

**CITY OF GUSTINE**

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**FINANCIAL STATEMENTS  
Modified Cash Basis**

**June 30, 2013**

**CITY OF GUSTINE**  
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**CITY OF GUSTINE**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council  
City of Gustine  
Gustine, California

**NICHOLSON  
&  
OLSON**

LIMITED LIABILITY PARTNERSHIP  
CERTIFIED PUBLIC ACCOUNTANTS

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We audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Gustine, California (City) as of and for the year ended June 30, 2013 which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the City prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position-modified cash basis of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gustine at June 30, 2013, and the respective changes in financial position-modified cash basis thereof, for the year then ended, in conformity with the basis of accounting described in Note 1.

Management has not presented Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America have determined is necessary to supplement the basic financial statements. Such missing information, although not required to be part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of

financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 through 36 be presented to supplement the basic financial statements. Presentation in accordance with modified cash basis of accounting allows, but does not require this supplementary information. 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 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 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 an assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gustine's financial statements as a whole. The combining and individual non-major fund financial statements and supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Nicholson & Olson*

Certified Public Accountants

Roseville, California

November 24, 2014

**FINANCIAL STATEMENTS**

**CITY OF GUSTINE**  
**Statement of Net Assets**  
**Arising from Cash Transactions**  
**June 30, 2013**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and investments	\$ 3,356,662	\$ -	\$ 3,356,662
Cash with fiscal agents	-	175,221	175,221
Accounts receivable	29,092	-	29,092
Loans receivable	47,752	-	47,752
Deposits and other assets	98,533	33,142	131,675
Internal balances	(3,656,934)	3,656,934	-
<b>Total Assets</b>	<u>(124,895)</u>	<u>3,865,297</u>	<u>3,740,402</u>
<b>Liabilities</b>			
Customer deposits and other	-	81,042	81,042
Non-current liabilities			
Due within one year	11,295	267,853	279,148
Due in more than one year	1,386,557	3,150,117	4,536,674
<b>Total Liabilities</b>	<u>1,397,852</u>	<u>3,499,012</u>	<u>4,896,864</u>
<b>Net Assets</b>			
Restricted for:			
Capital projects	705,906	-	705,906
Debt service	63,919	175,221	239,140
Housing	382,132	-	382,132
Streets	469,491	-	469,491
Public Safety	3,686	-	3,686
Unrestricted	(3,147,881)	191,064	(2,956,817)
<b>Total Net Assets (Deficit)</b>	<u>\$ (1,522,747)</u>	<u>\$ 366,285</u>	<u>\$ (1,156,462)</u>

*The accompanying notes to financial statements are an integral part of this financial statement*

**CITY OF GUSTINE**  
**Statement of Activities**  
**Arising from Cash Transactions**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
General government	\$ 1,461,805	\$ 188,973	\$ -	\$ -
Public Safety	1,453,881	49,350	125,400	-
Public works	223,366	68,750	104,344	-
Community development	99,218	28,750	96,750	-
Parks and recreation	165,997	37,890	-	-
Interest on long-term debt	17,385	-	-	-
Total Governmental Activities	<u>3,421,652</u>	<u>373,713</u>	<u>326,494</u>	<u>-</u>
<b>Business-type Activities:</b>				
Water	650,068	819,986	-	-
Sewer	923,361	871,152	-	-
Refuse	457,206	457,315	-	-
Airport	456,560	81,035	357,581	-
Total Business-type Activities	<u>2,487,195</u>	<u>2,229,488</u>	<u>357,581</u>	<u>-</u>
<b>Total Primary Government</b>	<u>\$ 5,908,847</u>	<u>\$ 2,603,201</u>	<u>\$ 684,075</u>	<u>\$ -</u>

**General Revenues:**

Taxes:  
  Property taxes  
  Utility user taxes  
  Sales and use taxes  
  Franchises  
Use of money and property  
Motor vehicle in-lieu, unrestricted  
Other

Change in Net Assets

Net Assets (Deficit), Beginning of Fiscal Year (restated)

Net Assets (Deficit), End of Fiscal Year

*The accompanying notes to financial statements are an integral part of this financial statement*

**Changes in Net Assets**

<u>Governmental Activities</u>	<u>Bussiness-type Activities</u>	<u>Total</u>
\$ (1,272,832)	\$ -	\$(1,272,832)
(1,279,131)	-	(1,279,131)
(50,272)	-	(50,272)
26,282	-	26,282
(128,107)	-	(128,107)
(17,385)	-	(17,385)
<u>\$ (2,721,445)</u>	<u>-</u>	<u>(2,721,445)</u>
	169,918	169,918
	(52,209)	(52,209)
	109	109
	<u>(17,944)</u>	<u>(17,944)</u>
	99,874	99,874
\$ (2,721,445)	\$ 99,874	(2,621,571)
352,731		352,731
224,998		224,998
429,168		429,168
79,956		79,956
70,655	1,504	72,159
271,928		271,928
177,689		177,689
(1,114,320)	101,378	(1,012,942)
(408,427)	264,907	(143,520)
<u>\$ (1,522,747)</u>	<u>\$ 366,285</u>	<u>\$(1,156,462)</u>

*The accompanying notes to financial statements are an integral part of this financial statement*

**CITY OF GUSTINE**  
**Statement of Assets, Liabilities, and Fund Balances**  
**Arising from Cash Transactions**  
**Governmental Funds**  
**June 30, 2013**

	General Fund	Utility Tax Fund	USDA Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 3,356,662	\$ -	\$ -	\$ -	\$ 3,356,662
Due from other funds	-	817,798	-	1,596,678	2,414,476
Accounts receivable	-	3,047	-	26,045	29,092
Deposits and other assets	98,533	-	-	-	98,533
Loans receivable	-	-	-	47,752	47,752
<b>Total Assets</b>	<b>\$ 3,455,195</b>	<b>\$ 820,845</b>	<b>\$ -</b>	<b>\$ 1,670,475</b>	<b>\$ 5,946,515</b>
<b>Liabilities</b>					
Due to other funds	\$ 3,762,426	\$ -	\$ 2,087,387	\$ 221,597	\$ 6,071,410
Deferred revenue	-	-	-	-	-
Other liabilities	-	-	-	-	-
<b>Total Liabilities</b>	<b>3,762,426</b>	<b>-</b>	<b>2,087,387</b>	<b>221,597</b>	<b>6,071,410</b>
<b>Fund Balances</b>					
Reserved for capital projects	-	-	-	733,843	733,843
Reserved for debt service	-	-	-	63,919	63,919
Unreserved, undesignated					
General fund	(307,231)	-	-	-	(307,231)
Capital projects funds	-	-	-	(11,575)	(11,575)
Special revenue funds	-	820,845	(2,087,387)	662,691	(603,851)
<b>Total Fund Balances</b>	<b>(307,231)</b>	<b>820,845</b>	<b>(2,087,387)</b>	<b>1,448,878</b>	<b>(124,895)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,455,195</b>	<b>\$ 820,845</b>	<b>\$ -</b>	<b>\$ 1,670,475</b>	<b>\$ 5,946,515</b>

*The accompanying notes to financial statements are an integral part of this financial statement*

**CITY OF GUSTINE**  
**Reconciliation of the Statement of Assets, Liabilities, and Fund balances**  
**Arising from Cash Transactions**  
**To the Statement of Net Assets Arising from Cash Transactions**  
**June 30, 2013**

