

CITY OF HANFORD

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2010

CONTENTS

	<u>Page</u>
Principal city officials	i
Independent auditors' report	1-2
Management's discussion and analysis	3-13
 <u>FINANCIAL STATEMENTS:</u>	
Government-wide financial statements:	
Statement of net assets	14
Statements of activities and changes in net assets	15-16
Governmental fund financial statements:	
Combining balance sheet	17
Reconciliation of the governmental fund balance sheet to the government-wide statement of net assets	18
Combining statement of revenues, expenditures, and changes in fund balances	19
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities	20
Proprietary fund financial statements:	
Statement of net assets	21-22
Statement of revenues, expenses, and changes in net assets	23-24
Statement of cash flows	25-28
Fiduciary funds financial statements:	
Statement of fiduciary net assets – trust and agency funds	29
Statement of changes in fiduciary net assets	30
Notes to financial statements	31-58
Required supplementary information:	
Required supplementary information	59
Schedule of funding progress	60
Schedule of revenues, expenditures, and changes in fund balances:	
Budget and actual (GAAP Basis) general fund	61
Budget and actual (GAAP Basis) CDBG home/housing fund	62
Budget and actual (GAAP Basis) capital projects	63

SUPPLEMENTARY INFORMATION SECTION:

Non-major governmental funds:	
Combining balance sheet	64
Combining statement of revenues, expenditures, and changes in fund balances	65
Non-major special revenue funds:	
Combining balance sheet	66-68
Combining statement of revenues, expenditures, and changes in fund balances	69-71
Internal service funds:	
Combining statement of net assets	72-73
Combining statement of revenues, expenses, and changes in net assets	74-75
Combining statement of cash flows	76-77

SINGLE AUDIT REPORTS:

Report on internal control over compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards	78-79
Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	80-81
Schedule of expenditures of federal awards	82
Notes to the schedule of expenditures of federal awards	83
Schedule of findings and questioned costs	84
Schedule of findings and recommendations	85
Summary schedule of prior audit findings	86

APPROPRIATIONS LIMIT REPORT:

Independent auditors' report on compliance with Article XIIIB – appropriations limit	87
Appropriations limit schedules A and B	88

CITY OF HANFORD
June 30, 2010

CITY COUNCIL

<u>NAME</u>	<u>POSITION</u>
Dan Chin	Mayor
Sue Sorenson	Vice Mayor
David G. Ayers	Council Member
Dave Thomas	Council Member
Catherine Willis	Council Member

ADMINISTRATION

Hilary M. Straus	City Manager
Griswold, LaSalle, Cobb, Dowel & Gin, L.L.P.	City Attorneys
Karen McAlister	City Clerk
Tom Dibble	Treasurer/Finance Director
Timothy Ieronimo	Fire Chief
Cathy Cain	Interim Community Development Director
Carlos Mestas	Police Chief
John Doyel	City Engineer
Scott Yeager	Recreation Director
Lou Camara	Public Works Director



November 22, 2010

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the fiduciary funds of the City of Hanford, California (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hanford's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information and the fiduciary funds of the City of Hanford, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 22, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

City of Hanford

November 22, 2010

Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and budgetary comparison schedule for the General Fund, the Community Development Block Grant Special Revenue Fund, the Capital Project Fund and the Schedule of Funding Progress – Public Retirement systems, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Hanford, California's basic financial statements. The combining and individual non-major fund financial statements identified in the table of contents, where applicable, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying 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 of the City of Hanford, California. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sampson, Sampson and Partners, LLP

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

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, 2010. 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 2010 by about \$291.2 million. Of this amount, about \$46.1 million in unrestricted assets may be used to meet the City's ongoing obligations to citizens and creditors.
- As of June 30, 2010, the City's governmental funds reported combined ending fund balances of \$55 million.
- Approximately 27.2% of the combined fund balances is considered available for spending at the City's discretion.
- As of June 30, 2010, unreserved fund balance in the General Fund was \$6.9 million, or 33.8% of total General Fund Expenditures.
- The City's total debt increased by \$2.22 million during the fiscal year 2010, which is due to the normal maturity of debt in the general fund, the water system, and the wastewater system; and additional debt in the general fund and redevelopment agency where borrowing occurred for financing of redevelopment projects and land acquisition. The water enterprise fund also borrowed additional funds to acquire and install an automated meter reading 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.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

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.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets 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 assets and changes in them. Net assets are 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 assets 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 Assets and the Statement of Activities and Changes in Net Assets, 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.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

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.

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 Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. 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.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

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 Assets

As noted earlier, net assets 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 \$291,234,648 at the close of the most recent fiscal year.

By far the largest portion of the City of Hanford’s net assets 69% 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 \$70,015,350 approximately 92% \$64,585,936 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.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current assets	\$ 47,096,450	\$ 46,515,214	\$ 22,918,900	\$ 25,891,620	\$ 70,015,350	\$ 72,406,834
Capital and non-current assets (net of depreciation)	<u>160,324,947</u>	<u>158,903,131</u>	<u>111,300,513</u>	<u>106,005,116</u>	<u>271,625,460</u>	<u>264,908,247</u>
Total assets	<u>207,421,397</u>	<u>205,418,345</u>	<u>134,219,413</u>	<u>131,896,736</u>	<u>341,640,810</u>	<u>337,315,081</u>
Liabilities:						
Current and other liabilities	2,661,105	2,334,170	3,073,433	2,999,083	5,734,538	5,333,253
Long-term liabilities	<u>1,579,969</u>	<u>1,665,880</u>	<u>43,091,655</u>	<u>42,832,860</u>	<u>44,671,624</u>	<u>44,498,740</u>
Total liabilities	<u>4,241,074</u>	<u>4,000,050</u>	<u>46,165,088</u>	<u>45,831,943</u>	<u>50,406,162</u>	<u>49,831,993</u>
Net Assets:						
Invested in capital assets, net of related debt	136,810,213	137,097,186	66,616,354	61,925,813	203,426,567	199,022,999
Restricted	41,087,286	39,448,426	595,475	604,794	41,682,761	40,053,220
Unrestricted	<u>25,282,824</u>	<u>24,872,683</u>	<u>20,842,496</u>	<u>23,534,186</u>	<u>46,125,320</u>	<u>48,406,869</u>
Total net assets	<u>\$203,180,323</u>	<u>\$201,418,295</u>	<u>\$ 88,054,325</u>	<u>\$ 86,064,793</u>	<u>\$291,234,648</u>	<u>\$287,483,088</u>

An additional portion of the City of Hanford's net assets \$41,682,761 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$46,125,320 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 assets, 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 Assets 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 assets 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 better off at June 30, 2010 than it was at June 30, 2009.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
REVENUES:						
Program revenues:						
Charges for services	\$ 4,097,505	\$ 3,144,575	\$17,955,646	\$18,236,819	\$ 22,053,151	\$ 21,381,394
Operating grants and contributions	2,915,462	1,413,360			2,915,462	1,413,360
Capital grants and contributions	3,900,674	3,506,846	1,079,345	406,052	4,980,019	3,912,898
General revenues:						
Taxes	18,090,578	19,438,848			18,090,578	19,438,848
Investment earnings	1,293,767	1,771,318	210,063	454,750	1,503,830	2,226,068
Other revenues	573,856	486,505	954,311	662,091	1,528,167	1,148,596
TOTAL REVENUES	30,871,842	29,761,452	20,199,365	19,759,712	51,071,207	49,521,164
EXPENSES:						
Governmental activities:						
General government	1,681,989	1,701,728			1,681,989	1,701,728
Public safety	13,264,272	13,634,896			13,264,272	13,634,896
Public works	7,542,538	7,372,121			7,542,538	7,372,121
Recreation	2,069,876	2,126,540			2,069,876	2,126,540
Community development	4,414,709	2,510,249			4,414,709	2,510,249
Interest on long-term debt	36,000	48,817			36,000	48,817
Business-type activities:						
Water system			5,661,130	4,602,403	5,661,130	4,602,403
Wastewater system			5,277,040	5,429,918	5,277,040	5,429,918
Storm drain			795,898	933,443	795,898	933,443
Refuse			5,912,073	5,442,252	5,912,073	5,442,252
Airport			391,215	435,043	391,215	435,043
Intermodal			70,401	97,294	70,401	97,294
Courthouse square			202,506	276,569	202,506	276,569
TOTAL EXPENSES	29,009,384	27,394,351	18,310,263	17,216,922	47,319,647	44,611,273
Increase in net assets before transfers	1,862,458	2,367,101	1,889,102	2,542,790	3,751,560	4,909,891
Transfers	(100,430)	(30,907)	100,430	30,907		
Change in net assets	1,762,028	2,336,194	1,989,532	2,573,697	3,751,560	4,909,891
Net assets, beginning of year, restated	201,418,295	199,082,101	86,064,793	83,491,096	287,483,088	282,573,197
Net assets, end of year	\$203,180,323	\$201,418,295	\$88,054,325	\$86,064,793	\$291,234,648	\$287,483,088

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

The City's revenue totaled \$51,071,207, with 43% generated from charges for services and 35% generated from taxes. The largest source of revenues in Governmental Activities comes from taxes at 59%. 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 89%. 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 \$47,319,647. The two largest categories of expense are public safety, which accounted for 28% of total costs and public works, which represents 16% of total costs. However, in relation to total Governmental Activity expenses, public safety makes up 46% of the total.

As depicted in the Statement of Activities, net assets increased during the year. In those funds included within the Governmental Activities category, net assets increased by \$1,762,028 an increase of 1.0%. Net assets also increased in those funds included within the Business-Type Activities category by \$1,989,532, or 2.3%.

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, 2010, the City's governmental statement of activities reported total ending net assets of \$203,180,323 an increase of \$1,762,028 from the beginning of the year. Approximately 12% of this total amount, \$25,282,824, is available for spending at the government's discretion as unreserved/undesignated 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, unreserved fund balance of the General Fund was \$6,875,581 while total fund balance reached \$13,694,718. 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 unreserved fund balance of the general fund represents approximately 34% of general fund expenditures.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(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 total net assets of \$28,142,893 at the end of the fiscal year. Total net assets include \$21,194,409 invested in capital assets and \$595,475 reserved for debt service, which are not available to pay for current expenses. The remaining net assets of \$6,948,484 are unrestricted and available to cover current operating and capital needs of the fund.

The Refuse Fund has total net assets of \$2,396,793 at the end of the fiscal year. Total net assets include \$178,173 invested in capital assets, which are not available to cover current expenses. The remaining net assets of \$2,218,620 are unrestricted and available to cover current operating and capital needs of the fund.

The Wastewater Fund has total net assets of \$29,524,633 at the end of the fiscal year. Total net assets include \$22,699,472 invested in capital assets, which are not available to cover current expenses. The fund has \$6,825,161 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, 2010 amounts to \$248,835,726 (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 \$4,669,352. This increase is a result of land acquisition, normal equipment replacement, and construction of typical capital assets. Significant capital asset events during the fiscal year included the following:

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

- Construction on storm drainage facilities \$663,837.
- Construction on wastewater system treatment plan and collection system for \$434,072.
- Construction on the water system storage tanks, water wells, and water mains for \$5,443,738.
- Water system arsenic remediation projects construction for \$561,770.
- Contributed capital from developer improvements for \$2,351,547.
- Various street construction projects, rehabilitation and betterments for \$2,790,448.
- Corporation yard expansion project \$1,025,165.

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 60,432,656	\$ 60,432,656	\$ 11,035,847	\$ 11,038,597	\$ 71,468,503	\$ 71,471,253
Buildings	11,829,620	4,984,355	6,513,177	5,804,079	18,342,797	10,788,434
Infrastructure	56,264,814	58,683,686	87,908,083	77,535,345	144,172,897	136,219,031
Equipment	6,133,677	6,668,408	215,733	229,760	6,349,410	6,898,168
Construction in progress	2,874,446	7,393,081	5,627,673	11,397,335	8,502,119	18,790,416
Total capital assets	<u>\$137,535,213</u>	<u>\$138,162,186</u>	<u>\$111,300,513</u>	<u>\$106,005,116</u>	<u>\$248,835,726</u>	<u>\$244,167,302</u>

Long-Term Debt - At the end of the current fiscal year, the City of Hanford, primary government, had a total debt outstanding of \$46,169,184.

Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Compensated absences	\$ 760,098	\$ 721,360	\$ 160,850	\$ 143,088	\$ 920,948	\$ 864,448
Certificates of participation	725,000	1,065,000			725,000	1,065,000
Revenue bonds payable			26,435,000	27,330,000	26,435,000	27,330,000
Unamortized bond premium			160,923	169,863	160,923	169,863
Notes payable			16,033,480	16,579,441	16,033,480	16,579,441
Lease purchase			1,893,833		1,893,833	
	<u>\$1,485,098</u>	<u>\$1,786,360</u>	<u>\$44,684,086</u>	<u>\$44,222,392</u>	<u>\$46,169,184</u>	<u>\$46,008,752</u>

With respect to the Governmental Activities, the outstanding \$725,000 in certificates of participation consists of one issuance in 2001 for \$3,175,000 to finance the acquisition of the Recreational/Educational Facility Site for the Learning Center.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

In the Business-Type Activities, the revenue bonds payable consists of five separate issues. In 2006 the City received \$8,925,000 from the issuance of Water Revenue Bonds for the purpose of refunding the EDA Loan and 1993 Water Refunding Revenue Bond as well as expanding the City's water system. Three bonds were issued to expand or upgrade the wastewater system and treatment plant. These consist of an issue in 1996 of \$7,855,000, an issue in 1999 of \$5,000,000, and an issue in 2002 of \$10,555,000. In 2007 the City received \$8,150,000 through an installment sale agreement to finance arsenic remediation projects. In 2009 the City received \$1,998,290 through a lease purchase agreement to purchase and install auto read water meters.

The notes payable portion of the outstanding \$16,033,480 debt consists of two loans. In 2003 the City obtained the loan for the purpose of expanding the wastewater treatment plant and in 2007 the City obtained \$8,150,000 to finance construction of arsenic remediation projects.

For detail information regarding each of these bonds or notes please refer to Note 5 – Long-Term Debt, page 46.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was decreased reducing employees, supplies and equipment in various general fund activities to offset reduced revenues. The actual revenues were less than budget estimates by about \$1,350,000 caused from reduced sales tax, investment earnings and development fees. Expenditure savings were about \$819,000, primarily in public works activities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The key assumptions in the General Fund revenue forecast for fiscal year 2010-2011 were:

- Service charges will increase due to new services and rate increases that went into effect in July, 2010.
- Property tax revenues will be flat due to depressed assessed valuation and general growth.
- Sales tax revenues will remain flat as a result of the depressed economy.
- State budget actions will negatively affect general fund revenues.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(Continued)

Items addressed in the budget were:

Wastewater – Complete installation of the sludge centrifuge facility at the wastewater treatment plant.

Airport – Continue the undergrounding project for electrical lines along 9th Avenue to clear the runway landing approach.

Redevelopment – Complete the construction of the Vocational Training Facility, development of the easterly segment of downtown commercial area, and improvements to the Industrial Park Water System.

Water – The Completion of construction of water wells and arsenic remediation projects.

Streets – The design and construction of widening 12th Avenue from Liberty Street to Grangeville Boulevard, extension of Greenfield Avenue to 12th Avenue, widening 11th Avenue from Hume Avenue to Houston Avenue, and use of federal stimulus funds for street resurfacing projects.

General Fund Operations – The budget reflects reduced services with fewer employees but also draws on reserves to finance essential services, these actions necessitated by the downturn in the overall economy.

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 Assets
June 30, 2010

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit Redevelopment Agency
ASSETS				
Cash and investments	\$ 46,403,694	\$ 17,586,767	\$ 63,990,461	\$ 661,877
Receivables	3,151,725	1,664,073	4,815,798	101,123
Internal balances	(2,690,707)	2,690,707		
Inventories	127,655	144,671	272,326	
Deposits	100,000	10,000	110,000	
Deferred charges		227,207	227,207	
Other assets	4,083		4,083	
Long-term notes receivable	16,445,219		16,445,219	1,292,105
Loan to Redevelopment Agency	6,344,515		6,344,515	
Restricted cash and investments		595,475	595,475	
Land held for resale				2,262,990
Capital assets:				
Non-depreciable capital assets:				
Land	60,432,656	11,035,847	71,468,503	
Construction in progress	2,874,446	5,627,673	8,502,119	
Depreciable capital assets, net of depreciation	<u>74,228,111</u>	<u>94,636,993</u>	<u>168,865,104</u>	
Total assets	<u>207,421,397</u>	<u>134,219,413</u>	<u>341,640,810</u>	<u>4,318,095</u>
LIABILITIES				
Accounts payable	1,385,086	512,438	1,897,524	164,678
Salary and benefits payable	883,096	187,284	1,070,380	12,672
Accrued interest payable		452,049	452,049	
Deposits and deferred revenue	37,923	223,705	261,628	
Long-term debt – due within one year	355,000	1,697,957	2,052,957	
Long-term debt – due in more than one year	370,000	42,664,356	43,034,356	7,379,918
Unamortized bond premium		160,923	160,923	
Compensated absences – long-term	760,098	160,850	920,948	
Net OPEB liability	<u>449,871</u>	<u>105,526</u>	<u>555,397</u>	
Total liabilities	<u>4,241,074</u>	<u>46,165,088</u>	<u>50,406,162</u>	<u>7,557,268</u>
NET ASSETS				
Invested in capital assets, net of related debt	136,810,213	66,616,354	203,426,567	
Restricted for:				
Streets	9,731,693		9,731,693	
Debt service		595,475	595,475	
Housing	17,155,129		17,155,129	1,292,105
Public safety	1,590,318		1,590,318	
Parks and recreation	1,924,174		1,924,174	
Capital projects	10,685,972		10,685,972	2,262,990
Unrestricted	<u>25,282,824</u>	<u>20,842,496</u>	<u>46,125,320</u>	<u>(6,794,268)</u>
Total net assets (deficit)	<u>\$203,180,323</u>	<u>\$ 88,054,325</u>	<u>\$291,234,648</u>	<u>\$(3,239,173)</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2010

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	\$ 1,681,989	\$ 54,021	\$ 122,721	\$	\$ (1,505,247)		
Public safety	13,264,272	1,361,771	394,132	150,026	(11,358,343)		
Public works	7,542,538	889,589		3,010,068	(3,642,881)		
Recreation	2,069,876	641,184		126,317	(1,302,375)		
Community development	4,414,709	1,150,940	2,398,609	614,263	(250,897)		
Interest on long-term debt	<u>36,000</u>				<u>(36,000)</u>		
Total governmental activities	<u>29,009,384</u>	<u>4,097,505</u>	<u>2,915,462</u>	<u>3,900,674</u>	<u>(18,095,743)</u>		
Business-type activities:							
Water system	5,661,130	5,060,758		377,011	(223,361)		
Wastewater system	5,277,040	4,846,516		174,003	(256,521)		
Storm drain	795,898	1,126,176		402,405	732,683		
Refuse	5,912,073	6,586,708			674,635		
Airport	391,215	62,191			(329,024)		
Intermodal	70,401	47,842		125,926	103,367		
Courthouse square	<u>202,506</u>	<u>225,455</u>			<u>22,949</u>		
Total business-type activities	<u>18,310,263</u>	<u>17,955,646</u>		<u>1,079,345</u>	<u>724,728</u>		
Total primary government	<u>\$47,319,647</u>	<u>\$22,053,151</u>	<u>\$2,915,462</u>	<u>\$4,980,019</u>	<u>\$17,371,015</u>		
Component unit:							
Redevelopment agency	<u>\$ 2,611,246</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ (2,611,246)</u>		

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2010
(Continued)

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			Component Unit Redevelopment Agency	
	Governmental Activities	Business-Type Activities	Total		
Primary Government:					
Governmental activities:					
General government	\$ (1,505,247)	\$	\$ (1,505,247)	\$	
Public safety	(11,358,343)		(11,358,343)		
Public works	(3,642,881)		(3,642,881)		
Recreation	(1,302,375)		(1,302,375)		
Community development	(250,897)		(250,897)		
Interest on long-term debt	(36,000)		(36,000)		
Total governmental activities	<u>(18,095,743)</u>		<u>(18,095,743)</u>		
Business-type activities:					
Water system		(223,361)	(223,361)		
Wastewater system		(256,521)	(256,521)		
Storm drain		732,683	732,683		
Refuse		674,635	674,635		
Airport		(329,024)	(329,024)		
Intermodal		103,367	103,367		
Courthouse square		22,949	22,949		
Total business-type activities		<u>724,728</u>	<u>724,728</u>		
Total primary government	<u>(18,095,743)</u>	<u>724,728</u>	<u>(17,371,015)</u>		
Component unit:					
Redevelopment agency				<u>(2,611,246)</u>	
General revenues:					
Taxes:					
Property taxes	9,906,943		9,906,943	2,002,569	
Sales and use tax	5,542,771		5,542,771		
Franchise taxes	787,264		787,264		
Other taxes	1,853,600		1,853,600		
Revenue from use of money and property	1,293,767	210,063	1,503,830	56,394	
Impact fees		768,586	768,586		
Miscellaneous/other	573,856	185,725	759,581		
Transfers – interfund	(100,430)	100,430			
Total general revenues and transfers	<u>19,857,771</u>	<u>1,264,804</u>	<u>21,122,575</u>	<u>2,058,963</u>	
Change in net assets	1,762,028	1,989,532	3,751,560	(552,283)	
Net assets, beginning of year	<u>201,418,295</u>	<u>86,064,793</u>	<u>287,483,088</u>	<u>(2,686,890)</u>	
Net assets, end of year	<u>\$203,180,323</u>	<u>\$88,054,325</u>	<u>\$291,234,648</u>	<u>\$3,239,173</u>	

See independent auditors' report and notes to financial statements.

**GOVERNMENTAL
FUND FINANCIAL STATEMENTS**

CITY OF HANFORD
Combining Balance Sheet
Governmental Funds
For the Year Ended June 30, 2010

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	All Other Governmental Funds	Totals
ASSETS					
Cash and investments	\$ 6,686,479	\$ 9,031,598		\$13,500,698	\$29,218,775
Accounts receivable	754,692	1,214,597		1,164,209	3,133,498
Loan receivable	25,000	15,112,787	91,555	1,215,877	16,445,219
Loan to redevelopment agency	6,344,515				6,344,515
Due from other funds	1,077,626		1,593,270		2,670,896
Deposits	100,000				100,000
Other assets	2,983		1,100		4,083
Total assets	<u>\$14,991,295</u>	<u>\$16,327,384</u>	<u>\$10,717,523</u>	<u>\$15,880,784</u>	<u>\$57,916,986</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to other funds		571,040		506,586	1,077,626
Accounts payable	491,479	379,808	31,551	128,068	1,030,906
Accrued wages payable	767,912				767,912
Consumer deposits	37,186	737			37,923
Total liabilities	<u>1,296,577</u>	<u>951,585</u>	<u>31,551</u>	<u>634,654</u>	<u>2,914,367</u>
FUND BALANCES					
Reserved for:					
Encumbrances	349,622		898,005	4,051,722	5,299,349
Deposits	100,000				100,000
Loans and advances	6,369,515	15,112,787	1,684,825		23,167,127
Unreserved, reported in:					
General fund	6,875,581				6,875,581
Special revenue funds		263,012		11,194,408	11,457,420
Capital project funds			8,103,142		8,103,142
Total fund balances	<u>13,694,718</u>	<u>15,375,799</u>	<u>10,685,972</u>	<u>15,246,130</u>	<u>55,002,619</u>
Total liabilities and fund balances	<u>\$14,991,295</u>	<u>\$16,327,384</u>	<u>\$10,717,523</u>	<u>\$15,880,784</u>	<u>\$57,916,986</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Reconciliation of the Governmental Funds Balance Sheet
To the Government-Wide Statement of Net Assets
Governmental Activities
June 30, 2010

Total fund balances governmental funds	\$ 55,002,619
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:	
Capital assets at historical cost	\$184,533,795
Accumulated depreciation	<u>(52,314,252)</u>
	132,219,543
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 assets:	
	17,893,130
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:	
Certificates of participation payable	(725,000)
Compensated absences	(760,098)
Unfunded OPEB liabilities	<u>(449,871)</u>
	<u>(1,934,969)</u>
Total net assets -- governmental activities	<u><u>\$203,180,323</u></u>

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	All Other Governmental Funds	Totals
REVENUES					
Taxes and special assessments	\$16,953,455	\$ 2,723,803	\$ 261,670	\$ 2,979,510	\$19,932,965
Aid from other government agencies	1,523,163			1,665,290	6,173,926
Licenses and permits	375,123				375,123
Fines and forfeitures	180,369			106,907	287,276
Charges for services	767,665				767,665
Revenue from use of money and property	1,065,874	166,628	16,600	188,849	1,437,951
Miscellaneous	268,217	16,917	5,715		290,849
Unrealized gain/(loss) on investments	<u>23,234</u>	<u>(1,235)</u>	<u>(90,992)</u>	<u>24,085</u>	<u>(44,908)</u>
Total revenues	<u>21,157,100</u>	<u>2,906,113</u>	<u>192,993</u>	<u>4,964,641</u>	<u>29,220,847</u>
EXPENDITURES					
General government	1,509,399			77,965	1,587,364
Public safety	13,067,227				13,067,227
Public works	2,954,363			278,743	3,233,106
Recreation	1,443,768				1,443,768
Community development	1,371,925				1,371,925
Capital outlay		2,461,686	1,022,229	3,823,476	7,307,391
Debt service:					
Principal				340,000	340,000
Interest				<u>36,000</u>	<u>36,000</u>
Total expenditures	<u>20,346,682</u>	<u>2,461,686</u>	<u>1,022,229</u>	<u>4,556,184</u>	<u>28,386,781</u>
Excess (deficiency) of revenues over expenditures	<u>810,418</u>	<u>444,427</u>	<u>(829,236)</u>	<u>408,457</u>	<u>834,066</u>
Other financing sources (uses)					
Other sources				252,867	252,867
Transfers in	106,907		976,091	126,433	1,209,431
Transfers out	<u>(1,385,718)</u>	<u>(10,291)</u>	<u>(126,433)</u>	<u>(106,907)</u>	<u>(1,629,349)</u>
Total other financing sources (uses)	<u>(1,278,811)</u>	<u>(10,291)</u>	<u>849,658</u>	<u>272,393</u>	<u>(167,051)</u>
Net change in fund balances	(468,393)	434,136	20,422	680,850	667,015
Fund balances beginning of year	<u>14,163,111</u>	<u>14,941,663</u>	<u>10,665,550</u>	<u>14,565,280</u>	<u>54,335,604</u>
Fund balances end of year	<u>\$13,694,718</u>	<u>\$15,375,799</u>	<u>\$10,685,972</u>	<u>\$15,246,130</u>	<u>\$55,002,619</u>

See independent auditors' 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
Governmental Activities
For the Year ended June 30, 2010

Total net change in fund balances – governmental funds \$ 667,015

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	\$ 3,522,537	(1,250,277)
Depreciation expense	<u>(4,772,814)</u>	1,398,128

The net effect of various transactions involving capital assets (i.e., sales, trade-ins,
 and donations) is to increase net assets:

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of the liabilities. Expenditures for repayment of the principal portion of the long-term debt were:	340,000	1,398,128
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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:

(38,738)

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:

876,251

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.

