

CITY OF HANFORD

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2014

CONTENTS

	<u>Page</u>
Principal city officials	i
Independent auditor's report	1-2
Management's discussion and analysis	3-11
 <u>FINANCIAL STATEMENTS:</u>	
Government-wide financial statements:	
Statement of net position	12
Statement of activities	13-14
Governmental fund financial statements:	
Combining balance sheet	15
Reconciliation of the governmental funds balance sheet to the government-wide statement of net position	16
Combining statement of revenues, expenditures, and changes in fund balances	17
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities	18
Proprietary funds financial statements:	
Statement of net position	19-20
Statement of revenues, expenses, and changes in net position	21-22
Statement of cash flows	23-26
Fiduciary funds financial statements:	
Statement of fiduciary net position – fiduciary funds	27
Statement of changes in fiduciary net position	28
Notes to financial statements	29-57
Required supplementary information:	
Required supplementary information	58
Schedule of funding progress	59
Schedule of revenues, expenditures, and changes in fund balances:	
Budget and actual (GAAP Basis) general fund	60
Budget and actual (GAAP Basis) CDBG home/housing fund	61
Budget and actual (GAAP Basis) capital projects	62
Budget and actual (GAAP Basis) transportation fund	63

SUPPLEMENTARY INFORMATION SECTION:

Non-major special revenue funds:	
Combining balance sheet	64-67
Combining statement of revenues, expenditures, and changes in fund balances	68-71
Internal service funds:	
Combining statement of net position	72-73
Combining statement of revenues, expenses, and changes in net position	74-75
Combining statement of cash flows	76-77
Trust and agency funds:	
Combining statement of fiduciary net position	78
Combining statement of changes in fiduciary net position	79

SINGLE AUDIT REPORTS:

Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	80-81
Independent auditor's report on compliance for each major program and on internal control over compliance in accordance with OMB Circular A-133	82-83
Schedule of expenditures of federal awards	84
Notes to the schedule of expenditures of federal awards	85
Schedule of findings and questioned costs	86-89
Summary schedule of prior audit findings	90

APPROPRIATIONS LIMIT REPORT:

Independent auditor's report on compliance with Article XIIIB – appropriations limit	91
Appropriations limit schedules A and B	92

CITY OF HANFORD
June 30, 2014

CITY COUNCIL

<u>NAME</u>	<u>POSITION</u>
Gary Pannette	Mayor
Russ Curry	Vice Mayor
Lou Martinez	Council Member
Joleen Jameson	Council Member
Jim Irwin	Council Member

ADMINISTRATION

Darrel Pyle	City Manager
Griswold, LaSalle, Cobb, Dowd & Gin, L.L.P.	City Attorneys
Jennifer Gomez	City Clerk
Tom Dibble	Treasurer/Finance Director
Timothy Ieronimo	Fire Chief
Melodie Haigh	Community Development Manager
Carlos Mestas	Police Chief
John Doyel	City Engineer
Craig Miller	Parks & Recreation Director
Lou Camara	Public Works Director
Marissa Gonzales	Human Resources Manager



Sampson, Sampson & Patterson, LLP
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102
Clovis, California 93612-4739
(559) 291-0277 • FAX (559) 291-6411

February 20, 2015

The Honorable City Council of
The City of Hanford
Hanford, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11 and the Public Employees Retirement System Schedule of Funding Progress and budgetary comparison information on pages 60-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hanford's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2015, on our consideration of the City of Hanford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hanford's internal control over financial reporting and compliance.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

This discussion and analysis of the City of Hanford's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- Assets of the City of Hanford exceed its liabilities at the close of the most recent fiscal year 2014 by about \$302.1 million. Of this amount, about \$49.8 million in unrestricted assets may be used to meet the City's ongoing obligations to citizens and creditors.
- As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$58.0 million.
- Approximately 12.3% of the combined governmental fund balances is considered available for spending at the City's discretion.
- As of June 30, 2014, unassigned fund balance in the General Fund was \$7.1 million, or 31.1% of total General Fund Expenditures.
- The City's total debt increased by \$5.95 million during the fiscal year 2014, which is due to 1) the normal maturity of debt in the water system, and the wastewater system; 2) refinancing of debt in the Water Enterprise Fund; and 3) issuance of \$8.5 million in a capital lease for a Citywide solar energy system.

THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Hanford (City) and its component units, using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No. 34. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

These **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. Additionally, certain eliminations have occurred as prescribed by the GASB statements in regards to inter-fund activity, payables and receivables.

The **Fund Financial Statements** include statements for each of the three categories of activities – governmental, business-type and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities and Changes in Net Position

The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about the City as a whole and about its activities. These statements included all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and sales tax base.

The Statement of Net Position and the Statement of Activities and Changes in Net Position, we separate the City activities as follows:

Governmental activities – Most of the City's basic services are reported in this category, including General Government, Police, Fire, Public Works, Parks/Recreation, and Community Development. Property and sales taxes, user fees, interest income, franchise fees, and state and federal shared revenues and grants generally financed these activities.

Business-Type activities – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's Water, Sewer, Storm Drain, Refuse, Airport, Intermodal, and Courthouse Square Funds are reported in this category.

FUND FINANCIAL STATEMENTS

The City, like other state and local governments, uses fund accounting to account for a number of funding sources and activities. In general, fund accounting provides a mechanism for separately accounting for a variety of different funding sources, and enables the City to demonstrate compliance with legal and/or contractual requirements that may be associated with these funds. Thus, the accompanying fund financial statements present individual funds, organized into one of three groups based on the nature of the activities and their purpose: Governmental, Proprietary or Fiduciary Funds. Note that the fund financial statements only present the most significant (or "major") funds. In addition, the fund financial statements include a schedule that reconciles the fund financial statements to the Government-Wide Financial Statements. This is designed to explain the difference created by the integrated approach.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

Governmental Funds – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The differences between the results shown in the governmental fund financial statements and those shown in the government-wide financial statements are explained in a reconciliation schedule following each governmental fund financial statement.

Proprietary Funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. In fact, the City’s enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City’s other programs and activities – such as the City’s self-insurance, fleet maintenance, and computer maintenance funds. The internal service funds are reported with governmental activities in the government-wide financial statements.

Fiduciary Funds – The City is the trustee, or fiduciary, for certain funds held on behalf of various third parties. The City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statement – The notes to the financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain “required supplementary information” concerning the City’s progress in funding its obligation to provide pension benefits to its employees, budgetary comparison schedules for the general fund and other major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City presents its financial statements under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34. The City is presenting prior fiscal years’ data for the purpose of providing comparative information for the Management Discussion and Analysis (MD&A).

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Hanford, assets exceeded liabilities by \$302,185,836 at the close of the most recent fiscal year.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

By far the largest portion of the City of Hanford's net position 67.4% reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any outstanding debt used to acquire those assets. The City of Hanford uses these capital assets to provide services to citizens; consequently, their value is not available for future spending. Although the City of Hanford's investment in its capital assets is reported net of related debt, it should be noted that the sources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Of the total current assets \$78,268,453, approximately 93% or \$72,637,913, consists of cash and investments. These funds are invested in accordance with State law and the City's investment policy, and includes funds legally and/or contractually restricted as to their use.

STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current assets	\$ 44,767,797	\$ 43,830,413	\$ 33,500,656	\$ 27,812,485	\$ 78,268,453	\$ 71,642,898
Capital and non-current assets (net of depreciation)	<u>165,897,689</u>	<u>167,551,128</u>	<u>114,047,754</u>	<u>112,250,666</u>	<u>279,945,443</u>	<u>279,801,794</u>
Total assets	<u>210,665,486</u>	<u>211,381,541</u>	<u>147,548,410</u>	<u>140,063,151</u>	<u>358,213,896</u>	<u>351,444,692</u>
Liabilities:						
Current and other liabilities	1,679,929	1,316,583	4,464,711	3,668,457	6,144,640	4,985,040
Long-term liabilities	<u>2,629,347</u>	<u>2,285,330</u>	<u>47,227,254</u>	<u>41,633,448</u>	<u>49,856,601</u>	<u>43,918,778</u>
Total liabilities	<u>4,309,276</u>	<u>3,601,913</u>	<u>51,691,965</u>	<u>45,301,905</u>	<u>56,001,241</u>	<u>48,903,818</u>
Net Position:						
Invested in capital assets, net of related debt	138,119,695	139,541,724	65,489,040	69,223,425	203,608,735	208,765,149
Restricted	42,274,023	41,529,163	6,497,413	595,471	48,771,436	42,124,634
Unrestricted	<u>25,962,492</u>	<u>26,708,741</u>	<u>23,843,173</u>	<u>24,942,350</u>	<u>49,805,665</u>	<u>51,651,091</u>
Total net position	<u>\$206,356,210</u>	<u>\$207,779,628</u>	<u>\$ 95,829,626</u>	<u>\$ 94,761,246</u>	<u>\$302,185,836</u>	<u>\$302,540,874</u>

An additional portion of the City of Hanford's net position \$48,771,436 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$49,805,665 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Hanford is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its governmental and business-type activities. This means the City has sufficient current assets to satisfy both its current and long-term liabilities, fulfill its obligations pursuant to external restriction imposed on City assets, and still have assets remaining for discretionary spending. In short, the City is in excellent financial condition.

Statement of Activities

As discussed earlier, the Statement of Net Position provides a measure of the financial health of an entity at a specific date in time (usually year end). The Statement of Activities provides details of how net position changed from the beginning of the year to the end of the year, and whether net assets increased or decreased. Thus, it indicates whether the City as a whole is slightly less at June 30, 2014 than it was at June 30, 2013.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES:						
Program revenues:						
Charges for services	\$ 4,872,743	\$ 3,894,116	\$20,111,378	\$18,825,518	\$ 24,984,121	\$ 22,719,634
Operating grants and contributions	556,526	784,540			556,526	784,540
Capital grants and contributions	822,314	2,891,606	3,419	496,399	825,733	3,388,005
General revenues:						
Taxes	22,972,343	21,849,093			22,972,343	21,849,093
Investment earnings	756,502	403,942	133,512	(33,852)	890,014	370,090
Other revenues	533,383	555,437	880,626	698,727	1,414,009	1,254,164
TOTAL REVENUES	30,513,811	30,378,734	21,128,935	19,986,792	51,642,746	50,365,526
EXPENSES:						
Governmental activities:						
General government	2,078,171	1,785,931			2,078,171	1,785,931
Public safety	15,742,686	14,202,515			15,742,686	14,202,515
Public works	8,334,364	8,768,132			8,334,364	8,768,132
Parks and recreation	3,608,001	2,202,042			3,608,001	2,202,042
Community development	2,245,949	3,101,987			2,245,949	3,101,987
Interest on long-term debt						
Business-type activities:						
Water system			6,265,085	5,900,237	6,265,085	5,900,237
Wastewater system			5,724,157	5,333,920	5,724,157	5,333,920
Storm drain			706,734	823,506	706,734	823,506
Refuse			6,286,504	5,847,516	6,286,504	5,847,516
Airport			454,832	449,165	454,832	449,165
Intermodal			71,819	108,306	71,819	108,306
Courthouse square			195,731	206,483	195,731	206,483
TOTAL EXPENSES	32,009,171	30,060,607	19,704,862	18,669,133	51,714,033	48,729,740
Increase in net position before transfers	(1,495,360)	318,127	1,424,073	1,317,659	(71,287)	1,635,786
Transfers	(14,844)	(23,178)	14,844	23,178		
Change in net position	(1,510,204)	294,949	1,438,917	1,340,837	(71,287)	1,635,786
Net position, beginning of year, as previously reported	207,779,628	207,238,229	94,761,246	93,146,987	302,540,874	300,385,216
Prior period adjustment	86,786	246,450	(370,537)	273,422	(283,751)	519,872
Net position, beginning of year, restated	207,866,414	207,484,679	94,390,709	93,420,409	302,257,123	300,905,088
Net position, end of year	\$206,356,210	\$207,779,628	\$95,829,626	\$94,761,246	\$302,185,836	\$302,540,874

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

The City's revenue totaled \$51,642,746, with 48% generated from charges for services and 44% generated from taxes. The largest source of revenues in Governmental Activities comes from taxes at 75%. This is typical in that traditional services provided by a city, such as public safety, parks, recreation, and public works, are primarily funded from property, sales, transient occupancy, and other local taxes. The largest source of revenues in Business-Type Activities comes from charges for services at 95%. The Business-Type Activities include enterprise fund operations, such as Water, Sewer, Refuse, Airport and Intermodal Funds, all of which recover their costs through fees and charges just like a normal business.

Expenses of the City totaled \$51,714,033. The two largest categories of expense are public safety, which accounted for 30% of total costs and public works, which represents 16% of total costs. However, in relation to Governmental Activity expenses, public safety makes up 49% of the total.

As depicted in the Statement of Activities, net position decreased during the year. In those funds included within the Governmental Activities category, net position decreased by \$1,423,418 a decrease of 0.7%. Net position increased in those funds included within the Business-Type Activities category by \$1,068,380, or 1.1%.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As previously noted, the City of Hanford uses fund accounting to demonstrate compliance with legal and contractual requirements. This section provides an analysis and discussion of individual funds and fund types presented in the financial statements.

Governmental Funds – The Focus of the City of Hanford's governmental funds is on short-term inflows and outflows and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2014, the City's governmental statement of activities reported a total ending net position of \$206,356,210, a decrease of \$1,423,418 from the beginning of the year. Approximately 12% of this total amount, \$25,962,492, is available for spending at the government's discretion as unrestricted fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to a specific future use.

The General Fund is the primary operating fund of the City of Hanford. At the end of the fiscal year, unassigned fund balance of the General Fund was \$7,143,524 while total fund balance reached \$16,240,175. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. The unassigned fund balance of the general fund represents approximately 31.1% of general fund expenditures.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

Capital Improvement Funds, which are categorized as governmental funds, show fluctuations in their ending fund balances because they are primarily used to account for capital improvement projects that span more than one year. Therefore, the change in fund balance is generally due to the timing of funding, which generally occurs in one year, in relation to the timing of expenditures, which occur over more than one year. Any remaining fund balances are either reserved or earmarked specifically for the continuing cost of the related projects.

Proprietary Funds – The City proprietary funds include the Water, Wastewater, Storm Drain, Refuse, Airport, Intermodal, and Courthouse Square Funds. All of the proprietary funds are highly capital intensive, requiring a significant investment in capital equipment and facilities to conduct their operations, whether it be in water and sewer lines, water and wastewater treatment facilities or runways.

The Water Fund has a total net position of \$29,015,855 at the end of the fiscal year. Total net position includes \$18,645,690 invested in capital assets and \$6,497,413 reserved for debt service, which are not available to pay for current expenses. The remaining net position of \$3,872,752 is unrestricted and available to cover current operating and capital needs of the fund.

The Refuse Fund has a total net position of \$4,427,662 at the end of the fiscal year. Total net position includes \$181,222 invested in capital assets, which are not available to cover current expenses. The remaining net position of \$4,246,440 is unrestricted and available to cover current operating and capital needs of the fund.

The Wastewater Fund has a total net position of \$30,929,086 at the end of the fiscal year. Total net position includes \$23,665,865 invested in capital assets, which are not available to cover current expenses. The fund has \$7,263,221 available to cover current operating and capital needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City of Hanford's investment in capital assets for its governmental and business type activities as of June 30, 2014 amounts to \$252,167,449 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities and roads. The net increase in the City's investment in capital assets for the current fiscal year was \$375,059. This increase is a result of annual depreciation, land acquisition, normal equipment replacement, and construction of typical capital assets. Significant capital asset events during the fiscal year included the following:

- Purchase of land and construction on storm drainage facilities \$439,755.
- Construction on wastewater system treatment plan and collection system for \$428,609.
- Construction on the water system storage tanks, water wells, and water mains for \$3,967,318.
- Various street construction projects, rehabilitation and betterments for \$3,994,391.
- Depreciation for fiscal year 2013-14 \$9,662,275.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 60,432,656	\$ 60,432,656	\$ 11,205,543	\$ 11,037,597	\$ 71,638,199	\$ 71,470,253
Buildings	10,949,373	11,042,895	6,278,096	6,568,357	17,227,469	17,611,252
Infrastructure	56,165,060	60,182,724	89,450,401	91,388,119	145,615,461	151,570,843
Equipment	7,759,121	7,129,324	3,600,751	3,187,775	11,359,872	10,317,099
Construction in progress	<u>2,813,485</u>	<u>754,125</u>	<u>3,512,963</u>	<u>68,818</u>	<u>6,326,448</u>	<u>822,943</u>
Total capital assets	<u>\$138,119,695</u>	<u>\$139,541,724</u>	<u>\$114,047,754</u>	<u>\$112,250,666</u>	<u>\$252,167,449</u>	<u>\$251,792,390</u>

Long-Term Debt - At the end of the current fiscal year, the City of Hanford, primary government, had a total debt outstanding of \$50,774,123.

Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Compensated absences	\$ 906,153	\$ 842,850	\$ 186,927	\$ 165,294	\$ 1,093,080	\$ 1,008,144
Revenue bonds payable			28,005,000	23,595,000	28,005,000	23,595,000
Unamortized bond premium			902,698	540,209	902,698	540,209
Notes payable	246,450	246,450	7,465,709	14,268,334	7,712,159	14,514,784
Lease purchase	<u> </u>	<u> </u>	<u>13,061,186</u>	<u>5,163,907</u>	<u>13,061,186</u>	<u>5,163,907</u>
	<u>\$1,152,603</u>	<u>\$1,089,300</u>	<u>\$49,621,520</u>	<u>\$43,732,744</u>	<u>\$50,774,123</u>	<u>\$44,822,044</u>

In the Business-Type Activities, the revenue bonds payable consists of three bond issues. In 2013, for the water system, the city received \$12,725,000 from the issuance of Water Revenue Bonds for the purpose of refinancing a 2003 Revenue Bond and 2007 note payable. For the sewer system there remains a 1996 \$7,855,000 Variable Rate Refunding Bond issue, and a 2012 \$13,165,000 Refunding Revenue Bond.

The notes payable portion of the outstanding \$7,712,159 debt consists of two loans. In 2002, the City obtained a \$10,000,000 loan for the purpose of expanding the wastewater treatment plant and in September, 2011, the City obtained a \$246,450 shared appreciation loan from the Kings County Economic Development Corporation for purchase of land in the Kings Industrial Park.

The outstanding lease purchase amount, \$13,061,186, is three capital leases. The first was for an original lease amount of \$3,050,000 to lease water meters and AMR devices. The second lease was for an energy efficient solar tracker system at the wastewater treatment plant for \$4,325,556. The third lease was for a second energy efficient solar tracking system \$8,495,138 located at the wastewater treatment plant but serving the whole city.

For detail information regarding each of these bonds or notes, please refer to Note 5 – Long-Term Debt, page 45.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Continued)

GENERAL FUND BUDGETARY HIGHLIGHTS

The original 2014 fiscal year budget was increased by \$366,690 primarily from grant funds and prior year projects brought forward. The actual revenues were less than budget estimates by about \$243,194 caused from reduced investment earnings and state and federal revenues. Expenditure savings were about \$115,308, from all general fund functions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The key assumptions in the General Fund revenue forecast for fiscal year 2014-2015 were:

- Service charges will increase due to new services and rate increases that went into effect during the fiscal year.
- Property tax revenues will increase about 2.0% with assessed valuation and general growth.
- Sales tax revenues will grow by about 2.9%.
- State budget actions will not negatively affect general fund revenues.

Items addressed in the budget were:

Wastewater – Complete upgrades to sewer lift stations and reserve funds for the 2018 sewer treatment plant expansion.

Airport – Design and construction of improvements /overlay of the airport apron and taxiway.

Community Development – Continue upgrade of the City general plan.

Water – The completion of construction of various water main replacements and additions.

Streets – Resurface Lacey Boulevard from Greefield Avenue to Mall Drive, install traffic signals at Grangeville Boulevard and 13th Avenue.

General Fund Operations – The budget maintains current services with the same level of employees and anticipates minimal revenue growth with no draw from reserves.

Parks and Recreation – Renovate the City Plunge and replace the pool filters.

REQUESTS FOR INFORMATION

This Financial Report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in the report or requests for additional financial information can be sent via e-mail to finance@ci.hanford.ca.us. Formal written requests should be addressed to: City of Hanford, Attn: Finance Department, 315 N. Douty Street, Hanford, California 93230.

FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 44,922,041	\$ 21,218,459	\$ 66,140,500
Receivables	3,071,149	1,865,246	4,936,395
Internal balances	(3,591,410)	3,591,410	
Inventories	184,917	202,814	387,731
Deposits	180,000	10,000	190,000
Deferred charges		115,314	115,314
Other assets	1,100		1,100
Long-term notes receivable	19,605,208		19,605,208
Loan to Successor Agency	7,679,886		7,679,886
Restricted cash and investments		6,497,413	6,497,413
Land held for resale	492,900		492,900
Capital assets:			
Non-depreciable capital assets:			
Land	60,432,656	11,205,543	71,638,199
Construction in progress	2,813,485	3,512,963	6,326,448
Depreciable capital assets, net of depreciation	<u>74,873,554</u>	<u>99,329,248</u>	<u>174,202,802</u>
Total assets	<u>210,665,486</u>	<u>147,548,410</u>	<u>358,213,896</u>
Deferred outflow of resources			
Deferred loss on bond refunding		362,055	362,055
Total deferred outflow of resources		<u>362,055</u>	<u>362,055</u>
LIABILITIES			
Accounts payable	1,141,676	795,510	1,937,186
Salary and benefits payable	521,326	104,988	626,314
Accrued interest payable		565,274	565,274
Deposits and unearned revenue	16,927	253,469	270,396
Long-term debt – due within one year		2,745,470	2,745,470
Long-term debt – due in more than one year	246,450	45,786,425	46,032,875
Unamortized bond premium		902,698	902,698
Compensated absences – long-term	906,153	186,927	1,093,080
Net OPEB liability	<u>1,476,744</u>	<u>351,204</u>	<u>1,827,948</u>
Total liabilities	<u>4,309,276</u>	<u>51,691,965</u>	<u>56,001,241</u>
Deferred inflow of resources			
Deferred gain on bond refunding		388,874	388,874
Total deferred inflow of resources		<u>388,874</u>	<u>388,874</u>
NET POSITION			
Invested in capital assets, net of related debt	138,119,695	65,489,040	203,608,735
Restricted for:			
Streets	7,604,457		7,604,457
Debt service		6,497,413	6,497,413
Housing	21,192,760		21,192,760
Public safety	1,974,946		1,974,946
Parks and recreation	2,152,900		2,152,900
Capital projects	9,348,960		9,348,960
Unrestricted	<u>25,962,492</u>	<u>23,843,173</u>	<u>49,805,665</u>
Total net position	<u>\$206,356,210</u>	<u>\$ 95,829,626</u>	<u>\$302,185,836</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Primary government:							
Governmental activities:							
General government	\$ 2,078,171	\$ 51,907	\$ 1,811	\$	\$ (2,024,453)		
Public safety	15,742,686	1,182,517	352,235	16,717	(14,191,217)		
Public works	8,334,364	1,263,972		805,597	(6,264,795)		
Recreation	3,608,001	718,844			(2,889,157)		
Community development	<u>2,245,949</u>	<u>1,655,503</u>	<u>202,480</u>		<u>(387,966)</u>		
Total governmental activities	<u>32,009,171</u>	<u>4,872,743</u>	<u>556,526</u>	<u>822,314</u>	<u>(25,757,588)</u>		
Business-type activities:							
Water system	6,265,085	5,695,300			(569,785)		
Wastewater system	5,724,157	6,245,340		3,419	524,602		
Storm drain	706,734	1,344,353			637,619		
Refuse	6,286,504	6,572,185			285,681		
Airport	454,832	104,808			(350,024)		
Intermodal	71,819	31,387			(40,432)		
Courthouse square	<u>195,731</u>	<u>118,005</u>			<u>(77,726)</u>		
Total business-type activities	<u>19,704,862</u>	<u>20,111,378</u>		<u>3,419</u>	<u>409,935</u>		
Total primary government	<u>\$51,714,033</u>	<u>\$24,984,121</u>	<u>\$556,526</u>	<u>\$825,733</u>	<u>\$(25,347,653)</u>		

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Activities
For the Year Ended June 30, 2014
(Continued)

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Primary Government:			
Governmental activities:			
General government	\$ (2,024,453)	\$	\$ (2,024,453)
Public safety	(14,191,217)		(14,191,217)
Public works	(6,264,795)		(6,264,795)
Recreation	(2,889,157)		(2,889,157)
Community development	<u>(387,966)</u>		<u>(387,966)</u>
Total governmental activities	<u>(25,757,588)</u>		<u>(25,757,588)</u>
Business-type activities:			
Water system		(569,785)	(569,785)
Wastewater system		524,602	524,602
Storm drain		637,619	637,619
Refuse		285,681	285,681
Airport		(350,024)	(350,024)
Intermodal		(40,432)	(40,432)
Courthouse square		(77,726)	(77,726)
Total business-type activities		<u>409,935</u>	<u>409,935</u>
Total primary government	<u>(25,757,588)</u>	<u>409,935</u>	<u>(25,347,653)</u>
General revenues:			
Taxes:			
Property taxes	11,016,307		11,016,307
Sales and use tax	7,290,179		7,290,179
Franchise taxes	950,641		950,641
Other taxes	3,715,216		3,715,216
Revenue from use of money and property	756,502	133,512	890,014
Impact fees		708,348	708,348
Gain (loss) on sale of capital assets	403,845	(7,270)	396,575
Miscellaneous/other	129,538	179,548	309,086
Transfers - interfund	<u>(14,844)</u>	<u>14,844</u>	
Total general revenues and transfers	<u>24,247,384</u>	<u>1,028,982</u>	<u>25,276,366</u>
Change in net position			
	(1,510,204)	1,438,917	(71,287)
Net position – beginning of year, as previously reported	207,779,628	94,761,246	302,540,874
Prior period adjustment	86,786		86,786
Effect of accounting change		<u>(370,537)</u>	<u>(370,537)</u>
Net position, beginning of year, restated	<u>207,866,414</u>	<u>94,390,709</u>	<u>302,257,123</u>
Net position, end of year	<u>\$206,356,210</u>	<u>\$95,829,626</u>	<u>\$302,185,836</u>

See independent auditor's report and notes to financial statements.

**GOVERNMENTAL
FUND FINANCIAL STATEMENTS**

CITY OF HANFORD
Combining Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 8,465,120	\$ 506,113	\$6,189,329	\$ 1,830,652	\$11,657,812	\$26,818,374
Receivables	505,497	63,578			659,248	3,058,975
Loan receivable		16,999,162			2,606,046	19,605,208
Due from other funds	487,872		2,179,181			2,667,053
Deposits	100,000					100,000
Other assets			1,100			1,100
Land for resale	492,900					492,900
Advances to successor agency	<u>7,679,886</u>	<u>\$17,568,853</u>	<u>\$8,369,610</u>	<u>\$1,830,652</u>	<u>\$14,923,106</u>	<u>7,679,886</u>
Total assets	<u>\$17,731,275</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>\$60,423,496</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	418,308	79,138	90,965	10,999	225,048	824,458
Accrued wages payable	435,802					435,802
Consumer deposits	15,070	1,857				16,927
Due to other funds	375,470			333,377	154,495	863,342
Loans payable	<u>246,450</u>					<u>246,450</u>
Total liabilities	<u>1,491,100</u>	<u>80,995</u>	<u>90,965</u>	<u>344,376</u>	<u>379,543</u>	<u>2,386,979</u>
FUND BALANCES						
Nonspendable:						
Long-term receivables	7,679,886				2,558,915	10,238,801
Land for resale	246,450					246,450
Insurance deposits	100,000					100,000
Restricted for:						
Community development		17,487,858				17,487,858
Streets and roads				1,486,276	5,305,469	6,791,745
Recreation					2,152,900	2,152,900
Landscape maintenance						813,911
Public safety					1,974,946	1,974,946
Committed for:						
Parking and business improvement			8,278,645		575,379	8,854,024
Community development					1,168,907	1,168,907
Capital projects	1,070,315					1,070,315
Unassigned	<u>7,143,524</u>				<u>(6,864)</u>	<u>7,136,660</u>
Total fund balances	<u>\$16,240,175</u>	<u>\$17,487,858</u>	<u>\$8,278,645</u>	<u>\$1,486,276</u>	<u>\$14,543,563</u>	<u>\$58,036,517</u>
Total liabilities and fund balances	<u>\$17,731,275</u>	<u>\$17,568,853</u>	<u>\$8,369,610</u>	<u>\$1,830,652</u>	<u>\$14,923,106</u>	<u>\$60,423,496</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

Total fund balances governmental funds	\$ 58,036,517
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:	
Capital assets at historical cost	\$203,712,869
Accumulated depreciation	<u>(71,889,415)</u>
	131,823,454
Internal service funds are used by management to charge the costs of fleet maintenance, purchasing, risk management, building usage, and computer maintenance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position:	
	18,879,136
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Compensated absences	\$ 906,153
Unfunded OPEB liabilities	<u>1,476,744</u>
	<u>(2,382,897)</u>
Total net position – governmental activities	<u><u>\$206,356,210</u></u>

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
REVENUES						
Taxes and special assessments	\$19,381,951	\$ 796,909	\$ 8,297	\$ 710,028	\$ 3,928,525	\$24,028,801
Aid from other government agencies	1,228,698			1,119,719	317,779	3,463,105
Licenses and permits	540,348					540,348
Fines and forfeitures	94,406					149,134
Charges for services	960,354					960,354
Revenue from use of money and property	396,607	283,660		3,791	91,479	775,537
Miscellaneous	81,102	135	461,775			543,012
Unrealized gain (loss) on investments		632	20,775	(821)	32,934	53,520
Total revenues	<u>22,683,466</u>	<u>1,081,336</u>	<u>490,847</u>	<u>1,832,717</u>	<u>4,425,445</u>	<u>30,513,811</u>
EXPENDITURES						
General government	1,658,108				346,494	2,004,602
Public safety	15,226,641					15,226,641
Public works	2,273,999				122,307	2,396,306
Recreation	2,695,092					2,695,092
Community development	1,147,712	600,872			297,054	2,045,638
Capital outlay		535,917	974,652	1,305,303	2,967,499	5,783,371
Total expenditures	<u>23,001,552</u>	<u>1,136,789</u>	<u>974,652</u>	<u>1,305,303</u>	<u>3,733,354</u>	<u>30,151,650</u>
Excess (deficiency) of revenues over expenditures	<u>(318,086)</u>	<u>(55,453)</u>	<u>(483,805)</u>	<u>527,414</u>	<u>692,091</u>	<u>362,161</u>
Other financing sources (uses)						
Operating transfers in	56,105				90,856	146,961
Operating transfers out	<u>(95,700)</u>				<u>(66,105)</u>	<u>(161,805)</u>
Total other financing sources (uses)	<u>(39,595)</u>				<u>24,751</u>	<u>(14,844)</u>
Net change in fund balance	<u>(357,681)</u>	<u>(55,453)</u>	<u>(483,805)</u>	<u>527,414</u>	<u>716,842</u>	<u>347,317</u>
Fund balance beginning of year, as previously reported	16,511,070	17,543,311	8,762,450	958,862	13,826,721	57,602,414
Prior period adjustment	<u>86,786</u>					<u>86,786</u>
Fund balance beginning of year, restated	<u>16,597,856</u>	<u>17,543,311</u>	<u>8,762,450</u>	<u>958,862</u>	<u>13,826,721</u>	<u>57,689,200</u>
Fund balance end of year	<u>\$16,240,175</u>	<u>\$17,487,858</u>	<u>\$8,278,645</u>	<u>\$1,486,276</u>	<u>\$14,543,563</u>	<u>\$58,036,517</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Reconciliation of the Governmental Funds Statement
of Revenues, Expenditures, and Changes in Fund Balances
to the Government-Wide Statement of Activities
For the Year ended June 30, 2014

Total net change in fund balances – governmental funds	\$ 347,317
Amounts reported for governmental activities in the statement of activities different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:	
Expenditures for capital outlay	\$ 3,157,700
Depreciation expense	<u>(4,925,730)</u>
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and those earned was:	
	(63,303)
Internal service funds are used by management to charge the costs of fleet maintenance, purchasing, employee welfare, workers' compensation, general and unemployment insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities:	254,526
Unfunded OPEB liability: These expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in government funds.	<u>(280,714)</u>
Change in net position of governmental activities	<u><u>\$(1,510,204)</u></u>

