(1,489,350)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	(538,039)
<p>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.</p>	540,669
<p>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.</p>	(6,880)
<p>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 assets.</p>	337,066
<p>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.</p>	(132,944)
<p>Governmental funds report the effect of issuance costs, premiums, discounts and similar items when a debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	(7,424)
<p>Change in accrued interest calculated on bonds and notes payable.</p>	<u>(2,881)</u>
Changes in net assets of governmental activities	<u>\$ 3,434,477</u>

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PROPRIETARY FUNDS

**CITY OF AVENAL
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
ASSETS					
Current assets:					
Cash and investments	\$ 1,059,694	\$ 1,769,916	\$ 457,843	\$ 318,326	\$ 3,605,779
Consumer receivables	466,227	219,335	81,686	8,174	775,422
Grant receivable	939,162	-	-	-	939,162
Supplies inventory	40,394	14,838	-	-	55,232
Other assets	12,962	-	-	-	12,962
Total current assets	<u>2,518,439</u>	<u>2,004,089</u>	<u>539,529</u>	<u>326,500</u>	<u>5,388,557</u>
Noncurrent assets:					
Advances to other funds	330,569	-	-	-	330,569
Capital assets:					
Nondepreciable	1,476,363	-	1,000	-	1,477,363
Depreciable, net	<u>11,548,423</u>	<u>3,440,479</u>	<u>8,356</u>	<u>758,725</u>	<u>15,755,983</u>
Total noncurrent assets	<u>13,355,355</u>	<u>3,440,479</u>	<u>9,356</u>	<u>758,725</u>	<u>17,563,915</u>
Total assets	<u>15,873,794</u>	<u>5,444,568</u>	<u>548,885</u>	<u>1,085,225</u>	<u>22,952,472</u>
LIABILITIES					
Current liabilities:					
Accounts payable	78,885	48,553	47,283	167	174,888
Deposits	12,944	-	-	-	12,944
Deferred revenues	826,977	-	-	-	826,977
Compensated absences	<u>16,191</u>	<u>28,449</u>	<u>3,222</u>	<u>-</u>	<u>47,862</u>
Total current liabilities	<u>934,997</u>	<u>77,002</u>	<u>50,505</u>	<u>167</u>	<u>1,062,671</u>
Noncurrent liabilities:					
Advances from other funds	4,535,000	-	-	-	4,535,000
Compensated absences	13,976	24,556	2,782	-	41,314
Other postemployment benefits obligation	<u>175,897</u>	<u>175,897</u>	<u>-</u>	<u>-</u>	<u>351,794</u>
Total noncurrent liabilities	<u>4,724,873</u>	<u>200,453</u>	<u>2,782</u>	<u>-</u>	<u>4,928,108</u>
Total liabilities	<u>5,659,870</u>	<u>277,455</u>	<u>53,287</u>	<u>167</u>	<u>5,990,779</u>
NET ASSETS					
Invested in capital assets, net of related debt	13,024,786	3,440,479	9,356	758,725	17,233,346
Unrestricted	<u>(2,810,862)</u>	<u>1,726,634</u>	<u>486,242</u>	<u>326,333</u>	<u>(271,653)</u>
Total net assets	<u>\$ 10,213,924</u>	<u>\$ 5,167,113</u>	<u>\$ 495,598</u>	<u>\$ 1,085,058</u>	<u>\$ 16,961,693</u>

**CITY OF AVENAL
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
OPERATING REVENUES:					
Charges for services	\$ 2,533,278	\$ 1,415,283	\$ 550,794	\$ 57,821	\$ 4,557,176
OPERATING EXPENSES:					
Personnel costs	518,218	750,452	75,892	-	1,344,562
Operations	281,482	83,051	-	-	364,533
Contract services	12,346	1,766	661,776	-	675,888
Franchise	74,856	-	-	-	74,856
Utilities	706,433	172,369	-	31,774	910,576
Administration	159,734	201,083	23,955	-	384,772
Depreciation	798,438	172,574	2,388	28,176	1,001,576
Total operating expenses	<u>2,551,507</u>	<u>1,381,295</u>	<u>764,011</u>	<u>59,950</u>	<u>4,756,763</u>
Operating income (loss)	<u>(18,229)</u>	<u>33,988</u>	<u>(213,217)</u>	<u>(2,129)</u>	<u>(199,587)</u>
NON-OPERATING REVENUES (EXPENSES):					
Connection fees	2,587	3,621	-	-	6,208
Other revenue	261,111	4,425	11,476	13,635	290,647
Other surcharges and surtaxes	-	-	113,497	-	113,497
Interest income	6,040	1,953	574	191	8,758
Department of Corrections - water plant	-	7,599	-	-	7,599
Total non-operating revenues (expenses)	<u>269,738</u>	<u>17,598</u>	<u>125,547</u>	<u>13,826</u>	<u>426,709</u>
OTHER FINANCING SOURCES (USES):					
Capital contribution	276,056	-	-	-	276,056
Transfers in	100,000	-	126,501	-	226,501
Transfers out	<u>(375,167)</u>	<u>(18,500)</u>	<u>-</u>	<u>-</u>	<u>(393,667)</u>
Total other financing sources (uses)	<u>889</u>	<u>(18,500)</u>	<u>126,501</u>	<u>-</u>	<u>108,890</u>
Changes in net assets	252,398	33,086	38,831	11,697	336,012
Net assets, July 1, 2011	9,818,196	5,134,027	456,767	1,073,361	16,482,351
Prior period adjustments	<u>143,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,330</u>
Net assets, June 30, 2012	<u>\$ 10,213,924</u>	<u>\$ 5,167,113</u>	<u>\$ 495,598</u>	<u>\$ 1,085,058</u>	<u>\$ 16,961,693</u>

