

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

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED JUNE 30, 2016

**BORCHARDT, CORONA & FAETH
Accountancy Corporation
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CITY OF FOWLER
AUDIT REPORT
YEAR ENDED JUNE 30, 2016

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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, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 April 28, 2017, 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
April 28, 2017

CITY OF FOWLER
Management's Discussion and Analysis (MD&A)
June 30, 2016

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, 2016. It should be read in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ Total net position was \$26,733,500 at June 30, 2016.
- ❑ Overall revenues and transfers in totaled \$7,568,477 which exceeded expenses by \$1,333,003.

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 was \$26,733,500 at June 30, 2016. See Table 1.

Table 1
Net Position

	Governmental Activities	Business- Type Activities	Governmental Activities	Business- Type Activities	Total Percentage Change
	2016	2016	2015	2015	2016-2015
ASSETS					
Cash	\$ 4,934,015	\$ 1,253,522	\$ 4,886,670	\$ 1,530,567	(3.58%)
Cash with Fiscal Agent	468,665	-	476,337	-	(1.61%)
Accounts Receivable	487,923	103,957	227,020	155,137	54.88%
Intergovernmental Receivable	109,426	72,321	-	66,662	172.64%
Assessments Receivable	1,046,560	-	1,135,618	-	(7.84%)
Community Loans	506,592	-	478,436	-	5.89%
Inventory	-	58,442	-	-	N/A
Land Held for Resale	153,794	-	153,794	-	0.00%
Deposits with Others	7,771	-	6,369	-	22.01%
Capital Assets, Nondepreciable	3,045,943	452,290	2,772,468	432,816	9.14%
Capital Assets, Net of Accumulated Depreciation	17,771,014	4,256,026	17,744,992	4,308,149	(0.12%)
TOTAL ASSETS	28,531,703	6,196,558	27,881,704	6,493,331	1.03%
Deferred Outflows of Resources -					
Pensions	407,284	54,097	361,028	49,320	12.44%
LIABILITIES					
Accounts Payable	111,144	31,161	59,124	23,085	73.10%
Accrued Liabilities	41,203	-	175,114	-	(76.47%)
Accrued Interest Payable	41,882	-	44,743	-	(6.39%)
Consumer Deposits	-	96,217	-	94,586	1.72%
Debt Due in One Year	399,473	66,232	292,256	43,176	38.84%
Long-Term Debt	5,322,592	2,000,034	5,699,831	2,072,516	(5.79%)
TOTAL LIABILITIES	5,916,294	2,193,644	6,271,068	2,233,363	(4.64%)
Deferred Inflows of Resources -					
Pensions	305,611	40,593	570,878	77,987	(46.64%)
NET POSITION					
Invested in Capital Assets, Net of Related Debt	17,906,957	3,012,319	17,332,460	3,000,438	2.88%
Restricted for:					
Special Revenue	1,973,044	-	2,321,275	-	(15.00%)
Debt Service	630,763	-	1,413,951	-	(55.39%)
Capital Projects	1,383,875	-	1,513,962	-	(8.59%)
Unrestricted	845,570	1,004,099	(1,180,862)	1,230,863	>100.00%
TOTAL NET POSITION	\$ 22,717,082	\$ 4,016,418	\$ 21,400,786	\$ 4,231,301	4.30%

Changes in Net Position

The City's total revenues, including business-type activities, were \$7,568,477. A majority of the revenue comes from various taxes, \$4,510,595 (60%) Operating Grants accounted for another \$722,422, (10%) and combined charges for services totaled \$1,415,990 (19%) of total revenues.

The total cost of all programs and services, including business-type activities, was \$6,235,474. The City's expenses are predominately related to General Government and Public Safety (50%). 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 Activities	Business- Type Activities	Governmental Activities	Business- Type Activities	Total Percentage Change
	2016	2016	2015	2015	2016-2015
REVENUES					
Program Revenues:					
Charges for Services	\$ 384,388	\$ 1,031,602	\$ 224,202	\$ 1,161,776	2.17%
Operating Grants	722,422	-	978,380	-	(26.16%)
General Revenues:					
Taxes	4,510,595	-	3,856,498	-	16.96%
Rental Income	421,936	-	428,478	-	(1.53%)
Investment Income	8,464	-	5,102	-	65.90%
Miscellaneous	81,599	-	177,990	-	(54.16%)
Transfers In	2,080,214	-	1,279,299	-	62.61%
Transfers Out	(1,632,865)	(39,878)	(1,255,818)	(23,481)	30.75%
TOTAL REVENUES	6,576,753	991,724	5,694,131	1,138,295	10.77%
PROGRAM EXPENSES					
General Government	1,443,277	-	1,461,456	-	(1.24%)
Public Safety	1,591,493	-	1,690,299	-	(5.85%)
Public Works	800,520	-	929,594	-	(13.88%)
Community Development	453,967	-	366,064	-	24.01%
Culture and Recreation	396,211	-	377,135	-	5.06%
Interest on Long-Term Debt	343,399	-	375,723	-	(8.60%)
Water Services	-	1,206,607	-	1,243,710	(2.98%)
TOTAL EXPENSES	5,028,867	1,206,607	5,200,271	1,243,710	(3.24%)
INCREASE (DECREASE) IN NET POSITION	\$ 1,547,886	\$ (214,883)	\$ 493,860	\$ (105,415)	243.16%

Governmental Activities

The cost of all governmental activities this year was \$5,028,867.

