

**CITY OF FOWLER
COUNTY OF FRESNO
FOWLER, CALIFORNIA**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED JUNE 30, 2015

**BORCHARDT, CORONA & FAETH
Accountancy Corporation
1540 E. Shaw Ave., Ste. 118
Fresno, California 93710-8008**

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3 - 7
 <u>Basic Financial Statements</u>	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Fund Net Position - Proprietary Funds	14
Statement of Revenues, Expenses, and Change in Fund Net Position - Proprietary Funds	15
Statement of Cash Flows - Proprietary Funds	16
Statement of Fiduciary Net Position	17
Statement of Revenues, Expenses, and Changes in Fund Net Position	18
Notes to the Financial Statements	19 - 41
 <u>Required Supplementary Information</u>	
Budgetary Comparison Schedules:	
General Fund	42
Schedule of the City's Proportionate Share of the Net Pension Liability - California Public Employees' Retirement System (CalPERS)	43
Schedule of City's Contributions - California Public Employees' Retirement System (CalPERS)	44
 OTHER INDEPENDENT AUDITORS' REPORTS	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	45 - 46
 FINDINGS AND RECOMMENDATIONS SECTION	
Schedule of Findings and Questioned Costs	47 - 49
Summary Schedule of Prior Audit Findings	50

Independent Auditors' Report

To Honorable Members of City Council
City of Fowler, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fowler, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fowler as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As described in Note C.1. to the financial statements, City of Fowler adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pensions Transition for contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, Schedules of the City's Proportionate Share of the Net Pension Liability, and Schedules of City Pension Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016, on our consideration of City of Fowler 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* in considering City of Fowler internal control over financial reporting and compliance.

Borchardt, Corona & Faeth

Fresno, California
January 12, 2016

CITY OF FOWLER
Management's Discussion and Analysis (MD&A)
June 30, 2015

INTRODUCTION

Our discussion and analysis of the City of Fowler's (City's) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ In 2015, the City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and related GASB Statement No. 71, Pension Transition Contributions Made Subsequent to the Measurement Date. These standards require the City to recognize its proportionate share of the net pension asset or liability, deferred outflows and deferred inflows of resources, and related expenses from its participation in the California Public Employees' Retirement Systems. The results of these statements include recognizing a net pension liability for the two defined benefit plans and related deferred outflows and deferred inflows of resources. The cumulative effect of implementing these statements resulted in a restatement of beginning net position as detailed in Note C.1 to the financial statements.
- ❑ Total net position was \$25,632,087 at June 30, 2015.
- ❑ Overall revenues totaled \$6,832,428 which exceeded expenses by \$388,445.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the City. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ❑ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ❑ **Fund financial statements** focus on reporting the individual parts of the City operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position, (the difference between the assets and liabilities) is one way to measure the City's financial health or position.

- ❑ Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- ❑ To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the City include government activities. Most of the City's basic services are included here, such as Community Development, Public Safety and general administration. Lease revenue funding and federal and state grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The City Council establishes other funds to control and manage money for particular purposes or to show that the City is meeting legal responsibilities for using certain revenues. The City has three kinds of funds:

- Governmental funds - All of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explain the relationship (or differences) between them.
- Proprietary funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities.
- Fiduciary funds – the City is the trustee, or fiduciary, for assets that belong to others; for the City, the Redevelopment Successor Agency Private Purpose Trust Fund is an agency fund. The City is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the City's fiduciary activities are reported in the fiduciary fund financial statements. We exclude these activities from the City-wide financial statements because the City cannot use the assets to finance its operations.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The City's combined net position were \$25,632,087 at June 30, 2015. See Table 1.

**Table 1
Net Position**

	Governmental Activities	Business- Type Activities	Governmental Activities	Business- Type Activities	Total Percentage Change
	2015	2015	2014	2014	2015 - 2014
ASSETS					
Cash	\$ 4,886,670	\$ 1,530,567	\$ 4,532,383	\$ 1,661,289	3.61%
Cash with Fiscal Agent	476,337	-	475,864	-	0.10%
Accounts Receivable	227,020	155,137	145,841	123,947	41.65%
Intergovernmental Receivable	-	66,662	16,819	66,662	(20.15%)
Assessments Receivable	1,135,618	-	1,219,183	-	(6.85%)
Community Loans	478,436	-	556,777	-	(14.07%)
Land Held for Resale	153,794	-	153,794	-	0.00%
Deposits with Others	6,369	-	(14,397)	-	>(100.00%)
Capital Assets, Nondepreciable	2,772,468	432,816	2,764,592	392,773	1.52%
Capital Assets, Net of Accumulated Depreciation	17,744,992	4,308,149	17,577,795	4,414,906	0.27%
TOTAL ASSETS	27,881,704	6,493,331	27,428,651	6,659,577	0.84%
Deferred Outflows of Resources - P	361,028	49,320	-	-	N/A
LIABILITIES					
Accounts Payable	59,124	23,085	99,869	50,304	(45.26%)
Accrued Liabilities	175,114	-	174,824	-	0.17%
Accrued Interest Payable	44,743	-	46,419	-	(3.61%)
Consumer Deposits	-	94,586	-	71,842	31.66%
Debt Due in One Year	292,256	43,176	265,000	42,900	8.94%
Long-Term Debt	5,699,831	2,072,516	3,270,899	1,761,805	54.44%
TOTAL LIABILITIES	6,271,068	2,233,363	3,857,011	1,926,851	47.04%
Deferred Inflows of Resources - Pei	570,878	77,987	-	-	N/A
NET POSITION					
Invested in Capital Assets, Net of Related Debt	17,332,460	3,000,438	16,892,387	3,024,149	2.09%
Restricted for:					
Special Revenue	2,321,275	-	2,115,995	-	9.70%
Debt Service	1,413,951	-	937,530	-	50.82%
Capital Projects	1,513,962	-	1,719,445	-	(11.95%)
Unrestricted	(1,180,862)	1,230,863	1,906,283	1,708,577	(98.62%)
TOTAL NET POSITION	\$ 21,400,786	\$ 4,231,301	\$ 23,571,640	\$ 4,732,726	(9.44%)

Changes in Net Position

The City's total revenues, including business-type activities, were \$6,832,426. A majority of the revenue comes from various taxes, \$3,856,498 (56%) Operating Grants accounted for another \$978,380, (14%) and combined charges for services totaled \$1,385,978 (20%) of total revenues.

The total cost of all programs and services, including business-type activities, was \$6,443,981. The City's expenses are predominately related to General Government and Public Safety (49%). Water Services accounted for 19% of total costs. The remaining expenses accounted for community and debt service costs.

**Table 2
Changes in Net Position**

	Governmental	Business-	Governmental	Business-	Total
	Activities	Type	Activities	Type	Percentage
	2015	2015	2014	2014	Change
REVENUES					
Program Revenues:					
Charges for Services	\$ 224,202	\$ 1,161,776	\$ 964,580	\$ 1,215,046	(36.41%)
Operating Grants	978,380	-	1,581,619	-	(38.14%)
General Revenues:					
Taxes	3,856,498	-	3,361,028	-	14.74%
Rental Income	428,478	-	500,457	-	(14.38%)
Investment Income	5,102	-	9,202	-	(44.56%)
Miscellaneous	177,990	-	230,662	-	(22.84%)
Transfers In	1,279,299	-	1,014,775	-	26.07%
Transfers Out	(1,255,818)	(23,481)	(998,459)	-	28.13%
TOTAL REVENUES	5,694,131	1,138,295	6,663,864	1,215,046	(13.28%)
PROGRAM EXPENSES					
General Government	1,461,456	-	2,181,439	-	(33.00%)
Public Safety	1,690,299	-	1,774,045	-	(4.72%)
Public Works	929,594	-	661,983	-	40.43%
Community Development	366,064	-	605,735	-	(39.57%)
Culture and Recreation	377,135	-	270,172	-	39.59%
Interest on Long-Term Debt	375,723	-	423,489	-	(11.28%)
Water Services	-	1,243,710	-	1,184,733	4.98%
TOTAL EXPENSES	5,200,271	1,243,710	5,916,863	1,184,733	(9.26%)
INCREASE (DECREASE) IN NET POSITION	\$ 493,860	\$ (105,415)	\$ 747,001	\$ 30,313	(50.03%)

Governmental Activities

The cost of all governmental activities this year was \$5,200,271.