**CITY OF AVENAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Water Fund	Sewer Fund	Solid Waste Fund	Street Light Fund	Total
Cash flows from operating activities:					
Cash received from customers	\$ 2,363,644	\$ 1,328,969	\$ 548,091	\$ 56,517	\$ 4,297,221
Cash payments to suppliers for goods and services	(1,208,966)	(411,966)	(685,158)	(31,702)	(2,337,792)
Cash payments to employees for services	(461,580)	(695,382)	(80,538)	-	(1,237,500)
Net cash provided (used) by operating activities	<u>693,098</u>	<u>221,621</u>	<u>(217,605)</u>	<u>24,815</u>	<u>721,929</u>
Cash flows from noncapital financing activities:					
Cash received from other funds	(375,167)	-	126,501	13,636	(235,030)
Capital contributions	163,871	-	-	-	163,871
Cash received for connection fees	263,695	15,649	124,974	-	404,318
Cash (payments to) received from other funds	-	(18,500)	-	-	(18,500)
Net cash provided (used) by noncapital financing activities	<u>52,399</u>	<u>(2,851)</u>	<u>251,475</u>	<u>13,636</u>	<u>314,659</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(1,277,996)	(52,683)	-	-	(1,330,679)
Net cash provided (used) by capital and related financing activities	<u>(1,277,996)</u>	<u>(52,683)</u>	<u>-</u>	<u>-</u>	<u>(1,330,679)</u>
Cash flows from investing activities:					
Interest on investments	6,040	1,949	573	191	8,753
Net cash provided (used) by investing activities	<u>6,040</u>	<u>1,949</u>	<u>573</u>	<u>191</u>	<u>8,753</u>
Increase (decrease) in cash and cash equivalents	(526,459)	168,036	34,443	38,642	(285,338)
Cash and cash equivalents, July 1, 2011	<u>1,586,153</u>	<u>1,601,880</u>	<u>423,400</u>	<u>279,684</u>	<u>3,891,117</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 1,059,694</u>	<u>\$ 1,769,916</u>	<u>\$ 457,843</u>	<u>\$ 318,326</u>	<u>\$ 3,605,779</u>

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

Operating income (loss)	\$ (18,229)	\$ 33,988	\$ (213,217)	\$ (2,129)	\$ (199,587)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	798,438	172,574	2,388	28,176	1,001,576
Changes in assets and liabilities:					
(Increase) decrease in consumer receivables	(169,634)	(86,314)	(2,703)	(1,304)	(259,955)
Increase (decrease) in accounts payable	24,834	46,303	573	72	71,782
Increase (decrease) in consumer deposits	1,051	-	-	-	1,051
Increase (decrease) in deferred revenues	-	-	-	-	-
Increase (decrease) in compensated absences payable	(5,102)	(6,670)	(4,646)	-	(16,418)
Increase (decrease) in other postemployment benefits obligation	<u>61,740</u>	<u>61,740</u>	<u>-</u>	<u>-</u>	<u>123,480</u>
Net cash provided (used) by operating activities	<u>\$ 693,098</u>	<u>\$ 221,621</u>	<u>\$ (217,605)</u>	<u>\$ 24,815</u>	<u>\$ 721,929</u>

**CITY OF AVENAL
STATEMENT OF FIDUCIARY NET ASSETS
SUCESSOR AGENCY OF THE REDEVELOPMENT AGENCY
JUNE 30, 2012**

	Trust Funds
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 499,051
Due from City of Avenal	327,870
Total current assets	826,921
Total assets	826,921
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	36,103
Total current liabilities	36,103
Noncurrent liabilities:	
Due to City of Avenal Public Finance Authority	3,645,000
Total noncurrent liabilities	3,645,000
Total liabilities	3,681,103
<u>NET ASSETS</u>	
Held in trust	\$ (2,854,182)

**CITY OF AVENAL
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
SUCESSOR AGENCY OF THE REDEVELOPMENT AGENCY
JUNE 30, 2012**

	Trust Funds
<u>ADDITIONS</u>	
Interest	\$ 7
Operating transfers	883,129
Total additions	883,136
 <u>DEDUCTIONS</u>	
Planning and community development	203,607
Interest and fiscal charges	82,582
Total deductions	286,189
Changes in net assets	596,947
Extraordinary loss - RDA dissolution	(3,451,129)
Net assets, July 1, 2011	-
Net assets, June 30, 2012	\$ (2,854,182)

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Avenal (the “City”) 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, community development, public works, street maintenance and general administrative services.

Included in this report is the activity of the Redevelopment Agency of the City of Avenal (the Agency) through January 31, 2012. The Agency was established November 8, 1984 to administer the City’s redevelopment activities and projects. As further described in Note 15, the Agency was dissolved effective February 1, 2012.

The accompanying basic financial statements include the financial activities of the City, the primary government, and its component units, which are the Avenal Redevelopment Agency (the Agency) and the Avenal Public Financing Authority (the Authority). Financial information for the City and these component units 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 Agency and the Authority. As such, these entities are presented on a blended basis. Separate financial statements are produced for the Agency and may be obtained from the City’s administrative office. No separate annual financial statements are prepared for the Authority.

Blended Component Units

The **Avenal Redevelopment Agency** (the Agency) was established October 25, 1984, pursuant to the State of California Health and Safety Code, Section 33000, entitled “Community Redevelopment Law.” The Agency was formed in order to redevelop, rehabilitate and revitalize the City redevelopment project area. Their plan intends to, among other things, install curbs, gutters, sidewalks, streets, utilities, storm drainage and public parking, and to provide safe, decent, sanitary and affordable housing, including housing for persons with low or moderate income. The membership of the Agency is comprised solely of individuals who serve on the Avenal City Council and administrative staff from the Avenal Redevelopment Agency. The funds of the Agency have been included in the governmental activities in the financial statements. As further described in Note 15, the Agency dissolved effective February 1, 2012.

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 Agency, 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 Agency. 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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 assets and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall 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.