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	
	2016	2015	2016	2015
General Government	\$ 1,443,277	\$ 1,461,456	\$ 1,441,064	\$ 1,498,902
Public Safety	1,591,493	1,690,299	1,461,277	1,569,526
Public Works	800,520	929,594	284,720	167,103
Community Development	453,967	366,064	26,542	33,847
Culture and Recreation	396,211	377,135	365,055	352,588
Interest on Long-Term Debt	343,399	375,723	343,399	375,723
	\$ 5,028,867	\$ 5,200,271	\$ 3,922,057	\$ 3,997,689

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 \$5,739,956, above last year's ending fund balance of \$5,198,344.

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, 2016. 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, 2016, the City had a net investment of \$25,525,273 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 Activities	Business- Type Activities	Governmental Activities	Business- Type Activities	Total Percentage Change
	2016	2016	2015	2015	2016-2015
Non-Depreciated Assets	\$ 3,045,943	\$ 452,290	\$ 2,772,468	\$ 432,816	9.14%
Depreciated Assets	27,680,735	6,299,055	27,056,475	6,276,599	1.94%
Total Accumulated Depreciation	(9,909,721)	(2,043,029)	(9,311,483)	(1,968,450)	5.96%
NET CAPITAL POSITION	\$ 20,816,957	\$ 4,708,316	\$ 20,517,460	\$ 4,740,965	1.06%

Long-Term Debt

At year-end, the City had \$7,788,331 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 Activities	Business- Type Activities	Governmental Activities	Business- Type Activities	Total Percentage Change
	2016	2016	2015	2015	2016-2015
Net Pension Liability	\$ 2,636,450	\$ 350,185	\$ 2,604,321	\$ 355,772	0.90%
Revenue Bonds	2,910,000	-	3,185,000	-	(8.63%)
Certificates of Participation	-	1,665,100	-	1,695,200	(1.78%)
Note Payable	-	30,897	-	45,327	(31.84%)
Energy Efficiency Retrofit Loan	83,396	-	100,650	-	(17.14%)
Compensated Absences	92,219	20,084	102,116	19,393	(7.58%)
TOTAL LONG-TERM DEBT	\$ 5,722,065	\$ 2,066,266	\$ 5,992,087	\$ 2,115,692	(3.94%)

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 did not include a cost of living increase for salary steps.

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, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,934,015	\$ 1,253,522	\$ 6,187,537
Investment held by fiscal agent:			
Restricted	468,665	-	468,665
Receivables:			
Consumer	487,923	103,957	591,880
Intergovernmental	109,426	72,321	181,747
Assessments	1,046,560	-	1,046,560
Community loans	506,592	-	506,592
Inventory	-	58,442	58,442
Land held for resale	153,794	-	153,794
Deposits with others	7,771	-	7,771
Capital assets:			
Non-depreciable	3,045,943	452,290	3,498,233
Depreciable - net of accumulated depreciation	17,771,014	4,256,026	22,027,040
TOTAL ASSETS	28,531,703	6,196,558	34,728,261
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources - Pensions	407,284	54,097	461,381
LIABILITIES			
Accounts payable	111,144	31,161	142,305
Accrued liabilities	41,203	-	41,203
Accrued interest payable	41,882	-	41,882
Consumer deposits	-	96,217	96,217
Noncurrent liabilities:			
Net Pension Liability	2,636,450	350,185	2,986,635
Due in one year	399,473	66,232	465,705
Due in more than one year	2,686,142	1,649,849	4,335,991
TOTAL LIABILITIES	5,916,294	2,193,644	8,109,938
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Pensions	305,611	40,593	346,204
NET POSITION			
Invested in capital assets, net of related debt	17,906,957	3,012,319	20,919,276
Restricted for:			
Special revenue	1,973,044	-	1,973,044
Debt service	630,763	-	630,763
Capital projects	1,383,875	-	1,383,875
Unrestricted	845,570	1,004,099	1,849,669
TOTAL NET POSITION	\$ 22,717,082	\$ 4,016,418	\$ 26,733,500