(230,351)

Change in net assets of governmental activities

\$ 1,762,028

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Water System Fund	Sewer Improvement Funds		
		Wastewater Fund	Storm Drain Fund	Refuse Fund
ASSETS				
Current assets:				
Cash and investments	\$ 5,950,161	\$ 6,984,500	\$ 2,527,972	\$ 2,039,112
Restricted cash – debt and deposits	595,475			
Accounts receivable, net	501,847	388,954	109,809	593,944
Deposits	6,000	4,000		
Inventory	144,671			
Deferred charges	227,207			
Total current assets	<u>7,425,361</u>	<u>7,377,454</u>	<u>2,637,781</u>	<u>2,633,056</u>
Noncurrent assets:				
Capital assets:				
Land	324,114	4,135,650	3,453,076	
Buildings and improvements	43,295,576	66,700,907	14,857,544	218,590
Machinery and equipment	540,148	489,104	129,356	1,100,516
Construction in progress	4,449,571	1,178,102		
Less accumulated depreciation	<u>(10,295,835)</u>	<u>(22,239,297)</u>	<u>(3,302,794)</u>	<u>(1,140,933)</u>
Total capital assets (net of accumulated depreciation)	<u>38,313,574</u>	<u>50,264,466</u>	<u>15,137,182</u>	<u>178,173</u>
Total noncurrent assets	<u>38,313,574</u>	<u>50,264,466</u>	<u>15,137,182</u>	<u>178,173</u>
Total assets	<u><u>\$ 45,738,935</u></u>	<u><u>\$ 57,641,920</u></u>	<u><u>\$17,774,963</u></u>	<u><u>\$ 2,811,229</u></u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 131,390	\$ 132,091	\$ 19,743	\$ 213,775
Salaries and benefits payable	60,628	48,046		77,263
Deposits and deferred revenue	222,911			
Due to other funds				
Interest payable	147,788	304,261		
Current portion of long-term debt	<u>777,405</u>	<u>920,552</u>		
Total current liabilities	<u>1,340,122</u>	<u>1,404,950</u>	<u>19,743</u>	<u>291,038</u>
Noncurrent liabilities:				
Compensated absences payable	41,759	40,125		78,966
Net OPEB liability	33,324	27,770		44,432
Unamortized bond premium	160,923			
Bonds and notes payable	<u>16,019,914</u>	<u>26,644,442</u>		
Total noncurrent liabilities	<u>16,255,920</u>	<u>26,712,337</u>		<u>123,398</u>
Total liabilities	<u>17,596,042</u>	<u>28,117,287</u>	<u>19,743</u>	<u>414,436</u>
NET ASSETS				
Invested in capital assets net of related debt	21,194,409	22,699,472	15,137,182	178,173
Unrestricted	<u>6,948,484</u>	<u>6,825,161</u>	<u>2,618,038</u>	<u>2,218,620</u>
Total net assets	<u><u>\$ 28,142,893</u></u>	<u><u>\$ 29,524,633</u></u>	<u><u>\$17,755,220</u></u>	<u><u>\$ 2,396,793</u></u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Net Assets
Proprietary Funds
June 30, 2010
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total	Governmental Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 67,123	\$ 10,698	\$ 7,201	\$ 17,586,767	\$17,184,919
Restricted cash debt and deposits				595,475	
Accounts receivable, net	7,390		62,129	1,664,073	18,227
Deposit				10,000	
Inventory				144,671	127,655
Deferred charges				227,207	
Total current assets	<u>74,513</u>	<u>10,698</u>	<u>69,330</u>	<u>20,228,193</u>	<u>17,330,801</u>
Noncurrent assets:					
Capital assets:					
Land	2,596,623	526,384		11,035,847	
Buildings and improvements	5,829,703	1,784,997		132,687,317	
Machinery and equipment	30,354			2,289,478	14,613,662
Construction in progress				5,627,673	
Less: Accumulated depreciation	<u>(2,835,188)</u>	<u>(525,755)</u>		<u>(40,339,802)</u>	<u>(9,297,992)</u>
Total capital assets (net of accumulated depreciation)	<u>5,621,492</u>	<u>1,785,626</u>		<u>111,300,513</u>	<u>5,315,670</u>
Total noncurrent assets	<u>5,621,492</u>	<u>1,785,626</u>		<u>111,300,513</u>	<u>5,315,670</u>
Total assets	<u>\$ 5,696,005</u>	<u>\$1,796,324</u>	<u>\$ 69,330</u>	<u>\$131,528,706</u>	<u>\$22,646,471</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 5,686	\$ 188	\$ 9,565	\$ 512,438	\$ 354,181
Salaries and benefits payable	151		1,196	187,284	115,184
Deposits and deferred revenue	794			223,705	
Due to other funds	405,468	597,962	589,840	1,593,270	
Interest payable				452,049	
Current portion of long-term debt				1,697,957	
Total current liabilities	<u>412,099</u>	<u>598,150</u>	<u>600,601</u>	<u>4,666,703</u>	<u>469,365</u>
Noncurrent liabilities:					
Compensated absence payable				160,850	
Net OPEB liability				105,526	
Unamortized bond premium				160,923	
Bonds and notes payable				42,664,356	
Total noncurrent liabilities	<u> </u>	<u> </u>	<u> </u>	<u>43,091,655</u>	
Total liabilities	<u>412,099</u>	<u>598,150</u>	<u>600,601</u>	<u>47,758,358</u>	
NET ASSETS					
Invested in capital assets, net of related debt	5,621,492	1,785,626		66,616,354	5,315,670
Unrestricted	<u>(337,586)</u>	<u>(587,452)</u>	<u>(531,271)</u>	<u>17,153,994</u>	<u>16,861,436</u>
Total net assets	<u>\$ 5,283,906</u>	<u>\$1,198,174</u>	<u>\$(531,271)</u>	<u>\$ 83,770,348</u>	<u>\$22,177,106</u>
Adjustments to reflect the consolidation of the Internal service funds related to enterprise funds				4,283,977	
Net assets of business type activities				<u>\$ 88,054,325</u>	

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary funds
For the Year Ended June 30, 2010

	Water System Fund	Wastewater Fund	Storm Drain Fund	Sewer Improvement Funds	Refuse Fund
OPERATING REVENUES					
Charges for services	\$ 5,060,758	\$ 4,846,516	\$ 1,126,176	\$6,586,708	
Other revenues	<u>457,599</u>	<u>403,065</u>	<u>38,601</u>		<u>54,007</u>
Total operating revenue	<u>5,518,357</u>	<u>5,249,581</u>	<u>1,164,777</u>		<u>6,640,715</u>
OPERATING EXPENSES					
Personnel services	1,246,181	1,070,791			1,721,482
Services and supplies	3,531,017	2,041,955	610,758		4,535,132
Depreciation and amortization	<u>208,671</u>	<u>1,203,477</u>	<u>186,162</u>		<u>53,971</u>
Total operating expenses	<u>4,985,869</u>	<u>4,316,223</u>	<u>796,920</u>		<u>6,310,585</u>
Operating income (loss)	<u>532,488</u>	<u>933,358</u>	<u>367,857</u>		<u>330,130</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	74,431	74,165			2,496
Interest expense	(737,048)	(1,025,883)			
Gain (loss) on sale of assets					
Unrealized gain (loss) on investments	12,229	12,685			4,184
Miscellaneous	—————	—————	—————		—————
Total non-operating revenues (expenses)	<u>(650,388)</u>	<u>(939,033)</u>	<u>29,459</u>		<u>6,680</u>
Income (loss) before capital contributions and transfers	<u>(117,900)</u>	<u>(5,675)</u>	<u>397,316</u>		<u>336,810</u>
Capital contributions	377,011	174,003	402,405		
Transfers in (out)	—————	—————	—————		—————
CHANGES IN NET ASSETS	259,111	168,328	799,721		336,810
TOTAL NET ASSETS, Beginning of year	<u>27,883,782</u>	<u>29,356,305</u>	<u>16,955,499</u>		<u>2,059,983</u>
TOTAL NET ASSETS, End of year	<u>\$28,142,893</u>	<u>\$29,524,633</u>	<u>\$17,755,220</u>		<u>\$2,396,793</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 62,191	\$ 47,842	\$ 225,455	\$17,955,646	\$ 5,693,463
Other revenues	730	309		954,311	
Total operating revenue	62,921	48,151	225,455	18,909,957	5,693,463
OPERATING EXPENSES					
Personnel services	15,770		25,044	4,079,268	878,884
Services and supplies	97,780	37,730	177,973	11,032,345	3,032,143
Depreciation and amortization	279,382	33,182		1,964,845	1,029,797
Total operating expenses	392,932	70,912	203,017	17,076,458	4,940,824
Operating income (loss)	(330,011)	(22,761)	22,438	1,833,499	752,639
NON-OPERATING REVENUES (EXPENSES)					
Interest income	81			180,632	103,930
Interest expense				(1,762,931)	
Gain (loss) on sale of assets					(11,147)
Unrealized gain (loss) on investments	192	43	98	29,431	32,416
Miscellaneous					92,987
Total non-operating revenues (expenses)	273	43	98	(1,552,868)	218,186
Income (loss) before capital capital contributions and transfers	(329,738)	(22,718)	22,536	280,631	970,825
Capital contributions		125,926		1,079,345	115,064
Transfers in (out)	7,076			7,076	412,842
CHANGE IN NET ASSETS	(322,662)	103,208	22,536	1,367,052	1,498,731
TOTAL NET ASSETS, Beginning of year	5,606,568	1,094,966	(553,807)		20,678,375
TOTAL NET ASSETS, End of year	5,283,906	1,198,174	(531,271)		22,177,106
Adjustments to reflect the consolidation of the internal service funds activities related to enterprise funds				622,480	
Change in net assets of business type activities (Page 16)				\$ 1,989,532	