PROPRIETARY FUNDS FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Net Position
Proprietary Funds
June 30, 2014

	Water System Fund	Sewer Improvement Funds		
	Wastewater Fund	Storm Drain Fund		Refuse Fund
ASSETS				
Current assets:				
Cash and investments	\$ 4,699,601	\$ 7,741,903	\$ 4,567,705	\$ 4,080,657
Restricted cash	6,497,413			
Receivables, net	549,620	513,995	133,034	610,951
Deposits	6,000	4,000		
Inventory	202,814			
Deferred charges	40,211	75,103		
Due from other funds				
Total current assets	<u>11,995,659</u>	<u>8,335,001</u>	<u>4,700,739</u>	<u>4,691,608</u>
Noncurrent assets:				
Capital assets:				
Land	324,114	4,135,650	3,622,772	
Buildings and improvements	46,547,631	73,178,384	16,248,791	234,665
Machinery and equipment	3,807,440	634,470	129,356	1,100,516
Construction in progress	3,470,447		32,016	10,500
Less accumulated depreciation	(14,086,524)	(27,141,343)	(4,133,606)	(1,164,459)
Total capital assets (net of accumulated depreciation)	<u>40,063,108</u>	<u>50,807,161</u>	<u>15,899,329</u>	<u>181,222</u>
Total noncurrent assets	<u>40,063,108</u>	<u>50,807,161</u>	<u>15,899,329</u>	<u>181,222</u>
Total assets	<u><u>\$ 52,058,767</u></u>	<u><u>\$ 59,142,162</u></u>	<u><u>\$ 20,600,068</u></u>	<u><u>\$ 4,872,830</u></u>
Deferred outflow of resources				
Deferred loss on bond refunding	\$ 362,055	\$ _____	\$ _____	\$ _____
Total deferred outflow of resources	<u>362,055</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>
LIABILITIES				
Current liabilities:				
Accounts payable	436,508	164,789	2,772	181,265
Salaries and benefits payable	31,382	31,047		42,211
Deposits and unearned revenue	249,137			
Due to other funds				
Interest payable	224,222	341,052		
Current portion of long-term debt	1,179,653	1,565,817		
Total current liabilities	<u>2,120,902</u>	<u>2,102,705</u>	<u>2,772</u>	<u>223,476</u>
Noncurrent liabilities:				
Compensated absences payable	51,760	56,528		78,639
Net OPEB liability	114,519	93,632		143,053
Unamortized bond premium	517,966	384,732		
Bonds and notes payable	20,210,946	25,575,479		
Total noncurrent liabilities	<u>20,895,191</u>	<u>26,110,371</u>		<u>221,692</u>
Total liabilities	<u>23,016,093</u>	<u>28,213,076</u>	<u>2,772</u>	<u>445,168</u>
Deferred inflow of resources				
Deferred gain on bond refunding	388,874			
Total deferred inflow of resources	<u>388,874</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>
NET POSITION				
Invested in capital assets net of related debt	18,645,690	23,665,865	15,899,329	181,222
Restricted for debt service	6,497,413			
Unrestricted	3,872,752	7,263,221	4,697,967	4,246,440
Total net position	<u><u>\$ 29,015,855</u></u>	<u><u>\$ 30,929,086</u></u>	<u><u>\$ 20,597,296</u></u>	<u><u>\$ 4,427,662</u></u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Net Position
Proprietary Funds
June 30, 2014
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total	Governmental Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 128,593	\$	\$	\$ 21,218,459	\$ 18,103,667
Restricted cash				6,497,413	
Accounts receivable, net	1,618		56,028	1,865,246	12,174
Deposits				10,000	80,000
Inventory				202,814	184,917
Deferred charges				115,314	
Due from other funds	79,793			79,793	
Total current assets	<u>210,004</u>	<u> </u>	<u>56,028</u>	<u>29,989,039</u>	<u>18,380,758</u>
Noncurrent assets:					
Capital assets:					
Land	2,596,623	526,384		11,205,543	
Buildings and improvements	6,710,403	1,784,997		144,704,871	
Machinery and equipment	54,971			5,726,753	17,260,814
Construction in progress				3,512,963	
Less: Accumulated depreciation	(3,907,885)	(668,559)		(51,102,376)	(10,964,573)
Total capital assets	<u>5,454,112</u>	<u>1,642,822</u>	<u> </u>	<u>114,047,754</u>	<u>6,296,241</u>
(net of accumulated depreciation)					
Total noncurrent assets	<u>5,454,112</u>	<u>1,642,822</u>	<u> </u>	<u>114,047,754</u>	<u>6,296,241</u>
Total assets	<u>\$ 5,664,116</u>	<u>\$1,642,822</u>	<u>\$ 56,028</u>	<u>\$144,036,793</u>	<u>\$ 24,676,999</u>
Deferred outflow of resources					
Deferred loss on bond refunding	\$	\$	\$	\$ 362,055	\$
Total deferred outflow of resources	<u> </u>	<u> </u>	<u> </u>	<u>362,055</u>	<u> </u>
LIABILITIES					
Current Liabilities:					
Accounts payable	8,623	391	1,162	795,510	317,218
Salaries and benefits payable	348			104,988	85,524
Deposits and unearned revenue	4,332			253,469	
Due to other funds	385,468	631,284	866,752	1,883,504	
Interest payable				565,274	
Current portion of long-term debt				2,745,470	
Total current liabilities	<u>398,771</u>	<u>631,675</u>	<u>867,914</u>	<u>6,348,215</u>	<u>402,742</u>
Noncurrent liabilities:					
Compensated absence payable				186,927	
Net OPEB liability				351,204	
Unamortized bond premium				902,698	
Bonds and notes payable				45,786,425	
Total noncurrent liabilities	<u> </u>	<u> </u>	<u> </u>	<u>47,227,254</u>	<u> </u>
Total liabilities	<u>398,771</u>	<u>631,675</u>	<u>867,914</u>	<u>53,575,469</u>	<u>402,742</u>
Deferred inflow of resources					
Deferred gain on bond refunding	<u> </u>	<u> </u>	<u> </u>	<u>388,874</u>	<u> </u>
Total deferred inflow of resources	<u> </u>	<u> </u>	<u> </u>	<u>388,874</u>	<u> </u>
NET POSITION					
Invested in capital assets, net of related debt	5,454,112	1,642,822		65,489,040	6,296,241
Restricted for debt service				6,497,413	
Unrestricted	(188,767)	(631,675)	(811,886)	18,448,052	17,978,016
Total net position	<u>\$ 5,265,345</u>	<u>\$1,011,147</u>	<u>\$(811,886)</u>	<u>\$ 90,434,505</u>	<u>\$ 24,274,257</u>
Adjustments to reflect the consolidation of internal service funds related to enterprise funds				<u>5,395,121</u>	
Net position of business-type activities				<u>\$ 95,829,626</u>	

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Water System Fund	Sewer Improvement Funds	
	Wastewater Fund	Storm Drain Fund	Refuse Fund
OPERATING REVENUES			
Charges for services	\$ 5,695,300	\$ 6,245,340	\$ 1,344,353
Other revenues	<u>321,772</u>	<u>354,228</u>	<u>99,743</u>
Total operating revenue	<u>6,017,072</u>	<u>6,599,568</u>	<u>1,444,096</u>
	<u>6,017,072</u>	<u>6,599,568</u>	<u>1,444,096</u>
OPERATING EXPENSES			
Personnel services	1,347,985	1,316,884	1,790,241
Services and supplies	2,953,649	2,156,690	4,895,060
Depreciation	<u>1,092,912</u>	<u>1,443,565</u>	<u>212,365</u>
Total operating expenses	<u>5,394,546</u>	<u>4,917,139</u>	<u>6,689,995</u>
Operating income (loss)	<u>622,526</u>	<u>1,682,429</u>	<u>743,741</u>
	<u>622,526</u>	<u>1,682,429</u>	<u>743,741</u>
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental			
Gain (loss) on disposition of assets		(4,972)	(2,298)
Interest income	19,438	29,861	17,567
Interest expense	(886,591)	(825,008)	
Unrealized gain (loss) on investments	17,368	22,763	11,064
Miscellaneous	<u> </u>	<u> </u>	<u> </u>
Total non-operating revenue (expense)	<u>(849,785)</u>	<u>(777,356)</u>	<u>26,333</u>
	<u>(849,785)</u>	<u>(777,356)</u>	<u>26,333</u>
Income (loss) before capital contributions and transfers	(227,259)	905,073	770,074
Capital contributions		3,419	
Transfers in (out)	<u>368,550</u>	<u>(135,230)</u>	<u>(38,140)</u>
	<u>368,550</u>	<u>(135,230)</u>	<u>(38,140)</u>
CHANGES IN NET POSITION	141,291	773,262	731,934
NET POSITION, Beginning of year	<u>28,925,439</u>	<u>30,475,486</u>	<u>19,865,362</u>
EFFECT OF ACCOUNTING CHANGE	<u>(50,875)</u>	<u>(319,662)</u>	<u> </u>
NET POSITION, End of year	<u>\$29,015,855</u>	<u>\$30,929,086</u>	<u>\$20,597,296</u>
	<u>\$29,015,855</u>	<u>\$30,929,086</u>	<u>\$20,597,296</u>
	<u>\$29,015,855</u>	<u>\$30,929,086</u>	<u>\$4,427,662</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 104,808	\$ 31,387	\$ 118,005	\$20,111,378	\$ 5,866,244
Other revenues	<u>73,308</u>	<u>33</u>	<u> </u>	<u>855,496</u>	<u> </u>
Total operating revenue	<u>178,116</u>	<u>31,420</u>	<u>118,005</u>	<u>20,966,874</u>	<u>5,866,244</u>
OPERATING EXPENSES					
Personnel services	16,154		5,512	4,476,776	1,034,254
Services and supplies	183,533	29,739	183,840	10,890,501	4,175,896
Depreciation	<u>242,087</u>	<u>35,701</u>	<u> </u>	<u>3,031,324</u>	<u>1,144,618</u>
Total operating expenses	<u>441,774</u>	<u>65,440</u>	<u>189,352</u>	<u>18,398,601</u>	<u>6,354,768</u>
Operating income (loss)	<u>(263,658)</u>	<u>(34,020)</u>	<u>(71,347)</u>	<u>2,568,273</u>	<u>(488,524)</u>
NON-OPERATING REVENUES (EXPENSES)					
Intergovernmental					15,695
Gain (loss) on disposition of assets				(7,270)	51,597
Interest income				68,247	43,730
Interest expense				(1,711,599)	
Unrealized gain (loss) on investments	509	(81)	52	65,265	55,341
Miscellaneous	<u>32,400</u>	<u> </u>	<u> </u>	<u>32,400</u>	<u>324,582</u>
Total non-operating revenue (expense)	<u>32,909</u>	<u>(81)</u>	<u>52</u>	<u>(1,552,957)</u>	<u>490,945</u>
Income (loss) before capital contributions and transfers	(230,749)	(34,101)	(71,295)	1,015,316	2,421
Capital contributions				3,419	
Transfers in (out)	<u>14,844</u>	<u> </u>	<u> </u>	<u>14,844</u>	<u>657,443</u>
CHANGE IN NET POSITION	<u>(215,905)</u>	<u>(34,101)</u>	<u>(71,295)</u>	<u>1,033,579</u>	<u>659,864</u>
NET POSITION, Beginning of year	<u>5,481,250</u>	<u>1,045,248</u>	<u>(740,591)</u>	<u> </u>	<u>23,614,393</u>
EFFECT OF ACCOUNTING CHANGE	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET POSITION, End of year	<u>\$5,265,345</u>	<u>\$1,011,147</u>	<u>\$(811,886)</u>		<u>\$24,274,257</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				405,338	
Change in net position of business-type activities (Page 14)				<u>\$ 1,438,917</u>	

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year ended June 30, 2014

	Water System Fund	Sewer Improvement Funds			
	Wastewater Fund	Storm Drain Fund	Refuse Fund		Airport Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
 Cash received for current services					
Cash received for current services	\$ 5,719,094	\$ 6,244,961	\$ 1,437,374	\$ 6,574,453	\$ 108,577
Cash received for other operating revenues	321,772	354,228	99,743	6,412	73,308
Cash paid for services and supplies	(2,671,199)	(2,131,586)	(487,681)	(4,887,270)	(179,650)
Cash paid for salaries and benefits	<u>(1,320,384)</u>	<u>(1,282,720)</u>	_____	<u>(1,744,623)</u>	<u>(16,135)</u>
Net cash provided (used) by operating activities	<u>2,049,283</u>	<u>3,184,883</u>	<u>1,049,436</u>	<u>(51,028)</u>	<u>(13,900)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
 Transfers (to) from other funds					
Transfers (to) from other funds	368,550	(135,230)	(38,140)	(195,180)	14,844
Loans from/(to) other funds	_____	<u>25,963</u>	_____	_____	<u>(79,793)</u>
Net cash provided (used) by non-capital financing activities	<u>368,550</u>	<u>(109,267)</u>	<u>(38,140)</u>	<u>(195,180)</u>	<u>(64,949)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
 Proceeds from capital lease					
Proceeds from capital lease	8,495,139				
 Proceeds from refunding bonds					
Proceeds from refunding bonds	12,725,000				
 Principal paid on long-term debt					
Principal paid on long-term debt	(13,790,917)	(1,535,260)			
Interest paid	(703,959)	(832,198)			
 Proceeds from sale of equipment					
Proceeds from sale of equipment	_____				
 Capital expenditures					
Capital expenditures	<u>(3,967,318)</u>	<u>(425,190)</u>	<u>(271,809)</u>	_____	_____
Net cash provided (used) by capital and related financing activities	<u>2,757,945</u>	<u>(2,792,648)</u>	<u>(271,809)</u>	_____	_____
CASH FLOWS FROM INVESTING ACTIVITIES:					
 Unrealized gain (loss) on investments					
Unrealized gain (loss) on investments	17,368	22,763	11,064	13,590	509
 Other non-operating revenue (expense)					
Other non-operating revenue (expense)	19,274	28,882	16,222	1,291	32,400
 Interest received					
Interest received	<u>36,642</u>	<u>51,645</u>	<u>27,286</u>	<u>14,881</u>	<u>32,909</u>
Net cash provided by investing activities	<u>36,642</u>	<u>51,645</u>	<u>27,286</u>	<u>14,881</u>	<u>32,909</u>
Net increase (decrease) in cash and cash equivalents	5,212,420	334,613	766,773	(231,327)	(45,940)
Cash and cash equivalents, beginning of year	<u>5,984,594</u>	<u>7,407,290</u>	<u>3,800,932</u>	<u>4,311,984</u>	<u>174,533</u>
Cash and cash equivalents, end of year	<u>\$ 11,197,014</u>	<u>\$ 7,741,903</u>	<u>\$ 4,567,705</u>	<u>\$ 4,080,657</u>	<u>\$ 128,593</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014
(Continued)

	Water System Fund	Sewer Improvement Funds		Refuse Fund	Airport Fund
	Wastewater Fund	Storm Drain Fund			
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 622,526	\$ 1,682,429	\$ 743,741	\$ (111,398)	\$(263,658)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	1,092,912	1,443,565	212,365	4,694	242,087
(Increase) decrease in net assets:					
Accounts receivable	10,977	(379)	93,021	2,268	935
Prepaid expenses					
Inventory	(15,205)				
Increase (decrease) in net liabilities:					
Accounts payable	297,655	25,104	309	7,790	3,883
Salaries and benefits payable	5,139	7,089		9,336	19
Compensated absences	1,251	9,864		10,518	
Deposits and unearned revenue	12,817				2,834
OPEB liability	21,211	17,211		25,764	
Total adjustments	<u>1,426,757</u>	<u>1,502,454</u>	<u>305,695</u>	<u>60,370</u>	<u>249,758</u>
Net cash provided (used) by operating activities	<u><u>\$ 2,049,283</u></u>	<u><u>\$ 3,184,883</u></u>	<u><u>\$1,049,436</u></u>	<u><u>\$ (51,028)</u></u>	<u><u>\$ (13,900)</u></u>
Noncash investing, capital, and financing activities:					
Contributions of capital assets	\$ _____	\$ 3,419	\$ _____	\$ _____	\$ _____