Table 3 presents the cost of each of the City's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

**Table 3
Net Cost of Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General Government	\$ 1,461,456	\$ 2,181,439	\$ 1,498,902	\$ 1,445,314
Public Safety	1,690,299	1,774,045	1,569,526	1,648,855
Public Works	929,594	661,983	167,103	(681,156)
Community Development	366,064	605,735	33,847	284,208
Culture and Recreation	377,135	270,172	352,588	249,954
Interest on Long-Term Debt	375,723	423,489	375,723	423,489
	<u>\$ 5,200,271</u>	<u>\$ 5,916,863</u>	<u>\$ 3,997,689</u>	<u>\$ 3,370,664</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial performance of the City as a whole is reflected in its governmental funds as well. As the City completed the year, its governmental funds reported a combined fund balance of \$5,198,344, above last year's ending fund balance of \$4,745,501.

General Fund Budgetary Highlights

Over the course of the year, the City revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved June 17, 2014. A schedule of the City's original and final budget amounts compared with actual revenues and expenses is provided in the supplemental section of the audited financial report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the City had a net investment of \$25,258,425 in capital assets, comprised as shown in Table 4. More detailed information about the City's capital assets is presented in the notes to the financial statements.

**Table 4
Capital Assets**

	Governmental	Business-	Governmental	Business-	Total
	Activities	Type	Activities	Type	Percentage
	2015	2015	2014	2014	2015-2014
Non-Depreciated Assets	\$ 2,772,468	\$ 432,816	\$ 2,764,592	\$ 392,773	1.52%
Depreciated Assets	27,056,475	6,276,599	26,305,094	6,276,599	2.31%
Total Accumulated Depreciation	(9,311,483)	(1,968,450)	(8,727,299)	(1,861,693)	6.53%
NET CAPITAL POSITION	\$ 20,517,460	\$ 4,740,965	\$ 20,342,387	\$ 4,807,679	0.43%

Long-Term Debt

At year-end, the City had \$8,107,779 in combined debt, as shown in Table 5. More detailed information about the City's debt is presented in the notes to the financial statements.

**Table 5
Long-Term Debt**

	Governmental	Business-	Governmental	Business-	Total
	Activities	Type	Activities	Type	Percentage
	2015	2015	2014	2014	2015-2014
Net Pension Liability	\$ 2,604,321	\$ 355,772	\$ -	\$ -	N/A
Revenue Bonds	3,185,000	-	3,450,000	-	(7.68%)
Certificates of Participation	-	1,695,200	-	1,724,100	(1.68%)
Note Payable	-	45,327	-	59,430	(23.73%)
Energy Efficiency Retrofit Loan	100,650	-	-	-	N/A
Compensated Absences	102,116	19,393	85,899	21,175	13.48%
TOTAL LONG-TERM DEBT	\$ 5,992,087	\$ 2,115,692	\$ 3,535,899	\$ 1,804,705	51.81%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the City was aware of several circumstances that could affect its future financial health:

- The continuing increases in premiums for health care insurance and worker's compensation could have a significant effect on the future financial health of the City. Health care premiums are predicted to continue to increase into the foreseeable future.
- The budget assumptions used to prepare the budget for 2016 included a 2% cost of living allowance (COLA), a growth factor of 3%, and salary step and column increase of 5%.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact:

Kenneth McDonald
Finance Director
City of Fowler
128 South Fifth Street
Fowler, CA 93625

CITY OF FOWLER
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,886,670	\$ 1,530,567	\$ 6,417,237
Investment held by fiscal agent:			
Restricted	476,337	-	476,337
Receivables:			
Consumer	227,020	155,137	382,157
Intergovernmental	-	66,662	66,662
Assessments	1,135,618	-	1,135,618
Community loans	478,436	-	478,436
Land held for resale	153,794	-	153,794
Deposits with others	6,369	-	6,369
Capital assets:			
Non-depreciable	2,772,468	432,816	3,205,284
Depreciable - net of accumulated depreciation	17,744,992	4,308,149	22,053,141
TOTAL ASSETS	27,881,704	6,493,331	34,375,035
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources - Pensions	361,028	49,320	410,348
Total Deferred Outflows of Resources	361,028	49,320	410,348
LIABILITIES			
Accounts payable	59,124	23,085	82,209
Accrued liabilities	175,114	-	175,114
Accrued interest payable	44,743	-	44,743
Consumer deposits	-	94,586	94,586
Noncurrent liabilities:			
Net Pension Liability	2,604,321	355,772	2,960,093
Due in one year	292,256	43,176	335,432
Due in more than one year	3,095,510	1,716,744	4,812,254
TOTAL LIABILITIES	6,271,068	2,233,363	8,504,431
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Pensions	570,878	77,987	648,865
Total Deferred Inflows of Resources	570,878	77,987	648,865
NET POSITION			
Invested in capital assets, net of related debt	17,332,460	3,000,438	20,332,898
Restricted for:			
Special revenue	2,321,275	-	2,321,275
Debt service	1,413,951	-	1,413,951
Capital projects	1,513,962	-	1,513,962
Unrestricted	(1,180,862)	1,230,863	50,001
TOTAL NET POSITION	\$ 21,400,786	\$ 4,231,301	\$ 25,632,087

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

FUNCTION/PROGRAMS	Program Revenues		Net (Expense) Revenues and Changes in Net Position		Total	
	Expenses	Charges for Services	Operating Grants	Governmental Activities		Business-Type Activities
Governmental activities:						
General government	\$ 1,461,456	\$ (37,446)	\$ -	\$ (1,498,902)	\$ -	\$ (1,498,902)
Public safety	1,690,299	4,472	116,301	(1,569,526)	-	(1,569,526)
Public works	929,594	-	762,491	(167,103)	-	(167,103)
Community development	366,064	242,631	89,586	(33,847)	-	(33,847)
Culture and recreation	377,135	14,545	10,002	(352,588)	-	(352,588)
Interest on long-term debt	375,723	-	-	(375,723)	-	(375,723)
Total Governmental Activities	5,200,271	224,202	978,380	(3,997,689)	-	(3,997,689)
Business-type activities:						
Water	1,243,710	1,161,776	-	-	(81,934)	(81,934)
Total Function/Programs	\$ 6,443,981	\$ 1,385,978	\$ 978,380	(3,997,689)	(81,934)	(4,079,623)

General Revenues:

Taxes:			
Property	964,412	-	964,412
Sales	1,363,470	-	1,363,470
Franchise	304,609	-	304,609
Utility	382,999	-	382,999
Other	363,790	-	363,790
Motor vehicle in-lieu taxes	477,218	-	477,218
Rental income	428,478	-	428,478
Investment income	5,102	-	5,102
Miscellaneous	177,990	-	177,990
Transfers in	1,279,299	-	1,279,299
Transfers out	(1,255,818)	(23,481)	(1,279,299)
Total General Revenues and Transfers	4,491,549	(23,481)	4,468,068
Changes in Net Position	493,860	(105,415)	388,445
Net Position, Beginning	23,571,640	4,732,726	28,304,366
Prior Period Adjustment	(2,664,714)	(396,010)	(3,060,724)
Net Position, Ending	\$ 21,400,786	\$ 4,231,301	\$ 25,632,087