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year ended June 30, 2010

	Water System Fund	Wastewater Fund	Sewer Improvement Funds	Refuse Fund	Airport Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received for current services					
Cash received for current services	\$ 5,089,636	\$ 4,835,015	\$ 1,122,991	\$ 6,579,049	\$ 63,224
Cash received for other operating revenues	457,599	403,065	38,601	54,007	730
Cash paid for services and supplies	(3,638,024)	(2,098,842)	(603,593)	(4,511,100)	(117,885)
Cash paid for salaries and benefits	(1,204,682)	(1,040,232)	_____	(1,683,980)	(16,308)
Net cash provided (used) by operating activities	<u>704,529</u>	<u>2,099,006</u>	<u>557,999</u>	<u>437,976</u>	<u>(70,239)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Transfers (to) from other funds	_____	_____	_____	_____	<u>7,076</u>
Net cash provided (used) by non-capital financing activities	_____	_____	_____	_____	<u>7,076</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from lease purchase	1,998,291	_____	_____	_____	_____
Principal paid on long-term debt	(639,306)	(896,571)	_____	_____	_____
Interest paid	(706,518)	(1,038,733)	_____	_____	_____
Proceeds from sale of equipment	_____	_____	_____	_____	_____
Capital contributions	_____	_____	_____	_____	_____
Capital expenditures	<u>(4,984,788)</u>	<u>(592,032)</u>	<u>(604,077)</u>	_____	_____
Net cash provided (used) by capital and related financing activities	<u>(4,332,321)</u>	<u>(2,527,336)</u>	<u>(604,077)</u>	_____	_____
CASH FLOWS FROM INVESTING ACTIVITIES:					
Unrealized gain (loss) on investments	12,229	12,685	_____	4,184	192
Other non-operating revenue (expense)	_____	_____	_____	_____	_____
Interest received	<u>98,848</u>	<u>88,946</u>	<u>34,809</u>	<u>2,496</u>	<u>81</u>
Net cash provided by investing activities	<u>111,077</u>	<u>101,631</u>	<u>34,809</u>	<u>6,680</u>	<u>273</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,516,715)</u>	<u>(326,699)</u>	<u>(11,269)</u>	<u>444,656</u>	<u>(62,890)</u>
Cash and cash equivalents, beginning of year	<u>10,062,351</u>	<u>7,311,199</u>	<u>2,539,241</u>	<u>1,594,456</u>	<u>130,013</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,545,636</u></u>	<u><u>\$ 6,984,500</u></u>	<u><u>\$ 2,527,972</u></u>	<u><u>\$ 2,039,112</u></u>	<u><u>\$ 67,123</u></u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010
(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)	\$ 532,488	\$ 933,358	\$ 367,857	\$ 330,130
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				\$(330,011)
Depreciation	208,671	1,203,477	186,162	53,971
(Increase) decrease in net assets:				279,382
Accounts receivable	43,016	(11,501)	(3,185)	(7,659)
Deposits				745
Inventory	71,796			
Increase (decrease) in net liabilities:				
Accounts payable	(178,803)	(56,887)	7,165	24,032
Salaries and benefits payable	17,218	7,317		13,229
Compensated absences	7,218	9,022		1,522
Deposits and deferred revenue	(14,138)			288
OPEB liability	17,063	14,220		22,751
Total adjustments	<u>172,041</u>	<u>1,165,648</u>	<u>190,142</u>	<u>107,846</u>
Net cash provided (used) by operating activities	<u>\$ 704,529</u>	<u>\$ 2,099,006</u>	<u>\$ 557,999</u>	<u>\$ 437,976</u>
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	<u>\$ 377,011</u>	<u>\$ 174,003</u>	<u>\$ 402,405</u>	<u>\$ _____</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010
(Continued)

	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities- Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for current services				
Cash received for current services	\$ 47,842	\$ 199,505	\$ 17,937,262	\$ 5,706,445
Cash received for other operating revenues	309		954,311	
Cash paid for services and supplies	(37,950)	(177,070)	(11,184,464)	(2,857,869)
Cash paid for salaries and benefits	_____	(24,769)	(3,969,971)	(886,095)
Net cash provided (used) by operating activities	10,201	(2,334)	3,737,138	1,962,481
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	_____	_____	7,076	412,842
Net cash provided (used) by non-capital financing activities	_____	_____	7,076	412,842
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from lease purchase			1,998,291	
Principal paid on long-term debt			(1,535,877)	
Interest paid			(1,745,251)	
Proceeds from sale of equipment				4,101
Capital contributions	125,926		125,926	
Capital expenditures	(125,926)	_____	(6,306,823)	(155,157)
Net cash provided (used) by capital and related financing activities	_____	_____	(7,463,734)	(151,056)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Unrealized gain (loss) on investments	43	98	29,431	20,594
Other non-operating revenue (expense)				92,987
Interest received	_____	_____	225,180	130,600
Net cash provided by investing activities	43	98	254,611	244,181
Net increase (decrease) in cash and cash equivalents	10,244	(2,236)	(3,464,909)	2,468,448
Cash and cash equivalents, beginning of year	454	9,437	21,647,151	14,716,471
Cash and cash equivalents, end of year	\$ 10,698	\$ 7,201	\$ 18,182,242	\$17,184,919

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010
(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)	\$ (22,761)	\$ 22,438	\$ 1,833,499	\$ 752,639
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	33,182		1,964,845	1,029,797
(Increase) decrease in net assets:				
Accounts receivable		(25,950)	(4,534)	
Deposits				
Inventory			71,796	(20,776)
Increase (decrease) in net liabilities:				
Accounts payable	(220)	903	(223,915)	208,032
Salaries and benefits payable		275	37,501	(7,211)
Compensated absences			17,762	
Deposits and deferred revenue			(13,850)	
OPEB liability			54,034	
Total adjustments	<u>32,962</u>	<u>(24,772)</u>	<u>1,903,639</u>	<u>1,209,842</u>
Net cash provided (used) by operating activities	<u>\$ 10,201</u>	<u>\$ (2,334)</u>	<u>\$ 3,737,138</u>	<u>\$ 1,962,481</u>
Noncash investing, capital and financing activities:				
Contributions of capital assets from developers	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 953,419</u>	<u>\$ 115,064</u>

FIDUCIARY FUNDS FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Fiduciary Net Assets
Trust and Agency Funds
June 30, 2010

	Community Facilities District	Civil Subpoena	Renters' Insurance Deposits	COE Park Deposits	Miscellaneous Deposits Trust	Totals
ASSETS						
Cash and investments	\$ 865,391	\$75,279	\$1,739	\$480	\$250,034	\$1,192,923
Accounts receivable		8,923			3,645	12,568
Other	<u>2,615,000</u>	—	—	—	—	<u>2,615,000</u>
Total assets	<u>\$3,480,391</u>	<u>\$84,202</u>	<u>\$1,739</u>	<u>\$480</u>	<u>\$253,679</u>	<u>\$3,820,491</u>
LIABILITIES						
Accounts payable		299			187,721	188,020
Deposits held for others		83,903	1,739	480	65,181	151,303
Bonds payable	<u>2,615,000</u>	—	—	—	—	<u>2,615,000</u>
Total liabilities	<u>2,615,000</u>	<u>84,202</u>	<u>1,739</u>	<u>480</u>	<u>252,902</u>	<u>2,954,323</u>
NET ASSETS						
Unreserved	<u>865,391</u>	—	—	—	777	<u>866,168</u>
Total net assets	<u>\$ 865,391</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 777</u>	<u>\$ 866,168</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Changes in Fiduciary Net Assets
Trust and Agency Funds
June 30, 2010

	Community Facilities District	Miscellaneous Cash Deposits	Total
ADDITIONS			
Other additions	<u>\$492,458</u>	\$ _____	<u>\$492,458</u>
	<u>492,458</u>	_____	<u>492,458</u>
DEDUCTIONS			
General government	18,511	18,511	
Unrealized (gain) loss on investments	(385)	3,085	2,700
Debt service:			
Principal	295,000		295,000
Interest	<u>163,012</u>	_____	<u>163,012</u>
Total deductions	<u>476,138</u>	<u>3,085</u>	<u>479,223</u>
Change in net assets	16,320	(3,085)	13,235
Net assets – beginning of year	<u>849,071</u>	<u>3,862</u>	<u>852,933</u>
Net assets – end of year	<u>\$865,391</u>	\$ 777	<u>\$866,168</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010

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, 2010 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 are 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.

Discretely presented Component Unit:

The Hanford Redevelopment Agency (Agency) was established pursuant to the State of California Health and Safety Codes, Section 33000 entitled “Community Redevelopment Law.” Its purpose is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational, and public facilities. The City’s council members appoint the Agency’s directors, designate management, and have full accountability for the Agency’s fiscal matters.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

Complete financial statements for the Hanford Redevelopment Agency and Public Improvement Corporation can be obtained from the City of Hanford Finance Department.

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 and between the City and its discretely presented component unit. 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, 2010
(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.

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, 2010
(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.

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

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. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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.

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.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

For its government-wide activities and enterprise funds, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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 reporting 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.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

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.

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.

Government-Wide 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 expended 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 assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

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:

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 and retirements. For additional information regarding compensated absences, see Note 4.

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, as well as issuance costs, 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 reported as deferred charges and amortized over the terms of the related debt.

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, 2010
(Continued)

Net Assets/Fund Equity

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

- *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 or regulations of other governments and restrictions imposed by law through constructional 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 reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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. Deferred Revenue

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

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:

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, 2010. 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, Special Revenue, and Debt Service 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 Assets

The Special Aviation Special Revenue Fund, Learning Center Operation Special Revenue Fund, and Courthouse Square Proprietary Fund had deficit fund balances of \$21, \$486,552, and \$531,271, respectively. These deficits are expected to be eliminated in future years through revenues or transfers from other funds.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

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.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$64,652,338
Restricted cash and investments	595,475
Fiduciary funds:	
Cash and investments	<u>1,192,923</u>
Total cash and investments	<u>\$66,440,736</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 1,705
Deposits with financial institutions	14,182,829
Investments	<u>52,256,202</u>
Total cash and investments	<u>\$66,440,736</u>

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.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(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	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	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**.

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

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	\$10,876,866	\$ 1,637,340	\$350,000	\$5,621,945
State Investment Pool	39,415,125	39,415,125		\$3,267,581
Negotiable Certificates of Deposits	504,672	198,522	306,150	
Held by Bond Trustee:				
Money Market Funds	<u>1,459,539</u>	<u>1,459,539</u>	—	—
Total	<u>\$52,256,202</u>	<u>\$42,710,526</u>	<u>\$656,150</u>	<u>\$5,621,945</u>
				<u>\$3,267,581</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. The column marked "exempt from disclosure" identifies those investment types for which GASB Statement No. 40 does not require disclosure as to credit risk:

Investment Type	Minimum Legal Rating	Ratings as of Year End			Not Rated
		AAA	AA		
Federal Agency Securities	N/A	\$10,876,866	\$		\$
State Investment Pool	N/A				39,415,125
Negotiable Certificates of Deposits	N/A				504,672
Held by Bond Trustee:					
Money Market Funds	<u>1,459,539</u>	N/A	—	—	<u>1,459,539</u>
Total		<u>\$52,256,202</u>	<u>\$10,876,866</u>	<u>\$</u>	<u>\$41,379,336</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

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	\$3,318,706

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.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$15,722,402 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.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2010 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	\$ 367,637	\$345,645	\$ 1,213,286	\$41,410	\$	\$ 754,692
CDBG Home/Housing				1,311		1,214,597
Nonmajor and Other	57	496,475	631,894	35,783		1,164,209
Total	<u>\$ 367,694</u>	<u>\$842,120</u>	<u>\$1,845,180</u>	<u>\$78,504</u>	<u>\$</u>	<u>\$3,133,498</u>
Enterprise Funds						
Water System	\$491,456	\$	\$	\$10,391	\$	\$ 501,847
Wastewater	376,481			12,473		388,954
Storm Drain	105,444			4,365		109,809
Refuse	593,500			444		593,944
Airport	3,050				4,340	7,390
Courthouse Square	62,129					62,129
Total	<u>\$1,632,060</u>	<u>\$</u>	<u>\$</u>	<u>\$27,673</u>	<u>\$4,340</u>	<u>\$1,664,073</u>
Internal Service Funds						
Fleet Maintenance Fund	\$	\$	\$	\$18,227	\$	\$ 18,227
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$18,227</u>	<u>\$</u>	<u>\$ 18,227</u>

NOTE 4 – CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Addition Completions	Retirements/ Adjustments	Balance June 30, 2010
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 60,432,656	\$	\$	\$ 60,432,656
Construction in Progress	<u>7,393,081</u>	<u>2,442,692</u>	<u>(6,961,327)</u>	<u>2,874,446</u>
Total capital assets, not being depreciated	67,825,737	2,442,692	(6,961,327)	63,307,102
Capital assets being depreciated				
Buildings	10,926,941	7,026,747		17,953,688
Infrastructure	99,143,455	2,047,794		101,191,249
Equipment	<u>16,165,362</u>	<u>634,980</u>	<u>(104,924)</u>	<u>16,695,418</u>
Total capital assets being depreciated	126,235,758	9,709,521	(104,924)	135,840,355
Less: Accumulated depreciation				
Buildings	(5,942,586)	(181,482)		(6,124,068)
Infrastructure	(40,459,769)	(4,466,666)		(44,926,435)
Equipment	<u>(9,497,882)</u>	<u>(1,153,535)</u>	<u>89,676</u>	<u>(10,561,741)</u>
Total accumulated depreciation	(55,900,237)	(5,801,683)	89,676	(61,612,244)
Total capital assets being depreciated, net	<u>70,335,521</u>	<u>3,907,838</u>	<u>(15,248)</u>	<u>74,228,111</u>
Governmental activities capital assets, net	<u>\$138,161,258</u>	<u>\$ 6,350,530</u>	<u>\$(6,976,575)</u>	<u>\$137,535,213</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

	<u>Balance July 1, 2009</u>	<u>Addition Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2010</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 11,038,597	\$	\$ (2,750)	\$ 11,035,847
Construction in progress	<u>11,397,335</u>	<u>4,883,643</u>	<u>(10,653,305)</u>	<u>5,627,673</u>
Total capital assets, not being depreciated	<u>22,435,932</u>	<u>4,883,643</u>	<u>(10,656,055)</u>	<u>16,663,520</u>
Capital assets being depreciated				
Buildings and improvement	119,654,663	13,714,695	(682,041)	132,687,317
Machinery and equipment	<u>2,289,478</u>	<u>—</u>	<u>—</u>	<u>2,289,478</u>
Total capital assets being depreciated	121,944,141	13,714,695	(682,041)	134,976,795
Less: Accumulated depreciation for:				
Buildings and improvement	(36,434,676)	(2,292,842)	461,461	(38,266,057)
Machinery and equipment	<u>(1,940,281)</u>	<u>(133,464)</u>	<u>—</u>	<u>(2,073,745)</u>
Total accumulated depreciation	(38,374,957)	(2,426,306)	461,461	(40,339,802)
Total capital assets being depreciated, net	<u>83,569,184</u>	<u>11,288,389</u>	<u>(220,580)</u>	<u>94,636,993</u>
Business-type activities capital assets, net	<u>\$106,005,116</u>	<u>\$16,172,032</u>	<u>\$10,876,635</u>	<u>\$111,300,513</u>

Depreciation expense for the fiscal year ending June 30, 2010 was charged to the following activities:

Governmental functions:

General governmental	\$ 42,565
Public safety	330,215
Culture and recreation	635,558
Public works	3,763,548
Capital assets held by the internal service funds were charged to the various functions based on their usage	<u>1,029,797</u>
Total	<u>\$5,801,683</u>

Business-type functions:

Water system	\$ 670,132
Wastewater	1,203,477
Storm drain	186,162
Refuse	53,971
Airport	279,382
Intermodal	<u>33,182</u>
Total	<u>\$2,426,306</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

Component Unit

The capital assets of the Redevelopment Agency (Component Unit) are now accounted for and reported in the Government Activities section of these financial statements.