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

FUNCTION/PROGRAMS	Net (Expense) Revenues and					
	Expenses	Program Revenues		Changes in Net Position		Total
		Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	
Governmental activities:						
General government	\$ 1,443,277	\$ 2,213	\$ -	\$ (1,441,064)	\$ -	\$ (1,441,064)
Public safety	1,591,493	4,710	125,506	(1,461,277)	-	(1,461,277)
Public works	800,520	-	515,800	(284,720)	-	(284,720)
Community development	453,967	354,975	72,450	(26,542)	-	(26,542)
Culture and recreation	396,211	22,490	8,666	(365,055)	-	(365,055)
Interest on long-term debt	343,399	-	-	(343,399)	-	(343,399)
Total Governmental Activities	5,028,867	384,388	722,422	(3,922,057)	-	(3,922,057)
Business-type activities:						
Water	1,206,607	1,031,602	-	-	(175,005)	(175,005)
Total Function/Programs	\$ 6,235,474	\$ 1,415,990	\$ 722,422	(3,922,057)	(175,005)	(4,097,062)
General Revenues:						
Taxes:						
Property				913,109	-	913,109
Sales				1,658,113	-	1,658,113
Franchise				306,332	-	306,332
Utility				407,125	-	407,125
Other				659,515	-	659,515
Motor vehicle in-lieu taxes				566,401	-	566,401
Rental income				421,936	-	421,936
Investment income				8,464	-	8,464
Miscellaneous				81,599	-	81,599
Transfers in				2,080,214	-	2,080,214
Transfers out				(1,632,865)	(39,878)	(1,672,743)
Total General Revenues and Transfers				5,469,943	(39,878)	5,430,065
Changes in Net Position				1,547,886	(214,883)	1,333,003
Net Position, Beginning				21,400,786	4,231,301	25,632,087
Prior Period Adjustment				(231,590)		(231,590)
Net Position, Ending				\$ 22,717,082	\$ 4,016,418	\$ 26,733,500

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Fowler Public Financing Authority Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,396,872	\$ 468,665	\$ 3,537,143	\$ 5,402,680
Accounts receivable	410,537	-	77,386	487,923
Loans Receivable	-	-	294,847	294,847
Due from other funds	197,380	-	-	197,380
Due from other agencies	93,701	-	15,725	109,426
Prepaid deposits	1,402	-	6,369	7,771
Property held for sale	-	-	153,794	153,794
TOTAL ASSETS	\$ 2,099,892	\$ 468,665	\$ 4,085,264	\$ 6,653,821
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 83,948	\$ -	\$ 27,196	\$ 111,144
Accrued liabilities	41,203	-	-	41,203
Deferred revenue	100,513	-	294,847	395,360
Due to other funds	-	-	197,380	197,380
Advances from other funds	66,662	-	-	66,662
Compensated absences	102,116	-	-	102,116
Total Liabilities	394,442	-	519,423	913,865
Fund Balances:				
Committed for:				
Special revenue	-	-	778,831	778,831
Assigned for:				
Special revenue	-	-	1,194,213	1,194,213
Debt service	-	468,665	162,098	630,763
Other purposes	-	-	1,430,699	1,430,699
Unassigned	1,705,450	-	-	1,705,450
Total Fund Balances	1,705,450	468,665	3,565,841	5,739,956
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,099,892	\$ 468,665	\$ 4,085,264	\$ 6,653,821

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, 2016**

Total fund balances - governmental funds balance sheet	\$ 5,739,956
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.	20,793,830
Long-term liabilities were not due and payable in the current period, therefore, they were not reported in the governmental fund balance sheet.	(2,990,577)
Unmatured interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(41,882)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,553,152
Interagency receivables liquidated.	197,380
Recognition of the proportionate share of the net pension liability is not reported in the funds.	(2,636,450)
Deferred Resource Inflows related to pension plans are not reported in the funds.	(305,611)
Deferred Resource Outflows related to pension plans are not reported in the funds.	<u>407,284</u>
Net position of governmental activities - statements of net position	<u>\$ 22,717,082</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, 2016**

	General	Fowler Public Financing Authority Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 3,193,709	\$ -	\$ 676,617	3,870,326
Licenses and permits	328,093	-	-	328,093
Fines and penalties	11,905	-	-	11,905
Revenue from use of money and property	5,828	417,136	7,436	430,400
Charges for services	81,330	-	-	81,330
Intergovernmental revenues	143,439	-	851,250	994,689
Miscellaneous	186,059	-	67,451	253,510
TOTAL REVENUES	3,950,363	417,136	1,602,754	5,970,253
EXPENDITURES				
General government	901,924	-	-	901,924
Public safety	1,554,393	-	21,140	1,575,533
Public works	603,913	-	-	603,913
Community development	160,376	-	123,204	283,580
Parks and recreation	199,976	-	179,965	379,941
Contractual services	-	-	243,762	243,762
Capital outlay	437,187	-	499,026	936,213
Debt services:				
Principal	-	275,000	149,058	424,058
Interest	-	145,725	145,025	290,750
Bond Fees	6,684	4,083	-	10,767
TOTAL EXPENDITURES	3,864,453	424,808	1,361,180	5,650,441
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	85,910	(7,672)	241,574	319,812
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,622,611	-	194,287	1,816,898
Operating transfers out	-	-	(1,632,865)	(1,632,865)
TOTAL OTHER FINANCING SOURCES (USES)	1,622,611	-	(1,438,578)	184,033
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,708,521	(7,672)	(1,197,004)	503,845
FUND BALANCES (DEFICITS), JULY 1	(57,790)	476,337	4,779,797	5,198,344
PRIOR PERIOD ADJUSTMENT:	54,719	-	(16,952)	37,767
FUND BALANCES, JUNE 30	\$ 1,705,450	\$ 468,665	\$ 3,565,841	\$ 5,739,956