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 assets 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, Interfund Note Receivable/Interfund Long-term Debt, 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 assets and changes in net assets 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 **Avenal Redevelopment Agency Bond Debt Service Fund** is used to account for taxes collected and the repayment of bonds and notes issued by the Avenal Redevelopment Agency. As further described in Note 15, the Agency was dissolved effective February 1, 2012.

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 community development block grant 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. Receipts are transferred to the appropriate funds.

Enterprise fund financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows for each major enterprise fund and nonmajor 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 a *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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Propriety 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. Non-operating 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 Equity

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, except the Avenal Redevelopment Agency, for investment purposes. The Agency's idle cash is invested separately, but in a manner consistent with the investment of the City's funds.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

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.

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 "due to/from other funds" (i.e. the current portion of interfund loans) or "interfund advances receivable/payable" (i.e. the non-current portion of 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 \$2,500. The City has chosen not to capitalize infrastructure in place prior to the adoption of GASB 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 Statement No. 34, the City has included the value of all infrastructure capital assets acquired since the beginning of the 2003 fiscal year into the 2011-2012 basic financial statements.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Capital Assets (Continued)

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 uncollected outstanding, performing loans and intergovernmental revenues (primarily grants and subventions) received but not earned (qualifying expenditures not yet incurred).

Compensated Absences Payable

It is the City's policy to permit employees to accumulate an unlimited amount 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/Bond Issuance Costs

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Discounts as well as issuance costs are deferred and amortized over the life of the loan. Issuance costs and discounts are reported as unamortized bond issuance costs and amortized over the term of the related debt, which is 30 years. Amortization for the fiscal year ended June 30, 2012, was \$7,424.

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

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

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.

Use of Restricted/Unrestricted Net Assets

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

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.

Classification of Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. 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 assets – 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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (Continued)

Classification of Net Assets (Continued)

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. The City has committed resources of \$783,877 as of June 30, 2012.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the City.

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

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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements

Governmental Accounting Standards Board Statement No. 60

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (“SCAs”), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Application of this Statement is effective for the City’s fiscal year ending June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (“FASB”) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (“AICPA”) Committee on Accounting Procedure

Governmental Accounting Standards Board Statement No. 63

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2013.

Governmental Accounting Standards Board Statement No. 64

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This Statement sets forth criteria to establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2012. This Statement did not have an impact on the City’s financial statements.

Governmental Accounting Standards Board Statement No. 65

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

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 66

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

Governmental Accounting Standards Board Statement No. 67

In June 2012, GASB issued No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

Governmental Accounting Standards Board Statement No. 68

In June 2012, GASB issued No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012, is as follows:

Cash on hand	\$ 350
Primary government deposits	9,041,024
Local Agency Investment Fund	4,231,117
U.S. government securities	<u>658,439</u>
 Total cash and investments	 <u>\$ 13,930,930</u>
 Government-Wide:	
Statement of Net Assets:	
Cash and investments	\$ 12,773,440
Cash with fiscal agent	658,439
 Fiduciary Funds	 <u>499,051</u>
 Total	 <u>\$ 13,930,930</u>

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

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

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:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				
	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Held by bond trustee:					
Treasury obligation funds	\$ 658,439	\$ 658,439	\$ -	\$ -	\$ -
Total	<u>\$ 658,439</u>	<u>\$ 658,439</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 No. 40 does not require disclosure as to credit risk:

Investment Type	Total	Exempt from Disclosure	Rating as of Year-End		
			Aaa	aa	Not Rated
State investment pool Held by bond trustee:	\$ 4,231,117	\$ 4,231,117	\$ -	\$ -	\$ -
Treasury obligation funds	<u>658,439</u>	-	<u>658,439</u>	-	-
Total	<u>\$ 4,889,556</u>	<u>\$ 4,231,117</u>	<u>\$ 658,439</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk

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

Custodial Credit Risk

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

The California Government Code requires that a financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under the state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

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

As of June 30, 2012, the carrying amount of the City's bank deposits was \$9,041,024, and the respective bank balances totaled \$9,120,392. Of the total bank balance, \$500,000 was insured through the Federal Depository Insurance Company (FDIC). The remaining \$8,620,392 was collateralized with pooled securities held by the financial institution's trust department. These securities are held in the name of the financial institution and not that of the City.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund

The City participates in an external investment pool, as defined by the Government Accounting Standards Board (GASB) Statement No. 31, by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the City's shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the City's position in the pool. The City's portion of the June 30, 2012, balance was \$4,231,117. A breakdown of the investments included in the balance is not available at the balance sheet date.

NOTE 3 – INTERFUND ACTIVITY

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, 2012, is as follows:

Current 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.

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General Fund	Safe Routes to School Special Revenue Fund	\$ 79,644
General Fund	Parks and Recreation Special Revenue Fund	15,775
General Fund	HOME Investment Special Revenue Fund	4,382
General Fund	CDBG Special Revenue Fund	<u>149,070</u>
	Total	<u>\$ 248,871</u>

Long-Term Interfund Advances

At June 30, 2012, 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	\$ 4,535,000
Water Fund	Avenal Public Financing Authority Debt Service Fund	<u>330,569</u>
	Total	<u>\$ 4,865,569</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – INTERFUND ACTIVITY (Continued)

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, 2012:

	Transfers		Reasons
	In	Out	
Major Funds:			
Governmental funds:			
General Fund	\$ 454,938	\$ 900,738	Code enforcement/construction in progress/administrative salaries/reimburse public safety grant expenditures.
Avenal Public Financing Authority Debt Service Fund	657,274	270,000	Reduce bond debt transfer
Avenal Redevelopment Agency Bond Debt Service Fund	132,408	622,985	20% RDA cost/ reduce bond debt/RDA fund 90 elimination/construction in progress transfer.
CDBG Program Income Special Revenue Fund	-	79,615	Miscellaneous program income
Other governmental funds:			
Avenal Redevelopment Agency Special Revenue Fund	-	132,308	20% RDA cost
Capital Improvement Project Fund	127,645	-	Electricity Park Ped
Enterprise funds:			
Water Fund	100,000	375,167	Reduce bond debt transfer
Sewer Fund	-	18,500	Construction in progress and equipment
Solid Waste Fund	126,501	-	20% RDA cost
Fiduciary funds	<u>800,547</u>	<u>-</u>	Dissolution of RDA
Total	<u>\$ 2,399,313</u>	<u>\$ 2,399,313</u>	

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 over a term of 15 years with annual interest only payments for the first 5 years commencing October 3, 2008, followed by 10 annual principal payments of \$6,800 each, together with accrued interest, commencing on October 3, 2013. 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.

