Independent Auditors' Report
and
Comprehensive Annual Financial Statements

FOR THE FISCAL YEAR ENDED
June 30, 2015

CITY OF GUSTINE,

CALIFORNIA

Prepared by City of Gustine Finance Department

City of Gustine
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R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Members
of the City Council
City of Gustine
Gustine, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gustine, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Gustine'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 for 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, we consider internal control relevant to City of Gustine'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 City of Gustine'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 and, where applicable, cash flows of City of Gustine, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

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 part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. Our report 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 Gustine's basic financial statements. The supplementary information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing 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 information is fairly stated, in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2019, on our consideration of City of Gustine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Gustine's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
February 14, 2019

City of Gustine
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	$ 2,572,818	$ 2,059,489	$ 4,632,307
Receivables	198,642	239,766	438,408
Cash with fiscal agent		113,839	113,839
Capital assets, not being depreciated:			
Land	71,310	2,933,628	3,004,938
Capital assets (net of accumulated depreciation):			
Buildings and improvements	278,832	6,717,806	6,996,638
Machinery and equipment	9,382	449,579	458,961
Road network	9,533,400		9,533,400
Total assets	12,664,384	12,514,107	25,178,491
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	259,981	38,749	298,730
Total deferred outflows of resources	259,981	38,749	298,730
LIABILITIES			
Accounts payable	84,713	89,023	173,736
Unearned revenue	309,540		309,540
Noncurrent liabilities:			
Due within one year	74,930	357,099	432,029
Due in more than one year	386,281	3,015,674	3,401,955
Aggregate net pension liability	1,738,580	239,271	1,977,851
Total liabilities	2,594,044	3,701,067	6,295,111
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	441,171	88,487	529,658
Total deferred inflows of resources	441,171	88,487	529,658
NET POSITION			
Net investment in capital assets	9,892,924	6,825,742	16,718,666
Restricted for:			
Capital projects	1,636,610		1,636,610
Debt service	23,572	113,839	137,411
Community development	1,091,478		1,091,478
Public safety	218,051		218,051
Unrestricted (deficit)	(2,973,485)	1,823,721	(1,149,764)
Total net position	$ 9,889,150	$ 8,763,302	$ 18,652,452

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

City of Gustine
Statement Activities
For the Year Ended June 30, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position — Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Function/Programs							
Primary government:							
Governmental activities							
General government	282,749	437,342	327,379		481,972		481,972
Public safety	1,574,554	72,336	233,663		(1,268,555)		(1,268,555)
Transportation	460,647	20,441	127,310		(312,896)		(312,896)
Community development	126,652	110,877		94,695	78,920		78,920
Cultural and recreation	555,822	109,495	133,142		(313,185)		(313,185)
Interest and other charges	11,542				(11,542)		(11,542)
Total governmental activities	3,011,966	750,491	821,494	94,695	(1,345,286)	-	(1,345,286)
Business-type activities:							
Water	933,406	980,381				46,975	46,975
Sewer	1,175,406	1,368,361				192,955	192,955
Refuse	447,886	489,400				41,514	41,514
Storm Drain	40,839	45,010				4,171	4,171
Airport	193,409	114,966	10,000			(68,443)	(68,443)
Total business-type activities	2,790,946	2,998,118	10,000	-	-	217,172	217,172
Total primary government	5,802,912	3,748,609	831,494	94,695	(1,345,286)	217,172	(1,128,114)
General revenues:							
Property taxes					496,768		496,768
Utility user taxes					239,826		239,826
Sales taxes					583,559		583,559
Business licenses/Franchise fee					116,606		116,606
Other taxes					16,456		16,456
Grants and contributions not restricted to specific programs							-
Unrestricted investment earnings					1,392	7,258	8,650
Transfers					254,526	(254,526)	-
Total general revenues and transfers					1,709,133	(247,268)	1,461,865
Changes in net position					363,847	(30,096)	333,751
Net position-beginning					(1,542,291)	(633,478)	(2,175,769)
Adjustments to beginning balance					11,067,594	9,426,876	20,494,470
Net position-ending					9,889,150	8,763,302	18,652,452

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

City of Gustine
Balance Sheet
Governmental Funds
June 30, 2015

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General	Utility Tax	USDA		
ASSETS					
Cash and investments	$ 259,510	$ 696,875	$ -	$ 1,616,433	$ 2,572,818
Cash with agents-restricted	-			-	-
Receivables	126,381	13,052		59,209	198,642
Due from other governments	-			-	-
Due from other funds	350,302			-	350,302
Total assets	$ 736,193	$ 709,927	$ -	$ 1,675,642	$ 3,121,762
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 71,447	$ 3,082		$ 10,184	$ 84,713
Due to other funds	-			350,302	350,302
Deposit and other liabilities	70,930			-	70,930
Unearned revenue	309,540			-	309,540
Total liabilities	451,917	3,082	-	360,486	815,485
Fund balances:					
Nonspendable:					
Assets held for resale	-			-	-
Long-term receivables	-			-	-
Restricted for:					
Capital projects	389,743		-	1,246,867	1,636,610
Community development	339,916	706,845		44,717	1,091,478
Debt service	-			23,572	23,572
Law enforcement	218,051			-	218,051
Assigned for:					
Services, material and supplies	-			-	-
Capital	-			-	-
Emergencies	34,371			-	34,371
Unassigned, Reported in:					
General Fund	(697,805)			-	(697,805)
Total fund balances	284,276	706,845	-	1,315,156	2,306,277
Total liabilities and fund balances	$ 736,193	$ 709,927	$ -	$ 1,675,642	$ 3,121,762

Reconciliation of the Governmental Fund Balances to the Governmental Activities net Position

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, area not reported in the funds.	9,892,924
Long-term liabilities, including certificates of participation, accrued compensated absences, and pensions, are not due and payable in the current period and therefore are not reported in the funds.	(2,310,051)
Net Position of Governmental Activities	$ 9,889,150

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

City of Gustine
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	Major Funds			Non-Major	Total
	General	Utility Tax	USDA	Governmental Funds	Governmental Funds
REVENUES					
Property taxes	$ 467,497		$ -	$ 29,271	$ 496,768
Sales taxes	583,559			-	583,559
Business licenses/Franchise fee	116,606			-	116,606
Other taxes	16,456	$ 239,826		-	256,282
Licenses and permits	75,553			9,938	85,491
Fines and forfeitures	23,859			-	23,859
Use of money and property	57,626			-	57,626
From other agencies	538,584	12,412		291,280	842,276
Charges for services	258,215	4,858		227,136	490,209
Other revenue	167,840	739		32	168,611
Total revenue	2,305,795	257,835	-	557,657	3,121,287
EXPENDITURES					
Current:					
General government	217,190	89,251		-	306,441
Public Safety	1,552,155			28,731	1,580,886
Transportation	-			193,947	193,947
Community development	56,121			70,531	126,652
Cultural and recreation	544,013			-	544,013
Debt service					
Principal				3,667	3,667
Interest				11,542	11,542
Capital outlays	-			-	-
Total expenditures	2,369,479	89,251	-	308,418	2,767,148
Excess (deficiency) of revenues over (under) expenditures	(63,684)	168,584	-	249,239	354,139
OTHER FINANCING SOURCES (USES)					
Transfers in	191,260		394,761	324,051	910,072
Transfers out	(464,286)	(191,260)			(655,546)
Total other financing sources (uses)	(273,026)	(191,260)	394,761	324,051	254,526
Net changes in fund balances	(336,710)	(22,676)	394,761	573,290	608,665
Fund balances-beginning	623,882	740,026	(394,761)	745,877	1,715,024
Adjustments to beginning balance	(2,896)	(10,505)		(4,011)	(17,412)
Fund balances-ending	$ 284,276	$ 706,845	$ -	$ 1,315,156	$ 2,306,277

