

CITY OF MENDOTA

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2012**

CITY OF MENDOTA

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Mendota, California

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 Mendota, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 60 through 62 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial 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.

Price Pange & Company

Clovis, California
December 17, 2012

**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

The management of the City of Mendota (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at close of the most recent fiscal year by \$27,620,630 (*net assets*). Of this amount, \$4,217,954 (unrestricted net assets) may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets increased by \$6,168,850. Governmental activities increased the City's total net assets by \$5,206,672 and business-type activities increased by \$962,178. The substantial increase in net assets is due primarily to the dissolution of the City's redevelopment agency on January 31, 2012 as mandated by the State of California Assembly Bill 1X 26. The dissolution resulted in an extraordinary gain of approximately \$4.8 million, due to the extinguishment of long-term debt, net of related assets, of the Agency.

At June 30, 2012, the City's governmental funds reported combined ending fund balances of \$5,539,792, a decrease of \$2,178,950 in comparison with the prior year. The large decrease is due primarily to the transfer of approximately \$2.7 million in cash and cash equivalents formerly held by the City's redevelopment agency funds to a Mendota RDA Successor Agency Fund established by the City as a result of the dissolution of the agency on January 31, 2012.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$688,718 or 32 percent of the total general fund expenditures for the fiscal year.

The City's total long-term debt decreased by \$6,479,341 in comparison with the prior fiscal year. As discussed above, the decrease is due primarily to the extinguishment of \$6.55 million in revenue bonds associated with the City's redevelopment agency on January 31, 2012 and scheduled principal payments on other existing debt, offset by new borrowings entered into during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction of the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City included general government, public safety, municipal airport, highways and streets, sanitation, public works, building and planning, parks, and redevelopment and housing. The business-type activities of the City included water, sewer, refuse, and Mendota Joint Powers Public Financing Authority.

CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The City of Mendota Redevelopment Agency and Mendota Public Financing Authority, although legally separate, function for all practical purposes as departments of the City and, therefore, have been included as an integral part of the primary government.

Effective January 31, 2012, the Mendota Redevelopment Agency was dissolved as mandated under Assembly Bill 1X 26. Activities of the Agency for the first seven months of the fiscal year are included in the accompanying financial statements of the primary government. Activities after January 31, 2012 are reported with the fiduciary funds of the City under an agency fund. See further discussion regarding the dissolution and reporting of the Agency and Successor Agency at Note 12 on pages 57 and 58 of this report.

The government-wide financial statements can be found on pages 17 through 19 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund finance statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 24 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, Measure C Special Revenue Fund, RDA Low Income Special Revenue Fund, HOME Investment Partnership Program Special Revenue Fund, RDA Debt Service Fund, and RDA Capital Projects Fund. All of these are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 22 to 28 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statement. The City uses enterprise funds to account for its water, sewer, sanitation and Public Financing Authority operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for its Public Financing Authority and for the water, sewer and sanitation operations, as all of these are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 29 to 31 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 32 and 33 of this report.

**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Notes to the basic financial statements. The notes provide additional information that is essential to fully understand of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 36 to 58 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's General Fund and major Special Revenue Funds budgetary comparison schedule to demonstrate compliance with the City's adopted budget. The City adopts an annual appropriate budget for its general fund.

Required supplementary information can be found on pages 60 to 62 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Combining and individual fund statements and schedules can be found on pages 64 to 73.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$27,620,630 at June 30, 2012.

**City of Mendota
Condensed Statement of Net Assets
June 30, 2012 and 2011**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Current and other assets | \$ 6,547,358 | \$ 8,526,805 | \$ 3,280,824 | \$ 3,088,403 | \$ 9,828,182 | \$ 11,615,208 |
| Capital assets | <u>8,231,606</u> | <u>8,150,246</u> | <u>17,379,110</u> | <u>17,403,756</u> | <u>25,610,716</u> | <u>25,554,002</u> |
| Total assets | <u>14,778,964</u> | <u>16,677,051</u> | <u>20,659,934</u> | <u>20,492,159</u> | <u>35,438,898</u> | <u>37,169,210</u> |
| Long-term liabilities | 586,779 | 6,717,808 | 385,752 | 1,002,945 | 972,531 | 7,720,753 |
| Other liabilities | <u>282,491</u> | <u>1,256,221</u> | <u>6,563,246</u> | <u>6,740,456</u> | <u>6,845,737</u> | <u>7,996,677</u> |
| Total liabilities | <u>869,270</u> | <u>7,974,029</u> | <u>6,948,998</u> | <u>7,743,401</u> | <u>7,818,268</u> | <u>15,717,430</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 7,682,467 | 1,475,524 | 10,968,543 | 10,830,495 | 18,651,010 | 12,306,019 |
| Restricted | 3,789,594 | 6,153,306 | 962,072 | 872,106 | 4,751,666 | 7,025,412 |
| Unrestricted | <u>2,437,633</u> | <u>1,074,192</u> | <u>1,780,321</u> | <u>1,046,157</u> | <u>4,217,954</u> | <u>2,120,349</u> |
| Total net assets | <u>\$ 13,909,694</u> | <u>\$ 8,703,022</u> | <u>\$ 13,710,936</u> | <u>\$ 12,748,758</u> | <u>\$ 27,620,630</u> | <u>\$ 21,451,780</u> |

The largest portion of the City's net assets, \$18,651,010 (68 percent) represents investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. As noted earlier, the dissolution of the City's redevelopment agency on January 31, 2012 has relieved the City of approximately \$6.55 million in revenue bonds previously owed by the Agency, resulting in a substantial increase in net assets invested in capital assets, net of related debt as compared to the prior fiscal year.

An additional portion of the City's net assets of \$4,217,954 (15 percent) represents unrestricted net assets, which may be used to meet the City's ongoing obligations to its citizens and creditors. The remaining balance of \$4,751,666 (17 percent) represents resources that are subject to external restrictions on their use.

Governmental activities increased the City's net assets by \$5,206,672 accounting for 60 percent of the total growth in the net assets of the City of Mendota.

**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

**City of Mendota
Condensed Statement of Activities
For the Years Ended June 30, 2012 and 2011**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 348,032 | \$ 467,994 | \$ 2,834,831 | \$ 2,644,337 | \$ 3,182,863 | \$ 3,112,331 |
| Operating grants and contributions | 447,382 | 416,088 | - | - | 447,382 | 416,088 |
| Capital grants and contributions | 240,665 | 482,678 | 1,511,959 | 1,881,802 | 1,752,624 | 2,364,480 |
| General revenues: | | | | | | |
| Property taxes | 735,166 | 1,159,809 | - | - | 735,166 | 1,159,809 |
| Sales tax | 488,058 | 451,755 | - | - | 488,058 | 451,755 |
| Franchise taxes | 80,975 | 120,184 | - | - | 80,975 | 120,184 |
| Other taxes | 691,596 | 548,908 | - | - | 691,596 | 548,908 |
| Motor vehicle in-lieu | 733,371 | 857,130 | - | - | 733,371 | 857,130 |
| Earnings on investments | 15,017 | 33,373 | 36,611 | 42,696 | 51,628 | 76,069 |
| Miscellaneous | 134,506 | 618,107 | 3,178 | 10,975 | 137,684 | 629,082 |
| Total revenues | 3,914,768 | 5,156,026 | 4,386,579 | 4,579,810 | 8,301,347 | 9,735,836 |
| Expenses: | | | | | | |
| General government | 578,618 | 941,224 | - | - | 578,618 | 941,224 |
| Public safety | 1,219,242 | 1,164,241 | - | - | 1,219,242 | 1,164,241 |
| Municipal airport | 32,953 | 28,353 | - | - | 32,953 | 28,353 |
| Highways and streets | 380,407 | 354,671 | - | - | 380,407 | 354,671 |
| Public works | 301,770 | 299,061 | - | - | 301,770 | 299,061 |
| Building and planning | 149,322 | 170,978 | - | - | 149,322 | 170,978 |
| Parks and recreation | 371,902 | 360,683 | - | - | 371,902 | 360,683 |
| Redevelopment and housing | 38,489 | 57,266 | - | - | 38,489 | 57,266 |
| Sanitation | - | - | - | - | - | - |
| Pass-through | - | - | - | - | - | - |
| School utility payments | - | - | - | - | - | - |
| Interest and fiscal charges | 263,901 | 519,345 | - | - | 263,901 | 519,345 |
| Water | - | - | 1,473,261 | 1,597,701 | 1,473,261 | 1,597,701 |
| Sewer | - | - | 1,248,881 | 1,203,712 | 1,248,881 | 1,203,712 |
| Refuse | - | - | 679,203 | 648,932 | 679,203 | 648,932 |
| Mendota Joint Power Financing Authority | - | - | 23,056 | 25,349 | 23,056 | 25,349 |
| Total expenses | 3,336,604 | 3,895,822 | 3,424,401 | 3,475,694 | 6,761,005 | 7,371,516 |
| Increase in net assets before transfers and extraordinary item | 578,164 | 1,260,204 | 962,178 | 1,104,116 | 1,540,342 | 2,364,320 |
| Transfers | - | 170,419 | - | (170,419) | - | - |
| Extraordinary item | 4,799,611 | - | - | - | 4,799,611 | - |
| Increase in net assets | 5,377,775 | 1,430,623 | 962,178 | 933,697 | 6,339,953 | 2,364,320 |
| Net assets - beginning | 8,703,022 | 7,272,399 | 12,748,758 | 11,866,061 | 21,451,780 | 19,138,460 |
| Prior period adjustments | (171,103) | - | - | (51,000) | (171,103) | (51,000) |
| Net assets - ending | \$ 13,909,694 | \$ 8,703,022 | \$ 13,710,936 | \$ 12,748,758 | \$ 27,620,630 | \$ 21,451,780 |

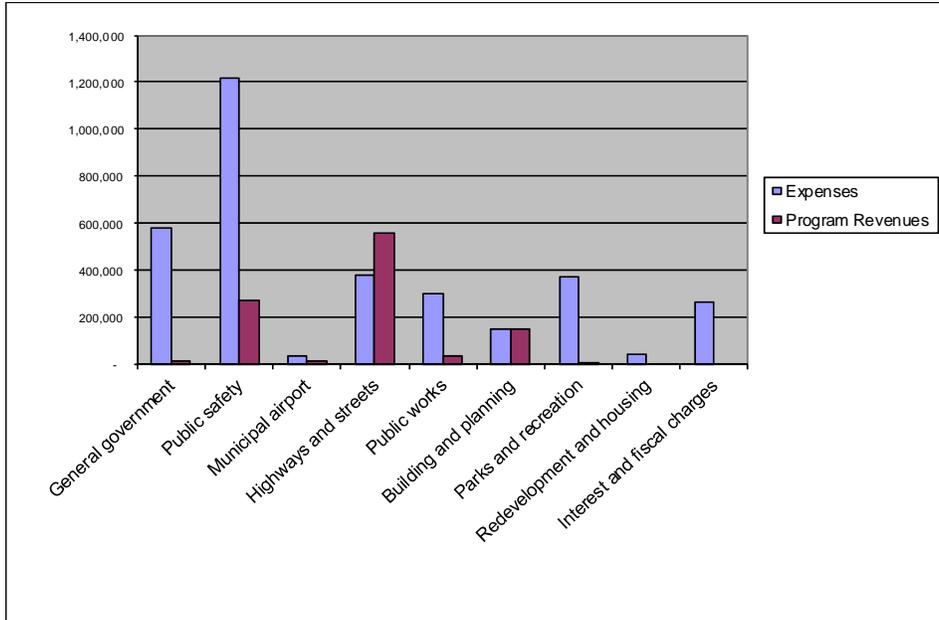
Key elements of the increase/decrease in revenue for governmental activities are as follows:

- Charges for services decreased by \$119,962 to \$348,032 from the prior year due primarily to services provided by the City's police department. Revenue related to vehicle repossessions, DUI fines and other police services was down substantially from the prior fiscal year.
- Governmental capital grants decreased by \$242,013 from the prior year. During the prior fiscal year, the City completed a large scale street signalization project in which State of California provided capital financial assistance. There were no street projects of similar size during the current fiscal year, resulting in an overall decrease in capital grant revenue as compared to the prior fiscal year.
- Property tax revenue decreased by \$424,643 or 37%. As previously discussed, the dissolution of the City's redevelopment agency has resulted in the loss of property tax revenue previously received by the Agency.
- Other Taxes increased \$142,688 or 26% due to an increase in federal highway user tax revenue over the prior year.

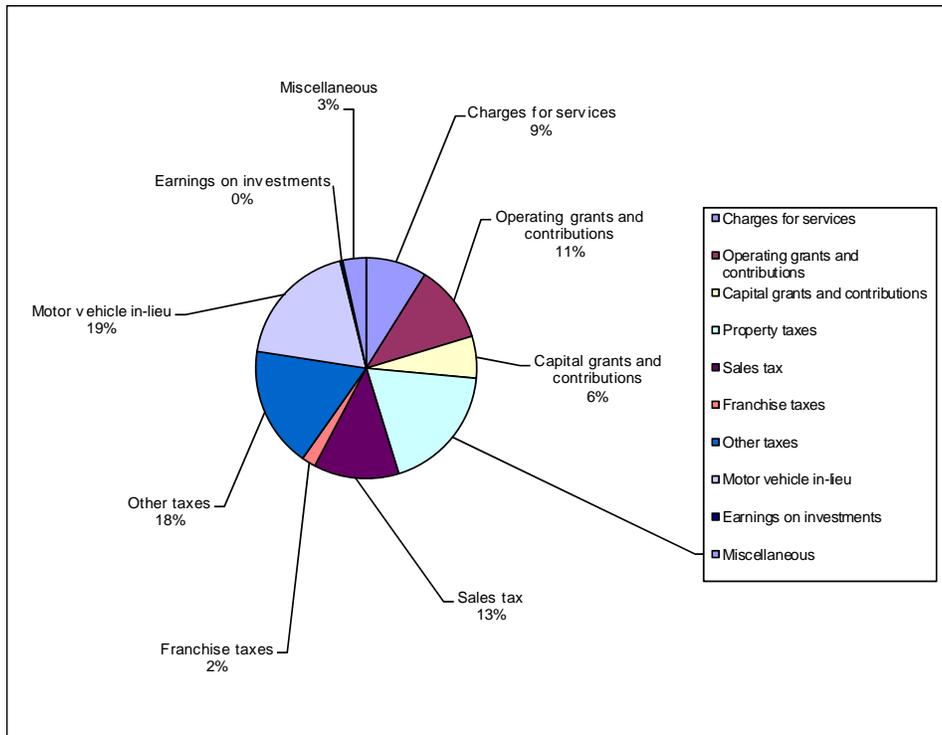
**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

- Motor vehicle fees decreased by \$123,759 or 14% due to a one-time back payment from the State received by the City in the previous fiscal year.
- Miscellaneous revenue decreased \$483,601 or 78% from the previous year. The significant decrease is due partially to the dissolution of the City's redevelopment agency, which terminated a school utility billing reimbursement program on January 31, 2012. In addition, several one-time receipts of income in the prior year were not present in the current fiscal year.