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, 2016**

Net change in fund balances - total governmental funds	\$ 503,845
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.	936,614
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.	(598,238)
Principal repayments for CDBG loans considered as program income in fund statement are not recognized in the statement of activities.	67,450
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.	292,254
Additional accrued interest calculated on bonds and notes payable	(41,882)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resourced outflows.	407,284
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(19,441)</u>
Change in net position of governmental activities - statement of activities	<u>\$ 1,547,886</u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	<u>Water Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,253,522
Consumer receivables	103,957
Inventory	58,442
Due from other funds	66,662
Due from other agencies	5,659
Total Current Assets	<u>1,488,242</u>
Noncurrent Assets:	
Capital Assets:	
Non-depreciable	452,290
Depreciable - net of accumulated depreciation	4,256,026
Total Noncurrent Assets	<u>4,708,316</u>
TOTAL ASSETS	<u>6,196,558</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources - Pension	<u>54,097</u>
 LIABILITIES	
Current Liabilities:	
Accounts payable	31,161
Deposits	96,217
Current portion of certificates of participation	31,400
Current portion of note payable	14,748
Compensated absences	20,084
Total Current Liabilities	<u>193,610</u>
Noncurrent Liabilities:	
Certificates of participation	1,633,700
Water note payable	16,149
Net Pension Liability	350,185
Total Noncurrent Liabilities	<u>2,000,034</u>
TOTAL LIABILITIES	<u>2,193,644</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources - Pension	<u>40,593</u>
 NET POSITION	
Invested in capital assets, net of related debt	3,012,319
Unrestricted	1,004,099
TOTAL NET POSITION	<u><u>\$ 4,016,418</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, 2016**

	<u>Water Fund</u>
OPERATING REVENUE	
Charges for services	<u>\$ 1,027,767</u>
OPERATING EXPENSES	
Personnel costs	607,513
Materials and supplies	30,528
Contract services	98,023
Utilities	139,626
Repairs and maintenance	145,914
Rent and leases	5,144
Other	33,250
Depreciation	<u>74,579</u>
TOTAL OPERATING EXPENSES	<u>1,134,577</u>
OPERATING INCOME	<u>(106,810)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	3,835
Interest expense	<u>(72,030)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(68,195)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(175,005)</u>
TRANSFERS OUT	<u>(39,878)</u>
CHANGE IN NET POSITION	(214,883)
NET POSITION, BEGINNING	<u>4,231,301</u>
NET POSITION, ENDING	<u><u>\$ 4,016,418</u></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, 2016**

	Water Fund
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Cash received from customers	\$ 1,074,919
Cash payments to suppliers for goods and services	(502,851)
Cash payments to employees for services	(606,822)
Net pension liability and related deferred outflows/inflows	(47,758)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(82,512)
CASH FLOWS USED BY NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(39,878)
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(44,530)
Interest paid on long-term debt	(72,030)
Acquisition or Construction of Capital Assets	(41,930)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(158,490)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	3,835
DECREASE IN CASH AND TEMPORARY CASH INVESTMENTS	(277,045)
CASH AND CASH INVESTMENTS, BEGINNING OF YEAR	1,530,567
	<u>\$ 1,253,522</u>

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

Operating loss	\$ (106,810)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	74,579
Changes in assets and liabilities:	
Decrease in consumer receivables	51,180
(Increase) in due from other agencies	(5,659)
(Increase) in Inventory	(58,442)
Increase in accounts payable	8,076
Increase in consumer deposits	1,631
Increase in other liabilities	691
(Decrease) in Net Pension Liability Components	(47,758)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (82,512)</u>

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

CITY OF FOWLER
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Redevelopment Successor Agency Private Purpose Trust Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 115,100
Deferred Outflows of Resources - Pensions	38,593
LIABILITIES	
Accounts payable	88
Unearned revenue	115,100
Net pension liability	249,824
Total Current Liabilities	365,012
Deferred Inflows of Resources - Pensions	28,959
NET POSITION	
Restricted	(240,278)
TOTAL NET POSITION	\$ (240,278)

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, 2016**

	Redevelopment Successor Agency Private Purpose Trust Fund
ADDITIONS	
Tax revenue	<u>\$ 161,482</u>
DEDUCTIONS	
Personnel costs	92,909
Professional services	3,888
Debt Service:	
Interest	<u>92,100</u>
Total Deductions	<u>188,897</u>
Operating Income	(27,415)
Transfers Out	<u>(407,471)</u>
Change in Net Position	(434,886)
Net Position, Beginning	255,632
Prior Period Adjustment	(61,024)
Net Position, Ending	<u><u>\$ (240,278)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

(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, 2016

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 Policies

In February 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 72 Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City has implemented the guidance under GASB Statement No. 72 into their accounting policies effective for the fiscal year ending June 30, 2016.

In June 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The City has implemented the guidance under GASB Statement No. 76 into their accounting policies effective for the fiscal year ending June 30, 2016.

