



CITY OF HUGHSON
BUDGET & FINANCE SUBCOMMITTEE

AGENDA
THURSDAY, FEBRUARY 23, 2017
@ 3:00 P.M.

COUNCIL CHAMBERS
7018 PINE STREET, HUGHSON, CA. 95326
CITY HALL

CALL TO ORDER:

Jeremy Young, Mayor
Ramon Bawanan, Councilmember

Staff Present: Raul Mendez, City Manager
Shannon Esenwein, Finance Director
Jaylen French, Community Development Director

AMERICANS WITH DISABILITIES ACT/CALIFORNIA BROWN ACT
NOTIFICATION FOR THE CITY OF HUGHSON

This agenda shall be made available upon request in alternative formats to persons with a disability; as required by the Americans with Disabilities Act of 1990 (42 U.S.C. Section 12132) and the Ralph M. Brown Act (California Government Code Section 54954.2).

Disabled or Special needs Accommodation: In compliance with the Americans with Disabilities Act, persons requesting a disability related modification or accommodation in order to participate in the meeting and/or if you need assistance to attend or participate in a City Council meeting, please contact the City Clerk's office at (209) 883-4054. Notification at least 48-hours prior to the meeting will assist the City Clerk in assuring that reasonable accommodations are made to provide accessibility to the meeting.

RULES FOR ADDRESSING THE SUBCOMMITTEE

Members of the audience who wish to address the City Council are requested to complete one of the forms located on the table at the entrance of the Council Chambers and submit it to the City Clerk. **Filling out the card is voluntary.**

Topic of Discussion:

1. Review of Fiscal Year 2015-2016 City of Hughson Financial Audit.
2. Discuss ERP Contract.
3. Discuss the Investment Policy.

ADJOURNMENT:

CERTIFICATION

I, Susana Diaz, Management Analyst/Deputy City Clerk, or his/her designee, do hereby declare under penalty of perjury that the foregoing Agenda was posted on the outdoor bulletin board at the Hughson City Hall, 7018 Pine Street, Hughson CA and made available for public review, prior to or on this 21st day of February at or before 3:00 p.m.

Susana Diaz, Management Analyst/Deputy City Clerk



BUDGET AND FINANCE SUBCOMMITTEE AGENDA ITEM NO. 1

Meeting Date: February 23, 2017
Subject: Review of Fiscal Year 2015-2016 City of Hughson
Financial Audit
Presented By: Shannon Esenwein, Finance Director

Approved By: _____

Staff Recommendation:

Review the City of Hughson's Fiscal Year 2015-2016 Audit.

Background and Overview:

The City's Auditors, Moss, Levy & Hartzheim, recently completed the audit of the 2015-2016 Financial Statements. The opinion given by the auditors is an unmodified opinion. An unmodified opinion is given when the auditor expresses an opinion that the financial statements are presented, in all material respects, in accordance with Generally Accepted Accounting Principles (GAAP).

A summary of the City's financial position is included in the Management's Discussion and Analysis (pages 3-13). A few highlights include:

1. On the government-wide governmental activities, the assets exceeded the liabilities by \$33,225,470. An increase of \$860,590 over the prior fiscal year. A good sign that the City as a whole has improved since last fiscal year.
2. For business type activities (i.e., water, wastewater), assets exceeded the liabilities by \$39,428,125. This is an increase of \$1,198,730 over the prior fiscal year and primarily due to increases in wastewater revenue and decreases in expenditures.
3. The General Fund balance increased by \$342,397 in the current year to \$2,772,255. This is a healthy amount for a city of Hughson's size. The increase in fund balance is partially due to increased sales and use taxes.
4. The General Fund reserve is healthy when compared to similar governmental units. Increased General Fund revenue is the contributing factor for the increase in General Fund balance. With the current reserves and fund balance, the City can operate for about a year without any additional revenue.

5. The Sewer Fund unrestricted net assets increased by \$630,722 to \$6,192,485.
6. The Water Fund unrestricted net position decreased by \$98,229 to \$125,939. This decrease is mainly due to conservation efforts resulting in a decrease in water revenue.
7. Two funds have deficit fund balances, same as prior years: Transportation and the Successor Agency.
8. The Successor Agency continues to have a large negative fund balance due to that fact that it holds all the debt that the RDA (Redevelopment Agency) issued. Money continues to be collected on the tax roll to pay down the debt.
9. The number of findings reduced by one from the prior fiscal year. The findings are related to lack of staffing for cash receipt and lack segregation of duties over payroll. Due to small staff size the City is unable to completely eliminate the findings but controls continue to be implemented to mitigate the deficiencies. Once the implementation of the new Enterprise Resource Planning System is complete additional system controls will be in place.

The City's overall financial position has improved over the past year but continued process improvement is an emphasis to better adapt to changing economic conditions.

Fiscal Impact:

The cost for auditing services provided by Moss, Levy & Hartzheim are included annually in the City's Final Adopted Budget.

CITY OF HUGHSON
Annual Financial Report
Fiscal Year Ended June 30, 2016

CITY OF HUGHSON
ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2016

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

The Members of the City Council of the
City of Hughson
Hughson, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hughson, California (City) as of and for the fiscal year ended June 30, 2016, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hughson, California, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Account Principles

As discussed in note 1 of the notes to the basic financial statements effective July 1, 2015, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and Statement No. 73, *Accounting and Reporting for Pensions and Related Assets not within the Scope of GASB 68 and Amendments to GASB 67 and 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Home Loan Special Revenue Fund, and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Refuse Special Revenue Fund, Schedule of Changes in the Net Pension Liability and Related Ratios, and Schedule of Pension Contributions on pages 59 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hughson's basic financial statements. The Budgetary Comparison Schedules for the Public Facilities Capital Projects Fund and Nonmajor Governmental Funds; the Combining Financial Statements for the Nonmajor Governmental Funds, and the Nonmajor Enterprise Funds listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Budgetary Comparison Schedules for the Public Facilities Capital Projects Fund and Nonmajor Governmental Funds; the Combining Financial Statements for the Nonmajor Governmental Funds, and the Nonmajor Enterprise Funds are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
February 8, 2017

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

This discussion and analysis provides an overview of the City of Hughson's financial performance for the fiscal year ended June 30, 2016. This report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standard Board (GASB). We encourage our readers to consider this information in conjunction with the information provided in the accompanying basic financial statements and notes. The City's fiscal highlights are presented below:

FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year ended June 30, 2016 include the following:

Government-wide:

- The City's total net position was \$72,653,595 as of June 30, 2016. Of this total, \$33,225,470 was governmental net position and \$39,428,125 was business-type net position.
- Government-wide revenues include program revenues of \$7,886,094 and general revenues and transfers of \$2,046,360, for a total of \$9,932,454.
- Government-wide expenses were \$7,873,134.
- Business-type program revenues and interest were \$5,021,180 while business-type expenses and transfers were \$3,822,450.

Fund Level:

- Governmental fund balances *increased* \$357,113 in fiscal year 2016.
- Governmental fund revenues *decreased* \$290,250 in fiscal year 2016.
- Governmental fund expenditures *increased* \$954,387 in fiscal year 2016.

General Fund:

- General Fund revenues of \$2,875,844 were \$167,187 *higher* than the prior year.
- General Fund expenditures of \$2,615,251 represented an *increase* of \$578,551 over the prior year.
- General Fund fund balance of \$2,772,255 as of June 30, 2016, *increased* by \$342,397 from 2015 fiscal year's fund balance of \$2,429,858.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is divided into five parts:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to these financial statements
4. Required supplementary information
5. Other supplemental information

Government-wide Financial Statements

The Government-wide financial statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations.

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The Statement of Activities provides information about all the City's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net positions for the fiscal year.

All of the City's activities are grouped into governmental activities and business-type activities, as explained below. The amounts in the Statement of Net Position and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities for the City as a whole.

Government-wide financial statements are prepared on the accrual basis, which mean they measure the flow of all economic resources of the City as a whole.

The Statement of Net Position and the Statement of Activities present information about the following:

Governmental Activities – All of the City's basic services are considered to be governmental activities. These services are supported by the general City revenues such as taxes, and by specific program revenues such as user fees and charges.

Business-type Activities – The City's enterprise activities of water, and wastewater are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of service they use.

Fund Financial Statements

The fund financial statements report on the City's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the City's General Fund and other major funds. The fund financial statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

The fund financial statements provide detailed information about each of the City's most significant funds, called major funds. Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. The concept of major funds, and the determination of which funds are major, was established by the Governmental Accounting Standards Board (GASB) Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present detail of these non-major funds. Major funds present the major activities of the City for the fiscal year, and may change from year to year as a result of changes in the pattern of the City's activities.

In the City's case, there are three major governmental funds in addition to the General Fund: Home Loan Special Revenue Fund, Refuse Special Revenue Fund, and Public Facilities Capital Projects Fund.

The City reports 2 major and 2 non-major enterprise funds

Fund financial statements include governmental and proprietary funds as discussed below.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements.

Proprietary funds financial statements are prepared on the full accrual basis and includes all of their assets and liabilities, current and long-term.

**CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net positions and changes in net positions of the City as a whole. Tables 1, 2 and 3 focus on the City's Governmental Statement of Net Position and Statements of Activities, while Table 4 focuses on the City's Business-type Statement of Net Position and Statement of Activities.

Table 1

	Governmental Activities 2016	Governmental Activities 2015
Assets		
Cash and investments	\$ 6,696,766	\$ 6,314,203
Other assets	2,245,778	2,164,885
Capital assets, net	25,907,327	25,408,440
Total Assets	34,849,871	33,887,528
Deferred Outflows of Resources		
Pension	216,353	123,476
Total Def. Outflows	216,353	123,476
Liabilities		
Long term liabilities	1,247,241	988,738
Other liabilities	466,783	373,381
Total Liabilities	1,714,024	1,362,119
Deferred Inflows of Resources		
Pension	126,730	284,005
Total Def. Inflows	126,730	284,005
Net Position		
Net investment in capital assets	25,907,327	25,408,440
Restricted	5,681,625	5,705,813
Unrestricted	1,636,518	1,250,627
Total Net Position	\$ 33,225,470	\$ 32,364,880

The City's governmental net position amounted to \$33,225,470 as of June 30, 2016, an *increase* of \$860,590 over 2015 not including prior period adjustments. This increase in the change in net position is reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net position as of June 30, 2016 comprised the following:

Cash and investments comprised **\$6,696,766**. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 3 to the financial statements.

Receivables comprised **\$590,927** of current receivables and loans receivable of **\$1,654,851** that is due over longer periods of time as explained the Notes.

Capital assets of **\$25,907,327** net of depreciation charges, which included all the City's capital assets used in governmental activities.

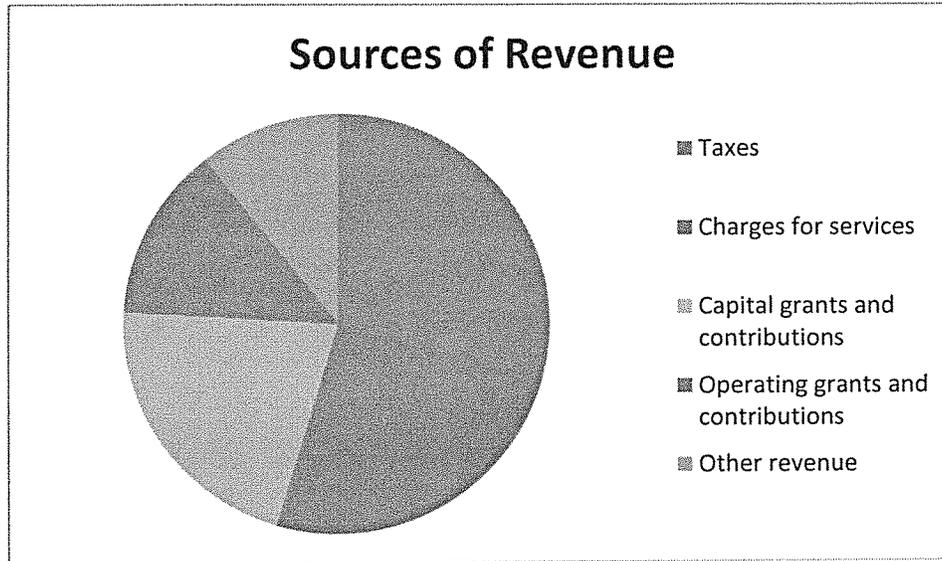
Current liabilities, including accounts payable, claims and other amounts due currently, totaled **\$466,783**.

Long-term liabilities of **\$1,247,241** does not include **\$9,734**, which is the current portion. The debt is related to the City's Net Pension Liability and compensated absences.

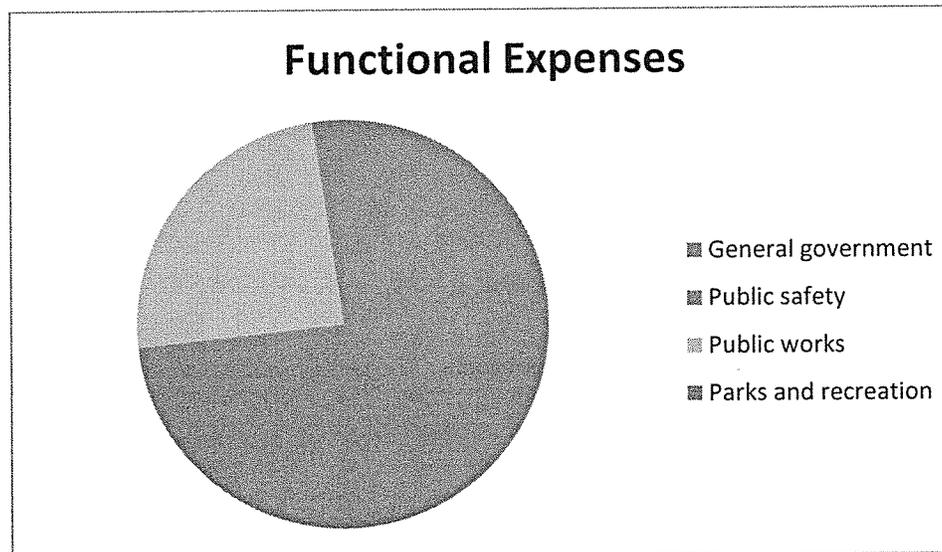
**CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Net investment in capital assets of **\$25,907,327**, representing the City's investment in capital assets used in governmental activities, net of accumulated depreciation and amounts borrowed to finance those investments.