Expenses and Program Revenue – Governmental Activities



Revenues by Source – Governmental Activities



CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Key elements of the increase/decrease in expenses for governmental activities are as follows:

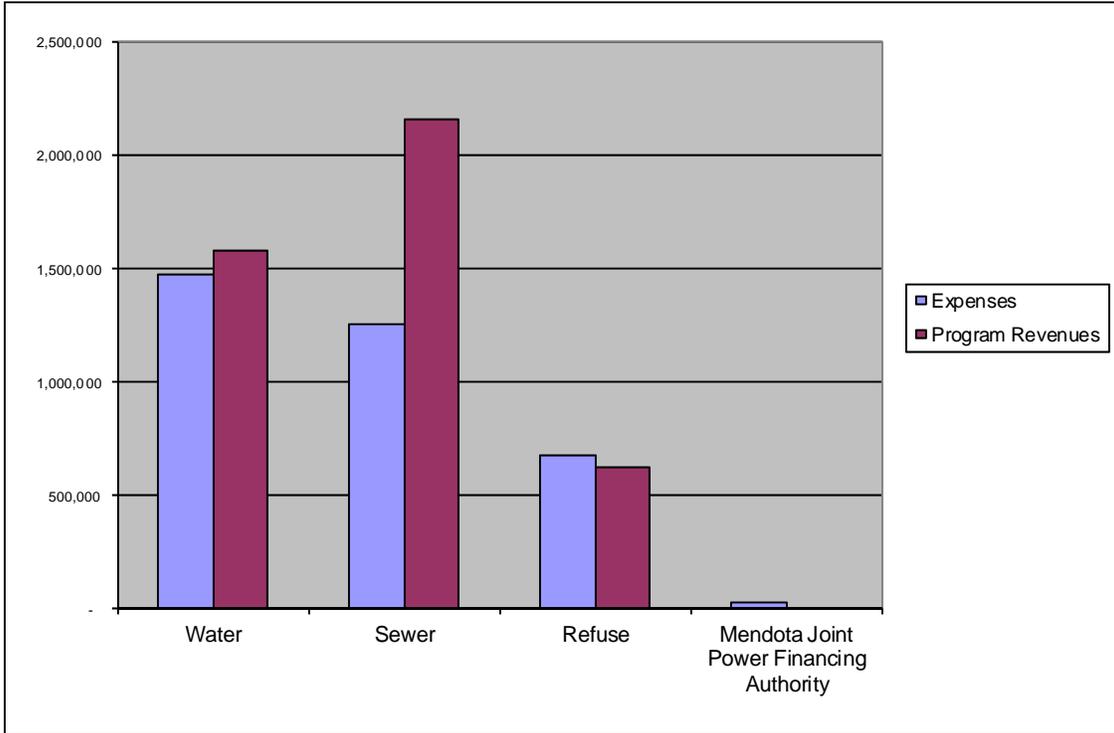
- General government expenses decreased \$362,606 or 39% to \$578,618 in 2012. The substantial decrease is due primarily to the elimination of expenditures associated with the City's former redevelopment agency. Expenditures eliminated include required "pass-through" payments of property tax revenue previously received by the agency to other County agencies and the elimination of school utility billings. As noted above, this reduction in general government expenses has been offset by lower property tax revenue previously received by the City's redevelopment agency. The reduction in redevelopment agency expenditures was partially offset by higher employee benefit costs and fire protection fees charged by the County of Fresno for service.
- Public safety expenses increased by \$55,001 or 5% from the prior year. The addition of reserve police officers to the City's payroll, coupled with higher employee benefit costs, is the primary reason for the increase in expenditures during the year.
- Highways and streets expenditures increased by \$25,736 to \$380,407. The increase is due almost entirely to higher wage and employee benefit costs incurred during the year as compared to the previous fiscal year.
- Building and planning expenses decreased by \$21,656 or 13%. Although zoning and permit service charges increased during the year, there was no new significant building activity in the City during the fiscal year. Consequently, building and planning expenditures for legal service, engineering and other contractual items were reduced.
- Parks and recreation expenditures increased by \$11,219 to \$371,902. This increase is due primarily to increases in utility costs and employee related benefits.
- Interest and fiscal charges decreased by \$255,444 or 49% to \$263,901 at June 30, 2012. The substantial drop in interest expense is due to the extinguishment of \$6.55 million in revenue bonds associated with the City's redevelopment agency, which was dissolved on January 31, 2012. The dissolution eliminated the City's obligation to pay a scheduled \$241,886 interest payment due during the year.

Business-type activities. Business-type activities increased the City's net assets by \$962,178, accounting for 15 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

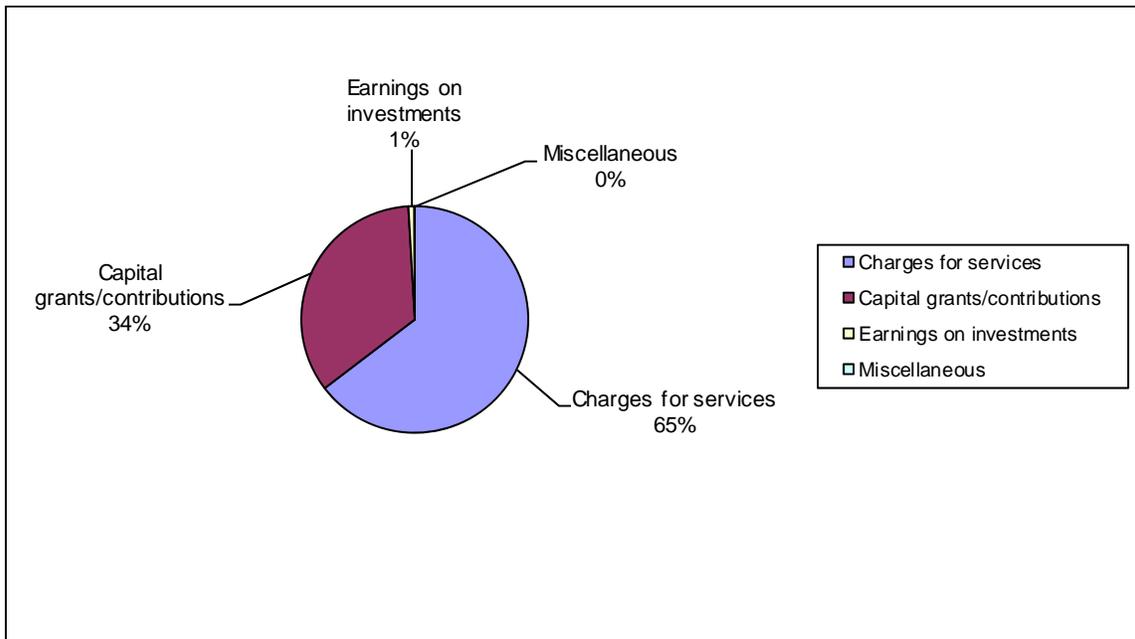
- Service revenue for the business-type activities increased by \$190,494 or 7% over the previous year. The increase is due primarily to charges for service to the newly opened federal prison and a resumption of charges to the Mendota Unified School District for utility service which began upon dissolution of the City's redevelopment agency.
- Capital grants and contributions decreased by \$369,843 to \$1,511,959 at June 30, 2012. The City collected \$513,970 in grant proceeds from the United States Department of Agriculture rural services division to complete its expansion of the City's existing wastewater treatment plant in October, 2011. Prior year grant funding for the expansion was \$1,190,606. The City also received a final \$620,790 payment from the Federal Bureau of Prisons for its share of construction costs related to the wastewater plant expansion during the year. In addition, the City's water enterprise fund received a \$364,706 federal CDBG grant for improvements to the City's water infrastructure during the year.
- Expenses of the Water Enterprise Fund decrease by \$124,440 to \$1,473,261 during the year. The decrease is due primarily to supplies were reduced.

**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Expenses and Program Revenue – Business-Type Activities



Revenue by Source – Business-Type Activities



**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

FINANCIAL ANALYSIS OF CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,539,792, a decrease of \$2,178,950 in comparison with the prior year. Of this total amount, \$5,269,124 is either nonspendable, restricted, committed or assigned to various projects and activities of the City, leaving an overall unassigned fund balance of \$270,668 at June 30, 2012. As previously discussed, the substantial decline is due primarily to the dissolution of the City's redevelopment agency, which resulted in the transfer of approximately \$2.7 million in cash holdings to Mendota RDA Successor Agency Fund.

The General Fund is the chief operating fund of the City. At June 30, 2012, the unassigned fund balance of the General Fund was \$688,718. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. At June 30, 2012, unassigned fund balance represents 32 percent of total general fund expenditures.

The fund balance of the City's General Fund increased by \$188,286 during the current fiscal year. The following provides an explanation of revenues by source that changed significantly over the prior year.

**Revenue by Source
GENERAL FUND**

| | FY 2012 | | FY 2011 | | Increase/(Decrease) | |
|--|---------------------|------------------|---------------------|------------------|---------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total |
| Taxes | \$ 791,895 | 39.70% | \$ 736,841 | 34.03% | \$ 55,054 | -32.48% |
| Licenses and permits | 77,393 | 3.88% | 81,573 | 3.77% | (4,180) | 2.47% |
| Intergovernmental | 771,845 | 38.68% | 915,905 | 42.30% | (144,060) | 84.98% |
| Charges for services | 103,452 | 5.18% | 78,173 | 3.61% | 25,279 | -14.91% |
| Fines | 123,186 | 6.17% | 170,806 | 7.89% | (47,620) | 28.09% |
| Revenue from the use of money and property | 73,618 | 3.69% | 80,283 | 3.71% | (6,665) | 3.93% |
| Miscellaneous | 54,096 | 2.71% | 101,425 | 4.68% | (47,329) | 27.92% |
| Total | \$ 1,995,485 | 100.00% | \$ 2,165,006 | 100.00% | \$ (169,521) | 100.00% |

- Taxes increased by \$55,054 or 7 percent. Due to the dissolution of the City's redevelopment agency, a portion of the property tax revenue originally received by the Agency was redirected to the City's General Fund by the County of Fresno, resulting in an increase in tax revenue as compared to the prior year.
- Intergovernmental revenue decreased by \$144,060 or 16 percent. The decrease is the result of lower revenue from the City's share of motor vehicle license fees allocated from the State of California.
- The \$25,279 increase in service charges is due entirely to a substantial increase in zoning and planning fees as compared to the previous year. Building activity within the City has stabilized after several years of decline.
- Fines revenue decreased by \$47,620 or 28 percent. The decrease in revenue is due primarily from lower revenues generated from vehicle fines and police services as compared to the prior year. Specifically, fines for vehicle repossession and DUI were down considerably from the previous year.
- Miscellaneous revenue decreased by \$47,329 or 47 percent. The decrease is due primarily to several one-time funding items included in fiscal year 2011 that are not present in the current fiscal year.

**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

The following provides an explanation of expenditures by function that charged significantly over the prior year:

**Expenditures by Function
GENERAL FUND**

| | FY 2012 | | FY 2011 | | Increase/(Decrease) | |
|-----------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total |
| General government | \$ 544,256 | 25.66% | \$ 430,861 | 22.55% | \$ 113,395 | 53.73% |
| Public safety | 1,019,151 | 48.04% | 966,835 | 50.61% | 52,316 | 24.79% |
| Public works | 59,096 | 2.79% | 55,008 | 2.88% | 4,088 | 1.94% |
| Building and planning | 149,322 | 7.04% | 170,978 | 8.95% | (21,656) | -10.26% |
| Parks and recreation | 180,315 | 8.50% | 205,937 | 10.78% | (25,622) | -12.14% |
| Capital outlay | 106,200 | 5.01% | 36,437 | 1.91% | 69,763 | 33.06% |
| Debt Service | 63,047 | 2.97% | 44,304 | 2.32% | 18,743 | 8.88% |
| Total | \$ 2,121,387 | 100.00% | \$ 1,910,360 | 100.00% | \$ 211,027 | 100.00% |

- General government expenditures increased by \$113,395 to \$544,256 as compared to the prior fiscal year. The City was charged a higher fire protection service charge from the County of Fresno as compared to the prior year. In addition, salaries and wages charged to the City's redevelopment agency were redirected to the general government due to the dissolution of the Agency on January 31, 2012. Also, the City incurred higher employee health insurance charges for the year as compared to 2011.
- Public safety expenditures increased by \$52,316 over the previous fiscal year due to the addition of reserve police officers to the force during the year, coupled with increases in employee related benefits.
- Capital outlay increased to \$106,200 from \$36,437 in fiscal year 2011 due primarily to the purchase of a new police vehicle and purchase of a new CNG powered truck for public works during the year.

The Measure C Special Revenue Fund has a total fund balance of \$980,084, virtually all of which is restricted to street maintenance and road improvement projects. The net increase in fund balance during the current fiscal year was \$186,868. During the prior fiscal year, the City received approximately \$819,000 in reimbursements from CalTrans for completion of a signalization project at Bass Street and State Route 33. Reimbursements from CalTrans during the current year were for smaller scale projects, resulting in an overall decrease in revenue of \$552,431 from the prior fiscal year. Capital outlay and road maintenance expenditures were comparable to the prior fiscal year, increasing by \$34,155 or 10 percent to \$343,572 at June 30, 2012.

The Home Investment Partnership Program Special Revenue Fund has a total fund deficit of \$8,712. The net increase in fund balance during the current year was \$1, representing interest earnings. The fund had no activity during the current fiscal year due to lack of new funding and the overall poor housing market in which to operate in. The City expects to once again expand the program in the near future.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning these funds have already been addressed in the discussion of Government-Wide Financial Analysis of business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

At the end of the fiscal year, actual expenditures were \$108,694 higher than the final budgetary appropriations. The higher expenditure variance is due primarily to the General Fund's unexpected capital expenditures for new police and public works vehicles during the year not originally budgeted for.

During the year, actual revenues were \$116,349 higher than the final budgetary estimates. The revenue variance is due primarily to higher property tax revenue received by the City as a result of the dissolution of the City's redevelopment agency, which resulted in redirecting a portion of the Agency's previous property tax increment revenue to the City's General Fund.

**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital assets. The City's investment in capital assets of its governmental and business-type activities as of June 30, 2012, amounts to \$25,610,716 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, land improvements, building and improvements, and equipment. Total increase in the City's investments in capital assets for the current year is less than one percent.

