

CITY OF COALINGA
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coalinga, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coalinga, California, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

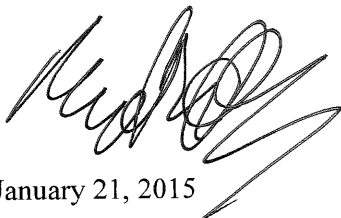
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2015, on our consideration of the City of Coalinga's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Coalinga's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be 'Kudro', is written over the date.

January 21, 2015

CITY OF COALINGA

STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 3,500,152	\$ 3,073,515	\$ 6,573,667
Cash and investments with fiscal agent	1,529,757	3,830,604	5,360,361
Accounts receivable, net	568,253	791,353	1,359,606
Due from other governments	608,185	-	608,185
Internal balances	(1,000,663)	1,000,663	-
Notes receivable	1,734,238	-	1,734,238
Bonds receivable	13,565,000	-	13,565,000
Deferred charges	(259,889)	605,710	345,821
Capital assets, net of allowance for depreciation	<u>23,450,977</u>	<u>18,616,204</u>	<u>42,067,181</u>
Total assets	<u>43,696,010</u>	<u>27,918,049</u>	<u>71,614,059</u>
LIABILITIES			
Accounts payable and accrued expenses	1,816,311	554,648	2,370,959
Accrued interest payable	129,850	169,272	299,122
Deposits and claims payable	77,666	21,600	99,266
Long-term liabilities			
Due within one year	1,155,223	280,000	1,435,223
Due in more than one year	20,024,314	13,285,000	33,309,314
Compensated absences	<u>486,123</u>	<u>154,187</u>	<u>640,310</u>
Total liabilities	<u>23,689,487</u>	<u>14,464,707</u>	<u>38,154,194</u>
NET POSITION			
Net investment in capital asseets	15,685,440	5,051,204	20,736,644
Restricted for debt service	2,105,166	939,033	3,044,199
Restricted for capital improvements	1,903,477	2,891,571	4,795,048
Restricted for specific projects and programs	2,785,375	-	2,785,375
Unrestricted	<u>(2,472,935)</u>	<u>4,571,534</u>	<u>2,098,599</u>
Total net position	<u>\$ 20,006,523</u>	<u>\$ 13,453,342</u>	<u>\$ 33,459,865</u>

CITY OF COALINGA

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenue				Net Revenue/(Expense) and Changes in Net Position		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 2,156,081	\$ 95,148	\$ 259,265	\$ -	\$ (1,801,668)	\$ -	\$ (1,801,668)
Public works	1,435,992	-	1,341,252	-	(94,740)	-	(94,740)
Community development	882,533	205,005	-	262,776	(414,752)	-	(414,752)
Claremont	358,379	-	-	-	(358,379)	-	(358,379)
Public safety	6,179,605	1,779,151	141,327	-	(4,259,127)	-	(4,259,127)
Debt Service	1,137,862	1,517,080	-	-	379,218	-	379,218
Interest and fiscal charges	12,150,452	3,596,384	1,741,844	262,776	(6,549,448)	-	(6,549,448)
Total governmental activities							
Business-type activities							
Water	3,886,688	3,998,543	-	13,349	-	125,204	125,204
Sewer	870,071	1,047,454	-	-	-	177,383	177,383
Natural Gas	1,624,683	1,590,965	-	-	-	(33,718)	(33,718)
Sanitation	1,722,319	1,704,754	19,916	-	-	2,351	2,351
Utility Billing	492,316	164,342	-	-	-	(327,974)	(327,974)
Total business-type activities	8,596,077	8,506,058	19,916	13,349	-	(56,754)	(56,754)
Total primary government	\$ 20,746,529	\$ 12,102,442	\$ 1,761,760	\$ 276,125	(6,549,448)	(56,754)	(6,606,202)
General Revenue							
Property taxes					2,369,050	-	2,369,050
Special assessments					203,643	-	203,643
Sales taxes					634,858	-	634,858
Franchise and other taxes					362,795	-	362,795
Business licenses					122,056	-	122,056
Rents					127,672	-	127,672
Interest income					67,068	7,457	74,525
Other					182,615	-	182,615
Transfers					635,791	(635,791)	-
Total general revenue and transfers					4,705,548	(628,334)	4,077,214
Change in Net Position					(1,843,900)	(685,088)	(2,528,988)
Net Position							
Beginning of year					22,057,502	14,288,337	36,345,839
Cumulative effect from change in accounting principle					(207,079)	(149,907)	(356,986)
End of year					\$ 20,006,523	\$ 13,453,342	\$ 33,459,865

CITY OF COALINGA

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2014

	General	Coalinga Public Financing Authority	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ -	\$ 304,290	\$ 3,195,862	\$ 3,500,152
Cash and investments with fiscal agent	-	1,529,757	-	1,529,757
Accounts receivable, net	439,309	-	128,944	568,253
Due from other governments	166,720	-	441,465	608,185
Due from other funds	-	-	1,964,613	1,964,613
Notes receivable	-	-	1,734,238	1,734,238
Bonds receivable	-	20,783,942	-	20,783,942
Total assets	<u>\$ 606,029</u>	<u>\$ 22,617,989</u>	<u>\$ 7,465,122</u>	<u>\$ 30,689,140</u>
LIABILITIES				
Accounts payable and accrued expense	\$ 1,437,800	\$ 6,000	\$ 372,511	\$ 1,816,311
Deposits and claims payable	58,554	-	19,112	77,666
Due to other funds	2,461,387	-	503,889	2,965,276
Total liabilities	<u>3,957,741</u>	<u>6,000</u>	<u>895,512</u>	<u>4,859,253</u>
DEFERRED INFLOWS OF RESOURECES				
Unavailable revenues	-	20,783,942	1,970,832	22,754,774
Total deferred inflows of resources	<u>-</u>	<u>20,783,942</u>	<u>1,970,832</u>	<u>22,754,774</u>
FUND BALANCE				
Restricted				
Debt service	-	1,828,047	277,119	2,105,166
Capital improvement projects	-	-	1,903,477	1,903,477
Circulation improvements	-	-	1,968,399	1,968,399
Public safety	-	-	28,388	28,388
Environmental conservation	115,636	-	-	115,636
Economic development	-	-	562,369	562,369
Low-income housing activities	-	-	110,583	110,583
Unassigned	(3,467,348)	-	(251,557)	(3,718,905)
Total fund balance	<u>(3,351,712)</u>	<u>1,828,047</u>	<u>4,598,778</u>	<u>3,075,113</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 606,029</u>	<u>\$ 22,617,989</u>	<u>\$ 7,465,122</u>	<u>\$ 30,689,140</u>

CITY OF COALINGA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2014

Total governmental fund balance	\$ 3,075,113
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	23,450,977
Unavailable revenue balances relating to certain receivables are not reported as liabilities in the Statement of Net Position since revenue recognition is not based upon measurable and available criteria	15,299,238
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(21,179,537)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(486,123)
Interest on long-term debt is reported as an expenditure of the Governmental Funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred	(129,850)
Unavailable revenues are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds	236,594
Governmental funds report deferred charges such as original issue discounts and premiums as an expenditure when those costs are incurred because they require the use of current financial resources. However, original issue discounts and premiums must be included as a deferred charge in the Government-Wide Financial Statements	<u>(259,889)</u>
Net position of governmental activities	<u>\$ 20,006,523</u>