Unrestricted net position, the part of net positions that can be used to finance day to day operations without constraints established by debt covenants or other legal requirements or restrictions, was **\$1,636,518** as of June 30, 2016.



As the Sources of Revenue chart above shows, \$1,423,539, or 29% of the City's fiscal year 2016 governmental activities revenue came from taxes, while \$1,244,569, or 26% came from charges for services, \$1,039,181 or 21%, came from capital grants and contributions, \$651,599 or 13% came from operating grants and contributions, and the remainder came from a variety of sources.



The Functional Expenses chart above includes only current year expenses; it does not include capital outlays, which are added to the City's capital assets. As the chart shows, general government was \$1,435,670, or 35%, of total governmental expenses, public safety was \$1,471,544, or 36%, public works was \$1,065,834, or 26%, parks and recreation was \$99,184, or 2%.

The Statements of Activities presents program revenues and expenses and general revenues in detail. All of these elements in the changes in governmental net position are summarized below.

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Table 2
CHANGE IN GOVERNMENTAL NET POSITION

	Governmental Activities 2016	Governmental Activities 2015
<u>Expenses</u>		
General government	\$ 1,435,670	\$ 1,219,563
Public safety	1,471,544	1,292,278
Public works	1,065,834	857,828
Parks and recreation	99,184	54,625
Total Expenses	4,072,232	3,424,294
<u>Revenues</u>		
<u>Program revenues</u>		
Charges for services	1,244,569	2,042,410
Operating grants and contributions	651,599	961,549
Capital grants and contributions	1,039,181	547,100
Total program revenues	2,935,349	3,551,059
<u>General revenues and transfers</u>		
Taxes	1,423,539	1,053,386
Use of money and property	31,905	22,848
Other revenue	520,481	459,717
Transfers	21,548	14,500
Total general revenues and transfers	1,997,473	1,550,451
Total Revenues and Transfers	4,932,822	5,101,510
Change in Net Position	\$ 860,590	\$ 1,677,216

As Table 2 above shows, \$2,935,349 or 60%, of the City's fiscal year 2016 governmental revenue, came from program revenues and \$1,997,473, or 40%, came from general revenues such as taxes and interest and transfers. Program revenues were composed of charges for services of \$1,244,569, which included permit revenues, fees and charges used to fund expenses incurred in providing services; \$651,599 of operating grants and contributions, which included gas tax revenues and housing and police grants; and capital grants and contributions of \$1,039,181, that consisted mainly of street project grants and developer impact fees restricted to capital outlay.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Table 3 presents the net expense or revenue of each of the City's governmental activities, including interest on long-term liabilities. Net expense is defined as total program cost less the revenues generated by those specific activities.

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Table 3
GOVERNMENTAL ACTIVITIES

	Net Revenue (Expense) from Services 2016	Net Revenue (Expense) from Services 2015
General government	\$ (569,046)	\$ 273,668
Public safety	(1,266,625)	(976,561)
Community development	341,918	645,222
Public works	400,158	114,499
Parks and recreation	(43,288)	69,937
Total	\$ (1,136,883)	\$ 126,765

BUSINESS-TYPE ACTIVITIES

The Statement of Net Position and Statement of Activities present a summary of the City's Business-type activities that are composed of the City's enterprise funds.

Table 4
BUSINESS-TYPE NET POSITION AT JUNE 30, 2016

	Business-type Activities 2016	Business-type Activities 2015
Assets		
Cash and investments	\$ 7,285,439	\$ 6,779,745
Other assets	144,418	153,112
Capital assets, net	54,864,016	56,104,815
Total Assets	62,293,873	63,037,672
Deferred Outflows of Resources		
Pension	116,026	105,138
Total Def. Outflows	184,221	105,138
Liabilities		
Long term liabilities	22,820,798	24,537,823
Other liabilities	121,263	133,767
Total Liabilities	22,942,061	24,671,590
Deferred Inflows of Resources		
Pension	39,713	241,825
Total Def. Inflows	107,908	241,825
Net Position		
Net investment in capital assets	33,107,254	32,429,290
Unrestricted	6,320,871	5,800,105
Total Net Position	\$ 39,428,125	\$ 38,229,395

The net position of business-type activities increased by \$1,198,730 in fiscal year 2016 not including prior period adjustments related to capital assets.

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

BUSINESS-TYPE ACTIVITIES (continued)

Table 5
CHANGE IN BUSINESS-TYPE NET POSITION

	Net Revenue (Expense) from Services 2016	Net Revenue (Expense) from Services 2015
Water	\$ 225,874	\$ 432,867
Sewer	954,140	931,304
Other	(30,171)	(29,817)
Total	\$ 1,149,843	\$ 1,334,354

ANALYSIS OF MAJOR FUNDS

Governmental Funds

General Fund

General Fund revenues increased **\$167,187** this fiscal year due primarily to increase in sales and use tax. Actual revenues were greater than budgeted by **\$325,079**. Tax revenues increased **\$370,153** during the fiscal year primarily due to increasing sales tax revenue. Charges for services, licenses and permits remain relatively flat, increasing by **\$44,215**.

General Fund expenditures were **\$2,615,251**, an increase of **\$578,551** from the prior year. Expenditures increased mainly due to rising costs in every department.

As of June 30, 2016 the General Fund's fund balance totaled **\$2,772,255**. The unassigned portion of **\$2,712,972** of the fund balances represents available liquid resources.

Home Loan Fund

This fund is utilized to track deferred loans receivable. There wasn't significant activity during the fiscal year.

Refuse Fund

This fund accounts for the contracted refuse services within the City. There wasn't significant variance from activities in prior fiscal years.

Public Facilities Capital Projects Fund

This fund accounts for resources and expenditures in construction of public facilities within the City. There weren't any major projects completed or initiated in this fund during the fiscal year.

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

ANALYSIS OF MAJOR FUNDS (continued)

Proprietary Funds

Water Fund

Operating revenues decreased by **\$154,494** in fiscal year 2016 and expenses decreased by **\$97,411** resulting in operating income of **\$296,655**. Charges for water services decreased due to continuing drought conditions in the State and due to public efforts by the City to motivate residents to cut their water use. Expenditures decreased due to less water purchases as a result but not as much as the decreased of charges due to fixed costs.

The fund's net position increased by **\$218,193** to a new total of **\$8,223,952**. Of this amount, **\$8,098,013** was net investment in capital assets.

Sewer Fund

Operating revenues increased **\$96,780** in the fiscal year 2016. Operating expenses remained largely the same. The fund's net position increased by **\$1,010,256** in fiscal year 2016. The customer base for service increased in fiscal year 2016 along with Consumer Price Index (CPI) increases in sewer rates. This increase in revenue is necessary to make future debt service payments for the SWRCB loan for the construction of the wastewater treatment plant.

As of June 30, 2014, the fund's net position was **\$30,794,452**, of which **\$24,601,967** was net investment in capital assets and **\$6,192,485** was unrestricted.

CAPITAL ASSETS

GASB No. 34 required the City to record all its capital assets including infrastructure, which was not recorded prior to GASB No. 34. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2016, the City reported the cost of all its infrastructure assets and computed the amounts of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2016, the cost of infrastructure and other capital assets recorded on the City's financial statements is as shown in Table 6 on the following page.

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Table 6

	Balance at July 1, 2015	Additions	Deletions	Transfers	Balance at June 30, 2016
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 9,197,784	\$ -	\$ -	\$ -	\$ 9,197,784
Rights of ways	2,777,617				2,777,617
Construction in progress	207,857	896,868		(678,171)	426,554
Total capital assets, not being depreciated	12,183,258	896,868		(678,171)	12,401,955
Capital assets, being depreciated:					
Buildings	919,905				919,905
Improvements	4,166,963			678,171	4,845,134
Equipment	410,980	53,170			464,150
Machinery	241,902				241,902
Rolling stock	496,249		(72,373)		423,876
Infrastructure	13,397,859				13,397,859
Total capital assets being depreciated	19,633,858	53,170	(72,373)	678,171	20,292,826
Less accumulated depreciation for:					
Buildings	(551,301)	(22,054)			(573,355)
Improvements	(855,989)	(129,682)			(985,671)
Equipment	(370,981)	(20,000)			(390,981)
Machinery	(241,902)				(241,902)
Rolling stock	(496,248)		72,373		(423,875)
Infrastructure	(3,892,255)	(279,415)			(4,171,670)
Total accumulated depreciation	(6,408,676)	(451,151)	72,373		(6,787,454)
Total capital assets, being depreciated, net	13,225,182	(397,981)		678,171	13,505,372
Governmental activities capital assets, net	\$ 25,408,440	\$ 498,887	\$ -	\$ -	\$ 25,907,327
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 18,108,769	\$ -	\$ -	\$ -	\$ 18,108,769
Total capital assets, not being depreciated	18,108,769				18,108,769
Capital assets, being depreciated:					
Buildings	28,068,657				28,068,657
Improvements	4,174,182				4,174,182
Equipment	82,806				82,806
Machinery	235,695				235,695
Infrastructure	19,002,924				19,002,924
Rolling stock	172,876	25,260			198,136
Total capital assets, being depreciated	51,737,140	25,260			51,762,400
Less accumulated depreciation for:					
Buildings	(2,976,570)	(935,621)			(3,912,191)
Improvements	(3,253,752)	(46,146)			(3,299,898)
Equipment	(46,990)	(7,602)			(54,592)
Machinery	(230,618)	(3,383)			(234,001)
Infrastructure	(7,100,288)	(265,307)			(7,365,595)
Rolling stock	(132,876)	(8,000)			(140,876)
Total accumulated depreciation	(13,741,094)	(1,266,059)			(15,007,153)
Total capital assets, being depreciated, net	37,996,046	(1,240,799)			36,755,247
Business-type activities capital assets, net	\$ 56,104,815	\$ (1,240,799)	\$ -	\$ -	\$ 54,864,016

Details on capital assets, current year additions and construction in progress can be found in the Notes.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB No. 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in the Notes to the financial statements.

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

DEBT ADMINISTRATION

The City issued no new bonded debt in fiscal year 2016. The City made all scheduled repayments of existing debt. The City's debt issues are discussed in detail in Note 7 of the financial statements. The City's debt balances as of June 30 were as follows:

Table 7
LONG-TERM LIABILITIES

	2016	2015
Governmental activities		
Net pension liability	\$ 1,201,434	\$ 959,535
Compensated absences	55,541	38,937
Total governmental activities	\$ 1,256,975	\$ 998,472
 Business-type activities		
Water		
Compensated absences	\$ 22,352	\$ 20,316
Net pension liability	427,559	341,473
USDA Promissory Note		390,000
Installment Note Payable	1,460,194	1,587,117
Total for water fund	1,910,105	2,338,906
 Sewer		
Compensated absences	18,685	24,956
Net pension liability	595,440	475,553
CSWRCB Revolving Loan	15,621,303	16,712,318
Installment Note Payable	4,675,265	4,986,091
Total for sewer fund	20,910,693	22,198,917
 Total business-type activities	 \$ 22,820,798	 \$ 24,537,823

CITY OF HUGHSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

The City continues to see a slowly improving economy along with a gradual increase in economic activity. Property Assessment is trending upwards, and building has resumed in the Community. Hughson's diverse land use has helped to continue a growth pattern that has resulted in an upswing of economic strength for the City and a strong housing market. The trend that developed in 2008, which has seen a significant drop in housing prices and a significant rise in home foreclosures, is changing.

Overall, the City continues to be in a favorable position to continue attracting jobs and retail establishments. Hughson's sales tax revenue continues to climb with expected growth in the retail sector along with the addition of businesses to the City's tax base. This type of growth helps strengthen the City's tax base and increases the diversity of where revenues are generated.

During the fiscal year ended June 30, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. Government employers that sponsor defined benefit pension plans must recognize a net pension liability in the statement of net position. This is the difference between total pension liability (actuarial accrued liability) and plan assets (at fair value). Pension expense is now based on the net pension liability change between reporting dates with some recognized immediately in expense and others amortized over years. The City of Hughson is a part of a cost sharing multiple employer defined benefit pension plan and as such reports a net pension liability and pension expense equal to the proportionate share of the cost-sharing plan. The implementation of GASB 68 did not change the City's pension obligations in any significant way but rather created more transparency and disclosure. The City continues with disclosure requirements and has updated the pension information for the fiscal year end June 30, 2016. Please the note section of the financial statements for more detailed information.

Overall the City's financial position remains in good condition. The City continues to maintain a fiscally responsible and conservative approach to its fiscal management.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this report should be directed to the City of Hughson, at PO Box 9, 7018 Pine Street, Hughson, CA 95326.