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 over a term of 15 years with annual interest only payments commencing on October 3, 2008, and continuing thereafter on September 18, of each year for the first 14 years, following by one principal payment of \$21,000, together with accrued interest due and payable on October 3, 2022. The interest is a 5% fixed rate, simple interest.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – LOANS RECEIVABLE/DEFERRED REVENUE

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. Such loans totaled \$56,507 as of June 30, 2012. 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 recorded as receivable and deferred revenue. Such loans totaled \$11,350,024 as of June 30, 2012.

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 fiscal year in the government-wide statement of net assets. 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.

	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,062,372	\$ 57,179	\$ -	\$ 1,119,551
Construction in progress	<u>737,873</u>	<u>927,893</u>	<u>(1,409,411)</u>	<u>256,355</u>
Total capital assets not being depreciated	<u>1,800,245</u>	<u>985,072</u>	<u>(1,409,411)</u>	<u>1,375,906</u>
Capital assets being depreciated:				
Buildings and improvements	9,920,937	42,354	-	9,963,291
Machinery and equipment	2,283,528	323,531	-	2,607,059
Infrastructure	<u>20,500,633</u>	<u>1,522,971</u>	<u>-</u>	<u>22,023,604</u>
Total capital assets being depreciated	<u>32,705,098</u>	<u>1,888,856</u>	<u>-</u>	<u>34,593,954</u>
Less accumulated depreciation for:				
Buildings and improvements	(977,306)	(255,194)	-	(1,232,500)
Machinery and equipment	(1,206,877)	(153,948)	-	(1,360,825)
Infrastructure	<u>(7,610,634)</u>	<u>(1,080,208)</u>	<u>-</u>	<u>(8,690,842)</u>
Total accumulated depreciation	<u>(9,794,817)</u>	<u>(1,489,350)</u>	<u>-</u>	<u>(11,284,167)</u>
Total capital assets being depreciated, net	<u>22,910,281</u>	<u>399,506</u>	<u>-</u>	<u>23,309,787</u>
Governmental activities capital assets, net	<u>\$ 24,710,526</u>	<u>\$ 1,384,578</u>	<u>\$ (1,409,411)</u>	<u>\$ 24,685,693</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – CAPITAL ASSETS (Continued)

	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Construction in progress	<u>-</u>	<u>1,376,363</u>	<u>-</u>	<u>1,376,363</u>
Total capital assets not being depreciated	<u>101,000</u>	<u>1,376,363</u>	<u>-</u>	<u>1,477,363</u>
Capital assets being depreciated:				
Buildings and improvements	7,933,079	-	-	7,933,079
Machinery and equipment	1,067,837	97,650	-	1,165,487
Utility system	17,401,348	-	-	17,401,348
Infrastructure	<u>1,506,715</u>	<u>-</u>	<u>-</u>	<u>1,506,715</u>
Total capital assets being depreciated	<u>27,908,979</u>	<u>97,650</u>	<u>-</u>	<u>28,006,629</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,738,957)	(229,815)	-	(2,968,772)
Machinery and equipment	(1,031,938)	436,413	-	(595,525)
Utility system	(6,758,360)	(1,179,999)	-	(7,938,359)
Infrastructure	<u>(719,814)</u>	<u>(28,176)</u>	<u>-</u>	<u>(747,990)</u>
Total accumulated depreciation	<u>(11,249,069)</u>	<u>(1,001,577)</u>	<u>-</u>	<u>(12,250,646)</u>
Total capital assets being depreciated, net	<u>16,659,910</u>	<u>(903,927)</u>	<u>-</u>	<u>15,755,983</u>
Business-type activities capital assets, net	<u>\$ 16,760,910</u>	<u>\$ 472,436</u>	<u>\$ -</u>	<u>\$ 17,233,346</u>

For the year ended June 30, 2012, depreciation expense on capital assets was charged to the governmental functions as follows:

General government	\$ 254,794
Parks and recreation	111,084
Highway and streets	1,031,769
Public safety	68,614
Public works	<u>23,089</u>
Total	<u>\$ 1,489,350</u>

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 – OPERATING LEASES

Rental Income

The City entered into a lease agreement effective May 1, 2011, with Reel Time Entertainment, Inc. to lease the Avenal Theater. Monthly rent of 5% of gross receipts from the operations of the theater is required for the first year. The monthly rent will escalate by .5% each year for the remaining 4 years of the lease, resulting in a monthly rent of 7% of gross receipts from the operations of the theater in the fifth year. There is an option to extend the lease for an additional five years with a monthly rent of 8% of gross receipts from the operations of the theater for the duration of the extension. For the entire duration of this lease and any extension, the City will receive 40% of the rent received from the use of the non-theater areas. Monthly rent is due by the 30th of each month. Rental income was \$2,042 for the year ended June 30, 2012. The future minimum lease payments for this lease are not presented because the gross receipts from the operations of the theater were undeterminable as of the date of these financial statements. The initial total cost of leased assets as of June 30, 2012, is \$5,972,810 with related accumulated depreciation of \$258,822.