Fund balances (deficits) of governmental funds \$ (124,895)

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

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:

Notes payable	\$ 313,743	
2011 COP (City Hall)	1,006,036	
Compensated absences	<u>78,073</u>	<u>(1,397,852)</u>

Net assets (deficit) of governmental activities \$ (1,522,747)

*The accompanying notes to financial statements are an integral part of this financial statement*

**CITY OF GUSTINE**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2013**

	General Fund	Utility Tax Fund	USDA Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 861,855	\$ 224,998	\$ -	\$ 20	\$ 1,086,873
Licenses and permits	52,769	-	-	-	52,769
Fines and penalties	17,044	-	-	-	17,044
Investment earnings	65,626	1,916	-	3,113	70,655
Intergovernmental	397,369	-	-	214,938	612,307
Charges for services	73,118	5,170	-	214,674	292,962
Other revenues	177,605	84	-	-	177,689
<b>Total Revenues</b>	<b>1,645,386</b>	<b>232,168</b>	<b>-</b>	<b>432,745</b>	<b>2,310,299</b>
<b>Expenditures</b>					
Current:					
General government	262,353	43,329	982,861	173,262	1,461,805
Public safety	1,453,836	-	-	45	1,453,881
Public works	12,894	-	-	210,472	223,366
Community development	30,730	-	-	4,020	34,750
Parks and recreation	165,997	-	-	-	165,997
Planning	64,468	-	-	-	64,468
Debt service:					
Principal	-	-	13,315	-	13,315
Interest	-	-	17,385	-	17,385
<b>Total Expenditures</b>	<b>1,990,278</b>	<b>43,329</b>	<b>1,013,561</b>	<b>387,799</b>	<b>3,434,967</b>
Excess of revenues over (under) expenditures	(344,892)	188,839	(1,013,561)	44,946	(1,124,668)
<b>Other Financing Sources (Uses)</b>					
USDA loan advances	-	-	291,907	-	291,907
Transfers in	50,308	-	-	-	50,308
Transfers out	-	(50,308)	-	(2,967)	(53,275)
<b>Total Other Financing Sources (Uses)</b>	<b>50,308</b>	<b>(50,308)</b>	<b>291,907</b>	<b>(2,967)</b>	<b>288,940</b>
<b>Net change in Fund Balance</b>	<b>(294,584)</b>	<b>138,531</b>	<b>(721,654)</b>	<b>41,979</b>	<b>(835,728)</b>
Fund balances, beginning of year	(12,647)	682,314	(1,365,733)	1,267,482	571,416
Prior period adjustments	-	-	-	139,417	139,417
Fund balances, beginning of year (restated)	(12,647)	682,314	(1,365,733)	1,406,899	710,833
<b>Fund balances (deficit), end of fiscal year</b>	<b>\$ (307,231)</b>	<b>\$ 820,845</b>	<b>\$ (2,087,387)</b>	<b>\$ 1,448,878</b>	<b>\$ (124,895)</b>

*The accompanying notes to financial statements are an integral part of this financial statement*

## CITY OF GUSTINE

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances Arising from Cash Transactions To the Statement of Activities Arising from Cash Transactions For the Fiscal Year Ended June 30, 2013

Net change in fund balance - total governmental funds \$ (835,728)

Amounts reported for governmental activities in the statement of activities differ because:

Debt repayments are reported as expenditures in the governmental funds. The repayment is not an expense in the statement of activities, as it is a reduction of a long-term liability.

Note payable - principal paid

13,315

Proceeds from USDA advances

(291,907)

Change in net assets of governmental activities

\$ (1,114,320)

*The accompanying notes to financial statements are an integral part of this financial statement*

**CITY OF GUSTINE**  
**Statement of Assets, Liabilities, and Net Assets**  
**Arising from Cash Transactions**  
**Proprietary Fund Types**  
**June 30, 2013**

	<u>Enterprise Funds</u>				<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Airport</u>	
<b>ASSETS</b>					
Current Assets					
Cash and investments with fiscal agent	\$ -	\$ 175,221	\$ -	\$ -	\$ 175,221
Due from other funds	1,928,814	1,872,546	-	-	3,801,360
<b>Total Current Assets</b>	<u>1,928,814</u>	<u>2,047,767</u>	<u>-</u>	<u>-</u>	<u>3,976,581</u>
Other Assets					
Deferred charges	-	33,142	-	-	33,142
<b>Total Assets</b>	<u>\$ 1,928,814</u>	<u>\$ 2,080,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,009,723</u>
<b>LIABILITIES</b>					
Current Liabilities					
Customer Deposits	\$ 81,042	\$ -	\$ -	\$ -	\$ 81,042
Due to other funds	-	-	120,601	23,825	144,426
Long term debt due within one year	91,100	176,753	-	-	267,853
<b>Total Current Liabilities</b>	<u>172,142</u>	<u>176,753</u>	<u>120,601</u>	<u>23,825</u>	<u>493,321</u>
Long-term Liabilities					
Compensated absences	6,674	9,973	7,663	1,801	26,111
USDA loan advances	1,245,917	-	-	-	1,245,917
Long-term debt due in more than one year	651,200	1,226,889	-	-	1,878,089
<b>Total Long-term Liabilities</b>	<u>1,903,791</u>	<u>1,236,862</u>	<u>7,663</u>	<u>1,801</u>	<u>3,150,117</u>
<b>Total Liabilities</b>	<u>2,075,933</u>	<u>1,413,615</u>	<u>128,264</u>	<u>25,626</u>	<u>3,643,438</u>
Net Assets (Deficit)					
Restricted for debt service	-	175,221	-	-	175,221
Unrestricted	(147,119)	492,073	(128,264)	(25,626)	191,064
<b>Total Net Assets (Deficit)</b>	<u>(147,119)</u>	<u>667,294</u>	<u>(128,264)</u>	<u>(25,626)</u>	<u>366,285</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,928,814</u>	<u>\$ 2,080,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,009,723</u>

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

**CITY OF GUSTINE**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Arising from Cash Transactions**  
**Proprietary Fund Types**  
**For the Fiscal Year Ended June 30, 2013**