NOTE 5 – LONG-TERM DEBT

The following is a summary of the long-term debt activity for the year ended June 30, 2010:

Type of Debt	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One Year
Governmental activities					
Certificates of participation	\$ 1,065,000	\$ 38,738	\$ (340,000)	\$ 725,000	\$ 355,000
Compensated absences	<u>721,360</u>	<u>38,738</u>	<u> </u>	<u>760,098</u>	<u> </u>
Total governmental activities	<u>1,786,360</u>	<u>38,738</u>	<u>(340,000)</u>	<u>1,485,098</u>	<u>355,000</u>
Business activities					
Bonds payable	27,330,000		(895,000)	26,435,000	915,000
Add deferred amounts for issuance premium	169,863		(8,940)	160,923	
Notes payable	16,579,441		(545,961)	16,033,480	566,673
Capital lease		1,998,290	(104,457)	1,893,833	216,284
Compensated absences	<u>143,088</u>	<u>17,762</u>	<u> </u>	<u>160,850</u>	<u> </u>
Total business activities	<u>44,222,392</u>	<u>2,016,052</u>	<u>(1,554,358)</u>	<u>44,684,086</u>	<u>1,697,957</u>
Total primary government	<u>46,008,752</u>	<u>2,054,790</u>	<u>(1,894,358)</u>	<u>46,169,184</u>	<u>2,052,957</u>
Discretely presented component					
unit Redevelopment Agency of the City of Hanford 1992 Tax Allocation Refunding and and Redevelopment Project Bonds					
Notes payable					
City of Hanford	5,113,007	2,839,437	(1,608,328)	6,344,116	
Kings County Economic Development Corp	<u>210,809</u>	<u>825,000</u>	<u> </u>	<u>1,035,809</u>	<u> </u>
Total discretely presented component unit	<u>5,323,816</u>	<u>3,664,437</u>	<u>(1,608,328)</u>	<u>7,379,925</u>	<u> </u>
Total reporting entity	<u>\$51,332,568</u>	<u>\$5,719,227</u>	<u>(\$3,502,686)</u>	<u>\$53,549,109</u>	<u>\$2,052,957</u>

Governmental Activities –

On December 1, 2001, the City of Hanford Public Improvement Corporation issued \$3,175,000 Variable Rate Certificates of Participation. The Certificates shall mature annually on December 1, and shall bear interest ranging from 2.5 to 7.5 percent interest with respect to the Certificates shall be payable on June 1 and December 1 of each year, commencing June 1, 2002. Payment of the principal and interest on the Certificates when due are insured by a financial guaranty insurance policy issued by the MBIA Insurance Corporation. The Certificates are secured by Hanford's City Hall and auditorium building pledged as collateral. The purpose of the Certificates is to finance the acquisition of the Recreational/Educational Facility Site for the Learning Center. In conjunction with the issuance, the City entered into an agreement with the College of Sequoias and the Hanford Union High School District that requires each party to pay one-third share of the Certificate. At June 30, 2010, the outstanding balance was \$725,000.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

The future maturities of the Certificates of Participation were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$355,000	\$22,270	\$377,270
2012	<u>370,000</u>	7,585	377,585
Total	<u>\$725,000</u>	<u>\$29,855</u>	<u>\$754,855</u>

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.

\$760,098

Business Type Activities –

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, 2010 the outstanding balance was \$5,400,000.

The future maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 300,000	\$ 197,100	\$ 497,100
2012	400,000	186,150	586,150
2013	400,000	171,550	571,550
2014	400,000	156,950	556,950
2015	400,000	142,350	542,350
2016-2020	2,000,000	492,750	2,492,750
2021-2023	<u>1,500,000</u>	<u>109,500</u>	<u>1,609,500</u>
Total	<u>\$5,400,000</u>	<u>\$1,456,350</u>	<u>\$6,856,350</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

On October 1, 1999, the City of Hanford issued \$5,000,000 California Statewide Communities Development Authority (CSCDA) Water and Wastewater Revenue Bonds. The Bonds shall mature on October 1, 2029, and shall bear interest annually, ranging from 3.5 to 5.75 percent. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April, 2000. Payment of the principal and interest on the Bonds when due are insured by a financial guaranty insurance policy issued by the Financial Security Assurance Inc. The purpose of the Bonds is to provide financing of the expansion of the Wastewater Treatment Plan. As of June 30, 2010, the outstanding balance was \$4,075,000.

The future maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 115,000	\$ 226,675	\$ 341,675
2012	125,000	220,732	345,732
2013	130,000	214,293	344,293
2014	135,000	207,198	342,198
2015	145,000	199,358	344,358
2016-2020	850,000	862,992	1,712,992
2021-2025	1,110,000	585,918	1,695,918
2026-2030	<u>1,465,000</u>	<u>220,075</u>	<u>1,685,075</u>
Total	<u>\$4,075,000</u>	<u>\$2,737,241</u>	<u>\$6,812,241</u>

On April 16, 2002, the City of Hanford issued \$10,555,000 CSCDA Water and Wastewater Revenue Bonds. The Bonds shall mature on October 1, 2023, and shall bear interest annually, ranging from 3.9 to 5.0 percent. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing October 1, 2002. Payment of the principal and interest on the Bonds when due are insured by a financial guaranty insurance policy issued by the Financial Security Assurance Inc. The purpose of the Bonds is to provide additional financing for the expansion of the Wastewater Treatment Plant. As of June 30, 2010 the outstanding balance was \$9,505,000.

The future Maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 240,000	\$ 459,796	\$ 699,796
2012	245,000	449,974	694,974
2013	260,000	439,426	699,426
2014	270,000	427,995	697,995
2015	280,000	415,789	695,789
2016-2020	1,610,000	1,863,553	3,473,553
2021-2025	2,055,000	1,405,868	3,460,868
2026-2030	2,630,000	820,500	3,450,500
2031-2033	<u>1,915,000</u>	<u>146,875</u>	<u>2,061,875</u>
Total	<u>\$9,505,000</u>	<u>\$6,429,776</u>	<u>\$15,934,776</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(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. As of June 30, 2010, the balance outstanding was \$7,455,000.

The future maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 260,000	\$ 355,551	\$ 615,551
2012	270,000	347,196	617,196
2013	275,000	337,723	612,723
2014	285,000	327,218	612,218
2015	295,000	313,988	608,988
2016-2020	1,715,000	1,344,422	3,059,422
2021-2025	2,170,000	870,187	3,040,187
2026-2029	<u>2,185,000</u>	<u>236,906</u>	<u>2,421,906</u>
Total	<u>\$7,455,000</u>	<u>\$4,133,191</u>	<u>\$11,588,191</u>

Long-Term Debt – Notes Payable

On May 28, 2004, 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, 2010, the balance outstanding was \$8,584,994.

The future maturities of the Note payable were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 265,552	\$ 295,828	\$ 561,380
2012	274,846	286,372	561,218
2013	284,466	276,583	561,049
2014	294,422	266,452	560,874
2015	304,727	255,967	560,694
2016-2020	1,691,279	1,109,256	2,800,535
2021-2025	2,008,709	786,271	2,794,980
2026-2030	2,385,716	402,666	2,788,382
2031-2032	<u>1,075,277</u>	<u>37,956</u>	<u>1,113,233</u>
Total	<u>\$8,584,994</u>	<u>\$3,717,351</u>	<u>\$12,302,345</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(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. As of June 30, 2010, the balance outstanding was \$7,448,486.

The future maturities of the Note payable were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 301,121	\$ 294,320	\$ 595,441
2012	313,262	282,179	595,441
2013	325,892	269,549	595,441
2014	339,032	256,409	595,441
2015	352,701	242,740	595,441
2016-2020	1,978,629	998,576	2,977,205
2021-2025	2,423,177	554,028	2,977,205
2026-2027	<u>1,414,672</u>	<u>73,780</u>	<u>1,488,452</u>
Total	<u><u>\$7,448,486</u></u>	<u><u>\$2,971,581</u></u>	<u><u>\$10,420,067</u></u>

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, 2010 was \$1,893,833.

The annual debt service requirements for the 2009 Capital Lease outstanding at June 30, 2010 are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 216,285	\$ 85,907	\$ 302,192
2012	226,498	75,694	302,192
2013	237,195	64,997	302,192
2014	248,396	53,796	302,192
2015	260,126	42,066	302,192
2016-2018	<u>705,333</u>	<u>50,146</u>	<u>755,479</u>
Total	<u><u>\$1,893,833</u></u>	<u><u>\$372,606</u></u>	<u><u>\$2,266,439</u></u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

Component Unit

On June 19, 1984, the Redevelopment Agency of the City of Hanford entered into a loan agreement with the City of Hanford whereby the City would loan the Agency money in order to complete the Kings County Industrial Park Project. During the year an additional \$4,000,000 was loaned to the agency for construction of a Vocational Training Center related to the project area. The loan agreement requires the Agency to pay 10% interest on the unpaid principal balance. The Agency's yearly principal repayment amounts vary yearly based on the amount of funding available and by the amount of the yearly tax increment. The principal balance due at June 30, 2010 was \$6,344,116.

On December 28, 1999, the Redevelopment Agency of the City of Hanford entered into a loan agreement with the Kings County Economic Development Corporation in the amount of \$300,533 to purchase 100 acres of real property for the Kings County industrial Park Project. The Agency is required to pay \$3,095 in principal for each acre of property it sells. The note does not accrue interest at a fixed rate; rather the Agency must pay 34% in interest on the amount it receives per acre from the sale, if the sales price is at least above \$9,103. The principal balance due at June 30, 2010 was \$210,809.

On November 18, 2009, the Agency entered into a loan agreement with the Kings County Economic Development Corporation in the amount of \$825,000 to fund 50% of the purchase price of 110 acres of real property for the Kings County Industrial Park Project. The Agency is required to pay \$7,500 in principal for each acre of property it sells. The note does not accrue interest at a fixed rate, rather the Agency must pay 50% in interest, on the amount it receives per acre from the principal balance at June 30, 2010 was \$825,000.

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, 2010
(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, 2010 was 25.626% for miscellaneous employees. The required employer contribution rate for police safety employees was 28.153% for the period July 1, 2009 through June 30, 2010. The required employer contribution rate for the fire safety employees was 24.401% for the period July 1, 2009 through June 30, 2010. 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 4.5 percent investment rate of return, covered payroll increases of 3.25 percent per year, an inflation rate of 3.25 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, 2010, the City's annual pension cost of \$4,857,266 for PERS was equal to the City's required and actual contributions. The required contribution for the fiscal year ended June 30, 2010 was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expense), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.25% to 14.45% for police and fire safety members), and (c) 3.25% payroll growth. Both (a) and (b) included an inflation component of 3.00%. 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, 2010 was 20 years for Miscellaneous, 16 years for Police Safety, and 16 years for Fire Safety.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

Fiscal Year	Three-Year Trend Information for PERS		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
6/30/08	\$4,043,161	100.0%	
6/30/09	\$4,519,124	100.0%	
6/30/10	\$4,857,266	100.0%	

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 79.3% funded for non-safety employees and 87.8% funded for safety employees. The actuarial accrued liability for benefits was 60 million for non-safety employees and 1.75 billion for safety employees and the actuarial value of assets was 47 million for non-safety employees and 1.5 billion for safety employees, resulting in an unfunded actuarial accrued liability (UAAL) of \$13 million for non-safety employees and \$237 million for safety employees. The covered payroll (annual payroll of active employees covered by the plan) was \$7.9 million for non-safety members and \$2.10 million for safety members, and the ratio of UAAL to the covered payroll was 78.2% and 86.5% 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

During the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 45, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions. This statement establishes uniform financial reporting standards for employers providing post-employment benefits. The provisions of this statement are applied on a prospective basis.