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014
(Continued)

	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities- Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for current services	\$ 31,387	\$ 116,196	\$ 20,232,042	\$ 5,866,244
Cash received for other operating revenues	33		855,496	12,983
Cash paid for services and supplies	(30,355)	(195,650)	(10,583,391)	(4,225,816)
Cash paid for salaries and benefits	____	(6,120)	(4,369,982)	(1,034,632)
Net cash provided (used) by operating activities	<u>1,065</u>	<u>(85,574)</u>	<u>6,134,165</u>	<u>618,779</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers (to) from other funds			14,844	
Loans from/ (to) other funds	(984)	85,522	30,708	____
Net cash provided (used) by non-capital financing activities	<u>(984)</u>	<u>85,522</u>	<u>45,552</u>	____
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from capital lease			8,495,139	
Proceeds from refunding bonds			12,725,000	
Principal paid on long-term debt			(15,326,177)	
Interest paid			(1,536,157)	
Proceeds from sale of equipment			51,597	
Capital expenditures	____	____	<u>(4,664,317)</u>	<u>(833,176)</u>
Net cash provided (used) by capital and related financing activities	____	____	<u>(306,512)</u>	<u>(781,579)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Unrealized gain (loss) on investments	(81)	52	65,265	55,341
Other non-operating revenue (expense)			32,400	340,277
Interest received			65,669	42,109
Net cash provided (used) by investing activities	<u>(81)</u>	<u>52</u>	<u>163,334</u>	<u>437,727</u>
Net increase (decrease) in cash and cash equivalents			6,036,539	274,927
Cash and cash equivalents, beginning of year	____	____	<u>21,679,333</u>	<u>17,828,740</u>
Cash and cash equivalents, end of year	<u>\$ ____</u>	<u>\$ ____</u>	<u>\$ 27,715,872</u>	<u>\$18,103,667</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014
(Continued)

	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities- Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:				
Operating income/(loss)	\$(34,020)	\$ (71,347)	\$ 2,568,273	\$ (488,524)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	35,701		3,031,324	1,144,618
(Increase) decrease in net assets:				
Accounts receivable		(1,809)	105,013	
Prepaid expenses				2,187
Inventory			(15,205)	(633)
Increase (decrease) in net liabilities:				
Accounts payable	(616)	(11,810)	322,315	(55,125)
Salaries and benefits payable		(608)	20,975	16,256
Compensated absences			21,633	
Deposits and unearned revenue			15,651	
OPEB liability			64,186	
Total adjustments	<u>35,085</u>	<u>(14,227)</u>	<u>3,565,892</u>	<u>1,107,303</u>
Net cash provided (used) by operating activities	<u>\$ 1,065</u>	<u>\$ (85,574)</u>	<u>\$ 6,134,165</u>	<u>\$ 618,779</u>
Noncash investing, capital, and financing activities:				
Contribution of capital assets	\$ _____	\$ _____	\$ 3,419	\$ 657,443

See independent auditor's report and notes to financial statements.

FIDUCIARY FUNDS FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Redevelopment Successor Agency Private-Purpose Trust Fund	Trust and Agency Funds
ASSETS		
Cash and investments	\$ 234,555	\$1,330,430
Accounts receivable	288	7,260
Assets held for resale	182,054	
Other	_____	<u>1,245,000</u>
Total assets	<u>\$ 416,897</u>	<u>\$2,582,690</u>
LIABILITIES		
Accounts payable	\$	\$ 82,336
Deposits held for others	353,944	
Advances from City of Hanford	7,679,886	
Bonds/notes payable	<u>64,292</u>	<u>1,245,000</u>
Total liabilities	<u>7,744,178</u>	<u>1,681,280</u>
NET POSITION (Deficit)		
Held in trust for the retirement of obligations of the former Hanford Redevelopment Agency and other purposes	<u>(7,327,281)</u>	<u>901,410</u>
Total net position (deficit)	<u><u>\$7,327,281</u></u>	<u><u>\$ 901,410</u></u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	Redevelopment Successor Agency Private-Purpose Trust Fund	Trust and Agency Funds
ADDITIONS		
Taxes	\$ 41,612	\$
Investment earnings	1,356	
Other additions	14,553	482,274
Gain on sale of assets held for resale	<u>1,110,441</u>	
 Total additions	<u>1,167,962</u>	<u>482,274</u>
DEDUCTIONS		
General government	64,545	18,454
Other agencies	1,920,043	
Unrealized (gain) loss on investments	(7,273)	(2,056)
Debt service:		
Principal	370,000	
Interest	<u>85,800</u>	
 Total deductions	<u>1,977,315</u>	<u>472,198</u>
 Change in net position	(809,353)	10,076
 Net position (deficit) – beginning of year	<u>(6,517,928)</u>	<u>891,334</u>
 Net position (deficit) – end of year	<u>\$(7,327,281)</u>	<u>\$901,410</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Hanford (the “City”) have been prepared in conformity with U.S. Generally Accepted Accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements present the financial position of the City and the various funds and fund types, the results of operations of the City and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2014 and for the year then ended.

A. Description of the Reporting Entity

The City of Hanford was incorporated as a General Law city in 1891. The City operates under a Council-Administrator form of government and provides the following services: Public safety (police and fire), community development, community services, public works, cultural, general administrative services, and capital improvements.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Hanford (the primary government) and its component units. The component units discussed below is included in the City’s reporting entity because of the significance of their operational or financial relationship with the City. However, elected officials of the City of Hanford have a continuing accountability for fiscal matters of the other entities. The financial reporting entity consists of: (1) the City (2) organizations for which the City is financially accountable and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, component unit balances and transactions are reported in a manner similar to the balances and transactions of the City. A component unit is presented on a blended basis when the component unit’s governing body is substantially the same as the City’s or the component unit provides services almost entirely to the City, otherwise the component unit is presented discretely.

Blended Component Unit:

The financial statements of the City of Hanford include the financial activities of the City as well as of the Hanford Improvement Corporation. Although the Hanford Improvement Corporation is a legally distinct unit from the City, their financial operations are overseen by the City of Hanford and, in fact, the City Council is the board of directors of the Corporation. Separate financial statements of the Hanford Improvement Corporation may be obtained from the City of Hanford, 319 N. Douty Street, Hanford, CA 93230.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

B. Basis of Presentation

Government-Wide Financial Statements

The Government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the primary government and its component units. For the most part, eliminations have been made to minimize the double counting on internal activities. These statements distinguish between the *governmental and business type activities* of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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

Governmental Fund Financial Statements

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

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the principle operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds. For the City, the general fund includes basic governmental activities such as general government, public safety, public works and community service.

CDBG Home/Housing Fund – To receive and disburse funds in accordance with grants received from the Department of Housing and Urban Development for the repair and improvement of targeted housing areas.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Transportation Funds – These are funds used to account for receipt and disbursement of Federal and State Transportation Program moneys. The funds reported here include 1971 State Transportation Development Act (TDA) Funds, Federal Congestion Management and Air Quality (CMAQ) Funds, 2006 Statewide Proposition 1-B Bond Funds, and 2009 Federal American Recovery and Reinvestment Act (ARRA) Stimulus Funds.

The City reports the following major enterprise funds:

Water Fund – The Water Fund is used to account for the financial activities of water utility of the City.

Wastewater Fund – The Wastewater Fund is used to account for financial activities of sewage collection and wastewater treatment utility of the City.

Storm Drain Fund – The Storm Drain Fund is used to account for the financial activities of the City's storm drains.

Refuse Fund – The Refuse Fund is used to account for the financial activities of the collection of solid waste and disposal utility of the City.

Airport Fund – To account for all activities necessary to provide an airport to the residents of the City and surroundings areas.

Intermodal Fund – The Intermodal Fund is used to account for the financial activities of a building used to support state regional and local transportation.

Courthouse Square Fund – The Courthouse Square Fund is used to account for the financial activities of the maintenance and improvement of the property known as the Courthouse Square in downtown Hanford.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

The City reports the following fund types in aggregate as part of other non-major governmental funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs of the City other than debt service payments made by proprietary funds.

Additionally, the City reports the following fund types:

Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to another on a cost-reimbursement basis.

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for the activities of the former Hanford Redevelopment Agency during the wind down period.

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and/or other governments.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

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

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

D. Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items

Cash and Investments

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.

Investments

Investments are stated at fair value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale).

Further cash and investment disclosures are presented in Note 2.

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statement as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be a market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include intergovernmental and tax receivable. Business-type activities report trade and intergovernmental as their major receivables.

Inventory

Inventories of materials and supplies in the proprietary and internal services funds are valued at the lower of cost or market, carried on a first-in, first-out (FIFO) basis.

Land Held for Resale

Land held for resale is recorded at the lower of cost or estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of the land held for resale because such assets are not available to finance the City's current operations.

Capital Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

The City's capitalization threshold is \$5,000. In other words, fixed assets are capitalized only if they have a cost in excess of \$5,000 and have an expected useful life of three years or more. Fixed assets that have a cost below \$5,000 are expensed during the fiscal year they are acquired.

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Infrastructure	20 to 50 years
Buildings	20 to 50 years
Improvements other than buildings	20 to 50 years
Machinery and equipment	4 to 20 years

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

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits and compensatory time. All vacation, sick and compensatory pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. For additional information regarding compensated absences, see Note 5.

Long-Term Obligations

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 assets. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. 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, however, debt principal payments of governmental funds are recognized as expenditures when paid. 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Net Position

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

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

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* – amounts that are constrained by the City's *intent* to be used for specific purposes. The intent can be established by either the highest level of decision making, or by a body or an official designated for that purpose.
- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Property Taxes

In 1978, a state constitutional amendment (Proposition 13) provided that the tax rate be limited to 1% of market value, levied only by the County and shared with all other jurisdictions. Such limitation on the rate may only be increased through voter approval. The County Collects property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdiction's assessed valuations and on the tax rate for voter-approved debt. In the fund financial statements, property tax is recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

The property tax calendar for the City and the Discretely Presented Component Unit is as follows:

Lien date	January 1
Levy dates	September 1
Due dates	November 1 – 1 st installment
	February 1 – 2 nd installment
Collection dates	December 10 – 1 st installment
	April 12 – 2 nd installment

E. Unearned Revenue

The City reports unearned revenue in its financial statements. Unearned revenue arises when resources are recovered by the government before it has legal claim to them.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The procedures established by the City Council in adopting the budgetary data reflected in the financial statements are as follows:

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

On or before the second meeting in May, the City Manager submits to the City Council a proposed operating and capital projects budget for the fiscal year commencing the following July 1. Following publication and public hearings, the budget is legally enacted by resolution.

The City Manager is authorized to transfer funds appropriated with respect to all classifications within the same department. The City Manager may transfer appropriated funds from any classification within other expenditure categories to existing capital outlay and capital projects classifications within the same department only; however, any revisions that alter the total expenditures of any department or create additional projects must be approved by the City Council.

Supplemental budgetary appropriations were negligible for the fiscal year ended June 30, 2014. All unencumbered appropriations lapse at year end.

For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds are considered a single department. Revenues are budgeted on a line item basis. A comparison of budgeted and actual revenues by line item would be too voluminous for this report.

Budgets for the General and Special Revenue Funds are presented in the accompanying general purpose financial statements on a basis consistent with accounting principles generally accepted in the United States of America. Budgets for Capital Projects Funds are not presented because they are budgeted on a project basis rather than on an annual basis. No budgets are adopted for the Proprietary and Fiduciary Fund types.

Deficit Fund Equity/Net Position

The Courthouse Square Proprietary Fund had a deficit net position of \$811,886. The deficit is expected to be eliminated in future years through revenues or transfers from other funds.

Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expense of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

H. Accounting Change

Effective July 1, 2013, the City implemented two new GASB pronouncements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* provides financial reporting guidance for deferred outflows and inflows of resources, which Concepts Statement No. 4 introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

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

The cumulative effect on the City's financial statements of applying these pronouncement result in a reduction to the beginning net position of \$370,537 for the reclassification of debt issuance costs previously recorded as assets on the enterprise funds/business-type activities.

I. New Pronouncement

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the City's financial statements and is effective for the City's June 30, 2015 financial statements.

NOTE 2 – CASH AND INVESTMENTS

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

Statement of Net Assets:	
Cash and investments	\$66,140,500
Restricted cash and investments	6,497,413
Fiduciary funds:	
Cash and investments	<u>1,564,985</u>
Total cash and investments	<u>\$74,202,898</u>

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

Cash on hand	\$ 1,705
Deposits with financial institutions	8,920,545
Investments	<u>65,280,648</u>
Total cash and investments	<u>\$74,202,898</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

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

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

Authorized Investment type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	None	None
Repurchase Agreements	1 year	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by bond trustees that are not subject to California Government Code Restrictions.

Investments Authorized by Debt Agreements

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Authorized Investment type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosure 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 of Hanford 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 and coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

Investment Type	Remaining Maturity (in Months)			
	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal Agency Securities	\$21,218,057	\$ 714,466	\$18,495,489	\$2,008,102
State Investment Pool	40,005,634	40,005,634		
Negotiable Certificates of Deposits	3,155,472	200,463	1,408,321	1,546,688
Held by Bond Trustee:				
Money Market Funds	<u>901,485</u>	<u>901,485</u>		
Total	<u>\$65,280,648</u>	<u>\$41,107,582</u>	<u>\$2,122,787</u>	<u>\$20,042,177</u>
				<u>\$2,008,102</u>

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, the City of Hanford's investment policy, or debt agreements and the actual rating as of year end for each investment type.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Investment Type	Minimum Legal Rating	Standard & Poors Ratings as of Year End			Not Rated
		AAAm	AA		
Federal Agency Securities	\$21,218,057	N/A	\$	\$21,218,057	\$
State Investment Pool	40,005,634	N/A			40,005,634
Negotiable Certificates of Deposits	3,155,472	N/A			3,155,472
Held by Bond Trustee:					
Money Market Funds	<u>901,485</u>	N/A	<u>901,485</u>		
Total	<u>\$65,280,648</u>		<u>\$901,485</u>	<u>\$21,218,057</u>	<u>\$43,161,106</u>

Concentration of Credit Risk

The investment policy of the City of Hanford contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of **total City of Hanford investments** are as follows:

Issuer	Investment Type	Reported Amount
FHLB	Federal Agency Securities	\$4,238,205
FNMA	Federal Agency Securities	\$4,627,261
FFCB	Federal Agency Securities	\$7,862,837
FHLMC	Federal Agency Securities	\$4,489,754

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 (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 of Hanford'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 governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$12,378,555 of the City of Hanford's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

Investment in State Investment Pool

The City of Hanford is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City of Hanford's investment in this pool is reported in the accompanying financial statements at amounts based upon the City of Hanford's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2014 for the City's individual major funds, nonmajor funds and internal service funds in the aggregate are as follows:

	Accounts	Taxes	Grants	Interest	Loans	Total
Governmental Funds						
General	\$ 249,792	\$ 225,506	\$ 62,931	\$30,199	\$ 16,999,162	\$ 505,497
CDBG Home/Housing			710,028	647		17,062,740
Transportation Funds			1,119,719	905		1,830,652
Nonmajor and Other	<u>329,073</u>	<u>163,180</u>	<u>155,216</u>	<u>11,779</u>	<u>2,606,046</u>	<u>3,265,294</u>
Total	<u>\$ 578,865</u>	<u>\$1,098,714</u>	<u>\$1,337,866</u>	<u>\$43,530</u>	<u>\$19,605,208</u>	<u>\$22,664,183</u>
Enterprise Funds						
Water System	\$ 544,743	\$	\$	\$ 4,877	\$	\$ 549,620
Wastewater	505,766			8,229		513,995
Storm Drain	128,259			4,775		133,034
Refuse	610,586			365		610,951
Airport	1,618					1,618
Courthouse Square	<u>56,028</u>					<u>56,028</u>
Total	<u>\$1,847,000</u>	<u>\$</u>	<u>\$</u>	<u>\$18,246</u>	<u>\$</u>	<u>\$ 1,865,246</u>
Internal Service Funds						
Fleet Maintenance Fund	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$12,174</u>	<u>\$</u>	<u>\$ 12,174</u>
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$12,174</u>	<u>\$</u>	<u>\$ 12,174</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