City of Mendota's Capital Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | \$ 248,617 | \$ 247,947 | \$ 2,098,220 | \$ 2,098,220 | \$ 2,346,837 | \$ 2,346,167 |
| Construction in progress | 581,691 | 154,690 | 26,566 | 4,655,864 | 608,257 | 4,810,554 |
| Infrastructure - non depreciable | - | - | 61,425 | 61,425 | 61,425 | 61,425 |
| Infrastructure - depreciable | 3,370,410 | 3,370,410 | 8,868,035 | 3,789,766 | 12,238,445 | 7,160,176 |
| Land improvements | 4,329,887 | 4,329,887 | - | - | 4,329,887 | 4,329,887 |
| Buildings and improvements | 1,366,731 | 1,316,778 | 10,268,023 | 10,258,915 | 11,634,754 | 11,575,693 |
| Equipment | 1,434,588 | 1,330,317 | 2,433,609 | 2,361,236 | 3,868,197 | 3,691,553 |
| Less: accumulated depreciation | <u>(3,100,318)</u> | <u>(2,599,783)</u> | <u>(6,376,768)</u> | <u>(5,821,670)</u> | <u>(9,477,086)</u> | <u>(8,421,453)</u> |
| Total capital assets | <u>\$ 8,231,606</u> | <u>\$ 8,150,246</u> | <u>\$ 17,379,110</u> | <u>\$ 17,403,756</u> | <u>\$ 25,610,716</u> | <u>\$ 25,554,002</u> |

This year's major additions included:

| | |
|--|---------------------|
| ▪ Completion of the sewer treatment plant expansion | \$ 37,015 |
| ▪ Completion of the CDBG water distribution project | 385,390 |
| ▪ Completion of the Rojas-Pierce Park bathroom | 20,766 |
| ▪ Construction of Rojas-Pierce Park baseball diamond | 68,469 |
| ▪ Commencement of Derrick Street road reconstruction | 21,210 |
| ▪ Commencement of 9 th & Oller Street road reconstruction | 189,437 |
| ▪ Belmont Ave. & State Route 33 signalization project | 169,540 |
| ▪ Water line replacement and relocation projects | 26,566 |
| ▪ Various equipment and vehicles purchased | <u>193,953</u> |
| | <u>\$ 1,112,346</u> |

For further information see Note 5 of the financial statements on pages 50 through 51 of this report.

Long-term debt. At the end of the current fiscal year, the City of Mendota has total debt outstanding of \$7,150,025. Of this amount, \$586,779 is the liability of governmental activities and \$6,563,246 is the liability of business-type activities. As previously discussed, the large reduction in the liability of governmental activities is due primarily to the assumption of \$6.55 million in revenue bonds, previously reported by the City's redevelopment agency, by a Successor Agency established on January 31, 2012 as part of the dissolution of the redevelopment agency. Refer to Note 12 of the financial statements for additional information regarding the dissolution of the City's redevelopment agency on pages 57 and 58.

City of Mendota's Outstanding Debt

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenue bonds payable | \$ - | \$ 6,550,000 | \$ 3,567,342 | \$ 5,919,660 | \$ 3,567,342 | \$ 12,469,660 |
| Loans payable | 549,139 | 295,825 | 2,965,000 | 790,000 | 3,514,139 | 1,085,825 |
| Compensated absences | <u>37,640</u> | <u>43,086</u> | <u>30,904</u> | <u>30,795</u> | <u>68,544</u> | <u>73,881</u> |
| Total long-term liabilities | <u>\$ 586,779</u> | <u>\$ 6,888,911</u> | <u>\$ 6,563,246</u> | <u>\$ 6,740,455</u> | <u>\$ 7,150,025</u> | <u>\$ 13,629,366</u> |

Additional information on the City's long-term debt can be found in Note 6 of the financial statements on pages 52 to 56 of this report.

**CITY OF MENDOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

ECONOMIC FACTORS AND NEXT FIVE YEARS' BUDGET AND RATES

In preparing the budget for the next fiscal year the following factors were taken into consideration:

- No employee salary adjustments for the current year.
- Health care adjustments of less than 5.0 percent.
- Reductions in intergovernmental revenue to be received on various programs from the State of California.
- Property tax revenue reduction due to reassessment of property at lower valuations, and appropriation of a portion of the City's property tax revenue by the State of California.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the City's finances for those with an interest in this area. Any questions concerning the information found in this report or requests for additional information should be directed to the Director of Finance, City of Mendota, 643 Quince Street, Mendota, CA 93640.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF MENDOTA

**STATEMENT OF NET ASSETS
June 30, 2012**

| | Governmental | Business-Type | Total |
|---|--------------------------|--------------------------|--------------------------|
| | Activities | Activities | |
| | <hr/> | <hr/> | <hr/> |
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 4,862,340 | \$ 1,981,773 | \$ 6,844,113 |
| Receivables | 1,166,377 | 644,125 | 1,810,502 |
| Prepaid expenses | 75,170 | 36,452 | 111,622 |
| Internal balances | 443,471 | (443,471) | - |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 962,072 | 962,072 |
| Unamortized costs of issuance | - | 99,873 | 99,873 |
| Capital assets: | | | |
| Non-depreciable | 830,308 | 2,186,211 | 3,016,519 |
| Depreciable (Net) | <u>7,401,298</u> | <u>15,192,899</u> | <u>22,594,197</u> |
| Total assets | <u>14,778,964</u> | <u>20,659,934</u> | <u>35,438,898</u> |
| <u>Liabilities</u> | | | |
| Accounts payable | 262,278 | 100,209 | 362,487 |
| Deposits | 5,000 | 132,808 | 137,808 |
| Deferred revenue | 5,313 | - | 5,313 |
| Accrued interest | 9,900 | 152,735 | 162,635 |
| Long-term liabilities: | | | |
| Portion due or payable within one year: | | | |
| Compensated absences payable | 27,003 | 26,780 | 53,783 |
| Revenue bonds payable | - | 151,000 | 151,000 |
| Loans payable | 52,587 | 34,000 | 86,587 |
| Portion due or payable after one year: | | | |
| Compensated absences payable | 10,637 | 4,124 | 14,761 |
| Revenue bonds payable | - | 5,623,342 | 5,623,342 |
| Loans payable | <u>496,552</u> | <u>724,000</u> | <u>1,220,552</u> |
| Total liabilities | <u>869,270</u> | <u>6,948,998</u> | <u>7,818,268</u> |
| <u>Net Assets</u> | | | |
| Invested in capital assets, net of related debt | 7,682,467 | 10,968,543 | 18,651,010 |
| Restricted for: | | | |
| Redevelopment and housing | 574,962 | - | 574,962 |
| Public safety | 565,084 | - | 565,084 |
| Highways and streets | 2,522,857 | - | 2,522,857 |
| Parks and recreation | 126,691 | - | 126,691 |
| Debt service reserve | - | 962,072 | 962,072 |
| Unrestricted | <u>2,437,633</u> | <u>1,780,321</u> | <u>4,217,954</u> |
| Total net assets | <u>\$ 13,909,694</u> | <u>\$ 13,710,936</u> | <u>\$ 27,620,630</u> |

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

CITY OF MENDOTA

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

| Functions/Programs | Program Revenues | | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| General government | \$ 578,618 | \$ 13,912 | \$ - | \$ - |
| Public safety | 1,219,242 | 129,889 | 138,474 | - |
| Municipal airport | 32,953 | - | - | 11,267 |
| Highways and streets | 380,407 | 21,117 | 308,908 | 229,398 |
| Public works | 301,770 | 32,741 | - | - |
| Building and planning | 149,322 | 149,349 | - | - |
| Parks and recreation | 371,902 | 1,024 | - | - |
| Redevelopment and housing | 38,489 | - | - | - |
| Interest and fiscal charges | 263,901 | - | - | - |
| Total governmental activities | 3,336,604 | 348,032 | 447,382 | 240,665 |
| Business-Type Activities: | | | | |
| Water | 1,473,261 | 1,199,874 | - | 375,733 |
| Sewer | 1,248,881 | 1,015,149 | - | 1,136,226 |
| Refuse | 679,203 | 619,808 | - | - |
| Mendota Joint Power Financing Authority | 23,056 | - | - | - |
| Total business-type activities | 3,424,401 | 2,834,831 | - | 1,511,959 |
| Total City of Mendota | \$ 6,761,005 | \$ 3,182,863 | \$ 447,382 | \$ 1,752,624 |

General revenues:

Taxes:

Property taxes

Sales tax

Franchise taxes

Other taxes

Motor vehicle in-lieu

Earnings on investments

Miscellaneous

Extraordinary item - RDA dissolution

Total general revenues and extraordinary item

Changes in net assets

Net assets - beginning

Prior period adjustments

Net assets - ending

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

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|-----------------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (564,706) | \$ - | \$ (564,706) |
| (950,879) | - | (950,879) |
| (21,686) | - | (21,686) |
| 179,016 | - | 179,016 |
| (269,029) | - | (269,029) |
| 27 | - | 27 |
| (370,878) | - | (370,878) |
| (38,489) | - | (38,489) |
| (263,901) | - | (263,901) |
| <u>(2,300,525)</u> | <u>-</u> | <u>\$ (2,300,525)</u> |
| - | 102,346 | 102,346 |
| - | 902,494 | 902,494 |
| - | (59,395) | (59,395) |
| - | (23,056) | (23,056) |
| <u>-</u> | <u>922,389</u> | <u>922,389</u> |
| <u>(2,300,525)</u> | <u>922,389</u> | <u>(1,378,136)</u> |
| 735,166 | - | 735,166 |
| 488,058 | - | 488,058 |
| 80,975 | - | 80,975 |
| 691,596 | - | 691,596 |
| 733,371 | - | 733,371 |
| 15,017 | 36,611 | 51,628 |
| 134,506 | 3,178 | 137,684 |
| <u>4,799,611</u> | <u>-</u> | <u>4,799,611</u> |
| <u>7,678,300</u> | <u>39,789</u> | <u>7,718,089</u> |
| 5,377,775 | 962,178 | 6,339,953 |
| 8,703,022 | 12,748,758 | 21,451,780 |
| <u>(171,103)</u> | <u>-</u> | <u>(171,103)</u> |
| <u>\$ 13,909,694</u> | <u>\$ 13,710,936</u> | <u>\$ 27,620,630</u> |

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

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FUND FINANCIAL STATEMENTS

CITY OF MENDOTA

**BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2012**

| | <u>General</u> | <u>Measure C Special Revenue Fund</u> | <u>RDA Low Income Special Revenue Fund</u> | <u>HOME Investment Partnership Program Special Revenue Fund</u> | <u>RDA Debt Service Fund</u> |
|---|---------------------|---|--|---|----------------------------------|
| <u>Assets</u> | | | | | |
| Cash and cash equivalents | \$ 1,309,034 | \$ 958,800 | \$ - | \$ - | \$ - |
| Receivables | 144,563 | 146,666 | - | 549,975 | - |
| Due from other funds | 701,168 | - | - | - | - |
| Prepaid expenses | <u>68,258</u> | <u>3,456</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 2,223,023</u> | <u>\$ 1,108,922</u> | <u>\$ -</u> | <u>\$ 549,975</u> | <u>\$ -</u> |
| <u>Liabilities and Fund Balances</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 40,984 | \$ 128,837 | \$ - | \$ - | \$ - |
| Deposits | 5,000 | - | - | - | - |
| Due to other funds | - | - | - | 8,712 | - |
| Advances from other funds | 83,138 | - | - | - | - |
| Deferred revenue | <u>-</u> | <u>-</u> | <u>-</u> | <u>549,975</u> | <u>-</u> |
| Total liabilities | <u>129,122</u> | <u>128,837</u> | <u>-</u> | <u>558,687</u> | <u>-</u> |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Prepays | 68,258 | 3,456 | - | - | - |
| Restricted for: | | | | | |
| Redevelopment and housing | - | - | - | 896 | - |
| Public safety | - | - | - | - | - |
| Highways and streets | - | 976,629 | - | - | - |
| Parks and recreation | - | - | - | - | - |
| Committed To: | | | | | |
| Emergency contingency | 1,300,000 | - | - | - | - |
| Public safety | - | - | - | - | - |
| Highways and streets | - | - | - | - | - |
| Assigned to: | | | | | |
| Streets and roads | 32,940 | - | - | - | - |
| Other | 3,985 | - | - | - | - |
| Unassigned | <u>688,718</u> | <u>-</u> | <u>-</u> | <u>(9,608)</u> | <u>-</u> |
| Total fund balances | <u>2,093,901</u> | <u>980,085</u> | <u>-</u> | <u>(8,712)</u> | <u>-</u> |
| Total liabilities and fund balances | <u>\$ 2,223,023</u> | <u>\$ 1,108,922</u> | <u>\$ -</u> | <u>\$ 549,975</u> | <u>\$ -</u> |

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

| RDA Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------------|--------------------------------|--------------------------------|
| \$ - | \$ 2,594,506 | \$ 4,862,340 |
| - | 325,173 | 1,166,377 |
| - | - | 701,168 |
| - | 3,456 | 75,170 |
| <u>-</u> | <u>3,456</u> | <u>75,170</u> |
| <u>\$ -</u> | <u>\$ 2,923,135</u> | <u>\$ 6,805,055</u> |
| | | |
| \$ - | \$ 92,457 | \$ 262,278 |
| - | - | 5,000 |
| - | 135,847 | 144,559 |
| - | 30,000 | 113,138 |
| - | 190,313 | 740,288 |
| <u>-</u> | <u>190,313</u> | <u>740,288</u> |
| | | |
| - | 448,617 | 1,265,263 |
| | | |
| - | 3,456 | 75,170 |
| - | - | - |
| - | 574,066 | 574,962 |
| - | 565,084 | 565,084 |
| - | 1,546,228 | 2,522,857 |
| - | 126,691 | 126,691 |
| - | - | 1,300,000 |
| - | 8,369 | 8,369 |
| - | 59,066 | 59,066 |
| - | - | 32,940 |
| - | - | 3,985 |
| - | (408,442) | 270,668 |
| <u>-</u> | <u>(408,442)</u> | <u>270,668</u> |
| | | |
| - | 2,474,518 | 5,539,792 |
| <u>-</u> | <u>2,474,518</u> | <u>5,539,792</u> |
| | | |
| <u>\$ -</u> | <u>\$ 2,923,135</u> | <u>\$ 6,805,055</u> |

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

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CITY OF MENDOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2012**

| | | |
|--|-----------------|-------------------|
| Total Fund Balances - Governmental Funds | \$ | 5,539,792 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$11,331,924 and the accumulated depreciation is \$3,100,318. | | 8,231,606 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | | 734,975 |
| Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet. | | (9,900) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | | |
| Loan payable | (549,139) | |
| Compensated absences | <u>(37,640)</u> | <u>(586,779)</u> |
| Total net assets - governmental activities | \$ | <u>13,909,694</u> |