	<b>Enterprise Funds</b>				<b>Totals</b>
	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Airport</b>	
<b>OPERATING REVENUES</b>					
Service charges	\$ 810,745	\$ 872,269	\$ 457,514	\$ 81,066	\$ 2,221,594
Connection fees	8,470	-	-	-	8,470
Intergovernmental grants	-	-	-	357,581	357,581
Other revenue	928	-	-	-	928
<b>Total Operating Revenues</b>	<b>820,143</b>	<b>872,269</b>	<b>457,514</b>	<b>438,647</b>	<b>2,588,573</b>
<b>OPERATING EXPENSES</b>					
Salaries & wages	251,890	195,869	4,213	34,519	486,491
Employee benefits	112,412	113,538	322	6,991	233,263
Contract services	53,842	80,456	396,881	2,095	533,274
Maintenance and operation	28,693	221,035	46,219	397,035	692,982
Insurance	28,816	28,901	4,411	8,951	71,079
Office supplies	25,620	10,484	5,359	2,239	43,702
Utilities	123,489	201,624	-	4,761	329,874
<b>Total Operating Expenses</b>	<b>624,762</b>	<b>851,907</b>	<b>457,405</b>	<b>456,591</b>	<b>2,390,665</b>
<b>OPERATING INCOME (LOSS)</b>	<b>195,381</b>	<b>20,362</b>	<b>109</b>	<b>(17,944)</b>	<b>197,908</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>					
Interest income	157	1,117	199	31	1,504
Interest expense	(39,979)	(61,022)	-	-	(101,001)
Operating transfers - in (out)	14,516	(11,549)	-	-	2,967
<b>Total Non-Operating Revenue (Expense)</b>	<b>(25,306)</b>	<b>(71,454)</b>	<b>199</b>	<b>31</b>	<b>(96,530)</b>
<b>Changes in Net Assets</b>	<b>170,075</b>	<b>(51,092)</b>	<b>308</b>	<b>(17,913)</b>	<b>101,378</b>
<b>Net Assets (Deficit), Beginning of Year</b>	<b>(317,194)</b>	<b>718,386</b>	<b>(128,572)</b>	<b>(7,713)</b>	<b>264,907</b>
<b>Net Assets (Deficit), End of Year</b>	<b>\$ (147,119)</b>	<b>\$ 667,294</b>	<b>\$ (128,264)</b>	<b>\$ (25,626)</b>	<b>\$ 366,285</b>

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

**CITY OF GUSTINE**  
**Statement of Cash Flows Arising From Cash Transactions**  
**Proprietary Fund Types**  
**For the Fiscal Year Ended June 30, 2013**

	Enterprise Funds				Totals
	Water	Sewer	Refuse	Airport	
<b>Cash Flows from Operating Activities</b>					
Cash received from customers and users	\$ 806,745	\$ 872,269	\$ 457,514	\$ 438,647	\$ 2,575,175
Cash paid to suppliers	(260,460)	(542,500)	(452,870)	(415,081)	(1,670,911)
Cash paid to employees	(364,302)	(309,407)	(4,535)	(41,510)	(719,754)
Net cash provided by (used) by operating activities	<u>181,983</u>	<u>20,362</u>	<u>109</u>	<u>(17,944)</u>	<u>184,510</u>
<b>Cash Flows from Capital and and Financing Activities</b>					
USDA loan advances	617,603	-	-	-	617,603
(Increase) decrease in due from other funds	(672,964)	201,995	(308)	17,913	(453,364)
Repayment of long-term debt	(86,800)	(168,568)	-	-	(255,368)
Interest paid	(39,979)	(61,022)	-	-	(101,001)
Net cash provided by (used) by Capital and Financing activities	<u>(182,140)</u>	<u>(27,595)</u>	<u>(308)</u>	<u>17,913</u>	<u>(192,130)</u>
<b>Cash Flows from Investing Activities</b>					
Interest received	157	1,117	199	31	1,504
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>-</u>	<u>(6,116)</u>	<u>-</u>	<u>-</u>	<u>(6,116)</u>
<b>Cash and Cash equivalents, Beginning of year</b>	<u>-</u>	<u>181,337</u>	<u>-</u>	<u>-</u>	<u>181,337</u>
<b>Cash and Cash equivalents, End of year</b>	<u>\$ -</u>	<u>\$ 175,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,221</u>
<b>Reconciliation to Statement of Net Assets</b>					
Cash and investments with fiscal agents	<u>\$ -</u>	<u>\$ 175,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,221</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used) by Operating Activities:</b>					
Operating income (loss)	<u>\$ 195,381</u>	<u>\$ 20,362</u>	<u>\$ 77,678</u>	<u>\$ (17,944)</u>	<u>\$ 275,477</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used) by operating activities:					
(Increase) decrease in deferred charges	(11,679)	-	-	-	(11,679)
(Decrease) increase in customer deposits	450	-	-	-	450
(Increase) decrease in accounts receivable	(2,169)	-	(77,569)	-	(79,738)
Total adjustments	<u>(13,398)</u>	<u>-</u>	<u>(77,569)</u>	<u>-</u>	<u>(90,967)</u>
<b>Net cash provided by (used) by Operating Activities</b>	<u>\$ 181,983</u>	<u>\$ 20,362</u>	<u>\$ 109</u>	<u>\$ (17,944)</u>	<u>\$ 184,510</u>

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

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

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.

- Note 1 – Reporting Entity and Significant Accounting Policies
- Note 2 – Stewardship, Compliance, and Accountability
- Note 3 – Cash and Investments
- Notes 4 – Property Taxes
- Note 5 – Long Term Debt
- Note 6 – Interfund Activities
- Note 7 – Pension Plan Obligation
- Note 8 – Risk Management
- Note 9 – Contingencies and Commitments
- Note 10 – Dissolution of Redevelopment Agency
- Note 11 – Prior Period Adjustments
- Note 12 – Subsequent Events

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 1 - Reporting Entity and Significant Accounting Policies***

Description of the Reporting Entity

The City of Gustine is a municipal corporation, operating as a general law city, and governed by a city council of five members. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Gustine (the primary government). In the prior year the City's financial statements included the City's Redevelopment Agency as a blended component unit, however, the Redevelopment Agency has been dissolved (see Note 10). There are no blended or discreetly presented component units in the Financial reporting Entity.

Financial Statement Presentation

**Government-wide Statements:** The Statement of Net Assets - Arising from Cash Transactions and the Statement of Activities - Arising from Cash Transactions include the financial activities of the overall City government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities - Arising from Cash Transactions presents a comparison between direct expenses and program revenues for each function of the City's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds. Separate statements for each governmental fund are presented. The emphasis of fund statements is on individual funds, each of which is displayed in a separate column.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 1 - Reporting Entity and Significant Accounting Policies (continued)***

Financial Statement Presentation (continued)

Governmental fund financial statements include a Statement of Assets, Liabilities, and Fund Balances Arising from Cash Transactions, and a Statement of Revenues, Expenditures, And Changes in Fund Balances Arising from Cash Transactions, for all major governmental funds and non-major funds aggregated. An accompanying statement is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

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 or 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.

The reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Proprietary fund financial statements: Proprietary fund financial statements include a Statement of Assets, Liabilities, and Net Assets Arising from Cash Transactions, a Statement of Revenues collected, Expenses paid, and Changes in Net Assets Arising from Cash Transactions, a Statement of Cash Flows Arising from Cash Transactions for all proprietary funds.

Proprietary funds are accounted for using the modified cash basis. Under the modified cash basis of accounting, only revenues collected, expenses paid, and assets and liabilities arising as a result of cash transactions are recognized. Furthermore, cash and investments are reported at fair value. Therefore, receivables, capital assets, accrued income and expenses, payables, and deferred expenses, which would be recognized under U.S. generally accepted accounting principles, and which may be material in amount, are not recognized. Operating revenues in the proprietary funds are those

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 1 - Reporting Entity and Significant Accounting Policies (continued)***

Financial Statement Presentation (continued)

revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Accounting Policies

The City of Gustine records transactions, and accordingly, these financial statements were prepared, using the modified cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The following are some of the ways that modified cash basis of accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require all governmental funds to use the modified accrual basis of accounting. Revenues should be recognized when they become measureable and available as net current assets. The City of Gustine, however, recognizes revenue when it is received by the City.