2. 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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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.

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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

- 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.

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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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.

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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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:

<u>Fund Name</u>	<u>Amount</u>	<u>Remarks</u>
Parks Fund	\$ 39,717	Deficit fund balances for Parks Fund will be reduced using development fee revenues
Redevelopment Successor Agency Private Purpose Trust Fund	88	Deficit fund balances for RDA Successor Agency Fund will be reduced using tax increment revenues

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.
3. 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.

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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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

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 2015-16 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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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, 2016 the amount of accrued vacation pay was \$20,084 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.

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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2013 to June 30, 2015

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, 2016

(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 \$5,552,738 at June 30, 2016. The general bank balance at June 30, 2016 was \$5,689,014 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 \$749,199 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 \$468,665 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, 2016

All of the City's investment activities are within state statutes and the City's investment policy. During the year ended June 30, 2016, the City did not utilize investment types different from those categorized below. A summary of investment securities by category as of June 30, 2016 is as follows:

	<u>Fair Value</u>
Money Market Cash With Fiscal Agent	<u>\$468,665</u>

The fair value of investments held in the City Treasury grouped by maturity at June 30 2016, is as shown below:

<u>Maturity</u>	
Current to one year	<u>\$468,665</u>

(d) Excess Expenditures Over Appropriations

As of June 30, 2016, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Public Works	\$17,313
Community Development	1,409

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, 2016 is as follows:

Statement of Net Assets:

Governmental Activities:

Cash on hand	\$ 700
Primary government deposits	5,437,638
Local agency investment fund	749,199
Cash with a fiscal agent/trustee	468,665

Fiduciary Funds:

Deposits with financial institutions	115,100
	<u>\$ 6,771,302</u>

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

Cash and Cash equivalents	\$ 6,302,637
Cash with a fiscal agent/trustee	468,665
	<u>\$ 6,771,302</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.

(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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

(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.

(j) Investment in State Investment Pool

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

(k) Investment Valuation

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City's only investments, which are allocated at fair value, are in a State of California Local Agency Investment Fund (LAIF). LAIF invests in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, LAIF is not an investment type that can be categorized in any particular level in the fair value hierarchy.

(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.

	Due From Other Funds	Due To Other Funds
Major Funds:		
General Fund	\$ 197,380	
Non-Major Governmental Funds		197,380
Total	<u>\$ 197,380</u>	<u>\$ 197,380</u>

(b) Long-Term Interfund Advances

At June 30, 2016, the funds below have made advances that were not expected to be repaid in one year or less.

	Advances to Other Funds	Advances From Other Funds
Major Funds:		
General Fund	\$ -	\$ 66,662
Proprietary Fund	66,662	
Total	<u>\$ 66,662</u>	<u>\$ 66,662</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

(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	1,583,270	273,475	-	1,856,745
Total capital assets not being depreciated	2,772,468	273,475	-	3,045,943
Capital assets being depreciated:				
Buildings and improvements	1,688,263	133,527	-	1,821,790
Machinery and equipment	2,449,231	63,677	-	2,512,908
Infrastructures	22,918,981	427,056	-	23,346,037
Total capital assets being depreciated	27,056,475	624,260	-	27,680,735
Less accumulated depreciation for:				
Buildings and improvements	1,261,064	120,185	-	1,381,249
Machinery and equipment	2,975,822	276,290	-	3,252,112
Infrastructures	5,074,597	201,763	-	5,276,360
Total accumulated depreciation	9,311,483	598,238	-	9,909,721
Total capital assets being depreciated, net	17,744,992	26,022	-	17,771,014
Governmental activities capital assets, net	20,517,460	299,497	-	20,816,957
Business-type activities:				
Capital assets not being depreciated:				
Land	191,046	-	-	191,046
Construction in progress	241,770	19,474	-	261,244
Total capital assets not being depreciated	432,816	19,474	-	452,290
Capital assets being depreciated:				
Buildings and improvements	12,186	-	-	12,186
Machinery and equipment	187,018	22,456	-	209,474
Infrastructures	6,077,395	-	-	6,077,395
Total capital assets being depreciated	6,276,599	22,456	-	6,299,055
Less accumulated depreciation for:				
Buildings and improvements	2,516	487	-	3,003
Machinery and equipment	125,871	31,534	-	157,405
Infrastructures	1,840,063	42,558	-	1,882,621
Total accumulated depreciation	1,968,450	74,579	-	2,043,029
Total capital assets being depreciated, net	4,308,149	(52,123)	-	4,256,026
Business-type activities capital assets, net	4,740,965	(32,649)	-	4,708,316
Total capital assets	\$ 25,258,425	\$ 266,848	\$ -	\$ 25,525,273

For the year ended June 30, 2016, depreciation expense on capital assets was charged to the governmental functions as follows:

General government	\$ 309,387
Public safety	58,322
Public works	213,980
Community development	8,804
Parks and recreation	18,102
Total	<u>\$ 608,595</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

(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.	\$	9,203	
2% loan to Dale Brisco, Inc. due in monthly installments of \$644 including principal and interest.		19,117	
2% loan to Fratellos, Inc. due in monthly installments of \$1,192 including principal and interest.		9,828	*
2% loan to La Quinta due in monthly installments of \$2,583 including principal and interest.		365,545	*
No interest loan to Nouveau Hair Salon due in monthly installments of \$179		3,293	
No interest loan to Little Bit of This & A Little Bit of That due in monthly installments of \$83		2,227	*
No interest loan to Espana & Associates due in monthly installments of \$1,141		4,879	*
No interest loan to Borga Steel Buildings and Components due in monthly installments of \$833.		92,500	
Total Loans Receivable	\$	506,592	

* Loans in arrears as of June 30, 2016.