NOTE 8 – 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 \$134,758 for governmental activities and \$89,176 for business-type activities at June 30, 2012, 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, 2011	Incurred	Satisfied	Balance June 30, 2012	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Compensated absences	\$ 127,878	\$ 101,436	\$ (94,556)	\$ 134,758	\$ 56,680	\$ 78,078
Business-Type Activities:						
Compensated absences	\$ 105,594	\$ 53,107	\$ (69,525)	\$ 89,176	\$ 47,862	\$ 41,314

NOTE 9 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for governmental activities for the year ended June 30, 2012:

	Balance July 1, 2011	Incurred or Issued	Satisfied or Matured	Balance June 30, 2012	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Revenue bonds	\$ 8,450,000	\$ -	\$ (270,000)	\$ 8,180,000	\$ 280,000	\$ 7,900,000
Capital lease	268,264	-	(67,066)	201,198	67,066	134,132
Total governmental activities	\$ 8,718,264	\$ -	\$ (337,066)	\$ 8,381,198	\$ 347,066	\$ 8,034,132

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

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, 2012, was 3.60% per annum. These bonds are special obligations of the Authority and are payable solely from Public Finance Authority revenues. The Public Financing Authority maintains \$658,439 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
2013	\$ 280,000	\$ 376,752	\$ 656,752
2014	290,000	365,492	655,492
2015	305,000	353,439	658,439
2016	315,000	340,572	655,572
2017-2021	1,795,000	1,480,862	3,275,862
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	305,000	7,625	312,625
Totals	\$ 8,180,000	\$ 4,742,280	\$ 12,922,280

Capital Lease

The City has entered into a lease agreement as lessee for financing the acquisition of police vehicles. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	
Machinery and equipment	\$ 335,330
Less accumulated depreciation	(134,132)
Total	\$ 201,198

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Years ending June 30	Principal
2013	\$ 67,066
2014	67,066
2015	67,066
Total minimum lease payments	\$ 201,198

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – PENSION PLAN

Plan Description

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

Funding Policy

Active plan members in the Safety and Miscellaneous Plan are required to contribute 7.00% of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.684% for miscellaneous employees and 21.048% for safety employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. City employees are covered by Social Security; therefore, a rate of zero is charged for the first \$133.33 per month.

Annual Pension Cost and Net Pension Obligation

For the fiscal year 2011-2012, the City's combined annual pension cost of \$487,975 was equal to the annual required contribution. The current year's required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for members of both plans; and (c) 3.25% cost of living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the Miscellaneous and Safety Plans' assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. The Miscellaneous and Safety Plans' unfunded actuarial liabilities are being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period as of June 30, 2009, was 10 years.

The City's annual pension cost (APC) and net pension obligation as of and for the year ended June 30, 2012, was as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Miscellaneous Plan</u>			
6/30/2010	\$ 106,871	100%	\$ -
6/30/2011	\$ 161,603	100%	\$ -
6/30/2012	\$ 231,165	100%	\$ -
<u>Safety Plan</u>			
6/30/2010	\$ -	100%	\$ -
6/30/2011	\$ 45,221	100%	\$ -
6/30/2012	\$ 256,810	100%	\$ -

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – PENSION PLAN (Continued)

Funded Status and Progress

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

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as of % of Covered Payroll
6/30/2009						
Miscellaneous	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.8%	\$ 742,981,488	46.6%
Safety	\$ 1,802,882,330	\$ 1,520,081,328	\$ 282,801,002	84.3%	\$ 221,600,192	127.6%

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

NOTE 11 – 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.

The City's annual other postemployment benefits (OPEB) cost for the first year of implementation of GASB 45 is equal to the annual required contribution (ARC), an amount calculated in accordance with the parameters set forth in GASB 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 23% of annual covered payroll.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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	\$ 276,434
Interest on net OPEB obligation	21,267
Adjustment to annual required contribution	<u>(20,680)</u>
Annual OPEB cost (expense)	277,021
Contribution made	<u>(20,596)</u>
Increase in net OPEB obligation	256,425
Net OPEB obligation - beginning of year	<u>472,595</u>
Net OPEB obligation - end of year	<u>\$ 729,020</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 2012 is as follows:

Fiscal Years Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
6/30/2010	\$ 239,934	4.1%	\$ 230,152
6/30/2011	\$ 258,088	6.1%	\$ 472,595
6/30/2012	\$ 277,021	7.4%	\$ 729,020

D. Funded Status of Funding Progress

As of June 30, 2012, the actuarial accrued liability for benefits was \$2,548,636, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,570,114, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 54.5%.

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, 2012

NOTE 11 – 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. However, as previously stated, fiscal year ending June 30, 2010, is the initial year of implementation; therefore only three years of information will be provided.

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, 2009, 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 9.5% initially, reduced by decrements to an ultimate rate of 4.5% after eight years. Both rates include a 3.25% 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 12 – 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 fifty-two (52) cities for workers' compensation programs and fifty-eight (58) cities for 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.

The summary of financial information of the CSJVRMA as of and for the fiscal year ended June 30, 2012, was not available at the issuance of this report.

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.

CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Construction Commitments

The City has entered into various construction contracts, which include: The Chlorination Project (Prop. 50 Funds), First Avenue Project (utilizing both Street Funds and SRTS Funds), and continuing with the Water Distribution Upgrade (Tank 4 Project).

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 14 – DEFICIT FUND EQUITY

The following funds had deficit fund balances as of June 30, 2012:

Governmental Funds:

Nonmajor Funds:

Safe Route to School Special Revenue Fund	\$ 86,797
Community Block Grant Special Revenue Fund	\$ 18,518
Park & Recreation Special Revenue Fund	\$ 15,775

NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 ("the Bill") that dissolved all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Avenal that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 26, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution Number 2012-11.

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

(Continued)

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

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

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

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

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

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in governmental funds of 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.

The transfer of assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

No differences exist between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements.