Taxpayer-assessed income, gross receipts, and sales taxes are recognized when the revenue is received by the City. Refunds of such taxes are recognized when they are paid. Under accounting principles generally accepted in the United States of America, these taxes are considered "measureable" when in the hands of intermediary collecting governments and should be recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measureable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability incurred. An exception to this general rule is that principal and interest on long-term debt is recognized when due. The modified cash basis of accounting recognizes all expenditures when they are paid.

Accounting principles generally accepted in the United States of America require all proprietary funds and government-wide reporting to use the accrual basis of accounting. Revenues should be recognized when they are earned, and expenses should be recognized when they are incurred. The modified cash basis of accounting recognizes revenues when received and expenses when paid.

CITY OF GUSTINE  
Notes to Basic Financial Statements  
June 30, 2013

***Note 1 - Reporting Entity and Significant Accounting Policies (continued)***

Accounting Policies (continued)

The purchase of capital items in the proprietary funds should be recorded as capital assets and depreciated under accounting principles generally accepted in the United States of America; however, the City records these items as expenses when they are paid.

The purchase of capital assets should be capitalized and depreciated in the Statement of Net Assets and Statement of Activities under GASB Statement No. 34, however, under the modified cash basis of accounting, the City records these items as expenditures when paid.

Fund Accounting

Governmental Accounting Standards Board (GASB) Statement No. 34 defines major funds and requires that they City's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures/expenses equal to or greater than ten percent of their fund-type total and five percent of the grand total of all fund types.

The City reported the following major governmental funds in the accompanying financial statements:

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

The **Utility Tax Fund** is used to account for the collection of utility user taxes.

The **USDA Special Revenue Fund** is used to account for loan and grant monies for a water project.

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.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 1 - Reporting Entity and Significant Accounting Policies (continued)***

Fund Accounting (continued)

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.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accounting principles generally accepted in the United States of America require all governmental funds to use the modified accrual basis of accounting and all proprietary fund types to use the accrual basis of accounting. The City of Gustine uses the modified cash basis of accounting for all fund types.

The modified cash basis of accounting recognizes all monies received as revenues at the time of receipt and all amounts paid as expenditures at the time of payment with the exception of the following:

1. Long-term notes and loans receivable are set up as assets and deferred revenue and note/loan payments received by the City are recorded as reductions of the asset and liability and program income when received.
2. Long-term payables are set up as liabilities in the proprietary funds. Principal payments are recorded as reductions of the liabilities when made.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the City has opted to apply to the proprietary fund all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 1 - Reporting Entity and Significant Accounting Policies (continued)***

Budgets and Budgetary Accounting

The City is required by its municipal code to adopt an annual budget on or before June 30, which is the end of its fiscal year, for the ensuing fiscal year. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during each fiscal year. The City Manager is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the City are subject to annual review by the City Council; hence, they legally are one year contracts with an option for renewal for another fiscal year.

Budgeted revenue and expenditure amounts shown represent the City's originally adopted budget adjusted for supplemental revenues and appropriations during the course of the fiscal year. Budget amounts, as adjusted, reported for the governmental funds of the City are adopted on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The City has not adopted a budget for the Public Safety Fund, the Traffic Congestion Fund, the UHP Fund, the Surface Transportation Fund, CDBG Fund, Fire Service Fund, Public Facilities Fund, General Reserve Fund, GO Bond Debt Service Fund and the Capital Replacement Fund.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

Investments

Investments are stated at fair value. The City has not adopted an investment policy, other than the California Government Code, which provides a means for investing the public funds held by the City.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 1 - Reporting Entity and Significant Accounting Policies (continued)***

Capital Assets

Capital assets in the proprietary funds are expensed when paid. This practice is contrary to accounting principles generally accepted in the United States of America. The City does not maintain a complete accounting of capital assets. This practice is contrary to accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash, including all investments with an initial maturity of three months or less.

Loans Receivable

Loans receivable represent Community Development Block Grant (CDBG) loans which were assigned to the City. The loans may be secured by deeds of trusts which attach to the property until title to the property is transferred. Interest rates vary from 0% to 4%. Total loans receivable outstanding at June 30, 2013, is \$47,752.

Use of Estimates

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

Net Assets and Fund Equity

In the Government-wide financial statements and proprietary fund financial statements, net assets are reported in three categories; invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted. The City has no net assets that are invested in capital assets, net of related debt, as capital assets are not reported.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 2 – Stewardship, Compliance and Accountability***

Deficit Fund Balances and Net Assets

Deficit fund balances of \$307,231, and \$2,087,387, exist in the General Fund, and the USDA Special Revenue Fund respectively. Deficit net assets of \$50,695, and \$25,626 exist in the Refuse Fund, and Airport Fund respectively. There are also deficit fund balances of \$2,296, \$46,815, \$155,612, \$4,952, \$11,575, and \$76 in the UHP Special Revenue Fund, Grants Special Revenue Fund, Housing Fund, Borelli AD, Acquisition and Development Capital Projects Fund and Capital Replacement Fund. The deficits are due to the City incurring costs in advance of receiving revenue and making major capital improvements

***Note 3 – Cash and Investments***

Cash and investments are reported as follows in the Statement of Net Assets Arising from Cash Transactions:

Cash and investments	\$	3,356,662
Cash and investments with fiscal agents		175,221
<b>Total</b>	<b>\$</b>	<b>3,531,883</b>

Cash and investments held by the City at June 30, 2013 consisted of the following:

Cash on hand	\$	740
Deposits with financial institutions		546,823
Investments		2,984,320
<b>Total</b>	<b>\$</b>	<b>3,531,883</b>

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 3 – Cash and Investments (continued)**

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for 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
Local Agency Investment Fund (State Pool)	N/A	None	\$50 million
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Insured Deposits with Banks and Savings and Loans	N/A	None	15%
Repurchase Agreements	90 days	None	15%
Bankers Acceptance (must be dollar denominated)	9 months	40%	15%
Money Market Funds	N/A	None	15%
Commercial Paper	6 months	15%	15%
Negotiable Time Certificates of Deposit	5 years	25%	15%
Medium Term Corporate Notes	5 years	30%	10%
Time Deposits	N/A	25%	15%

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 3 – Cash and Investments (continued)**

Investments Authorized by Debt Agreements (continued)

Investment of debt proceeds held by bond trustees 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 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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
Money Market Mutual Funds	None	None	None
U.S. Agency Securities	5 years	None	None
Local Agency Investment Fund (State Pool)	None	None	None
Banker's Acceptances	270 days	40%	15%
Commercial Paper	180 days	15%	15%
Guaranteed Investment Contracts	N/A	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 flows and liquidity needed for operations.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 3 – Cash and Investments (continued)**

Disclosures Relating to Interest Rate Risk (continued)

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 by the following table that shows the distribution of the City's investment by maturity:

Investment Type	Totals	Remaining Maturity (In Months)				
		12 Months or Less	13-24 Months	26-36 Months	37-48 Months	More Than 48 Months
State Investment Pool	\$ 2,535,748	\$ 2,535,748	\$ -	\$ -	\$ -	\$ -
Money Market Funds	273,351	273,351	-	-	-	-
Held by Bond Trustees:						
Money Market Funds	175,221	175,221	-	-	-	-
	<u>\$ 2,984,320</u>	<u>\$ 2,984,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 2,535,748	N/A	\$ -	\$ -	\$ -	\$ -	\$ 2,535,748
Money Market Funds	273,351		-	273,351	-	-	-
Held by Bond Trustees:							
Money Market Funds	175,221	N/A	-	175,221	-	-	-
	<u>\$ 2,984,320</u>		<u>\$ -</u>	<u>\$ 448,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,535,748</u>

CITY OF GUSTINE  
Notes to Basic Financial Statements  
June 30, 2013

**Note 3 – Cash and Investments (continued)**

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There was no investment in any one issuer (other than U.S. Treasury securities, 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 even 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 counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in a undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair 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, 2013, \$633,295 held with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment is State Investment Pool

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

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 4 – Property Taxes**

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes. Property taxes are recorded in the fiscal year for which the tax is levied. Revenue is recognized when received. The County of Merced levies, bills, and collects property taxes for the City of Gustine. Property taxes are paid to the City by the County.