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

City of Gustine
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2015

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

Net change in fund balances-total governmental funds	$ 608,665
Governmnetal funds report capital outlays as expenditures. However, in the statemnt of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(278,509)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, including accrued compensated absences and pension expenses.	30,024
Governmental funds report debt principal payments as expenditures. However, in the statement of activities principal payments are reported as a reduction of long-term debt.	3,667
Change in net position of governmental activities	$ 363,847

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

City of Gustine
General Fund
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance over/(under) budget
REVENUES				
Property taxes	$ 447,600	$ 447,600	$ 467,497	$ 19,897
Sales taxes	451,000	451,000	583,559	132,559
business licenses/Franchise fee	114,000	114,000	116,606	2,606
Other taxes	11,500	11,500	16,456	4,956
Licenses and permits	68,500	68,500	75,553	7,053
Fines and forfeitures	1,500	1,500	23,859	22,359
Use of money and property	92,000	92,000	57,626	(34,374)
From other agencies	511,274	511,274	538,584	27,310
Charges for services	82,950	82,950	258,215	175,265
Other revenue	99,350	99,350	167,840	68,490
Total revenue	1,879,674	1,879,674	2,305,795	426,121
EXPENDITURES				
City council	20,349	20,349	18,185	(2,164)
City manager	33,341	33,341	41,744	8,403
Elections	6,000	6,000	1,875	(4,125)
Finance	76,277	76,277	29,991	(46,286)
City attorney	38,500	38,500	52,949	14,449
City clerk	14,135	14,135	16,600	2,465
General government buildings	84,127	84,127	94,379	10,252
Police	1,413,523	1,413,523	1,533,147	119,624
Fire	38,871	38,871	42,523	3,652
Animal Control	79,917	79,917	79,562	(355)
Planning	21,932	21,932	56,121	34,189
Parks	62,289	62,289	258,830	196,541
Recreation	91,015	91,015	143,573	52,558
Total expenditures	1,980,276	1,980,276	2,369,479	389,203
Excess (deficiency) of revenues over (under) expenditures	(100,602)	(100,602)	(63,684)	36,918
OTHER FINANCING SOURCES (USES)				
Transfers in	104,092	104,092	211,368	107,276
Transfers out	-	-	(484,394)	(484,394)
Total other financing sources (uses)	104,092	104,092	(273,026)	(377,118)
Net changes in fund balances	3,490	3,490	(336,710)	(340,200)
Fund balances-beginning	623,882	623,882	623,882	-
Adjustments to beginning balance	-	-	(2,896)	(2,896)
Fund balances-ending	$ 627,372	$ 627,372	$ 284,276	$ (343,096)

City of Gustine
Statement of Net Position
Proprietary Funds
June 30, 2015

	Enterprise Funds					
	Water	Sewer	Refuse	Storm Drain	Airport	Total
ASSETS						
Current assets:						
Cash and Investments	$ 177,589	$ 1,783,645	$ 224	$ 97,225	$ 806	$ 2,059,489
Receivables	112,397	65,318	52,729	4,396	4,926	239,766
Due from Other Funds		80,000				80,000
Total Current Assets	289,986	1,928,963	52,953	101,621	5,732	2,379,255
Noncurrent assets:						
Restricted cash and investments:						
Cash with fiscal agent	-	113,839				113,839
Total restricted assets	-	113,839	-	-	-	113,839
Capital assets:						
Land	-	2,912,778			20,850	2,933,628
Buildings and improvements	3,686,358	7,532,196			1,538,042	12,756,596
Machinery and equipment	242,233	1,851,117			49,917	2,143,267
Less accumulated depreciation	(1,536,289)	(5,715,650)			(480,539)	(7,732,478)
Total capital assets (net of accumulated depreciation)	2,392,302	6,580,441	-	-	1,128,270	10,101,013
Total noncurrent assets	2,392,302	6,694,280	-	-	1,128,270	10,214,852
Total assets	2,682,288	8,623,243	52,953	101,621	1,134,002	12,594,107
DEFERRED OUTFLOWS OF RESOURCES						
Pension related deferred outflows	10,857	27,892				38,749
Total deferred outflows of resources	10,857	27,892	-	-	-	38,749
LIABILITIES						
Current liabilities:						
Accounts payable	26,995	25,208	33,946	1,909	965	89,023
Due to other funds			60,000		20,000	80,000
Accrued compensated absences	35,292	25,511	3,904		3,467	68,174
Deposits and other liabilities	29,328	-				29,328
Loans/notes payable-current	106,864	99,907				206,771
Certificates of participation payable-current	17,000	104,000				121,000
Bonds payable-current	-	-				-
Total current liabilities	215,479	254,626	97,850	1,909	24,432	594,296
Noncurrent liabilities:						
Loans/notes payable	595,281	988,553				1,583,834
Certificates of participation payable	1,062,333	301,333				1,363,666
Bonds payable	-					-
Net pension liability	67,044	172,227				239,271
Total noncurrent liabilities	1,724,658	1,462,113	-	-	-	3,186,771
Total liabilities	1,940,137	1,716,739	97,850	1,909	24,432	3,781,067
DEFERRED INFLOWS OF RESOURCES						
Pension related deferred inflows	24,794	63,693				88,487
Total deferred inflows of resources	24,794	63,693	-	-	-	88,487
NET POSITION						
Net investment in capital assets	610,824	5,086,648	-	-	1,128,270	6,825,742
Restricted for debt service	-	113,839				113,839
Unrestricted (deficit)	117,390	1,670,216	(44,897)	99,712	(18,700)	1,823,721
Total net position	$ 728,214	$ 6,870,703	$ (44,897)	$ 99,712	$ 1,109,570	$ 8,763,302

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

City of Gustine
Statement of Revenues, Expenses, and Changes in Fund Net Position
Enterprise Funds

	Business-Type Activities-Enterprise Funds					
	Water	Sewer	Refuse	Storm Drain	Airport	Totals
Operating Revenues						
Charges for services	980,115	1,344,097	489,400	45,010	113,433	2,972,055
From other agencies	-	-			10,000	10,000
Other revenues	266	24,264			1,533	26,063
Total Operating Revenues	980,381	1,368,361	489,400	45,010	124,966	3,008,118
Operating Expenses						
Salaries and benefits	451,335	325,476	28,041	25,936	31,387	862,175
Services, materials and supplies	274,405	488,035	419,845	14,903	101,571	1,298,759
Depreciation/amortization	135,321	293,006			60,451	488,778
Total Operating Expenses	861,061	1,106,517	447,886	40,839	193,409	2,649,712
Operating Income (Loss)	119,320	261,844	41,514	4,171	(68,443)	358,406
Nonoperating revenues (expenses):						
Interest income	-	7,258				7,258
Interest expense	(72,345)	(68,889)				(141,234)
Total Nonoperating revenue (expense)	(72,345)	(61,631)	-	-	-	(133,976)
Income before contributions and transfers	46,975	200,213	41,514	4,171	(68,443)	224,430
Transfers In	3,677	3,379	478	495	619	8,648
Transfers Out	(131,587)	(131,587)				(263,174)
Change in Net Position	(80,935)	72,005	41,992	4,666	(67,824)	(30,096)
Total net position, beginning	(1,273,543)	649,861	(91,354)	92,528	(10,970)	(633,478)
Adjustments to beginning balance	2,082,692	6,148,837	4,465	2,518	1,188,364	9,426,876
Total net position, ending	**728,214**	**6,870,703**	**(44,897)**	**99,712**	**1,109,570**	**8,763,302**

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

City of Gustine
Statement of Revenues, Expenses, and Changes in Fund Net Position
Enterprise Funds
For the Fiscal Year ended June 30, 2015