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CITY OF HUGHSON
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and Investments	\$ 6,696,766	\$ 7,285,439	\$ 13,982,205
Accounts Receivable	326,466	144,418	470,884
Notes Receivable	1,654,851		1,654,851
Deposits Receivable	59,283		59,283
Interest Receivable	205,178		205,178
Capital Assets, Not Being Depreciated	12,401,955	18,108,769	30,510,724
Capital Assets, Net of Accumulated Depreciation	<u>13,505,372</u>	<u>36,755,247</u>	<u>50,260,619</u>
Total Assets	<u>34,849,871</u>	<u>62,293,873</u>	<u>97,143,744</u>
Deferred Outflows of Resources:			
Pension	216,353	184,221	400,574
Total Deferred Outflows of Resources	<u>216,353</u>	<u>184,221</u>	<u>400,574</u>
Liabilities:			
Accounts Payable	457,049	14,862	471,911
Interest Payable		103,119	103,119
Deposits Payable		3,282	3,282
Noncurrent Liabilities:			
Due Within One Year	9,734	1,548,285	1,558,019
Due in More Than One Year	1,247,241	21,272,513	22,519,754
Total Liabilities	<u>1,714,024</u>	<u>22,942,061</u>	<u>24,656,085</u>
Deferred Inflow of Resources:			
Pension	126,730	107,908	234,638
Total Deferred Inflow of Resources	<u>126,730</u>	<u>107,908</u>	<u>234,638</u>
Net Position:			
Net Investment in Capital Assets	25,907,327	33,107,254	59,014,581
Restricted for:			
Home Loans	1,789,175		1,789,175
Community Development	596,851		596,851
Streets and Roads	713,842		713,842
Public Safety	73,436		73,436
Public Facilities	1,256,368		1,256,368
Parks and Recreation	1,031,209		1,031,209
Assessment Districts	220,744		220,744
Unrestricted	1,636,518	6,320,871	7,957,389
Total Net Position	<u>\$ 33,225,470</u>	<u>\$ 39,428,125</u>	<u>\$ 72,653,595</u>

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

CITY OF HUGHSON
Statement of Activities
For the Fiscal Year Ended June 30, 2016

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 1,435,670	\$ 226,105	\$ 526,005	\$ 114,514
Public Safety	1,471,544	79,325	125,594	
Community Development		341,918		
Public Works	1,065,834	541,325		924,667
Parks and Recreation	99,184	55,896		
Total Governmental Activities	<u>4,072,232</u>	<u>1,244,569</u>	<u>651,599</u>	<u>1,039,181</u>
Business-type Activities:				
Water	1,138,855	1,364,729		
Sewer	2,600,303	3,554,443		
Community Facilities	61,744	31,573		
Total Business-type Activities	<u>3,800,902</u>	<u>4,950,745</u>		
Total Primary Government	<u>\$ 7,873,134</u>	<u>\$ 6,195,314</u>	<u>\$ 651,599</u>	<u>\$ 1,039,181</u>

General Revenues:

Taxes:

Property Taxes

Sales and Use Taxes

Business License Taxes

Other Taxes

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in net position

Net Position - Beginning of Fiscal Year

Net Position - End of Fiscal Year

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

Net (Expenses) Revenues and Changes in Net Position

<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
\$ (569,046)	\$ -	\$ (569,046)
(1,266,625)		(1,266,625)
341,918		341,918
400,158		400,158
(43,288)		(43,288)
<u>(1,136,883)</u>		<u>(1,136,883)</u>
	225,874	225,874
	954,140	954,140
	(30,171)	(30,171)
	<u>1,149,843</u>	<u>1,149,843</u>
<u>(1,136,883)</u>	<u>1,149,843</u>	<u>12,960</u>
286,475		286,475
996,725		996,725
22,268		22,268
118,071		118,071
31,905	70,435	102,340
520,481		520,481
21,548	(21,548)	
<u>1,997,473</u>	<u>48,887</u>	<u>2,046,360</u>
860,590	1,198,730	2,059,320
<u>32,364,880</u>	<u>38,229,395</u>	<u>70,594,275</u>
<u>\$ 33,225,470</u>	<u>\$ 39,428,125</u>	<u>\$ 72,653,595</u>

CITY OF HUGHSON
Balance Sheet
Governmental Funds
June 30, 2016

	Special Revenue		
	General	Home Loan	Refuse
Assets:			
Cash and Investments	\$ 2,603,568	\$ 75,041	\$ 38,496
Accounts Receivable	235,241		17,769
Loans Receivable		1,423,710	
Due from Other Funds	266,546		
Deposits	59,283		
Total Assets	\$ 3,164,638	\$ 1,498,751	\$ 56,265
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 392,383	\$ -	\$ -
Due to Other Funds			
Total Liabilities	392,383		
Fund Balances:			
Nonspendable	59,283	1,423,710	
Restricted for:			
Home loans		75,041	
Parks and recreation			
Capital projects			
Public safety			
Streets and roads			
Community development			56,265
IT Projects			
Special assessments			
Unassigned	2,712,972		
Total Fund Balances	2,772,255	1,498,751	56,265
Total Liabilities and Fund Balances	\$ 3,164,638	\$ 1,498,751	\$ 56,265

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

<u>Capital Projects</u>		
<u>Public Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,256,368	\$ 2,649,990	\$ 6,623,463
	73,456	326,466
	231,141	1,654,851
		266,546
		59,283
<u>\$ 1,256,368</u>	<u>\$ 2,954,587</u>	<u>\$ 8,930,609</u>
\$ -	\$ 64,666	\$ 457,049
	266,546	266,546
	<u>331,212</u>	<u>723,595</u>
	231,141	1,714,134
		75,041
	1,031,209	1,031,209
1,256,368		1,256,368
	73,436	73,436
	713,842	713,842
	540,586	596,851
	99,192	99,192
	220,744	220,744
	(286,775)	2,426,197
<u>1,256,368</u>	<u>2,623,375</u>	<u>8,207,014</u>
<u>\$ 1,256,368</u>	<u>\$ 2,954,587</u>	<u>\$ 8,930,609</u>

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CITY OF HUGHSON
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total fund balances - governmental funds \$ 8,207,014

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	32,767,154	
Accumulated depreciation		<u>(6,859,827)</u>	25,907,327

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

City's pension contributions subsequent to the measurement date		136,264	
Deferred inflow related to pension		(126,730)	
Deferred outflow related to pension		80,089	

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Net pension liability		(1,201,434)	
Compensated absences payable		(55,541)	

Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, to individual funds. The assets and liabilities of the internal service fund must be added to the statement of net position.

73,303

In governmental funds, certain accrued interest receivable on notes receivable is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.

205,178

Total net position - governmental activities

\$ 33,225,470

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

CITY OF HUGHSON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	<u>Special Revenue</u>		
	<u>General</u>	<u>Home Loan</u>	<u>Refuse</u>
Revenues			
Property Taxes	\$ 286,475	\$ -	\$ -
Sales and Use Taxes	996,725		
Business License Taxes	22,268		
Other Taxes	118,071		
Licenses and Permits	93,018		
Fines and Forfeitures	72,090		
Interest	7,493		
Charges for Services	226,105		486,981
Intergovernmental	651,599		
Special Assessments			
Other	402,000		
Total Revenues	<u>2,875,844</u>		<u>486,981</u>
Expenditures			
Current:			
General Government	727,817		473,527
Public Safety	1,217,670		
Public Works	570,580		
Parks and Recreation	99,184		
Capital Outlay			
Total Expenditures	<u>2,615,251</u>		<u>473,527</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>260,593</u>		<u>13,454</u>
Other Financing Sources (Uses):			
Transfers In	89,304		
Transfers Out	(7,500)		
Total Other Financing Sources (Uses)	<u>81,804</u>		
Net Change in Fund Balances	342,397		13,454
Fund Balances - July 1, 2015	<u>2,429,858</u>	<u>1,498,751</u>	<u>42,811</u>
Fund Balances - June 30, 2016	<u>\$ 2,772,255</u>	<u>\$ 1,498,751</u>	<u>\$ 56,265</u>

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

<u>Capital Projects</u>		
<u>Public Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 286,475
		996,725
		22,268
		118,071
		93,018
		72,090
4,834	6,237	18,564
70,985	134,967	919,038
	924,667	1,576,266
	160,423	160,423
	118,481	520,481
<u>75,819</u>	<u>1,344,775</u>	<u>4,783,419</u>
		1,201,344
	141,086	1,358,756
	307,006	877,586
		99,184
<u>46,114</u>	<u>864,870</u>	<u>910,984</u>
<u>46,114</u>	<u>1,312,962</u>	<u>4,447,854</u>
<u>29,705</u>	<u>31,813</u>	<u>335,565</u>
	22,000	111,304
	(82,256)	(89,756)
	(60,256)	21,548
29,705	(28,443)	357,113
<u>1,226,663</u>	<u>2,651,818</u>	<u>7,849,901</u>
<u>\$ 1,256,368</u>	<u>\$ 2,623,375</u>	<u>\$ 8,207,014</u>

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CITY OF HUGHSON
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds \$ 357,113

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay	\$ 950,038	
Depreciation expense	<u>(451,151)</u>	498,887

Compensated absence expenditures reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in a governmental fund. This is the net change in compensated absences for the current period. (16,604)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contributions was: 8,253

Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities. (400)

Certain accrued interest revenue of notes receivable reported in the statement of activities is not available to pay for current period expenditures, and therefore, is not reported as revenue in a governmental fund. This is the net change in interest receivable for the current period. 13,341

Change in net position of governmental activities \$ 860,590

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

CITY OF HUGHSON
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities-Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
Assets					
Current Assets:					
Cash and Investments	\$ 6,787,768	\$ 491,942	\$ 5,729	\$ 7,285,439	\$ 73,303
Accounts Receivable	50,973	93,445		144,418	
Total Current Assets	<u>6,838,741</u>	<u>585,387</u>	<u>5,729</u>	<u>7,429,857</u>	<u>73,303</u>
Noncurrent Assets:					
Capital Assets:					
Land	15,075,537	2,928,159	105,073	18,108,769	
Buildings	25,215,708	2,127,666	725,283	28,068,657	
Machinery and Equipment	452,496	64,141		516,637	
Improvements Other Than Buildings Infrastructure	12,900,415	4,174,182		4,174,182	
		6,102,509		19,002,924	
Less:					
Accumulated Depreciation	(8,745,621)	(5,838,450)	(423,082)	(15,007,153)	
Total Noncurrent Assets	<u>44,898,535</u>	<u>9,558,207</u>	<u>407,274</u>	<u>54,864,016</u>	
Deferred Outflow of Resources:					
Pension	107,226	76,995		184,221	
Total Deferred Outflow of Resources	<u>107,226</u>	<u>76,995</u>		<u>184,221</u>	
Total Assets and Deferred Outflows of Resources	<u>51,844,502</u>	<u>10,220,589</u>	<u>413,003</u>	<u>62,478,094</u>	<u>73,303</u>
Liabilities					
Current Liabilities:					
Accounts Payable	317	14,545		14,862	
Interest Payable	76,232	26,887		103,119	
Deposits Payable			3,282	3,282	
Total Current Liabilities	<u>76,549</u>	<u>41,432</u>	<u>3,282</u>	<u>121,263</u>	
Noncurrent Liabilities:					
Compensated Absences	18,685	22,352		41,037	
Net Pension Liability	595,440	427,559		1,022,999	
Due within One Year	1,423,407	124,878		1,548,285	
Due in More Than One Year	18,873,161	1,335,316		20,208,477	
Total Noncurrent Liabilities	<u>20,910,693</u>	<u>1,910,105</u>		<u>22,820,798</u>	
Deferred Inflows of Resources:					
Pension	62,808	45,100		107,908	
Total Deferred Inflows of Resources	<u>62,808</u>	<u>45,100</u>		<u>107,908</u>	
Total Liabilities and Deferred Inflows of Resources	<u>21,050,050</u>	<u>1,996,637</u>	<u>3,282</u>	<u>23,049,969</u>	
Net Position					
Net Investment in Capital Assets	24,601,967	8,098,013	407,274	33,107,254	
Unrestricted	6,192,485	125,939	2,447	6,320,871	73,303
Total Net Position	<u>\$ 30,794,452</u>	<u>\$ 8,223,952</u>	<u>\$ 409,721</u>	<u>\$ 39,428,125</u>	<u>\$ 73,303</u>

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

CITY OF HUGHSON
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-type Activities - Enterprise funds				Governmental Activities
	Sewer Fund	Water Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
Operating Revenues:					
Charges for Services	\$ 3,554,443	\$ 1,364,729	\$ 31,573	\$ 4,950,745	\$ -
Total Operating Revenues	<u>3,554,443</u>	<u>1,364,729</u>	<u>31,573</u>	<u>4,950,745</u>	
Operating Expenses:					
Personnel	349,716	318,474		668,190	
Administrative	280,670	189,601	30,913	501,184	400
Materials and Supplies	458,814	322,754		781,568	
Maintenance	27,623	30,298	6,655	64,576	
Depreciation	1,034,936	206,947	24,176	1,266,059	
Total Operating Expenses	<u>2,151,759</u>	<u>1,068,074</u>	<u>61,744</u>	<u>3,281,577</u>	<u>400</u>
Operating Income (loss)	<u>1,402,684</u>	<u>296,655</u>	<u>(30,171)</u>	<u>1,669,168</u>	<u>(400)</u>
Non-operating Revenues (Expenses):					
Interest Revenue	67,116	3,319		70,435	
Interest Expense	(334,030)	(70,781)		(404,811)	
Capital Contribution	(114,514)			(114,514)	
Total Non-Operating Revenue (Expenses)	<u>(381,428)</u>	<u>(67,462)</u>		<u>(448,890)</u>	
Income (Loss) before transfers	1,021,256	229,193	(30,171)	1,220,278	(400)
Transfers					
Transfers In			7,500	7,500	
Transfers Out	(11,000)	(11,000)	(7,048)	(29,048)	
Change in Net Position	1,010,256	218,193	(29,719)	1,198,730	(400)
Net Position - Beginning of Fiscal Year	<u>29,784,196</u>	<u>8,005,759</u>	<u>439,440</u>	<u>38,229,395</u>	<u>73,703</u>
Net Position - End of Fiscal Year	<u>\$ 30,794,452</u>	<u>\$ 8,223,952</u>	<u>\$ 409,721</u>	<u>\$ 39,428,125</u>	<u>\$ 73,303</u>

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

CITY OF HUGHSON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental
	Sewer Fund	Water Fund	Nonmajor Enterprise Funds	Totals	Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received from Users	\$ 3,568,214	\$ 1,359,652	\$ 34,855	\$ 4,962,721	\$ -
Cash Payments to Suppliers and Contractors	(768,083)	(561,910)	(39,305)	(1,369,298)	(400)
Cash Payments to Employees	(360,077)	(319,375)		(679,452)	
Net Cash Provided (Used) By Operating Activities	2,440,054	478,367	(4,450)	2,913,971	(400)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in			452	452	
Transfers out	(11,000)	(11,000)		(22,000)	
Net Cash Provided (Used) By Noncapital Financing Activities	(11,000)	(11,000)	452	(21,548)	
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Received	67,116	3,319		70,435	
Net Cash Provided (Used) in Investing Activities	67,116	3,319		70,435	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Intergovernmental	(114,514)			(114,514)	
Principal Payments on Debt Borrowings	(1,401,841)	(510,739)		(1,912,580)	
Interest Paid	(334,029)	(70,781)		(404,810)	
Acquisition of Property, Plant, and Equipment	(12,630)	(12,630)		(25,260)	
Net Cash Provided (Used) In Capital and Related Financing Activities	(1,863,014)	(594,150)		(2,457,164)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	633,156	(123,464)	(3,998)	505,694	(400)
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	6,154,612	615,406	9,727	6,779,745	73,703
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	\$ 6,787,768	\$ 491,942	\$ 5,729	\$ 7,285,439	\$ 73,303
Reconciliation to Statement of Net Position:					
Cash and Investments	\$ 6,787,768	\$ 491,942	\$ 5,729	\$ 7,285,439	\$ 73,303
	<u>\$ 6,787,768</u>	<u>\$ 491,942</u>	<u>\$ 5,729</u>	<u>\$ 7,285,439</u>	<u>\$ 73,303</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 1,402,684	\$ 296,655	\$ (30,171)	\$ 1,669,168	\$ (400)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	1,034,936	206,947	24,176	1,266,059	
Changes in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable	13,771	(5,077)		8,694	
Increase (Decrease) in Accounts Payable	(976)	(19,257)	(100)	(20,333)	
Increase (Decrease) in Compensated Absences	(6,271)	2,036		(4,235)	
Increase (decrease) in Net Pension Liability	(4,090)	(2,937)		(7,027)	
Increase (Decrease) in Deposits Payable			1,645	1,645	
Total Adjustments	1,037,370	181,712	25,721	1,244,803	
Net Cash Provided (Used) By Operating Activities	\$ 2,440,054	\$ 478,367	\$ (4,450)	\$ 2,913,971	\$ (400)

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

FIDUCIARY FUNDS

Agency Funds and Private Purpose Trust Funds are used to account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the City, acting in the capacity of an agent for distribution to other governmental units or other organizations. The agency fund and private purpose trust fund maintained by the City is presented below.