Secured and unsecured property taxes are levied based on the assessed value as of January 1, the lien date, of the preceding fiscal year. Secured property tax is levied on October 1 and due in two installments, on November 1 and February 1. Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31 which is also the delinquent date. The City participates with the County in the Teeter Plan that enables the City to receive the secured property tax billed, but not yet collected; in return the County will collect any delinquency penalties and interest normally distributed

**Note 5 – Long-Term Debt**

The following is a summary of Long-Term Debt activity for the year ended June 30, 2013

**Governmental Activities:**

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>	Due in <u>one year</u>
Note Payable	\$ 327,058	\$ -	\$ (13,315)	\$ 313,743	\$ 11,295
2011 COP (Advances)	714,129	291,907	-	1,006,036	-
Compensated absences	78,073	-	-	78,073	-
	<u>\$ 1,119,260</u>	<u>\$ 291,907</u>	<u>\$ (13,315)</u>	<u>\$ 1,397,852</u>	<u>\$ 11,295</u>

**Business-type Activities:**

1998 COP	\$ 370,000	\$ -	\$ (85,000)	\$ 285,000	\$ 90,000
2004 Water Infrastructure Loan	829,100	-	(86,800)	742,300	91,100
2006 Refunding Note	894,129	-	(47,922)	846,207	50,323
2012 COP (Advances)	628,314	617,603	-	1,245,917	-
Compensated absences	26,111	-	-	26,111	-
State Water Resources Loan	308,081	-	(35,646)	272,435	36,430
	<u>\$ 3,055,735</u>	<u>\$ 617,603</u>	<u>\$ (255,368)</u>	<u>\$ 3,417,970</u>	<u>\$ 267,853</u>

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 5 – Long Term Debt (continued)**

Governmental Activities

*Note Payable*

As a part of a purchase of real property the City issued a note payable in February, 2010 for \$350,000. The note is payable in 240 monthly installments of \$2,558 including interest at 6.25%. As of June 30, 2013 the principal balance outstanding is \$313,743.

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 11,295	\$ 19,404	\$ 30,699
2015	12,022	18,677	30,699
2016	12,795	17,904	30,699
2017	13,618	17,081	30,699
2018	14,494	16,205	30,699
2019-2023	87,714	65,781	153,495
2024-2028	119,793	33,704	153,497
2029-2030	42,012	2,201	44,213
	\$ 313,743	\$ 190,957	\$ 504,700

*2011 COP (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. When fully funded, principal payments ranging from \$12,000 to \$44,000 are payable annually on November 1 and interest payments at 3.75% are payable semi-annually on May 1 and November 1, through November 1, 2051. As of June 30, 2013, the City has received \$1,006,036 in advance payments.

Business-type Activities

*2012 COP (Water System Improvement Project)*

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 owned water system. When fully funded, principal payments ranging from \$13,000 to \$32,000 are payable annually on July 1 and interest payments at 2.75% are payable semi-annually on January 1 and July 1, through July 1, 2052. As of June 30, 2013, the City has received \$1,245,917 in advance payments.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 5 – Long Term Debt (continued)**

Business-type Activities

1998 COP

The City refunded \$1,160,000 of the 1990 Certificates of Participation with the 1998 Certificates of Participation. The Certificates carry interest rates varying from 4.4% to 5.5%, payable in semi-annual installments. Principal payments are paid annually on September 1, with a maturity date of September 1, 2015. The certificates are secured by sewer fund revenues. As of June 30, 2013, the principal balance outstanding is \$285,000.

<u>Fiscal Year</u> <u>Ending June, 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 90,000	\$ 13,320	\$ 103,320
2015	95,000	8,186	103,186
2016	100,000	2,775	102,775
	<u>\$ 285,000</u>	<u>\$ 24,281</u>	<u>\$ 309,281</u>

*2004 Water Infrastructure Project Loan*

The City refunded \$1,550,000 of 2000 Certificates of Participation with the 2004 Water Infrastructure Loan. The loan carries an interest rate of 4.95% payable semi-annually. Principal payments are paid semi-annually on June 16 and December 16, with a maturity date of December 16, 2020. The note is secured by water fund revenues. As of June 30, 2013, the principal balance outstanding is \$742,300.

<u>Fiscal Year</u> <u>Ending June, 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 91,100	\$ 35,630	\$ 126,730
2015	95,700	31,064	126,764
2016	100,500	26,270	126,770
2017	105,500	21,233	126,733
2018	110,000	16,250	126,250
2019-2021	239,500	30,898	270,398
	<u>\$ 742,300</u>	<u>\$ 161,345</u>	<u>\$ 903,645</u>

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 5 – Long Term Debt (concluded)**

*2006 Refunding Installment Sale Note*

\$1,154,500 of the 2006 Refunding Installment Sale note was issued to refund a previously issued Note (Gnome). The note carries an interest rate of 4.95%, payable semi-annually. Principal payments are paid semi-annually on April 17 and October 17, with a maturity date of April 17, 2026. As of June 30, 2013, the principal balance outstanding is \$846,207.

Fiscal Year Ending June, 30	Principal	Interest	Total
2014	\$ 50,323	\$ 41,272	\$ 91,595
2015	52,844	38,750	91,594
2016	55,493	36,102	91,595
2017	58,274	33,321	91,595
2017	58,274	33,321	91,595
2018-2022	338,210	119,763	457,973
2022-2027	229,789	29,520	259,309
	<u>\$ 846,207</u>	<u>\$ 342,402</u>	<u>\$ 1,189,609</u>

*State Water Resource Loan*

In 1999, the State of California Water Resources Control Board approved a loan to the City in the amount of \$802,463. The Loan is payable in twenty annual installments, with a maturity date of January 29, 2020. The Loan carries an interest rate of 2.2%. As of June 30, 2013, the principal balance outstanding is \$272,435.

Fiscal Year Ending June, 30	Principal	Interest	Total
2014	\$ 36,430	\$ 5,994	\$ 42,424
2015	37,232	5,192	42,424
2016	38,051	4,373	42,424
2017	38,888	3,536	42,424
2018	39,250	3,174	42,424
2019-2021	82,284	5,400	87,684
	<u>\$ 272,435</u>	<u>\$ 31,273</u>	<u>\$ 303,708</u>

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 6 – Interfund Activities**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Normally, these balances occur as a result of expenditures/ expenses being paid prior to receiving revenue which causes a deficit in pooled cash.