CITY OF COALINGA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2014

	General	Coalinga Public Financing Authority	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 3,488,759	\$ -	\$ -	\$ 3,488,759
Licenses, permits and impact fees	106,758	-	1,082	107,840
Intergovernmental	61,177	-	1,806,407	1,867,584
Charges for services	1,856,009	-	30,923	1,886,932
Fines and forfeitures	85,613	-	-	85,613
Rental	65,419	-	62,253	127,672
Interest	358	62,037	4,673	67,068
Loan payments	-	1,929,253	-	1,929,253
Other	23,648	-	158,967	182,615
Total revenue	<u>5,687,741</u>	<u>1,991,290</u>	<u>2,064,305</u>	<u>9,743,336</u>
Expenditures				
Current				
General government	1,482,877	-	-	1,482,877
Public works	553,221	-	861,191	1,414,412
Community development	324,364	-	226,227	550,591
Claremont	138,018	-	-	138,018
Public safety	5,842,066	-	47,242	5,889,308
Capital outlay	116,121	-	1,978,596	2,094,717
Debt Service				
Principal	138,421	945,000	166,000	1,249,421
Interest and fiscal charges	21,161	1,069,214	65,282	1,155,657
Total expenditures	<u>8,616,249</u>	<u>2,014,214</u>	<u>3,344,538</u>	<u>13,975,001</u>
Revenue over/(under) expenditure:	(2,928,508)	(22,924)	(1,280,233)	(4,231,665)
Other Financing Sources/(Uses)				
Redemption of special assessment debt	-	-	203,643	203,643
Transfers in/(out) - net	1,540,289	-	(904,498)	635,791
	<u>1,540,289</u>	<u>-</u>	<u>(700,855)</u>	<u>839,434</u>
Change in Fund Balance	(1,388,219)	(22,924)	(1,981,088)	(3,392,231)
Fund Balance				
Beginning of year	(1,963,493)	1,850,971	6,680,506	6,567,984
Prior period adjustment	-	-	(100,640)	(100,640)
End of year	<u>\$ (3,351,712)</u>	<u>\$ 1,828,047</u>	<u>\$ 4,598,778</u>	<u>\$ 3,075,113</u>

CITY OF COALINGA

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2014

Net change in fund balance - total governmental funds \$ (3,392,231)

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

Depreciation expense on capital assets is reported in the Statement of
Activities, but they do not require the use of current financial
resources. Therefore, depreciation expense is not required as
expenditures in Governmental Funds (1,482,529)

Amortization of deferred debt costs in the Statement of Activities does
not require the use of current financial resources and is not
required as expenditures in Governmental Funds 32,506

Governmental Funds report capital outlay as expenditures. However, in the
Statement of Activities the cost of those assets are capitalized as an
asset and depreciated over the period of service 2,094,717

The net effect of adjustment involving disposal of capital assets (19,614)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds 135,954

Repayment of long-term receivables are revenue in governmental funds, but
the receipt reduces long-term receivables in the Statement of Net Position (412,172)

Repayment of long-term debt is an expenditure in governmental funds, but
the repayment reduces long-term liabilities in the Statement of Net Position 1,249,421

Compensated absence costs in the Statement of Activities does not
require the use of current financial resources and, therefore, is
not reported as expenditures in Governmental Funds (67,747)

In the Statement of Activities interest is accrued on long-term debt, whereas,
in governmental funds interest expenditure is reported when due 17,795

Change in net position of governmental activities \$ (1,843,900)

CITY OF COALINGA

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds					Total Proprietary Funds
	Water	Sewer	Natural Gas	Sanitation	Utility Billing	
ASSETS						
Current assets						
Cash and investments	\$ 228,118	\$ 926,129	\$ 1,830,126	\$ -	\$ 89,142	\$ 3,073,515
Cash and investments with fiscal agent	2,930,301	900,303	-	-	-	3,830,604
Accounts receivable, net	382,005	121,479	63,106	205,318	19,445	791,353
Due from other funds	-	1,642,599	378,000	-	-	2,020,599
Total current assets	<u>3,540,424</u>	<u>3,590,510</u>	<u>2,271,232</u>	<u>205,318</u>	<u>108,587</u>	<u>9,716,071</u>
Non-current assets						
Property, plant and equipment, net of allowance for depreciation	11,869,342	6,151,756	481,580	113,526	-	18,616,204
Deferred charges	460,339	145,371	-	-	-	605,710
Total assets	<u>\$ 15,870,105</u>	<u>\$ 9,887,637</u>	<u>\$ 2,752,812</u>	<u>\$ 318,844</u>	<u>\$ 108,587</u>	<u>\$ 28,937,985</u>
LIABILITIES						
Current liabilities						
Accounts payable and accrued expense	\$ 249,178	\$ 40,891	\$ 106,526	\$ 139,549	\$ 18,504	\$ 554,648
Accrued interest payable	131,954	37,318	-	-	-	169,272
Deposits	21,600	-	-	-	-	21,600
Due to other funds	793,281	-	-	226,655	-	1,019,936
Current portion of long-term debt	280,000	-	-	-	-	280,000
Total current liabilities	<u>1,476,013</u>	<u>78,209</u>	<u>106,526</u>	<u>366,204</u>	<u>18,504</u>	<u>2,045,456</u>
Non-current liabilities						
Long-term debt	10,195,000	3,090,000	-	-	-	13,285,000
Compensated absences	61,245	22,283	34,941	2,958	32,760	154,187
Total noncurrent liabilities	<u>10,256,245</u>	<u>3,112,283</u>	<u>34,941</u>	<u>2,958</u>	<u>32,760</u>	<u>13,439,187</u>
Total liabilities	<u>11,732,258</u>	<u>3,190,492</u>	<u>141,467</u>	<u>369,162</u>	<u>51,264</u>	<u>15,484,643</u>
NET POSITION						
Net investment in capital assets	1,394,342	3,061,756	481,580	113,526	-	5,051,204
Restricted for debt service	740,826	198,207	-	-	-	939,033
Restricted for capital improvements	2,189,475	702,096	-	-	-	2,891,571
Unrestricted/(deficit)	(186,796)	2,735,086	2,129,765	(163,844)	57,323	4,571,534
Total net position	<u>\$ 4,137,847</u>	<u>\$ 6,697,145</u>	<u>\$ 2,611,345</u>	<u>\$ (50,318)</u>	<u>\$ 57,323</u>	<u>\$ 13,453,342</u>

See accompanying notes.

CITY OF COALINGA

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION- PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds						Total
	Water	Sewer	Natural Gas	Sanitation	Utility Billing	Proprietary Funds	
Operating Revenue							
Charges for services	\$ 3,986,396	\$ 1,044,329	\$ 1,590,965	\$ 1,704,754	\$ 164,342	\$ 8,490,786	
Connection charges	12,147	3,125	-	-	-	15,272	
Total operating income	<u>3,998,543</u>	<u>1,047,454</u>	<u>1,590,965</u>	<u>1,704,754</u>	<u>164,342</u>	<u>8,506,058</u>	
Operating Expense							
Contractual services and utilities	934,349	169,937	217,018	1,629,274	45,223	2,995,801	
Personnel	764,090	283,024	362,410	64,607	398,361	1,872,492	
Supplies and materials	557,831	77,695	100,793	24,671	48,732	809,722	
Cost of sales	731,250	-	904,175	-	-	1,635,425	
Depreciation	361,905	185,703	40,287	3,767	-	591,662	
Total operating expense	<u>3,349,425</u>	<u>716,359</u>	<u>1,624,683</u>	<u>1,722,319</u>	<u>492,316</u>	<u>7,905,102</u>	
Operating income/(loss)	649,118	331,095	(33,718)	(17,565)	(327,974)	600,956	
Nonoperating Revenue/(Expense)							
Intergovernmental	-	-	-	19,916	-	19,916	
Development impact fees	13,349	-	-	-	-	13,349	
Interest income	835	3,269	3,353	-	-	7,457	
Amortization expense	(14,056)	(4,439)	-	-	-	(18,495)	
Interest expense	(523,207)	(149,273)	-	-	-	(672,480)	
Total nonoperating revenue/(expense)	<u>(523,079)</u>	<u>(150,443)</u>	<u>3,353</u>	<u>19,916</u>	<u>-</u>	<u>(650,253)</u>	
Net income/(loss) before transfers	126,039	180,652	(30,365)	2,351	(327,974)	(49,297)	
Operating Transfers In/(Out)	<u>(426,800)</u>	<u>(287,738)</u>	<u>(223,312)</u>	<u>(25,670)</u>	<u>327,729</u>	<u>(635,791)</u>	
Change in Net Position	<u>(300,761)</u>	<u>(107,086)</u>	<u>(253,677)</u>	<u>(23,319)</u>	<u>(245)</u>	<u>(685,088)</u>	
Net Position							
Beginning of year	4,552,538	6,840,208	2,865,022	(26,999)	57,568	14,288,337	
Cumulative effect from change in accounting principle	(113,930)	(35,977)	-	-	-	(149,907)	
End of year	<u>\$ 4,137,847</u>	<u>\$ 6,697,145</u>	<u>\$ 2,611,345</u>	<u>\$ (50,318)</u>	<u>\$ 57,323</u>	<u>\$ 13,453,342</u>	