Water/Sewer Deposits - This fund collects deposits for water and sewer services.

RDA Successor Agency - This fund accounts for the former redevelopment agency.

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**CITY OF HUGHSON
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
June 30, 2016**

	Private Purpose Trust Fund	Agency Fund
	RDA	
	Successor Agency	Water Deposits
ASSETS		
Cash and investments	\$ 198,225	\$ 59,863
Loans receivable	67,028	
Capital assets, net of accumulated depreciation	657,437	
Total Assets	922,690	\$ 59,863
LIABILITIES		
Interest payable	\$ 33,526	\$ -
Deposits payable		59,863
Long-term debt, due within one year	77,510	
Long-term debt, due in more than one year	2,532,677	
Total Liabilities	2,643,713	\$ 59,863
NET POSITION		
Held in trust for others	(1,721,023)	
Total Net Position	\$ (1,721,023)	

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

**CITY OF HUGHSON
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2016**

	Private Purpose Trust Fund
	RDA
	Successor Agency
Additions:	
Intergovernmental	\$ 362,344
Interest	141
	362,485
Deductions:	
Community development	13,665
Cost of issuance of debt	206,574
Depreciation	27,490
Interest expense	124,833
Transfer to City	81,000
	453,562
Change in net position	(91,077)
Net Position - July 1, 2015	(1,629,946)
Net Position - June 30, 2016	\$ (1,721,023)

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

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hughson (City) was incorporated in December 1972. The City is a general law city operating under the Council-Manager form of government, with a five member City Council elected for four-year overlapping terms. The City Manager is appointed by the City Council to serve as administrator of the staff and to carry out the Council's policies.

As required by accounting principles generally accepted in the United States of America (USGAAP), these basic financial statements present the City of Hughson (the primary government) and any component units.

Individual Component Unit Disclosures

There are no entities which meet the Governmental Accounting Standards Board (GASB) Statement No.14 as amended by GASB Statement No.39 and GASB Statement No. 61 criteria for disclosure within these financial statements.

B. Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental 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.

When both restricted and unrestricted net positions are available, unrestricted resources are used only after the restricted resources are depleted.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements

The fund financial statements provide information about the City's funds, including fiduciary funds. 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 nonmajor funds.

Proprietary funds distinguish *operating* revenues, such as charges for services, and 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. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports four major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes activities such as public protection, public works and facilities, parks and recreation, and community development.
- The *Home Loan Special Revenue Fund* was established to account for all proceeds of grant revenues from the federal government under the First Time Home Buyer federal grant program and from the State of California's CalHome grant program. The expenditures relate to payments made to eligible recipients for buying homes subject to fulfillment of conditions.
- The *Refuse Special Revenue Fund* was established to account for monies collected on behalf of a franchise garbage collection company.
- The *Public Facilities Capital Projects Fund* was established to account for all proceeds from traffic mitigation fees, whose purpose is to defray the actual costs of constructing improvements to mitigate traffic and circulation impacts resulting from proposed new development.

The City reports the following two major enterprise funds:

- The *Sewer Fund* was established to account for the financial activity for the purpose of operation and maintenance of the City's sewer system including the wastewater treatment plant. The costs of providing these services to the general public are financed or recovered through user charges.
- The *Water Fund* was established to account for the financial activity for the purpose of operation and maintenance of City's water utility. The costs of providing these services to the general public are financed or recovered through user charges.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The City reports the following additional fund types:

Internal Service Fund account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis for insurance.

Fiduciary Funds

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

Private Purpose Trust Fund accounts for the operations of the former redevelopment agency.

C. Basis of Accounting and Measurement Focus

The government-wide, proprietary, and fiduciary funds financial statements except for Agency Funds (that have no measurement focus) 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 the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for debt service expenditures which are recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and capital leases are reported as other financing sources.

Property taxes, transient occupancy taxes, and interest are susceptible to accrual. Sales taxes collected and held by the state at fiscal year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Equity

1. Deposits and Investments

In order to maximize the flexibility of its investment program and to aid in cash budgeting, the City pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of a particular fund's equity in the pool, the pool operates like a demand deposit account for the participating funds.

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on month-end balances and is adjusted at fiscal year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

In accordance with the State of California Government Code, the City adopts an investment policy annually that, among other things, authorizes types and concentrations of investments and maximum investment terms.

The City's investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. LAIF determines the fair value of its portfolio quarterly and reports a factor to the City; the City applies that factor to convert its share of LAIF from amortized cost to fair value. Changes in fair value are allocated to each participating fund.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents to be change and petty cash funds, equity in the City's cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

Investments are stated at fair value in accordance with GASB Statement No.31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Short-term investments are reported at cost, which approximates fair value. The fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Interest, dividends, and realized and unrealized gains and losses, based on the specific identification method, are included in interest revenue when earned.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements 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 expendable available financial resources.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Equity (Continued)

2. Receivables and Payables (Continued)

The City's property taxes are levied on the first day of January by the County assessor, and are payable to the County tax collector in two installments. The first installment is due November 1st, and is delinquent after December 10th; the second installment is due February 1st and is delinquent after April 10th. Taxes become a lien on the property on January 1st, and on the date of the transfer of the title, and the date of new construction. Article 13A of the California Constitution states: "The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent tax is to be collected by the Counties and apportioned according to law to the districts within the counties." The City has elected under State law (TEETER) to receive all of the annual property assessments in three installments as follows: 55% in December, 40% in April and 5% in June.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. As a phase 3 government under GASB Statement 34, the City has elected to restate its capital assets as of July 1, 2008, to report infrastructure assets acquired prior to June 30, 2003. The City has determined that it is preferable to report all City infrastructure to provide for more accurate reporting. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. The City utilizes a capitalization threshold of \$5,000.

Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	30 years
Vehicles	5 years
Machinery and equipment	5 to 15 years
Infrastructure	50 to 80 years

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Equity (Continued)

5. Compensated Absences

Depending upon length of employment, City employees earn vacation leave, sick leave, accrued holiday and compensated time which may be either used or accumulated until paid upon termination or retirement. Upon termination, the City is obligated to compensate employees for all earned but unused vacation days. Unused sick leave may be accumulated to 125 days. The earned but unused sick leave benefits are not payable in the event of employee termination but 25% of the unused accumulated sick leave is paid upon retirement of employees with more than twenty years of continued service.

A liability is accrued for all earned but unused leave benefits in the government-wide and enterprise fund statements. This liability will be liquidated as either additional cash payments in the event of employee termination or as part of budgeted salary expenditures if used by employees as compensated leave time while still employed by the City. In the fund financial statements governmental funds accrue current liabilities for material vacation leave benefits due on demand to governmental fund employees that have terminated prior to year-end. Non-current amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

6. 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 statements of net position. Debt premiums and discounts are deferred and amortized over the life of the indebtedness using the straight line method. Notes payable are reported net of the applicable bond premium or discount.

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

7. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment In Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the City, not restricted for any project or other purpose.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the City's policy is to apply restricted resources first.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. New Accounting Pronouncements

The City has implemented the following Governmental Accounting Standards Board (GASB) Statements during the fiscal year ended June 30, 2016:

Governmental Accounting Standards Board Statement No. 72

For the fiscal year ended June 30, 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72, Fair Value Measurement and Application, addresses accounting and reporting issues related to fair value measurements. Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The pronouncement provides for three valuation techniques: the market approach, the cost approach and the income approach. The valuation technique should be consistently applied, maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The hierarchy of inputs used to measure fair value falls into three categories: Level 1 is quoted market prices for identical assets or liabilities; Level 2 is for observable inputs either directly or indirectly; Level 3 is unobservable inputs. The pronouncement will be effective for the years ending June 30, 2016, and will require restatement of prior periods. Please see Note 3(I) for impact on the financial statements.

Governmental Accounting Standards Board Statement No. 73

For the fiscal year ended June 30, 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Reporting for Pensions and Related Assets not within the Scope of GASB 68 and Amendments to GASB 67 and 68*. This pronouncement applies the approach to accounting and financial reporting established in GASB 68 to all pension plans that are not within the scope of GASB 68, with certain modifications.

Amendments to GASB 67 and 68 relate to information about investment-related factors and clarify that only information about trends that the plan has influence over should be presented. It also clarifies that payables to a pension plan for any unpaid financing obligations are not separately financed specific liabilities as defined by GASB 67. The last amendment relates to recognizing revenue for support of nonemployer contributions to a pension plan and requires that the contribution be recognized in the same period as the change in the net pension liability is recognized. The amendments will be effective for years ending June 30, 2016. This pronouncement had no impact on the financial statements.

G. Fund Balance

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

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance (Continued)

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

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution.

H. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements.

Statement No. 74	"Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 77	"Tax Abatement Disclosures"	The provisions of this statement are effective for fiscal years beginning after June 15, 2015.
Statement No. 78	"Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans"	The provisions of this statement are effective for fiscal years beginning after June 15, 2015.
Statement No. 79	"Certain External Investment Pools and Pool Participants"	The provisions of this statement are effective for fiscal years beginning after June 15, 2015.
Statement No. 80	"Blending Requirements for Certain Component Units-in amendment of GASB Statement No. 14"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
Statement No. 82	"Pension Issues-in amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City Council adopts an Annual Budget no later than the second meeting of June of each year for the fiscal year commencing the following July 1. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During May of each year, the City Manager submits to the City Council a proposed operating budget for the next following fiscal year. The operating budget includes proposed revenues and expenditures.
2. After a review by the City Council, a public hearing is conducted and further comment is received from the City Council and the general public.
3. Upon completion of the hearings and modifications, if any, to the proposed budget, it is adopted by the City Council through passage of an appropriate resolution.
4. Generally, the budget is amended in the middle of the year and at the end of the year. All approved additional appropriations are added to the adopted budget and an amended budget is presented to the City Council, which adopts it after due review.
5. The City Manager is authorized to make transfers between operational expenditure categories within certain departments and funds.
6. City Council approval is required for all fund to fund transfers, department to department transfers, fund reserve to appropriations transfers, transfers for new revenue sources with offsetting appropriations, and for transfer to/from the capital expenditure category.

B. Budget/USGAAP Reconciliation

No funds adopted project-length or budgetary basis budgets and, therefore, no schedule reconciling the amounts on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget to Actual to the amounts on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances has been prepared.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2016, no funds had expenditures over appropriation.

D. Deficit Fund Equity

At June 30, 2016, the following funds had an accumulated deficit:

<u>Fund</u>	<u>Amount</u>
<u>Nonmajor Fund:</u>	
Transportation Capital Projects Fund	\$ 286,775
<u>Private Purpose Trust Fund:</u>	
RDA Successor Agency	1,721,023

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and investments	\$	13,982,205
Fiduciary funds:		
Cash and investments		258,088
Total cash and investments	\$	14,240,293

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$	100
Deposits with financial institutions		530,445
Investments		13,709,748
Total cash and investments	\$	14,240,293

A. Investments Authorized by the California Government Code and the City’s Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	N/A	None	None
US Treasury Obligations	5 years	None	None
Federal Agency Issues	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Bankers' Acceptances	180 days	40%	30%
Medium Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	None	10%
Commercial Paper	270 days	25%	None
County Pool Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 Million
Collateralized Bank Deposits	N/A	None	None
Mortgage Pass-through Securities	5 years	20%	None
Shares of Beneficial Interest by a JPA	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the City.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the City'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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
State Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Money Market Mutual Fund	N/A	None	None
Bankers Acceptances	N/A	None	None
Commercial Paper	270 days	None	None
Certificates of Deposit	N/A	None	None
Repurchase Agreements	N/A	None	None
Investment Agreements	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the City.

C. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City'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's investments by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
State Investment Pool (LAIF)	\$ 79,000	\$ 79,000	\$ -	\$ -	\$ -
Money Market Funds	11,072,429	11,072,429			
Certificates of Deposit	2,558,319	408,342	450,014	1,699,963	
	<u>\$ 13,709,748</u>	<u>\$ 11,559,771</u>	<u>\$ 450,014</u>	<u>\$ 1,699,963</u>	<u>\$ -</u>

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

D. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>			
				<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
State Investment Pool	\$ 79,000	N/A	\$ -	\$ -	\$ -	\$ -	\$ 79,000
Money Market Funds	11,072,429	N/A					11,072,429
Certificates of Deposit	2,558,319	N/A					2,558,319
Total	\$ 13,709,748		\$ -	\$ -	\$ -	\$ -	\$ 13,709,748

F. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than money market) that represent 5% or more of total City's investments.

G. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

H. Investment in State Investment Pool

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

I. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three tiered fair value hierarchy as follows: Level 1 – Investments reflect prices quoted in active markets; Level 2 – Investments reflect prices that are based on similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and Level 3 – Investments reflect prices based upon unobservable sources. The City did not have any investments applicable to recurring fair value measurements as of June 30, 2016.

NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

During the course of normal operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds”. The following presents a summary of current interfund balances as of June 30, 2016.

Receivable Fund	Amount	Payable Fund	Amount
Major Governmental Fund:		Nonmajor Governmental Fund:	
General Fund	\$ 266,546	Transportation Capital Projects Fund	\$ 266,546
Totals	<u>\$ 266,546</u>	Totals	<u>\$ 266,546</u>

B. Transfers between Funds

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various City operations, and re-allocations of special revenues. All inter-fund transfers between individual government funds have been eliminated on the government-wide statements. The following schedule briefly summarizes the City’s transfer activity for the fiscal year ended June 30, 2016:

Fund	Transfers-in	Transfers-out
Major Governmental Funds:		
General Fund	\$ 89,304	\$ 7,500
Major Enterprise Funds:		
Water Fund		11,000
Sewer Fund		11,000
Nonmajor Governmental Funds:		
Gas Tax Special Revenue Fund		50,000
Vehicle Abatement Special Revenue Fund		10,000
Traffic Special Revenue Fund		11,600
Lighting and Landscaping Special Revenue Fund		8,520
Benefit Assessment Special Revenue Fund		2,136
IT Reserve Special Revenue Fund	22,000	
Nonmajor Enterprise Funds:		
Community Center Operations Fund	7,500	3,524
USF Community Center Fund		3,524
Totals	<u>\$ 118,804</u>	<u>\$ 118,804</u>

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance at July 1, 2015	Additions	Deletions	Transfers	Balance at June 30, 2016
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 9,197,784	\$ -	\$ -	\$ -	\$ 9,197,784
Rights of ways	2,777,617				2,777,617
Construction in progress	207,857	896,868		(678,171)	426,554
Total capital assets, not being depreciated	<u>12,183,258</u>	<u>896,868</u>		<u>(678,171)</u>	<u>12,401,955</u>
Capital assets, being depreciated:					
Buildings	919,905				919,905
Improvements	4,166,963			678,171	4,845,134
Equipment	410,980	53,170			464,150
Machinery	241,902				241,902
Rolling stock	496,249		(72,373)		423,876
Infrastructure	13,397,859				13,397,859
Total capital assets being depreciated	<u>19,633,858</u>	<u>53,170</u>	<u>(72,373)</u>	<u>678,171</u>	<u>20,292,826</u>
Less accumulated depreciation for:					
Buildings	(551,301)	(22,054)			(573,355)
Improvements	(855,989)	(129,682)			(985,671)
Equipment	(370,981)	(20,000)			(390,981)
Machinery	(241,902)				(241,902)
Rolling stock	(496,248)		72,373		(423,875)
Infrastructure	(3,892,255)	(279,415)			(4,171,670)
Total accumulated depreciation	<u>(6,408,676)</u>	<u>(451,151)</u>	<u>72,373</u>		<u>(6,787,454)</u>
Total capital assets, being depreciated, net	<u>13,225,182</u>	<u>(397,981)</u>		<u>678,171</u>	<u>13,505,372</u>
Governmental activities capital assets, net	<u>\$ 25,408,440</u>	<u>\$ 498,887</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,907,327</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 18,108,769	\$ -	\$ -	\$ -	\$ 18,108,769
Total capital assets, not being depreciated	<u>18,108,769</u>				<u>18,108,769</u>
Capital assets, being depreciated:					
Buildings	28,068,657				28,068,657
Improvements	4,174,182				4,174,182
Equipment	82,806				82,806
Machinery	235,695				235,695
Infrastructure	19,002,924				19,002,924
Rolling stock	172,876	25,260			198,136
Total capital assets, being depreciated	<u>51,737,140</u>	<u>25,260</u>			<u>51,762,400</u>
Less accumulated depreciation for:					
Buildings	(2,976,570)	(935,621)			(3,912,191)
Improvements	(3,253,752)	(46,146)			(3,299,898)
Equipment	(46,990)	(7,602)			(54,592)
Machinery	(230,618)	(3,383)			(234,001)
Infrastructure	(7,100,288)	(265,307)			(7,365,595)
Rolling stock	(132,876)	(8,000)			(140,876)
Total accumulated depreciation	<u>(13,741,094)</u>	<u>(1,266,059)</u>			<u>(15,007,153)</u>
Total capital assets, being depreciated, net	<u>37,996,046</u>	<u>(1,240,799)</u>			<u>36,755,247</u>
Business-type activities capital assets, net	<u>\$ 56,104,815</u>	<u>\$ (1,240,799)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,864,016</u>

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – CAPITAL ASSETS (Continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 225,575
Public Safety	112,788
Public Works	<u>112,788</u>
Total depreciation expense – governmental functions	<u>\$ 451,151</u>

Depreciation expense was charged to business-type functions as follows:

Sewer	\$ 1,034,936
Water	206,947
Community Facilities	<u>24,176</u>
Total depreciation expense – business-type functions	<u>\$ 1,266,059</u>

NOTE 6 – NOTES RECEIVABLE

The City has established a number of housing assistance loan programs using HOME Investment Partnerships Program grant funds. These loans consist of several loans for first-time home buyers assistance and home rehabilitation assistance loans for qualified persons. The City also utilizes Community Development Block Grant (CDBG) to provide business assistance loans and home rehabilitation loans to qualified persons.

NOTE 7 – LONG-TERM LIABILITIES

The following is a schedule of long-term liabilities for Governmental Activities and Business-type Activities for the fiscal year ended June 30, 2016:

	Balance at June 30, 2015	Additions	Repayments	Balance at June 30, 2016	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 38,937	\$ 16,604	\$ -	\$ 55,541	\$ -
Net pension liability	959,535	241,899		1,201,434	
Total	<u>\$ 998,472</u>	<u>\$ 258,503</u>	<u>\$ -</u>	<u>\$ 1,256,975</u>	<u>\$ -</u>
Business-type Activities:					
Compensated absences	\$ 45,272	\$ 33,329	\$ (37,564)	\$ 41,037	\$ -
USDA Promissory Note	390,000		(390,000)		
Installment note payable - Water	1,580,933		(120,739)	1,460,194	124,878
Installment note payable - Sewer	4,986,091		(310,826)	4,675,265	321,482
Net pension liability	817,026	205,972		1,022,998	
CSWRCB Revolving Loan	16,712,318		(1,091,015)	15,621,303	1,101,925
Total	<u>\$ 24,531,640</u>	<u>\$ 239,301</u>	<u>\$ (1,950,144)</u>	<u>\$ 22,820,797</u>	<u>\$ 1,548,285</u>

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – LONG-TERM LIABILITIES (Continued)

1. Business -type Activities - USDA Rural Development Promissory Note

In 1998, the City executed a promissory note with the United States Department of Agriculture with the proceeds to be used for water system development. The note bears interest at 4.5%, with interest and principal (varying from \$4,500 to \$28,000) payable semi-annually beginning April 1, 1998 and continuing until April 1, 2037. The note has been paid off as of June 30, 2016.

2. Business -type Activities – Installment Notes Payable

On February 27, 2006 the City executed an installment note agreement with Municipal Finance Corporation for the acquisition and construction of a 750,000 gallon water storage tank to meet fire flow requirements. The note bears interest at 3.4%, with principal payments varying from \$37,010 to \$90,702, payable semi-annually beginning September 29, 2006, and continuing until March 29, 2026. The balance outstanding at June 30, 2016 is \$1,460,194.

On March 7, 2008, the City executed an installment note agreement with Municipal Finance Corporation for the acquisition and construction for a wastewater treatment plant in the amount of \$6,750,000, later amended to \$6,780,000. The note bears interest at 3.4%, with principal payments varying from \$126,472 to \$486,810, payable semi-annually beginning September 7, 2008, and continuing until March 7, 2028. The balance outstanding at June 30, 2016 is \$4,675,265.

Annual debt service requirements for the Installment Notes Payable are shown below:

Fiscal Year Ended June 30,	Installment Notes Payable - Water		
	Principal	Interest	Total
2017	\$ 124,878	\$ 48,594	\$ 173,472
2018	129,160	44,312	173,472
2019	133,590	39,884	173,474
2020	138,170	35,303	173,473
2021	142,908	30,565	173,473
2022-2026	791,488	75,875	867,363
	<u>\$ 1,460,194</u>	<u>\$ 274,533</u>	<u>\$ 1,734,727</u>

Fiscal Year Ended June 30,	Installment Notes Payable - Sewer		
	Principal	Interest	Total
2017	\$ 321,482	\$ 156,249	\$ 477,731
2018	332,506	145,226	477,732
2019	343,907	133,825	477,732
2020	355,699	122,033	477,732
2021	367,896	109,836	477,732
2022-2026	2,037,578	311,082	2,348,660
2027-2028	916,197	39,267	955,464
	<u>\$ 4,675,265</u>	<u>\$ 1,017,518</u>	<u>\$ 5,692,783</u>

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – LONG-TERM LIABILITIES (Continued)

3. Business -type Activities – California State Water Resources Control Board Revolving Loan

On September 10, 2009, the City entered into a project finance agreement with the California State Water Resource Control Board (Water Control Board). Through the use of ARRA funds, the Water Control Board provided funding assistance in the amount of \$23,100,000 for the rehabilitation and upgrade of the wastewater treatment plant. The City must repay the project funds at an interest rate of 1% per annum. The term of the agreement is June 16, 2009, to June 7, 2031. The balance outstanding at June 30, 2016 is \$15,621,303. Annual debt service requirements for the CSWRCB Loan are shown below:

Fiscal Year Ended June 30,	CSWRCB Loan		
	Principal	Interest	Total
2017	\$ 1,101,925	\$ 156,213	\$ 1,258,138
2018	1,112,944	145,194	1,258,138
2019	1,124,074	134,064	1,258,138
2020	1,135,315	122,823	1,258,138
2021	1,146,668	111,470	1,258,138
2022-2026	5,907,649	383,041	6,290,690
2027-2030	4,092,728	90,187	4,182,915
	<u>\$ 15,621,303</u>	<u>\$ 1,142,992</u>	<u>\$ 16,764,295</u>

4. Compensated Absences

The City’s policy relating to compensated absences is described in Note (1). Compensated absences are liquidated primarily by the general fund and proprietary funds. The total amount outstanding at June 30, 2016, was \$41,037 for business-type activities.

NOTE 8 – RISK MANAGEMENT

Central San Joaquin Valley Risk Management Authority

The City participates with other public entities in a joint exercise of powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes. The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 of each workers’ compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City’s account for liability losses under \$10,000 and worker’s compensation losses under \$10,000. The CSJVRMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$10,000,000. The CSJVRMA participates in an excess pool which provides workers’ compensation coverage from \$350,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit. The CSJVRMA is a consortium of fifty-five (55) cities in the San Joaquin Valley of California. It was established under the provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – PROPRIETARY FUNDS INFORMATION

The City maintains four enterprise funds. The Water and Sewer funds account for the provision of basic utility services to all citizens. The Community Center Operations fund and USF Community Center fund are utilized to maintain the operations and maintenance of the City's community center.

NOTE 10 – CONTINGENT LIABILITIES

The City is subject to litigation arising in the normal course of business. In the opinion of the City's management, there is no pending litigation that is likely to have a material adverse effect on the financial position of the City.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

The City does not offer any other post employment benefits.

NOTE 12 – PENSION PLAN

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

A. General Information about the Pension Plan

Plan Descriptions - All qualified employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, cost sharing defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	City Misc Plan		City Safety Plan
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013
Hire date	1, 2013	1, 2013	2013
Benefit formula	2.7% @ 55	2% @ 62	3.0% @ 50
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55	62	50
Monthly benefits, as a % of eligible compensation	2% to 2.7%	2.00%	3.0%
Required employee contribution rates	8%*	6.25%	n/a
Required employer contribution rates	10.958%	6.237%	n/a

* City made 4% contribution on behalf of employees

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

Proportionate Share of Net Pension Liability	
Misc. Plan	Safety Plan
\$ 1,657,967	\$ 566,466

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	City Miscellaneous Plan	City Safety Plan
Proportion - June 30, 2014	0.05317%	0.01233%
Proportion - June 30, 2015	0.06043%	0.01375%
Change - Increase (Decrease)	0.00726%	0.00142%

For the fiscal year ended June 30, 2016, the Local Government recognized pension expense of \$202,752. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 252,290	\$ -
Net differences between projected and actual earnings on pension plan investments		(54,384)
Differences based on actual experience	9,556	(3,886)
Differences based on change of assumptions		(108,288)
Differences between actual vs proportionate contribution		(49,770)
Adjustment due to differences in proportions	138,728	(18,310)
Total	<u>\$ 400,574</u>	<u>\$ (234,638)</u>

\$252,290 reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	
2017	\$ (25,013)
2018	(25,013)
2019	(22,732)
2020	(13,596)
Total	<u>\$ (86,354)</u>

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.30%-14.20% (1)	3.30%-14.20% (1)
Investment Rate of Return	7.50% (2)	7.50% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds	

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Year 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Local Government for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 2,780,514	\$ 908,260
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 1,657,967	\$ 566,466
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 731,161	\$ 286,224

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 13 - SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Hughson (City) that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets units until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of the City resolution number 2012-04.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as of the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

CITY OF HUGHSON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 13 - SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (CONTINUED)

A. Capital assets of the Successor Agency as of June 30, 2016 consisted of the following:

	July 1, 2015 Balance	Additions	Deletions	June 30, 2016 Balance
Capital assets, being depreciated:				
Buildings and Improvements	\$ 795,929	\$ -	\$ -	\$ 795,929
Infrastructure	47,930			47,930
Total capital assets, being depreciated	<u>843,859</u>			<u>843,859</u>
Less accumulated depreciation for:				
Buildings and Improvements	(151,260)	(26,531)		(177,791)
Infrastructure	(7,672)	(959)		(8,631)
Total accumulated depreciation, net	<u>(158,932)</u>	<u>(27,490)</u>		<u>(186,422)</u>
Total capital assets, net	<u>\$ 684,927</u>	<u>\$ (27,490)</u>	<u>\$ -</u>	<u>\$ 657,437</u>

B. Long-term debt of the Successor Agency as of June 30, 2016, consisted of the following:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due within one year
Tax Allocation Bonds	\$ 2,680,000	\$ -	\$ (20,000)	\$ 2,660,000	\$ 80,000
Totals	<u>\$ 2,680,000</u>	<u>\$ -</u>	<u>\$ (20,000)</u>	<u>\$ 2,660,000</u>	<u>\$ 80,000</u>