	Business-Type Activities-Enterprise Funds					
	Water	Sewer	Refuse	Storm Drain	Airport	Totals
CASH FLOW FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 957,462	$ 1,256,163	$ 470,490	$ 43,213	$ 109,943	$ 2,837,271
Payments to suppliers	(281,366)	(470,042)	(419,012)	(13,075)	(100,733)	(1,284,228)
Payments to employees	(455,067)	(335,063)	(28,041)	(25,936)	(31,387)	(875,494)
Other operating revenues	266	24,264		-	11,533	36,063
Net cash provided/(used) by operating activities	221,295	475,322	23,437	4,202	(10,644)	713,612
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in from other funds	3,677	3,379	478	495	619	8,648
Transfers out to other funds	(131,587)	(131,587)				(263,174)
Net cash provided/(used) by noncapital financing activities	(127,910)	(128,208)	478	495	619	(254,526)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on loans, bonds, and capital leases	(118,348)	(194,722)				(313,070)
Interest paid on loans, bonds and capital leases	(72,345)	(68,889)				(141,234)
Repayment of temporary cash loans from other funds	(350,293)	1,280,296	(23,691)	-	10,831	917,143
Total Nonoperating revenue (expense)	(540,986)	1,016,685	(23,691)	-	10,831	462,839
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends on investments		7,258				7,258
Net cash provided by investing activities	-	7,258	-	-	-	7,258
Net increase/(decrease) in cash and cash equivalents	(447,601)	1,371,057	224	4,697	806	929,183
Cash and cash equivalents-beginning of year	625,190	526,427	-	92,528	-	1,244,145
Cash and cash equivalents-end of year	**$ 177,589**	**$ 1,897,484**	**$ 224**	**$ 97,225**	**$ 806**	**$ 2,173,328**

Reconciliation of operating income to net cash provided/(used) by operating activities:

	Water	Sewer	Refuse	Storm Drain	Airport	Totals
Operating income/(loss)	$ 119,320	$ 261,844	$ 41,514	$ 4,171	$ (68,443)	$ 358,406
Adjustments to reconcile operating income						
to net cash provided (used) by operating activities						
Depreciation/amortization expense	135,321	293,006			60,451	488,778
(Increase)/decrease in accounts receivable	51,585	(87,934)	(18,910)	(1,797)	(3,490)	(60,546)
Increase/(decrease) in accounts payable	(6,961)	17,993	833	1,828	838	14,531
Increase/(decrease) in deposits	(74,238)					(74,238)
Increase/(decrease) in net pension liability	(3,732)	(9,587)				(13,319)
Total adjustments	101,975	213,478	(18,077)	31	57,799	355,206
Net cash provided/(used) by operating activities	$ 221,295	$ 475,322	$ 23,437	$ 4,202	$ (10,644)	$ 713,612

Noncash investing, capital, and financing activities:
During the year there were no noncash activities.

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

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The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of City of Gustine.

I – Summary of significant accounting policies

II – Reconciliation of government-wide and fund financial statements

III. Stewardship, compliance, and accountability

IV. Detailed notes on all funds

V. Other Information

I – Summary of significant accounting policies

A. Reporting entity

The City of Gustine, California is a municipal corporation, operating as a general law city of the State of California and as such can exercise the powers specified by the constitution and laws of the State of California. The City is governed by an elected five-member City Council under the administration of an appointed City Manager. The City provides a full range of municipal services including police, fire, water, wastewater, storm drainage, solid waste, construction and maintenance of streets, planning and zoning, code enforcement, parks, recreation programs, and cultural activities.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its components units. The effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function of a segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

In accordance with GASS Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, the statement of net position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources - This amount represents outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources - This amount represents inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

The government-wide financial statements are reported using the "economic resources" measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Fiduciary fund financial statements are reported using the accrual basis of accounting but do not have a measurement focus since agency funds and private-purpose funds are the only fiduciary funds the City reports. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirement imposed by the provider have been met.

Governmental fund financial statements are reported using the "current financial resources" measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of "the end of the current fiscal period." Expenditures generally are recorded when a liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

The utility tax fund is used to account for the collection of utility user taxes.

The USDA fund accounted for loan and grant monies for special projects. This fund was closed as of June 30, 2015.

The City reported the following major proprietary funds:

The water fund is used to account for the operation and maintenance of the City's water treatment and distribution system. Revenues are primarily user charges. Rates are set periodically by the City Council.

The sewer fund is used to account for the operation and maintenance of the City's wastewater treatment plant and collection facilities.

The refuse fund is used to account for residential and commercial garbage collection and disposal.

The airport fund is used to account for all airport grants as well as maintenance of the airport hangars.

The storm drain fund is used to account for the operation related to the city's storm drain activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. The exception to this general rule is payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) ,operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 the proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, refuse, airport and storm drain enterprise funds are charges to customers for sales and services. The water and sewer enterprise fund and the also recognize as operating revenue the fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets: All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, liabilities, and net position or equity

1. Cash and investments

The City maintains a cash and investment pool that is available for use by all funds. This pool utilizes investments authorized by the Government Code and is further defined by the City's investment policy that is reviewed annually by the City Council.

Highly liquid market investments with maturities of 1 year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for the securities for which market quotations are readily available.

Authorized investments include deposits in the State of California administered Local Agency Investment Fund, insured certificates of deposits, collateralized certificates of deposits, commercial paper, bankers acceptances, medium term notes, money market mutual funds and securities backed by the U.S. Government. All investments are stated at fair value.

Interest income earned as a result of pooling is distributed to the appropriate funds based on month end cash balances in each fund. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

For purposes of the statement of cash flows, the City considers short term and highly liquid investments (including restricted assets) to be cash and cash equivalents.

The City invests its excess cash principally in U.S. Government Securities, U.S. Treasuries and the State of California Local Agency Investment Fund (LAIF). Investments in the LAIF are available for withdrawal on demand.

The City is also required to deposit funds with fiscal agents under the provisions of Revenue Bonds, Contracts and/or Lease Agreements. These funds are invested by the fiscal agent in instruments generally more restrictive than the City's investment policy.

2. Receivables

Billed but unpaid services provided to individuals or non-governmental entities are recorded as "receivables."

Services provided to other governmental entities are recorded as "due from other governments." The City's utility enterprise funds include an estimated amount for services rendered but not yet billed as of June 30, 2015, determined by prorating the July 2015 bi-monthly billing.

The City has not experienced any material write-off of receivables; and therefore, an "allowance for bad debts" is not included on the City's balance sheets or statements of net position.

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roadways), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000, and an estimated useful life of at least three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized

Donated assets include developer donated land as well as the improvements on the land including streets, curbs and gutters, sidewalks, street lighting and landscaping. No developer donated assets are Included in the total amount of capital grants and contributions on the government-wide statement of activities for the year ended June 30, 2015.

Property, plant and equipment of the primary government is depreciated over the estimated useful lives using the straight-line method, half-year convention. Estimated useful lives are as follows:

Distribution Systems	50 years
Roadways	50
Buildings	20-40
Vehicles	5-20
Other Equipment	3-10

4. Compensated absences

The liability for vested leave (vacation, compensated time off, holiday) earned but not used in governmental funds is expensed and established as a liability and is reported in the government-wide statement of net position in the governmental activities column. Vested leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue. No liability is recorded for non-vesting leave such as sick leave.

5. Long-term liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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. Bond issuance costs are expensed when incurred.

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

6. Pensions

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

The following timeframes are used for pension reporting:

CalPERS

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Measurement Period	July 1, 2013 to June 30, 2014

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

7. Fund balances

In the fund financial statements, governmental funds report components of fund balance based on constraints on the specific purposes for which amounts can be spent. "Nonspendable" fund balance is not in a spendable form or has a requirement to maintain intact. "Restricted" fund balance has externally enforceable limitations on its use such as restrictions from outside parties such as creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. "Committed" fund balance is constrained by limits imposed by the government's highest level of decision-making and can only be removed or modified by a formal action by that authority. "Assigned" fund balance is limited by City Council, the City Manager or the designated department head as delegated by City Council. "Unassigned" fund balance is the residual net resources. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

The City will spend the funds restricted for their purpose within those funds first followed by assigned funds for their intended purposes prior to spending any unassigned funds.