See accompanying notes.

CITY OF COALINGA

**COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds					Total Business-Type Funds
	Water	Sewer	Natural Gas	Sanitation	Utility Billing	
Operating Activities						
Receipts from customers and users	\$ 4,039,898	\$ 1,048,570	\$ 1,592,489	\$ 1,704,468	\$ 163,001	\$ 8,548,426
Payments for contractual services and utilities	(828,464)	(157,926)	(161,435)	(1,629,955)	(51,337)	(2,829,117)
Payments to employees	(755,011)	(278,361)	(354,365)	(75,070)	(398,361)	(1,861,168)
Payments to suppliers	(557,831)	(77,695)	(100,793)	(24,671)	(48,732)	(809,722)
Payments for cost of sales	(731,250)	-	(904,175)	-	-	(1,635,425)
Net cash provided by (used in) operating activities	1,167,342	534,588	71,721	(25,228)	(335,429)	1,412,994
Non-capital Financial Activities						
Payments from other governments	-	-	-	19,916	-	19,916
Payments from developers	13,349	-	-	-	-	13,349
Transfers (to)/from other funds	(426,800)	(996,187)	(223,312)	5,312	327,729	(1,313,258)
Net cash provided by (used in) noncapital financing activities	(413,451)	(996,187)	(223,312)	25,228	327,729	(1,279,993)
Capital and Related Financing Activities						
Purchase of property, plant and equipment	(2,912,716)	-	-	-	-	(2,912,716)
Principal paid on long-term debt	(260,000)	-	-	-	-	(260,000)
Interest paid on long-term debt	(528,349)	(149,273)	-	-	-	(677,622)
Net cash provided by (used in) capital and related financing activities	(3,701,065)	(149,273)	-	-	-	(3,850,338)
Investing Activities						
Interest received	835	3,269	3,353	-	-	7,457
Net cash provided by investing activities	835	3,269	3,353	-	-	7,457
Net Increase (Decrease) in Cash	(2,946,339)	(607,603)	(148,238)	-	(7,700)	(3,709,880)
Cash						
Beginning of year	6,104,758	2,434,035	1,978,364	-	96,842	10,613,999
End of year	3,158,419	1,826,432	1,830,126	-	89,142	6,904,119
Cash Flows from Operating Activities						
Operating income (loss)	\$ 649,118	\$ 331,095	\$ (33,718)	\$ (17,565)	\$ (327,974)	\$ 600,956
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	361,905	185,703	40,287	3,767	-	591,662
(Increase) Decrease in Accounts Receivable	46,155	1,116	1,524	(286)	(1,341)	47,168
Increase (Decrease) in Accounts Payable and Accrued Liabilities	110,164	16,674	63,628	(11,144)	(6,114)	173,208
Net Cash Provided by (Used in) Operating Activities	\$ 1,167,342	\$ 534,588	\$ 71,721	\$ (25,228)	\$ (335,429)	\$ 1,412,994

See accompanying notes.

CITY OF COALINGA

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS JUNE 30, 2014

	<u>Successor Agency</u>	<u>Ayres/Beason Scholarship</u>	<u>Total Private Purpose Trust Funds</u>
ASSETS			
Cash and investments	\$ 1,112,797	\$ 51,745	\$ 1,164,542
Cash and investments with fiscal agent	3,278,252	-	3,278,252
Notes receivable	134,880	-	134,880
Land held for sale	3,107,848	-	3,107,848
Total assets	<u>7,633,777</u>	<u>51,745</u>	<u>7,685,522</u>
LIABILITIES			
Accounts payable and accrued expense	36,179	1,000	37,179
Interest payable	195,952	-	195,952
Long-term Debt			
Due within one year	895,000	-	895,000
Due in more than one year	10,955,442	-	10,955,442
Total liabilities	<u>12,082,573</u>	<u>1,000</u>	<u>12,083,573</u>
NET POSITION			
Held in trust for other governments	<u>\$ (4,448,796)</u>	<u>\$ 50,745</u>	<u>\$ (4,398,051)</u>

CITY OF COALINGA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUNDS YEAR ENDED JUNE 30, 2014

	<u>Successor Agency</u>	<u>Ayres/Beason Scholarship</u>	<u>Total Private Purpose Trust Funds</u>
ADDITIONS			
Property taxes	\$ 1,661,905	\$ -	\$ 1,661,905
Contribution from City of Coalinga	183,386	-	183,386
Investments, rents and other earnings	31,693	94	31,787
Total additions	<u>1,876,984</u>	<u>94</u>	<u>1,877,078</u>
DEDUCTIONS			
Administrative costs	250,000	-	250,000
Program expenses	41,595	2,000	43,595
Interest and fiscal agency expenses of the former redevelopment agency	693,135	-	693,135
Total deductions	<u>984,730</u>	<u>2,000</u>	<u>986,730</u>
Change in Net Position	892,254	(1,906)	890,348
Net Position			
Beginning of year	<u>(5,341,050)</u>	<u>52,651</u>	<u>(5,288,399)</u>
End of year	<u>\$ (4,448,796)</u>	<u>\$ 50,745</u>	<u>\$ (4,398,051)</u>

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Coalinga (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

Reporting Entity

The City was incorporated as a general law city in 1906. The City operates under a Council-Manager form of government. The City's major operations include public safety; highways and streets; water, sewer, natural gas, transit and refuse collection; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Also included in this report is the Coalinga Public Financing Authority (CPFA). The CPFA was established in 1991 through a Joint Exercise of Powers Agreement between the City, the Agency, and the Coalinga-Huron Unified School District. The formation of the joint powers authority was approved by the City Council who is also designated as the Board of Directors for the CPFA. The City Manager is appointed Secretary with the City staff providing all support services. The purpose of the CPFA is solely to provide funds from the sale of revenue bonds to finance or refinance the costs of various projects for the City. The City set up the CPFA to act as a financing/lending type institution only. The CPFA/City legislative meetings are held concurrently. No separate annual financial statements are prepared for the CPFA.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all of the nonfiduciary activities of the primary government and its component units. 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, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or 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 as general revenues.

Net Position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted Net Position. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

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

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

Coalinga Public Financing Authority – The Coalinga Public Financing Authority Fund is used to account for revenues and expenditures of the CPFA Revenue Bonds. Bond proceeds are to be used to finance or refinance the costs of various improvement projects for the City and other public agencies.