Tax Allocation Bonds – Series 2006

The former redevelopment agency issued \$3,200,000 of tax allocation refunding bonds on February 1, 2006. The principal balance outstanding at June 30, 2016 was \$2,660,000. The remaining annual debt service requirements as of June 30, 2016 are as follows:

Fiscal Year Ended June 30,	2006 Tax Allocation Bonds		
	Principal	Interest	Total
2017	\$ 80,000	\$ 89,200	\$ 169,200
2018	95,000	87,450	182,450
2019	100,000	85,500	185,500
2020	100,000	83,500	183,500
2021	105,000	81,450	186,450
2022-2026	560,000	361,050	921,050
2027-2031	650,000	260,400	910,400
2032-2036	790,000	117,400	907,400
2037-2039	180,000	3,600	183,600
	<u>\$ 2,660,000</u>	<u>\$ 1,169,550</u>	<u>\$ 3,829,550</u>

REQUIRED SUPPLEMENTAL INFORMATION

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CITY OF HUGHSON
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$ 321,000	\$ 321,000	\$ 286,475	\$ (34,525)
Sales and Use Taxes	867,000	867,000	996,725	129,725
Business License Taxes	22,000	22,000	22,268	268
Other Taxes	87,000	87,000	118,071	31,071
Licenses and Permits	69,140	69,140	93,018	23,878
Fines and Forfeitures	57,500	57,500	72,090	14,590
Interest	2,200	2,200	7,493	5,293
Charges for Services	170,175	170,175	226,105	55,930
Intergovernmental	552,750	552,750	651,599	98,849
Other	402,000	402,000	402,000	
Total Revenues	2,550,765	2,550,765	2,875,844	325,079
Expenditures				
Current				
General Government	728,360	724,004	727,817	(3,813)
Public Safety	1,237,720	1,237,720	1,217,670	20,050
Public Works	551,037	544,657	570,580	(25,923)
Parks and Recreation	95,323	114,823	99,184	15,639
Total Expenditures	2,612,440	2,621,204	2,615,251	5,953
Excess (Deficiency) of Revenues Over (Under) Expenditures	(61,675)	(70,439)	260,593	331,032
Other Financing Sources (uses):				
Transfers In	89,307	89,307	89,304	(3)
Transfers Out	(7,500)	(7,500)	(7,500)	
Total Other Financing Sources (Uses)	81,807	81,807	81,804	(3)
Net Change in Fund Balance	20,132	11,368	342,397	331,029
Fund Balance - July 1, 2015	2,429,858	2,429,858	2,429,858	
Fund Balance - June 30, 2016	\$ 2,449,990	\$ 2,441,226	\$ 2,772,255	\$ 331,029

**CITY OF HUGHSON
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
HOME LOAN SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other	\$ -	\$ -	\$ -	\$ -
Total Revenues				
Expenditures				
Current:				
Community Development	1,000	1,000		1,000
Total Expenditures	1,000	1,000		1,000
Net Change in Fund Balance	(1,000)	(1,000)		1,000
Fund Balance - July 1, 2015	1,498,751	1,498,751	1,498,751	
Fund Balance - June 30, 2016	<u>\$ 1,497,751</u>	<u>\$ 1,497,751</u>	<u>\$ 1,498,751</u>	<u>\$ 1,000</u>

**CITY OF HUGHSON
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
REFUSE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for Services	\$ 500,000	\$ 500,000	\$ 486,981	\$ (13,019)
Total Revenues	500,000	500,000	486,981	(13,019)
Expenditures				
Current:				
General Government	500,000	500,000	473,527	26,473
Total Expenditures	500,000	500,000	473,527	26,473
Net Change in Fund Balance			13,454	13,454
Fund Balance - July 1, 2015	42,811	42,811	42,811	
Fund Balance - June 30, 2016	\$ 42,811	\$ 42,811	\$ 56,265	\$ 13,454

**CITY OF HUGHSON
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2016**

Cost Sharing Defined Benefit Pension Plans

Schedule of the City's Proportionate Share of the Net Pension Liability – Last 10 Years*

	June 30, 2016		June 30, 2015	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Proportion of the net pension liability	0.06043%	0.01375%	0.05317%	0.01233%
Proportionate share of the net pension liability	\$ 1,657,967	\$ 566,466	\$ 1,313,993	\$ 462,568
Covered-employee payroll	\$ 819,730	n/a	\$ 838,193	n/a
Proportionate Share of the net pension liability as a percentage of covered-employee payroll	202.26%	n/a	156.76%	n/a
Plan's fiduciary net position	\$ 5,367,605	\$ 1,778,871	\$ 5,521,563	\$1,959,516
Plan's total pension liability	\$ 7,025,572	\$ 2,345,337	\$ 6,835,556	\$2,422,084
Plan fiduciary net position as a percentage of total pension liability	76.40%	75.85%	80.78%	80.90%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions: Discount rate has changed to 7.65%.

*Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF HUGHSON
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2016**

Cost Sharing Defined Benefit Pension Plans

Schedule of Contributions – Last 10 Years*

	June 30, 2016		June 30, 2015	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Contractual required contribution (actuarially determined)	\$ 149,103	\$ 29,542	\$ 127,295	\$ 22,606
Contributions in relation to the actuarially determined contributions	(149,103)	(29,542)	(127,295)	(22,606)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 819,730	n/a	\$ 838,193	n/a
Contributions as a percentage of covered employee payroll	18.19%	n/a	15.19%	n/a

Notes to Schedule

Valuation Date: June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Investment Rate of Return	7.50%, net of pension plan investment and administrative Expenses; includes Inflation
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership Data for all Funds

⁽¹⁾The mortality table was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

*Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

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OTHER SUPPLEMENTAL INFORMATION

CITY OF HUGHSON
PUBLIC FACILITIES CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Interest	\$ 3,000	\$ 4,834	\$ 1,834
Charges for Services	<u>197,338</u>	<u>70,985</u>	<u>(126,353)</u>
Total Revenues	<u>200,338</u>	<u>75,819</u>	<u>(124,519)</u>
Expenditures:			
Capital Outlay	<u>388,000</u>	<u>46,114</u>	<u>341,886</u>
Total Expenditures	<u>388,000</u>	<u>46,114</u>	<u>341,886</u>
Net Change in Fund Balance	(187,662)	29,705	217,367
Fund Balance - July 1, 2015	<u>1,226,663</u>	<u>1,226,663</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 1,039,001</u>	<u>\$ 1,256,368</u>	<u>\$ 217,367</u>

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The Asset Forfeiture Fund was established to account for monies received from asset seizures in the City's jurisdiction. The monies are to be spent on police protection and enforcement.

The Gas Tax Fund was established to account for state gas tax revenues based on population. The revenues may be expended only for street and road repair, maintenance, design, construction, and traffic signal design and installation.

The Vehicle Abatement Fund was established to account for vehicle abatement fees, revenues, and expenditures.

The CDBG Rehab Fund was established to account for federal grants under the Housing and Community Development Act, to assist low and moderate income groups in obtaining loans to rehabilitate or revitalize their homes.

The CDBG Grants Fund was established to account for federal planning grants under the Housing and Community Development Act.

The Community Enhancement Fund was established to bridge the gap between old development and new development where Landscaping and Lighting Districts are not set up.

The Local Transportation Authority Fund is used to account for the revenue and expenditure of funds generated by a one-half cent voter approved sales tax earmarked for street improvements.

The Storm Drain Fund was established to account for storm drain revenues.

The Traffic Fund was established to account for revenues received and expenditures made for traffic improvements.

The SLESF Fund established to account for revenues received and expenditures made for Special Law Enforcement Services.

The Lighting and Landscaping Fund was established to account for the lighting and landscaping of specified zones in the City.

The Benefit Assessment Fund was established to account for assessments applied to certain districts within the City.

The Trench Cut Fund was established to account for trench cutting costs to be paid with specified charges designed for that specific use.

The Public Safety Realignment Fund was established to account for public safety costs to be paid from a special intergovernmental funding source.

The IT Reserve Fund was established to account for amounts set aside and transferred from all City funds for future IT upgrades.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The Transportation Fund was established to account for street reconstruction.

The Municipal Park Fund was established to account for future expansion of City parks.

The Parks Development Impact Fees Fund was established to account for developer assessments on new home construction, with the monies to be used for construction of parks.

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**CITY OF HUGHSON
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016**

	Special Revenue Funds				
	Asset Forfeiture	Gas Tax	Vehicle Abatement	CDBG Rehab	CDBG Grants
Assets					
Cash and Investments	\$ 6,995	\$ 57,972	\$ 11,109	\$ 360,672	\$ 93,999
Accounts Receivable		13,105			
Loans Receivable				231,141	
Total Assets	<u>\$ 6,995</u>	<u>\$ 71,077</u>	<u>\$ 11,109</u>	<u>\$ 591,813</u>	<u>\$ 93,999</u>
Liabilities					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due To Other Funds					
Total Liabilities					
Fund Balances (Deficits)					
Nonspendable				231,141	
Restricted	6,995	71,077	11,109	360,672	93,999
Unassigned					
Total Fund Balances (Deficits)	<u>6,995</u>	<u>71,077</u>	<u>11,109</u>	<u>591,813</u>	<u>93,999</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,995</u>	<u>\$ 71,077</u>	<u>\$ 11,109</u>	<u>\$ 591,813</u>	<u>\$ 93,999</u>

Special Revenue Funds

Community Enhancement	Local Transportation	Storm Drain	Traffic	SLESF
\$ 85,915	\$ 79,914 58,859	\$ 290,987	\$ 136,561	\$ 64,047
<u>\$ 85,915</u>	<u>\$ 138,773</u>	<u>\$ 290,987</u>	<u>\$ 136,561</u>	<u>\$ 64,047</u>
\$ -	\$ -	\$ -	\$ -	\$ 44,437
				<u>44,437</u>
85,915	138,773	290,987	136,561	19,610
<u>85,915</u>	<u>138,773</u>	<u>290,987</u>	<u>136,561</u>	<u>19,610</u>
<u>\$ 85,915</u>	<u>\$ 138,773</u>	<u>\$ 290,987</u>	<u>\$ 136,561</u>	<u>\$ 64,047</u>

Continued

**CITY OF HUGHSON
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016
(CONTINUED)**

	Special Revenue Funds				
	Lighting and Landscaping	Benefit Assessment	Trench Cut	Public Safety Realignment	IT Reserve
Assets					
Cash and Investments	\$ 89,498	\$ 129,754	\$ 76,444	\$ 35,722	\$ 99,192
Accounts Receivable	1,097	395			
Loans Receivable					
Total Assets	<u>\$ 90,595</u>	<u>\$ 130,149</u>	<u>\$ 76,444</u>	<u>\$ 35,722</u>	<u>\$ 99,192</u>
Liabilities					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due To Other Funds					
Total Liabilities					
Fund Balances (Deficits)					
Nonspendable					
Restricted	90,595	130,149	76,444	35,722	99,192
Unassigned					
Total Fund Balances (Deficits)	<u>90,595</u>	<u>130,149</u>	<u>76,444</u>	<u>35,722</u>	<u>99,192</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 90,595</u>	<u>\$ 130,149</u>	<u>\$ 76,444</u>	<u>\$ 35,722</u>	<u>\$ 99,192</u>

<u>Capital Projects Funds</u>			Total
Transportation	Municipal Park	Parks Development Impact Fees	Nonmajor Governmental Funds
\$ -	\$ 579,857	\$ 451,352	\$ 2,649,990
			73,456
			231,141
<u>\$ -</u>	<u>\$ 579,857</u>	<u>\$ 451,352</u>	<u>\$ 2,954,587</u>
\$ 20,229	\$ -	\$ -	\$ 64,666
266,546			266,546
<u>286,775</u>			<u>331,212</u>
			231,141
	579,857	451,352	2,679,009
<u>(286,775)</u>			<u>(286,775)</u>
<u>(286,775)</u>	<u>579,857</u>	<u>451,352</u>	<u>2,623,375</u>
<u>\$ -</u>	<u>\$ 579,857</u>	<u>\$ 451,352</u>	<u>\$ 2,954,587</u>

CITY OF HUGHSON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

	Special Revenue Funds				
	Asset Forfeiture	Gas Tax	Vehicle Abatement	CDBG Rehab	CDBG Grants
Revenues:					
Interest	\$ -	\$ -	\$ -	\$ 1,189	\$ -
Charges for Services			7,235		
Intergovernmental		125,748			
Special Assessments					
Other				3,967	
Total Revenues	<u> </u>	<u>125,748</u>	<u>7,235</u>	<u>5,156</u>	<u> </u>
Expenditures:					
Current:					
Public Safety					
Public Works		55,524			
Capital Outlay					
Total Expenditures	<u> </u>	<u>55,524</u>	<u> </u>	<u> </u>	<u> </u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u> </u>	<u>70,224</u>	<u>7,235</u>	<u>5,156</u>	<u> </u>
Other Financing Sources (Uses):					
Transfers In					
Transfers Out		(50,000)	(10,000)		
Total Other Financing Sources (Uses)	<u> </u>	<u>(50,000)</u>	<u>(10,000)</u>	<u> </u>	<u> </u>
Net Change in Fund Balances		20,224	(2,765)	5,156	
Fund Balances (Deficits) - July 1, 2015	<u>6,995</u>	<u>50,853</u>	<u>13,874</u>	<u>586,657</u>	<u>93,999</u>
Fund Balances (Deficits) - June 30, 2016	<u>\$ 6,995</u>	<u>\$ 71,077</u>	<u>\$ 11,109</u>	<u>\$ 591,813</u>	<u>\$ 93,999</u>