CITY OF MENDOTA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012**

| | <u>General</u> | <u>Measure C Special Revenue Fund</u> | <u>RDA Low Income Special Revenue Fund</u> | <u>HOME Investment Partnership Program Special Revenue Fund</u> |
|---|---------------------|---|--|---|
| Revenues: | | | | |
| Taxes | \$ 791,895 | \$ 300,497 | \$ - | \$ - |
| Licenses and permits | 77,393 | - | - | - |
| Intergovernmental | 771,845 | 228,568 | - | - |
| Charges for services | 103,452 | - | - | - |
| Fines | 123,186 | - | - | - |
| Revenue from the use of money and property | 73,618 | 1,375 | 2,729 | 1 |
| Miscellaneous | <u>54,096</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>1,995,485</u> | <u>530,440</u> | <u>2,729</u> | <u>1</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 544,256 | - | - | - |
| Public safety | 1,019,151 | - | - | - |
| Municipal airport | - | - | - | - |
| Highways and streets | - | 148,454 | - | - |
| Public works | 59,096 | - | - | - |
| Building and planning | 149,322 | - | - | - |
| Parks and recreation | 180,315 | - | - | - |
| Redevelopment and housing | - | - | - | - |
| Capital outlay | 106,200 | 195,118 | - | - |
| Debt service: | | | | |
| Principal | 50,976 | - | - | - |
| Interest | <u>12,071</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>2,121,387</u> | <u>343,572</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(125,902)</u> | <u>186,868</u> | <u>2,729</u> | <u>1</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 93,107 | - |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>93,107</u> | <u>-</u> |
| Extraordinary item: | | | | |
| RDA dissolution | <u>314,190</u> | <u>-</u> | <u>(1,797,410)</u> | <u>-</u> |
| Net changes in fund balance | 188,288 | 186,868 | (1,701,574) | 1 |
| Fund balances, July 1, 2011 | <u>1,905,615</u> | <u>793,216</u> | <u>1,701,574</u> | <u>(8,713)</u> |
| Fund balances, June 30, 2012 | <u>\$ 2,093,903</u> | <u>\$ 980,084</u> | <u>\$ -</u> | <u>\$ (8,712)</u> |

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

| RDA Debt Service Fund | RDA Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------|------------------------------|--------------------------------|--------------------------------|
| \$ 465,787 | \$ - | \$ 437,615 | \$ 1,995,794 |
| - | - | 44,000 | 121,393 |
| - | - | 420,175 | 1,420,588 |
| - | - | - | 103,452 |
| - | - | - | 123,186 |
| 904 | 790 | 6,917 | 86,334 |
| - | - | 9,924 | 64,020 |
| <u>466,691</u> | <u>790</u> | <u>918,631</u> | <u>3,914,767</u> |
| - | - | - | 544,256 |
| - | - | 152,788 | 1,171,939 |
| - | - | 14,528 | 14,528 |
| - | - | 233,937 | 382,391 |
| - | - | - | 59,096 |
| - | - | - | 149,322 |
| - | - | 36,348 | 216,663 |
| 26,759 | - | 11,730 | 38,489 |
| - | - | 280,577 | 581,895 |
| - | - | - | 50,976 |
| <u>250,605</u> | <u>-</u> | <u>2,000</u> | <u>264,676</u> |
| <u>277,364</u> | <u>-</u> | <u>731,908</u> | <u>3,474,231</u> |
| <u>189,327</u> | <u>790</u> | <u>186,723</u> | <u>440,536</u> |
| - | - | - | 93,107 |
| <u>(93,107)</u> | <u>-</u> | <u>-</u> | <u>(93,107)</u> |
| <u>(93,107)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>(113,513)</u> | <u>(1,022,752)</u> | <u>-</u> | <u>(2,619,485)</u> |
| (17,293) | (1,021,962) | 186,723 | (2,178,949) |
| <u>17,293</u> | <u>1,021,962</u> | <u>2,287,795</u> | <u>7,718,742</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,474,518</u> | <u>\$ 5,539,793</u> |

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

CITY OF MENDOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

Total net change in fund balances - governmental funds \$ (2,178,949)

Governmental funds reported capital outlays are as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$581,895) exceeds depreciation expense (\$500,535) in the current period. 81,360

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Neither transaction, however, has any effect on net assets. 50,976

In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). 4,518

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 775

Advances to General Fund from the former Mendota Redevelopment Agency was removed from the governmental funds as a result of the dissolution of the Mendota Redevelopment Agency. However, this advance is included in the government-wide financial statements. (314,190)

The transfer of long-term debt and related accrued interest to the Mendota RDA Successor Agency Fund as a result of the dissolution of the Mendota Redevelopment Agency creates an extraordinary gain from the extinguishment of debt for the statement of activities, which is not present in the governmental funds:

| | | |
|--------------------------|------------------|------------------|
| Revenue bonds | 6,550,000 | |
| Compensated absences | 928 | |
| Accrued interest payable | <u>1,182,357</u> | <u>7,733,285</u> |

Changes in net assets of governmental activities \$ 5,377,775

CITY OF MENDOTA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012**

| | Business-Type Activities -- Enterprise Funds | | | | |
|---|--|---------------------|---------------------|---|----------------------|
| | Water Fund | Sewer Fund | Sanitation Fund | Mendota Joint Powers Financing Authority | Total |
| <u>Assets</u> | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 975,049 | \$ 898,249 | \$ 108,476 | \$ - | \$ 1,981,774 |
| Accounts receivable, net | 198,445 | 132,324 | 87,638 | - | 418,407 |
| Interest receivable | 386 | 332 | - | - | 718 |
| Other receivables | - | - | - | 225,000 | 225,000 |
| Advances to other funds | - | - | 83,138 | 203,225 | 286,363 |
| Prepaid expenses | 7,683 | 28,769 | - | - | 36,452 |
| Total current assets | 1,181,563 | 1,059,674 | 279,252 | 428,225 | 2,948,714 |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Cash and cash equivalents | - | 608,747 | - | 353,325 | 962,072 |
| Unamortized costs of issuance | - | 99,873 | - | - | 99,873 |
| Capital assets: | | | | | |
| Non-depreciable | 101,736 | 2,084,475 | - | - | 2,186,211 |
| Depreciable (net) | 6,602,767 | 8,590,132 | - | - | 15,192,899 |
| Total noncurrent assets | 6,704,503 | 11,383,227 | - | 353,325 | 18,441,055 |
| Total assets | 7,886,066 | 12,442,901 | 279,252 | 781,550 | 21,389,769 |
| <u>Liabilities</u> | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 36,796 | 12,175 | 51,238 | - | 100,209 |
| Deposits | 132,808 | - | - | - | 132,808 |
| Due to other funds | - | - | 383,023 | 173,586 | 556,609 |
| Accrued interest | 17,055 | 126,154 | - | 9,526 | 152,735 |
| Compensated absences payable | 12,172 | 10,813 | 3,795 | - | 26,780 |
| Revenue bonds payable | - | 121,000 | - | 30,000 | 151,000 |
| Loans payable | 34,000 | - | - | - | 34,000 |
| Total current liabilities | 232,831 | 270,142 | 438,056 | 213,112 | 1,154,141 |
| Noncurrent liabilities: | | | | | |
| Advances from other funds | 173,225 | - | - | - | 173,225 |
| Compensated absences payable | 1,011 | 2,156 | 957 | - | 4,124 |
| Revenue bonds payable | - | 5,358,342 | - | 265,000 | 5,623,342 |
| Loans payable | 724,000 | - | - | - | 724,000 |
| Total noncurrent liabilities | 898,236 | 5,360,498 | 957 | 265,000 | 6,524,691 |
| Total liabilities | 1,131,067 | 5,630,640 | 439,013 | 478,112 | 7,678,832 |
| <u>Net Assets</u> | | | | | |
| Invested in capital assets, net of related debt | 5,773,278 | 5,195,265 | - | - | 10,968,543 |
| Restricted for: | | | | | |
| Debt service | - | 608,747 | - | 353,325 | 962,072 |
| Unrestricted | 981,721 | 1,008,248 | (159,761) | (49,887) | 1,780,321 |
| Total net assets | \$ 6,754,999 | \$ 6,812,260 | \$ (159,761) | \$ 303,438 | \$ 13,710,936 |

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

CITY OF MENDOTA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended June 30, 2012**

| | Business-Type Activities -- Enterprise Funds | | | | Total |
|---|--|---------------------|---------------------|---|----------------------|
| | Water Fund | Sewer Fund | Sanitation Fund | Mendota Joint Powers Financing Authority | |
| Operating revenues: | | | | | |
| Charges for services | \$ 1,199,465 | \$ 1,015,148 | \$ 619,808 | \$ - | \$ 2,834,421 |
| Miscellaneous | <u>2,239</u> | <u>-</u> | <u>1,349</u> | <u>-</u> | <u>3,588</u> |
| Total operating revenues | <u>1,201,704</u> | <u>1,015,148</u> | <u>621,157</u> | <u>-</u> | <u>2,838,009</u> |
| Operating expenses: | | | | | |
| Wages and benefits | 446,403 | 342,906 | 98,962 | - | 888,271 |
| Maintenance and supplies | 697,521 | 377,221 | 580,365 | - | 1,655,107 |
| Depreciation | 285,739 | 269,359 | - | - | 555,098 |
| Amortization | - | 8,438 | - | - | 8,438 |
| Bad debt | <u>288</u> | <u>3,669</u> | <u>(124)</u> | <u>-</u> | <u>3,833</u> |
| Total operating expenses | <u>1,429,951</u> | <u>1,001,593</u> | <u>679,203</u> | <u>-</u> | <u>3,110,747</u> |
| Operating income (loss) | <u>(228,247)</u> | <u>13,555</u> | <u>(58,046)</u> | <u>-</u> | <u>(272,738)</u> |
| Non-operating revenue (expenses): | | | | | |
| Interest income | 1,291 | 1,377 | 5,305 | 28,638 | 36,611 |
| Interest expense | <u>(43,310)</u> | <u>(247,288)</u> | <u>-</u> | <u>(23,056)</u> | <u>(313,654)</u> |
| Total non-operating revenues (expenses) | <u>(42,019)</u> | <u>(245,911)</u> | <u>5,305</u> | <u>5,582</u> | <u>(277,043)</u> |
| Income before contributions and transfers | (270,266) | (232,356) | (52,741) | 5,582 | (549,781) |
| Capital contributions | <u>375,732</u> | <u>1,136,227</u> | <u>-</u> | <u>-</u> | <u>1,511,959</u> |
| Changes in net assets | 105,466 | 903,871 | (52,741) | 5,582 | 962,178 |
| Net assets, July 1, 2011 | <u>6,649,533</u> | <u>5,908,389</u> | <u>(107,020)</u> | <u>297,856</u> | <u>12,748,758</u> |
| Net assets, June 30, 2012 | <u>\$ 6,754,999</u> | <u>\$ 6,812,260</u> | <u>\$ (159,761)</u> | <u>\$ 303,438</u> | <u>\$ 13,710,936</u> |

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

CITY OF MENDOTA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012**

| | Business-Type Activities -- Enterprise Funds | | | | Total |
|--|--|--------------|-----------------|---|--------------|
| | Water Fund | Sewer Fund | Sanitation Fund | Mendota Joint Powers Financing Authority | |
| Cash flow from operating activities: | | | | | |
| Cash received from customers | \$ 1,115,818 | \$ 915,576 | \$ 699,093 | \$ - | \$ 2,730,487 |
| Cash payments to employees | (446,854) | (340,597) | (100,712) | - | (888,163) |
| Cash payments to suppliers | (759,347) | (529,066) | (575,468) | - | (1,863,881) |
| Other operating cash receipts | 2,511 | - | 1,349 | - | 3,860 |
| Net cash provided (used) by operating activities | (87,872) | 45,913 | 24,262 | - | (17,697) |
| Cash flow from non-capital financing activities: | | | | | |
| Operating transfers from (to) other funds | (15,375) | - | 78,909 | 71,396 | 134,930 |
| Net cash provided (used) by financing activities | (15,375) | - | 78,909 | 71,396 | 134,930 |
| Cash flow from capital and related financing activities: | | | | | |
| Cash received from capital grants | 373,382 | 588,495 | - | - | 961,877 |
| Cash received from developers | 2,350 | 597,821 | - | - | 600,171 |
| Principal and interest paid | (76,030) | (370,669) | - | (54,025) | (500,724) |
| Acquisition or construction of capital assets | (460,875) | (505,933) | - | - | (966,808) |
| Net cash provided (used) by financing activities | (161,173) | 309,714 | - | (54,025) | 94,516 |
| Cash flow from investing activities: | | | | | |
| Interest and dividends on investments | 1,291 | 1,458 | 5,305 | 28,638 | 36,692 |
| Net cash provided (used) by investing activities | 1,291 | 1,458 | 5,305 | 28,638 | 36,692 |
| Net increase (decrease) in cash | (263,129) | 357,085 | 108,476 | 46,009 | 248,441 |
| Cash and cash equivalents at July 1, 2011 | 1,238,178 | 1,149,910 | - | 307,316 | 2,695,404 |
| Cash and cash equivalents at June 30, 2012 | \$ 975,049 | \$ 1,506,995 | \$ 108,476 | \$ 353,325 | \$ 2,943,845 |

**Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities**

| | | | | | |
|---|--------------|-----------|-------------|------|--------------|
| Operating income (loss) | \$ (228,247) | \$ 13,555 | \$ (58,046) | \$ - | \$ (272,738) |
| <i>Adjustments to reconcile operating income (loss) to net cash used by operating activities:</i> | | | | | |
| Depreciation and amortization | 285,739 | 277,797 | - | - | 563,536 |
| <i>Change in assets and liabilities:</i> | | | | | |
| Decrease (increase) in receivables | (84,977) | (95,903) | 79,161 | - | (101,719) |
| Decrease (increase) in prepaid | (6,591) | (24,528) | - | - | (31,119) |
| Increase (decrease) in accounts payable | (55,235) | (127,317) | 4,897 | - | (177,655) |
| Increase (decrease) in compensated absences | (451) | 2,309 | (1,750) | - | 108 |
| Increase (decrease) in deposits and liabilities | 1,890 | - | - | - | 1,890 |
| Net cash provided (used) by operating activities | \$ (87,872) | \$ 45,913 | \$ 24,262 | \$ - | \$ (17,697) |

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

CITY OF MENDOTA

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012**

| | <u>Pension Trust Fund</u> | <u>Assessment District Agency Fund</u> | <u>Mendota RDA Successor Agency Fund</u> |
|--|-------------------------------|--|--|
| <u>Assets</u> | | | |
| Cash and cash equivalents | | | |
| Held in City treasury | \$ - | \$ - | \$ 2,417,370 |
| Held with fiscal agent | 822,287 | | 290,689 |
| Accounts receivable | - | 98,299 | - |
| Interest receivable | - | - | 40,765 |
| Other receivables | - | - | 1,295,012 |
| | <u>-</u> | <u>-</u> | <u>1,295,012</u> |
| Total assets | <u>822,287</u> | <u>98,299</u> | <u>4,043,836</u> |
| <u>Liabilities</u> | | | |
| Cash overdraft | - | 98,299 | - |
| Due to Successor Agency of the Mendota Redevelopment Agency | - | - | 4,043,836 |
| | <u>-</u> | <u>-</u> | <u>4,043,836</u> |
| Total liabilities | <u>-</u> | <u>\$ 98,299</u> | <u>\$ 4,043,836</u> |
| <u>Net assets</u> | | | |
| Held in trust for pension benefits | <u>822,287</u> | | |
| | <u>\$ 822,287</u> | | |

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

CITY OF MENDOTA

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2012**

| | <u>Pension Trust Fund</u> |
|--|-------------------------------|
| Additions: | |
| Investment earnings | \$ 39,363 |
| Unrealized appreciation in plan assets | - |
| Employer contributions | 43,656 |
| Employee contributions | <u>49,000</u> |
| Total additions | <u>132,019</u> |
| Deductions: | |
| Plan fees | 22,563 |
| Unrealized Loss on investments | 56,162 |
| Forfeitures and withdrawals | 282,310 |
| Interest expense | <u>-</u> |
| Total deductions | <u>361,035</u> |
| Change in net assets | (229,016) |
| Net assets, July 1, 2011 | <u>1,051,303</u> |
| Net assets, June 30, 2012 | <u>\$ 822,287</u> |

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NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MENDOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS June 30, 2012

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES

The basic financial statements of City of Mendota (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting principles are described below.