Long term debt

Long-term debt reported in the Successor Agency Trust Fund at June 30, 2012 was comprised of the following:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Avenal 2005 Revenue Refunding Bond	\$ 3,815,000	\$ -	\$ (170,000)	\$ 3,645,000	\$ 180,000

**CITY OF AVENAL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

(Continued)

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, 2011, 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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 180,000	\$ 161,652	\$ 341,652
2014	185,000	154,444	339,444
2015	195,000	146,746	341,746
2016	200,000	138,548	338,548
2017	210,000	129,833	339,833
2018-2022	1,195,000	500,006	1,695,006
2023-2027	<u>1,480,000</u>	<u>191,145</u>	<u>1,671,145</u>
Total	<u>\$ 3,645,000</u>	<u>\$ 1,422,374</u>	<u>\$ 5,067,374</u>

NOTE 16 – PRIOR PERIOD ADJUSTMENTS

During the current year, it was determined that in the prior year construction in progress was not recorded in the Water Enterprise Fund. To correct this error, beginning fund balance in the Water Enterprise fund was increased by \$143,330. The beginning net assets of business-type activities in the government-wide financial statements were also increased by the same amount.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF AVENAL
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2012**

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
7/1/2008	\$ -	\$ 2,062,986	\$ 2,062,986	0%	\$ 1,203,391	171%
7/1/2009	\$ -	\$ 2,300,874	\$ 2,300,874	0%	\$ 1,570,114	147%
7/1/2010	\$ -	\$ 2,548,636	\$ 2,548,636	0%	\$ 2,800,732	91%

**CITY OF AVENAL
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN
FOR THE YEAR ENDED JUNE 30, 2012**

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

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as of % of Covered Payroll
6/30/2009						
Miscellaneous	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.8%	\$ 742,981,488	46.6%
Safety	\$ 1,802,882,330	\$ 1,520,081,328	\$ 282,801,002	84.3%	\$ 221,600,192	127.6%

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, 2012

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
REVENUES:				
Property taxes	\$ 3,154,649	\$ 2,845,000	\$ 2,927,284	\$ 82,284
Other taxes	383,000	467,650	473,970	6,320
Intergovernmental revenues	156,903	84,000	174,191	90,191
Charges for services	70,320	75,320	89,417	14,097
Licenses and permits	74,200	83,500	82,534	(966)
Fines and penalties	42,500	38,500	39,341	841
Investment income	10,000	58,000	10,485	(47,515)
Rent	770,000	700,000	610,374	(89,626)
Other revenue	33,348	85,634	114,587	28,953
Total revenues	<u>4,694,920</u>	<u>4,437,604</u>	<u>4,522,183</u>	<u>84,579</u>
EXPENDITURES:				
Current services:				
General government	612,845	612,845	498,363	114,482
Building regulations	210,520	210,520	160,360	50,160
Community development	432,365	432,365	243,209	189,156
Public safety:				
Law enforcement	2,568,665	2,568,665	2,405,958	162,707
Animal control	175,265	175,265	137,262	38,003
Parks and recreation	664,538	664,538	472,151	192,387
Capital outlay:				
General government	85,827	85,827	67,924	17,903
Community development	33,582	33,582	25,582	8,000
Parks and recreation	1,649,489	1,649,489	396,741	1,252,748
Public safety:				
Law enforcement	23,000	23,000	8,575	14,425
Debt service:				
Principal	86,000	86,000	67,066	18,934
Interest	1,710	1,710	-	1,710
Total expenditures	<u>6,543,806</u>	<u>6,543,806</u>	<u>4,483,191</u>	<u>2,060,615</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,848,886)</u>	<u>(2,106,202)</u>	<u>38,992</u>	<u>2,145,194</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	72,000	54,000	454,938	400,938
Transfers out	-	-	(900,738)	(900,738)
Total other financing sources (uses)	<u>72,000</u>	<u>54,000</u>	<u>(445,800)</u>	<u>(499,800)</u>
Net change in fund balance	<u>(1,776,886)</u>	<u>(2,052,202)</u>	<u>(406,808)</u>	<u>1,645,394</u>
Fund balances, July 1, 2011	<u>8,008,529</u>	<u>8,008,529</u>	<u>8,008,529</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ 6,231,643</u>	<u>\$ 5,956,327</u>	<u>\$ 7,601,721</u>	<u>\$ 1,645,394</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, 2012

	<u>Budgeted Amount</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment income	\$ 50	\$ -	\$ 39	\$ 39
Loan repayments	<u>9,200</u>	<u>14,900</u>	<u>13,576</u>	<u>(1,324)</u>
Total revenues	<u>9,250</u>	<u>14,900</u>	<u>13,615</u>	<u>(1,285)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>66,000</u>	<u>-</u>	<u>(79,615)</u>	<u>79,615</u>
Total other financing sources (uses)	<u>66,000</u>	<u>-</u>	<u>(79,615)</u>	<u>79,615</u>
Net change in fund balance	75,250	14,900	(66,000)	(80,900)
Fund balance, July 1, 2011	<u>66,000</u>	<u>66,000</u>	<u>66,000</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 141,250</u>	<u>\$ 80,900</u>	<u>\$ -</u>	<u>\$ (80,900)</u>

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenues	\$ 1,049,286	\$ 657,776	\$ 563,400	\$ (94,376)
Investment income	-	-	33	33
Loan repayments	-	71,153	21,644	(49,509)
Total revenues	<u>1,049,286</u>	<u>728,929</u>	<u>585,077</u>	<u>(143,852)</u>
EXPENDITURES:				
Current services:				
Community development	<u>805,385</u>	<u>805,385</u>	<u>362,609</u>	<u>442,776</u>
Total expenditures	<u>805,385</u>	<u>805,385</u>	<u>362,609</u>	<u>442,776</u>
Excess (deficiency) of revenues over (under) expenditures	<u>243,901</u>	<u>(76,456)</u>	<u>222,468</u>	<u>298,924</u>
Net change in fund balance	243,901	(76,456)	222,468	298,924
Fund balances, July 1, 2011	<u>(178,987)</u>	<u>(178,987)</u>	<u>(178,987)</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ 64,914</u>	<u>\$ (255,443)</u>	<u>\$ 43,481</u>	<u>\$ 298,924</u>

CITY OF AVENAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

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. Budgetary information is not presented for the Avenal Redevelopment Agency Special Revenue Funds because a budget is not legally adopted at that level.