The City reports the following major enterprise funds:

Water Fund – The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.

Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

Natural Gas Fund – The Natural Gas Fund accounts for the operation and maintenance of the City's natural gas system.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Sanitation Fund – The Sanitation Fund accounts for the operation and maintenance of the City’s sanitation system.

Utility Billing Fund – The Utility Billing Fund accounts for the operation of the City’s utility billing department.

The City reports the following additional fund types:

Private-Purpose Trust Fund - The Private-Purpose Trust Fund accounts for assets held by the City as trustee for the Successor Agency and Ayres/Beason Scholarships.

Basis of Accounting

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

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

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund’s principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on year end cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at cost or amortized cost.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

Fresno County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

Ambulance Receivables – The City uses an independent billing company to bill and collect on all ambulance services. Due to the large amount of bad debts and write-offs, up to 70% of billings, it is the City's policy to report as accounts receivable only those funds that are collected within the three month period following June 30 of each year.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Infrastructure	10 - 50
Buildings, structures and improvements	5 - 40
Water storage rights	40
Transmission and distribution equipment	5 - 50
Rolling equipment	2 - 30
Office equipment	3 - 10

Compensated Absences - It is the City's policy to permit all employees to accumulate earned but unused vacation, sick pay and compensatory time benefits. Those employees on shift work schedules may also accumulate hours for holiday time benefits.

Vested or accumulated vacation, holiday and sick leave along with any compensation time that is expected to be paid with expendable available financial resources is reported as an expenditure in the fund financial statements of the Governmental Fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the Government-Wide Financial Statements.

Vested leave of Proprietary Funds are recorded as an expense and liability as the benefits accrue.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations - In the Government-Wide Financial Statements and in the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Position. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Positions.

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/expenses during the reporting period. Actual results could differ from those estimates.

Net Position - The government-wide and business-type activities financial statements utilize a Net Position presentation. Net Position are categorized as invested capital assets (net of related debt), restricted and unrestricted.

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

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Implementation of New GASB Pronouncement – For the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

New GASB Pronouncements Not Yet Adopted - In June 30, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for the fiscal year ended June 30, 2015.

In January 2014, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for the fiscal year ended June 30, 2015.

In April 2014, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for the fiscal year ended June 30, 2015.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Coalinga Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 6,573,667
Cash and Investments with fiscal agent	5,360,361
Fiduciary Funds:	
Cash and Investments	1,164,542
Cash and Investments with fiscal agent	3,278,252
Total Cash and Investments	<u>\$ 16,376,822</u>

Cash and investments as of June 30, 2014 consist of the following:

Deposits with Financial Institutions	\$ 2,121,380
Local Agency Investment Fund	5,616,829
Held by Fiscal Agent:	
Cash and Money Market Funds	7,108,856
Treasury Obligations	387,274
Notes, Mortgages, and Contracts	1,142,483
Total Cash and Investments	<u>\$ 16,376,822</u>

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by 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 the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment in the Local Agency Investment Fund (LAIF) is available for withdraw in one business day.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment in LAIF is not subject to rating.

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. There are no investments in any one issuer that represent 5% or more of total City investments.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

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

Note 4 – Receivables

Receivables (net of allowances for uncollectibles, where applicable) at June 30, 2014 are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts receivable, net	\$ 568,253	\$ 791,353	\$ 1,359,606
Due from other governments	608,185	-	608,185
Notes receivable	1,734,238	-	1,734,238
Bonds receivable	20,783,942	-	20,783,942
	<u>\$ 23,694,618</u>	<u>\$ 791,353</u>	<u>\$ 24,485,971</u>

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 4 – Receivables (Continued)

Accounts Receivable

Summaries of accounts receivable and the corresponding allowances for uncollectibles at June 30, 2014 are as follows:

	<u>Total</u>	<u>Allowance</u>	<u>Net</u>
<u>Governmental Activities</u>			
General	\$ 606,029	\$ -	\$ 606,029
Other Governmental Funds	570,409	-	570,409
	<u>\$ 1,176,438</u>	<u>\$ -</u>	<u>\$ 1,176,438</u>
<u>Business-Type Activity</u>			
Water	\$ 422,666	\$ 40,661	\$ 382,005
Sewer	134,544	13,065	121,479
Natural Gas	83,823	20,717	63,106
Sanitation	227,965	22,647	205,318
Utility Billing	19,445	-	19,445
	<u>\$ 888,443</u>	<u>\$ 97,090</u>	<u>\$ 791,353</u>

Notes Receivable

Downpayment Assistance Program – Long-term notes receivable of \$1,734,238 represent monies loaned to homebuyers in connection with a downpayment assistance program. The loans are secured by real property with repayment due upon the sale of real property or starting at the end of the 30 year deferral period. At the time of sale, the seller pays the loan balance in full without interest. Starting at the end of the 30 year deferral period, the borrower is required to repay the Downpayment Assistance loan, without interest, over the following 15 years.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 4 – Receivables (Continued)

Bonds Receivable

Bonds receivable consists of debt instruments purchased by the Coalinga Public Financing Authority (CPFA) - Special Revenue Fund. The CPFA was established in 1991 through a Joint Exercise of Powers Agreement between the City, the Agency, and the Coalinga-Huron Unified School District. The formation of the joint powers authority was approved by the City Council who is also designated as the Board of Directors for the CPFA. The purpose of the CPFA is solely to provide funds from the sale of revenue bonds to finance the costs of various projects for the City and other external agencies. The City set up the CPFA to act as a financing/lending type institution only. In financing the various capital improvement projects, the CPFA purchased bonds, entered into lease/sub-lease agreements and capital financing contracts with the City and other external agencies. Repayment terms and conditions of the various bonds are detailed in Note 7. The following is a list of the debt instruments comprising the CPFA bonds receivable at June 30, 2014:

Bonds Receivable

Enterprise Funds

Water Bonds	\$ 10,475,000
Sewer Bonds	3,090,000
	<u>13,565,000</u>

Other Governmental Funds

Redevelopment Agency Bonds	6,574,942
Airport Construction Bonds	60,000
Special Assessment Bonds	584,000
	<u>7,218,942</u>

Total Bonds Receivable

\$ 20,783,942

The Water and Sewer Bonds are being used for the purpose of financing the acquisition, construction and improvement of certain water and sewer facilities and improvements.

The Redevelopment Agency Bonds were issued by the City's Redevelopment Agency to finance various community projects and defease certain debt.

Airport Construction Bonds represent monies which were used as matching funds required by the Federal Aviation Administration.

Special Assessment Bonds for Assessment Districts 91-1, 91-2, and 92-1 accounted for in the General Fund, were purchased by the CPFA. The Special Assessment Bonds financed the Monterey Avenue Extension, the Jayne Avenue Industrial Park, and the Elm Avenue Expansion projects.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 4 – Receivables (Continued)

Special Assessments

Special assessments receivables consist of outstanding property assessments. Property tax assessments are collected twice a year by the County in aggregate amounts generally equal to the amount of special assessment bonds payable. It is intended for collections to generally equal annual payments with minor, if any, fund residuals remaining.

In the event that one of the agencies repays the debt prior to the specified time, the CPFA can use the funds received to purchase other financing type agreements. There is no stipulation for those funds to be used to repay the CPFA Revenue Bonds early. Therefore, the CPFA can use these funds and/or combine them with the remaining balance of the original issue proceeds to enter into a new financing agreement with an agency. Thus in this sense, these monies can be used in the same way revolving loan monies are disbursed. This flexibility was designed to allow financing type contractual agreements.

Based on the financing/lending institution perception, financial reporting for the CPFA is through a conservative revenue/expenditure flow approach. The revenue/expenditure stream shows the true details of each financing agreement in addition to the initial Marks-Roos Bond Pool issues for the CPFA.