Reporting Entity

The City was incorporated in 1942 as a general law city of the State of California and, as such, can exercise the powers specified by the constitution and laws of the State of California. The City is governed by an elected five-member City Council under the administration of an appointed City Manager. The City provides the following services: public safety; community services; planning and zoning; street construction and maintenance; water; refuse collection and disposal; sewer; street cleaning and general administrative services.

As required by generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government’s operations. Further, the City Council has significant influence over the operations of the component units and data from these units are combined with data of the primary government. The blended component units have a June 30 year-end.

Blended Component Units

Mendota Redevelopment Agency (the “Agency”): Effective January 31, 2012, the operations of the Agency were terminated as mandated by Assembly Bill 1X 26. Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (agency fund) in the financial statements of the City as a result of the City Council electing not to serve as the Successor Agency for the former redevelopment agency. Assets of the Agency as of June 30, 2012 are being held in an agency fund by the City, awaiting transfer to the Successor Agency of the Mendota Redevelopment Agency. See further discussion regarding the dissolution at Note 12.

Mendota Joint Powers Financing Authority (the “Authority”): The Authority was established by the Mendota City Council to facilitate the issuance of the City’s debt. The activity of the Mendota Joint Powers Financing Authority is reported in these financial statements as an enterprise fund.

Basis of Presentation

Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the City’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-Wide Statements:

The statement of net assets and the statement of activities display information about the primary government (the City) and its component units. 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 generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF MENDOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Government-wide Statements (continued):

The statement of activities presents a comparison between direct expenses and program revenues for the different 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 recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the City's funds. Separate statements for each 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 aggregated and reported as nonmajor funds.

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

The City reports the following major governmental funds:

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

Measure C Special Revenue Fund: This fund is used to account for apportioned local sales tax revenues to be used exclusively for maintenance and improvement of the City's streets and roads.

RDA Low Income Special Revenue Fund: This fund is used to account for incremental property taxes specifically allocated by state statute for the purpose of developing low and moderate income housing within the Agency's project areas. As further described in Note 12, the Agency was dissolved effective February 1, 2012.

HOME Investment Partnership Program Special Revenue Fund: This fund is used to account for grant funds received from the Federal Government for the purpose of developing viable urban communities and for the City's rehabilitation program.

RDA Debt Service Fund: This fund is used to account for the Redevelopment Agency and fiscal agent's accumulation of resources for the payment of the Agency's long-term debt. As further described in Note 12, the Agency was dissolved effective February 1, 2012.

RDA Capital Projects Fund: This fund is used to account for construction projects related to the redevelopment project area. These projects are financed by tax increment monies from the City and the County of Fresno. As further described in Note 12, the Agency was dissolved effective February 1, 2012.

CITY OF MENDOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS June 30, 2012

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Fund Financial Statements (continued):

The City reports the following major enterprise funds:

Water Fund: This fund is used to account for the activities of the City's water distribution operations.

Sewer Fund: This fund is used to account for the activities of the City's wastewater utility.

Sanitation Fund: This fund is used to account for the activities of the City's sanitation services.

Mendota Joint Powers Financing Authority Fund: This fund is used to account for the 1989 Series A Revenue Bonds which were issued to provide funds for the acquisition of various obligations of the City of Mendota and the Mendota Redevelopment Agency and to finance certain public projects located within the City and various redevelopment projects located in the Project Area.

The City reports the following fiduciary fund types:

Pension Trust Fund: This fund is used to account for the City's pension plan.

Assessment District Agency Fund: This fund is used to account for assets that the City holds on behalf of the assessment district.

Mendota RDA Successor Agency Fund: This fund is used to account for assets that the City holds on behalf of the Successor Agency of the Mendota Redevelopment Agency as a result of the dissolution of the redevelopment agency.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property 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. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, as well as compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations; Accounting Principles Board (APB) Opinions; and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

Restricted Assets

Certain proceeds of general obligation debt and enterprise debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants. "Cash with Fiscal Agent" is used to report resources set aside for potential deficiencies in the repayment ability of the debt service fund and enterprise funds, and for payment of construction projects undertaken by the City.

Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets (e.g. roads, sidewalks, traffic lights and signals, street lights and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City's policy has set the capitalization threshold for reporting capital assets as follows:

| Capital Assets | Minimum Threshold |
|----------------------------------|------------------------------|
| Land | \$ 100,000 |
| Land improvements | \$ 5,000 |
| Buildings | \$ 100,000 |
| Building improvements | \$ 5,000 |
| Vehicles | \$ 5,000 |
| Equipment/machinery | \$ 5,000 |
| Infrastructure | \$ 100,000 |
| Utility systems | \$ 100,000 |
| Information technology equipment | \$ 5,000 |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (continued)

Capital Assets (Continued)

For capital assets, depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

| <u>Capital Assets</u> | <u>Useful Life</u> |
|----------------------------------|--------------------|
| Land improvements | 10-20 years |
| Buildings | 25-40 years |
| Building improvements | 25-40 years |
| Vehicles | 5-10 years |
| Equipment/machinery | 5-10 years |
| Infrastructure | 20-40 years |
| Utility systems | 25-40 years |
| Information technology equipment | 3-5 years |

The City has decided not to capitalize general infrastructure assets retroactively as allowed under paragraph 148 of GASB Statement No. 34.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest incurred during the construction of the City's wastewater treatment plant expansion during the fiscal year in the amount of \$7,504 has been capitalized accordingly.

Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types and proprietary fund types.

In the fund financial statements, proprietary fund types recognize the interest payable when the liability is incurred.

Deferred Revenue

In the government-wide financial statement, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typically, transactions recorded as deferred revenue in the government-wide financial statements are long-term loans receivable and prepaid charges for services.

In the fund financial statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrued basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available.

Compensated Absences

Compensated absences are recorded in accordance with GASB. Vested or accumulated compensated absences that are expected to be liquidated with current financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated compensated absences that are not expected to be liquidated with expendable available financial resources are reported in the governmental activities of the government-wide financial statements. Vested or accumulated compensated absences of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees.

CITY OF MENDOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (continued)

Net Assets and Fund Equity

Net Assets:

In government-wide financial statements, net assets are reported in three categories as follows:

- *Invested in Capital Assets, Net of Related Debt* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvements of the assets.
- *Restricted Net Assets* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted Net Assets* – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

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

Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the City. This classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amount.

CITY OF MENDOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS **June 30, 2012**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (continued)

Net Assets and Fund Equity (continued)

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

In the general fund, the City strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 20% of the actual GAAP basis expenditures and other financing sources and uses.

Stabilization Arrangement

The City Council adopted the Emergency Fund Policy on March 27, 2012 through the adoption of Resolution No. 12-10. It formally set aside amounts for use in emergency situations. An emergency reserve fund was setup in the General Fund to account for unanticipated, emergency situations. As of June 30, 2012, the emergency contingency amount was \$1,300,000 of the committed fund balance.

The Emergency Fund balance may be used if one of the following conditions is present:

- The fund balance maintained by the City of Mendota meets or falls below 110% of the amount of unpaid obligations remaining within the same fund, in an individual fiscal year.
- The Emergency Operations Center is activated at Level 2 or higher.

Property Tax Calendar

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

The City accounts for property taxes in conformance with NCGA Interpretation 3 which requires that: (1) taxes relating to the current budget and collected within 60 days after the year end of the budget period be recognized as revenue currently; and (2) a property tax assessment made during the current year, for the purpose of financing the budget of the following fiscal period, be recorded as receivable and the related revenue deferred to the period for which it was levied.

Use of Estimates

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

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (continued)

New Pronouncements

Governmental Accounting Standards Board Statement No. 60

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (“SCAs”), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Application of this Statement is effective for the City’s fiscal year ending June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (“FASB”) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (“AICPA”) Committee on Accounting Procedure

Governmental Accounting Standards Board Statement No. 63

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2013.

Governmental Accounting Standards Board Statement No. 64

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This Statement sets forth criteria to establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2012. This Statement did not have an impact on the City’s financial statements.

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (continued)

New Pronouncements (continued)

Governmental Accounting Standards Board Statement No. 65

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

Governmental Accounting Standards Board Statement No. 66

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

Governmental Accounting Standards Board Statement No. 67

In June 2012, GASB issued No. 67, *Financial Reporting for Pension Plans*—an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Equity (continued)

New Pronouncements (continued)

Governmental Accounting Standards Board Statement No. 68

In June 2012, GASB issued No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

NOTE 2 – CASH AND INVESTMENTS

The City of Mendota maintains a cash and investment pool that is available for all funds. Each fund type balance in the pool is reflected on the combined balance sheet as cash and investments. The City apportions interest earnings to all funds based on their monthly cash balances. Certain restricted funds which are held and invested by independent outside custodians through contractual agreements are not pooled. These restricted funds include cash and investment held by trustees.

Cash and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

| | |
|---|----------------------|
| Statement of Net Assets: | |
| Cash and cash equivalents | \$ 6,844,113 |
| Cash and cash equivalents - restricted | 962,072 |
| Fiduciary Funds Statement of Net Assets | <u>3,432,047</u> |
| | |
| Total cash and investments | <u>\$ 11,238,232</u> |

Cash and investments as of June 30, 2012, consist of the following:

| | |
|--|----------------------|
| Cash on hand | \$ 800 |
| Bank deposits | 5,138,731 |
| City of Mendota 401(k) Profit Sharing Plan | 822,287 |
| Investments | <u>5,276,414</u> |
| | |
| Total cash and investments | <u>\$ 11,238,232</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Deposits

The carrying amount of the City's cash deposit was \$5,138,731 at June 30, 2012. The bank balance at June 30, 2012 was \$5,704,667, the total amount of which was insured and/or collateralized with securities held by the pledging financial institutions in the City's name as described below.

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 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, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent 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 percent of the secured public deposits.

Investments

Investments Authorized by the City's Investment Policy

The City of Mendota's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF). The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provision of 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.S. Treasury Obligations | None |
| U.S. Agency Securities | None |
| Banker's Acceptances | 180 days |
| Commercial Paper | 270 days |
| Money Market Mutual Funds | N/A |

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.

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments (continued)

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

| <u>Investment Type</u> | | <u>Remaining Maturity Date</u> |
|------------------------|---------------------|------------------------------------|
| State investment pool | \$ 4,023,652 | 12 months or less |
| Held by fiscal agents: | | |
| Money market | <u>1,252,762</u> | 12 months or less |
| Total | <u>\$ 5,276,414</u> | |

Disclosure 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 investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is actual rating as of year-end for each investment type:

| <u>Investment Type</u> | | <u>Ratings as of Year-End</u> | |
|------------------------|---------------------|-------------------------------|---------------------|
| | | <u>AAAm</u> | <u>Not Rated</u> |
| State investment pool | \$ 4,023,652 | \$ - | \$ 4,023,652 |
| Held by fiscal agents: | | | |
| Money market | <u>1,252,762</u> | <u>962,073</u> | <u>290,689</u> |
| Total | <u>\$ 5,276,414</u> | <u>\$ 962,073</u> | <u>\$ 4,314,341</u> |

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The City holds investments in U.S. Bank Money Market Account that represents 5 percent or more of total City investments.

Investments in any one issuer that represent 5 percent or more of total investments by reporting unit (primary government, governmental activities, major funds, nonmajor funds in aggregate, etc.) are as follows:

\$608,747 of cash and investments (including amounts held by bond trustee) reported in the Water Fund are held in the form of the above-described money market funds.

\$353,325 of cash and investments (including amounts held by bond trustee) reported in the Mendota Joint Powers Financing Authority Fund are held in the form of the above-described money market funds.

Custodial Credit Risk

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (i.e. 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 investments. With respect to investment, custodial credit risk generally applies only to direct investment in securities through the use of mutual funds or government investment pools (such as LAIF).

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments (continued)

Investment in State Investment Pool

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

As of June 30, 2012, the City had \$4,023,652 invested in LAIF which had invested 3.47% of the pool investment funds in medium-term and short-term Structured Notes and Assets-Backed Securities. The LAIF fair value factor of 1.001219643 was used to calculate the fair value of the investments in LAIF.

Pension Trust Fund

The City is the plan administrator for the City's 401(K) Profit Sharing Plan. The market value of plan assets at June 30, 2012, is \$822,287.