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Fowler Public Financing Authority Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,417,302	\$ 476,337	\$ 3,469,368	\$ 5,363,007
Accounts receivable	116,886	-	110,134	227,020
Loans Receivable	-	-	382,612	382,612
Due from other funds	71,418	-	5,239	76,657
Advances to other funds	-	-	1,113,873	1,113,873
Prepaid deposits	-	-	6,369	6,369
Property held for sale	-	-	153,794	153,794
TOTAL ASSETS	<u><u>\$ 1,605,606</u></u>	<u><u>\$ 476,337</u></u>	<u><u>\$ 5,241,389</u></u>	<u><u>\$ 7,323,332</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 57,295	\$ -	\$ 1,829	\$ 59,124
Accrued liabilities	175,114	-	-	175,114
Deferred revenue	11,283	-	382,612	393,895
Due to other funds	-	-	71,418	71,418
Advances from other funds	1,317,588	-	5,733	1,323,321
Compensated absences	102,116	-	-	102,116
Total Liabilities	<u><u>1,663,396</u></u>	<u><u>-</u></u>	<u><u>461,592</u></u>	<u><u>2,124,988</u></u>
Fund Balances:				
Committed for:				
Special revenue	-	-	795,015	795,015
Assigned for:				
Special revenue	-	-	1,526,260	1,526,260
Debt service	-	476,337	937,614	1,413,951
Other purposes	-	-	1,520,908	1,520,908
Unassigned	(57,790)	-	-	(57,790)
Total Fund Balances	<u><u>(57,790)</u></u>	<u><u>476,337</u></u>	<u><u>4,779,797</u></u>	<u><u>5,198,344</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,605,606</u></u>	<u><u>\$ 476,337</u></u>	<u><u>\$ 5,241,389</u></u>	<u><u>\$ 7,323,332</u></u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balances - governmental funds balance sheet	\$ 5,198,344
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the governmental funds.	20,517,460
Long-term liabilities were not due and payable in the current period, therefore, they were not reported in the governmental fund balance sheet.	(3,285,650)
Unmatured interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(44,743)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,614,054
Interagency receivables liquidated.	215,492
Recognition of the proportionate share of the net pension liability is not reported in the funds.	(2,604,321)
Deferred Resources Inflows related to pension plans are not reported in the funds.	(570,878)
Deferred Resources Outflows related to pension plans are not reported in the funds.	<u>361,028</u>
Net position of governmental activities - statements of net position	<u>\$ 21,400,786</u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Fowler Public Financing Authority Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 2,873,031	\$ -	\$ 686,838	3,559,869
Licenses and permits	245,024	-	-	245,024
Fines and penalties	4,854	-	-	4,854
Revenue from use of money and property	4,997	423,678	4,685	433,360
Charges for services	1,108	-	-	1,108
Intergovernmental revenues	139,127	-	769,040	908,167
Miscellaneous	303,073	-	198,797	501,870
TOTAL REVENUES	<u>3,571,214</u>	<u>423,678</u>	<u>1,659,360</u>	<u>5,654,252</u>
EXPENDITURES				
General government	1,099,663	-	-	1,099,663
Public safety	1,562,011	-	31,116	1,593,127
Public works	685,562	-	15,422	700,984
Community development	170,497	-	178,208	348,705
Parks and recreation	233,876	-	116,677	350,553
Contractual services	-	-	28,404	28,404
Capital outlay	11,670	-	600,529	612,199
Debt services:				
Principal	-	265,000	138,565	403,565
Interest	-	158,205	156,444	314,649
Bond Fees	7,215	-	-	7,215
TOTAL EXPENDITURES	<u>3,770,494</u>	<u>423,205</u>	<u>1,265,365</u>	<u>5,459,064</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(199,280)</u>	<u>473</u>	<u>393,995</u>	<u>195,188</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	468,484	-	810,815	1,279,299
Operating Transfers Out	(527,987)	-	(727,831)	(1,255,818)
Other Sources	-	-	-	-
Other Uses	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(59,503)</u>	<u>-</u>	<u>82,984</u>	<u>23,481</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	<u>(258,783)</u>	<u>473</u>	<u>476,979</u>	<u>218,669</u>
FUND BALANCES, JULY 1	<u>(27,469)</u>	<u>475,864</u>	<u>4,297,106</u>	<u>4,745,501</u>
PRIOR PERIOD ADJUSTMENT:	<u>228,462</u>	<u>-</u>	<u>5,712</u>	<u>234,174</u>
FUND BALANCES, JUNE 30	<u>\$ (57,790)</u>	<u>\$ 476,337</u>	<u>\$ 4,779,797</u>	<u>\$ 5,198,344</u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Net change in fund balances - total governmental funds	\$ 218,669
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is capitalized. This is the amount of capital assets recorded.	605,092
Depreciation expense on capital assets is reported in the government-wide statement and changes in net assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	(586,062)
Principal repayments for CDBG loans considered as program income in fund statement are not recognized in the statement of activities.	89,586
Repayment of long-term principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position.	276,503
Additional accrued interest calculated on bonds and notes payable	(44,743)
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the statement of activities	(112,153)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resourced outflows.	361,028
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(314,060)</u>
Change in net position of governmental activities - statement of activities	<u>\$ 493,860</u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	<u>Water Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,530,567
Consumer receivables	155,137
Advances to other funds	66,662
Total Current Assets	<u>1,752,366</u>
Noncurrent Assets:	
Capital Assets:	
Non-depreciable	432,816
Depreciable - net of accumulated depreciation	4,308,149
Total Noncurrent Assets	<u>4,740,965</u>
TOTAL ASSETS	<u><u>6,493,331</u></u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources - Pension	49,319
Total Deferred Outflows of Resources	<u>49,319</u>
 LIABILITIES	
Current Liabilities:	
Accounts payable	23,085
Deposits	94,586
Current portion of certificates of participation	30,100
Current portion of note payable	13,076
Compensated absences	19,393
Total Current Liabilities	<u>180,240</u>
Noncurrent Liabilities:	
Certificates of participation	1,665,100
Water note payable	32,251
Net Pension Liability	355,772
Total Noncurrent Liabilities	<u>2,053,123</u>
TOTAL LIABILITIES	<u><u>2,233,363</u></u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources - Pension	77,986
Total Deferred Inflows of Resources	<u>77,986</u>
 NET POSITION	
Invested in capital assets, net of related debt	3,000,438
Unrestricted	1,230,863
TOTAL NET POSITION	<u><u>\$ 4,231,301</u></u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Water Fund
OPERATING REVENUE	
Charges for services	<u>\$ 1,159,653</u>
OPERATING EXPENSES	
Personnel costs	580,395
Materials and supplies	19,176
Contract services	149,274
Utilities	148,532
Repairs and maintenance	116,412
Rent and leases	7,746
Other	27,735
Depreciation	106,755
TOTAL OPERATING EXPENSES	<u>1,156,025</u>
OPERATING INCOME	<u>3,628</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	2,119
Interest expense	<u>(87,681)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(85,562)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(81,934)</u>
TRANSFERS OUT	<u>(23,481)</u>
CHANGE IN NET POSITION	(105,415)
NET POSITION, BEGINNING	4,732,726
PRIOR PERIOD ADJUSTMENT	<u>(396,010)</u>
NET POSITION, ENDING	<u>\$ 4,231,301</u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Water Fund</u>
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Cash received from customers	\$ 1,151,207
Cash payments to suppliers for goods and services	(507,667)
Cash payments to employees for services	<u>(582,177)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>61,363</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	<u>(23,481)</u>
NET CASH USED BY NON-CAPITAL FINANCING ACTIVITIES	<u>(23,481)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(43,003)
Interest paid on long-term debt	(87,681)
Acquisition or Construction of Capital Assets	<u>(40,039)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(170,723)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,119</u>
DECREASE IN CASH AND TEMPORARY CASH INVESTMENTS	(130,722)
CASH AND CASH INVESTMENTS, BEGINNING OF YEAR	<u>1,661,289</u>
	<u>\$ 1,530,567</u>