The composition of interfund balances, as of June 30, 2013, is as follows:

	Due From	Due To
Governmental Funds:		
Major Funds:		
General	\$ -	\$ 3,762,426
Utility Tax	817,798	-
USDA	-	2,087,387
Non-major Governmental Funds:		
Public Safety	3,686	-
CDBG	334,380	-
Traffic Congestion	-	-
Assessment District	107,121	-
Surface Transportation Service	9,094	-
Street Sidewalk Maintenance	287,729	-
UHP	-	2,296
Grants	-	46,815
Housing Fund	-	155,612
Borrelli A.D.	-	5,223
Southport A.D.	8,783	-
Solisgen	55,000	-
Swimming Pool Capital	4,175	-
Acquisition and Development	-	11,575
Storm Drainage	83,005	-
Fire Service	77,604	-
Public Facility	322,465	-
Transportation	5,157	-
Capital Replacement	-	76
General Reserve	234,560	-
GO Bond Debt Service	63,919	-
Major Proprietary Funds:		
Water	1,928,814	-
Sewer	1,872,546	-
Refuse	-	120,601
Airport	-	23,825
	\$ 6,215,836	\$ 6,215,836

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 6 – Interfund Activities (continued)**

Transfers in and out are as follows as of June 30, 2013:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
Major Funds:		
General	\$ 50,308	\$ -
Utility Tax Fund		50,308
Non-Major Funds		
Gas Tax/Street Maintenance		2,967
Enterprise Funds:		
Water	14,516	
Sewer		11,549
	<u>\$ 64,824</u>	<u>\$ 64,824</u>

**Note 7 – Pension Plan Obligation**

Plan Description

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

Funding Policy

In the past, the City has contributed both the employee's and employer's share of PERS retirement expenditures. Presently, City employees are now required to contribute 8 percent (9 percent for safety employees) of their annual covered salary. The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2013 was 10.62% for non-safety employees, and 36.33% for safety employees, of annual covered payroll. The contributions of plan members and the City are established and may be amended by PERS.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**Note 7 – Pension Plan Obligation (continued)**

Plan Description (continued)

Annual Pension Cost

For fiscal year 2012-2013, the City of Gustine's annual pension cost was \$249,127 and was equal to the City's required and actual requirements. The required contribution for fiscal year 2012-2013 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) an 7.75% investment of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment, (c) an inflation rate of 3.0%, and (d) a payroll growth rate of 3.25%.

Three-Year Trend Information for PERS			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$ 145,562	100%	\$ -
6/30/2012	203,196	100%	-
6/30/2013	249,127	100%	-

**Note 8 – Risk Management**

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is 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.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 8 – Risk Management (continued)***

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.

***Note 9 – Contingencies and Commitments***

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

The City is involved in several pending lawsuits of a nature common to many similar jurisdictions. Management estimates the potential claims against the City, not covered by insurance, will not have a material adverse effect on the financial statements of the City.

***Note 10 – Dissolution of Redevelopment Agency***

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Gustine that previously had reported a redevelopment agency as a blended component unit.

Effective January 31, 2012, the Redevelopment Agency was dissolved.

***Note 11 – Prior Period Adjustments***

A prior period adjustment of \$139,417 was made in the Housing Fund to correct for an overstatement of due to/due from in the prior year.

A prior period adjustment of (\$81,438) was made in the Statement of Activities – Governmental Activities to account for an overstatement of internal balances in the prior year.

**CITY OF GUSTINE**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

***Note 12 – Subsequent Events***

The City has evaluated events subsequent to June 30, 2013 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 24, 2014, the date the financial statements were available to be issued. No events have occurred, which would require adjustments to the amounts reported in the accompanying financial statements nor have any events occurred, the nature of which would require disclosure.

**CITY OF GUSTINE**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 912,513	\$ 912,513	\$ 861,855	\$ (50,658)
Licenses and permits	68,825	68,825	52,769	(16,056)
Fines and penalties	4,000	4,000	17,044	13,044
Investment earnings	5,000	5,000	65,626	60,626
Intergovernmental	447,000	447,000	397,369	(49,631)
Charges for services	85,385	85,385	73,118	(12,267)
Other revenues	76,546	76,546	177,605	101,059
<b>Total Revenues</b>	<b>\$ 1,599,269</b>	<b>\$ 1,599,269</b>	<b>\$ 1,645,386</b>	<b>\$ 46,117</b>
<b>Expenditures</b>				
Current:				
General government	\$ 268,445	\$ 268,445	\$ 262,353	\$ 6,092
Public safety	1,307,661	1,307,661	1,453,836	(146,175)
Public works	136,589	136,589	12,894	123,695
Community development	49,523	49,523	30,730	18,793
Parks and recreation	101,462	101,462	165,997	(64,535)
Planning	20,523	20,523	64,468	(43,945)
<b>Total Expenditures</b>	<b>1,884,203</b>	<b>1,884,203</b>	<b>1,990,278</b>	<b>(106,075)</b>
Excess of revenues over (under) expenditures	(284,934)	(284,934)	(344,892)	(59,958)
<b>Other Financing Sources (Uses)</b>				
Transfers in	50,308	50,308	50,308	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>50,308</b>	<b>50,308</b>	<b>50,308</b>	<b>-</b>
<b>Net change in Fund Balance</b>	<b>(234,626)</b>	<b>(234,626)</b>	<b>(294,584)</b>	<b>(59,958)</b>
Fund balances, beginning of year	(12,647)	(12,647)	(12,647)	-
Prior period adjustments	-	-	-	-
Fund balances, beginning of year (restated)	(12,647)	(12,647)	(12,647)	-
<b>Fund balances (deficit), end of fiscal year</b>	<b>\$ (247,273)</b>	<b>\$ (247,273)</b>	<b>\$ (307,231)</b>	<b>\$ (59,958)</b>

**CITY OF GUSTINE**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions - Budget and Actual**  
**Utility Tax Fund**  
**For the Fiscal Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 215,000	\$ 220,584	\$ 224,998	\$ 4,414
Investment earnings	1,584	1,800	1,916	116
Charges for services	4,000	5,615	5,254	(361)
	-	-	-	-
<b>Total Revenues</b>	<b>220,584</b>	<b>227,999</b>	<b>232,168</b>	<b>4,169</b>
<b>Expenditures</b>				
Current:				
General government	43,867	43,867	43,329	538
<b>Total Expenditures</b>	<b>43,867</b>	<b>43,867</b>	<b>43,329</b>	<b>538</b>
Excess of revenues over (under) expenditures	176,717	184,132	188,839	4,707
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	-
Transfers out	(176,833)	(176,833)	(50,308)	126,525
<b>Total Other Financing Sources (Uses)</b>	<b>(176,833)</b>	<b>(176,833)</b>	<b>(50,308)</b>	<b>126,525</b>
<b>Net change in Fund Balance</b>	<b>(116)</b>	<b>7,299</b>	<b>138,531</b>	<b>131,232</b>
Fund balances, beginning of year	682,314	682,314	682,314	-
Fund balances, beginning of year	682,314	682,314	682,314	-
Fund balances (deficit), end of fiscal year	<b>\$ 682,198</b>	<b>\$ 689,613</b>	<b>\$ 820,845</b>	<b>\$ 131,232</b>