NOTE 3 – RECEIVABLES

Accounts receivable as of June 30, 2012, consist of the following:

| | <u>General Fund</u> | <u>Measure C Special Revenue Fund</u> | <u>HOME Investment Partnership Program</u> | <u>Nonmajor Governmental</u> | <u>Total</u> |
|------------------|-------------------------|---|--|----------------------------------|---------------------|
| Receivables: | | | | | |
| Taxes | \$ 47,892 | \$ 23,190 | \$ - | \$ - | \$ 71,082 |
| Accounts | 95,978 | 123,146 | - | 68,903 | 288,027 |
| Interest | 693 | 330 | - | 1,305 | 2,328 |
| Loans | <u>-</u> | <u>-</u> | <u>549,975</u> | <u>254,965</u> | <u>804,940</u> |
| Receivables, net | <u>\$ 144,563</u> | <u>\$ 146,666</u> | <u>\$ 549,975</u> | <u>\$ 325,173</u> | <u>\$ 1,166,377</u> |

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Sanitation Fund</u> | <u>Mendota Joint Powers Financing Authority</u> | <u>Total</u> |
|-----------------------------|-----------------------|-----------------------|----------------------------|---|-------------------|
| Receivables: | | | | | |
| Accounts | \$ 234,071 | \$ 145,808 | \$ 96,773 | \$ - | \$ 476,653 |
| Interest | 386 | 332 | - | - | 718 |
| Loans | - | - | - | 225,000 | 225,000 |
| Allowance for uncollectible | <u>(35,626)</u> | <u>(13,484)</u> | <u>(9,135)</u> | <u>-</u> | <u>(58,246)</u> |
| Receivables, net | <u>\$ 198,831</u> | <u>\$ 132,656</u> | <u>\$ 87,638</u> | <u>\$ 225,000</u> | <u>\$ 644,125</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4 – INTERFUND ACTIVITY

Interfund Receivables and Payables

The City had the following interfund receivables and payables as of June 30, 2012:

Due from/Due to Other Funds

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed and are expected to be repaid shortly after the end of the fiscal year. Interfund receivable and payable balances have primarily been recorded when funds overdraw their share of pooled cash.

Activities within due from /due to other fund balances at June 30, 2012, are as follows:

| | <u>Due From</u> | <u>Due To</u> |
|--|-----------------------------|-----------------------------|
| Major Funds: | | |
| General Fund | \$ 701,168 | \$ - |
| HOME Investment Partnership Program Special Revenue Fund | - | 8,712 |
| Sanitation Fund | - | 383,023 |
| Mendota Joint Power Finance Authority | - | 173,586 |
| Non-Major Funds: | | |
| Aviation Assistance Special Revenue Fund | - | 14,253 |
| General Bond Debt Service Fund | - | 121,594 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 701,168</u> | <u>\$ 701,168</u> |

Advances to/Advances from Other Funds

Advances receivable constitute long-term borrowing between funds. Advances typically carry a stated interest rate and have scheduled debt service payments. At June 30, 2012, the funds below have made advances that were not expected to be repaid in one year or less.

| | <u>Advances To</u> | <u>Advances From</u> |
|---------------------------------------|-----------------------------|-----------------------------|
| Major Funds: | | |
| General Fund | \$ - | \$ 83,138 |
| Water Fund | - | 173,225 |
| Sanitation Fund | 83,138 | - |
| Mendota Joint Power Finance Authority | 203,225 | - |
| Non-Major Funds: | | |
| General Bond Debt Service Fund | - | 30,000 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 286,363</u> | <u>\$ 286,363</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4 – INTERFUND ACTIVITY (Continued)

Interfund Transfers

The transfer of \$93,107 between the RDA Debt Service Fund and the RDA Low Income Special Revenue Fund is required by the California Health and Safety Code to deposit 20% of allocated incremental property tax revenue (or 20% of net bond proceeds plus 20% of tax incremental revenues in excess of debt service payment of the bond) into a Low and Moderate Income Housing Fund. Interfund transfers for the year ended June 30, 2012, were as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|-------------------------------------|----------------------|----------------------|
| Major Funds: | | |
| RDA Low Income Special Revenue Fund | \$ 93,107 | \$ - |
| RDA Debt Service Fund | <u>-</u> | <u>93,107</u> |
| Total | <u>\$ 93,107</u> | <u>\$ 93,107</u> |

NOTE 5 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2012, is as follows:

| | <u>Balance July 1, 2011</u> | <u>Acquisitions</u> | <u>Dispositions</u> | <u>Balance June 30, 2012</u> |
|--|---------------------------------|-----------------------|------------------------|----------------------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 247,947 | \$ 670 | \$ - | \$ 248,617 |
| Construction in progress | <u>154,690</u> | <u>456,188</u> | <u>(29,187)</u> | <u>581,691</u> |
| Total capital assets, not being depreciated | <u>402,637</u> | <u>456,858</u> | <u>(29,187)</u> | <u>830,308</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 3,370,410 | - | - | 3,370,410 |
| Land improvements | 4,329,887 | - | - | 4,329,887 |
| Buildings and improvements | 1,316,778 | 49,953 | - | 1,366,731 |
| Equipment | <u>1,330,317</u> | <u>104,271</u> | <u>-</u> | <u>1,434,588</u> |
| Total capital assets, being depreciated | <u>10,347,392</u> | <u>154,224</u> | <u>-</u> | <u>10,501,616</u> |
| Less: accumulated depreciation | <u>2,599,783</u> | <u>500,535</u> | <u>-</u> | <u>3,100,318</u> |
| Total capital assets, being depreciated, net | <u>7,747,609</u> | <u>(346,311)</u> | <u>-</u> | <u>7,401,298</u> |
| Governmental activities capital assets, net | <u>\$ 8,150,246</u> | <u>\$ 110,547</u> | <u>\$ (29,187)</u> | <u>\$ 8,231,606</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5 – CAPITAL ASSETS (Continued)

| | <u>Balance July 1, 2011</u> | <u>Acquisitions</u> | <u>Dispositions</u> | <u>Balance June 30, 2012</u> |
|--|---------------------------------|-------------------------|---------------------------|----------------------------------|
| Business-Type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,098,220 | \$ - | \$ - | \$ 2,098,220 |
| Construction in progress | 4,655,864 | 26,566 | (4,655,864) | 26,566 |
| Infrastructure | <u>61,425</u> | <u>-</u> | <u>-</u> | <u>61,425</u> |
| Total capital assets, not being depreciated | <u>6,815,509</u> | <u>26,566</u> | <u>(4,655,864)</u> | <u>2,186,211</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 3,789,766 | 5,078,269 | - | 8,868,035 |
| Buildings and improvements | 10,258,915 | 9,108 | - | 10,268,023 |
| Equipment | <u>2,361,236</u> | <u>72,373</u> | <u>-</u> | <u>2,433,609</u> |
| Total capital assets, being depreciated | <u>16,409,917</u> | <u>5,159,750</u> | <u>-</u> | <u>21,569,667</u> |
| Less: accumulated depreciation | <u>5,821,670</u> | <u>555,098</u> | <u>-</u> | <u>6,376,768</u> |
| Total capital asset, being depreciated, net | <u>10,588,247</u> | <u>4,604,652</u> | <u>-</u> | <u>15,192,899</u> |
| Business-type activities capital assets, net | <u>\$ 17,403,756</u> | <u>\$ 4,631,218</u> | <u>\$ (4,655,864)</u> | <u>\$ 17,379,110</u> |

Depreciation expense was charged to the following functions on the statement of activities:

| | |
|---|-----------------------|
| Governmental Activities: | |
| General government | \$ 38,880 |
| Public safety | 47,301 |
| Municipal airport | 18,426 |
| Highways and streets | 205,692 |
| Public works | 34,998 |
| Parks and recreation | <u>155,238</u> |
| Total depreciation expense - governmental activities | <u>\$ 500,535</u> |
| Business-Type Activities: | |
| Water | \$ 285,739 |
| Sewer | <u>269,359</u> |
| Total depreciation expense - business-type activities | <u>\$ 555,098</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6 – LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions for the City for the year ended June 30, 2012, is as follows:

| | Balance July 1, 2011 (as Restated, Note 14) | Issued/ Transferred | Retired/ Transferred | Balance June 30, 2012 | Due Within One Year |
|--|---|--------------------------|------------------------------|--------------------------|-------------------------|
| Governmental Activities: | | | | | |
| 1994 Redevelopment Tax Allocation bonds payable in annual principal reductions from \$100,000 to \$585,000, interest payable semi-annually at 7.4% per annum. | \$ 6,550,000 | \$ - | \$ (6,550,000) (A) | \$ - | \$ - |
| Westamerica Bank Loan, payable in monthly installments of \$3,050, including interest at 5.083%. Instrument matures on March 15, 2015 and is secured by a first trust deed on real property. | 124,722 | - | (30,976) | 93,746 | 32,587 |
| Central San Joaquin Valley Risk Management Authority Loan, payable in annual principal reductions from \$20,000 to \$11,103, non-interest bearing. Instrument matures on February 12, 2020. | 171,103 | - | (20,000) | 151,103 | 20,000 |
| Loan due to the Successor Agency of the Mendota Redevelopment Agency. Interest is calculated and accrued quarterly based on the current rate of interest earned with the California Local Agency Investment Fund. Principal and accumulated interest are due in a single payment on or before April 9, 2015. | - | 304,290 | - | 304,290 | - |
| Compensated absences | <u>43,086</u> | <u>41,773</u> | <u>(47,219)</u> | <u>37,640</u> | <u>27,003</u> |
| Governmental activities long-term liabilities | <u>\$ 6,888,911</u> | <u>\$ 346,063</u> | <u>\$ (6,648,195)</u> | <u>\$ 586,779</u> | <u>\$ 79,590</u> |

(A) The retirement of \$6,550,000 in the 1994 Redevelopment Tax Allocation bond payable resulted from the dissolution of the Mendota Redevelopment Agency on January 31, 2012.

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6 – LONG-TERM LIABILITIES (Continued)

| | <u>Balance July 1, 2011</u> | <u>Issued/ Transferred</u> | <u>Retired/ Transferred</u> | <u>Balance June 30, 2012</u> | <u>Due Within One Year</u> |
|---|---------------------------------|--------------------------------|---------------------------------|----------------------------------|--------------------------------|
| Business-Type Activities: | | | | | |
| 1989 Finance Authority Revenue Bonds, payable in annual principal reductions from \$30,000 to \$160,000, interest payable semi-annually at 7.75% per annum. | \$ 325,000 | \$ - | \$ (30,000) | \$ 295,000 | \$ 30,000 |
| USDA Water Improvement Loan, payable in annual principal reductions from \$22,000 to \$60,000, interest payable semi-annually at 4.50% per annum. | 790,000 | - | (32,000) | 758,000 | 34,000 |
| Compensated absences | <u>30,795</u> | <u>46,611</u> | <u>(46,502)</u> | <u>30,904</u> | <u>26,780</u> |
| Subtotal | 1,145,795 | 46,611 | (108,502) | 1,083,904 | 90,780 |
| Mendota Joint Power Financing Authority Wastewater Certificates of Participation, Series 2010-1, payable in annual principal reductions from \$18,000 to \$110,000 beginning on July 1, 2010 through July 1, 2049, interest payable semi-annually on January 1 and July 1 at the stated interest rate of 4.00%. | 2,232,000 | - | (25,000) | 2,207,000 | 26,000 |
| Mendota Joint Powers Financing Authority Wastewater Revenue Bonds, Series 2005, payable in annual principal reductions from \$30,000 to \$200,000, interest payable on January 1 and July 1; serial bonds with annual maturities on July 1 beginning in 2006, in amounts from \$30,000 to \$135,000, with interest rates from 3.00% to 4.75%; term bonds in the amount of \$620,000 at 5.10% maturing July 1, 2024, and in the amount of \$1,725,000 at 5.25% maturing July 1, 2035, with annual payments ranging from \$135,000 to \$200,000 beginning 2024. | 3,475,000 | - | (95,000) | 3,380,000 | 95,000 |
| Less: unamortized bond discount | <u>(112,340)</u> | <u>-</u> | <u>4,682</u> | <u>(107,658)</u> | <u>-</u> |
| | <u>3,362,660</u> | <u>-</u> | <u>(90,318)</u> | <u>3,272,342</u> | <u>95,000</u> |
| Business-type activities long-term liabilities | <u>\$ 6,740,455</u> | <u>\$ 46,611</u> | <u>\$ (223,820)</u> | <u>\$ 6,563,246</u> | <u>\$ 211,780</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6 – LONG-TERM LIABILITIES (Continued)

As of June 30, 2012, annual debt service requirements for governmental activities are as follows:

Westamerica Bank Loan

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|------------------|-----------------|-------------------|
| 2013 | \$ 32,587 | \$ 4,013 | \$ 36,600 |
| 2014 | 34,283 | 2,317 | 36,600 |
| 2015 | <u>26,876</u> | <u>573</u> | <u>27,449</u> |
| Total | <u>\$ 93,746</u> | <u>\$ 6,903</u> | <u>\$ 100,649</u> |

Central San Joaquin Valley Risk Management Authority

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|-------------------|-----------------|-------------------|
| 2013 | \$ 20,000 | \$ - | \$ 20,000 |
| 2014 | 20,000 | - | 20,000 |
| 2015 | 20,000 | - | 20,000 |
| 2016 | 20,000 | - | 20,000 |
| 2017 | 20,000 | - | 20,000 |
| 2018-2020 | <u>51,103</u> | <u>-</u> | <u>51,103</u> |
| Total | <u>\$ 151,103</u> | <u>-</u> | <u>\$ 151,103</u> |

Successor Agency of the Mendota Redevelopment Agency Loan

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|-------------------|-----------------|-------------------|
| 2013 | \$ - | \$ - | \$ - |
| 2014 | - | - | - |
| 2015 | <u>304,290</u> | <u>9,900</u> | <u>314,190</u> |
| Total | <u>\$ 304,290</u> | <u>\$ 9,900</u> | <u>\$ 314,190</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6 – LONG-TERM LIABILITIES (Continued)

As of June 30, 2012, annual debt service requirements for business-type activities are as follows:

1989 Finance Authority Revenue Bonds

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|-------------------|------------------|-------------------|
| 2013 | \$ 30,000 | \$ 21,700 | \$ 51,700 |
| 2014 | 30,000 | 19,375 | 49,375 |
| 2015 | 35,000 | 16,856 | 51,856 |
| 2016 | 35,000 | 14,144 | 49,144 |
| 2017 | 40,000 | 11,238 | 51,238 |
| 2018-2020 | <u>125,000</u> | <u>14,919</u> | <u>139,919</u> |
| Total | <u>\$ 295,000</u> | <u>\$ 98,232</u> | <u>\$ 393,232</u> |

USDA Water Improvement Loan

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|-------------------|-------------------|---------------------|
| 2013 | \$ 34,000 | \$ 33,345 | \$ 67,345 |
| 2014 | 35,000 | 31,793 | 66,793 |
| 2015 | 36,000 | 30,195 | 66,195 |
| 2016 | 38,000 | 28,530 | 66,530 |
| 2017 | 40,000 | 26,775 | 66,775 |
| 2018-2022 | 230,000 | 103,797 | 333,797 |
| 2023-2027 | 285,000 | 42,638 | 327,638 |
| 2028 | <u>60,000</u> | <u>1,350</u> | <u>61,350</u> |
| Total | <u>\$ 758,000</u> | <u>\$ 298,423</u> | <u>\$ 1,056,423</u> |