**CITY OF AVENAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

The following fund incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2012:

General Fund:

Other Financing Sources:	
Transfers Out	\$ 900,738

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

OTHER SUPPLEMENTARY INFORMATION

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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.

Gas Tax Funds

To account for revenues and expenditures apportioned to the City under the Streets and Highway Code, Sections 2105, 2106, 2107 and 2107.5 and Proposition 1B for the State of California. Expenditures for administration, maintenance and construction must be street related.

Safe Routes to School Funds

To account for expenditures of the safe routes to school grants. The funding sources are used for various improvements, including traffic signals, bicycle lanes, sidewalks and crosswalks.

Parks and Recreation Grants Funds

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

San Joaquin Project Fund

To account for street improvement expenditures of the highway and streets grant received by the City.

Redevelopment Agency Special Revenue Funds

To account for the operations and projects of the City Redevelopment Agency Theatre and Loan funds, and to account for the 20% of tax increment funds required by State law to be set aside for low and moderate housing needs.

HOME Investment Special Revenue Funds

To account for federal HOME grants activity.

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.

The **Capital Projects Funds** are used 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, 2012**

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total Nonmajor Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents			
Unrestricted	\$ 855,241	\$ 913,668	\$ 1,768,909
Receivables:			
Intergovernmental	674,873	-	674,873
Total assets	\$ 1,530,114	\$ 913,668	\$ 2,443,782
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 193,634	\$ -	\$ 193,634
Interfund payables	248,871	-	248,871
Deferred revenue	121,089	-	121,089
Total liabilities	563,594	-	563,594
Fund balances:			
Restricted for:			
Highways and streets	1,087,610	-	1,087,610
Committed:			
Capital projects	-	913,668	913,668
Unassigned	(121,090)	-	(121,090)
Total fund balance	966,520	913,668	1,880,188
Total liabilities and fund balance	\$ 1,530,114	\$ 913,668	\$ 2,443,782

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES:			
Taxes	\$ 132,308	\$ -	\$ 132,308
Intergovernmental revenues	2,065,448	-	2,065,448
Investment income	<u>657</u>	<u>2,146</u>	<u>2,803</u>
 Total revenues	 <u>2,198,413</u>	 <u>2,146</u>	 <u>2,200,559</u>
EXPENDITURES:			
Current:			
Community development	693,832	-	693,832
Parks and recreation	15,775	-	15,775
Highways and streets	181,642	-	181,642
Capital outlay:			
Community development	86,797	-	86,797
Highways and streets	<u>878,898</u>	<u>-</u>	<u>878,898</u>
 Total expenditures	 <u>1,856,944</u>	 <u>-</u>	 <u>1,856,944</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>341,469</u>	 <u>2,146</u>	 <u>343,615</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	127,645	127,645
Transfers out	<u>(132,308)</u>	<u>-</u>	<u>(132,308)</u>
 Total other financing sources (uses)	 <u>(132,308)</u>	 <u>127,645</u>	 <u>(4,663)</u>
 Net changes in fund balances	 209,161	 129,791	 338,952
 Extraordinary gain (loss)	 (22,017)	 -	 (22,017)
 Fund balances, July 1, 2011	 <u>779,376</u>	 <u>783,877</u>	 <u>1,563,253</u>
 Fund balances, June 30, 2012	 <u>\$ 966,520</u>	 <u>\$ 913,668</u>	 <u>\$ 1,880,188</u>

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012**

	<u>Local Transporation</u>	<u>Gas Tax</u>	<u>Safe Routes to School</u>	<u>Avenal Redevelopment Special Revenue Fund</u>	<u>HOME Investment Special Revenue Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 366,177	\$ 489,064	\$ -	\$ -	\$ -
Receivables:					
Intergovernmental	<u>180,070</u>	<u>212,552</u>	<u>86,797</u>	<u>-</u>	<u>4,897</u>
Total assets	<u>\$ 546,247</u>	<u>\$ 701,616</u>	<u>\$ 86,797</u>	<u>\$ -</u>	<u>\$ 4,897</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 155,963	\$ 4,290	\$ 7,153	\$ -	\$ 515
Interfund payables	-	-	79,644	-	4,382
Deferred revenue	<u>-</u>	<u>-</u>	<u>86,797</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>155,963</u>	<u>4,290</u>	<u>173,594</u>	<u>-</u>	<u>4,897</u>
Fund balance:					
Restricted:					
Highways and streets	390,284	697,326	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>(86,797)</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>390,284</u>	<u>697,326</u>	<u>(86,797)</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 546,247</u>	<u>\$ 701,616</u>	<u>\$ 86,797</u>	<u>\$ -</u>	<u>\$ 4,897</u>

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012**

	Community Development Block Grant Funds	San Joaquin Project	Parks and Recreation	Totals
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 855,241
Receivables:				
Intergovernmental	<u>174,782</u>	<u>-</u>	<u>15,775</u>	<u>674,873</u>
Total assets	<u>\$ 174,782</u>	<u>\$ -</u>	<u>\$ 15,775</u>	<u>\$ 1,530,114</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 25,713	\$ -	\$ -	\$ 193,634
Interfund payables	149,070	-	15,775	248,871
Deferred revenue	<u>18,517</u>	<u>-</u>	<u>15,775</u>	<u>121,089</u>
Total liabilities	<u>193,300</u>	<u>-</u>	<u>31,550</u>	<u>563,594</u>
Fund balance:				
Restricted:				
Highways and streets	-	-	-	1,087,610
Unassigned	<u>(18,518)</u>	<u>-</u>	<u>(15,775)</u>	<u>(121,090)</u>
Total fund balance	<u>(18,518)</u>	<u>-</u>	<u>(15,775)</u>	<u>966,520</u>
Total liabilities and fund balance	<u>\$ 174,782</u>	<u>\$ -</u>	<u>\$ 15,775</u>	<u>\$ 1,530,114</u>