(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, 2016:

Assessment City 1993-1	\$	141,514
Assessment City 1994-1		905,046
		<u>\$1,046,560</u>

Future commitments to the City follow:

Year Ended	
<u>June 30</u>	
2017	\$ 177,095
2018	179,475
2019	178,998
2020	179,888
2021	175,142
2022 - 2026	523,989
	<u>1,414,587</u>
Interest	(368,027)
Total	<u>\$1,046,560</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

(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, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Revenue bonds	\$ 3,185,000	\$ -	\$ 275,000	\$ 2,910,000	\$ 290,000
Compensated absences	102,116	-	9,897	92,219	92,219
Energy Efficiency Retrofit Loan	100,650	-	17,254	83,396	17,254
	<u>3,387,766</u>	<u>-</u>	<u>302,151</u>	<u>3,085,615</u>	<u>399,473</u>
Business-type activities:					
State of California:					
Certificates of participation	1,695,200	-	30,100	1,665,100	31,400
Department of Water					
Resources note	45,327	-	14,430	30,897	14,748
Compensated absences	19,393	691	-	20,084	20,084
	<u>1,759,920</u>	<u>691</u>	<u>44,530</u>	<u>1,716,081</u>	<u>66,232</u>
Trust Activities:					
Successor Agency	1,351	-	1,351	-	-
	<u>\$ 5,149,037</u>	<u>\$ 691</u>	<u>\$ 348,032</u>	<u>\$ 4,801,696</u>	<u>\$ 465,705</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, 2016 are as follows:

Date of Issue	Interest Rate%	Maturity Date	Original Issue	Outstanding July 1, 2015	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2016
2010	2.00-5.10	2023	<u>\$ 4,435,000</u>	<u>\$ 3,185,000</u>	<u>\$ -</u>	<u>\$ 275,000</u>	<u>\$ 2,910,000</u>

The annual requirements to amortize revenue bonds outstanding as of June 30, 2016, are as follows:

Year Ended June 30	Principal	Interest	Total
2017	\$ 290,000	\$ 134,569	\$ 424,569
2018	290,000	121,881	411,881
2019	310,000	108,562	418,562
2020	315,000	101,587	416,587
2021	330,000	78,375	408,375
2022-2026	<u>1,375,000</u>	<u>122,273</u>	<u>1,497,273</u>
Total	<u>\$ 2,910,000</u>	<u>\$ 667,247</u>	<u>\$ 3,577,247</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

(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, 2016 are as follows:

Year Ended June 30	Principal	Interest	Deferred Interest	Total
2017	13,728	735	1,020	15,483
2018	14,109	404	1,020	15,533
2019	-	-	1,020	1,020
Total	<u>\$ 27,837 *</u>	<u>\$ 1,139</u>	<u>\$ 3,060 *</u>	<u>\$ 32,036</u>

*The sum of these items equals outstanding debt of \$30,897.

(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, 2016, 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, 2016, are as follows:

Year Ended June 30	Principal	Interest	Total
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	37,300	66,973	104,273
2022-2026	212,500	308,906	521,406
2027-2031	263,400	258,164	521,564
2032-2036	326,200	195,274	521,474
2037-2041	404,100	117,403	521,503
2042-2046	287,300	25,498	312,798
Total	<u>\$ 1,665,100</u>	<u>\$ 1,255,118</u>	<u>\$ 2,920,218</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,	
2017	\$ 17,256
2018	17,256
2019	17,256
2020	17,256
2021	14,372
Total	<u>\$ 83,396</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

(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	\$ 468,665	\$ -
Assigned for Street and Roads	-	142
Assigned for Street and Highway Safety	-	54,085
Assigned for Local Pedestrian and Bicycle Paths	-	23,862
Assigned for Local Streets and Roads Projects	-	275,870
Assigned for Roads and Transportation Projects	-	518,368
Assigned for Development Activities	-	321,886
Assigned for Groundwater Monitoring	-	46,824
Assigned for Debt Service	-	162,098
Assigned for Capital Improvements	-	1,383,875
Total	<u>\$ 468,665</u>	<u>\$ 2,787,010</u>
Committed for Municipal Services	<u>\$ -</u>	<u>\$ 778,831</u>

(9) 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, 2016

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, 2015 are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit Formula	2.7% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.70%	1.0% to 2.5%
Required employee contribution rates	7.801%	6.25%
Required employer contribution rates	10.958%	6.237%

	Safety - Police	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit Formula	3% at 55	2.7% at 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	50-57
Monthly benefits, as a % of eligible compensation	2.4% to 3.0%	2.0% to 2.70%
Required employee contribution rates	8.782%	11.299%
Required employer contribution rates	16.523%	10.958%

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. For the year ended June 30, 2016, the average active employee contribution rate and the employer's contribution rate is disclosed on the schedule above.