NOTE 4 – CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Addition Completions	Retirements/ Adjustments	Balance June 30, 2014
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 60,432,656	\$	\$	\$ 60,432,656
Construction in Progress	<u>754,125</u>	<u>2,530,692</u>	<u>(471,332)</u>	<u>2,813,485</u>
Total capital assets, not being depreciated	61,186,781	2,530,692	(471,332)	63,246,141
Capital assets being depreciated				
Buildings	18,121,480	260,718	(118,168)	18,264,030
Infrastructure	118,390,619	969,901	(1,305,174)	119,360,520
Equipment	<u>19,441,762</u>	<u>1,966,404</u>	<u>(1,423,342)</u>	<u>20,102,992</u>
Total capital assets being depreciated	155,953,861	3,197,023	(82,853,988)	157,727,542
Less: Accumulated depreciation				
Buildings	(7,078,585)	(318,654)	82,582	(7,314,657)
Infrastructure	(58,207,895)	(4,987,565)	(63,195,460)	
Equipment	<u>(12,312,438)</u>	<u>(1,324,732)</u>	<u>1,293,299</u>	<u>(12,343,871)</u>
Total accumulated depreciation	(77,598,918)	(6,630,951)	1,375,881	(82,853,988)
Total capital assets being depreciated, net	<u>78,354,943</u>	<u>(3,433,928)</u>	<u>(47,461)</u>	<u>74,873,554</u>
Governmental activities capital assets, net	<u>\$139,541,724</u>	<u>\$ (903,236)</u>	<u>\$ (518,793)</u>	<u>\$138,119,695</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 11,037,597	\$ 167,946	\$	\$ 11,205,543
Construction in progress	<u>68,818</u>	<u>3,444,145</u>	<u>_____</u>	<u>3,512,963</u>
Total capital assets, not being depreciated	<u>11,106,415</u>	<u>3,612,091</u>	<u>_____</u>	<u>14,718,506</u>
Capital assets being depreciated				
Buildings and improvement	144,088,605	623,766	(7,500)	144,704,871
Machinery and equipment	<u>5,589,537</u>	<u>599,825</u>	<u>(462,609)</u>	<u>5,726,753</u>
Total capital assets being depreciated	149,678,142	1,223,591	(470,109)	150,431,624
Less: Accumulated depreciation for:				
Buildings and improvement	(46,132,129)	(2,849,447)	5,202	(48,976,374)
Machinery and equipment	<u>(2,401,762)</u>	<u>(181,877)</u>	<u>457,637</u>	<u>(2,126,002)</u>
Total accumulated depreciation	(48,533,891)	(3,031,324)	462,839	(51,102,376)
Total capital assets being depreciated, net	<u>101,144,251</u>	<u>(1,807,733)</u>	<u>(7,270)</u>	<u>99,329,248</u>
Business-type activities capital assets, net	<u>\$112,250,666</u>	<u>\$ 1,804,358</u>	<u>\$ (7,270)</u>	<u>\$114,047,754</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Depreciation expense for the fiscal year ending June 30, 2014 was charged to the following activities:

Governmental functions:

General governmental	\$ 31,578
Public safety	313,051
Culture and recreation	720,321
Public works	4,289,652
Community development	131,731
Capital assets held by the internal service funds were charged to the various functions based on their usage	<u>1,144,618</u>

Total \$6,630,951

Business-type functions:

Water system	\$1,092,912
Wastewater	1,443,565
Storm drain	212,365
Refuse	4,694
Airport	242,087
Intermodal	<u>35,701</u>

Total \$3,031,324

NOTE 5 – LONG-TERM DEBT

The following is a summary of the long-term debt activity for the year ended June 30, 2014:

Type of Debt	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Governmental activities					
Notes payable	\$ 246,450	\$	\$	\$ 246,450	\$
Compensated absences	<u>842,850</u>	<u>63,303</u>	_____	<u>906,153</u>	_____
Total governmental activities	<u>1,089,300</u>	<u>63,303</u>	_____	<u>1,152,603</u>	_____
Business activities					
Bonds payable	23,595,000	12,725,000	(8,315,000)	28,005,000	1,570,000
Add deferred amounts for issuance premium	540,209	545,227	(182,738)	902,698	
Notes payable	14,268,334		(6,802,625)	7,465,709	304,727
Capital lease	5,163,907	8,495,138	(597,859)	13,061,186	870,743
Compensated absences	<u>165,294</u>	<u>21,633</u>	_____	<u>186,927</u>	_____
Total business activities	<u>43,732,744</u>	<u>21,786,998</u>	<u>(15,898,222)</u>	<u>49,621,520</u>	<u>2,745,470</u>
Total primary government	<u>\$44,822,044</u>	<u>\$21,850,301</u>	<u>\$(15,898,222)</u>	<u>\$50,774,123</u>	<u>\$2,745,470</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Governmental Activities –

Notes Payable:

On September 20, 2011, the City entered into a loan agreement with the Kings County Economic Development Corporation in the amount of \$246,450 to fund 50% of the purchase price of 16.43 acres of vacant land for the Kings County Industrial Park Project. The note does not accrue interest at a fixed rate, but instead will pay a contingent deferred interest for a price in excess of \$30,000 per acre. The note represents a shared appreciation loan and the City is required to pay \$15,000 in principal for each acre it sells. The principal balance at June 30, 2014 was \$246,450.

Compensated Absences:

The City accounts for compensated absences (unpaid vacation, sick leave and compensatory time) in accordance with GASB Code Sec. C60. In governmental funds, compensated absences are recorded as expenditures in the year paid, as it is the City's intention to liquidate any unpaid compensated absences at June 30 from future resources, rather than current available financial resources. Accordingly, the unpaid liability for governmental funds is recorded in the government-wide statement of net assets.

\$906,153

Business Type Activities –

Long-Term Debt – Bonds Payable:

On April 1, 1996, the City of Hanford issued \$7,855,000 of Variable Rate Demand Sewer System Refunding Revenue Bonds. The Bonds are payable from and secured by a lien on and pledge of the net revenues of the City Sewer System. The Bond shall mature on April 1, 2023, and shall bear interest annually, ranging from 2.0 to 7.5 percent. Interest on the Bonds is payable on the first day of January, April, July, and October, commencing July 1, 1996. The purpose of the bonds is to provide funds to refund the City of Hanford Certificates of Participation dated April 1, 1987 and February 1, 1993. At June 30, 2014 the outstanding balance was \$3,900,000.

The future maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 400,000	\$142,350	\$ 542,350
2016	400,000	127,750	527,750
2017	400,000	113,150	513,150
2018	400,000	98,550	498,550
2019	400,000	83,950	483,950
2020-2023	<u>1,900,000</u>	<u>178,850</u>	<u>2,078,850</u>
Total	<u><u>\$3,900,000</u></u>	<u><u>\$744,600</u></u>	<u><u>\$4,644,600</u></u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

On December 1, 2003, the City of Hanford issued \$8,925,000 CSCDA Water Revenue Bonds Series 2003 C. The Bonds shall mature on October 1, 2028, and shall bear interest annually ranging from 2.0 to 5.25 percent. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2004. The proceeds were used to refund the EDP Loan and 1993 Water Refunding Revenue Bond as well as to fund improvements to the City's water treatment facilities. These Bonds were refinanced in July, 2013 and are considered defeased and the liability has been removed from the long-term debt.

On July 1, 2012, the City of Hanford issued \$13,165,000 Wastewater Revenue Refunding Bonds Series 2012 bearing interest of 3.0% to 5.0% payable semi-annually on April 1 and October 1 commencing October 1, 2012. The bonds mature annually at various amounts through October 1, 2032. The bonds are payable from net revenues of the City's Wastewater System and from amounts on deposit in certain funds and accounts created under the Indenture.

The Bonds are being issued to refinance the City's previously issued \$5,000,000 CSCDA Water and Wastewater Revenue Bonds, dated October 1, 1999 and the \$10,555,000 CSCDA Water and Wastewater Revenue Bonds dated April 16, 2002. As a result the 1999 and 2002 Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the long-term liabilities of the Business Activities Debt.

The aggregate debt service payments of the new debt is \$2,121,034 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the present value of the old debt and new debt payments of approximately \$1,537,677.

Bonds outstanding at June 30, 2014 are \$12,175,000.

The future maturities of the Bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 490,000	\$ 447,906	\$ 937,906
2016	500,000	430,556	930,556
2017	520,000	410,156	930,156
2018	545,000	388,856	933,856
2019	565,000	366,656	931,656
2020-2024	3,175,000	1,411,541	4,586,541
2025-2029	3,760,000	858,600	4,618,600
2030-2032	<u>2,620,000</u>	<u>197,200</u>	<u>2,817,200</u>
Total	<u><u>\$12,175,000</u></u>	<u><u>\$4,511,471</u></u>	<u><u>\$16,686,471</u></u>

On July 1, 2013, the City of Hanford issued \$12,725,000 Water Revenue Refunding Bonds Series 2013 bearing interest of 2.0% to 5.0% payable semi-annually on April 1 and October 1, commencing October 1, 2013. The bonds mature annually at various amounts through October 1, 2028. The bonds are payable from net revenues of the City's Water System and from amounts on deposit in certain funds and accounts created under the Indenture.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

The Bonds are being issued to refinance the City's previously issued to refinance the City's previously issued \$8,925,000 CSDA Water and Wastewater Revenue Bonds, dated December 9, 2003 and the \$8,150,000 Installment Sale Agreement – Water System dated December 20, 2007. As a result the 2003 Revenue Bond and 2007 Installment Sale Agreement are considered defeased and the liability for those issues has been removed from the long-term liabilities of the Business Activities Debt.

The aggregate debt service payments of the new debt are \$1,430,167 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the present value of the old debt and new debt payments of approximately \$567,774).

Bonds outstanding at June 30, 2014 are \$11,930,000:

Fiscal Year	Principal	Interest	Total
2015	\$ 680,000	\$ 449,750	\$ 1,129,750
2016	700,000	435,950	1,135,950
2017	710,000	421,850	1,131,850
2018	730,000	403,800	1,133,800
2019	750,000	381,600	1,131,600
2020-2024	4,235,000	1,404,925	5,639,925
2025-2029	4,125,000	389,825	4,514,825
Total	<u>\$11,930,000</u>	<u>\$3,887,700</u>	<u>\$15,817,700</u>

Long-Term Debt – Notes Payable

On May 28, 2002, the City of Hanford obtained a loan from the California Infrastructure and Economic Development Bank in the amount of \$10,000,000. The term of the agreement is thirty (30) years with a maturity date of February 1, 2034, and an annual interest rate of 3.50%. Prior to the Bond Date, there is a .26% reduction in the interest rate, resulting in an initial rate of 3.24%. Interest on the loan is payable semi-annually on each February 1 and August 1, commencing August 1, 2003. As of June 30, 2014, the balance outstanding was \$7,465,709.

The future maturities of the Note payable were as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 304,727	\$ 255,967	\$ 560,694
2016	315,392	245,115	560,507
2017	326,431	233,883	560,314
2018	337,856	222,258	560,114
2019	349,681	210,226	559,907
2020-2024	1,940,782	855,387	2,796,169
2025-2029	2,305,040	484,754	2,789,794
2030-2032	1,585,800	84,527	1,670,327
Total	<u>\$7,465,709</u>	<u>\$2,592,117</u>	<u>\$10,057,826</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

On December 20, 2007, the City of Hanford entered into an installment sale agreement with the City of Hanford Public Improvement Corporation in the amount of \$8,150,000. The agreement was to enable the City to finance the costs of acquisition and construction of certain public facilities constituting a part of the City's water enterprise. The term of the agreement is thirty (30) years with a maturity date of December 1, 2027 and an annual interest rate of 2.0% to 5.25%. Interest on the loan is payable semi-annually on each June 1 and December 1, commencing June 1, 2008. This note was refinanced in July, 2013 and is considered defeased and the liability has been removed from the long-term debt.

Capital Lease

In August, 2009, the City entered into a capital lease agreement with Government Capital Corporation, to lease water meters and AMR devices. The purchase price of the equipment was approximately \$3,050,000 and a down payment of \$950,000 was applied to the purchase. Semi-annual payments commenced on February, 2010, are \$151,096 including interest of 4.668%, with a final payment in August, 2017. The balance outstanding as of June 30, 2014 was \$965,460.

The annual debt service requirements for the 2009 Capital Lease outstanding at June 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$260,126	\$42,066	\$ 302,192
2016	272,410	29,782	302,192
2017	285,274	16,918	302,192
2018	<u>147,650</u>	<u>3,446</u>	<u>151,096</u>
Total	<u><u>\$965,460</u></u>	<u><u>\$92,212</u></u>	<u><u>\$1,057,672</u></u>

In November, 2011, the City entered into a capital lease agreement with Bank of America to design and construct an energy efficient tracker system for the City's wastewater treatment plant. The purchase price of this project is \$4,325,556, with annual payments in varying amounts including interest at 3.33% commencing on July 8, 2012 with a final payment in July, 2026. The balance outstanding as of June 30, 2014 was \$3,600,588.

The annual debt service requirements for the 2011 Capital Lease outstanding at June 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 371,092	\$119,899	\$ 490,991
2016	390,988	107,542	498,530
2017	418,118	94,522	512,640
2018	138,686	80,599	219,285
2019	157,826	75,981	233,807
2020-2024	1,124,333	286,756	1,411,089
2025-2027	<u>999,545</u>	<u>68,625</u>	<u>1,068,170</u>
Total	<u><u>\$3,600,588</u></u>	<u><u>\$833,924</u></u>	<u><u>\$4,434,512</u></u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

In March 2014, the City entered into a capital lease agreement with Bank of America National Association to design and construct a solar photovoltaic energy system using an energy service contract with Chevron Energy Solutions Company for several facilities throughout the City. The purchase price of this contract is \$8,495,138, with semi-annual payments in varying amounts including interest at 3.54% commencing on October 26, 2014 with a final payment in April, 2029. The balance outstanding as of June 30, 2014 was \$8,495,138.

The annual debt service requirements for the 2014 Capital Lease outstanding at June 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 239,525	\$ 323,907	\$ 563,432
2016	230,543	290,226	520,769
2017	269,727	281,721	551,448
2018	311,746	271,804	583,550
2019	356,766	260,374	617,140
2020-2024	2,675,354	1,062,268	3,737,622
2025-2027	<u>4,411,477</u>	<u>458,474</u>	<u>4,869,951</u>
Total	<u><u>\$8,495,138</u></u>	<u><u>\$2,948,774</u></u>	<u><u>\$11,443,912</u></u>

NOTE 6 – PENSION PLAN

Plan Description

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Funding Policy

The City makes the contributions required by City employees on their behalf and for their account. The present required contribution rates of annual covered salaries are as follows:

Category	Members Rates as a Percentage of Wages
Local miscellaneous members	8%
Local police safety members	9%
Local fire safety members	9%

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2014 was 28.226% for miscellaneous employees. The required employer contribution rate for police safety employees was 31.254% for the period July 1, 2013 through June 30, 2014. The required employer contribution rate for the fire safety employees was 30.882% for the period July 1, 2013 through June 30, 2014. The contribution requirements of plan members are established by State Statute and the employer contribution rate is established and may be amended by CalPERS.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions include a 7.50 percent investment rate of return, covered payroll increases of 3.00 percent per year, an inflation rate of 2.75 percent per year, and a medical increase trend rate starting at 10 percent per year, and decreasing gradually over a 10 year period to an ultimate rate of 4.50 percent per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years.