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Local Transportation	Gas Tax	Safe Routes to School	Avenal Redevelopment Special Revenue Fund	HOME Investment Special Revenue Funds
REVENUES:					
Property taxes	\$ -	\$ -	\$ -	\$ 132,308	\$ -
Intergovernmental revenues	184,070	727,702	-	-	475,595
Investment income	273	384	-	-	-
Total revenues	<u>184,343</u>	<u>728,086</u>	<u>-</u>	<u>132,308</u>	<u>475,595</u>
EXPENDITURES:					
Current:					
Community development	-	-	-	-	67,251
Parks and recreation	-	-	-	-	-
Streets	-	181,642	-	-	-
Capital outlay:					
Community development	-	-	86,797	-	-
Streets	276,019	602,879	-	-	-
Total expenditures	<u>276,019</u>	<u>784,521</u>	<u>86,797</u>	<u>-</u>	<u>67,251</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(91,676)</u>	<u>(56,435)</u>	<u>(86,797)</u>	<u>132,308</u>	<u>408,344</u>
OTHER FINANCING SOURCES (USES):					
Transfers out	-	-	-	(132,308)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(132,308)</u>	<u>-</u>
Net changes in fund balances	(91,676)	(56,435)	(86,797)	-	408,344
Fund balance, June 30, 2011	481,960	753,761	-	22,017	(408,344)
Extraordinary gain (loss)	-	-	-	(22,017)	-
Fund balance, June 30, 2012	<u>\$ 390,284</u>	<u>\$ 697,326</u>	<u>\$ (86,797)</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF AVENAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Community Development Block Grant Funds	Parks and Recreation	Public Safety Grant Funds	Totals
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ 132,308
Intergovernmental revenues	678,081	-	-	2,065,448
Investment income	-	-	-	657
Total revenues	<u>678,081</u>	<u>-</u>	<u>-</u>	<u>2,198,413</u>
EXPENDITURES:				
Current:				
Community development	626,581	-	-	693,832
Parks and recreation	-	15,775	-	15,775
Highways and streets	-	-	-	181,642
Capital outlay:				
Community development	-	-	-	86,797
Highways and streets	-	-	-	878,898
Total expenditures	<u>626,581</u>	<u>15,775</u>	<u>-</u>	<u>1,856,944</u>
Excess (deficiency) of revenues over (under) expenditures	<u>51,500</u>	<u>(15,775)</u>	<u>-</u>	<u>341,469</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	(132,308)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(132,308)</u>
Net changes in fund balances	51,500	(15,775)	-	209,161
Fund balance, June 30, 2011	(70,018)	-	-	779,376
Extraordinary gain (loss)	-	-	-	(22,017)
Fund balance, June 30, 2012	<u>\$ (18,518)</u>	<u>\$ (15,775)</u>	<u>\$ -</u>	<u>\$ 966,520</u>

**CITY OF AVENAL
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUND
JUNE 30, 2012**

	<u>Capital Improvement Project Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 913,668
Total assets	<u>\$ 913,668</u>
<u>FUND BALANCE</u>	
Fund balances:	
Committed:	
Capital projects	\$ 913,668
Total fund balance	<u>913,668</u>
Total liabilities and fund balance	<u>\$ 913,668</u>

**CITY OF AVENAL
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Capital Improvement Project Fund</u>
REVENUES:	
Investment income	\$ <u>2,146</u>
Total revenues	<u>2,146</u>
OTHER FINANCING SOURCES (USES):	
Transfers in	<u>127,645</u>
Total other financing sources (uses)	<u>127,645</u>
Net change in fund balance	129,791
Fund balance, July 1, 2011	<u>783,877</u>
Fund balance, June 30, 2012	<u>\$ <u>913,668</u></u>

**CITY OF AVENAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Pass-Through Entity Identifying Number	Grant Period		Program Award	Federal Expenditures 2012
			From	To		
U.S. Department of Housing and Urban Development (HUD):						
Passed through the State of California:						
Community Development Block Grants:						
(State Program)*	14.228	09 STBG 6404	3/2/2010	12/31/2012	600,000	\$ 181,139
(State Program)*	14.228	10 STBG 6699	2/16/2011	6/30/2013	800,000	484,872
(State Program)*	14.228	11 PTEC 7612	12/21/11	12/31/13	35,000	<u>2,894</u>
Total Community Development Block Grants						<u>668,905</u>
HOME Investment Partnership Program:						
(State HOME Program)	14.239	09 HOME 6123	1/12/2012	5/31/2012	800,000	65,191
(State HOME Program)	14.239	11 HOME 7657	3/8/2012	2/28/2015	700,000	<u>2,060</u>
Total HOME Investment Partnership Program						<u>67,251</u>
Total U.S. Department of Housing and Urban Development (HUD)						<u>736,156</u>
U.S. Department of Transportation:						
Highways and Streets	20.205	SRTSL-5424(006)			84,428	<u>71,384</u>
Total U.S. Department of Transportation						<u>71,384</u>
U.S. Department of Energy Direct Programs (EECBG)						
Energy Efficiency and Conservation Block Grant	81.128	CBG-09-135	6/30/2010	6/14/2012	99,971	<u>27,412</u>
Total U.S. Department of Energy Direct Programs						<u>27,412</u>
Total Expenditures of Federal Awards						<u>\$ 834,952</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement.

CITY OF AVENAL
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Avenal and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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OTHER INDEPENDENT AUDITOR'S REPORTS

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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 the 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 12, 2013. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mayor and City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Price Pange & Company

Clovis, California
February 12, 2013



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Compliance

We have audited the City of Avenal, California's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Price Pange & Company

Clovis, California
February 12, 2013

FINDINGS AND QUESTIONED COSTS

**CITY OF AVENAL
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X 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 weakness(es) 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: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Section .510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between Type A
 and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

**CITY OF AVENAL
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**CITY OF AVENAL
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

No reportable items.