Special Revenue Funds

Community Enhancement	Local Transportation Fund	Storm Drain	Traffic	SLESF
\$ 107 17,492	\$ 339 77,672	\$ 874 53,628	\$ 434 34,947	\$ - 117,871
	114,514			
<u>17,599</u>	<u>192,525</u>	<u>54,502</u>	<u>35,381</u>	<u>117,871</u>
	29,725	114,514	31,547	109,539
26,473	285,405			
<u>26,473</u>	<u>315,130</u>	<u>114,514</u>	<u>31,547</u>	<u>109,539</u>
<u>(8,874)</u>	<u>(122,605)</u>	<u>(60,012)</u>	<u>3,834</u>	<u>8,332</u>
			(11,600)	
			(11,600)	
(8,874)	(122,605)	(60,012)	(7,766)	8,332
<u>94,789</u>	<u>261,378</u>	<u>350,999</u>	<u>144,327</u>	<u>11,278</u>
<u>\$ 85,915</u>	<u>\$ 138,773</u>	<u>\$ 290,987</u>	<u>\$ 136,561</u>	<u>\$ 19,610</u>

Continued

CITY OF HUGHSON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016
(CONTINUED)

	Special Revenue Funds				
	Lighting and Landscaping	Benefit Assessment	Trench Cut	Public Safety Realignment	IT Reserve
Revenues:					
Interest	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for Services			716		
Intergovernmental				7,245	
Special Assessments	104,223	56,200			
Other					
Total Revenues	<u>104,223</u>	<u>56,200</u>	<u>716</u>	<u>7,245</u>	
Expenditures:					
Current:					
Public Safety					
Public Works	81,442	25,801			
Capital Outlay					
Total Expenditures	<u>81,442</u>	<u>25,801</u>			
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>22,781</u>	<u>30,399</u>	<u>716</u>	<u>7,245</u>	
Other Financing Sources (Uses):					
Transfers In					22,000
Transfers Out	(8,520)	(2,136)			
Total Other Financing Sources (Uses)	<u>(8,520)</u>	<u>(2,136)</u>			<u>22,000</u>
Net Change in Fund Balances	14,261	28,263	716	7,245	22,000
Fund Balances (Deficits) - July 1, 2015	<u>76,334</u>	<u>101,886</u>	<u>75,728</u>	<u>28,477</u>	<u>77,192</u>
Fund Balances (Deficits) - June 30, 2016	<u>\$ 90,595</u>	<u>\$ 130,149</u>	<u>\$ 76,444</u>	<u>\$ 35,722</u>	<u>\$ 99,192</u>

<u>Capital Project Funds</u>			Total
<u>Transportation</u>	<u>Municipal Park</u>	<u>Parks Development Impact Fees</u>	<u>Nonmajor Governmental Funds</u>
\$ -	\$ 1,867	\$ 1,427	\$ 6,237
	23,892	32,004	134,967
561,184			924,667
			160,423
			118,481
<u>561,184</u>	<u>25,759</u>	<u>33,431</u>	<u>1,344,775</u>
			141,086
			307,006
552,992			864,870
<u>552,992</u>			<u>1,312,962</u>
8,192	25,759	33,431	31,813
			22,000
			(82,256)
			(60,256)
8,192	25,759	33,431	(28,443)
<u>(294,967)</u>	<u>554,098</u>	<u>417,921</u>	<u>2,651,818</u>
<u>\$ (286,775)</u>	<u>\$ 579,857</u>	<u>\$ 451,352</u>	<u>\$ 2,623,375</u>

CITY OF HUGHSON
ASSET FORFEITURE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Charges for Services	\$ 500	\$ -	\$ (500)
Total Revenues	<u>500</u>	<u> </u>	<u>(500)</u>
Net Change in Fund Balance	500		(500)
Fund Balance - July 1, 2015	<u>6,995</u>	<u>6,995</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 7,495</u>	<u>\$ 6,995</u>	<u>\$ (500)</u>

CITY OF HUGHSON
GAS TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 300	\$ -	\$ (300)
Intergovernmental	124,032	125,748	1,716
Total Revenues	<u>124,332</u>	<u>125,748</u>	<u>1,416</u>
Expenditures:			
Current:			
Public Works	59,000	55,524	3,476
Total Expenditures	<u>59,000</u>	<u>55,524</u>	<u>3,476</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>65,332</u>	<u>70,224</u>	<u>4,892</u>
Other Financing Sources (Uses):			
Transfers Out	(50,000)	(50,000)	
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(50,000)</u>	
Net Change in Fund Balance	15,332	20,224	4,892
Fund Balance - July 1, 2015	<u>50,853</u>	<u>50,853</u>	
Fund Balance - June 30, 2016	<u>\$ 66,185</u>	<u>\$ 71,077</u>	<u>\$ 4,892</u>

CITY OF HUGHSON
VEHICLE ABATEMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Charges For Services	\$ 10,000	\$ 7,235	\$ (2,765)
Total Revenues	<u>10,000</u>	<u>7,235</u>	<u>(2,765)</u>
Other Financing Sources (Uses):			
Transfers Out	<u>(10,000)</u>	<u>(10,000)</u>	<u> </u>
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u> </u>
Net Change in Fund Balance		(2,765)	(2,765)
Fund Balance - July 1, 2015	<u>13,874</u>	<u>13,874</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 13,874</u>	<u>\$ 11,109</u>	<u>\$ (2,765)</u>

CITY OF HUGHSON
CDBG REHAB SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 475	\$ 1,189	\$ 714
Other Revenue	<u>12,000</u>	<u>3,967</u>	<u>(8,033)</u>
Total Revenues	<u>12,475</u>	<u>5,156</u>	<u>(7,319)</u>
Expenditures:			
Current:			
Public Works	<u>4,100</u>	<u></u>	<u>4,100</u>
Total Expenditures	<u>4,100</u>	<u></u>	<u>4,100</u>
Net Change in Fund Balance	8,375	5,156	(3,219)
Fund Balance - July 1, 2015	<u>586,657</u>	<u>586,657</u>	<u></u>
Fund Balance - June 30, 2016	<u>\$ 595,032</u>	<u>\$ 591,813</u>	<u>\$ (3,219)</u>

CITY OF HUGHSON
 CDBG GRANTS SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ -	\$ -	\$ -
Total Revenues	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance			
Fund Balance - July 1, 2015	<u>93,999</u>	<u>93,999</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 93,999</u>	<u>\$ 93,999</u>	<u>\$ -</u>

CITY OF HUGHSON
COMMUNITY ENHANCEMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 200	\$ 107	\$ (93)
Charges For Services	<u>22,473</u>	<u>17,492</u>	<u>(4,981)</u>
Total Revenues	<u>22,673</u>	<u>17,599</u>	<u>(5,074)</u>
Expenditures:			
Capital Outlay	<u>16,000</u>	<u>26,473</u>	<u>(10,473)</u>
Total Expenditures	<u>16,000</u>	<u>26,473</u>	<u>(10,473)</u>
Net Change in Fund Balance	6,673	(8,874)	(15,547)
Fund Balance - July 1, 2015	<u>94,789</u>	<u>94,789</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 101,462</u>	<u>\$ 85,915</u>	<u>\$ (15,547)</u>

CITY OF HUGHSON
 LOCAL TRANSPORTATION SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ -	\$ 339	\$ 339
Intergovernmental	64,010	77,672	13,662
Other		114,514	114,514
Total Revenues	<u>64,010</u>	<u>192,525</u>	<u>128,515</u>
Expenditures:			
Current:			
Public Works	23,500	29,725	(6,225)
Capital Outlay	182,150	285,405	(103,255)
Total Expenditures	<u>205,650</u>	<u>315,130</u>	<u>(109,480)</u>
Net Change in Fund Balance	(141,640)	(122,605)	19,035
Fund Balance - July 1, 2015	<u>261,378</u>	<u>261,378</u>	
Fund Balance - June 30, 2016	<u>\$ 119,738</u>	<u>\$ 138,773</u>	<u>\$ 19,035</u>

CITY OF HUGHSON
 STORM DRAIN SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 100	\$ 874	\$ 774
Charges for Services	<u>67,568</u>	<u>53,628</u>	<u>(13,940)</u>
Total Revenues	<u>67,668</u>	<u>54,502</u>	<u>(13,166)</u>
Expenditures:			
Current:			
Public Works	<u>114,514</u>	<u>114,514</u>	<u> </u>
Total Expenditures	<u>114,514</u>	<u>114,514</u>	<u> </u>
Net Change in Fund Balance	(46,846)	(60,012)	(13,166)
Fund Balance - July 1, 2015	<u>350,999</u>	<u>350,999</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 304,153</u>	<u>\$ 290,987</u>	<u>\$ (13,166)</u>

CITY OF HUGHSON
 TRAFFIC SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 50	\$ 434	\$ 384
Intergovernmental	<u>32,242</u>	<u>34,947</u>	<u>2,705</u>
Total Revenues	<u>32,292</u>	<u>35,381</u>	<u>3,089</u>
Expenditures:			
Current:			
Public Works	<u>31,500</u>	<u>31,547</u>	<u>(47)</u>
Total Expenditures	<u>31,500</u>	<u>31,547</u>	<u>(47)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>792</u>	<u>3,834</u>	<u>3,042</u>
Other Financing Sources (Uses):			
Transfers Out	<u>(11,600)</u>	<u>(11,600)</u>	<u></u>
Total Other Financing Sources (Uses)	<u>(11,600)</u>	<u>(11,600)</u>	<u></u>
Net Change in Fund Balance	(10,808)	(7,766)	3,042
Fund Balance - July 1, 2015	<u>144,327</u>	<u>144,327</u>	<u></u>
Fund Balance - June 30, 2016	<u>\$ 133,519</u>	<u>\$ 136,561</u>	<u>\$ 3,042</u>

CITY OF HUGHSON
SLESF SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 400	\$ -	\$ (400)
Intergovernmental	<u>100,000</u>	<u>117,871</u>	<u>17,871</u>
Total Revenues	<u>100,400</u>	<u>117,871</u>	<u>17,471</u>
Expenditures:			
Current:			
Public Safety	<u>100,000</u>	<u>109,539</u>	<u>(9,539)</u>
Total Expenditures	<u>100,000</u>	<u>109,539</u>	<u>(9,539)</u>
Net Change in Fund Balance	400	8,332	7,932
Fund Balance - July 1, 2015	<u>11,278</u>	<u>11,278</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 11,678</u>	<u>\$ 19,610</u>	<u>\$ 7,932</u>

CITY OF HUGHSON
 LIGHTING AND LANDSCAPING SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2016

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Special Assessments	\$ 104,814	\$ 104,223	\$ (591)
Total Revenue	<u>104,814</u>	<u>104,223</u>	<u>(591)</u>
Expenditures:			
Current:			
Public works	<u>84,525</u>	<u>81,442</u>	<u>3,083</u>
Total Expenditures	<u>84,525</u>	<u>81,442</u>	<u>3,083</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>20,289</u>	<u>22,781</u>	<u>2,492</u>
Other Financing Sources (Uses)			
Transfers Out	<u>(8,520)</u>	<u>(8,520)</u>	<u>-</u>
Total Other financing Sources (Uses)	<u>(8,520)</u>	<u>(8,520)</u>	<u>-</u>
Net Change in Fund Balance	11,769	14,261	2,492
Fund Balance - July 1, 2015	<u>76,334</u>	<u>76,334</u>	<u>-</u>
Fund Balance - June 30, 2016	<u>\$ 88,103</u>	<u>\$ 90,595</u>	<u>\$ 2,492</u>

CITY OF HUGHSON
 BENEFIT ASSESSMENT SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2016

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Special Assessments	\$ 56,538	\$ 56,200	\$ (338)
Total Revenue	<u>56,538</u>	<u>56,200</u>	<u>(338)</u>
Expenditures:			
Current:			
Public Works	23,691	25,801	(2,110)
Total Expenditures	<u>23,691</u>	<u>25,801</u>	<u>(2,110)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>32,847</u>	<u>30,399</u>	<u>(2,448)</u>
Other Financing Sources (Uses)			
Transfers Out	<u>(2,137)</u>	<u>(2,136)</u>	<u>1</u>
Total Other financing Sources (Uses)	<u>(2,137)</u>	<u>(2,136)</u>	<u>1</u>
Net Change in Fund Balance	30,710	28,263	(2,447)
Fund Balance - July 1, 2015	<u>101,886</u>	<u>101,886</u>	<u></u>
Fund Balance - June 30, 2016	<u>\$ 132,596</u>	<u>\$ 130,149</u>	<u>\$ (2,447)</u>

CITY OF HUGHSON
TRENCH CUT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Charges for Services	\$ -	\$ 716	\$ 716
Total Revenue	<u> </u>	<u>716</u>	<u>716</u>
Net Change in Fund Balance		716	716
Fund Balance - July 1, 2015	<u>75,728</u>	<u>75,728</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 75,728</u>	<u>\$ 76,444</u>	<u>\$ 716</u>

CITY OF HUGHSON
PUBLIC SAFETY REALIGNMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 5,000	\$ 7,245	\$ 2,245
Total Revenue	<u>5,000</u>	<u>7,245</u>	<u>2,245</u>
Expenditures:			
Current:			
Public Works	<u>17,000</u>	<u>-</u>	<u>17,000</u>
Total Expenditures	<u>17,000</u>	<u>-</u>	<u>17,000</u>
Net Change in Fund Balance	(12,000)	7,245	19,245
Fund Balance - July 1, 2015	<u>28,477</u>	<u>28,477</u>	<u>-</u>
Fund Balance - June 30, 2016	<u>\$ 16,477</u>	<u>\$ 35,722</u>	<u>\$ 19,245</u>

CITY OF HUGHSON
IT RESERVE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2015

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Expenditures:			
Capital Outlay	\$ 25,000	\$ -	\$ 25,000
Total Expenditures	<u>25,000</u>	<u> </u>	<u>25,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(25,000)</u>	<u> </u>	<u>25,000</u>
Other Financing Sources (Uses)			
Transfers In	<u>22,000</u>	<u>22,000</u>	<u> </u>
Total Other financing Sources (Uses)	<u>22,000</u>	<u>22,000</u>	<u> </u>
Net Change in Fund Balance	(3,000)	22,000	25,000
Fund Balance - July 1, 2015	<u>77,192</u>	<u>77,192</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 74,192</u>	<u>\$ 99,192</u>	<u>\$ 25,000</u>

CITY OF HUGHSON
TRANSPORTATION CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 150	\$ -	\$ (150)
Intergovernmental	<u>723,220</u>	<u>561,184</u>	<u>(162,036)</u>
Total Revenues	<u>723,370</u>	<u>561,184</u>	<u>(162,186)</u>
Expenditures:			
Capital Outlay	<u>562,370</u>	<u>552,992</u>	<u>9,378</u>
Total Expenditures	<u>562,370</u>	<u>552,992</u>	<u>9,378</u>
Net Change in Fund Balance	161,000	8,192	(152,808)
Fund Balance (Deficit) - July 1, 2015	<u>(294,967)</u>	<u>(294,967)</u>	<u> </u>
Fund Balance (Deficit) - June 30, 2016	<u><u>\$ (133,967)</u></u>	<u><u>\$ (286,775)</u></u>	<u><u>\$ (152,808)</u></u>

CITY OF HUGHSON
MUNICIPAL PARK CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 1,200	\$ 1,867	\$ 667
Charges for Services	<u>33,847</u>	<u>23,892</u>	<u>(9,955)</u>
Total Revenues	<u>35,047</u>	<u>25,759</u>	<u>(9,288)</u>
Net Change in Fund Balance	35,047	25,759	(9,288)
Fund Balance - July 1, 2015	<u>554,098</u>	<u>554,098</u>	<u> </u>
Fund Balance - June 30, 2016	<u><u>\$ 589,145</u></u>	<u><u>\$ 579,857</u></u>	<u><u>\$ (9,288)</u></u>

CITY OF HUGHSON
PARKS DEVELOPMENT IMPACT FEES CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 450	\$ 1,427	\$ 977
Charges for Services	<u>45,339</u>	<u>32,004</u>	<u>(13,335)</u>
Total Revenues	<u>45,789</u>	<u>33,431</u>	<u>(12,358)</u>
Net Change in Fund Balance	45,789	33,431	(12,358)
Fund Balance - July 1, 2015	<u>417,921</u>	<u>417,921</u>	<u> </u>
Fund Balance - June 30, 2016	<u>\$ 463,710</u>	<u>\$ 451,352</u>	<u>\$ (12,358)</u>

NONMAJOR PROPRIETARY FUNDS

PROPRIETARY FUNDS

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - for these funds, it is the intent of the City Council that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Community Center Operations - This fund is used to account for revenues and expenses associated with the maintenance and operations of the City's Community Centers.