In the governmental funds, the CPFA shows revenues from the various financing agreements (i.e., payments of principal and interest) and expenditures for its own debt service. In addition, the CPFA Balance Sheet reflects bonds receivable, which is offset by a corresponding amount in deferred revenue.

Note 5 – Interfund Receivables and Payables

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2014 are as follows:

	<u>Due To</u>	<u>Due From</u>
General Fund	\$ -	\$ 2,461,387
Community Development Fund	1,964,613	-
Natural Gas Fund	378,000	-
Sewer Fund	1,642,599	-
Water Fund	-	793,281
Sanitation Fund	-	226,655
Transit Fund	-	125,889
Development Impact Fees Fund	-	378,000
	<u>\$ 3,985,212</u>	<u>\$ 3,985,212</u>

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 2,510,343	\$ -	\$ -	\$ 2,510,343
Construction in progress	755,632	1,895,070	(658,158)	1,992,544
Total capital assets, not being depreciated	<u>3,265,975</u>	<u>1,895,070</u>	<u>(658,158)</u>	<u>4,502,887</u>
Capital assets, being depreciated				
Buildings and improvements	19,062,907	-	-	19,062,907
Infrastructure	28,346,743	658,158	(20,123)	28,984,778
Machinery and equipment	5,017,302	199,647	-	5,216,949
Total capital assets, being depreciated	<u>52,426,952</u>	<u>857,805</u>	<u>(20,123)</u>	<u>53,264,634</u>
Less accumulated depreciation for				
Buildings and improvements	(9,684,933)	(486,438)	-	(10,171,371)
Infrastructure	(18,792,359)	(675,406)	509	(19,467,256)
Machinery and equipment	(4,357,232)	(320,685)	-	(4,677,917)
Total accumulated depreciation	<u>(32,834,524)</u>	<u>(1,482,529)</u>	<u>509</u>	<u>(34,316,544)</u>
Total capital assets, being depreciated, net	<u>19,592,428</u>	<u>(624,724)</u>	<u>(19,614)</u>	<u>18,948,090</u>
Governmental activities capital assets, net	<u>\$ 22,858,403</u>	<u>\$ 1,270,346</u>	<u>\$ (677,772)</u>	<u>\$ 23,450,977</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 1,068,039	\$ -	\$ -	\$ 1,068,039
Construction in progress	1,711,111	2,912,716	-	4,623,827
Total capital assets, not being depreciated	<u>2,735,741</u>	<u>2,912,716</u>	<u>-</u>	<u>5,691,866</u>
Capital assets, being depreciated				
Building	6,531,643	-	-	6,531,643
Improvements other than buildings	26,470,960	-	-	26,470,960
Machinery and equipment	5,113,566	-	-	5,113,566
Total capital assets, being depreciated	<u>38,092,744</u>	<u>-</u>	<u>-</u>	<u>38,116,169</u>
Less: accumulated depreciation	<u>(24,600,169)</u>	<u>(591,662)</u>	<u>-</u>	<u>(25,191,831)</u>
Total capital assets, being depreciated, net	<u>14,396,644</u>	<u>(591,662)</u>	<u>-</u>	<u>12,924,338</u>
Business-type activities capital assets, net	<u>\$ 17,132,385</u>	<u>\$ 2,321,054</u>	<u>\$ -</u>	<u>\$ 18,616,204</u>

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 6 – Capital Assets (Continued)

Depreciation and amortization expense were charged to the following functions in the Statement of Activities:

Governmental Functions:

General Government	\$	637,963
Public Works		21,580
Community Development		312,328
Claremont		220,361
Public Safety		290,297
	\$	<u>1,482,529</u>

Business-Type Functions:

Water	\$	361,905
Sewer		185,703
Natural Gas		40,287
Sanitation		3,767
	\$	<u>591,662</u>

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

The City's debt transactions are summarized below and discussed in detail thereafter:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Airport Bonds and Notes Payable					
1994 Airport Revenue Bonds	115,000	-	55,000	60,000	60,000
Airport Hangar Note	72,465	-	46,331	26,134	26,134
Coalinga Public Finance Authority Bonds					
1998 Series A Bonds	4,770,000	-	820,000	3,950,000	865,000
1998 Series B Bonds	90,000	-	25,000	65,000	-
1998 Series C Bonds	275,000	-	85,000	190,000	-
2000 Tax Allocation Bonds	3,319,942	-	15,000	3,304,942	15,000
2012 Water and Sewer Revenue Bonds	12,830,000	-	-	12,830,000	-
Special Assessment Bonds					
Improvement District 91-1 Series A	295,000	-	85,000	210,000	70,000
Improvement District 91-1 Series B	45,000	-	16,000	29,000	10,000
Improvement District 91-2	95,000	-	20,000	75,000	25,000
Improvement District 92-1	315,000	-	45,000	270,000	45,000
Lease Payable					
Fire Truck Capital Lease	206,551	-	37,090	169,461	39,089
Total Governmental Activity Debt	\$ 22,428,958	\$ -	\$ 1,249,421	\$ 21,179,537	\$ 1,155,223
<u>Business-Type Activity Long Term Debt</u>					
Bonds Payable					
1993 Series B Water Revenue Bonds	\$ 860,000	\$ -	\$ 195,000	\$ 665,000	\$ 210,000
1994 Water Revenue Bonds	135,000	-	65,000	70,000	70,000
2012 Water Revenue Bond	9,740,000	-	-	9,740,000	-
2012 Sewer Revenue Bond	3,090,000	-	-	3,090,000	-
Total Business-Type Activity Debt	\$ 13,825,000	\$ -	\$ 260,000	\$ 13,565,000	\$ 280,000
<u>Compensated Absences</u>					
Government Activities	\$ 418,376	\$ 67,747	\$ -	\$ 486,123	
Business-Type Activities	\$ 138,464	\$ 15,723	\$ -	\$ 154,187	

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2014 was comprised of the following individual issues:

Bonds and Notes Payable

1994 Airport Revenue Bonds - Bonds payable to Coalinga Public Financing Authority in varying semi-annual installments including interest at 7 percent, collateralized by the full faith and credit of the Coalinga Airport revenues primarily and the General Fund revenues secondarily. This note is for the General Fund required match to construct a new airport runway for the City.

Airport Hangar Note - In 1998, the City received a loan from the State of California to construct 16 Box Hangars at the Coalinga Municipal Airport. Interest accrues at a rate of 5.08 percent and is payable annually with principal. The loan term is for a period of 17 years.

Coalinga Public Financing Authority Bonds - The CPFA was established in 1991 through a Joint Exercise of Powers Agreement between the City, the Agency, and the Coalinga-Huron Unified School District. The formation of the joint powers authority was approved by the City Council who is also designated as the Board of Directors for the CPFA.

The purpose of the CPFA is solely to provide funds from the sale of revenue bonds to finance or refinance the costs of acquiring, constructing, or improving and equipping capital improvements (projects) for the City, the Agency, the Coalinga-Huron Unified School District, the Coalinga Hospital District, the West Hills Community College District, and other external agencies. The City set up the CPFA to act as a financing/lending type institution only.

Based on the financing/lending institution perception, financial reporting for the CPFA is through a conservative revenue/expenditure flow approach. The revenue/expenditure stream shows the true details of each financing agreement in addition to the initial Marks-Roos Bond Pool issue for the CPFA.

The CPFA shows revenues from the various financing agreements (i.e., payments of principal and interest) and expenditures for its own debt service. In addition, the CPFA balance sheet reflects bonds receivable which is offset by a corresponding amount in deferred revenue.