The City's contributions to the Miscellaneous and Safety pension plans were \$112,959 and \$117,096, respectively, for a total of \$230,055 for the year ended June 30, 2016 and equals 100% of the required contributions for the year.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 2,061,992
Safety	1,174,467
Total Net Pension Liability	<u>\$ 3,236,459</u>

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, 2015, 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, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The City's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous	Safety
Proportion - June 30, 2014	0.07171%	0.03166%
Proportion - June 30, 2015	0.07516%	0.02850%
Change - Increase (Decrease)	<u>0.00345%</u>	<u>(0.00316%)</u>

For the year ended June 30, 2016, the City recognized pension expense of \$479,910, which includes employee contributions under the Classic Miscellaneous and Safety Plans paid by the City and the City's 2015-16 Unfunded Liability payments for the Miscellaneous and Safety Plans. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 230,055	\$ -
Differences between actual and expected experience	-	9,900
Change in assumptions	-	242,893
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	269,920	-
Net difference between projected and actual earnings on plan investments	<u>-</u>	<u>122,369</u>
Total	<u>\$ 499,975</u>	<u>\$ 375,162</u>

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

\$230,055 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, 2017

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:

Year Ended June 30	
2017	\$ (94,614)
2018	(89,703)
2019	(74,519)
2020	153,594
Total	<u>\$ (105,242)</u>

a. Actuarial Assumptions

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

	Miscellaneous		Safety	
Valuation Date	June 30, 2014		June 30, 2014	
Measurement Date	June 30, 2015		June 30, 2015	
Actuarial Cost Method	Entry Age - Normal Cost Method		Entry Age - Normal Cost Method	
Actuarial Assumptions:				
Discount Rate	7.65%		7.65%	
Inflation	2.75%		2.75%	
Payroll Growth	3.00%		3.00%	
Projected Salary Increase	3.3-14.2%	(1)	3.3-14.2%	(1)
Investment Rate of Return	7.65%	(2)	7.65%	(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, 2014 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. Change of Assumption

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

c. Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for Public Agency Plans (Including PERF C). 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

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 (Public Employees' Retirement Fund). Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) 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. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest 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

Asset Class	Strategic Allocation	Real Return (Years 1-10)(1)	Real Return (Years 11+)(2)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	<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

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

d. 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	6.65%	6.65%
Net Pension Liability	\$ 2,312,179	\$ 1,775,692
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 2,061,992	\$ 1,174,467
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 608,008	\$ 559,582

e. Pension Plan Fiduciary Net Position

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

(10) Risk Management

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

The City is covered for the first \$1,000,000 of each general liability claim and \$350,000 of each worker's compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$25,000 and worker's compensation losses under \$10,000. The CSJVRMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$10,000,000 and purchases excess reinsurance from \$10,000,000 to \$15,000,000. The CSJVRMA 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 CSJVRMA 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 CSJVRMA 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 CSJVRMA. The financial position and results of operations for the CSJVRMA as of June 30, 2016 are presented below:

Total Assets	\$92,743,162
Total Liabilities	77,308,330
Members' Equity	<u>\$15,434,832</u>
Total Revenues for Year	\$40,220,653
Total Expenses for Year	37,742,471
Excess of Income Over (Under) Expenses	<u>\$ 2,478,182</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.

CITY OF FOWLER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

At June 30, 2016 the City reported \$37,037 in deposits in the General Fund related to the general liability and workers' compensation programs.

(11) Contingent Liabilities

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.

(12) 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.

(13) Prior Period Adjustments

A prior period adjustment was made to the General Fund in the amount of \$54,719 and the Gas Tax Fund in the amount of \$16,952 to reconcile beginning fund balance to the amounts per the City's general ledger. A prior period adjustment of \$61,204 was made to the Redevelopment Successor Agency Private Purpose Trust Fund to adjust carryover balances for Recognized Obligation Payments Schedule requested by the City. A prior period adjustment was made to the Government-Wide Statements for Pension Obligation of \$269,357.