USF Community Center - This fund is used to account for funds designated for maintenance and operations of the City's Community Centers.

CITY OF HUGHSON
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2016

	Enterprise Funds		Total Nonmajor Enterprise Funds
	Community Center Operations Fund	USF Community Center Fund	
Assets			
Current Assets:			
Cash and Investments	\$ 300	\$ 5,429	\$ 5,729
Total Current Assets	<u>300</u>	<u>5,429</u>	<u>5,729</u>
Noncurrent Assets:			
Capital Assets:			
Land	105,073		105,073
Buildings	725,283		725,283
Less:			
Accumulated Depreciation	<u>(423,082)</u>		<u>(423,082)</u>
Total Noncurrent Assets	<u>407,274</u>		<u>407,274</u>
Total Assets	<u>407,574</u>	<u>5,429</u>	<u>413,003</u>
Liabilities			
Current Liabilities:			
Deposits Payable	<u>3,282</u>		<u>3,282</u>
Total Liabilities	<u>3,282</u>		<u>3,282</u>
Net Position			
Net Investment in Capital Assets	407,274		407,274
Unrestricted	<u>(2,982)</u>	<u>5,429</u>	<u>2,447</u>
Total Net Position	<u>\$ 404,292</u>	<u>\$ 5,429</u>	<u>\$ 409,721</u>

**CITY OF HUGHSON
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Enterprise Funds		Total Nonmajor Enterprise Funds
	Community Center Operations Fund	USF Community Center Fund	
Operating Revenues			
Charges for Services	\$ 15,481	\$ 16,092	\$ 31,573
Total Operating Revenues	<u>15,481</u>	<u>16,092</u>	<u>31,573</u>
Operating Expenses			
Administrative	24,103	6,810	30,913
Maintenance	6,426	229	6,655
Depreciation	24,176		24,176
Total Operating Expenses	<u>54,705</u>	<u>7,039</u>	<u>61,744</u>
Income (Loss) Before Transfers	(39,224)	9,053	(30,171)
Transfers			
Transfers In	7,500		7,500
Transfers Out	<u>(3,524)</u>	<u>(3,524)</u>	<u>(7,048)</u>
Changes in Net Position	(35,248)	5,529	(29,719)
Net Position - Beginning of Fiscal Year	<u>439,540</u>	<u>(100)</u>	<u>439,440</u>
Net Position - End of Fiscal Year	<u>\$ 404,292</u>	<u>\$ 5,429</u>	<u>\$ 409,721</u>

**CITY OF HUGHSON
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Enterprise Funds		Total Nonmajor Enterprise Funds
	Community Center Operations Fund	USF Community Center Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Users	\$ 18,763	\$ 16,092	\$ 34,855
Cash Payments to Suppliers and Contractors	<u>(32,166)</u>	<u>(7,139)</u>	<u>(39,305)</u>
Net Cash Provided (Used) By Operating Activities	<u>(13,403)</u>	<u>8,953</u>	<u>(4,450)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in (out)	<u>3,976</u>	<u>(3,524)</u>	<u>452</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>3,976</u>	<u>(3,524)</u>	<u>452</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,427)	5,429	(3,998)
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	<u>9,727</u>		<u>9,727</u>
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	<u>\$ 300</u>	<u>\$ 5,429</u>	<u>\$ 5,729</u>
Reconciliation to Statement of Net Position:			
Cash and Cash Equivalents	<u>\$ 300</u>	<u>\$ 5,429</u>	<u>\$ 5,729</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss)	<u>\$ (39,224)</u>	<u>\$ 9,053</u>	<u>\$ (30,171)</u>
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	24,176		24,176
Changes in Assets and Liabilities:			
Increase (Decrease) in Accounts Payable		(100)	(100)
Increase (Decrease) in Deposits Payable	<u>1,645</u>		<u>1,645</u>
Total Adjustments	<u>25,821</u>	<u>(100)</u>	<u>25,721</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ (13,403)</u>	<u>\$ 8,953</u>	<u>\$ (4,450)</u>

**CITY OF HUGHSON INVESTMENT POLICY
2015-2016**

1.0 SCOPE

This investment policy applies to all financial assets of the City of Hughson. These funds are accounted for in the annual City audit and include: All funds.

Funds not included in the policy include: None.

2.0 PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing including, but not limited to, the general economic conditions and the anticipated needs of the City of Hughson, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (California Government Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

3.0 OBJECTIVES:

As specified in California Government Code Sections 53600.1 and 53630.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objectives, in priority order, of the investment activities shall be:

- A. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Hughson shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall **portfolio**. To attain this objective, **diversification** is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio
- B. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the City of Hughson to meet all operating requirements which might be reasonably anticipated.
- C. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market **rate of return** throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

4.0 DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code Sections 53600 et seq. Management responsibility for the investment program, including but not limited to the authority to invest or to reinvest funds, to sell or exchange securities, and to deposit funds for safekeeping, is hereby delegated to the City Manager, who is the finance officer of the City of Hughson, who shall establish written procedures for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Manager. The City Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code Section 53600.3, the City Manager is a trustee and a fiduciary subject to the prudent investor standard.

5.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transaction with the same individual with whom business is conducted on behalf of the City.

6.0 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The City Manager will maintain a list of financial institutions, selected on the basis of **credit worthiness**, financial strength, experience, and minimal capitalization, authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For **brokers/dealers** of government securities and other investments, the City Manager shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the City Manager shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the City of Hughson's account with that firm has reviewed the City of Hughson's Investment Policy and that the firm understands the policy and intends

to present investment recommendations and transactions to the City of Hughson that are appropriate under the terms and conditions of the Investment Policy.

7.0 AUTHORIZED AND SUITABLE INVESTMENTS:

The City of Hughson is empowered by California Government Code Sections 53601 and 53635 to invest in the following:

- A. **Bonds** issued by the City of Hughson, or by a department, board, agency or authority of the City of Hughson.
- B. United States Treasury **Bills, Notes & Bonds**.
- C. Registered state **warrants** or treasury notes or bonds issued by the State of California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state
- D. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
- E. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- F. Federal agency or United States government-sponsored enterprise **obligations**, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprise.
- G. **Bankers acceptances (BA)** with a term not to exceed 180 days. Not more than 40% of surplus funds can be invested in bankers' acceptances and no more than 30% of surplus funds can be invested in the bankers acceptances of any single commercial bank.
- H. **Commercial Paper** of "prime" quality with a term not to exceed 270 days issued by either (1) a U.S. Corporation with the highest ranking provided by a nationally recognized statistical rating organization with total assets in excess of 500 million dollars with debt other than commercial paper that is rated "A" or higher by a nationally recognized statistical rating organization, or (2) a U.S. special purpose corporation, trust or limited liability company with programwide credit enhancements and which has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization. Commercial paper cannot exceed 25% of total City funds.

- I. **Negotiable Certificates of Deposit (NCD)** issued by nationally or state chartered banks or state or federal associations or credit unions. Not more than 30% of City funds can be invested in certificates of deposit, and the amount of surplus funds is limited by the requirements of California Government Code section 53638.
- J. **Repurchase/Reverse Repurchase Agreements** of any securities authorized by California Government Code section 53601, subdivision (i).
- K. Medium term notes (not to exceed 5 Years) of U.S. corporations rated "A" or better by a nationally recognized rating service. Not more than 30% of City funds can be invested in medium term notes.
- L. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) investing in the securities and obligations authorized by this Section. Such Funds must carry the highest rating of at least two of the nationally recognized statistical rating organization. Not more than 10% of the City's funds can be invested in any one mutual fund.
- M. Funds held under the terms of a **trust indenture** or other contract or agreement may be invested according to the provisions of those indentures or agreements.
- N. **Collateralized bank deposits** with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations.
- P. Shares of beneficial interest issued by a joint power authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions 7.0.A through 7.0.N, inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
 - (1) The advisor is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The advisor has no less than five years of experience investing in the securities and obligations authorized in subdivisions 7.0.A through 7.0.N, inclusive.
 - (3) The advisor has assets under management in excess of five hundred million dollars (\$500,000,000).
- Q. Any other investment security authorized under the provisions of California Government Code Sections 5922, 53601 and 53635.

California Government Code Sections 53601 and 53635 contain a detailed summary of the limitations and special conditions that apply to each of the above-listed investment securities.

Prohibited Investments. Under the provisions of California Government Code Section 53601.6, the City of Hughson shall not invest any funds covered by this Investment Policy in **inverse floaters**, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

8.0 COLLATERALIZATION:

All certificates of deposits must be **collateralized** by U.S. Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under California Government Code Sections 53601(i)(2).

9.0 SAFEKEEPING AND CUSTODY:

All security transactions entered into by the City of Hughson shall be conducted on **delivery-versus-payment (DVP)** basis. All securities purchased or acquired shall be delivered to the City of Hughson by book entry, physical delivery or by third party custodial agreement as required by California Government Code Sections 53601 and 53635.

10.0 DIVERSIFICATION:

The City of Hughson will diversify its investments by security type and institution. It is the policy of the City of Hughson to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. **Diversification** strategies shall be reviewed on an annual basis at minimum. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- A. **Portfolio** maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- B. **Maturities** selected shall provide for stability of income and **liquidity**.
- C. Disbursement and payroll dates shall be covered through maturities investments, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.

11.0 REPORTING

The Treasurer or City Manager shall report to the City Council on a monthly and annual basis. The monthly investment report submitted to the City Council will contain the following:

- a. An investment inventory including types and amounts of investments, issuing financial institutions and maturates
- b. Average maturity of the portfolio
- c. Current market value of investments with maturities of more than 12 months
- d. A statement indicating that the City can meet its expenditure requirements for the upcoming 180 days
- e. A statement indicating that the portfolio complies with the City's Investment Policy
- f. Percent of portfolio invested by type of instrument
- g. Comparison of portfolio performance to the average yield rate for the three-month treasury bill
Written explanation for any variances to policy

As specified in California Government Code Section 53646(e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions.

12.0 ALTERNATE POLICY*

In lieu of investing excess funds as provided herein, in accordance with Government Code Section 53684, the City Council may, by resolution, deposit excess funds with the Treasurer of the State of California, for investment in the Local Agency Investment Fund ("LAIF"), provided that approximately one month's revenues of the City shall be kept in an authorized depository for payment of appropriate costs of the City, and the excess thereof shall be invested in the LAIF.

13.0 INVESTMENT POLICY REVIEW AND MODIFICATIONS

The Policy shall be reviewed on an annual basis, and modifications must be approved by the City Council.

13.0 GLOSSARY

GLOSSARY*

AGENCIES. Federal agency securities and/or government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED BANK DEPOSITS: Non-negotiable Certificate of Deposit issued by a nationally or state – chartered bank or association or a State – licensed branch or a foreign bank (insured by the federal government); Bank Collateralized Savings.

COMMERCIAL PAPER (CP): An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date. **DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of signed receipt for the securities.

*Subject to applicable provisions of law

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e. g., U. S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S & L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D. C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U. S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHa mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

INVERSE FLOATER: a bond or other type of debt whose coupon rate has an inverse relationship to a benchmark rate. An inverse floater adjusts its coupon payment as the interest

rate changes. When the interest rate goes up the coupon payment rate will go down because the interest rate is deducted, this less is paid to the holder.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT POOL (LAIF): The aggregate of all funds from California political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

NEGOTIABLE CERTIFICATE OF DEPOSIT (NCD): a certificate of deposit (CD) with a minimum face value of \$100,000. There are guaranteed by the bank and can usually be sold in a highly liquid secondary market, but cannot be cashed-in before maturity.

OBLIGATIONS: A federally guaranteed obligation is debt that is backed by the full power of the United States government. This type of debt is considered risk-free because it is guaranteed by the full faith and credit of the United States.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state-the do-called legal list. In other states, the trustee may invest in a security if it is one, which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE/REVERSE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables for all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (E.G., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market

performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U. S. treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities from two to ten years.

TRUSTEE: A person or firm that holds or administers property or assets for the benefit of a third party.

TRUST INDENTURE: An agreement in the bond contract made between a bond issuer and a trustee that represents the bondholder's interests by highlighting the rules and responsibilities that each party must adhere to. It may also indicate where the income stream for the bond is derived from.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

WEIGHTED AVERAGE RATE OF RETURN: Rate of return calculated based on interest earning and length of actual holding for each individual security.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.