The Utility Users Tax fund is the City's only major special revenue fund. This fund accounts for the collection of revenues from the utility users tax and the use of those funds.

8. Net Position

In the government-wide financial statements and proprietary fund financial statements, net position is classified as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted - This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City's policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

9. Use of estimates

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

10. Implementation of New GASB Pronouncements

GASB has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27). This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement became effective for periods beginning after June 15, 2014.

GASB has issued Statement No. 69, Government Combinations and Disposals of Government Operation. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations This statement became effective for periods beginning after December 15, 2013 and did not have a significant impact on the City's financial statements for year ended June 30, 2015.

GASB has issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the

Measurement Date - an amendment of GASB Statement No. 68. This statement establishes standards that relate to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement became effective for periods beginning after June 15, 2014.

II – Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets are not current financial resources and therefore are not reported in the funds." The details of this $9,892,924 difference are as follows:

Capital assets	$ 23,860,909
Less accumulated depreciation	(13,967,985)
Net adjustment to reduce fund balance-total governmental funds to arrive at *net position-governmental activities*	$ 9,892,924

One element of that reconciliation explains that "long-term liabilities, including notes/loans payable and pension related amounts are not due and payable in the current period and therefore are not reported in the funds." The details of this ($2,314,168) difference are as follows:

Accrued compensated absences		$ 84,948
Notes/loans payable		305,333
Pension related amounts:		
Net pension liability-governmental activities	$ 1,738,580	
Deferred inflows of resources-excess investment earnings	433,354	
Deferred outflows of resources-contributions	(259,981)	
Deferred outflows of resources-difference between actual and portion allocated to measurement period	7,817	
Net pension related amounts	1,919.770	1,919,770
Net adjustment to reduce fund balance-total governmental funds to arrive at *net position-governmental activities*		$ 2,310,051

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of this $(278,509) difference are as follows:

Depreciation expense	$ (278,509)
Net adjustment to decrease *net changes in fund balance-total governmental funds* to arrive at *changes in net position-governmental activities*	$ (278,509)

Other elements of that reconciliation state that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of the $25,907 and $3,667 differences are as follows:

Pension expense	$ 30,024
Net adjustment to increase *net changes in fund balance-total governmental funds* to arrive at *changes in net position-governmental activities*	$ 30,024
Principal payment on bonds payable	$ 3,667
Net adjustment to increase *net changes in fund balance-total governmental funds* to arrive at *changes in net position-governmental activities*	$ 3,667

III. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

Development of the draft City budget is a collaborative process between the department heads of all departments of the City, the Finance Director and the City Manager. Each spring, each department head meets individually with the City Manager and Finance Director to review and update needs for routine expenditures and forecast new or one-time expenses to include in the upcoming fiscal budget. The City Manager and Finance Director work to forecast revenue based upon past performance and known circumstances in the community and the economy, as well as any projections available from the state or federal government.

The appropriated budget includes the funds the City Manager anticipates spending from in the coming fiscal year. The City Manager does not normally include in the budget document any funds where activity is not expected. The City Manager takes unexpected expenditures that arise after approval of the budget, or in funds not in the budget, to the Council for approval at its meetings throughout the fiscal year. The City Manager may make transfers of appropriations between departments and accounts within a specific fund within the budgeted totals for the fund.

The City Manager has the ultimate decision on what goes into the budget presented to the Council for approval.

The Council reviews the draft budget document as early as practical in the spring, normally during a regularly scheduled meeting. The Council must approve a budget prior to July 1 each year. When crucial information vital to the budget is not available to a quality that staff deems reliable enough to cover the entire fiscal year, the Council then approves a preliminary budget that staff operates under until the Council approves the revised and updated budget at a later meeting.

B. Deficit fund equity

At June 30, 2015, deficit unrestricted net assets was reported for governmental activities in the amount of $(2,977,602). The deficit is result of GASS 68 implementation for reporting net pension liabilities in the government-wide financial statement and the General Fund deficit position. City management believes the current plan to bring the cash position of the General Fund positive will be adequate to meet its needs.

The Refuse enterprise fund has deficit net position of ($44,897) as of June 30, 2015 City management believes the present rates will relieve the deficit balance of the Refuse Fund over the coming year.

The Airport enterprise fund has deficit net position of ($18,700) as of June 30, 2015. City management believes the present rates will relieve the deficit balance of the Airport Fund over the coming year.

IV. Detailed notes on all funds

A. Cash and investments

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Cash and investments	$	4,632,307
Cash and investments held by fiscal agents		113,839
Total cash and investments	$	4,746,146

Cash and investments as of June 30, 2015 consist of the following

Cash on hand	$	192
Demand deposit with financial institutions-Demand Deposits		4,472,541
Investments		273,413
Total cash and investments	$	4,746,146

Investments Authorized by the California Government Code. The table below identifies the investment types that are authorized for public funds of the City by the California Government Code. The table also identifies certain provisions of the California Government Code that address 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one issuer	Minimum Rating
Local Agency Investment Fund	N/A	None	None	None
(LAIF) Local agency bonds	5 years	None	None	None
U.S. Treasury obligations	5 years	None	None	None
U.S. agency obligations	5 years	None	None	None
Repurchase	1 year	None	None	None
Reverse repurchase and securities lending	92 days	20% of base value	None	None
Mutual funds	N/A	20%	10%	Aaa
Money market mutual funds	N A	20%	10%	Aaa
Collateralized bank deposits	5 years	None	None	None
Mortgage pass-through	5 years	20%	None	AA
Bankers acceptance	180 days	40%	30%	None
Commercial paper	270 days	25%	10%	A1/P1
Negotiable certificates of deposit	5 years	30%	None	None
Medium term bank notes / corp bonds	5 years	30%	None	A
Time Deposits	5 years	None	None	None
Joint Powers Authority	N/A	None	None	None
Pool County pooled	N/A	None	None	None

Investments Authorized by Debt Agreements. Investment 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. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one issuer	Minimum Rating
Local Agency Investment Fund	N/A	None	None	None
Qualified Mutual Funds	N/A	None	None	None
Money Market Accounts	N/A	None	None	None
U.S. Treasury obligations	5 years	None	None	None
U.S. agency obligations	5 years	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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided in the table below that shows the distribution of the City's investment by maturity.

Investment Type	Amount	Weighted Average Maturity (in years)
Money Market Funds	$ 273,413	N/A
Local Agency Investment Fund (LAIF)	3,495,891	N/A
Held by Bond Trustee:		
Money Market Funds	113,839	N/A
Total	$ 3,883,143	

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations. The City's investments (including investments held by bond trustees) do not include any investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated in the information provided above.

Disclosures Relating to Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required

by (where applicable) the California Government Code or debt agreements, and the actual rating as of year end for each investment type.

			Ratings as of Year End			
Investment Type Rating	Amount	Minimum Rating Required	AAA	AA	A	Not Rated
Money Market	$ 273,413	N/A				$ 273,413
LAIF	3,495,891	N/A				3,495,891
Held by Trustee:						
Money Market	113,839	N/A				113,839
Total	$ 3,883,143		$ 0	$ 0	$ 0	$ 3,883,143

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 was no investment in any one issuer (other than mutual funds, and external investment pools) that represents 5% or more of total City investments.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the broker or dealer to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California

Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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.

As of June 30, 2015, $105,500 held with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State Investment Pool. The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2015 included a portion of the pooled funds invested in Structured Notes and Assets-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities. the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2015, the City had $3,495,891 invested in LAIF, which had invested 2.08% of the pool investment funds in Structured Notes and Asset-Backed Securities.

The fair value of the City's position in the LAIF pool is the same as the value of the pool shares.

The Pooled Money Investment Board provides oversight to the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The Pooled Money Investment Board is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. The investment program is not registered with the Securities and Exchange Commission as an investment company.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program.

Certain funds have elected to participate in the pooled investment program even though they have the authority to make their own investments. Others may be required by legislation to participate in the program; as a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is voluntary.