Annual Pension Costs

For the fiscal year ended June 30, 2014, the City's annual pension cost of \$4,333,900 for PERS was equal to the City's required and actual contributions. The required contribution for the fiscal year ended June 30, 2014 was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expense), (b) projected annual salary increases that vary by duration of service ranging from 3.30% to 14.20% for miscellaneous members, for police and fire safety members, and (c) 3.00% payroll growth. Both (a) and (b) included an inflation component of 2.75%. The actuarial values of the Miscellaneous, Police Safety and Fire Safety Plans of the City of Hanford's assets were determined by using a technique that smoothes the effects of short-term volatility in the next market value of investments over a two to five year period, depending on the size of investment gains and/or losses. The Miscellaneous and the Safety Plans of the City of Hanford's unfunded actuarial accrued liabilities (or excess assets) are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014 was 17 years for Miscellaneous, 20 years for Police Safety, and 20 years for Fire Safety.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Fiscal Year	Three-Year Trend Information for PERS		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$4,489,525	100.0%	
6/30/13	\$4,118,313	100.0%	
6/30/14	\$4,333,900	100.0%	

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 70.7% funded for non-safety employees and 75.2% funded for safety employees. The actuarial accrued liability for benefits was \$81 million for non-safety employees and \$16 billion for safety employees and the actuarial value of assets was \$58 million for non-safety employees and \$12 billion for safety employees, resulting in an unfunded actuarial accrued liability (UAAL) of \$24 million for non-safety employees and \$4 billion for safety employees. The covered payroll (annual payroll of active employees covered by the plan) was \$8 million for non-safety members and \$1.3 billion for safety members, and the ratio of UAAL to the covered payroll was 297.7% and 316.1% respectively.

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The City participates in the CalPERS medical program under the Public Employees' Medical and Hospital and Care Act (PEMHCA). As such, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The City has selected the equal contribution method, where it resolves to contribute the same amount for retirees as is contributed toward active employee medical plan coverage. The City currently pays the minimum employer contribution (MEC) for both active and retired employees as well as their survivors, if covered at the time of the employee's death. The MEC is \$119 per month for 2014.

Dental insurance is available to retired employees as well, though the cost of coverage is paid entirely by the retiree. Once the retiree reaches age 65 the City no longer allows the retiree to stay on the dental plan.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

The above coverage is available for employees who satisfy the requirements for retirement under CalPERS (attained age 50 with 5 years of State or public agency service or approved disability retirement). An employee cannot terminate employment before meeting the age condition and be entitled to receive benefits.

Funding Policy

Currently the City funds retiree healthcare benefits on a pay-as-you-go basis, paying a maximum of \$119 per month for retiree benefits from the City funds as they are due with no prefunding for future years. The City recognizes expenditures for its share of the annual premiums as these benefits become due. For fiscal years 2013-2014, the City paid \$67,380 for benefits of 48 retirees or their beneficiaries receiving benefits.

Annual PPEB and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount which was determined as part of the July 1, 2009 actuarial valuation in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no less than every three years.

The City's OPEB unfunded actuarial accrued liability as of July 1, 2014, the date of the most recent actuarial valuation, was a total of \$4,184,648. The OPEB obligation has been adjusted by an annual inflation percentage of 3.00% based on the assumptions of the actuarial valuation and a general salary increase of 3.25%.

The City has calculated and recorded the Net OPEB obligation, representing the difference between the ARC, amortization and contributions, as follows:

Annual required contributions (ARC) and annual OPEB cost	\$ 416,896
Interest on net OPEB obligation	66,737
Adjustment to the ARC	<u>(71,353)</u>
Annual required contribution annual OPEB cost (expense)	412,280
Less: Employer contribution	<u>(67,380)</u>
Increase in net OPEB obligation	344,900
Net OPEB obligations, beginning of year	<u>1,483,048</u>
Net OPEB obligations, end of year	<u>\$1,827,948</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/12	\$358,543	12.71%	\$1,154,960
6/30/13	\$386,521	15.12%	\$1,483,048
6/30/14	\$412,280	16.34%	\$1,827,948

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about investment return, future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of June 30, 2014 was as follows:

Actuarial accrued liability	\$4,184,648
Actuarial value of plan assets	0
Unfunded Actuarial accrued liability (UAAL)	\$4,184,648
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$15,670,340
UAAL as a percentage of covered payroll	26.70%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

NOTE 8 – RISK MANAGEMENT

The City is partially self-insured for workers' compensation and general liability insurance. For worker's compensation, the City is responsible for claims up to \$250,000 per occurrence. Coverage in excess of the City's self-insured retention is purchased through CSAC Excess Insurance Authority (CSAC-EIA) up to the statutory limits. The City participates in a risk pool for general liability insurance through CSAC-EIA above the City's self-insured retention of \$100,000 up to \$5,000,000 per occurrence. Reinsurance coverage in excess of the pool layer up to \$25,000,000 is purchased through CSAC-EIA. For both workers' compensation and general liability insurance, CSAC-EIA retains responsibility for claims in excess of each member's self-insured retention. There were no reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage for the past three fiscal years.

Workers' compensation and general liability claims incurred prior to July 1, 2012 were covered through the City's participation in the Central San Joaquin Valley Risk Management Authority (CSJVRMA), a public entity risk pool. For workers' compensation insurance, the City is self-insured up to \$200,000. Coverage between \$200,000 and \$500,000 is provided through a risk pool. CSJVRMA participates in an excess pool which provides coverage from \$500,000 to \$5,000,000 and purchases excess insurance above \$5,000,000 to the statutory limit. For general liability insurance, the City participates in a risk pool which covers the City above its self-insurance retention level of \$100,000 up to \$1,000,000. CSJVRMA participates in an excess pool which provides coverage from \$1,000,000 to \$29,000,000. CSJVRMA members may receive rebates or be required to make additional contributions through a retrospective adjustment process.

NOTE 9 – INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, service provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund due from/to other funds at June 30, 2014 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds		
General Fund	\$ 487,872	\$ 375,470
Capital Project Fund	2,179,181	333,377
Transportation Funds		154,495
Other Governmental Funds		
Proprietary Funds		
Airport Fund	79,793	385,468
Intermodal Fund		631,284
Courthouse Square		<u>866,752</u>
Total	<u>\$2,746,846</u>	<u>\$2,746,846</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2013/14 fiscal year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 56,105	\$ 95,700
Other Governmental funds	90,856	66,105
Proprietary Funds		
Airport Fund	14,844	
Water System Fund	368,550	
Wastewater Fund		135,230
Storm Drain Fund		38,140
Refuse Fund	<u> </u>	<u>195,180</u>
	<u><u>\$ 530,355</u></u>	<u><u>\$ 530,355</u></u>

NOTE 10 – CONTINGENT LIABILITIES

Litigation

The City is involved as a defendant in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no material effect on the financial position of the City.

Special Tax Bond Series 1998

The City, by resolution, issued \$5,365,000 of “Special Tax Bonds, Series 1998,” pursuant to the Mello-Roos Community Facilities Act of 1982, as amended commencing with Section 53311, et seq., of the Government Code of the State of California. Neither the full faith and credit nor the taxing power (except with respect to the special taxes) of the City of Hanford, the State of California or any political subdivision thereof is pledged to the payment of the bonds. The bonds are not general or special obligations of the City or general obligations of the Community Facilities District No. 91-1, but are limited obligations of the district payable solely from the special taxes and funds held pursuant to that agreement. The City is acting only as an agent for the property owners.

Other

The City participates in a number of programs that are fully or partially funded by grants received from federal, state, and county governments. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor agency. As of June 30, 2014, significant amounts of grant expenditures have not been audited by the grantor agencies, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the City’s overall financial position.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2014
(Continued)

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

The beginning fund balances/net assets of various funds and activities have been adjusted as follows:

	<u>Government-Wide</u> <u>Financial Statements</u>	<u>Fund</u> <u>Financial Statements</u>
	<u>Governmental Activities</u>	<u>General Fund</u>
Net assets/fund balance, beginning of the year as previously reported	\$207,779,628	\$16,511,070
Adjustment to beginning balance of accounts payable	<u>86,786</u>	<u>86,786</u>
Net assets/fund balances, beginning - restated	<u>\$207,866,414</u>	<u>\$16,597,856</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HANFORD
Required Supplementary Information
June 30, 2014

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Schedule of Funding Progress – Defined Benefit Retirement Plan

Budgetary Comparison Schedule – General Fund, all major Special Revenue Funds, and Capital Projects Fund.

CITY OF HANFORD
Schedule of Funding Progress
June 30, 2014

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability	(B) Actuarial Asset Value	(C) Unfunded Liability (Excess Assets) (A)-(B)	(D) Funded Ratio (B)/(A)	(E) Covered Payroll	(F) Unfunded Actuarial Liability as Percentage of Covered Payroll (A)-(B)/(E)
<hr/>						
6/30/2011						
Miscellaneous	\$ 73,954,232	\$ 58,023,428	\$ 15,930,804	78.5 %	\$ 8,442,338	188.7%
Police Safety	\$ 2,061,923,933	\$ 1,759,286,797	\$ 302,637,136	85.3%	\$ 225,026,216	134.5%
Fire Safety	\$ 2,061,923,933	\$ 1,759,286,797	\$ 302,637,136	85.3%	\$ 225,026,216	134.5 %
<hr/>						
6/30/2012						
Miscellaneous	\$ 78,389,580	\$ 61,453,663	\$ 16,935,917	78.4%	\$ 7,755,806	218.4%
Police Safety	\$ 2,183,549,942	\$ 1,896,139,291	\$ 287,410,651	86.8%	\$ 232,078,083	123.8 %
Fire Safety	\$ 2,183,549,942	\$ 1,896,139,291	\$ 287,410,651	86.8%	\$ 232,078,083	123.8%
<hr/>						
*6/30/2013						
Miscellaneous Safety	\$ 81,403,316 \$16,086,316,273	\$ 57,530,440 \$12,092,373,658	\$ 23,872,876 \$3,993,942,615	70.7% 75.2%	\$ 8,019,944 \$1,263,625,356	297.7 % 316.1%

*In June 30, 2013, CalPERS changed their amortization and rate smoothing policies. Also, all pooled plans are combined into two active risk pools, one for all miscellaneous groups and one for all safety groups.

Pooled as of July 1, 2003 with similar agencies throughout the State, pursuant to State law.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
General Fund
For the Year Ended June 30, 2014

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$19,484,230	\$19,484,230	\$19,381,951	\$(102,279)
Aid from other governmental agencies	1,401,550	1,413,230	1,228,698	(184,532)
License and permits	591,460	591,460	540,348	(51,112)
Fines and forfeits	117,960	117,960	94,406	(23,554)
Charges for services	643,050	643,050	960,354	317,304
Revenue from use of money and property	436,660	436,660	396,607	(40,053)
Miscellaneous	<u>240,070</u>	<u>240,070</u>	<u>81,102</u>	<u>(158,968)</u>
Total revenues	<u>22,914,980</u>	<u>22,926,660</u>	<u>22,683,466</u>	<u>(243,194)</u>
EXPENDITURES				
General government	1,692,400	1,692,400	1,658,108	34,292
Public safety	14,978,950	15,025,640	15,226,641	(201,001)
Public works	2,156,160	2,476,160	2,273,999	202,161
Parks and recreation	2,811,480	2,811,480	2,695,092	116,388
Community development	<u>1,111,180</u>	<u>1,111,180</u>	<u>1,147,712</u>	<u>(36,532)</u>
Total expenditures	<u>22,750,170</u>	<u>23,116,860</u>	<u>23,001,552</u>	<u>115,308</u>
Excess (deficiency) of revenue over expenditures	164,810	(190,200)	(318,086)	(127,886)
Other financing sources (uses)				
Operating transfers in	114,000	13,400	56,105	42,705
Operating transfers out	<u>(190,660)</u>	<u>(76,660)</u>	<u>(95,700)</u>	<u>(19,040)</u>
Total other financing sources (uses)	<u>(76,660)</u>	<u>(63,260)</u>	<u>(39,595)</u>	<u>23,665</u>
Net change in fund balances	<u>88,150</u>	<u>(253,460)</u>	<u>(357,681)</u>	<u>(104,221)</u>
Fund balances, beginning of year	<u>16,597,856</u>	<u>16,597,856</u>	<u>16,597,856</u>	<u> </u>
Fund balances, end of year	<u>\$16,686,006</u>	<u>\$16,344,396</u>	<u>\$16,240,175</u>	<u>\$(104,221)</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
CDBG Home/Housing
For the Year Ended June 30, 2014

	CDBG Home/Housing			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Aid from other governmental agencies	\$ 569,870	\$ 1,067,660	\$ 796,909	\$(270,751)
Revenue from use of money and property	347,780	244,150	283,660	39,510
Miscellaneous		62,480	135	(62,345)
Unrealized gain on investments		<u>41,130</u>	<u>632</u>	<u>(40,498)</u>
Total revenues	<u>917,650</u>	<u>1,415,420</u>	<u>1,081,336</u>	<u>(334,084)</u>
EXPENDITURES				
Community development	819,100	780,356	600,872	179,484
Capital outlay		<u>451,550</u>	<u>535,917</u>	<u>(84,367)</u>
Total expenditures	<u>819,100</u>	<u>1,231,906</u>	<u>1,136,789</u>	<u>95,117</u>
Excess (deficiency) of revenue over expenditures	<u>98,550</u>	<u>183,514</u>	<u>(55,453)</u>	<u>(238,967)</u>
Fund balances, beginning of year	<u>17,543,311</u>	<u>17,543,311</u>	<u>17,543,311</u>	<u>_____</u>
Fund balances, end of year	<u>\$17,641,861</u>	<u>\$17,726,825</u>	<u>\$17,487,858</u>	<u>\$(238,967)</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
Capital Projects Fund
For the Year Ended June 30, 2014

	Capital Projects Fund			Variance With Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
REVENUES				
Taxes and special assessments	\$	\$	\$	\$
Aid from other governmental agencies		69,130		8,297
Miscellaneous				(69,130)
Unrealized gain on investments	_____	_____	461,775	461,775
			20,775	20,775
Total revenues	_____	69,130	490,847	421,717
EXPENDITURES				
Capital outlay	<u>1,010,000</u>	<u>2,957,140</u>	<u>974,652</u>	<u>1,982,488</u>
Total expenditures	<u>1,010,000</u>	<u>2,957,140</u>	<u>974,652</u>	<u>1,982,488</u>
Excess (deficiency) of revenue over expenditures	<u>(1,010,000)</u>	<u>(2,888,010)</u>	<u>(483,805)</u>	<u>2,404,205</u>
Other financing sources (uses)				
Operating transfers in	10,000	10,000		(10,000)
Operating transfers out	<u>(60,170)</u>	_____	_____	_____
Total other financing sources (uses)	<u>(50,170)</u>	<u>10,000</u>		(10,000)
Net change in fund balances	(1,060,170)	(2,878,010)	(483,805)	2,394,205
Fund balances, beginning of year	<u>8,762,450</u>	<u>8,762,450</u>	<u>8,762,450</u>	_____
Fund balances, end of year	<u>\$ 7,702,280</u>	<u>\$ 5,884,440</u>	<u>\$8,278,645</u>	<u>\$2,394,205</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
Transportation Funds
For the Year Ended June 30, 2014

	Transportation Funds			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$ 544,810	\$ 544,810	\$ 710,028	\$ 165,218
Aid from other governmental agencies	1,182,330	1,182,330	1,119,719	(62,611)
Revenue from use of money and property	1,080	1,080	3,791	2,711
Unrealized gain on investments	____	____	(821)	(821)
 Total revenues	<u>1,728,220</u>	<u>1,728,220</u>	<u>1,832,717</u>	<u>104,497</u>
EXPENDITURES				
Capital outlay	<u>1,609,330</u>	<u>3,066,570</u>	<u>1,305,303</u>	<u>1,761,267</u>
 Total expenditures	<u>1,609,330</u>	<u>3,066,570</u>	<u>1,305,303</u>	<u>1,761,267</u>
Excess (deficiency) of revenue over expenditures	<u>118,890</u>	<u>(1,338,350)</u>	<u>527,414</u>	<u>1,865,764</u>
 Fund balances, beginning of year	<u>958,862</u>	<u>958,862</u>	<u>958,862</u>	<u>_____</u>
 Fund balances, end of year	<u><u>\$1,077,752</u></u>	<u><u>\$ (379,488)</u></u>	<u><u>\$1,486,276</u></u>	<u><u>\$1,865,764</u></u>

See independent auditor's report and notes to financial statements.