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 \$105 per month for 2010.

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, 2010
(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 \$101 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 2009-2010, the City paid \$30,564 for benefits of 29 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, 2009, the date of the most recent actuarial valuation, was a total of \$555,397. The OPEB obligation has been adjusted by an annual inflation percentage of 3.25% 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	\$302,753
Interest on net OPEB obligation	<u>12,196</u>
Adjustment to annual required contribution annual OPEB cost (expense)	314,949
Less: Employer contribution	<u>(30,564)</u>
Increase in net OPEB obligation	284,385
Net OPEB obligations, beginning of year	<u>271,012</u>
Net OPEB obligations, end of year	<u><u>\$555,397</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the two proceeding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/08	N/A	N/A	N/A
6/30/09	\$302,753	10.48%	\$271,012
6/30/10	\$314,949	9.70%	\$555,397

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

Note: Disclosure of annual OPEB cost, percent contributed, and net OPEB obligation, if any, is required for the current fiscal year and each of the two preceding fiscal years. The fiscal year ended June 30, 2009 is the first year of implementation of the City's post-retirement health care plan accounted for and reported in accordance with the requirements of GASB 45. Accordingly, three-year data is not available and will be shown when such data becomes available.

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, 2010 was as follows:

Actuarial accrued liability	\$ 2,703,595
Actuarial value of plan assets	0
Unfunded Actuarial accrued liability (UAAL)	<u>\$ 2,703,595</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$14,309,711
UAAL as a percentage of covered payroll	18.89%

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, 2010
(Continued)

NOTE 8 – RISK MANAGEMENT

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA), a public entity risk pool for workers' compensation and general liability insurance. The CSJVRMA is a consortium of fifty-four cities located in California's San Joaquin Valley. It was established under the provisions of California Government Code Section 6500 et. Seq. CSJVRMA is governed by a Board of Directors, consisting of one member appointed by each member city. The day-to-day business operations are handled by a management group employed by CSJVRMA. The relationship between the City and CSJVRMA is such the CSJVRMA is not considered a component unit of the City for financial reporting purposes.

For liability insurance, the risk pool 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 general liability coverage from \$1,000,000 to \$25,000,000.

The City maintains a self-insured retention level of \$200,000 for workers' compensation insurance. Coverage between \$200,000 and \$500,000 is provided through the risk pool. CSJVRMA participates in an excess pool, which provides workers' compensation coverage from \$500,000 to \$5,000,000 and purchases excess insurance above \$5,000,000 to the statutory limit.

The most recent condensed financial information of CSJVRMA is as follows:

	<u>As of and for the Year Ended June 30, 2010</u>
Total Assets	<u>\$67,337,173</u>
Total Liabilities	<u>\$55,453,249</u>
Total Net Assets	<u>11,883,924</u>
Total Liabilities and Net Assets	<u>\$67,337,173</u>
Total Revenues for Year	<u>\$33,252,560</u>
Total Expenses for Year	<u>30,672,089</u>
Changes in Net Assets	<u>\$ 2,580,471</u>

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.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

Interfund due from/to other funds at June 30, 2010 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds		
General Fund	\$1,077,626	\$
CDBG Home/Housing Fund	1,593,270	571,040
Capital Project Fund	506,586	
Other Governmental Funds	506,586	
Proprietary Funds		
Airport Fund	405,468	
Intermodal Fund	597,962	
Courthouse Square	589,840	
Total	<u>\$2,670,896</u>	<u>\$2,670,896</u>

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2009/10 fiscal year as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 106,907	\$1,385,718
CDBG Home/Housing Fund	976,091	10,291
Capital Project Fund	126,433	126,433
Other Governmental funds	126,433	106,907
Proprietary Funds		
Airport Fund	7,076	
Internal Service Funds		
Fleet Management Fund	84,030	
Computer Maintenance Fund	528,812	
Building Fund	200,000	
	<u>\$1,829,349</u>	<u>\$1,829,349</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.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2010
(Continued)

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.

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, 2010, 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.

NOTE 11 – SUBSEQUENT EVENTS

Redevelopment Agency funds have been subject to a two year takeaway by the State starting in 2010 and continuing for fiscal year 2011. The amount payable to the State in 2011 is \$143,242.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HANFORD
Required Supplementary Information
June 30, 2010

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, 2010

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)
<u>6/30/2007</u>						
Miscellaneous	\$ 55,689,000	\$ 42,965,000	\$ 12,724,000	77.2%	\$ 7,530,000	169.0%
Police Safety	\$1,648,160,000	\$1,422,143,000	\$226,017,000	86.3%	\$200,537,000	112.7%
Fire Safety	\$1,648,160,000	\$1,422,143,000	\$226,017,000	86.3%	\$200,537,000	112.7%
<u>6/30/2008</u>						
Miscellaneous	\$ 60,076,239	\$ 46,989,616	\$ 13,086,623	78.0%	\$ 7,922,800	165.2%
Police Safety	\$1,755,559,311	\$1,517,609,609	\$237,949,702	86.5%	\$210,590,567	113.0%
Fire Safety	\$1,755,559,311	\$1,517,609,609	\$237,949,702	86.5%	\$210,590,567	113.0%
<u>6/30/2009</u>						
Miscellaneous	\$ 66,619,342	\$ 50,395,886	\$ 16,223,456	75.6 %	\$ 8,614,584	188.3%
Police Safety	\$1,802,882,330	\$1,520,081,328	\$282,801,002	84.3%	\$221,600,192	127.6%
Fire Safety	\$1,802,882,330	\$1,520,081,328	\$282,801,002	84.3%	\$221,600,192	127.6%

*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, 2010

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$18,248,220	\$18,248,220	\$16,953,455	\$(1,294,765)
Aid from other governmental agencies	1,035,590	1,365,339	1,523,163	157,824
License and permits	228,190	228,190	375,123	146,933
Fines and forfeits	141,320	141,320	180,369	39,049
Charges for services	722,010	722,010	767,665	45,655
Revenue from use of money and property	829,890	829,890	1,065,874	235,984
Miscellaneous	971,100	971,100	268,217	(702,883)
Unrealized gain (loss) on investments	<u> </u>	<u> </u>	<u>23,234</u>	<u>23,234</u>
Total revenues	<u>22,176,320</u>	<u>22,506,069</u>	<u>21,157,100</u>	<u>(1,348,969)</u>
EXPENDITURES				
General government	1,468,480	1,419,580	1,509,399	(89,819)
Public safety	12,912,920	13,147,917	13,067,227	80,690
Public works	3,626,320	3,623,783	2,954,363	669,420
Recreation	1,580,810	1,602,710	1,443,768	158,942
Community development	<u>1,377,870</u>	<u>1,371,870</u>	<u>1,371,925</u>	<u>(55)</u>
Total expenditures	<u>20,966,400</u>	<u>21,165,860</u>	<u>20,346,682</u>	<u>819,178</u>
Excess (deficiency) of revenue over expenditures	1,209,920	1,340,209	810,418	(529,791)
Other financing sources (uses)				
Operating transfers in	125,800	125,800	106,907	(18,893)
Operating transfers out	<u>(1,335,720)</u>	<u>(1,335,720)</u>	<u>(1,385,718)</u>	<u>(49,998)</u>
Total other financing sources (uses)	<u>(1,209,920)</u>	<u>(1,209,920)</u>	<u>(1,278,811)</u>	<u>(68,891)</u>
Net change in fund balances		130,289	(468,393)	(598,682)
Fund balances, beginning of year	<u>14,163,111</u>	<u>14,163,111</u>	<u>14,163,111</u>	<u> </u>
Fund balances, end of year	<u>\$14,163,111</u>	<u>\$14,293,400</u>	<u>\$13,694,718</u>	<u>\$ (598,682)</u>

See independent auditors' 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, 2010

	CDBG Home/Housing			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Aid from other governmental agencies	\$ 774,660	\$ 2,774,660	\$ 2,723,803	\$ (50,857)
Revenue from use of money and property	114,630	114,630	166,628	51,998
Miscellaneous	340,000	340,000	16,917	(323,083)
Unrealized gain (loss) on investments	_____	_____	(1,235)	(1,235)
Total revenues	<u>1,229,290</u>	<u>3,229,290</u>	<u>2,906,113</u>	<u>(323,177)</u>
EXPENDITURES				
Capital outlay	<u>1,287,900</u>	<u>5,669,440</u>	<u>2,461,686</u>	<u>3,207,754</u>
Total expenditures	<u>1,287,900</u>	<u>5,669,440</u>	<u>2,461,686</u>	<u>3,207,754</u>
Excess (deficiency) of revenue over expenditures	<u>(58,610)</u>	<u>(2,440,150)</u>	<u>444,427</u>	<u>2,884,577</u>
Other financing sources (uses)				
Operating transfers out	_____	(24,720)	(10,291)	14,429
Total other financing sources (uses)	_____	(24,720)	(10,291)	14,429
Net change in fund balances	(58,610)	(2,464,870)	434,136	2,899,006
Fund balances, beginning of year	<u>14,941,663</u>	<u>14,941,663</u>	<u>14,941,663</u>	<u>_____</u>
Fund balances, end of year	<u>\$14,883,053</u>	<u>\$12,476,793</u>	<u>\$15,375,799</u>	<u>\$2,899,006</u>

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, 2010

	Capital Projects Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Aid from other governmental agencies	\$ 81,720	\$ 81,720	\$ 261,670	\$ 179,950
Miscellaneous			5,715	5,715
Unrealized gain (loss) on investments	_____	_____	(74,392)	(74,392)
Total revenues	<u>81,720</u>	<u>81,720</u>	<u>192,993</u>	<u>111,273</u>
EXPENDITURES				
Capital outlay	<u>2,153,500</u>	<u>4,163,540</u>	<u>1,022,229</u>	<u>3,141,311</u>
Total expenditures	<u>2,153,500</u>	<u>4,163,540</u>	<u>1,022,229</u>	<u>3,141,311</u>
Excess (deficiency) of revenue over expenditures	<u>(2,071,780)</u>	<u>(4,081,820)</u>	<u>(829,236)</u>	<u>3,252,584</u>
Other financing sources (uses)				
Operating transfers in	735,600	735,600	976,091	240,491
Operating transfers out	<u>(1,231,150)</u>	_____	<u>(126,433)</u>	<u>(126,433)</u>
Total other financing sources (uses)	<u>(495,550)</u>	<u>735,600</u>	<u>849,658</u>	<u>114,058</u>
Net change in fund balances	<u>(2,567,330)</u>	<u>(3,346,220)</u>	<u>20,422</u>	<u>3,366,642</u>
Fund balances, beginning of year	<u>10,665,550</u>	<u>10,665,550</u>	<u>10,665,550</u>	<u>_____</u>
Fund balances, end of year	<u>\$ 8,098,220</u>	<u>\$ 7,319,330</u>	<u>\$10,685,972</u>	<u>\$3,366,642</u>

See independent auditors' report and notes to financial statements.