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

Operating income	\$ 3,628
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	106,755
Changes in assets and liabilities:	
Decrease in consumer receivables	(31,190)
Decrease in accounts payable	(27,219)
Increase in consumer deposits	22,744
Increase in other liabilities	(1,782)
Increase in Net Pension Liability Components	<u>(11,573)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 61,363</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FOWLER
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Redevelopment Successor Agency Private Purpose Trust Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 50,568
Due from other agencies	68,982
Advance to other funds	<u>142,786</u>
Total Assets	<u>262,336</u>
LIABILITIES	
Accounts payable	115
Compensated absences payable	1,350
Due to other funds	<u>5,239</u>
Total Current Liabilities	<u>6,704</u>
NET POSITION	
Restricted	<u>255,632</u>
TOTAL NET POSITION	<u><u>\$ 255,632</u></u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Redevelopment Successor Agency Private Purpose Trust Fund
ADDITIONS	
Tax revenue	\$ 127,050
Transfer of assets from outside agencies	220
	<u>127,270</u>
DEDUCTIONS	
Personnel costs	108,209
Professional services	16,771
Debt Service:	
Interest	91,900
Total Deductions	<u>216,880</u>
Changes in Net Position	<u>(89,610)</u>
Net Position, Beginning	616,717
Prior Period Adjustment	(271,475)
Net Position, Ending	<u>\$ 255,632</u>

The accompanying notes are an integral part of this statement.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Fowler, California was incorporated June 15, 1908. The City is a general law city and as such draws its authority from the Constitution and laws of the State of California. The City has a council/manager form of government and is governed by a five member elected council. The City Manager is appointed by the City Council. The City provides the following services: police and fire protection, street construction and maintenance, public improvements, planning and zoning, recreation, and general administrative services. The City also operates the water utility enterprise.

The accounting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public accountants in the publication entitled *Audits of State and Local Governmental Units*.

B. Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government:	City of Fowler
Blended Component Units:	Fowler Public Financing Authority

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Component Unit	Brief Description/Inclusion Criteria	Reporting
Fowler Public Financing Authority	The Fowler Public Financing Authority is a joint exercise of powers agency duly organized and existing under the laws of the State of California. The Authority's specific and primary purpose is to provide financial assistance to the City of Fowler by acquiring qualified obligations from the City which were issued for the acquisition, construction, and improvement of public facilities and property. The current City Council serves as entire governing body (Trustees). Any issuance of debt would require a two-thirds approval of the City Council.	Debt Service Fund

C. Basis of Presentation, Basis of Accounting

1. Change in Accounting Principle

Effective July 1, 2014, the City adopted GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". These Statements require numerous new pension disclosures in the notes to the financial statements and two new 10-year schedules as required supplementary information. Also, for the first time the City is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its proportionate shares of the collective pension expense, collective deferred outflows of resources and deferred inflows of resources related to pensions and collective net pension liability. The reporting of these new amounts on the government-wide financial statements, along with the effect of the restatement of the beginning net position will also affect the City's government-wide net position. As a result of implementation of these Statements, beginning net position has been restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position previously reported, July 1, 2014	\$ 23,571,640	\$ 4,732,726
Net pension liability	(3,103,533)	(423,966)
Deferred outflows of resources for contributions made subsequent to the measurement date	<u>204,645</u>	<u>27,956</u>
Total restatement	<u>(2,898,888)</u>	<u>(396,010)</u>
Net position as restated	<u>\$ 20,672,752</u>	<u>\$ 4,336,716</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

2. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 69

Effective for periods beginning after December 15, 2013 the City adopted GASB Statement No. 69, "Government Combinations and Disposals of Government Operations". This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of the statement were considered, but did not have an impact on the City's financial statements for the current fiscal year.

3. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements: The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The City has presented the following major governmental funds:

General Fund. This fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

1994-1 Assessment City Debt Service Fund. This fund is used as a conduit for the repayment of debt acquired to improve an assessment District in the City.

Fowler Public Financing Authority (PFA) Debt Service Fund. This fund accounts for PFA debt.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

The City reports the following non-major governmental funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The following special revenue funds are utilized by the City:

- The Utility Users Fund is used to account separately for local revenues used to assist with funding of essential municipal services.
- The Traffic Safety Fund is used to account separately for state revenues used for roadway safety improvements.
- The Gas Tax Fund is used to account separately for state revenues used for street and road purposes.
- The Traffic Congestion Fund is used to account separately for state revenues used for street and highway safety improvements.
- The LTF Article 3 Fund is used to account separately for state revenues used for local pedestrian and bicycle path projects.
- LTF Article 8 Fund is used to account separately for state revenues used for local streets and roads projects.
- The Measure C Fund is used to account separately for County revenues used for roads and transportation projects in Fresno County.
- The Proposition 1B Fund is used to account separately for state revenues to fund mobility, safety, and air quality improvements.
- The Community Development Block Grant Fund is used to account separately for state revenues to assist in development activities.
- The Low and Moderate Income Housing Fund is used to account separately for housing assets.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general-long term debt principal, interest, and related costs. The following debt service funds are maintained by the City:

- Debt Service 88-1 Fund is used to account for the accumulation of resources for, and the repayment of, City bonds, interest and related costs.
- Assessment City No. 93-1 Fund is used to account for the accumulation of resources for, and the repayment of, City bonds, interest and related costs.
- Hospital Improvement Fund is used to account for the accumulation of resources for, and the repayment of, City bonds, interest and related costs.
- Merced Street Fund is used to account for the accumulation of resources for, and the repayment of, City bonds, interest and related costs.
- Public Improvement Fund is used to account for the accumulation of resources for, and the repayment of, City bonds, interest and related costs.
- Assessment City No. 94-1 Fund is used to account for the accumulation of resources for, and the repayment of, City bonds, interest and related costs.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The City maintains the following capital projects funds:

- Groundwater Fund is used to account for fees paid to the Consolidated Irrigation District (District) to be placed into a groundwater management and replenishment fund for purposes of implementing groundwater replenishment methodologies to benefit the City and District.
- General Services Fund is used to account for developer fees provided for equipment, construction and maintenance of general City assets.
- Law Enforcement Fund is used to account for developer fees provided for the purchase of vehicles and equipment.
- Fire Department Fund is used to account for developer fees provided for the purchase of vehicles and equipment.
- Streets Fund is used to account for developer fees provided for construction and maintenance of streets and roads.
- Parks Fund is used to account for developer fees provided for equipment, construction and maintenance of park facilities.
- Water Fund is used to account for developer fees provided for equipment, construction and maintenance of public works facilities.
- Sewer Fund is used to account for developer fees provided for infrastructure construction and improvement.
- Storm Drain Fund is used to account for developer fees provided for construction and maintenance of City infrastructure.
- Highway 99/Merced Street Fund is used to account for developer fees provided for street and highway maintenance and construction.

In addition, the City reports the following fund type:

Proprietary Fund

Water Fund: This fund accounts for financial activity of the water utility system. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the costs of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent and are, therefore, not available to support City programs, these funds are not included in the government-wide financial statements. The Private Purpose Trust Fund is used to account for the Assets of the former City of Fowler Redevelopment Agency during the wind down period.

D. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences and arbitrage are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the State at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds that have deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
General Fund	\$ 57,790	Deficit fund balances for General Fund will be reduced using property tax revenues and franchise fee revenue associated with solid waste collection agreement.

E. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Formal budgetary integration is employed as a management control device during the year for all Governmental Fund types and Proprietary Fund types. These budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
2. The City Council approves the line item budget appropriations and also approves all additions or transfers of budgeted amounts.
4. Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.
4. The budget amounts shown in the financial statements are the final authorized amounts revised during the year.

F. Cash and Investments

Under the City's cash management program, cash in excess of operating requirements from all funds is pooled with the purpose of maximizing interest through investment activities, and is deposited in savings accounts or invested in bank certificates of deposit, bank money market accounts and the State of California Local Agency Investment Fund (L.A.I.F.). Interest income on pooled investments is allocated on the end of month balance in each fund included in the pools. Information regarding the amount of dollars invested in derivatives, if any, with L.A.I.F. was not available.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

G. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary funds are pooled with the City's pooled cash and investments.