SUPPLEMENTARY INFORMATION SECTION

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2014

	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund	Landscaping Assessment District
ASSETS					
Cash and investments	\$1,546,256	\$2,150,653	\$80,291	\$286,906	\$830,434
Accounts receivable	13,987	2,247		301	3,049
Loan receivable	_____	_____	_____	47,127	_____
Total assets	<u>\$1,560,243</u>	<u>\$2,152,900</u>	<u>\$80,291</u>	<u>\$334,334</u>	<u>\$833,483</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 189,282	\$	\$	\$	\$ 20,771
Due to other funds	_____	_____	_____	_____	_____
Total liabilities	<u>189,282</u>	_____	_____	_____	<u>20,771</u>
Fund balances					
Nonspendable:					
Long-term receivables					
Restricted for:					
Streets and roads	1,370,961				
Recreation		2,152,900			
Landscape maintenance					812,712
Public safety					
Aviation					
Committed for:					
Parking and business improvement			80,291	334,334	
Community development					
Unassigned	_____	_____	_____	_____	_____
Total fund balances	<u>1,370,961</u>	<u>2,152,900</u>	<u>80,291</u>	<u>334,334</u>	<u>812,712</u>
Total liabilities and fund balances	<u>\$1,560,243</u>	<u>\$2,152,900</u>	<u>\$80,291</u>	<u>\$334,334</u>	<u>\$833,483</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2014
(Continued)

	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees
ASSETS				
Cash and investments	\$1,144,784	\$160,586	\$530,508	\$1,439,677
Accounts receivable	1,203	168	1,482	3,279
Loan receivable	<u>1,303,935</u>	—	—	—
Total assets	<u><u>\$2,449,922</u></u>	<u><u>\$160,754</u></u>	<u><u>\$531,990</u></u>	<u><u>\$1,442,956</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$	\$	\$	\$
Due to other funds	—	—	—	—
Total liabilities	—	—	—	—
Fund balances				
Nonspendable:				
Long-term receivables	1,303,935			
Restricted for:				
Streets and roads				
Recreation				
Landscape maintenance				
Public safety			531,990	1,442,956
Aviation				
Committed for:				
Parking and business improvement		160,754		
Community development	1,145,987			
Unassigned	—	—	—	—
Total fund balances	<u><u>\$2,449,922</u></u>	<u><u>\$160,754</u></u>	<u><u>\$531,990</u></u>	<u><u>\$1,442,956</u></u>
Total liabilities and fund balances	<u><u>\$2,449,922</u></u>	<u><u>\$160,754</u></u>	<u><u>\$531,990</u></u>	<u><u>\$1,442,956</u></u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2014
(Continued)

	Special Aviation	Learning Center Operation	Traffic Safety	Street Tree Committee
ASSETS				
Cash and investments	\$ 154,981	\$22,895	\$1,890	\$1,199
Accounts receivable		25	1,056	
Loan receivable	____	____	____	____
Total assets	<u>\$154,981</u>	<u>\$22,920</u>	<u>\$2,946</u>	<u>\$1,199</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 8,595	\$	\$1,936	\$
Due to other funds	<u>152,181</u>	____	<u>1,012</u>	____
Total liabilities	<u>160,776</u>	____	<u>2,948</u>	____
Fund balances				
Nonspendable:				
Long-term receivables				
Restricted for:				
Streets and roads				
Recreation				
Landscape maintenance				1,199
Public safety				
Aviation				
Committed for:				
Parking and business improvement				
Community development		22,920		
Unassigned	<u>(5,795)</u>	____	<u>(2)</u>	____
Total fund balances	<u>(5,795)</u>	<u>22,920</u>	<u>(2)</u>	<u>1,199</u>
Total liabilities and fund balances	<u>\$154,981</u>	<u>\$22,920</u>	<u>\$2,946</u>	<u>\$1,199</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2014
(Continued)

	State Gas Tax Fund	Grants	Public Housing Authority	Total Non-Major Special Revenue Funds
ASSETS				
Cash and investments	\$3,457,273	\$	4,460	\$11,657,812
Accounts receivable	477,235	235		659,248
Loan receivable	_____	_____	1,254,984	2,606,046
Total assets	<u>\$3,934,508</u>	<u>\$ 235</u>	<u>\$1,259,444</u>	<u>\$14,923,106</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$	\$	4,464	\$ 225,048
Due to other funds	_____	1,302	_____	154,495
Total liabilities	_____	1,302	4,464	379,543
Fund balances				
Nonspendable:				
Long-term receivables			1,254,980	2,558,915
Restricted for:				
Streets and roads	3,934,508			5,305,469
Recreation				2,152,900
Landscape maintenance				813,911
Public safety				1,974,946
Committed for:				
Parking and business improvement				575,379
Community development				1,168,907
Unassigned	_____	(1,067)	_____	(6,864)
Total fund balances	<u>3,934,508</u>	<u>(1,067)</u>	<u>1,254,980</u>	<u>14,543,563</u>
Total liabilities and fund balances	<u>\$3,934,508</u>	<u>\$ 235</u>	<u>\$1,259,444</u>	<u>\$14,923,106</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2014

	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund	Landscaping Assessment District
REVENUES					
Taxes and special assessments	\$ 620,280	\$ 437,133	\$	\$	\$350,029
Aid from other governmental agencies					
Fines and forfeits					
Revenue from use of money and property	4,980	8,015	8,555	2,597	
Unrealized gain (loss) on investments	<u>5,352</u>	<u>5,365</u>	<u>213</u>	<u>866</u>	<u>2,510</u>
Total revenues	<u>630,612</u>	<u>450,513</u>	<u>8,768</u>	<u>3,463</u>	<u>352,539</u>
EXPENDITURES					
General government					338,994
Public works					
Community development					
Capital outlay	<u>956,027</u>	<u>127,237</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenditures	<u>956,027</u>	<u>127,237</u>	<u>—</u>	<u>—</u>	<u>338,994</u>
Excess (deficiency) of revenue over expenditures	<u>(325,415)</u>	<u>323,276</u>	<u>8,768</u>	<u>3,463</u>	<u>13,545</u>
Other financing sources (uses)					
Operating transfers in					
Operating transfers out					
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net change in fund balances	<u>(325,415)</u>	<u>323,276</u>	<u>8,768</u>	<u>3,463</u>	<u>13,545</u>
Fund balances, beginning of year	<u>1,696,376</u>	<u>1,829,624</u>	<u>71,523</u>	<u>330,871</u>	<u>799,167</u>
Fund balances, end of year	<u>\$1,370,961</u>	<u>\$2,152,900</u>	<u>\$80,291</u>	<u>\$334,334</u>	<u>\$812,712</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2014
(Continued)

	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees
REVENUES				
Taxes and special assessments	\$	\$ 95,543	\$ 37,626	\$ 71,831
Aid from other governmental agencies				
Fines and forfeits				
Revenue from use of money and property	10,230	600	2,047	5,578
Unrealized gain (loss) on investments	<u>3,500</u>	<u>435</u>	<u>1,484</u>	<u>4,145</u>
Total revenues	<u>13,730</u>	<u>96,578</u>	<u>41,157</u>	<u>81,554</u>
EXPENDITURES				
General government				
Public works				
Community development	5,126			
Capital outlay	<u> </u>	<u>81,090</u>	<u> </u>	<u> </u>
Total expenditures	<u>5,126</u>	<u>81,090</u>	<u> </u>	<u> </u>
Excess (deficiency) of revenue over expenditures	<u>8,604</u>	<u>15,488</u>	<u>41,157</u>	<u>81,554</u>
Other financing sources (uses)				
Operating transfers in				
Operating transfers out				
Total other financing sources (uses)	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in fund balances	8,604	15,488	41,157	81,554
Fund balances, beginning of year	<u>2,441,318</u>	<u>145,266</u>	<u>490,833</u>	<u>1,361,402</u>
Fund balances, end of year	<u>\$2,449,922</u>	<u>\$160,754</u>	<u>\$531,990</u>	<u>\$1,442,956</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2014
(Continued)

	Special Aviation	Learning Center Operation	Traffic Safety	Street Tree Committee
REVENUES				
Taxes and special assessments	\$ 114,206	\$	\$	\$
Aid from other governmental agencies				
Fines and forfeits			54,728	
Revenue from use of money and property		3,487		
Unrealized gain (loss) on investments	144	57	6	3
Total revenues	<u>114,350</u>	<u>3,544</u>	<u>54,734</u>	<u>3</u>
EXPENDITURES				
General government				
Public works	120,145			
Community development				
Capital outlay				
Total expenditures	<u>120,145</u>	<u>—</u>	<u>—</u>	<u>—</u>
Excess (deficiency) of revenue over expenditures	<u>(5,795)</u>	<u>3,544</u>	<u>54,734</u>	<u>3</u>
Other financing sources (uses)				
Operating transfers in				
Operating transfers out	(10,000)		(56,105)	
Total other financing sources (uses)	<u>(10,000)</u>	<u>—</u>	<u>(56,105)</u>	<u>—</u>
Net change in fund balances	(15,795)	3,544	(1,371)	3
Fund balances, beginning of year	<u>10,000</u>	<u>19,376</u>	<u>1,369</u>	<u>1,196</u>
Fund balances, end of year	<u>\$ (5,795)</u>	<u>\$22,920</u>	<u>\$ (2)</u>	<u>\$1,199</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2014
(Continued)

	State Gas Tax Fund	Grants	Public Housing Authority	Total Non-Major Special Revenue Funds
REVENUES				
Taxes and special assessments	\$2,316,083	\$ 1,093	\$ 202,480	\$ 3,928,525
Aid from other governmental agencies				317,779
Fines and forfeits				54,728
Revenue from use of money and property	13,558		31,832	91,479
Unrealized gain (loss) on investments	<u>9,729</u>	<u>(871)</u>	<u>(4)</u>	<u>32,934</u>
Total revenues	<u>2,339,370</u>	<u>222</u>	<u>234,308</u>	<u>4,425,445</u>
EXPENDITURES				
General government	7,500			346,494
Public works		2,162		122,307
Community development			291,928	297,054
Capital outlay	<u>1,803,145</u>			<u>2,967,499</u>
Total expenditures	<u>1,810,645</u>	<u>2,162</u>	<u>291,928</u>	<u>3,733,354</u>
Excess (deficiency) of revenue over expenditures	<u>528,725</u>	<u>(1,940)</u>	<u>(57,620)</u>	<u>692,091</u>
Other financing sources (uses)				
Operating transfers in			90,856	90,856
Operating transfers out				(66,105)
Total other financing sources (uses)			<u>90,856</u>	<u>24,751</u>
Net change in fund balances	<u>528,725</u>	<u>(1,940)</u>	<u>33,236</u>	<u>716,842</u>
Fund balances, beginning of year	<u>3,405,783</u>	<u>873</u>	<u>1,221,744</u>	<u>13,826,721</u>
Fund balances, end of year	<u>\$3,934,508</u>	<u>\$(1,067)</u>	<u>\$1,254,980</u>	<u>\$14,543,563</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Position
Internal Service Funds
June 30, 2014

	<u>City Payroll Fund</u>	<u>Risk Management Fund</u>	<u>Computer Maintenance Fund</u>
ASSETS			
Current assets			
Cash and investments	\$10,786	\$3,275,586	\$1,786,643
Receivables, net			
Deposits		80,000	
Inventory	_____	_____	_____
Total current assets	<u>10,786</u>	<u>3,355,586</u>	<u>1,786,643</u>
Capital assets			
Machinery and equipment			
Accumulated depreciation	_____	_____	_____
Capital assets, net	_____	_____	_____
Total assets	<u>\$10,786</u>	<u>\$3,355,586</u>	<u>\$1,786,643</u>
LIABILITIES			
Accounts payable	\$	\$ 222,456	\$ 589
Salaries and benefits payable	<u>10,796</u>	_____	<u>2,954</u>
Total liabilities	<u>10,796</u>	<u>222,456</u>	<u>3,543</u>
NET POSITION			
Investment in capital assets, net of related debt			
Unrestricted	(10)	3,133,130	1,783,100
Total net position	<u>(10)</u>	<u>3,133,130</u>	<u>1,783,100</u>
Total liabilities and net position	<u>\$10,786</u>	<u>\$3,355,586</u>	<u>\$1,786,643</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Position
Internal Service Funds
June 30, 2014
(Continued)

	Building Fund	Fleet Maintenance Fund	Totals
ASSETS			
Current assets			
Cash and investments	\$ 1,004,669	\$ 12,025,983	\$ 18,103,667
Receivables, net		12,174	12,174
Deposits			80,000
Inventory	_____	184,917	184,917
Total current assets	<u>1,004,669</u>	<u>12,223,074</u>	<u>18,380,758</u>
Capital assets			
Machinery and equipment	36,020	17,224,794	17,260,814
Accumulated depreciation	<u>(5,679)</u>	<u>(10,958,894)</u>	<u>(10,964,573)</u>
Capital assets, net	<u>30,341</u>	<u>6,265,900</u>	<u>6,296,241</u>
Total assets	<u><u>\$1,035,010</u></u>	<u><u>\$ 18,488,974</u></u>	<u><u>\$ 24,676,999</u></u>
LIABILITIES			
Accounts payable	\$ 14,366	\$ 79,807	\$ 317,218
Salaries and benefits payable	<u>23,950</u>	<u>47,824</u>	<u>85,524</u>
Total liabilities	<u>38,316</u>	<u>127,631</u>	<u>402,742</u>
NET POSITION			
Investment in capital assets, net of related debt	30,341	6,265,900	6,296,241
Unrestricted	<u>966,353</u>	<u>12,095,443</u>	<u>17,978,016</u>
Total net position	<u>996,694</u>	<u>18,361,343</u>	<u>24,274,257</u>
Total liabilities and net position	<u><u>\$1,035,010</u></u>	<u><u>\$ 18,488,974</u></u>	<u><u>\$ 24,676,999</u></u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
and Changes in Net Position
Internal Service funds
For the Year Ended June 30, 2014

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund
REVENUES			
Charges for services	\$ _____	<u>\$1,100,901</u>	<u>\$ 297,607</u>
EXPENSES			
Personnel services			128,390
Services and supplies		2,074,403	205,591
Depreciation	_____	_____	_____
Total expenses	_____	<u>2,074,403</u>	<u>333,981</u>
Operating income (loss)	_____	<u>(973,502)</u>	<u>(36,374)</u>
Non-operating revenues (expenses)			
Gain (loss) on disposition of assets			
Interest income			
Unrealized gain (loss) on investments	(19)	12,955	5,659
Miscellaneous		322,649	700
Intergovernmental revenue	_____	_____	_____
Total non-operating revenue (expenses)	<u>(19)</u>	<u>335,604</u>	<u>6,359</u>
Income (loss) before contributions and transfers	<u>(19)</u>	<u>(637,898)</u>	<u>(30,015)</u>
Capital contributions	_____	_____	_____
Change in net position	(19)	(637,898)	(30,015)
Net position, beginning of year	9	<u>3,771,028</u>	<u>1,813,115</u>
Net position, end of year	<u>\$(10)</u>	<u>\$3,133,130</u>	<u>\$1,783,100</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2014
(Continued)

	Building Fund	Fleet Management Fund	Totals
REVENUES			
Charges for services	<u>\$769,216</u>	<u>\$ 3,698,520</u>	<u>\$ 5,866,244</u>
EXPENSES			
Personnel services	342,672	563,192	1,034,254
Services and supplies	261,741	1,634,161	4,175,896
Depreciation	<u> </u>	<u>1,144,618</u>	<u>1,144,618</u>
Total expenses	<u>604,413</u>	<u>3,341,971</u>	<u>6,354,768</u>
Operating income (loss)	<u>164,803</u>	<u>356,549</u>	<u>(488,524)</u>
Non-operating revenue (expense)			
Gain (loss) on disposition of assets		51,597	51,597
Interest income		43,730	43,730
Unrealized gain (loss) on investments	2,629	34,117	55,341
Miscellaneous		1,233	324,582
Intergovernmental revenue	<u> </u>	<u>15,695</u>	<u>15,695</u>
Total non-operating revenue (expense)	<u>2,629</u>	<u>146,372</u>	<u>490,945</u>
Income before contributions and transfers	<u>167,432</u>	<u>502,921</u>	<u>2,421</u>
Capital contributions	<u> </u>	<u>657,443</u>	<u>657,443</u>
Change in net position	167,432	1,160,364	659,864
Net position, beginning of year	<u>829,262</u>	<u>17,200,979</u>	<u>23,614,393</u>
Net position, end of year	<u>\$996,694</u>	<u>\$18,361,343</u>	<u>\$24,274,257</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014