SUPPLEMENTARY INFORMATION SECTION

CITY OF HANFORD
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010

	Total Non-Major Special Revenue Funds	Debt Service Fund	Total Non-Major Funds
ASSETS			
Cash and investments	\$13,500,698	\$	\$13,500,698
Accounts receivable	1,164,209		1,164,209
Loan receivable	<u>1,215,877</u>	<u> </u>	<u>1,215,877</u>
Total assets	<u><u>\$15,880,784</u></u>	<u><u>\$ </u></u>	<u><u>\$15,880,784</u></u>
LIABILITIES AND FUND BALANCES			
Due to other funds	\$ 506,586	\$	\$ 506,586
Accounts payable	<u>128,068</u>	<u> </u>	<u>128,068</u>
Total liabilities	<u>634,654</u>	<u> </u>	<u>634,654</u>
Fund balances			
Reserved	4,051,722		4,051,722
Unreserved	<u>11,194,408</u>	<u> </u>	<u>11,194,408</u>
Total fund balances	<u><u>15,246,130</u></u>	<u><u> </u></u>	<u><u>15,246,130</u></u>
Total liabilities and fund balances	<u><u>\$15,880,784</u></u>	<u><u>\$ </u></u>	<u><u>\$15,880,784</u></u>

CITY OF HANFORD
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2010

	Total Non-Major Special Revenue Funds	Debt Service Fund	Total Non-Major Funds
REVENUES			
Taxes and special assessments	\$ 2,979,510	\$	\$ 2,979,510
Aid from other governmental agencies	1,665,290		1,665,290
Fines and forfeits	106,907		106,907
Revenues from use of money and property	188,849		188,849
Unrealized gain (loss) on investments	24,085		24,085
Total revenues	<u>4,964,641</u>		<u>4,964,641</u>
EXPENDITURES			
General government	74,665	3,300	77,965
Public works	278,743		278,743
Capital outlay	3,823,476		3,823,476
Debt service			
Principal		340,000	340,000
Interest		<u>36,000</u>	<u>36,000</u>
Total expenditures	<u>4,176,884</u>	<u>379,300</u>	<u>4,556,184</u>
Excess (deficiency) of revenues over expenditures	787,757	(379,300)	408,457
Other financing sources (uses)			
Other sources		252,867	252,867
Operating transfers in		126,433	126,433
Operating transfers out	<u>(106,907)</u>		<u>(106,907)</u>
Total other financing sources (uses)	<u>(106,907)</u>	<u>379,300</u>	<u>272,393</u>
Net change in fund balances	680,850		680,850
Fund balances, beginning of year	<u>14,565,280</u>		<u>14,565,280</u>
Fund balances, end of year	<u>\$15,246,130</u>	<u>\$</u>	<u>\$15,246,130</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2010

	Transportation Funds	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund
ASSETS					
Cash and investments	\$ 473,514	\$4,626,688	\$1,920,767	\$47,666	\$216,838
Accounts receivable	619,939	9,454	3,407		385
Loan receivable	_____	_____	_____	_____	<u>102,660</u>
Total assets	<u>\$1,093,453</u>	<u>\$4,636,142</u>	<u>\$1,924,174</u>	<u>\$47,666</u>	<u>\$319,883</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to other funds	\$	\$	\$	\$	\$
Accounts payable	<u>49,826</u>	<u>8,258</u>	_____	_____	_____
Total liabilities	<u>49,826</u>	<u>8,258</u>	_____	_____	_____
Fund balances					
Reserved	1,043,627	2,255,775			
Unreserved	_____	<u>2,372,109</u>	<u>1,924,174</u>	<u>47,666</u>	<u>319,883</u>
Total fund balances	<u>1,043,627</u>	<u>4,627,884</u>	<u>1,924,174</u>	<u>47,666</u>	<u>319,883</u>
Total liabilities and fund balances	<u>\$1,093,453</u>	<u>\$4,636,142</u>	<u>\$1,924,174</u>	<u>\$47,666</u>	<u>\$319,883</u>

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2010
(Continued)

	Landscaping Assessment District	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees	Special Aviation
ASSETS						
Cash and investments	\$ 647,576	\$ 682,178	\$ 108,353	\$ 401,708	\$ 1,185,780	\$
Accounts receivable	6,296	41,318	191	722	2,108	18,380
Loan receivable	_____	<u>1,113,217</u>	_____	_____	_____	_____
Total assets	<u>\$653,872</u>	<u>\$1,836,713</u>	<u>\$108,544</u>	<u>\$402,430</u>	<u>\$1,187,888</u>	<u>\$18,380</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Due to other funds	\$	\$	\$	\$	\$	\$18,401
Accounts payable	<u>8,754</u>	<u>57,383</u>	_____	_____	_____	_____
Total liabilities	<u>8,754</u>	<u>57,383</u>	_____	_____	_____	<u>18,401</u>
Fund balances						
Reserved			80,000			
Unreserved	<u>645,118</u>	<u>1,779,330</u>	<u>28,544</u>	<u>402,430</u>	<u>1,187,888</u>	<u>(21)</u>
Total fund balances	<u>645,118</u>	<u>1,779,330</u>	<u>108,544</u>	<u>402,430</u>	<u>1,187,888</u>	<u>(21)</u>
Total liabilities and fund balances	<u>\$653,872</u>	<u>\$1,836,713</u>	<u>\$108,544</u>	<u>\$402,430</u>	<u>\$1,187,888</u>	<u>\$18,380</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2010
(Continued)

	GWF Environment Oversight	Learning Center Operation	Traffic Safety	Street Tree Committee	State Gas Tax Fund	Totals
ASSETS						
Cash and investments	\$229,482	\$	\$2,973	\$1,200	\$2,955,975	\$13,500,698
Accounts receivable	410		1,690		459,909	1,164,209
Loan receivable	—	—	—	—	—	1,215,877
Total assets	<u>\$229,892</u>	<u>\$</u>	<u>\$4,663</u>	<u>\$1,200</u>	<u>\$3,415,884</u>	<u>\$15,880,784</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Due to other funds	\$	\$ 486,552	\$1,633	\$	\$	\$ 506,586
Accounts payable	—	—	3,027	—	820	128,068
Total liabilities	—	<u>486,552</u>	<u>4,660</u>	—	<u>820</u>	<u>634,654</u>
Fund balances						
Reserved					672,320	4,051,722
Unreserved	<u>229,892</u>	<u>(486,552)</u>	<u>3</u>	<u>1,200</u>	<u>2,742,744</u>	<u>11,194,408</u>
Total fund balances	<u>229,892</u>	<u>(486,552)</u>	<u>3</u>	<u>1,200</u>	<u>3,415,064</u>	<u>15,246,130</u>
Total liabilities and fund balances	<u>\$229,892</u>	<u>\$</u>	<u>\$4,663</u>	<u>\$1,200</u>	<u>\$3,415,884</u>	<u>\$15,880,784</u>

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2010

	Transportation Funds	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund
REVENUES					
Taxes and special assessments	\$ 18,031	\$ 463,294	\$ 343,651	\$	\$
Aid from other governmental agencies	717,484				
Fines and forfeits					
Revenue from use of money and property	11,291	49,362	18,740	7,601	7,425
Unrealized gain (loss) on investments	1,147	7,644	3,335	93	425
Total revenues	<u>747,953</u>	<u>520,300</u>	<u>365,726</u>	<u>7,694</u>	<u>7,850</u>
EXPENDITURES					
General government					616
Public works					
Capital outlay	<u>797,633</u>	<u>387,414</u>	<u>9,659</u>		
Total expenditures	<u>797,633</u>	<u>387,414</u>	<u>9,659</u>		<u>616</u>
Excess (deficiency) of revenue over expenditures	<u>(49,680)</u>	<u>132,886</u>	<u>356,067</u>	<u>7,694</u>	<u>7,234</u>
Other financing sources (uses)					
Operating transfers out					
Total other financing sources (uses)					
Net change in fund balances	<u>(49,680)</u>	<u>132,886</u>	<u>356,067</u>	<u>7,694</u>	<u>7,234</u>
Fund balances, beginning of year	<u>1,093,307</u>	<u>4,494,998</u>	<u>1,568,107</u>	<u>39,972</u>	<u>312,649</u>
Fund balances end of year	<u>\$1,043,627</u>	<u>\$4,627,884</u>	<u>\$1,924,174</u>	<u>\$47,666</u>	<u>\$319,883</u>

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2010
(Continued)

	Landscaping Assessment District	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees	Special Aviation
REVENUES						
Taxes and special assessments	\$348,965	\$ 160,000	\$100,671	\$ 56,596	\$ 112,295	\$ 173,543
Aid from other governmental agencies						
Fines and forfeits						
Revenue from use of money and property		45,765	1,067	4,291	12,174	
Unrealized gain (loss) on investments	1,214	1,634	206	677	2,225	(580)
Total revenues	<u>350,179</u>	<u>207,399</u>	<u>101,944</u>	<u>61,564</u>	<u>126,694</u>	<u>172,963</u>
EXPENDITURES						
General government		66,549				
Public works	272,743					
Capital outlay		333,790	95,400	34,309		160,216
Total expenditures	<u>272,743</u>	<u>400,339</u>	<u>95,400</u>	<u>34,309</u>		<u>160,216</u>
Excess (deficiency) of revenue over expenditures	<u>77,436</u>	<u>(192,940)</u>	<u>6,544</u>	<u>27,255</u>	<u>126,694</u>	<u>12,747</u>
Other financing sources (uses)						
Operating transfers out						
Total other financing sources (uses)						
Net change in fund balances	<u>77,436</u>	<u>(192,940)</u>	<u>6,544</u>	<u>27,255</u>	<u>126,694</u>	<u>12,747</u>
Fund balances, beginning of year	<u>567,682</u>	<u>1,972,270</u>	<u>102,000</u>	<u>375,175</u>	<u>1,061,194</u>	<u>(12,768)</u>
Fund balances end of year	<u>\$645,118</u>	<u>\$1,779,330</u>	<u>\$108,544</u>	<u>\$402,430</u>	<u>\$1,187,888</u>	<u>\$ (21)</u>

See independent auditors' 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, 2010
(Continued)

	<u>GWF Environment Oversight</u>	<u>Learning Center Operation</u>	<u>Traffic Safety</u>	<u>Street Tree Committee</u>	<u>State Gas Tax Fund</u>	<u>Totals</u>
REVENUES						
Taxes and special assessments	\$	\$	\$	\$	\$1,536,007	\$ 2,979,510
Aid from other governmental agencies		614,263				1,665,290
Fines and forfeits			106,907			106,907
Revenue from use of money and property	2,421				28,712	188,849
Unrealized gain (loss) on investments	447	(432)	(160)	2	6,208	24,085
Total revenues	2,868	613,831	106,747	2	1,570,927	4,964,641
EXPENDITURES						
General government					7,500	74,665
Public works	6,000					278,743
Capital outlay		1,148,212			856,843	3,823,476
Total expenditures	6,000	1,148,212			864,343	4,176,884
Excess (deficiency) of revenue over expenditures	(3,132)	(534,381)	106,747	2	706,584	787,757
Other financing sources (uses)						
Operating transfers out			(106,907)			(106,907)
Total other financing sources (uses)			(106,907)			(106,907)
Net change in fund balances	(3,132)	(534,381)	(160)	2	706,584	680,850
Fund balances, beginning of year	233,024	47,829	163	1,198	2,708,480	14,565,280
Fund balances end of year	<u>\$229,892</u>	<u>\$ (486,552)</u>	<u>\$ 3</u>	<u>\$1,200</u>	<u>\$3,415,064</u>	<u>\$15,246,130</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Assets
Internal Service Funds
June 30, 2010

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund	Building Fund
ASSETS				
Current assets				
Cash and investments	\$28,980	\$3,674,488	\$1,725,165	\$803,645
Receivables, net				
Inventory	—	—	—	—
Total current assets	<u>28,980</u>	<u>3,674,488</u>	<u>1,725,165</u>	<u>803,645</u>
Capital assets				
Machinery and equipment				12,341
Accumulated depreciation	—	—	—	<u>(12,341)</u>
Capital assets, net	—	—	—	—
Total assets	<u>\$28,980</u>	<u>\$3,674,488</u>	<u>\$1,725,165</u>	<u>\$803,645</u>
LIABILITIES				
Accounts payable	\$	\$ 213,247	\$ 1,507	\$ 12,234
Salaries and benefits payable	<u>28,948</u>	—	<u>4,724</u>	<u>34,330</u>
Total liabilities	<u>28,948</u>	<u>213,247</u>	<u>6,231</u>	<u>46,564</u>
NET ASSETS				
Investment in capital assets, net of related debt				
Unrestricted	32	<u>3,461,241</u>	<u>1,718,934</u>	<u>757,081</u>
Total net assets	<u>32</u>	<u>3,461,241</u>	<u>1,718,934</u>	<u>757,081</u>
Total liabilities and net assets	<u>\$28,980</u>	<u>\$3,674,488</u>	<u>\$1,725,165</u>	<u>\$803,645</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Assets
Internal Service Funds
June 30, 2010
(Continued)

	Central Stores Fund	Fleet Maintenance Fund	Totals
ASSETS			
Current assets			
Cash and investments	\$	\$10,952,641	\$17,184,919
Receivables, net		18,227	18,227
Inventory	_____	127,655	127,655
Total current assets	_____	11,098,523	17,330,801
Capital assets			
Machinery and equipment		14,601,321	14,613,662
Accumulated depreciation	_____	(9,285,651)	(9,297,992)
Capital assets, net	_____	5,315,670	5,315,670
Total assets	\$_____	\$16,414,193	\$22,646,471
LIABILITIES			
Accounts payable	\$	\$ 127,193	\$ 354,181
Salaries and benefits payable	_____	47,182	115,184
Total liabilities	_____	174,375	469,365
NET ASSETS			
Investment in capital assets, net of related debt		5,315,670	5,315,670
Unrestricted	_____	10,924,148	16,861,436
Total net assets	_____	16,239,818	22,177,106
Total liabilities and net assets	\$_____	\$16,414,193	\$22,646,471

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
and Changes in Net Assets
Internal Service funds
For the Year Ended June 30, 2010