CPFA bonds outstanding at June 30, 2014 are as follows:

1998 Series A Bonds - In December 1998, the CPFA issued the 1998 Series A Bonds in the amount of \$12,970,000. The 1998 Series A principal payments are made each September 15 beginning in 1999 through 2021. Interest is to be paid semi-annually on March 15 and September 15 through 2021. The interest rates range from 5.5 to 6.375 percent.

1998 Series B Bonds - In December 1998, the CPFA issued the 1998 Series B Bonds in the amount of \$1,830,000. The 1998 Series B principal payments are made each September 15 beginning 1999 through 2016. Interest is to be paid semi-annually on March 15 and September 15 through 2014. The interest rates range from 4.6 to 5 percent.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Long-Term Debt (Continued)

1998 Series C Bonds - In December 1998, the CPFA issued the 1998 Series C Bonds in the amount of \$6,140,000. The 1998 Series C principal payments are made each September 15 beginning in 1999 through 2021. Interest is to be paid semi-annually on March 15 and September 15 through 2022. The interest rates range from 5.5 to 6 percent.

2000 Tax Allocation Bonds – In 2000 the CPFA issued bonds in the amount of \$3,404,942 to be used for RDA activities. The principal payments are made each September and interest is paid semi-annually in September and March through 2018. The interest rates range from 5.2 to 5.85 percent.

2012 Water and Sewer Revenue Bonds - In April 2012, the CPFA issued revenue bonds in the amount of \$12,830,000, \$9,740,000 and \$3,090,000 respectively. The funds were used for the purpose of refinancing the 2000 Series A Bonds and acquisition, construction and improvement of certain water and sewer facilities. The principal payments are made each April 1 beginning in 2018 through 2048. Interest is to be paid annually on April 1 through 2048. The interest rates range from 3.1 to 5.0 percent.

Special Assessment Bonds - 1915 Act Bonds have been issued in various denominations and are secured in total by all of the unpaid assessments. The bonds are issued in series with each installment of principal and interest on the unpaid assessments corresponding in aggregate to the amounts of principal and interest of bonds maturing. The installments are collected on the regular tax rolls.

The bonds are secured by liens upon every lot which benefits from improvements and for which assessments are outstanding. Bond principal payments are made annually, and interest is paid twice a year. The City has a contingent liability for nonpayment of bond principal and interest by property owners.

The Special Assessments Bonds of the City consist of the following Assessment Districts:

The Improvement District 91-1 Series A bonds reflect a 9.3 percent interest rate through 2016.	\$ 210,000
The Improvement District 91-1 Series B bonds reflect a 9.3 percent interest rate through 2016.	29,000
The Improvement District 91-2 bonds reflect a 9.5 percent interest rate through 2016.	75,000
The Improvement District 92-1 bonds reflect a 7.75 percent interest rate through 2018.	<u>270,000</u>
Total Special Assessment Bonds	<u>\$ 584,000</u>

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Long-Term Debt (Continued)

Fire Truck Capital Lease - In 2009, the City entered into a “Lease with Option to Purchase Agreement” with Kansas State Bank of Manhattan for the purchase of a new fire truck. The lease bears an interest rate of 5.125% and terminates on February 15, 2018.

1993 Series B Water Revenue Bonds - In 1991, the Sewer and Water Enterprise Funds issued debt instruments purchased by the CPFA for the purpose of financing the expansion of the Waste Water Treatment Plant and the expansion of the Water Treatment Plant, respectively. In addition, the Water Enterprise Fund issued debt instruments in September, 1994 which were purchased by the CPFA for the purpose of financing the installation of water meters throughout the City and provide funds for a voluntary debt service payment to the USBR.

The CPFA was established in 1991 through a Joint Exercise of Powers Agreement between the City, the Coalinga Redevelopment Agency, and the Coalinga-Huron Unified School District. The purpose of the CPFA is solely to provide funds from the sale of revenue bonds to finance or refinance the costs of various projects for the City and other external agencies. The City set up the CPFA to act as a financing/lending type institution only. These debt agreements provide for the Sewer and Water Enterprise Funds to make lease payments to the CPFA. Additionally, the CPFA has a leasehold interest in the Waste Water Treatment Plant and the Water Treatment Plant.

Under the 1991 Water Enterprise debt agreement with the CPFA, principal payments are due each September in increasing amounts through 2016. The interest rates are 6.625 percent and are due semi-annually each March and September.

1994 Water Revenue Bonds - Under the 1994 Water Enterprise debt agreement with the CPFA for the financing of a voluntary payment to the USBR, principal payments are due each September 15 in increasing amounts through 2014. The interest rates are 7.25 percent and are due semi-annually each March and September.

2012 Water and Sewer Revenue Bonds - In April 2012, the Water and Sewer Enterprises issued revenue bonds payable to the CPFA in the amount of \$9,740,000 and \$3,090,000 respectively. The funds were used for the purpose of refinancing the 2000 Series A Bonds and acquisition, construction and improvement of certain water and sewer facilities. The principal payments are made each April 1 beginning in 2018 through 2048. Interest is to be paid annually on April 1 through 2048. The interest rates range from 3.1 to 5.0 percent.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2014 were as follows:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,155,223	\$ 1,061,877	\$ 280,000	\$ 659,301
2016	836,196	1,003,072	220,000	642,519
2017	867,417	948,542	235,000	627,447
2018	700,759	901,990	205,000	619,663
2019	680,000	864,557	210,000	613,308
2020-2024	3,740,000	3,757,690	1,165,000	2,948,424
2025-2029	3,181,641	4,470,354	1,455,000	2,672,344
2030-2034	2,008,301	3,404,199	1,785,000	2,277,500
2035-2039	2,260,000	1,787,250	2,260,000	1,787,250
2040-2044	2,880,000	1,164,000	2,880,000	1,164,000
2045-2048	2,870,000	367,500	2,870,000	367,500
	<u>\$21,179,537</u>	<u>\$19,731,031</u>	<u>\$13,565,000</u>	<u>\$14,379,256</u>

Note 8 – Risk Management

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC), a public entity risk pool in which there is a transferring (sharing) of risk among the pool participants. The City pays an annual premium to PARSAC for its general liability coverage. PARSAC is self-sustaining through member premiums. The City is insured under a retrospectively rated policy in which the initial premium is adjusted based on actual experience during the period of coverage. The City is responsible for all claims up to \$25,000 per occurrence for general and auto liability with a coverage limit at June 30, 2014 of \$975,000.

The City's risk management program also includes fire, property and automobile insurance. The coverage includes an all risk-replacement cost blanket. Additionally, the City has property insurance coverage up to \$975,000 per occurrence.

The City provides worker's compensation and employer's liability coverage on all employees through PARSAC. This insurance is paid entirely by the City. All premiums are paid by the appropriate fund designated for each employee's salary and benefits. In the risk management program for the City, a pro-active approach is taken toward work safety for employees. Various training sessions and inspections are conducted throughout the year. The result has been continued reduction of work related injury claims.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 9 - Contingent Liabilities

The City participates in a number of Federal and State assisted grant programs which are subject to financial and compliance audits. Audits for these programs and the respective findings are to be determined at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.

The City is a defendant in various lawsuits and claims. The City attorney anticipates that actual or potential claims against the City, not covered by insurance, would not materially affect the financial position of the City.

Note 10 - Other Employee Benefits

The City offers medical, dental, vision, chiropractic and prescription insurance coverage, as well as group life insurance coverage, to employees and their dependents. Additionally, the City offers an employee assistance program to assist employees and their families with problem assessment and short-term counseling needs. The City pays a portion of premiums in connection with the insurance coverage offered by the City.