	<u>City Payroll Fund</u>	<u>Risk Management Fund</u>	<u>Computer Maintenance Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for current services	\$	\$ 1,100,901	\$ 297,607
Cash paid for services and supplies		(2,128,245)	(205,822)
Cash paid for salaries and benefits			(127,716)
Other operating revenues	12,983		
Net cash provided (used) by operating activities	<u>12,983</u>	<u>(1,027,344)</u>	<u>(35,931)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Loans from/(to) other funds	(2,178)	2,178	
Net cash provided (used) by noncapital financing activities	<u>(2,178)</u>	<u>2,178</u>	<u></u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from sale of equipment			
Capital expenditures			
Net cash provided (used) by capital and related financing activities	<u></u>	<u></u>	<u></u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Unrealized gain (loss) on investments	(19)	12,955	5,659
Other non-operating revenue (expenses)		322,649	700
Interest received			
Net cash provided (used) by investing activities	<u>(19)</u>	<u>335,604</u>	<u>6,359</u>
Net increase (decrease) in cash and cash equivalents	10,786	(689,562)	(29,572)
Cash and cash equivalents, beginning of year		<u>3,965,148</u>	<u>1,816,215</u>
Cash and cash equivalents, end of year	<u>\$10,786</u>	<u>\$ 3,275,586</u>	<u>\$1,786,643</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income/(loss)	\$	\$ (973,502)	\$ (36,374)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation			
(Increase) decrease in net assets:			
Prepaid expenses	2,187		
Inventory			
Increase (decrease) in net liabilities:			
Accounts payable		(53,842)	(231)
Salaries and benefits payable	10,796		674
Total adjustments	<u>12,983</u>	<u>(53,842)</u>	<u>443</u>
Net cash provided (used) by operating activities	<u>\$12,983</u>	<u>\$(1,027,344)</u>	<u>\$ (35,931)</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014
(Continued)

	Building Fund	Fleet Maintenance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for current services	\$ 769,216	\$ 3,698,520	\$ 5,866,244
Cash paid for services and supplies	(277,580)	(1,614,169)	(4,225,816)
Cash paid for salaries and benefits	(343,816)	(563,100)	(1,034,632)
Other operating revenues			12,983
Net cash provided (used) by operating activities	<u>147,820</u>	<u>1,521,251</u>	<u>618,779</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Loans from/(to) other funds	---	---	---
Net cash provided (used) by noncapital financing activities	---	---	---
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from sale of equipment		51,597	51,597
Capital expenditures	(30,341)	(802,835)	(833,176)
Net cash provided (used) by capital and related financing activities	<u>(30,341)</u>	<u>(751,238)</u>	<u>(781,579)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Unrealized gain (loss) on investments	2,629	34,117	55,341
Other non-operating revenue (expenses)		16,928	340,277
Interest received		42,109	42,109
Net cash provided (used) by investing activities	<u>2,629</u>	<u>93,154</u>	<u>437,727</u>
Net increase (decrease) in cash and cash equivalents	120,108	863,167	274,927
Cash and cash equivalents, beginning of year	<u>884,561</u>	<u>11,162,816</u>	<u>17,828,740</u>
Cash and cash equivalents, end of year	<u>\$1,004,669</u>	<u>\$12,025,983</u>	<u>\$18,103,667</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income/(loss)	\$ 164,803	\$ 356,549	\$ (488,524)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation		1,144,618	1,144,618
(Increase) decrease in net assets:			
Prepaid expenses			2,187
Inventory		(633)	(633)
Increase (decrease) in net liabilities:			
Accounts payable	(1,144)	92	(55,125)
Salaries and benefits payable	(15,839)	20,625	16,256
Total adjustments	<u>(16,983)</u>	<u>1,164,702</u>	<u>1,107,303</u>
Net cash provided (used) by operating activities	<u>\$ 147,820</u>	<u>\$ 1,521,251</u>	<u>\$ 618,779</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Position
Trust and Agency Fiduciary Funds
June 30, 2014

	Community Facilities District	Civil Subpoena	Renters' Insurance Deposits	COE Park Deposits	Miscellaneous Deposits Trust	Total
ASSETS						
Cash and investments	\$ 900,845	\$161,376	\$4,452	\$480	\$263,277	\$1,330,430
Accounts receivable		3,600			3,660	7,260
Other	<u>1,245,000</u>	_____	_____	_____	_____	<u>1,245,000</u>
Total assets	<u>\$2,145,845</u>	<u>\$164,976</u>	<u>\$4,452</u>	<u>\$480</u>	<u>\$266,937</u>	<u>\$2,582,690</u>
LIABILITIES						
Accounts payable	\$	\$ 28	\$2,435	\$	\$ 79,873	\$ 82,336
Deposits held for others		164,948	2,017	480	186,499	353,944
Bonds/notes payable	<u>1,245,000</u>	_____	_____	_____	_____	<u>1,245,000</u>
Total liabilities	<u>1,245,000</u>	<u>164,976</u>	<u>4,452</u>	<u>480</u>	<u>266,372</u>	<u>1,681,280</u>
NET POSITION						
Unreserved	<u>900,845</u>	_____	_____	_____	<u>565</u>	<u>901,410</u>
Total net position	<u>\$ 900,845</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 565</u>	<u>\$ 901,410</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Changes in Fiduciary Net Position
Trust and Agency Funds
Year Ended June 30, 2014

	Community Facilities District	Miscellaneous Deposits Trust	Total
ADDITIONS			
Other additions	<u>\$482,274</u>	\$ _____	<u>\$482,274</u>
DEDUCTIONS			
General government	18,454		18,454
Unrealized (gain) loss on investments	(986)	(1,070)	(2,056)
Debt service:			
Principal	370,000		370,000
Interest	<u>85,800</u>	_____	<u>85,800</u>
Total Deductions	<u>473,268</u>	<u>(1,070)</u>	<u>472,198</u>
Change in net position	<u>9,006</u>	<u>1,070</u>	<u>10,076</u>
Net position, beginning of year	<u>891,839</u>	<u>(505)</u>	<u>891,334</u>
Net position (deficit), end of year	<u><u>\$900,845</u></u>	<u><u>\$ 565</u></u>	<u><u>\$901,410</u></u>

See independent auditor's report and notes to financial statements.

SINGLE AUDIT REPORTS



Sampson, Sampson & Patterson, LLP
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102
Clovis, California 93612-4739
(559) 291-0277 • FAX (559) 291-6411

February 20, 2015

The Honorable Mayor and Members of the City Council
City of Hanford
Hanford, California

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the blended component unit, each major fund, and the aggregate remaining fund information of the City of Hanford, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Hanford's basic financial statements, and have issued our report thereon dated February 20, 2015.

Internal Control Over Financial Reporting

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

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-1 and 2014-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hanford'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*.

City of Hanford's Response to Findings

City of Hanford's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hanford's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Sampson, Sampson & Patterson, LLP



Sampson, Sampson & Patterson, LLP
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102
Clovis, California 93612-4739
(559) 291-0277 • FAX (559) 291-6411

February 20, 2015

The Honorable Mayor and Members of the City Council
City of Hanford
Hanford, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited the City of Hanford's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hanford's major federal programs for the year ended June 30, 2014. City of Hanford's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hanford's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hanford's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, City of Hanford complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of City of Hanford is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit, we considered City of Hanford's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hanford's internal control over compliance.

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

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

The purpose to this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Catalog Number	Pass-Through Grantors Number	Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through State Office of Homeland Security			
State Domestic Preparedness Equipment and Support Program	97.044	2011-55-0077-031-0000	\$ 16,035
Assistance to Firefighters Grant	97.044	EMW-2012-FO-05701	<u>19,680</u>
Total U.S. Department of Homeland Security			<u>35,715</u>
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration			
Airport Improvement	20.106	3-06-0098	114,206
Federal Highway Administration			
Passed through California Department of Transportation			
Highway Planning and Construction	20.205	CML-5091(51)	17,617
Highway Planning and Construction	20.205	GPBIKE	20,292
Passed through California Office of Traffic Safety			
National Highway Safety Programs	20.601	TSCAL1183	<u>8,938</u>
Total U.S. Department of Transportation			<u>161,053</u>
<u>U.S. Department of Housing and Urban Development</u>			
Office of Community Planning and Development			
CDBG/Entitlement Grants (A)	14.218	B-12-MC-06-0061	8,614
CDBG/Entitlement Grants (A)	14.218	B-13-MC-06-0061	406,946
CDBG/Entitlement Grants (A)	14.218	B-10-MC-06-0061	1,321
CDBG/Entitlement Grants (A)	14.218	B-11-MC-06-0061	11,749
Home Investment Partnership Program	14.239	10-HOME-6894	<u>75,937</u>
Total U.S. Department of Housing and Urban Development			<u>504,567</u>
<u>U.S. Department of Justice</u>			
Direct Program			
Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0031	58,539
Edward Byrne Justice Assistance Grant	16.804	2013-DJ-BX-584	12,155
Bullet Proof Vest Partnership Program	16.607	1121-0235	<u>5,193</u>
Total U.S. Department of Justice			<u>75,887</u>
Total Expenditures of Federal Awards			<u>\$777,222</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF HANFORD
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2014

1. Summary of Significant Accounting Policies:

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the awards transactions of the City recorded in the governmental and proprietary fund types.

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, as under accrual accounting.

The accrual basis of accounting is utilized by proprietary funds. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds distinguish operating revenues and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California are included in the Schedule.

The Schedule was presented only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Part I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> </u> Yes	<u>X</u> No
Significant deficiency(s) identified not considered to be material weakness(es)?	<u>X</u> Yes	<u> </u> No
Noncompliance material to financial statements notes?	<u> </u> Yes	<u>X</u> No

Federal Awards

Internal control over major programs:	<u>Unmodified</u>	
Material weakness(es) identified?	<u> </u> Yes	<u>X</u> No
Significant deficiency(s) identified not considered to be material weakness(es)?	<u> </u> Yes	<u>X</u> No
Type of auditor's report issued on compliance for major programs:		

<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510 (a))?	<u> </u> Yes	<u>X</u> No

Programs Subjected to Audit Procedures as Major Programs

	<u>Name of Federal Program or Cluster</u>
16.710	Public Safety Partnership and Community Policing
14.218	CDBG Entitlement Grants
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>X</u> Yes

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued)

Part II - Financial Statement Finding Section

Significant Deficiencies, Material Weaknesses and Instances of Noncompliance Related to the Financial Statements:

Significant Deficiency

2014-1 – Utility Receivables/Revenue

Condition:

In performing our tests related to utility billings, we discovered that June, 2014 billing errors in the water fund resulting in overcharges of approximately \$800,000 were not corrected on the City's books until July, 2014. However, since the correction was not made until after year-end, the June 30, 2014 balances for receivables and revenue in the water fund were significantly overstated.

Criteria:

Corrections of errors to the utility billing should be made in the same period that the errors are made to prevent misstatement of the City's books.

Effect of Condition:

Failure to appropriately correct the billing error resulted in the overstatement of receivables and revenue in the water fund at year-end.

Cause of Condition:

Staff did not perform a review of budget to actual variances of water fund revenue or a comparison of year-end receivable amounts to the prior year. Such a review would have indicated that there was a possibility that those balances were misstated.

Recommendation:

We recommend that staff perform various analytical procedures at year-end such as an analysis of budget to actual variances for revenues and expenses and a comparison of year end amounts to the prior year for all funds to determine if there are obvious errors on the books that need to be corrected prior to the audit.

Response:

City Management agrees with the audit finding and recommendations. Finance will analyze the budget to actual at the close of the fiscal year to uncover any variances.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued)

Significant Deficiency

2014-2 – Credit Cards

Condition:

As part of our test of controls procedures we selected two statements from nine credit cards for testing. From our controls testing performed we noted the following:

- Claim forms for department heads and City Manager were signed by the actual user of credit card instead of separate personnel.

Criteria:

Internal control over credit cards dictates that segregation of duties exist within the purchasing cycle, custody of credit cards should be separate from someone who is authorized to use the credit cards for purchase, authorization of credit cards should be from the user's supervisor, and individuals should not be allowed to review and approve their own purchases.

Effect of Condition:

Lack of segregation of duties within the purchasing environment raises concerns surrounding the ability to make purchases that are not for proper business use. Employees making personal purchases could result in the financial statements being misstated. Credit card approval provides a review of the purchases support to indicate purchases are for business use.

Cause of Condition:

Failure to follow proper purchasing procedures.

Recommendation:

We recommend a review of claim forms for department heads be performed by the City Manager. We recommend that the City Manager have a separate individual review his purchases. Segregation of duties should be set up in order to prevent authorized credit card users from being able to make personal purchases.

Response:

City Management agrees with the audit finding and recommendations. Improvement to the internal control over credit cards has been implemented. The City Manager or his designee will review the charges and sign off before processing for payment. The Finance Director or his designee will review the City Manager's credit card charges and sign off before processing for payment.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued)

Part III - Federal Award Findings and Questioned Costs Section

Significant Deficiencies, Material Weaknesses and Instances of Noncompliance Related to the Audit of Major Federal Programs:

None

CITY OF HANFORD
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014

U.S. Department of Housing and Urban Development

Finding – 2013-3 – C.F.D.A. #14.218

Condition:

In the prior year deficiencies were (1) staff was unable to provide copies of activity reports, performance reports and annual reports (2) outside consultant administering CDBG grant programs was not being monitored as required and (3) there appeared from HUD correspondence that the City failed to perform approved activities in a timely manner. In addition on-site monitoring representative from HUD had concerns in the areas of documentation and management systems.

Recommendation:

The City needs to see that their new grant manager and staff participate in ongoing training and a review should be initiated so that all programs are in compliance with CDBG regulations.

Current Status:

The City was able to produce quarterly Federal Financial Reports, Consolidated Annual Performance and Evaluation Reports. Grant programs are now administered in house and staff has been following HUD guidelines for sub recipient selection, management and oversight of projects and activities. In addition the City has published a Desk Guide that has been developed and staff also works closely with their HUD representative. Finally, the City was in compliance with the CDBG program's requirement to expend funds in a timely manner during the year.

A performance review by HUD for the year 2013/2014 indicates that the City has the continued capacity to administer its CDBG Program as it endeavors to produce meaningful housing and community development results.

APPROPRIATIONS LIMIT REPORT



February 20, 2015

The Honorable City Council
City of Hanford
Hanford, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH ARTICLE XIIIIB – APPROPRIATIONS LIMIT

We have applied the procedures enumerated below to the accompanying appropriations limit of the City of Hanford for the year ended June 30, 2014. These procedures, which were agreed to by the League of California Cities and presented in their Article XIIIIB Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirement of Section 1.5 of Article XIIIIB of the California Constitution. This report is intended for the information of management and the City Council. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

The procedures performed and our findings were as follows:

1. We obtained computations from the City of Hanford and determined that the limit and annual adjustment factors were adopted by resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
2. For the accompanying Appropriations Limit, we added last year's limit to total adjustments, and agreed the resulting amount of this year's limit.
3. We agreed the current year information presented in the accompanying Appropriations Limit to the other computations described above.
4. We agreed the prior year Appropriations Limit presented in the accompanying Appropriations Limit to the Prior year Appropriations Limit adopted by the City Council during the prior year.

These agreed upon procedures are substantially less in scope than an audit, the objective of which is the expression of an opinion on the accompanying Appropriations Limit. Accordingly, we do not express such an opinion.

Based on the application of the procedures referred to above, nothing came to our attention that caused us to believe that the accompanying Appropriations Limit was not computed in accordance with Article XIIIIB of the California Constitution. Had we performed additional procedures or had we made an audit of the accompanying Appropriations Limit and the other completed worksheets described above, matters might have come to our attention that would have been reported to you.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Appropriations Limit
Schedules A and B
June 30, 2014

Schedule A	Fiscal Year 2013-2014	Amount
A. Last Year's Limit – 2014		\$50,613,642
B. Add: Adjustment for Annexation Service Deliver Charge		0
Subtotal		<u>\$50,613,642</u>
Apply ratio of Change Factor (Schedule B)		1.0638
C. Appropriations Limit – Fiscal Year 2013-2014		<u>\$53,842,792</u>

Schedule B	Worksheet for Permitted Growth in Appropriations Limit 2013-2014		
Kings County Population Change Converted to a Ratio	(1)	1.20%	1.0120
California Per Capita Income Change Converted to a Ratio	(1)	5.12%	1.0512
Calculation of Factor for 2013-2014			1.0120 x 1.0512
Ratio of Change Factor			1.0638

(1) Provided by the California State Department of Finance