B. Property taxes

Secured property taxes become a lien on the property as of January 1 and are levied in two equal installments the first due November 1 and delinquent on December 11 , and the second due February 1 and delinquent April 11. Property taxes on unsecured property are due on the lien date of March 1 and become delinquent on September 1. The County of Merced is responsible for the assessment, collection and apportionment for all jurisdictions within the County, including the City of Gustine.

C. Receivables

Receivables as of June 30, 2015 for the City's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Utility Tax	Nonmajor Governmental Funds	Total Governmental Funds
Taxes	$ 81,911	$ 13,052		94,963
Accounts	44,470		$ 59,209	103,679
	$ 126,381	$ 13,052	$ 59,209	$ 198,642

	Water	Sewer	Refuse	Storm Drain	Airport	Total Enterprise
Interest		$ 1,632				$ 1,632
Accounts	$112,397	63,686	$ 52,729	$ 4,396	$ 4,926	238,134
	$112,397	$ 65,318	$ 52,729	$ 4,396	$ 4,926	$ 239,766

D. Interfund receivables, payables and transfers

Interfund balances for the purpose of the government-wide financial statements have been eliminated. The composition of interfund balances in the fund level statements as of June 30, 2015, is as follows:

Interfund transfers:

Transfers In	Transfers Out	Purpose	Amount
Special Revenue Fund	Enterprise Fund	Transfer debt payments and close fund	$ 263,174
Special Revenue Fund	General Fund	Transfer debt payments and close fund	131,587
Special Revenue Fund	General Fund	Employee payouts	1,153
Enterprise Funds	General Fund	Employee payouts	8,648
Special Revenue Fund	General Fund	Create new fund for recording development fees	322,898
General Fund	Special Revenue Fund	Reserve funds	191,260
	Total transfers		$ 918,720

E. Capital Assets

Summary of change in capital assets for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	$ 71,310			$ 71,310
Capital assets, being depreciated:				
Buildings and improvements	2,820,039			2,820,039
Machinery and equipment	969,560			969,560
Road network	20,000,000			20,000,000
Total capital assets being depreciated	23,860,909			23,860,909
Less accumulated depreciation for				
Buildings and improvements	(2,533,526)	(7,681)		(2,541,207)
Machinery and equipment	(956,050)	(4,128)		(960,178)
Road network	(10,199,900)	(266,700)		(10,466,600)
Total accumulated depreciation	(13,689,476)	(278,509)		(13,967,985)
Total capital assets, being depreciated, net	10,100,123	(278,509)		9,821,614
Governmental activities capital assets, net	$ 10,171,433	$ (278,509)	$	$ 9,892,924

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 2,933,628			$ 2,933,628
Capital assets, being depreciated:				
Buildings and improvements	12,756,596			12,756,596
Machinery and equipment	2,143,267			2,143,267
Total capital assets being depreciated	17,833,491			17,833,491
Less accumulated depreciation for				
Buildings and improvements	(5,664,374)	(374,416)		(6,038,790)
Machinery and equipment	(1,579,326)	(114,362)		(1,693,688)
Total accumulated depreciation	(7,243,700)	(488,778)		(7,732,478)
Total capital assets, being depreciated, net	7,656,163	(488,778)		7,167,385
Business-type activities capital assets, net	$ 10,589,791	$ (488,778)	$	$10,101,013

Depreciation/amortization expense was charged to functions as follows:

Governmental activities depreciation expense:	
Transportation	$ 266,700
Cultural and recreation	11,809
Total governmental activities depreciation expense	$ 278,509
Business-type activities depreciation expense:	
Water	$ 135,321
Sewer	293,006
Airport	60,451
Total business-type activities depreciation expense	$ 488,778

F. Long-term debt

Summary of change in long-term debt for the year ended June 30, 2015 was as follows:

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Classification: Due in one year	Classification: Due in more than one year
Governmental Activities:						
Certificates of participation	$ 309,000		$ (3,667)	$ 305,333	$ 4,000	$ 301,333
Total certificates of participation	309,000	$ 0	(3,667)	305,333	4,000	301,333
Deposits and Other Liabilities:						
Insurance trust	2,742	6,974	(4,779)	4,937	4,937	0
Wages payable	45,712	1,162,677	(1,142,396)	65,993	65,993	0
Total Deposits and other liabilities	48,454	1,169,651	(1,147,175)	70,930	70,930	0
Compensated absences	78,073	6,875		84,948	0	84,948
Total governmental activities	$ 435,527	$1,176,526	$ (1,150,842)	$ 461,211	$ 74,930	$ 386,281

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Classification: Due in one year	Classification: Due in more than one year
Business-type Activities:						
Loans/notes payable	$ 1,985,537		$ (194,932)	$ 1,790,605	$ 206,771	$ 1,583,834
Certificates of participation	1,600,000		(115,334)	1,484,666	121,000	1,363,666
Deposits and Other Liabilities:						
Customers' deposits	103,566	$ 34,297	(108,535)	29,328	29,328	0
Compensated absences	26,111	45,822	(3,759)	68,174	0	68,174
Total business-type Activities	$ 3,715,214	$ 80,119	$ (422,560)	$ 3,372,773	$ 357,099	$ 3,015,674

Governmental activities long-term debt

1. Certificates of participation

2011 COP-City hall project (1/3)
On November 1, 2011, the City agreed to issue certificates of participation in the amount of $950,000. The proceeds from this issue were used to finance a portion of the cost of construction and remodeling associated with the city hall project. The certificates are being repaid one-third each by Water Enterprise, Sewer Enterprise and the General fund. The certificates have an interest rate of 3.75% and the final payment is scheduled for November 1, 2051. The governmental activity's balance outstanding as of June 30, 2015 was $305,333.

The annual debt service requirements for the government activities share of city hall project certificates of participation payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 4,000	$ 11,375	$ 15,375
2017	4,000	11,225	15,225
2018	4,333	11,069	15,402
2019	4,333	10,906	15,239
2020	4,667	10,737	15,404
2021-2025	25,333	50,938	76,271
2026-2030	30,667	45,712	76,379
2031-2035	36,667	39,437	76,104
2036-2040	45,000	31,781	76,781
2041-2045	53,333	22,563	75,896
2046-2050	64,000	11,600	75,600
2051-2052	29,000	1,094	30,094
Total	$ 305,333	$ 258,437	$ 563,770

Business-type activities long-term debt

1. Notes/loans payable

Notes/loans payable at June 30, 2015, consisted of the following:

					Classification	
	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Due in one year	Due in more than one year
1999 State Water Resource Control Board (SWRCB)	$ 236,005		$ (37,231)	$ 198,774	$ 38,051	$ 160,723
2004 Water infrastructure note	651,200		(95,700)	555,500	100,500	455,000
2006 Sewer system note	795,884		(52,843)	743,041	55,493	687,548
2010 Vierra loan	302,448		(9,158)	293,290	12,727	280,563
Total notes/loan payable	$ 1,985,537	$ 0	$ (194,932)	$ 1,790,605	$ 206,771	$ 1,583,834

1999 State Water Resource Control Board (SWRCB)-Sewer system improvements
In September 1999, the City entered into a loan agreement with the State Water Resource Control Board to borrow $802,463. The proceeds were used to finance improvements to the City's municipal sewer system.

The loan has an interest rate of 2.20% and the final payment is scheduled for January 29, 2020. The balance outstanding as of June 30, 2015 was $198,774.

The annual debt service requirements for the SWRCB loan payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 38,051	$ 4,373	$ 42,424
2017	38,888	3,536	42,424
2018	39,744	2,680	42,424
2019	40,618	1,806	42,424
2020	41,473	912	42,385
Total	$ 198,774	$ 13,307	$ 212,081

2004 water system note payable

In March 2004 the City entered in to an infrastructure loan agreement with City National Bank in the amount of $1,368,300. The proceeds from this issue were used to refund a prior note payable that was used to finance water infrastructure improvements. The note has an interest rate of 4.95% and the final payment is scheduled for June 16, 2020. The balance outstanding as of June 30, 2015 was $555,500.