H. Receivables and Payables

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "interfund advances receivable/payable" (i.e., the non-current portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Proprietary fund receivables are shown net of an allowance for uncollectible accounts. All customers are billed monthly. The estimated value of services provided, but unbilled at year-end has been included in the accompanying financial statements.

Property taxes are assessed, collected, and allocated by Fresno County throughout the fiscal year according to the following property tax calendar:

Lien Date	January 1 st
Levy Date	July 1 st to June 30 th
Due Dates	November 1 st , 1 st installment, February 1 st , 2 nd installment
Delinquent Dates	December 10 th , 1 st installment, April 10 th , 2 nd installment

I. Loans Receivable

For the purpose of the Fund Financial Statements, Special Revenue Fund expenditures relating to long-term loans arising from loan subsidy programs are recorded as loans receivable with an offset to a deferred revenue account.

J. Inventory

Inventory items are recorded as expenditures at the time of purchase. Records are not maintained of inventory and supplies on hand.

K. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10 - 50 Years
Improvements	5 - 10 Years
Machinery and Equipment	3 - 25 Years
Infrastructure	20 - 40 Years

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure into the 2014-15 basic financial statements.

The City defines infrastructure as capital assets that are stationary and have expected useful lives significantly in excess of most capital assets. The assets include the street system, water purification and distribution system, sewer collection and treatment system, park and recreation improvement, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas used by the City in the conduct of its business.

L. Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned or unused vacation leave. Vacation is accumulated at 6-2/3 hours per month for full-time regular employees with less than 5 years service to a maximum of 13-1/3 hours per month for full-time regular employees with over 10 years of service. Maximum vacation leave accumulated may not exceed 320 hours at any one time. Vacation leave may be taken as determined by the employee's Department Head, City Manager, or Council (in case of Department Heads) with due consideration for the employee's wishes and needs of the service provided.

Accumulated unpaid vacation pay is accrued for the Proprietary Funds when incurred. At June 30, 2015 the amount of accrued vacation pay was \$19,393 for the Enterprise Funds.

M. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as bond discounts and amortized over the term of the related debt.

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

N. Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the City:

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the Board, the City's highest level of decision-making authority. This formal action is the majority vote of the City's Governing Board.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the City Manager and Finance Director pursuant to authorization established by Board Policy.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When expenditures/expenses are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amount in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

P. Net Position

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 improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

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

Q. Use of Estimates

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

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

(2) Cash and Investments

The investment policy of the City is consistent with guidelines set forth under State of California Government Code Section 53602 and serves to maximize investment income consistent with safe and prudent investment practices. All surplus funds are managed by the Finance Director in compliance with the Statement of Investment Policy adopted by the City Council which delegates to the Finance Director the authority to invest city funds and to deposit securities.

The City follows the practice of pooling cash and investments of all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the month-end cash and investment balances.

(a) Collateral for Deposits

The City of Fowler maintains a cash investment pool that is available for all funds. Each fund type balance in the pool is reflected on the statement of net position as cash and cash equivalents. The carrying amount of the City's cash deposits was \$5,718,439 at June 30, 2015. The general bank balance at June 30, 2015 was \$5,862,444 which was either insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name. The market value of the pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

(b) Local Agency Investment Fund (LAIF)

The City participates in an external investment pool, as defined by GASB Statement No. 31, by way of its funds on deposit in the LAIF managed by the State of California. These funds are pooled with those of other agencies in the State and invested in accordance with state guidelines. Substantially all information required for the GASB Statement No. 31 disclosure was unavailable at the time these financial statements were prepared. The balance of \$748,668 approximates the fair value. Investment gains and losses are shared proportionately by all members of LAIF and paid quarterly to each member. Investment in LAIF is not subject to risk categorization.

(c) Authorized Investments

The balance of \$476,337 includes the bond issue proceeds trust accounts which consist of proceeds from bonds which are unspent or reserved. These funds are required to be held by outside fiscal agents under the provisions of the bond agreements. The California Government Code provides these monies in the absence of specific statutory provision governing the issuance of the certificates, may be invested in accordance with ordinance, resolutions, or indentures specifying the types of investments the fiscal agent may make. These investments are generally more restrictive than the City's investment policy, and at no time have additional investments not permitted by the City's investment policy been authorized.

Under provisions of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

Securities of the U.S. Government, or its agencies Local agency investment fund deposits (state pool)

Certificates of deposit (or time deposits) placed with Passbook savings account demand deposits commercial banks and/or savings & loan companies Small business administration loans

Negotiable certificates of deposit
Bankers' acceptances
Commercial paper

Repurchase agreements
Reverse repurchase agreements

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

All of the City's investment activities are within state statutes and the City's investment policy. During the year ended June 30, 2015, the City did not utilize investment types different from those categorized below. A summary of investment securities by category as of June 30, 2015 is as follows:

	<u>Fair Value</u>
State treasurer investment pool (LAIF)	<u>\$748,668</u>

The fair value of investments held in the City Treasury grouped by maturity at June 30 2015, is as shows below:

<u>Maturity</u>	
Current to one year	<u>\$748,668</u>

(d) Excess Expenditures Over Appropriations

As of June 30, 2015, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
General Government	\$ 55,959
Public Works	285,240
Parks & Recreation	16,651

The City incurred unanticipated expenditures during the year in the above departments.

(e) Cash and Investments

The summary of pooled cash and investments at June 30, 2015 is as follows:

Statement of Net Assets:

Governmental Activities:	
Cash on hand	\$ 700
Primary government deposits	5,667,869
Local agency investment fund	748,668
Cash with a fiscal agent/trustee	<u>476,337</u>
Fiduciary Funds:	
Deposits with financial institutions	<u>50,568</u>
	<u>\$ 6,944,142</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash and cash equivalents	\$ 6,467,805
Cash with a fiscal agent/trustee	476,337
	<u>\$ 6,944,142</u>

(f) 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.

(g) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

(h) 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 invests solely in the Local Agency Investment Fund. All other assets are cash equivalents held in financial institution savings or checking accounts.

(i) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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 provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

None of the City's deposits that were in excess of federal depository insurance limits with financial institutions were held in uncollateralized accounts.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

(3) Interfund Transactions

(a) Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal years.

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Major Funds:		
General Fund	\$ 71,418	\$ -
Non-Major Governmental Funds	5,239	71,418
Fiduciary Fund	-	5,239
Total	<u>\$ 76,657</u>	<u>\$ 76,657</u>

(b) Long-Term Interfund Advances

At June 30, 2015, the funds below have made advances that were not expected to be repaid in one year or less.