**CITY OF GUSTINE**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions - Budget and Actual**  
**Street Sidewalk Maintenance Fund**  
**For the Fiscal Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Investment earnings	\$ -	\$ -	\$ -	\$ -
Intergovernmental	168,500	168,500	206,630	38,130
<b>Total Revenues</b>	<u>168,500</u>	<u>168,500</u>	<u>206,630</u>	<u>38,130</u>
<b>Expenditures</b>				
Current:				
Public works	175,000	175,000	183,971	(8,971)
<b>Total Expenditures</b>	<u>175,000</u>	<u>175,000</u>	<u>183,971</u>	<u>(8,971)</u>
Excess of revenues over (under) expenditures	<u>(6,500)</u>	<u>(6,500)</u>	<u>22,659</u>	<u>29,159</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in Fund Balance</b>	<u>(6,500)</u>	<u>(6,500)</u>	<u>22,659</u>	<u>29,159</u>
Fund balance, beginning of year	<u>277,774</u>	<u>277,774</u>	<u>277,774</u>	<u>-</u>
<b>Fund balance, end of fiscal year</b>	<u><u>\$ 271,274</u></u>	<u><u>\$ 271,274</u></u>	<u><u>\$ 300,433</u></u>	<u><u>\$ 29,159</u></u>

**CITY OF GUSTINE**  
**Combining Statement of Assets, Liabilities, and Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds**  
**For the Fiscal Year Ended June 30, 2013**

	Special Revenue Funds				
	6 Public Safety Fund	8 CDBG Fund	15 Traffic Congestion Relief	17 City Wide Lighting & Landscape	20 Surface Trans.
<b>ASSETS</b>					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds	3,686	334,380	-	107,121	9,094
Loans receivable	-	47,752	-	-	-
Other receivables	-	-	-	6,117	-
<b>Total Assets</b>	<u>\$ 3,686</u>	<u>\$ 382,132</u>	<u>\$ -</u>	<u>\$ 113,238</u>	<u>\$ 9,094</u>
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-	-
Other payables	-	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Reserved for capital projects	-	-	-	-	-
Reserved for debt service	-	-	-	-	-
Unreserved, undesignated	3,686	382,132	-	113,238	9,094
<b>Total Fund Balances (deficits)</b>	<u>3,686</u>	<u>382,132</u>	<u>-</u>	<u>113,238</u>	<u>9,094</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,686</u>	<u>\$ 382,132</u>	<u>\$ -</u>	<u>\$ 113,238</u>	<u>\$ 9,094</u>

**CITY OF GUSTINE**  
**Combining Statement of Assets, Liabilities, and Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	Special Revenue Funds (continued)				
	21 Gas Tax Sidewalk Maint.	25 UHP Fund	28 Grants	73 Housing Fund	74 Borrelli Assess District
<b>ASSETS</b>					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds	287,729	-	-	-	-
Loans receivable	-	-	-	-	-
Other receivables	12,704	-	-	-	271
Total Assets	<u>\$ 300,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271</u>
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ 2,296	\$ 46,815	\$ 155,612	\$ 5,223
Deferred revenue	-	-	-	-	-
Other payables	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>2,296</u>	<u>46,815</u>	<u>155,612</u>	<u>5,223</u>
<b>FUND BALANCES</b>					
Reserved for capital projects	-	-	-	-	-
Reserved for debt service	-	-	-	-	-
Unreserved, undesignated	300,433	(2,296)	(46,815)	(155,612)	(4,952)
Total Fund Balances (deficits)	<u>300,433</u>	<u>(2,296)</u>	<u>(46,815)</u>	<u>(155,612)</u>	<u>(4,952)</u>
Total Liabilities and Fund Balances	<u>\$ 300,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271</u>

**CITY OF GUSTINE**  
**Combining Statement of Assets, Liabilities, and Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	Special Revenue Funds		Capital Project Funds		
	75 Southport Assess. District	76 Solisgen Assess. District	31 Swimming Pool Capital Fund	32 Acquisition & Dev. Fund	59 Strom Drainage Fund
<b>ASSETS</b>					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds	8,783	55,000	4,175	-	83,005
Loans receivable	-	-	-	-	-
Other receivables	-	-	-	-	6,953
Total Assets	\$ 8,783	\$ 55,000	\$ 4,175	\$ -	\$ 89,958
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ 11,575	\$ -
Deferred revenue	-	-	-	-	-
Other payables	-	-	-	-	-
Total Liabilities	-	-	-	11,575	-
<b>FUND BALANCES</b>					
Reserved for capital projects	-	-	4,175	-	89,958
Reserved for debt service	-	-	-	-	-
Unreserved, undesignated	8,783	55,000	-	(11,575)	-
Total Fund Balances (deficits)	8,783	55,000	4,175	(11,575)	89,958
Total Liabilities and Fund Balances	\$ 8,783	\$ 55,000	\$ 4,175	\$ -	\$ 89,958

**CITY OF GUSTINE**  
**Combining Statement of Assets, Liabilities, and Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	Capital Project Funds (continued)				
	34 Fire Service Fund	35 Public Facilities Fund	36 Trans. Fund	37 Capital Replacement Fund	38 General Reserve Fund
<b>ASSETS</b>					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds	77,604	322,465	5,157	-	234,560
Loans receivable	-	-	-	-	-
Other receivables	-	-	-	-	-
Total Assets	<u>\$ 77,604</u>	<u>\$ 322,465</u>	<u>\$ 5,157</u>	<u>\$ -</u>	<u>\$ 234,560</u>
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ 76	\$ -
Deferred revenue	-	-	-	-	-
Other payables	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>76</u>	<u>-</u>
<b>FUND BALANCES</b>					
Reserved for capital projects	77,604	322,465	5,157	(76)	234,560
Reserved for debt service	-	-	-	-	-
Unreserved, undesignated	-	-	-	-	-
Total Fund Balances (deficits)	<u>77,604</u>	<u>322,465</u>	<u>5,157</u>	<u>(76)</u>	<u>234,560</u>
Total Liabilities and Fund Balances	<u>\$ 77,604</u>	<u>\$ 322,465</u>	<u>\$ 5,157</u>	<u>\$ -</u>	<u>\$ 234,560</u>

**CITY OF GUSTINE**  
**Combining Statement of Assets, Liabilities, and Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	22 GO Bond Debt Service Fund	Total Non-Major Governmental Funds
<b>ASSETS</b>		
Cash	\$ -	\$ -
Due from other funds	63,919	1,596,678
Loans receivable	-	47,752
Other receivables	-	26,045
Total Assets	<u>\$ 63,919</u>	<u>\$ 1,670,475</u>
<b>LIABILITIES</b>		
Due to other funds	\$ -	\$ 221,597
Deferred revenue	-	-
Other payables	-	-
Total Liabilities	<u>-</u>	<u>221,597</u>
<b>FUND BALANCES</b>		
Reserved for capital projects	-	733,843
Reserved for debt service	63,919	63,919
Unreserved, undesignated	-	651,116
Total Fund Balances (deficits)	<u>63,919</u>	<u>1,448,878</u>
Total Liabilities and Fund Balances	<u>\$ 63,919</u>	<u>\$ 1,670,475</u>

**CITY OF GUSTINE**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds**  
**For the Fiscal Year Ended June 30, 2013**