Mendota Joint Powers Financing Authority Wastewater Certificates of

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------|---------------------|---------------------|---------------------|
| 2013 | \$ 26,000 | \$ 87,998 | \$ 113,998 |
| 2014 | 27,000 | 86,696 | 113,696 |
| 2015 | 28,000 | 85,595 | 113,595 |
| 2016 | 29,000 | 84,455 | 113,455 |
| 2017 | 30,000 | 83,505 | 113,505 |
| 2018-2022 | 169,000 | 397,288 | 566,288 |
| 2023-2027 | 206,000 | 359,766 | 565,766 |
| 2028-2032 | 250,000 | 314,339 | 564,339 |
| 2033-2037 | 305,000 | 259,100 | 564,100 |
| 2038-2042 | 370,000 | 191,640 | 561,640 |
| 2043-2047 | 451,000 | 109,691 | 560,691 |
| 2048-2050 | <u>316,000</u> | <u>19,292</u> | <u>335,292</u> |
| Total | <u>\$ 2,207,000</u> | <u>\$ 2,079,365</u> | <u>\$ 4,286,365</u> |

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6 – LONG-TERM LIABILITIES (Continued)

**Mendota Joint Powers Financing Authority
Wastewater Revenue Bonds, Series 2005**

| Year Ended June 30 | Principal | Interest | Totals |
|----------------------------|---------------------|---------------------|---------------------|
| 2013 | \$ 95,000 | \$ 164,346 | \$ 259,346 |
| 2014 | 100,000 | 160,323 | 260,323 |
| 2015 | 105,000 | 155,965 | 260,965 |
| 2016 | 110,000 | 151,288 | 261,288 |
| 2017 | 115,000 | 146,280 | 261,280 |
| 2018-2022 | 655,000 | 644,760 | 1,299,760 |
| 2023-2027 | 720,000 | 468,074 | 1,188,074 |
| 2028-2032 | 740,000 | 289,688 | 1,029,688 |
| 2033-2036 | <u>740,000</u> | <u>78,795</u> | <u>818,795</u> |
| Subtotal | 3,380,000 | 2,259,519 | 5,639,519 |
| Less: unamortized discount | <u>(107,658)</u> | <u>-</u> | <u>(107,658)</u> |
| Total | <u>\$ 3,272,342</u> | <u>\$ 2,259,519</u> | <u>\$ 5,531,861</u> |

NOTE 7 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other government entities in the State as a member of the Central San Joaquin Valley Risk Management Authority (RMA). RMA is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to RMA for its above insurance coverage. The agreement for the formation of RMA provides that RMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance.

Current levels of coverage are \$10,000,000 liability, \$1,000,000 workers compensation, and applicable assessed value in property coverage. Losses in excess of \$10,000 are pooled with other members of the association.

NOTE 8 – PENSION PLAN

The City contributes and acts as plan administrator to the City's 401(K) Profit Sharing Plan, a defined contribution pension plan. Plan provisions and contribution requirements are established and may be amended by the Mendota City Council. All full-time employees with six months service may participate. The Plan, as amended, provides that the City's rate of contribution is 5 percent with an additional 3 percent to 15 percent being contributed by the employees. The Plan is independently administered by Wilmington Trust and all investments are self-directed by each individual employee. During the current fiscal year the City contributed \$43,656 and the employees contributed \$49,000. All Plan assets are stated at market value as determined by the administrator.

CITY OF MENDOTA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012**

NOTE 8 – PENSION PLAN (Continued)

Statement of Net Plan Assets of the
City of Mendota 401(K) Profit Sharing Plan
6/30/2012

| | | |
|------------------------------|----|----------------|
| Mutual Funds | \$ | 736,891 |
| Note/Master Participant Loan | | <u>85,396</u> |
| Net Assets | \$ | <u>822,287</u> |

NOTE 9 – DEFICIT EQUITY BALANCES

The following funds had deficit fund equity at June 30, 2012:

Major Funds:

| | | |
|--|----|---------|
| HOME Investment Partnership Program Special Revenue Fund | \$ | 8,712 |
| Sanitation Enterprise Fund | | 159,761 |

Non-major Governmental Funds:

| | |
|--|---------|
| Aviation Assistance Special Revenue Fund | 14,253 |
| General Bond Debt Service Fund | 151,594 |

NOTE 10 – PASS-THROUGH PAYMENTS

Tax Sharing

The Redevelopment Agency and the County of Fresno entered into a tax sharing agreement under which the Redevelopment Agency would pay a portion of tax increment revenue generated in Mendota Project Area #1 and Mendota Project Area #2 (the County Pass-through Payment).

This tax sharing agreement was terminated on January 31, 2012, which coincides with the effective date of the dissolution of the Mendota Redevelopment Agency as discussed at Note 12.

NOTE 11 – LOANS RECEIVABLE

Deferred payment loans receivable under the Community Development Block Grant programs and the Redevelopment Homebuyer Assistance Programs are not required to be paid back for 30 years or until the participating homeowner sells the property at which time the full amount of the deferred loan is due. Deferred payment loans are considered “non-performing loans” and are not recorded as a receivable or deferred revenue on the City’s books. Such loans totaled \$1,416,028 as of June 30, 2012.

NOTE 12 – 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 dissolved all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Mendota 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 another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected not to serve as the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 12-03.

CITY OF MENDOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS **June 30, 2012**

NOTE 12 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

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 at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

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

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (agency fund) in the financial statements of the City as a result of the City Council electing not to serve as the Successor Agency for the former redevelopment agency.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets as of January 31, 2012 was reported in the agency fund.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The statement of net assets at June 30, 2011 has been restated from an amount previously reported to correct for the following:

| | |
|---|--------------|
| To establish a long-term liability payable to the Central San Joaquin Valley Risk Management Authority (CSJRMA) in the amount of \$171,103. This liability is the result of a retrospective policy refund made to the City during the fiscal year ending June 30, 2010 by CSJVRMA in error. | \$ (171,103) |
|---|--------------|

NOTE 14 – CONTINGENCIES

The government participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MENDOTA

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2012**

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| Revenues: | | | | |
| Taxes | \$ 696,500 | \$ 696,500 | \$ 791,895 | \$ 95,395 |
| Licenses and permits | 49,800 | 49,800 | 77,393 | 27,593 |
| Intergovernmental | 756,000 | 756,000 | 771,845 | 15,845 |
| Charges for services | 63,586 | 63,586 | 103,452 | 39,866 |
| Fines | 155,250 | 155,250 | 123,186 | (32,064) |
| Revenue from the use of money and property | 82,000 | 82,000 | 73,618 | (8,382) |
| Miscellaneous | <u>76,000</u> | <u>76,000</u> | <u>54,096</u> | <u>(21,904)</u> |
| Total revenues | <u>1,879,136</u> | <u>1,879,136</u> | <u>1,995,485</u> | <u>116,349</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 601,307 | 601,307 | 544,256 | 57,051 |
| Public safety | 1,015,077 | 1,015,077 | 1,019,151 | (4,074) |
| Public works | 42,533 | 42,533 | 59,096 | (16,563) |
| Building and planning | 108,270 | 108,270 | 149,322 | (41,052) |
| Parks | 230,956 | 230,956 | 180,315 | 50,641 |
| Capital outlay | 14,550 | 14,550 | 106,200 | (91,650) |
| Debt service: | | | | |
| Principal | - | - | 50,976 | (50,976) |
| Interest | <u>-</u> | <u>-</u> | <u>12,071</u> | <u>(12,071)</u> |
| Total expenditures | <u>2,012,693</u> | <u>2,012,693</u> | <u>2,121,387</u> | <u>(108,694)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(133,557)</u> | <u>(133,557)</u> | <u>(125,902)</u> | <u>7,655</u> |
| Extraordinary item: | | | | |
| RDA dissolution | <u>-</u> | <u>-</u> | <u>314,190</u> | <u>314,190</u> |
| Net change in fund balance | (133,557) | (133,557) | 188,288 | 321,845 |
| Fund balance, July 1, 2011 | <u>1,905,615</u> | <u>1,905,615</u> | <u>1,905,615</u> | <u>-</u> |
| Fund balance, June 30, 2012 | <u>\$ 1,772,058</u> | <u>\$ 1,772,058</u> | <u>\$ 2,093,903</u> | <u>\$ 321,845</u> |

CITY OF MENDOTA

**BUDGETARY COMPARISON SCHEDULE
MEASURE C SPECIAL REVENUE FUND
For the Year Ended June 30, 2012**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------------|---|
| Revenues: | | | | |
| Taxes | \$ 282,500 | \$ 282,500 | \$ 300,497 | \$ 17,997 |
| Intergovernmental | - | - | 228,568 | 228,568 |
| Revenue from the use of money and property | <u>5,000</u> | <u>5,000</u> | <u>1,375</u> | <u>(3,625)</u> |
| Total revenues | <u>287,500</u> | <u>287,500</u> | <u>530,440</u> | <u>242,940</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Highways and streets | 208,806 | 208,806 | 148,454 | 60,352 |
| Capital outlay | <u>78,694</u> | <u>78,694</u> | <u>195,118</u> | <u>(116,424)</u> |
| Total expenditures | <u>287,500</u> | <u>287,500</u> | <u>343,572</u> | <u>(56,072)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>-</u> | <u>-</u> | <u>186,868</u> | <u>186,868</u> |
| Net change in fund balance | - | - | 186,868 | 186,868 |
| Fund balances, July 1, 2011 | <u>793,216</u> | <u>793,216</u> | <u>793,216</u> | <u>-</u> |
| Fund balances, June 30, 2012 | <u>\$ 793,216</u> | <u>\$ 793,216</u> | <u>\$ 980,084</u> | <u>\$ 186,868</u> |

CITY OF MENDOTA

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2012**

BUDGETARY BASIS OF ACCOUNTING

The official budget was prepared for adoption for the General Fund, Special Revenue Fund and Debt Service Fund. The following procedures are followed in establishing the budgetary data reflected in the general purpose financial statements:

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a 4/5ths vote of the members of the City Council. As required by law, such amendments are made after fiscal year-end. All budget appropriations lapse at year-end.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2012, expenditures exceeded appropriations in individual funds as follows:

| <u>Appropriations Category</u> | <u>Excess Expenditures</u> |
|---------------------------------|--------------------------------|
| General Fund: | |
| Public safety | 4,074 |
| Public works | 16,563 |
| Building and planning | 41,052 |
| Capital outlay | 91,650 |
| Principal | 50,976 |
| Interest | 12,071 |
| Measure C Special Revenue Fund: | |
| Capital outlay | 116,424 |

SUPPLEMENTARY INFORMATION

CITY OF MENDOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

| | Nonmajor Special Revenue | Nonmajor Debt Service | Nonmajor Capital Projects | Total |
|--------------------------------------|--------------------------------|--------------------------|---------------------------------|--------------|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 2,387,845 | \$ - | \$ 206,661 | \$ 2,594,506 |
| Receivables | 325,093 | - | 80 | 325,173 |
| Prepaid expenses | 3,456 | - | - | 3,456 |
| Total assets | \$ 2,716,394 | \$ - | \$ 206,741 | \$ 2,923,135 |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 92,457 | \$ - | \$ - | \$ 92,457 |
| Due to other funds | 14,253 | 121,594 | - | 135,847 |
| Advances from other funds | - | 30,000 | - | 30,000 |
| Deferred revenue | 190,313 | - | - | 190,313 |
| Total liabilities | 297,023 | 151,594 | - | 448,617 |
| Fund balances: | | | | |
| Nonspendable | | | | |
| Prepays | 3,456 | - | - | 3,456 |
| Restricted for: | | | | |
| Redevelopment and housing | 574,066 | - | - | 574,066 |
| Public safety | 565,084 | - | - | 565,084 |
| Highways and streets | 1,372,485 | - | 173,743 | 1,546,228 |
| Parks and recreation | 126,691 | - | - | 126,691 |
| Committed to: | | | | |
| Public safety | 8,369 | - | - | 8,369 |
| Highways and streets | - | - | 59,066 | 59,066 |
| Unassigned | (230,780) | (151,594) | (26,068) | (408,442) |
| Total fund balances | 2,419,371 | (151,594) | 206,741 | 2,474,518 |
| Total liabilities and fund balances | \$ 2,716,394 | \$ - | \$ 206,741 | \$ 2,923,135 |

CITY OF MENDOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012**

| | Nonmajor Special Revenue | Nonmajor Debt Service | Nonmajor Capital Projects | Total |
|--|--------------------------------|--------------------------|---------------------------------|---------------------|
| Revenues: | | | | |
| Taxes | \$ 437,615 | \$ - | \$ - | \$ 437,615 |
| Licenses and permits | 44,000 | - | - | 44,000 |
| Intergovernmental | 420,175 | - | - | 420,175 |
| Revenue from the use of money and property | 6,608 | - | 309 | 6,917 |
| Miscellaneous | <u>9,924</u> | <u>-</u> | <u>-</u> | <u>9,924</u> |
| Total revenues | <u>918,322</u> | <u>-</u> | <u>309</u> | <u>918,631</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 152,788 | - | - | 152,788 |
| Municipal airport | 14,528 | - | - | 14,528 |
| Highways and streets | 231,953 | - | 1,984 | 233,937 |
| Parks and recreation | 36,348 | - | - | 36,348 |
| Redevelopment and housing | 11,730 | - | - | 11,730 |
| Capital outlay | 280,577 | - | - | 280,577 |
| Debt service: | | | | |
| Interest | <u>-</u> | <u>2,000</u> | <u>-</u> | <u>2,000</u> |
| Total expenditures | <u>727,924</u> | <u>2,000</u> | <u>1,984</u> | <u>731,908</u> |
| Net changes in fund balances | 190,398 | (2,000) | (1,675) | 186,723 |
| Fund balances, July 1, 2011 | <u>2,228,973</u> | <u>(149,594)</u> | <u>208,416</u> | <u>2,287,795</u> |
| Fund balances, June 30, 2012 | <u>\$ 2,419,371</u> | <u>\$ (151,594)</u> | <u>\$ 206,741</u> | <u>\$ 2,474,518</u> |