The annual debt service requirements for the water system note payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 100,500	$ 26,270	$ 126,770
2017	105,500	21,233	126,733
2018	110,800	15,946	126,746
2019	116,400	10,393	126,793
2020	122,300	4,559	126,859
Total	$ 555,500	$ 78,401	$ 633,901

2006 sewer system note payable

On September 20, 2006, the City in to a loan agreement with Citizens Business Bank in the amount of $1,154,500. The proceeds from this issue were used to refund a prior note payable that was used to finance sewer system improvements. The note has an interest rate of 4.95% and the final payment is scheduled for October 17, 2025. The balance outstanding as of June 30, 2015 was $743,041.

The annual debt service requirements for the business-type activity's share of city hall project certificates of participation payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 55,493	$ 36,102	$ 91,595
2017	58,274	33,321	91,595
2018	61,194	30,401	91,595
2019	62,260	27,335	91,595
2020	67,481	24,114	91,595
2021-2025	391648	66,327	457,975
2026	44,691	1,107	45.798
Total	$ 743,041	$ 218,707	$ 961,748

2010 Vierra loan payable

In February 2010 the City entered in to a note payable in the amount of $350,000. The proceeds from the note were used to purchase property for the water and sewer enterprises. The note payable has an interest rate of 6.25% and the final payment is scheduled for January 2030. The note is being repaid with monthly payments of $2,558. The balance outstanding as of June 30, 2015 was $293,291.

The annual debt service requirements for the note payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 12,729	$ 17,970	$ 30,699
2017	13,548	17,151	30,699
2018	14,419	16,280	30,699
2019	15,346	15,353	30,699
2020	16,334	14,365	30,699
2021-2025	98,844	54,651	153,495
2026-2030	122,071	18,633	140,704
Total	$ 293,291	$ 154,403	$ 447,694

2. Certificates of participation

Certificates of participation at June 30, 2015, consisted of the following:

					Classification	
	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Due in one year	Due in more than one year
1998 Sewer system	$ 195,000		$ (95,000)	$ 100,000	$ 100,000	$ 0
2011 USDA City hall (2/3)	618,000		(7,333)	610,667	8,000	602,667
2012 USDA Water system	787,000		(13,000)	774,000	13,000	761,000
Total Certificates of participation	$ 1,600,000	$ 0	$ (115,333)	$ 1,484,667	$ 121,000	$ 1,363,667

1998 certificates of participation-Sewer system improvements

On September 1, 1998, the City agreed to issue certificates of participation in the amount of $1,160,000. The proceeds from this issue were used to refund prior certificates of participation and finance improvements to the City's municipal sewer system. The certificates have interest rates varying from 4.40% to 5.50% and the final payment is scheduled for September 1, 2014. The balance outstanding as of June 30, 2015 was $100,000.

The annual debt service requirements for the sewer system improvement certificates of participation payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 100,000	$ 2,775	$ 102,775
Total	$ 100,000	$ 2,775	$ 102,775

2011 USDA certificates of participation-City hall project

On November 1, 2011, the City agreed to issue certificates of participation in the amount of $950,000. The proceeds from this issue were used to finance a portion of the cost of construction and remodeling associated with the city hall project. The certificates are being repaid one-third each by Water Enterprise, Sewer Enterprise and the General fund. The certificates have an interest rate of 3.75% and the final payment is scheduled for November 1, 2051. The business-type activity's balance outstanding as of June 30, 2015 was $610,667.

The annual debt service requirements for the business-type activity's share of city hall project certificates of participation payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 8,000	$ 22,750	$ 30,750
2017	8,000	22,450	30,450
2018	8,667	22,138	30,805
2019	8,667	21,812	30,479
2020	9,333	21,475	30,808
2021-2025	50,667	101,875	152,542
2026-2030	61,333	91,425	152,758
2031-2035	73,333	78,875	152,208
2036-2040	90,000	62,562	153,562
2041-2045	106,667	45,125	151,792
2046-2050	128,000	23,200	151,200
2051-2052	58,000	2,188	60,188
Total	$ 610,667	$ 516,875	$ 1,127,542

2012 USDA certificates of participation-Water system improvements

On June 1, 2012, the City agreed to issue certificates of participation in the amount of $800,000. The proceeds from this issue were used to finance improvements to the City's municipal water system. The certificates have an interest rate of 2.75% and the final payment is scheduled for July 1, 2052. The balance outstanding as of June 30, 2015 was $774,000.

The annual debt service requirements for the water system improvement certificates of participation payable outstanding at June 30, 2015, are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 13,000	$ 21,106	$ 34,106
2017	13,000	20,749	33,749
2018	14,000	20,378	34,378
2019	14,000	19,992	33,992
2020	14,000	19,607	33,607
2021-2025	74,000	92,042	166,042
2026-2030	82,000	81,345	163,345
2031-2035	90,000	69,547	159,547
2036-2040	99,000	56,581	155,581
2041-2045	120,000	41,910	161,910
2046-2050	146,000	23,237	169,237
2051-2053	95,000	3,946	98,946
Total	$ 774,000	$ 470,443	$ 1,244,443

G. Public Employees Retirement System

Summary

	Governmental Activities	Business-Type Activities	Total
Deferred outflows of resources:			
Pension contribution after measurement date:			
Miscellaneous	$ 68,916	$ 38,754	$ 107,670
Safety	150,133	-	150,133
Differences between City's contributions and proportionate share of contributions			
Safety	40,927	-	40,927
Total deferred outflows of resources	$ 259,976	$ 38,754	$ 298,730
Net pension liabilities:			
Miscellaneous	$ 425,572	$ 239,270	$ 664,842
Safety	1,313,009	-	1,313,009
Total net pension liabilities	$ 1,738,581	$ 239,270	$ 1,977,851
Deferred inflows of Resources:			
Difference in projected and actual earnings on pension investments:			
Miscellaneous	$ 148,487	$ 83,485	$ 231,972
Safety	263,909	-	263,909
Adjustments due to differences in proportions			
Miscellaneous	3,138	1,765	4,903
Safety	19,876	-	19,876
Differences between City's contributions and proportionate share of contributions			
Miscellaneous	5,760	3,238	8,998
Total deferred inflows of resources	$ 441,170	$ 88,488	$ 529,658
Pension expenses:			
Miscellaneous	$ 45,229	$ 25,429	$ 70,658
Safety	143,801	-	143,801
Total pension expenses	$ 189,030	$ 25,429	$ 214,459

General Information about the Pension Plan

Plan Description

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS 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. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Benefit Provided
CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic miscellaneous member becomes eligible for Service Retirement upon attainment of age 55 with at least 5 years of credited service. PEPRA miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. A classic safety member becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service. PEPRA safety members become eligible for service retirement upon attainment of age 57 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 or 12 consecutive months' full-time equivalent monthly pay. Retirement benefits for classic miscellaneous employees are calculated as 2.5% of the average final 36 months compensation. Retirement benefits for PEPPRA miscellaneous employees are calculated as 2.0% of the average final 36 months compensation. Retirement benefits for classic safety employees are calculated as 3.0% of the average final 36 months compensation. Retirement benefits for PEPPRA safety employees are calculated as 2.7% of the average final 36 months compensation.

Participant is eligible for non-industrial disability retirement if becomes disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees. The City provides industrial disability retirement benefit to safety employees. The industrial disability retirement benefit is a monthly allowance equal to 50 percent of final compensation.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2 percent.