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund	Building Fund
REVENUES				
Charges for services	\$	<u>1,062,040</u>	<u>235,510</u>	<u>695,961</u>
EXPENSES				
Personnel services			24,251	368,904
Services and supplies		<u>1,109,054</u>	<u>144,739</u>	<u>225,016</u>
Depreciation	—	—	—	567
Total expenses	—	<u>1,109,054</u>	<u>168,990</u>	<u>594,487</u>
Operating income (loss)	—	<u>(47,014)</u>	<u>66,520</u>	<u>101,474</u>
Non-operating revenues (expenses)				
Gain (loss) on sale of assets				
Interest income				
Unrealized gain (loss) on investments	9	<u>7,090</u>	<u>2,923</u>	<u>1,800</u>
Miscellaneous	—	<u>91,028</u>	—	1,959
Total non-operating revenue (expenses)	9	<u>98,118</u>	<u>2,923</u>	<u>3,759</u>
Income before contributions and transfers	9	<u>51,104</u>	<u>69,443</u>	<u>105,233</u>
Capital contributions				
Operating transfers	—	—	<u>528,812</u>	<u>(200,000)</u>
Change in net assets	9	<u>51,104</u>	<u>598,255</u>	<u>(94,767)</u>
Net assets, beginning of year	<u>23</u>	<u>3,410,137</u>	<u>1,120,679</u>	<u>851,848</u>
Net assets, end of year	<u>\$32</u>	<u>\$3,461,241</u>	<u>\$1,718,934</u>	<u>\$757,081</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
And Changes in Net Assets
Internal Service Funds
For the Year Ended June 30, 2010
(Continued)

	Central Stores Fund	Fleet Management Fund	Totals
REVENUES			
Charges for services	\$ 1,206	\$ 3,698,746	\$ 5,693,463
EXPENSES			
Personnel services		485,729	878,884
Services and supplies	2,298	1,551,036	3,032,143
Depreciation	—	1,029,230	1,029,797
Total expenses	2,298	3,065,995	4,940,824
Operating income (loss)	(1,092)	632,751	752,639
Non-operating revenues (expenses)			
Gain (loss) on sale of assets		(11,147)	(11,147)
Interest income		103,930	103,930
Unrealized gain (loss) on investments		20,594	32,416
Miscellaneous	—	—	92,987
Total non-operating revenue (expenses)	—	113,377	218,186
Income before contributions and transfers	(1,092)	746,128	970,825
Capital contributions		115,064	115,064
Operating transfers	—	84,030	412,842
Change in net assets	(1,092)	945,222	1,498,731
Net assets, beginning of year	1,092	15,294,596	20,678,375
Net assets, end of year	\$ —	\$ 16,239,818	\$ 22,177,106

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2010

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund	Building Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for current services	\$ 12,982	\$1,062,040	\$ 235,510	\$ 695,961
Cash paid for services and supplies		(971,848)	(155,486)	(226,876)
Cash paid for salaries and benefits	<u>(21,450)</u>		<u>(19,527)</u>	<u>(365,278)</u>
Net cash provided (used) by operating activities	<u>(8,468)</u>	<u>90,192</u>	<u>60,497</u>	<u>103,807</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Loans (to) from other funds				
Transfer (to) from other funds			<u>528,812</u>	<u>(200,000)</u>
Net cash provided by noncapital financing activities			<u>528,812</u>	<u>(200,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital expenditures				
Proceeds from sale of equipment				
Net cash provided by capital and related financing activities				
CASH FLOWS FROM INVESTING ACTIVITIES:				
Unrealized gain (loss) on investments				
Other non-operating revenue (expense)		91,028		1,959
Interest received	9	7,090	2,923	1,800
Net cash provided by investing activities	<u>9</u>	<u>98,118</u>	<u>2,923</u>	<u>3,759</u>
Net increase (decrease) in cash and cash equivalents	(8,459)	188,310	592,232	(92,434)
Cash and cash equivalents, beginning of year	<u>37,439</u>	<u>3,486,178</u>	<u>1,132,933</u>	<u>896,079</u>
Cash and cash equivalents, end of year	<u>\$ 28,980</u>	<u>\$3,674,488</u>	<u>\$1,725,165</u>	<u>\$ 803,645</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:				
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income/(loss)	\$	\$ (47,014)	\$ 66,520	\$ 101,474
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation and amortization				567
(Increase) decrease in net assets:				
Inventory				
Increase (decrease) in net liabilities:				
Accounts payable	(15,966)	137,206	(10,747)	(1,860)
Salaries and benefits payable	<u>7,498</u>		<u>4,724</u>	<u>3,626</u>
Net cash provided (used) by operating activities	<u>\$ (8,468)</u>	<u>\$ 90,192</u>	<u>\$ 60,497</u>	<u>\$ 103,807</u>
Noncash investing, capital, and financing activities				
Contributions of capital assets				

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2010
(Continued)

	Central Stores Fund	Fleet Maintenance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for current services	\$ 1,206	\$ 3,698,746	\$ 5,706,445
Cash paid for services and supplies	(1)	(1,503,658)	(2,857,869)
Cash paid for salaries and benefits		(479,840)	(886,095)
Net cash provided by (used for) operating activities	<u>1,205</u>	<u>1,715,248</u>	<u>1,962,481</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Loans (to) from other funds	(1,209)	1,209	
Transfers (to) from other funds		84,030	412,842
Net cash provided by noncapital financing activities	<u>(1,209)</u>	<u>85,239</u>	<u>412,842</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital expenditures		(155,157)	(155,157)
Proceeds from sale of equipment		4,101	4,101
Net cash provided by capital and related financing activities		<u>(151,056)</u>	<u>(151,056)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Unrealized gain (loss) on investments		20,594	20,594
Other non-operating revenue (expense)		92,987	
Interest received		118,778	130,600
Net cash provided by investing activities		<u>139,372</u>	<u>244,181</u>
Net increase (decrease) in cash and cash equivalents	(4)	1,788,803	2,468,448
Cash and cash equivalents, beginning of year	4	9,163,838	14,716,471
Cash and cash equivalents, end of year	<u>\$</u>	<u>\$10,952,641</u>	<u>\$17,184,919</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income/(loss)	\$(1,092)	\$ 632,751	\$ 752,639
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation and amortization		1,029,230	1,029,797
(Increase) decrease in net assets:			
Inventory	2,297	(23,073)	(20,776)
Increase (decrease) in net liabilities:			
Accounts payable		70,451	179,084
Salaries and benefits payable		<u>5,889</u>	<u>21,737</u>
Net cash provided (used) by operating activities	<u>\$ 1,205</u>	<u>\$ 1,715,248</u>	<u>\$ 1,962,481</u>
Noncash investing, capital, and financing activities			
Contributions of capital assets		<u>\$ 115,064</u>	<u>\$ 115,064</u>

See independent auditors' report and notes to financial statements.

SINGLE AUDIT REPORTS



November 22, 2010

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hanford as of and for the year ended June 30, 2010 which collectively comprise the City of Hanford's basic financial statements and have issued our report thereon dated November 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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



November 22, 2010

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Hanford with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Hanford's management. Our responsibility is to express an opinion on the City of Hanford's compliance based on our audits.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City 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. Our audit does not provide a legal determination on the City of Hanford's compliance with those requirements.

In our opinion, the City of Hanford Complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

City of Hanford
November 22, 2010
Page 2

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

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

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

Sampson, Sampson and Partners, LLP

CITY OF HANFORD
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

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 Homeland Security	97.004	2008-0006-031-0000	<u>\$ 30,536</u>
Total U.S. Department of Homeland Security			<u>30,536</u>
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration Airport Improvement	20.106	3-06-0098	173,543
Federal Highway Administration Passed through California Department of Transportation Highway Planning and Construction	20.205	CML-5091	82,286
ARRA-Highway Planning and Construction	20.205	ESPL-5090(037)	608,179
Highway Planning and Construction	20.205	STOLR-7500(044)	12,840
Passed through California Office of Traffic Safety National Highway Safety Programs	20.601	TSC08169	1,708
National Highway Safety Programs	20.601	TSC09169	10,019
National Highway Safety Programs	20.601	TSC10169	12,303
National Highway Safety Programs	20.601	AL0832	<u>38,808</u>
Total U.S. Department of Transportation			<u>939,686</u>
<u>U.S. Department of Housing and Urban Development</u>			
Office of Community Planning and Development CDBG/Entitlement Grants (A)	14.218	B-06-MC-06-0061	24,098
CDBG/Entitlement Grants (A)	14.218	B-07-MC-06-0061	66,074
CDBG/Entitlement Grants (A)	14.218	B-08-MC-06-0061	11,959
CDBG/Entitlement Grants (A)	14.218	A-09-MC-06-0061	26,958
CDBG/Entitlement Grants (A)	14.218	A-10-MC-06-0061	333,724
CDBG/Entitlement Grants (A)	14.228	09-NSPI-6266	421,965
Home-Investment Partnership Program	14.239	07-HOME-3419	245,987
Home-Investment Partnership Program	14.239	08-HOME-4985	1,736,717
Home-Investment Partnership Program	14.239	08-HOME-4700	<u>281,966</u>
Total U.S. Department of Housing and Urban Development			<u>3,149,448</u>
<u>U.S. Department of Justice</u>			
Passed through City of Corcoran, California Public Safety Partnership and Cops	16.710		124,363
Direct Program Edward Byrne Memorial Justice Grant	16.738	N/A	20,319
ARRA – Edward Byrne Justice Assistance Grant	16.804	N/A	<u>82,587</u>
Total U.S. Department of Justice			<u>227,269</u>
Total Expenditures of Federal Awards			<u>\$4,346,939</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF HANFORD
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

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.

FINDINGS AND QUESTIONED COSTS

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

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

	<u>Name of Federal Program or Cluster</u>
20.205	ARRA – Highway Planning and Construction
14.228	CDBG Neighborhood Stabilization
14.239	HOME – Investment Partnership Program

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 <u> </u> No

CITY OF HANFORD
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2010

Part II - Financial Statement Finding Section

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

None.

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, 2010

There were no reportable audit findings in the prior fiscal year ended June 30, 2009.

APPROPRIATIONS LIMIT REPORT



November 22, 2010

The Honorable City Council
City of Hanford
Hanford, California

INDEPENDENT AUDITORS' 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, 2010. 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 and Partners, LLP

CITY OF HANFORD
Appropriations Limit
Schedules A and B
June 30, 2010

Schedule A	Fiscal Year 2009-2010	Amount
A. Last Years Limit – 2009		\$45,013,211
B. Add: Adjustment for Annexation Service Deliver Charge		<u>19,688</u>
Subtotal		<u>45,032,899</u>
Apply ratio of Change Factor (Schedule B)		1.0271
C. Appropriations Limit – Fiscal Year 2009-2010		<u>\$46,253,291</u>

Schedule B	Worksheet for Permitted Growth in Appropriations Limit 2008-2009		
Kings County Population Change	(1)	2.08%	
Converted to a Ratio		1.0208	
California Per Capita Income Change	(1)	.62%	
Converted to a Ratio		1.0062	
Calculation of Factor for 2009-2010		1.0208 x 1.0062	
Ratio of Change Factor		1.0271	

(1) Provided by the California State Department of Finance

CITY OF HANFORD

REPORT TO MANAGEMENT

YEAR ENDED JUNE 30, 2010



Sampson, Sampson and Partners, LLP
Certified Public Accountants

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

November 22, 2010

Honorable City Council
City of Hanford
Hanford, California

In planning and performing our audit of the financial statements of the City of Hanford (City) for the year ended June 30, 2010, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Although our audit is not designed to provide assurance on the internal control structure, we noted certain matters involving the internal control structure and its operation and are submitting for your consideration related recommendations designed to help the City make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the City.

As part of an audit under generally accepted auditing standards, certain communications between the auditor and City Council are required as a matter of standard procedure. A summary of those annual communications accompanies this letter.

The accompanying comments are intended solely for the information and use of the City Council, management, and officials of the City. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Sampson, Sampson and Partners, LLP

Sampson, Sampson and Partners, LLP

CONTENTS

	<u>Page</u>
Required Communications	1-3

CITY OF HANFORD

REPORT TO MANAGEMENT

REQUIRED COMMUNICATIONS

Professional standards require that we communicate the following matters related to the conduct of the audit to those who have responsibility for the oversight of the financial reporting process.

1. Our Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 9, 2010, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City of Hanford's (City) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Hanford are described in the notes to the basic financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

CITY OF HANFORD

REPORT TO MANAGEMENT

REQUIRED COMMUNICATIONS

(Continued)

3. Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of self-insurance reserves for general liability and workers' compensation is based on actuarial report analyses, prior loss experience, and inherent risk.

While management used the best information available to evaluate the adequacy of the closure costs and self-insurance reserves, future adjustments may be necessary.

In addition management's estimate of the useful lives of capital assets may require further adjustments.

We evaluated the key factors and assumptions used to develop the self-insurance reserves and the assumptions used to develop useful lives of capital assets. These evaluations were used in determining their reasonableness in relation to the basic financial statements of the City taken as a whole.

4. Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures.

No significant audit adjustments were proposed as a result of the audit process.

5. Disagreements with Management

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

CITY OF HANFORD

REPORT TO MANAGEMENT

REQUIRED COMMUNICATIONS

(Continued)

6. Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 22, 2010.

7. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s basic financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

8. Issues Discussed Prior to Retention of Independent Auditors

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

9. Difficulties Encountered in Performing the Audit

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

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This information is intended solely for the use of City Council and Management of the City of Hanford and is not intended to be and should not be used by anyone other than these specified parties.

Sampson, Sampson and Partners 449