	<u>Advances to Other Funds</u>	<u>Advances From Other Funds</u>
Major Funds:		
General Fund	\$ -	\$ 1,317,588
Non-Major Governmental Funds	1,113,873	5,733
Proprietary Fund	66,662	-
Fiduciary Funds	142,786	-
Total	<u>\$ 1,323,321</u>	<u>\$ 1,323,321</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

(4) Capital Assets

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure additions as of the beginning of the fiscal year in the government-wide statement of net position. The City elected to use the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following table presents summary information on capital assets:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,189,198	\$ -	\$ -	\$ 1,189,198
Construction in progress	1,575,394	716,238	708,362	1,583,270
Total capital assets not being depreciated	<u>2,764,592</u>	<u>716,238</u>	<u>708,362</u>	<u>2,772,468</u>
Capital assets being depreciated:				
Buildings and improvements	1,688,263	-	-	1,688,263
Machinery and equipment	2,404,044	45,187	-	2,449,231
Infrastructures	22,212,787	708,362	2,168	22,918,981
Total capital assets being depreciated	<u>26,305,094</u>	<u>753,549</u>	<u>2,168</u>	<u>27,056,475</u>
Less accumulated depreciation for:				
Buildings and improvements	1,175,091	85,973	-	1,261,064
Machinery and equipment	2,710,559	265,263	-	2,975,822
Infrastructures	4,841,649	234,826	1,878	5,074,597
Total accumulated depreciation	<u>8,727,299</u>	<u>586,062</u>	<u>1,878</u>	<u>9,311,483</u>
Total capital assets being depreciated, net	<u>17,577,795</u>	<u>167,487</u>	<u>290</u>	<u>17,744,992</u>
Governmental activities capital assets, net	<u>20,342,387</u>	<u>883,725</u>	<u>708,652</u>	<u>20,517,460</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	191,046	-	-	191,046
Construction in progress	201,727	40,043	-	241,770
Total capital assets not being depreciated	<u>392,773</u>	<u>40,043</u>	<u>-</u>	<u>432,816</u>
Capital assets being depreciated:				
Buildings and improvements	12,186	-	-	12,186
Machinery and equipment	187,018	-	-	187,018
Infrastructures	6,077,395	-	-	6,077,395
Total capital assets being depreciated	<u>6,276,599</u>	<u>-</u>	<u>-</u>	<u>6,276,599</u>
Less accumulated depreciation for:				
Buildings and improvements	2,029	487	-	2,516
Machinery and equipment	102,796	23,075	-	125,871
Infrastructures	1,756,869	83,194	-	1,840,063
Total accumulated depreciation	<u>1,861,694</u>	<u>106,756</u>	<u>-</u>	<u>1,968,450</u>
Total capital assets being depreciated, net	<u>4,414,905</u>	<u>(106,756)</u>	<u>-</u>	<u>4,308,149</u>
Business-type activities capital assets, net	<u>4,807,678</u>	<u>(66,713)</u>	<u>-</u>	<u>4,740,965</u>
Total capital assets	<u>\$ 25,150,065</u>	<u>\$ 817,012</u>	<u>\$ 708,652</u>	<u>\$ 25,258,425</u>

For the year ended June 30, 2015, depreciation expense on capital assets was charged to the governmental functions as follows:

General government	\$ 297,932
Public safety	56,163
Public works	206,057
Community development	8,478
Parks and recreation	17,432
Total	<u>\$ 586,062</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

5. Loan Receivables

As part of the City's development plan, the City of Fowler applied for and received Community Development Block Grants from the U.S. Department of Housing and Urban Development. These grants will be used to provide loan funding for small businesses in the City of Fowler. The purpose is to develop growth and create jobs in the community of Fowler. The loans are made at reasonable rates.

2% loan to Dale Brisco, Inc. due in monthly installments of \$673 including principal and interest.	\$ 21,987
2% loan to Dale Brisco, Inc. due in monthly installments of \$644 including principal and interest.	31,355
2% loan to Fratellos, Inc. due in monthly installments of \$1,192 including principal and interest.	11,428 *
2% loan to La Quinta due in monthly installments of \$2,583 including principal and interest.	399,126 *
No interest loan to Nouveau Hair Salon due in monthly installments of \$179	6,679 *
No interest loan to Little Bit of This & A Little Bit of That due in monthly installments of \$83	2,982
No interest loan to Espana & Associates due in monthly installments of \$1,141	<u>4,879 *</u>
Total Loans Receivable	<u><u>\$ 478,436</u></u>

* Loans in arrears as of June 30, 2015.

6. Amount to be Provided by Special Assessments

The City established the following assessment districts in order to fund improvements within the City of Fowler. The property owners within the districts are responsible for the following at June 30, 2015:

Assessment City 1993-1	\$ 153,397
Assessment City 1994-1	982,221
	<u><u>\$ 1,135,618</u></u>

Future commitments to the City follow:

<u>Year Ended</u>	
<u>June 30</u>	
2016	\$ 176,083
2017	177,095
2018	179,475
2019	178,998
2020-2024	179,888
2025	<u>699,131</u>
	1,590,670
Interest	<u>(455,052)</u>
Total	<u><u>\$ 1,135,618</u></u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

7. Long-Term Obligations

(a) Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended June 30, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Revenue bonds	\$ 3,450,000	\$ -	\$ 265,000	\$ 3,185,000	\$ 275,000
Compensated absences	85,899	16,217	-	102,116	-
Energy Efficiency Retrofit Loan	-	112,153	11,503	100,650	17,256
	<u>3,535,899</u>	<u>128,370</u>	<u>276,503</u>	<u>3,387,766</u>	<u>292,256</u>
Business-type activities:					
State of California:					
Certificates of participation	1,724,100	-	28,900	1,695,200	30,100
Department of Water					
Resources note	59,430	-	14,103	45,327	13,076
Compensated absences	21,175	-	1,782	19,393	-
	<u>1,804,705</u>	<u>-</u>	<u>44,785</u>	<u>1,759,920</u>	<u>43,176</u>
Trust Activities:					
Successor Agency	1,261	90	-	1,351	-
	<u>\$ 5,341,865</u>	<u>\$ 128,460</u>	<u>\$ 321,288</u>	<u>\$ 5,149,037</u>	<u>\$ 335,432</u>

(b) Revenue Bonds

The Fowler Public Financing Authority issued Refunding Revenue Bonds in the amount of \$4,435,000 in August 2012. The proceeds from the bonds were used to refund the \$4,190,000 principal amount outstanding on the 1993 and 1994 Revenue Bonds and pay the costs of issuance of the bonds. The Bonds mature through September 2023 with interest ranging from 2% to 5.10% payable semi-annually on March 15 and September 15.

The outstanding revenue bonds of the City of Fowler at June 30, 2015 are as follows:

Date of Issue	Interest Rate%	Maturity Date	Original Issue	Outstanding July 1, 2014	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2015
2010	2.00-5.10	2023	<u>\$ 4,435,000</u>	<u>\$ 3,450,000</u>	<u>-</u>	<u>265,000</u>	<u>3,185,000</u>

The annual requirements to amortize revenue bonds outstanding as of June 30, 2015, are as follows:

Year Ended June 30	Principal	Interest	Total
2016	\$ 275,000	\$ 145,725	\$ 420,725
2017	290,000	134,569	424,569
2018	290,000	121,881	411,881
2019	310,000	108,563	418,563
2020	315,000	94,106	409,106
2021-2025	<u>1,705,000</u>	<u>200,648</u>	<u>1,905,648</u>
Total	<u>\$ 3,185,000</u>	<u>\$ 805,492</u>	<u>\$ 3,990,492</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

(c) State of California Department of Water Resources Note

The State of California Department of Water Resources note is due in annual installments based upon a changing percentage of the original principal amount. The interest for the first five years of the note was deferred and is being paid in equal annual installments over the remaining life of the note.

The annual requirements to amortize the long-term notes outstanding as of June 30, 2015 are as follows:

Year Ended June 30	Principal	Interest	Deferred Interest	Total
2016	13,402	571	1,020	14,993
2017	13,728	773	1,020	15,521
2018	14,117	404	1,020	15,541
2019	-	-	1,020	1,020
Total	<u>\$ 41,247</u> *	<u>\$ 1,748</u>	<u>\$ 4,080</u> *	<u>\$ 47,075</u>

*The sum of these items equals outstanding debt of \$45,327.

(d) Certificates of Participation

On September 2, 2004, the City was awarded a loan from the United States Department of Agriculture, Rural Development Division, for a total of \$1,935,000. The purpose of the loan is for water system improvements. As of June 30, 2015, the City has drawn \$1,935,000 at a stated interest rate of not more than 4.375% per annum. Principal payments will be due on September 15 of each year. Interest is due semi-annually on March 15 and September 15 of each year.