Employees Covered by Benefit Terms
At June 30, 2015 the following employees were covered by the benefit terms:

	Plans	
	Miscellaneous	Safety
Active employees	15	10
Transferred and terminated employees	17	13
Retired Employees and Beneficiaries	20	25
Total	52	48

Contributions
Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be

effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change as plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Also on August 31, 2012 the California Legislature passed AB 340, the Public Employees' Pension Reform Act of 2013 (PEPRA). As part of this reform, "new members" hired starting January 1, 2013 will have to pay their required employee contribution. Since their benefit level is much lower than the 'classic members" their contribution rate is also lower. PEPRA defines "new member" as an employee hired on or after January 1, 2013 who falls into one of the following:

1. Has no prior membership in any California public retirement system,
2. Has prior membership with another California public retirement system that has no reciprocity with CalPERS; or
3. Has an established membership with CalPERS prior January 1, 2013 and is re-hired by a different CalPERS employer after a break in service of greater than six months.

For the measurement date year ended June 30, 2015, the plan's contribution and the proportionate share of aggregate employer contributions of the cost-sharing plan made for each plan was as follows:

	Miscellaneous	Safety	Total
Contributions-employer	$ 107,670	$ 150,133	$ 257,803

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions
As of June 30, 2015, the City reported net pension liabilities for its proportionate share for each plan as follows:

	Miscellaneous	Safety	Total
Proportionate share of net pension liability	$ 664,842	$ 1,313,009	$ 1,977,851

The City's net pension liability for each plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2013). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement

date (June 30, 2014). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (fiscal year 2014).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

The City's proportionate share of the net pension liability for each plan as of June 30, 2014 was as follows:

	Miscellaneous	Safety
Proportion June 30, 2014	0.01955%	0.02110%

For the measurement year ended June 30, 2014, the City recognized pension expense of $1,029,793. At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plan

	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	$ 107,670	$ -
Difference between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(231,972)
Employer contributions in excess/(under) proportionate share of contributions	-	(8,998)
Adjustments due to difference in proportions	-	(4,903)
Total	$ 107,670	$ (245,873)

Safety Plan

	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	$ 150,133	$ -
Difference between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(263,909)
Employer contributions in excess/(under) proportionate share of contributions	40,927	-
Adjustments due to difference in proportions	-	(19,876)
Total	$ 191,060	$ (283,785)

Aggregate Total

	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	$ 257,803	$ -
Difference between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(495,881)
Employer contributions in excess/(under) proportionate share of contributions	40,927	(8,998)
Adjustments due to difference in proportions	-	(24,779)
Total	$ 298,730	$ (529,658)

The $488,731 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period	Deferred Outflows/(Inflows) of Resources		
Ended June 30	Miscellaneous Plan	Safety Plan	Total
2019	$ (62,957)	$ (58,458)	$ (121,415)
2020	(62,957)	(58,458)	(121,415)
2021	(61,966)	(59,964)	(121,930)
2022	(57,993)	(65,978)	(123,971)
2023	-	-	-
Thereafter	-	-	-
Total	$ (245,873)	$ (242,858)	$ (488,731)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2014, the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASS Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2%

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed ~ discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASS 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

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

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years1-10[1]	Real Return Years 11+[2]
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	100.00%		

[1] An expected inflation of 2.5% used for this period.
[2] An expected inflation of 3.0% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate – 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Miscellaneous Plan	$ 1,201,066	$ 664,842	$ 219,827
Safety Plan-Classic	$ 2,001,891	$ 1,313,009	$ 745,399
Total	$ 3,202,957	$ 1,977,851	$ 965,226

Pension Plan Fiduciary Net Position

Detailed information about the Plans' fiduciary net position is available in the separately issued CalPERS financial report.

H. Prior Period Adjustment

The beginning net position at July 1, 2014 was restated as follows:

	Governmental Activities	Business-type Activities	Enterprise funds: Water	Sewer	Refuse	Storm Drain	Airport
Net position at July 1, 2014	$ (1,542,291)	$ (633,478)	$(1,273,543)	$ 649,861	$(91,354)	$92,528	$ (10,970)
(1) Change in accounting principal							
-basis of accounting	13,017,388	9,729,205	2,167,405	6,366,453	4,465	2,518	1,188,364
(2) CalPERS Miscellaneous Plan:							
Net pension liabilities	(588,369)	(330,801)	(92,691)	(238,110)			
Deferred outflows of resources	58,457	32,866	9,209	23,657			
Deferred inflows of resources	(7,816)	(4,394)	(1,231)	(3,163)			
(3) CalPERS Safety Plan:							
Net pension liabilities	(1,576,040)						
Deferred outflows of resources	163,974						
Deferred inflows of resources							
Subtotal	11,067,594	9,426,876	2,082,692	6,148,837	4,465	2,518	1,188,364
Net position at July 1, 2014 as restated	$ 9,525,303	$ 8,793,398	$ 809,149	$6,798,698	$(86,889)	$95,046	$1,177,394

The City implemented GASB Statements No. 68 and No. 71 and converted the basis of accounting from modified cash to accrual for enterprise funds and from modified cash to modified accrual for governmental funds during the year ended June 30, 2015. The restatement to the beginning net position is to report accounts receivable, capital assets, accounts payable, long-term debt and net pension liabilities for the City's CalPERS plans in accordance with GASB Statements No. 68 and No. 71 based on the measurement date of June 30, 2014.

V. Other Information

A. Self insurance

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

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

The CSJVRMA is a consortium of fifty-four (54) cities in San Joaquin Valley, California. It was established under provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The annual financial report may be obtained from the consortium's executive office at 6371 Auburn Blvd., Citrus Heights, California 95621.

B. Contingent liabilities

The City participates in a number of federal, state and local grant programs. These programs are subject to financial and compliance audits by the granters or their representatives. The audits of these programs for earlier years and the year ended June 30, 2015 have not been completed in all cases; accordingly, final determination of the City's compliance with applicable grant requirements may be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City believes any such claims would be immaterial to the City's financial position at June 30, 2015. Receipt of these grant revenues is not assured in the future.

CITY OF GUSTINE
Required Supplementary Information
June 30, 2015

Schedule of the City's Proportionate Share of the Net Pension Liability
Last Ten Fiscal Years*
Miscellaneous Plan
As of June 30, 2015

		6/30/2014 [1]
Plan's proportion of the net pension liabliity		0.01955%
Plan's proportionate share of the net pension liability	$	664,842
Plan's covered-employee payroll [2]	$	703,971
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll		94.44%
Plan's fiduciary net position	$	3,377,164
Plan's fiduciary net position as a percentage of the total pension liability		83.55%
Plan's proportionate share of aggregate employer contributions [3, 4]	$	91,324

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[3] The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or

[4] This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

Schedule of the City's Proportionate Share of the Net Pension Liability, Continued
Last Ten Fiscal Years*
Safety Plan
As of June 30, 2015

		6/30/2014 [1]
Plan's proportion of the net pension liablilty		0.02110%
Plan's proportionate share of the net pension liability	$	1,313,009
Plan's covered-employee payroll [2]	$	2,283,887
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll		57.49%
Plan's fiduciary net position	$	3,829,922
Plan's fiduciary net position as a percentage of the total pension liability		74.47%
Plan's proportionate share of aggregate employer contributions [3, 4]	$	108,430

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[3] The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or

[4] This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

CITY OF GUSTINE
Required Supplementary Information
June 30, 2015

Schedule of Contributions
Last Ten Fiscal Years*
Miscellaneous Plan
As of June 30, 2015

	2014-15 [1]	2013-14 [1]
Contractually determined contribution (actuarially determined)	$ 107,670	$ 79,133
Contributions in relation to the actuarially determined contributions [2]	(107,670)	(79,133)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll [3, 4]	$ 725,090	$ 703,971
Contributions as a percentage of covered-employee payroll [3]		11.24%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

[3] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[4] Payroll from prior year ($683,467) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2013

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

CITY OF GUSTINE
Required Supplementary Information
June 30, 2015

Schedule of Contributions
Last Ten Fiscal Years*
Safety Plan
As of June 30, 2015

	2014-15 [1]	2013-14 [1]
Contractually determined contribution (actuarially determined)	$ 150,133	$ 163,974
Contributions in relation to the actuarially determined contributions [2]	(150,133)	(163,974)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll [3, 4]	$ 527,902	$ 512,526
Contributions as a percentage of covered-employee payroll [3]		31.99%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