	Special Revenue Funds				
	6 Public Safety Fund	8 CDBG Fund	15 Traffic Congestion Relief	17 City Wide Lighting & Landscape	20 Surface Trans.
<b>REVENUES</b>					
Investment earnings	\$ -	\$ 2,300	\$ -	\$ 86	\$ -
Intergovernmental	-	-	-	-	8,308
Charges for current services	-	-	-	152,138	-
Program income	-	-	-	-	-
Taxes	-	-	-	-	-
<b>Total Revenues</b>	<u>-</u>	<u>2,300</u>	<u>-</u>	<u>152,224</u>	<u>8,308</u>
<b>EXPENDITURES</b>					
General government,	-	46	-	151,939	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>46</u>	<u>-</u>	<u>151,939</u>	<u>-</u>
Excess of revenues over (under) expenditures	-	2,254	-	285	8,308
Transfers in (out)	-	-	-	-	-
<b>Net Change in Fund Balance</b>	<u>-</u>	<u>2,254</u>	<u>-</u>	<u>285</u>	<u>8,308</u>
Fund balances (deficit) beginning of year	3,686	379,878	-	112,953	786
Prior period adjustments	-	-	-	-	-
Fund balances (deficit) beginning	<u>3,686</u>	<u>379,878</u>	<u>-</u>	<u>112,953</u>	<u>786</u>
Fund balances (deficit) end of year	<u>\$ 3,686</u>	<u>\$ 382,132</u>	<u>\$ -</u>	<u>\$ 113,238</u>	<u>\$ 9,094</u>

**CITY OF GUSTINE**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	Special Revenue Funds (continued)				
	21 Street Sidewalk Maint.	25 UHP Fund	28 Grants	73 Housing Fund	74 Borrelli Assess District
<b>REVENUES</b>					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ 10
Intergovernmental	206,630				
Charges for current services	-	-	-	-	10,065
Program income	-	-	-	-	-
Taxes	-	-	-	-	-
<b>Total Revenues</b>	<u>206,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,075</u>
<b>EXPENDITURES</b>					
General government	-	-	-	-	20,624
Public safety	-	-	-	-	-
Public works	183,971	-	-	-	-
Community development	-	-	-	4,120	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
<b>Total Expenditures</b>	<u>183,971</u>	<u>-</u>	<u>-</u>	<u>4,120</u>	<u>20,624</u>
Excess of revenues over (under) expenditures	22,659	-	-	(4,120)	(10,549)
Transfers in (out)	-	-	-	-	-
<b>Net Change in Fund Balance</b>	<u>22,659</u>	<u>-</u>	<u>-</u>	<u>(4,120)</u>	<u>(10,549)</u>
Fund balances (deficit) beginning of year	277,774	(2,296)	(46,815)	(291,009)	5,597
Prior period adjustments	-	-	-	139,417	-
Fund balances (deficit) beginning (restated)	<u>277,774</u>	<u>(2,296)</u>	<u>(46,815)</u>	<u>(151,592)</u>	<u>5,597</u>
Fund balances (deficit) end of year	<u>\$ 300,433</u>	<u>\$ (2,296)</u>	<u>\$ (46,815)</u>	<u>\$ (155,712)</u>	<u>\$ (4,952)</u>

**CITY OF GUSTINE**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	Special Revenue Funds		Capital Project Funds		
	75 Southport Assess. District	76 Solisgen	31 Swimming Pool Capital Fund	32 Acquisition & Dev. Fund	59 Strom Drainage Fund
<b>REVENUES</b>					
Investment earnings	\$ 1	\$ -	\$ -	\$ -	\$ -
Intergovernmental					
Charges for current services	3,784	-	-	-	48,687
Program income	-	-	-	-	-
Taxes	-	-	-	-	-
Total Revenues	<u>3,785</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,687</u>
<b>EXPENDITURES</b>					
General government	653	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	25,776
Community development	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	<u>653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,776</u>
Excess of revenues over (under) expenditures	3,132	-	-	-	22,911
Transfers in (out)	-	-	-	-	-
Net Change in Fund Balance	<u>3,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,911</u>
Fund balances (deficit) beginning of year	5,651	55,000	4,175	(11,575)	67,047
Prior period adjustments	-	-	-	-	-
Fund balances (deficit) beginning (restated)	<u>5,651</u>	<u>55,000</u>	<u>4,175</u>	<u>(11,575)</u>	<u>67,047</u>
Fund balances (deficit) end of year	<u>\$ 8,783</u>	<u>\$ 55,000</u>	<u>\$ 4,175</u>	<u>\$ (11,575)</u>	<u>\$ 89,958</u>

**CITY OF GUSTINE**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	Capital Projects Funds (continued)				
	34 Fire Service Fund	35 Public Facilities Fund	36 Trans. Fund	37 Capital Replacement Fund	38 General Reserve Fund
<b>REVENUES</b>					
Investment earnings	\$ -	\$ 686	\$ -	\$ -	\$ 29
Intergovernmental	-	-	-	-	-
Charges for current services	-	-	-	-	-
Program income	-	-	-	-	-
Taxes	-	-	-	-	-
<b>Total Revenues</b>	<u>-</u>	<u>686</u>	<u>-</u>	<u>-</u>	<u>29</u>
<b>EXPENDITURES</b>					
General government	-	-	-	-	-
Public safety	45	-	-	-	-
Public works	-	725	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
<b>Total Expenditures</b>	<u>45</u>	<u>725</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	(45)	(39)	-	-	29
Transfers in (out)	-	-	-	-	-
<b>Net Change in Fund Balance</b>	<u>(45)</u>	<u>(39)</u>	<u>-</u>	<u>-</u>	<u>29</u>
Fund balances (deficit) beginning of year	77,649	322,504	5,157	(76)	234,531
Prior period adjustments	-	-	-	-	-
Fund balances (deficit) beginning (restated)	<u>77,649</u>	<u>322,504</u>	<u>5,157</u>	<u>(76)</u>	<u>234,531</u>
Fund balances (deficit) end of year	<u>\$ 77,604</u>	<u>\$ 322,465</u>	<u>\$ 5,157</u>	<u>\$ (76)</u>	<u>\$ 234,560</u>

**CITY OF GUSTINE**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Arising from Cash Transactions**  
**Non-Major Governmental Funds (continued)**  
**For the Fiscal Year Ended June 30, 2013**

	22 GO Bond Debt Service Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>		
Investment earnings	\$ 1	\$ 3,113
Intergovernmental	-	214,938
Charges for current services	-	214,674
Program income	-	-
Taxes	20	20
 Total Revenues	21	432,745
<b>EXPENDITURES</b>		
General government	-	173,262
Public safety	-	45
Public works	-	210,472
Community development	-	4,020
Debt service:		
Principal	-	-
Interest	-	-
 Total Expenditures	-	387,799
 Excess of revenues over (under) expenditures	21	44,946
 Transfers in (out)	(2,967)	(2,967)
 Net Change in Fund Balance	(2,946)	41,979
 Fund balances (deficit) beginning of year	66,865	1,267,482
 Prior period adjustments	-	139,417
 Fund balances (deficit) beginning (restated)	66,865	1,406,899
 Fund balances (deficit) end of year	\$ 63,919	\$ 1,448,878

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

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

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

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, pass-through entities, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

*Nicholson & Olson*

Nicholson & Olson, LLP  
*Certified Public Accountants*  
Roseville, California  
November 24, 2014