The annual requirements to amortize certificates of participation outstanding as of June 30, 2015, are as follows:

Year Ended June 30	Principal	Interest	Total
2016	\$ 30,100	\$ 74,165	\$ 104,265
2017	31,400	72,848	104,248
2018	32,800	71,474	104,274
2019	34,300	70,039	104,339
2020	35,800	68,539	104,339
2021-2025	203,600	317,813	521,413
2026-2030	252,300	269,203	521,503
2031-2035	312,600	208,950	521,550
2036-2040	387,100	134,339	521,439
2041-2045	375,200	41,913	417,113
Total	<u>\$ 1,695,200</u>	<u>\$ 1,329,283</u>	<u>\$ 3,024,483</u>

(e) Energy Efficiency Retrofit Loan

In October 2014, the City received a loan of \$112,153 from Pacific Gas & Electric to complete energy conservation measures related to street lighting. The loan call for monthly payments of \$1,438 until April 2021 and bears no interest. Future payments are as follows:

Year Ending June 30,	
2016	\$ 17,256
2017	17,256
2018	17,256
2019	17,256
2020	17,256
2021-2025	14,370
Total	<u>\$ 100,650</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

8. Classification of Net Position

In the government-wide financial statements, net position are classified in the following categories:

Invested in capital assets, net of related debt - this category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted net position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions of enabling legislation. Additionally, this category presents restrictions placed on the categories of capital projects, and specific projects and programs as established by the City Council.

Unrestricted net position - This category represents the remaining net position of the City, which are not restricted for any project or other purposes.

	Fowler Public Financing Authority Debt Service Fund	Other Governmental Funds
Assigned for Debt Service	\$ 476,337	\$ -
Assigned for Street and Roads	-	16,954
Assigned for Street and Highway Safety	-	60,071
Assigned for Local Pedestrian and Bicycle Paths	-	23,791
Assigned for Local Streets and Roads Projects	-	304,268
Assigned for Roads and Transportation Projects	-	559,104
Assigned for Development Activities	-	499,621
Assigned for Low and Moderate Income Housing	-	62,451
Assigned for Groundwater Monitoring	-	6,946
Assigned for Debt Service	-	937,614
Assigned for Capital Improvements	-	1,513,962
Total	<u>\$ 476,337</u>	<u>\$ 3,984,782</u>
Committed for Municipal Services	<u>\$ -</u>	<u>\$ 795,015</u>
	<u>\$ -</u>	<u>\$ 795,015</u>

M. Pension Plans

1. General Information About the Pension Plans

a. Plan Descriptions

Qualified employees are eligible to participate in the City's Safety (police) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and memberships information that can be found on the CalPERS website.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

b. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

The Plans' provisions and benefits for the measurement period ending June 30, 2014 are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date	2.7% at 55	2% at 62
Benefit Formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50-55	52-67
Retirement age	2.0% to 2.70%	1.0% to 2.5%
Monthly benefits, as a % of eligible compensation	8.00%	6.25%
Required employee contribution rates	25.275%	6.25%
Required employer contribution rates		
	<u>Safety - Police</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date	3% at 55	2.7% at 57
Benefit Formula	5 years of service	5 years of service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50-55	50-57
Retirement age	2.4% to 3.0%	2.0% to 2.70%
Monthly benefits, as a % of eligible compensation	9.00%	11.50%
Required employee contribution rates	27.46%	11.50%
Required employer contribution rates		

c. Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 1,772,373
Safety	1,187,720
Total Net Pension Liability	<u>\$ 2,960,093</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by the actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. Although a valid comparison of the City's proportion at June 30, 2014 to its proportion at June 30, 2013 is not available in the first year of implementation of GASB Statement No. 68, that disclosure will be available in subsequent years.

For the year ended June 30, 2015, the City recognized pension expense of \$314,060. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 410,348	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net difference between projected and actual earnings on plan investments	-	580,109
Adjustment due to Differences in Proportions	-	<u>68,756</u>
Total	<u><u>\$ 410,348</u></u>	<u><u>\$ 648,865</u></u>

\$410,348 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2016	\$ 169,583
2017	169,583
2018	164,671
2019	<u>145,028</u>
Total	<u><u>\$ 648,865</u></u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

a. Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>		<u>Safety</u>	
Valuation Date	June 30, 2013		June 30, 2013	
Measurement Date	June 30, 2014		June 30, 2014	
Actuarial Cost Method	Entry Age - Normal Cost Method		Entry Age - Normal Cost Method	
Actuarial Assumptions:				
Discount Rate	7.5%		7.5%	
Inflation	2.75%		2.75%	
Payroll Growth	3.00%		3.00%	
Projected Salary Increase	3.3-14.2%	(1)	3.3-14.2%	(1)
Investment Rate of Return	7.5%	(2)	7.5%	(2)
Mortality	Derived using CalPERS membership data for all Funds	(3)	Derived using CalPERS membership data for all Funds	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

b. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for their own financial reporting purposes. Refer to page 9 of this report, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

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

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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

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

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

CalPERS

<u>Asset Class</u>	<u>Strategic Allocation</u>	<u>Real Return (Years 1-10)(1)</u>	<u>Real Return (Years 11+)(2)</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	<u>100.00%</u>		

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

c. Sensitivity to Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.50%	6.50%
Net Pension Liability	\$ 2,653,264	\$ 1,824,527
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$ 1,772,373	\$ 1,187,720
1% Increase	8.50%	8.50%
Net Pension Liability	\$ 1,041,316	\$ 663,018

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

d. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

11. Risk Management

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Employment Risk Management Authority (ERMA). The relationship between the City and ERMA is such that ERMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$350,000 of each worker's compensation claim through the ERMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$25,000 and worker's compensation losses under \$10,000. The ERMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$10,000,000 and purchases excess reinsurance from \$10,000,000 to \$15,000,000. The ERMA participates in an excess pool which provides worker's compensation coverage from \$350,000 to \$500,000 and purchases excess reinsurance above \$500,000 to the statutory limit.

The ERMA is a consortium of one hundred sixty (160) public entities in California. It was established under the provisions of California Government Code Section 6500 et seq. The ERMA is governed by a Board of Directors, which meets three times per year, consisting of one representative appointed by each member. The day-to-day business is handled by a management group employed by the ERMA. The financial position and results of operations for the ERMA as of June 30, 2015 are presented below:

Total Assets	\$ 25,483,295
Total Liabilities	<u>9,001,165</u>
Members' Equity	<u>\$ 16,482,130</u>
Total Revenues for Year	\$ 5,873,537
Total Expenses for Year	<u>7,896,544</u>
Excess of Income Over (Under) Expenses	<u>\$ (2,023,007)</u>

At the termination of the joint powers agreement and after all claims have been settled, any excess or deficit will be divided among the cities in accordance with its governing documents.

At June 30, 2015 the City reported \$113,238 in deposits in the General Fund related to the general liability and workers' compensation programs.

12. Contingent Liabilities

Litigation

The City is involved in various litigation actions. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards and Grants

The City participates in various federal and state financial assistance programs. These programs are subject to program compliance audits by the grantors, which may be covered by the *Single Audit Act Amendments of 1997* and *OMB Circular A-133*. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

13. Deferred Compensation Plan

The City does not provide administrative nor investment advice for the Plan. Therefore, the City is not required to report the Plan assets and has excluded them from their financial statements.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

14. Prior Period Adjustments

A prior period adjustment of \$210,000 was made to the General Fund and Redevelopment Successor Agency Private Purpose Trust Fund to correct the classification of tax increment apportionment revenue recorded in the 2013/14 fiscal year. A prior period adjustment of \$61,475 was made to the Redevelopment Successor Agency Private Purpose Trust Fund to remove a duplicate accrual related to a home improvement grant loan. A prior period adjustment of \$5,712 was made to the Low/Moderate Income Housing Asset Fund to correct negative cash balance in the 2013/14 fiscal year. A prior period adjustment of \$18,462 was made to the General Fund to adjust cash balance.