[3] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[4] Payroll from prior year ($497,598) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2013

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
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Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Gustine
Combining Balance Sheet
Nonmajor Governmental Funds

	Special Revenue		
	CDBG	Gas Tax Sidewalk Maintenance	Redevelopment Housing
ASSETS			
Cash and investments	$ 361,019	$ 523,346	$ -
Cash with agents-restricted			
Receivables		59,209	
Due from other governmnets			
Due from other funds			
Total asssets	$ 361,019	$ 582,555	$ -
LIABILITIES AND FUND BALANCES			
liabilities:			
Accounts payable		$ 8,432	
Due to other funds			316,302
Total liabilities	-	8,432	316,302
Fund balances:			
Restricted for:			
Capital projects		574,123	
Community development	361,019		(316,302)
Debt service			
Total fund balances	361,019	574,123	(316,302)
Total liabilities and fund balances	$ 361,019	$ 582,555	$ -

City of Gustine
Combining Balance Sheet
Nonmajor Governmental Funds

Special Revenue				Debt Service	Total
Borrelli Asmt District	Southport Asmt District	Separate Impact Fees	Total	GO Bond	Total Nonmajor Governmental Funds
$ 983	$ 15,234	$ 692,279	$ 1,592,861	$ 23,572	$ 1,616,433
					-
			59,209		59,209
					-
					-
$ 983	$ 15,234	$ 692,279	$ 1,652,070	$ 23,572	$ 1,675,642
$ 1,752			$ 10,184		$ 10,184
34,000			350,302		350,302
35,752	-	-	360,486	-	360,486
(34,769)	15,234	692,279	1,246,867		1,246,867
			44,717		44,717
				23,572	23,572
(34,769)	15,234	692,279	1,291,584	23,572	1,315,156
$ 983	$ 15,234	$ 692,279	$ 1,652,070	$ 23,572	$ 1,675,642

City of Gustine
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2015

	Special Revenue		
	CDBG	Gas Tax Sidewalk Maintenance	Redevelopment Housing
REVENUES			
Property taxes	$ -	$ -	$ 29,241
Sales taxes			
business licenses/Franchise fee			
Other taxes			
Licenses and permits		9,938	
Fines and forfeitures			
Use of money and property			
From other agencies		291,280	
Charges for services			
Other revenue			
Total revenue	-	301,218	29,241
EXPENDITURES			
Current:			
General government			
Public Safety			
Transportation		173,539	
Community development	18,878		92
Cultural and recreation			
Debt service:			
Principal			
Interest			
Capital outlays			
Total expenditures	18,878	173,539	92
Excess (deficiency) of revenues over (under) expenditures	(18,878)	127,679	29,149
OTHER FINANCING SOURCES (USES)			
Transfers in		1,153	
Total other financing sources (uses)	-	1,153	-
Net changes in fund balances	(18,878)	128,832	29,149
Fund balances-beginning	379,897	446,553	(345,451)
Adjustments to beginning balances		(1,262)	
Fund balances-ending	$ 361,019	$ 574,123	$ (316,302)

City of Gustine
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2015

Special Revenue				Debt Service	Total
Borrelli Asmt District	Southport Asmt District	Separate Impact Fees	Total	GO Bond	Nonmajor Governmental Funds
$ -	$ -	$ -	$ 29,241	$ 30	$ 29,271
					-
					-
					-
			9,938		9,938
					-
					-
			291,280		291,280
14,056	3,878	209,202	227,136		227,136
8			8	24	32
14,064	3,878	209,202	557,603	54	557,657
					-
		28,731	28,731		28,731
19,723	685		193,947		193,947
		51,561	70,531		70,531
				3,667	3,667
				11,542	11,542
19,723	685	80,292	293,209	15,209	308,418
(5,659)	3,193	128,910	264,394	(15,155)	249,239
		322,898	324,051		324,051
-	-	322,898	324,051		324,051
(5,659)	3,193	451,808	588,445	(15,155)	573,290
(26,361)	12,041	240,471	707,150	38,727	745,877
(2,749)		-	(4,011)		(4,011)
$ (34,769)	$ 15,234	$ 692,279	$ 1,291,584	$ 23,572	$ 1,315,156

R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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 Members
of the City Council
City of Gustine
Gustine, California

We have audited the basic financial statements of City of Gustine as of and for the year ended June 30, 2015, and have issued our report thereon dated February 14, 2019. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Gustine's internal control over financial reporting as a basis for designing our auditing procedures, for the purpose of expressing our opinion on City of Gustine's financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Gustine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Gustine's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 of Gustine's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

1101 FIFTH AVENUE, SUITE 360 SAN RAFAEL, CA 94901 TEL (415) 457-1215 FAX (415) 457-6735 www.rjrcpa.com

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 City of Gustine's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gustine's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
February 14, 2019

CITY OF GUSTINE

CITY COUNCIL
&
MANAGEMENT REPORT

For the Year Ended
JUNE 30, 2015

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R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Members
of the City Council
City of Gustine
Gustine, California

In planning and performing our audit of the basic financial statements of City of Gustine for the fiscal year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of City of Gustine's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist City of Gustine in implementing the recommendations.

This report is intended solely for the information and use of management and City Council of City of Gustine and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank City of Gustine's staff for its cooperation during our audit.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
February 14, 2019

1101 FIFTH AVENUE, SUITE 360 SAN RAFAEL, CA 94901 TEL (415) 457-1215 FAX (415) 457-6735 www.rjrcpa.com

To the Honorable Members
of the City Council
City of Gustine
Gustine, California

We have audited the basic financial statements of City of Gustine for the year ended June 30, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 29, 2017, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of City of Gustine. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Gustine are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by City of Gustine during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole. The most sensitive estimate(s) affecting the basic financial statements were:

- Accrual and disclosure of compensated absences;
- Capital asset lives and depreciation expense;
- Actuarial assumptions for pension plan disclosure;
- Accrual and disclosure of leases;
- Fair value of investments and financial instruments.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements (Audit Adjustments)
Professional standards require us to accumulate all known and likely misstatements (audit adjustments) identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Of the 3 audit adjustments detected as a result of audit procedures and corrected by management most were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated February 12, 2019.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to City of Gustine's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Gustine's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
We applied certain limited procedures to Budgetary Comparison Schedule for the General Fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of management and City Council of City of Gustine and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Current Year Observations

1) Employee Dishonesty Insurance

Observation:

During the course of the audit we noted that City of Gustine's (the City's) assets may not be insured against the risk of acts of employee dishonesty.

Recommendation:

We recommend the City to review their insurance coverages and consider purchasing insurance to protect against the risk of acts of employee dishonesty and fraud.

2) Payroll Tax Return Reconciliation

Observation:

During the course of our audit we noted the City does not reconcile salary and tax amounts on the quarterly payroll tax returns to the general ledger.

Recommendation:

We recommend the City reconcile salary and tax amounts on the quarterly payroll tax returns to the general ledger on a quarterly basis.

3) City Pool Cash Receipts and Concession Inventory

Observation:

During the course of the audit we noted that the City pool daily receipts summary sheet does not document the pool manager's review. We also noted there are no formal perpetual inventory records for pool and special events concession items.

Recommendation:

We recommend the City have the pool manager document their review of the daily receipts by signing the daily summary sheet. We also recommend the City consider manually tracking daily purchases and sales of concession items and have the pool and special events managers document their review of the inventory sheets by signing the sheet.

4) Electronic Payments

Observation:

During the course of our audit we noted the City's electronic payments are not formally approved.

Recommendation:

We recommended the City to consider creating an approval sheet that is signed off by two check signers prior to payment for all electronic or ACH payments.

Prior Year Observations

There were no prior year observations that came to our attention.