City Employee Post Retirement Benefits

In accordance with federal requirements, the City provides its retirees the opportunity to continue enrollment in the City's health insurance program. Premium charges paid by retirees are intended to cover the full cost of benefits provided without cost to the City. For the year ended June 30, 2014, no retirees were enrolled in the health insurance program.

Employee Deferred Compensation Plan

The City offers an Employee Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457 to its employees, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue financial hardship for the employee.

Effective January 1, 1999, Federal legislation (Small Business Job Protection Act of 1996) requires the Section 457 plan assets to be placed in trust for the exclusive use of the plan participants and their beneficiaries.

The City's deferred compensation administrator, the International City Managers' Association (ICMA) or Verisight qualifies as the plan trustee to meet Federal requirements. Since the plan assets are no longer considered property and rights of the City, such assets are no longer reflected in the accompanying basic financial statements.

The City also offers to two employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(a). All amounts deferred and invested under this plan, with related interest, are the property and rights of the participating employees and, as such, are not reflected in the accompanying basic financial statements.

During the current year, the City contributed \$55,131 and \$29,223 in employer contributions into the 457 and 401(a) retirement plans, respectively.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 11 – Pension Plan

Plan Description – The City began contributing to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan, during the fiscal year ended June 30, 2014. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy – Active plan members in the Plan are required to contribute 7% of their covered salary for both miscellaneous and public safety members. 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 the fiscal year ended June 30, 2014 was 8.052% for the miscellaneous plan and 13.347% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$459,345 for PERS was equal to the City's required and actual contributions. For the year ended June 30, 2013, the City's annual pension cost (plan was implemented for half of the fiscal year) of \$207,111 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the contract initiation effective for the fiscal year ending June 30, 2014, actuarial valuation using the entry age normal-actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

Note 12 – Deferred Outflows/Inflows of Resources

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2014.

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time.

CITY OF COALINGA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 12 – Deferred Outflows/Inflows of Resources (Continued)

The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds are unavailable revenues of \$22,754,774 related to long-term bonds and notes receivable and amounts due from other governments.

Note 13 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through January 21, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

Note 14 – Deficit Net Position Balance

The General Fund, Sanitation Fund, Transit Fund and Development Impact Fees Fund have deficit net position balances as of June 30, 2014 of \$3,351,712, \$50,318, \$15,573 and \$235,984, respectively. The deficits are expected to be relieved from future revenues or transfers from the Capital Projects Fund.

Note 15 – Expenditures in Excess of Budget

The General Fund had expenditures in excess of budget of \$1,060,959. The excess expenditures over budgeted amounts is due to the City terminating its Money Purchase Pension Plan with ICMA. On October 15, 2013, the City instructed ICMA, its third-party administrator, to terminate the Plan, effective November 1, 2013. The City believed it could receive a reversion of \$748,625 in unallocated forfeitures from the Plan and as such budgeted approximately \$400,000 in revenue from ICMA. The City has since learned that this reversion was not permitted under the terms of the Plan or the requirements for tax qualification under section 401(a) of the Internal Revenue Code (the "Code") and the related regulations and guidance. As such, the City recognized a liability in the current fiscal year to return the amount of the reversion to the Plan which created an unbudgeted expense.

Note 16 – Cumulative Effect from Change in Accounting Principle

The City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Previously, under GASB Statement No. 7, the costs of bond issuance were capitalized and amortized over the repayment period in the financial statements. Under GASB Statement No. 65, these costs are to be expensed in the period incurred. At June 30, 2013, the remaining unamortized portion of the bond issuance costs was \$356,986. Net position at June 30, 2013, was adjusted in the accompanying financial statements for the cumulative effect of this new accounting principle which resulted in a decrease to beginning net position of \$356,986.

Note 17 – Prior Period Adjustment

In the Community Development Fund, there was a prior period adjustment of \$100,640 to recognize accounts receivable not collected in the period of availability as unavailable revenues per GASB 63, the net effect of this decreased fund balance by the same amount.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COALINGA

BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 3,774,405	3,774,405	\$ 3,488,759	\$ (285,646)
Licenses and permits	53,428	53,428	106,758	53,330
Intergovernmental	71,700	71,700	61,177	(10,523)
Charges for services	1,616,000	1,616,000	1,856,009	240,009
Fines and forfeitures	15,723	15,723	85,613	69,890
Interest and rents	70,500	70,500	65,777	(4,723)
Other	409,932	409,932	23,648	(386,284)
Total revenue	<u>6,011,688</u>	<u>6,011,688</u>	<u>5,687,741</u>	<u>(323,947)</u>
Expenditures				
Current				
General government	745,988	745,988	1,482,877	(736,889)
Public works	577,641	577,641	553,221	24,420
Community development	364,357	364,357	324,364	39,993
Claremont	200,000	200,000	138,018	61,982
Public safety	5,865,418	5,865,418	5,842,066	23,352
Capital outlay	10,000	10,000	116,121	(106,121)
Debt service				
Principal	138,421	138,421	138,421	-
Interest and fiscal charges	21,161	21,161	21,161	-
Total expenditures	<u>7,922,986</u>	<u>7,922,986</u>	<u>8,616,249</u>	<u>(693,263)</u>
Revenue over (under) expenditures	(1,911,298)	(1,911,298)	(2,928,508)	(1,017,210)
Other Financing Sources				
Transfers in (out) - net	<u>1,584,038</u>	<u>1,584,038</u>	<u>1,540,289</u>	<u>(43,749)</u>
Net Change in Fund Balance	<u>\$ (327,260)</u>	<u>\$ (327,260)</u>	<u>(1,388,219)</u>	<u>\$ (1,060,959)</u>
Fund Balance				
Beginning of year			<u>(1,963,493)</u>	
End of year			<u>\$ (3,351,712)</u>	

CITY OF COALINGA

BUDGETARY COMPARISON SCHEDULE COALINGA PUBLIC FINANCING AUTHORITY FUND YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Interest	\$ -	\$ -	\$ 62,037	\$ 62,037
Loan payments	<u>1,294,252</u>	<u>1,294,252</u>	<u>1,929,253</u>	<u>635,001</u>
Total revenue	<u>1,294,252</u>	<u>1,294,252</u>	<u>1,991,290</u>	<u>697,038</u>
Expenditures				
Debt Service				
Principal	955,000	955,000	945,000	10,000
Interest and fiscal charges	<u>488,972</u>	<u>488,972</u>	<u>1,069,214</u>	<u>(580,242)</u>
Total expenditures	<u>1,443,972</u>	<u>1,443,972</u>	<u>2,014,214</u>	<u>(570,242)</u>
Revenue over expenditures	(149,720)	(149,720)	(22,924)	126,796
Other Financing Sources/(Uses)				
Transfers in/(out) - net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	<u>\$ (149,720)</u>	<u>\$ (149,720)</u>	<u>(22,924)</u>	<u>\$ 126,796</u>
Fund Balance				
Beginning of year			<u>1,850,971</u>	
End of year			<u>\$ 1,828,047</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF COALINGA