CITY OF MENDOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
June 30, 2012

| | <u>Housing Income</u> | <u>Aviation Assistance</u> | <u>Development Fee</u> | <u>Gas Tax</u> | <u>LTF</u> |
|--------------------------------------|---------------------------|--------------------------------|----------------------------|-------------------|-------------------|
| <u>Assets</u> | | | | | |
| Cash and cash equivalents | \$ 221,013 | \$ - | \$ 440,080 | \$ 875,417 | \$ 342,238 |
| Receivables | 105 | - | 224 | 33,105 | 36,208 |
| Prepaid expenses | - | - | - | - | 3,456 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 221,118</u> | <u>\$ -</u> | <u>\$ 440,304</u> | <u>\$ 908,522</u> | <u>\$ 381,902</u> |
| <u>Liabilities and Fund Balances</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ - | \$ - | \$ 5,296 | \$ 85,145 | \$ 1,026 |
| Due to other funds | - | 14,253 | - | - | - |
| Deferred revenue | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>-</u> | <u>14,253</u> | <u>5,296</u> | <u>85,145</u> | <u>1,026</u> |
| Fund balances: | | | | | |
| Nonspendable | | | | | |
| Prepays | - | - | - | - | 3,456 |
| Restricted for: | | | | | |
| Redevelopment and housing | 226,230 | - | - | - | - |
| Public safety | - | - | 348,044 | - | - |
| Highways and streets | - | - | 171,688 | 823,377 | 377,420 |
| Parks and recreations | - | - | 126,691 | - | - |
| Committed to | | | | | |
| Public safety | - | - | - | - | - |
| Unassigned | (5,112) | (14,253) | (211,415) | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | <u>221,118</u> | <u>(14,253)</u> | <u>435,008</u> | <u>823,377</u> | <u>380,876</u> |
| Total liabilities and fund balances | <u>\$ 221,118</u> | <u>\$ -</u> | <u>\$ 440,304</u> | <u>\$ 908,522</u> | <u>\$ 381,902</u> |

CITY OF MENDOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
June 30, 2012

| | <u>Police Grants</u> | <u>Community Development Block Grant</u> | <u>Mendota CFD</u> | <u>Total</u> |
|--------------------------------------|----------------------|--|--------------------|---------------------|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 140,955 | \$ 282,778 | \$ 85,364 | \$ 2,387,845 |
| Receivables | 48 | 255,371 | 32 | 325,093 |
| Prepaid expenses | - | - | - | 3,456 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 141,003</u> | <u>\$ 538,149</u> | <u>\$ 85,396</u> | <u>\$ 2,716,394</u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ - | \$ 990 | \$ 92,457 |
| Due to other funds | - | - | - | 14,253 |
| Deferred revenue | - | 190,313 | - | 190,313 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>-</u> | <u>190,313</u> | <u>990</u> | <u>297,023</u> |
| Fund balances: | | | | |
| Nonspendable | | | | |
| Prepays | - | - | - | 3,456 |
| Restricted for: | | | | |
| Redevelopment and housing | - | 347,836 | - | 574,066 |
| Public safety | 132,634 | - | 84,406 | 565,084 |
| Highways and streets | - | - | - | 1,372,485 |
| Parks and recreations | - | - | - | 126,691 |
| Committed to | | | | |
| Public safety | 8,369 | - | - | 8,369 |
| Unassigned | - | - | - | (230,780) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | <u>141,003</u> | <u>347,836</u> | <u>84,406</u> | <u>2,419,371</u> |
| Total liabilities and fund balances | <u>\$ 141,003</u> | <u>\$ 538,149</u> | <u>\$ 85,396</u> | <u>\$ 2,716,394</u> |

CITY OF MENDOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2012**

| | <u>Housing Income</u> | <u>Aviation Assistance</u> | <u>Development Fee</u> | <u>Gas Tax</u> | <u>LTF</u> |
|--|---------------------------|--------------------------------|----------------------------|-------------------|-------------------|
| Revenues: | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ 291,876 |
| Licenses and permits | - | - | 44,000 | - | - |
| Intergovernmental | - | 11,267 | - | 308,908 | - |
| Revenue from the use of money and property | 366 | - | 924 | 1,175 | 432 |
| Miscellaneous | <u>6,744</u> | <u>-</u> | <u>-</u> | <u>830</u> | <u>2,350</u> |
| Total revenues | <u>7,110</u> | <u>11,267</u> | <u>44,924</u> | <u>310,913</u> | <u>294,658</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | - | - | - | - | - |
| Municipal airport | - | 14,528 | - | - | - |
| Highways and streets | - | - | - | 79,770 | 152,183 |
| Parks and recreation | - | - | 36,348 | - | - |
| Redevelopment and housing | 11,730 | - | - | - | - |
| Capital outlay | <u>-</u> | <u>1,334</u> | <u>87,306</u> | <u>189,437</u> | <u>2,500</u> |
| Total expenditures | <u>11,730</u> | <u>15,862</u> | <u>123,654</u> | <u>269,207</u> | <u>154,683</u> |
| Net changes in fund balances | (4,620) | (4,595) | (78,730) | 41,706 | 139,975 |
| Fund balances, July 1, 2011 | <u>225,738</u> | <u>(9,658)</u> | <u>513,738</u> | <u>781,671</u> | <u>240,901</u> |
| Fund balances, June 30, 2012 | <u>\$ 221,118</u> | <u>\$ (14,253)</u> | <u>\$ 435,008</u> | <u>\$ 823,377</u> | <u>\$ 380,876</u> |

CITY OF MENDOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2012**

| | Police Grants | Community Development Block Grant | Mendota CFD | Total |
|--|-------------------|---|------------------|---------------------|
| Revenues: | | | | |
| Taxes | \$ - | \$ - | \$ 145,739 | \$ 437,615 |
| Licenses and permits | - | - | - | 44,000 |
| Intergovernmental | 100,000 | - | - | 420,175 |
| Revenue from the use of money and property | 180 | 3,456 | 75 | 6,608 |
| Miscellaneous | - | - | - | 9,924 |
| Total revenues | <u>100,180</u> | <u>3,456</u> | <u>145,814</u> | <u>918,322</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 821 | - | 151,967 | 152,788 |
| Municipal airport | - | - | - | 14,528 |
| Highways and streets | - | - | - | 231,953 |
| Parks and recreation | - | - | - | 36,348 |
| Redevelopment and housing | - | - | - | 11,730 |
| Capital outlay | - | - | - | 280,577 |
| Total expenditures | <u>821</u> | <u>-</u> | <u>151,967</u> | <u>727,924</u> |
| Net changes in fund balances | 99,359 | 3,456 | (6,153) | 190,398 |
| Fund balances, July 1, 2011 | <u>41,644</u> | <u>344,380</u> | <u>90,559</u> | <u>2,228,973</u> |
| Fund balances, June 30, 2012 | <u>\$ 141,003</u> | <u>\$ 347,836</u> | <u>\$ 84,406</u> | <u>\$ 2,419,371</u> |

CITY OF MENDOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
June 30, 2012

| | <u>General Bond</u> |
|--------------------------------------|---------------------|
| <u>Assets</u> | |
| Cash and cash equivalents | \$ _____ - |
| Total assets | <u>\$ _____ -</u> |
| <u>Liabilities and Fund Balances</u> | |
| Liabilities: | |
| Due to other funds | \$ 121,594 |
| Advances from other funds | <u>30,000</u> |
| Total liabilities | <u>151,594</u> |
| Fund balances: | |
| Unassigned | <u>(151,594)</u> |
| Total fund balances | <u>(151,594)</u> |
| Total liabilities and fund balances | <u>\$ _____ -</u> |

CITY OF MENDOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
For the Year Ended June 30, 2012**

| | <u>General Bond</u> |
|--|---------------------------|
| Revenues: | |
| Revenue from the use of money and property | \$ _____ - |
| Total revenues | _____ - |
| Expenditures: | |
| Debt service: | |
| Interest | _____ 2,000 |
| Total expenditures | _____ 2,000 |
| Net change in fund balance | (2,000) |
| Fund balances, July 1, 2011 | _____ (149,594) |
| Fund balances, June 30, 2012 | <u>\$ _____ (151,594)</u> |

CITY OF MENDOTA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS
June 30, 2012**

| | <u>CDBG - Sewer and Drainage Projects</u> | <u>Street Capital Projects</u> | <u>Total</u> |
|--------------------------------------|---|------------------------------------|-------------------|
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 85,110 | \$ 121,551 | \$ 206,661 |
| Receivables | <u>29</u> | <u>51</u> | <u>80</u> |
| Total assets | <u>\$ 85,139</u> | <u>\$ 121,602</u> | <u>\$ 206,741</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | \$ - | \$ - |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances: | | | |
| Restricted to: | | | |
| Highways and streets | 85,139 | 88,604 | 173,743 |
| Committed to: | | | |
| Highways and streets | - | 59,066 | 59,066 |
| Unassigned | <u>-</u> | <u>(26,068)</u> | <u>(26,068)</u> |
| Total fund balances | <u>85,139</u> | <u>121,602</u> | <u>206,741</u> |
| Total liabilities and fund balances | <u>\$ 85,139</u> | <u>\$ 121,602</u> | <u>\$ 206,741</u> |

CITY OF MENDOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2012**

| | <u>CDBG - Sewer and Drainage Projects</u> | <u>Street Capital Projects</u> | <u>Total</u> |
|--|---|------------------------------------|---------------------------|
| Revenues: | | | |
| Revenue from the use of money and property | <u>\$ 113</u> | <u>\$ 196</u> | <u>\$ 309</u> |
| Total revenues | <u> 113</u> | <u> 196</u> | <u> 309</u> |
| Expenditures: | | | |
| Current: | | | |
| Highways and streets | <u> -</u> | <u> 1,984</u> | <u> 1,984</u> |
| Total expenditures | <u> -</u> | <u> 1,984</u> | <u> 1,984</u> |
| Net changes in fund balances | 113 | (1,788) | (1,675) |
| Fund balances, July 1, 2011 | <u> 85,026</u> | <u> 123,390</u> | <u> 208,416</u> |
| Fund balances, June 30, 2012 | <u>\$ 85,139</u> | <u>\$ 121,602</u> | <u>\$ 206,741</u> |

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OVERALL COMPLIANCE, INTERNAL CONTROLS AND
FEDERAL AWARDS SECTION

CITY OF MENDOTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012**

| <u>Federal Grantor/ Pass-Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---|---------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE (USDA)</u> | | | |
| Direct Award | | | |
| Water and Waste Disposal for Rural Communities | 10.760 | 04-010-0946000369-9 | \$ <u>513,970</u> |
| Total U.S. Department of Agriculture | | | <u>513,970</u> |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| Passed Through County of Fresno | | | |
| Community Development Block Grants | 14.228 | 10-587 | <u>362,234</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>362,234</u> |
| <u>U.S. DEPARTMENT OF TRANSPORTATION (DOT)</u> | | | |
| Direct Award | | | |
| Airport Improvement Program | 20.106 | 3-06-0151-03 | <u>1,267</u> |
| Total U.S. Department of Transportation | | | <u>1,267</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 877,471</u> |

See accompanying notes to the schedule of expenditures of federal awards

CITY OF MENDOTA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012**

NOTE 1 – BASIS OF PRESENTATION

The accompanying of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Mendota under programs of the federal government for the year ended June 30, 2012. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Mendota, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Mendota.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

To the City Council
City of Mendota, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Mendota, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Price Page & Company

Clovis, California
December 17, 2012



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Mendota, California

Compliance

We have audited the City of Mendota, California's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

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

Price Pange & Company

Clovis, California
December 17, 2012

**CITY OF MENDOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

| | | |
|---|--------------------|-----------------------|
| Type of auditor's report issued: | <u>Unqualified</u> | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | _____ yes | ___X___ no |
| Significant deficiency(s) identified - not considered to be material weaknesses? | _____ yes | ___X___ none reported |
| Noncompliance material to financial statements noted? | _____ yes | ___X___ no |

FEDERAL AWARDS

| | | |
|--|--------------------|-----------------------|
| Internal control over major programs: | | |
| Material weakness(es) identified? | _____ yes | ___X___ no |
| Significant deficiency(s) identified - not considered to be material weaknesses? | _____ yes | ___X___ none reported |
| Type of auditor's report issued on compliance for major programs: | <u>Unqualified</u> | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) | _____ yes | ___X___ no |

IDENTIFICATION OF MAJOR PROGRAMS

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|--|
| 10.760 | Water and Waste Disposal for Rural Communities |
| 14.228 | Community Development Block Grants |
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
| Auditee qualified as low-risk auditee? | _____ yes ___X___ no |

**CITY OF MENDOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – COMPLIANCE AUDIT FINDINGS

None reported.

**CITY OF MENDOTA
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Finding 2011-1: Redevelopment Agency Five-Year Implementation Plan

- Criteria:** In accordance with the California Health & Safety Code §33490 and §33413(b), the Redevelopment Agency must produce Implementation Plans for each project area every five years.
- Condition:** The Agency did not produce Implementation Plans for each project area every five years.
- Effect:** The Agency is out of compliance with the above Health and Safety Code.
- Cause:** The Agency was unaware during the fiscal year ended June 30, 2010, that this Implementation Plan was required for each project area every five years. They are currently working on one, which was not finished by the end of the current fiscal year.
- Recommendation:** We recommend that the Agency produce Implementation Plans for each project area every five years.
- Management Response:** The Mendota Redevelopment Agency, after being made aware of the requirement during the prior year audit, has begun creating one. It is near completion and will be finished during the 2012 fiscal year.
- Status:** The redevelopment agency was dissolved and ceased to operate as a legal entity as of February 1, 2012.

**CITY OF MENDOTA
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Finding 2011-2: Conflict of Interest

- Criteria:*** In accordance with California Government Code §87200, the Agency must submit a Form 700 – Statement of Economic Interests – to the California Fair Political Practices Commission (FPPC) annually for various officials. Additionally, officials designated in the Agency’s conflict of interest code must also complete the forms and maintain them on file for the duration of 12 months.
- Condition:*** The Agency did not submit a Form 700 to the FPPC for one required official according to the above government code. Additionally, the Agency did maintain a filed Form 700 for two officials who were not required to file one according to the above government code, but instead by its own conflict of interest policy.
- Effect:*** The Agency is out of compliance with the above California Government Code.
- Cause:*** The Agency submitted a Form 700 to the FPPC for the officials listed in the Agency’s conflict of interest policy during the fiscal year ended June 30, 2010. Since these forms are not required to be submitted to the FPPC, they were returned to the Agency to be maintained on file. Accordingly, the Agency did not believe the Forms 700 were necessary to complete in the current fiscal year.
- Recommendation:*** We recommend that the Agency submit all required Forms 700 to the FPPC and maintain these forms for the remaining officials listed on the Agency’s conflict of interest policy on file.
- Management Response:*** The Mendota Redevelopment Agency is now aware of this requirement and will complete and keep all Forms 700 for all employees not required by the FPPC, but included in its conflict of interest policy on file.
- Status:*** The redevelopment agency was dissolved and ceased to operate as a legal entity as of February 1, 2012.