Summary Schedule:

	Governmental Activities	Business-Type Activities	Redevelopment Successor Agency Private Purpose Trust Fund
Net Pension Liability	\$ (2,898,888)	\$ (396,010)	\$ -
Tax Increment Apportionment	210,000	-	210,000
General Fund Cash Adjustment	18,462	-	-
Low and Moderate Income Housing Fund Negative Cash	5,712	-	-
Duplicate housing loan accrual	-	-	61,475
	<u>\$ (2,664,714)</u>	<u>\$ (396,010)</u>	<u>\$ 271,475</u>

Required Supplementary Information

CITY OF FOWLER
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

	Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 2,300,000	\$2,873,031	\$ 573,031
License and permits	144,200	245,024	100,824
Fines and penalties	7,000	4,854	(2,146)
Revenue from use of money and property	6,000	4,997	(1,003)
Charges for services	168,000	1,108	(166,892)
Intergovernmental	105,000	139,127	34,127
Miscellaneous	270,500	303,073	32,573
Total Revenues	<u>3,000,700</u>	<u>3,571,214</u>	<u>570,514</u>
EXPENDITURES			
Current services:			
General government	1,043,704	1,099,663	(55,959)
Public safety	1,744,905	1,562,011	182,894
Public works	400,322	685,562	(285,240)
Community development	200,835	170,497	30,338
Parks and recreation	217,225	233,876	(16,651)
Capital outlay	17,000	11,670	5,330
Debt Service:			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	<u>3,623,991</u>	<u>3,763,279</u>	<u>(139,288)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(623,291)</u>	<u>(192,065)</u>	<u>431,226</u>
Other Financing Sources (Uses):			
Transfers in	121,174	468,484	347,310
Transfers out	-	(527,987)	(527,987)
Other financing uses	-	(7,215)	(7,215)
Total Other Financing Sources (Uses)	<u>121,174</u>	<u>(66,718)</u>	<u>(187,892)</u>
Excess (Deficiency) Over Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(502,117)</u>	<u>(258,783)</u>	<u>243,334</u>
Fund Balance, Beginning	(27,469)	(27,469)	-
Prior Period Adjustments	228,462	228,462	-
Fund Balance, Ending	<u>\$ (301,124)</u>	<u>\$ (57,790)</u>	<u>\$ 243,334</u>

CITY OF FOWLER
SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	Fiscal Year 2015	
	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Proportion of the net pension liability	0.02848%	0.01909%
Proportionate share of the net pension liability	\$ 1,772,373	\$ 1,187,720
Covered-employee payroll	\$ 869,779	\$ 688,280
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	203.77%	172.56%
Plan's fiduciary net position	\$ 4,867,709	\$ 3,566,435
Plan fiduciary net position as percentage of total pension liability	73.31%	75.02%

CITY OF FOWLER
SCHEDULE OF THE CITY'S CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	Fiscal Year 2015	
	Miscellaneous Plan	Safety Plan
Actuarially required contribution	\$ 193,896	\$ 188,701
Contributions in relation to the actuarially determined contribution	(193,896)	(188,701)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 869,779	\$ 688,280
Contributions as a percentage of covered-employee payroll	22.29%	27.42%

Additional Auditors' Reports

Independent Auditors' 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*

The Honorable Members of the City Council
Fowler, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fowler's, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Fowler's basic financial statements, and have issued our report thereon dated January 12, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City of Fowler's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2015-2 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2015-1 to be significant deficiencies.

Compliance and Other Matters

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

City of Fowler's Response to Findings

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

Purpose of this Report

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

Borchardt, Corona & Faeth

Fresno, California
January 12, 2016

Findings and Recommendations Section

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Summary of Auditors' Results

(1) Financial Statements

Type of auditors' report issued:	<u>Qualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u> X </u> Yes <u> </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)	<u> X </u> Yes <u> </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes <u> X </u> No

(2) Federal Awards

Internal control over major programs:	Not Applicable
Material weakness(es) identified?	Not Applicable
Significant deficiency(ies) identified not considered to be material weakness(es)	Not Applicable
Type of auditors' report issued on compliance for major programs:	Not Applicable
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Not Applicable
Identification of major programs:	Not Applicable
Dollar threshold used to distinguish between Type A and Type B programs	Not Applicable
Auditee qualified as low-risk auditee?	Not Applicable

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

B. Financial Statement Findings

Finding Identification

2015 - 001 *Internal Controls*

Criteria or Specific Requirement

Accounting principles generally accepted in the United States of America require adequate internal controls to safeguard and preserve assets, protect against improper fund disbursement, and to ensure all transactions are properly classified and recorded.

Condition

While performing procedures related to subsequent disbursements, we noted invoices totaling \$12,489 for equipment rented during the 2014/15 fiscal year that had not been accrued at year-end. While performing analytical procedures related to franchise fees received by the City from Waste Management, we noted that the 1st quarter 2015 franchise fee payment of \$26,462 due to the City had not been accrued at year-end.

Effect

Based on available information, accounts payable and related expenditures were understated by \$12,489. The accounts receivable and related revenues were understated by \$26,462.

Cause

A department of the City held onto current year invoices payable to a vendor instead of submitting them to the Finance Department for proper recording and payment. The department which held onto the invoices was recommended by City management to limit their expenditures during the year and therefore held onto the invoices in efforts to show lower annual expenditures on the City's financial records.

Questioned Costs

None

Recommendation

We recommend the City review invoices paid subsequent to year-end to ensure that accounts payable balance is accurate and implement a purchase order system to We also recommend the City review ending revenue account balances to ensure that any outstanding amounts due to the City are properly accrued.

City Response

The City will implement a purchase order system for proper internal control, along will procedures to ensure that all expenses and revenues are accrued and identified in a timely manner at year end.

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

B. Financial Statement Findings

Finding Identification

2015 - 002 *Internal Controls*

Criteria or Specific Requirement

Accounting principles generally accepted in the United States of America require internal controls to safeguard and preserve assets, protect against improper fund disbursement, and to ensure all transactions are properly classified and recorded.

Condition

The City has a policy in place for the use of a purchase order for all equipment acquisitions. However, during our analysis of controls related to expenditures, we noted two vehicles that had been acquired without the use of a purchase order.

Effect

The absence of using a purchase order system at the City results in inadequate control over expenditures and increases the opportunity for asset misappropriation.

Cause

A purchase order was not being used for purchases of equipment and no formal procedures were present for approving invoices prior to expenditures being incurred.

Questioned Costs

None

Recommendation

We recommend that the City utilize a purchase order system for all expenditures that exceed the required dollar amount as established by Board policy and that all purchase orders are approved by the Finance Director and/or City Manager.

City Response

The City will implement a purchase order system for proper internal control and budgetary management of all expenditures.

CITY OF FOWLER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>City Explanation if Not Implemented</u>
<p>1. During our review of accounts payable and accounts receivable year-end balances, it was noted that these amounts had not been properly accrued by the City. It is recommended that City personnel review the accounts payable and accounts receivable year-end detail and reconcile these amounts back to the general ledger to ensure both amounts agree and are properly supported. Without these reports, the financial status of the City cannot be reasonably reported.</p>	<p>Not Implemented</p>	<p>The city will ensure it receives and records the auditors adjustments related to these items and to clear our prior year adjustments.</p>
<p>2. Ending cash balances reported in the City's bank reconciliation did not agree to amounts reported in the City's general ledger. We also noted that bank reconciliations were not being prepared on a monthly basis and a review process was not in place to ensure that the reconciliations were being prepared on a timely basis. Personnel must ensure that ending cash balances reported in the bank reconciliations agree to the balances reported in the City's general ledger. Personnel must also perform bank reconciliations on a timely basis and post any reconciling items noted as differences between the bank and general ledger balances.</p>	<p>Implemented</p>	
<p>3. During our review of year-end balances related to customer deposits, it was noted that these amounts had not been reconciled by the city. It is recommended that City personnel review the year-end detail for customer deposit accounts and reconcile these amounts back to the general ledger to ensure both amounts agree and are properly supported.</p>	<p>Implemented</p>	