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

Special Revenue Funds						
	Gax Tax	Measure C	Local Transportation	Proposition 1B	Transit	Low-Moderate Housing Asset
ASSETS						
Cash and investments	\$ 450,048	\$ 1,200,005	\$ 290,103	\$ 148,457	\$ -	\$ 111,925
Accounts receivable, net	-	-	-	-	120,448	-
Due from other governments	57,732	32,111	65,177	-	-	-
Due from other funds	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	1,734,238
Total assets	\$ 507,780	\$ 1,232,116	\$ 355,280	\$ 148,457	\$ 120,448	\$ 1,846,163
LIABILITIES						
Accounts payable and accrued expense	\$ 63,689	\$ 36,117	\$ 26,971	\$ 148,457	\$ 10,132	\$ 1,342
Deposits and claims payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	125,889	-
Total liabilities	63,689	36,117	26,971	148,457	136,021	1,342
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	-	-	-	-	-	1,734,238
Total deferred inflows of resources	-	-	-	-	-	1,734,238
FUND BALANCE						
Restricted	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital improvement projects	-	-	-	-	-	-
Circulation improvements	444,091	1,195,999	328,309	-	-	-
Public safety	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Low-income housing activities	-	-	-	-	-	110,583
Unassigned	-	-	-	-	(15,573)	-
Total fund balance	444,091	1,195,999	328,309	-	(15,573)	110,583
Total liabilities, deferred inflows of resources, and fund balance	\$ 507,780	\$ 1,232,116	\$ 355,280	\$ 148,457	\$ 120,448	\$ 1,846,163

CITY OF COALINGA

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2014**

	Special Revenue Funds				Capital Projects Funds			Debt Service Fund		Total Non-major Governmental Funds
	COPS Grants	EDA		EDA Revolving Loans	Community Development	Development Impact Fees	Special Assessments			
		Building Rentals					Debt Service			
ASSETS										
Cash and investments	\$ 18,388	\$ 147,624	\$ 428,633	\$ -	\$ 146,993	\$ 253,686	\$ 3,195,862			
Accounts receivable, net	-	8,496	-	-	-	-	128,944			
Due from other governments	10,000	-	-	252,839	-	23,606	441,465			
Due from other funds	-	-	-	1,964,613	-	-	1,964,613			
Notes receivable	-	-	-	-	-	-	1,734,238			
Total assets	\$ 28,388	\$ 156,120	\$ 428,633	\$ 2,217,452	\$ 146,993	\$ 277,292	\$ 7,465,122			
LIABILITIES										
Accounts payable and accrued expense	\$ -	\$ 3,272	\$ -	\$ 77,381	\$ 4,977	\$ 173	\$ 372,511			
Deposits and claims payable	-	19,112	-	-	-	-	19,112			
Due to other funds	-	-	-	-	378,000	-	503,889			
Total liabilities	-	22,384	-	77,381	382,977	173	895,512			
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenues	-	-	-	236,594	-	-	1,970,832			
Total deferred inflows of resources	-	-	-	236,594	-	-	1,970,832			
FUND BALANCE										
Restricted										
Debt service	-	-	-	-	-	277,119	277,119			
Capital improvement projects	-	-	-	1,903,477	-	-	1,903,477			
Circulation improvements	-	-	-	-	-	-	1,968,399			
Public safety	28,388	-	-	-	-	-	28,388			
Economic development	-	133,736	428,633	-	-	-	562,369			
Low-income housing activities	-	-	-	-	-	-	110,583			
Unassigned	-	-	-	-	(235,984)	-	(251,557)			
Total fund balance	28,388	133,736	428,633	1,903,477	(235,984)	277,119	4,598,778			
Total liabilities, deferred inflows of resources, and fund balance	\$ 28,388	\$ 156,120	\$ 428,633	\$ 2,217,452	\$ 146,993	\$ 277,292	\$ 7,465,122			

CITY OF COALINGA

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds					
	Gas Tax	Measure C	Local Transportation	Proposition 1B	Transit	Low-Moderate Housing Asset
Revenue						
Licenses, permits and impact fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	589,782	405,378	346,092	-	238,333	-
Charges for services	-	-	-	-	30,923	-
Rental	-	-	-	-	-	-
Interest	825	2,198	530	-	-	-
Other	409	19,123	-	-	-	117,949
Total revenue	591,016	426,699	346,622	-	269,256	117,949
Expenditures						
Public works	430,254	-	-	155,543	275,394	-
Community development	-	8,823	-	-	-	11,596
Claremont	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Capital outlay	515,003	550,519	585,842	-	-	-
Debt service	-	-	-	-	-	-
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	945,257	559,342	585,842	155,543	275,394	11,596
Revenue over (under) expenditures	(354,241)	(132,643)	(239,220)	(155,543)	(6,138)	106,353
Other financing sources/(uses)						
Redemption of special assessment debt	-	-	-	-	-	-
Operating transfers in/(out) - net	-	-	-	-	-	-
Change in Fund Balance	(354,241)	(132,643)	(239,220)	(155,543)	(6,138)	106,353
Fund Balance						
Beginning of year	798,332	1,328,642	567,529	155,543	(9,435)	4,230
Prior period adjustment	-	-	-	-	-	-
End of year	\$ 444,091	\$ 1,195,999	\$ 328,309	\$ -	\$ (15,573)	\$ 110,583

CITY OF COALINGA

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2014

	Special Revenue Funds				Capital Projects Funds			Debt Service Fund		Total Non-major Governmental Funds
	COPS Grants	EDA	EDA	EDA	Community Development	Development Impact Fees	Special Assessments	Debt Service		
		Building Rentals	Revolving Loans	Revolving Loans						
Revenue										
Licenses, permits and impact fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,082	\$ -	\$ -	\$ 1,082	
Intergovernmental	100,000	-	-	-	126,822	-	-	-	1,806,407	
Charges for services	-	-	-	-	-	-	-	-	30,923	
Rental	-	62,253	-	-	-	-	-	-	62,253	
Interest	34	270	-	-	-	351	-	465	4,673	
Other	-	-	-	-	21,486	-	-	-	158,967	
Total revenue	100,034	62,523	-	-	148,308	1,433	-	465	2,064,305	
Expenditures										
Public works	-	-	-	-	-	-	-	-	861,191	
Community development	-	36,922	-	132	168,754	-	-	-	226,227	
Claremont	-	-	-	-	-	-	-	-	-	
Public safety	47,242	-	-	-	-	-	-	-	47,242	
Capital outlay	54,145	-	-	-	170,086	103,001	-	-	1,978,596	
Debt service	-	-	-	-	-	-	-	166,000	166,000	
Principal	-	-	-	-	-	-	-	65,282	65,282	
Interest and fiscal charges	-	-	-	-	-	-	-	231,282	231,282	
Total expenditures	101,387	36,922	132	132	338,840	103,001	-	231,282	3,344,538	
Revenue over (under) expenditures	(1,353)	25,601	(132)	(132)	(190,532)	(101,568)	-	(230,817)	(1,280,233)	
Other financing sources/(uses)										
Redemption of special assessment debt	-	-	-	-	-	-	-	203,643	203,643	
Operating transfers in/(out) - net	-	-	-	-	(904,498)	-	-	-	(904,498)	
	-	-	-	-	(904,498)	-	-	203,643	(700,855)	
Change in Fund Balance	(1,353)	25,601	(132)	(132)	(1,095,030)	(101,568)	-	(27,174)	(1,981,088)	
Fund Balance										
Beginning of year	29,741	108,135	428,765	428,765	3,099,147	(134,416)	-	304,293	6,680,506	
Prior period adjustment	-	-	-	-	(100,640)	-	-	-	(100,640)	
End of year	28,388	133,736	428,633	428,633	1,903,477	(235,984)	-	277,119	4,598,778	

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coalinga, California, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated January 21, 2015.

Internal Control Over Financial Reporting

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

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

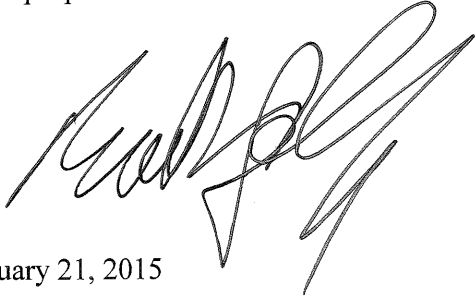
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

January 21, 2015