Summary Schedule:

	Governmental Activities	Redevelopment Successor Agency Private Purpose Trust Fund
Adjustment for Prior Period Activity not Reported	\$ 37,767	\$ -
Adjustment for Recognized Obligation Payments Schedule		61,024
Adjustment to Pension Obligation Per GASB 68	(269,357)	
	<u>\$ (231,590)</u>	<u>\$ 61,024</u>

Required Supplementary Information

CITY OF FOWLER
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Final	Actual	Variance With Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 2,785,164	\$3,193,709	\$ 408,545
License and permits	261,523	328,093	66,570
Fines and penalties	11,593	11,905	312
Revenue from use of money and property	6,600	5,828	(772)
Charges for services	83,506	81,330	(2,176)
Intergovernmental	113,648	143,439	29,791
Miscellaneous	512,310	186,059	(326,251)
Total Revenues	<u>3,774,344</u>	<u>3,950,363</u>	<u>176,019</u>
EXPENDITURES			
Current services:			
General government	939,029	901,924	37,105
Public safety	1,587,395	1,554,393	33,002
Public works	586,600	603,913	(17,313)
Community development	158,967	160,376	(1,409)
Parks and recreation	201,028	199,976	1,052
Capital outlay	748,906	437,187	311,719
Total Expenditures	<u>4,221,925</u>	<u>3,857,769</u>	<u>364,156</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(447,581)</u>	<u>92,594</u>	<u>540,175</u>
Other Financing Sources (Uses):			
Transfers in	451,864	1,622,611	1,170,747
Other financing uses	-	(6,684)	(6,684)
Total Other Financing Sources (Uses)	<u>451,864</u>	<u>1,615,927</u>	<u>1,164,063</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>4,283</u>	<u>1,708,521</u>	<u>1,704,238</u>
Fund Balance (Deficit), Beginning	(57,790)	(57,790)	-
Prior Period Adjustments	<u>54,719</u>	<u>54,719</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 1,212</u>	<u>\$1,705,450</u>	<u>\$ 1,704,238</u>

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

	Fiscal Year 2015*		Fiscal Year 2016**	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Proportion of the net pension liability	0.02848%	0.01909%	0.03004%	0.01711%
Proportionate share of the net pension liability	\$ 1,772,373	\$ 1,187,720	\$ 2,061,992	\$ 1,174,467
Covered-employee payroll	\$ 869,779	\$ 688,280	\$ 999,209	\$ 733,381
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	203.77%	172.56%	206.36%	160.14%
Plan's fiduciary net position	\$ 4,867,709	\$ 3,566,435	\$ 4,792,404	\$ 3,698,975
Plan fiduciary net position as percentage of total pension liability	73.31%	75.02%	69.92%	75.90%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, this schedule provides information only for those years for which information is available.

**Information presented is for the fiscal year ended on the measurement date of the net pension liability.

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

	Fiscal Year 2015*		Fiscal Year 2016	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Actuarially required contribution	\$ 193,896	\$ 188,701	\$ 219,388	\$ 186,800
Contributions in relation to the actuarially determined contribution	(193,896)	(188,701)	(219,388)	(186,800)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 869,779	\$ 688,280	\$ 999,209	\$ 733,381
Contributions as a percentage of covered- employee payroll	22.29%	27.42%	21.96%	25.47%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, this schedule provides information only for those years for which information is available.

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, 2016, 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 April 28, 2017.

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 items 2016-001 and 2016-003 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 items 2016-002 and 2016-004 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
April 28, 2017

Findings and Recommendations Section

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Summary of Auditors' Results

(1) Financial Statements

Type of auditors' report issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

 X Yes No

Significant deficiency(ies) identified not considered
to be material weakness(es)

 X Yes None reported

Noncompliance material to financial statements noted?

 Yes X No

(2) Federal Awards

Not Applicable

Internal control over major programs:

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, 2016

B. Financial Statement Findings

Finding Identification

2016-001 *Internal Controls- Use of Purchase Order System*

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 non-routine expenditures which exceed \$500. While performing audit procedures on accounts payable year-end balances, we noted a payment of \$13,047 related to the Merced Street construction project that did not have a purchase order prepared. The payment was the final of several payments on a total contracted amount of \$260,946.

Furthermore, while performing audit procedures related to the City's processing of disbursements, we reviewed a purchase order related to a payment for surveillance systems of \$13,006 that had not been attached to the copy of the canceled warrant and vendor invoice. The purchase order was in a folder along with copies of other purchase orders prepared by the City staff during the fiscal year.

Effect

The absence of a consistent, complete and properly used purchase order system at the City lends to an increased opportunity for the misuse of the City's funds for expenditures which are not direct and substantial to the City's purpose. Adequate use of a purchase order system offers a vehicle for staff to maintain accountability for payments on expenditures of the City and for management to have an added level of review of expenditures.

Cause

The City staff did not properly implement the purchase order system per Board designated policy.

Questioned Costs

None

Recommendation

We recommend the City utilize a purchase order system for all expenditures that exceed the designated dollar amount, as established by Board policy. We recommend all purchase orders be approved by the Finance Director and/or City Manager as well as attached to all other supporting documentation for each expenditure. The City's management should also offer training as needed to its employees on the proper implementation of the purchase order system.

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

B. Financial Statement Findings

Finding Identification

2016-001 *Internal Controls- Use of Purchase Order System (Continued)*

Corrective Action Plan:

Name of contact person: Kenneth McDonald, Finance Director

Corrective Action:

The new accounting software system, Springbrook, will allow for online access for all users to create a requisition which will become purchase orders after proper approval. The requisition will be approved by Department Heads to create a Purchase Order which then will be approved by the Finance Director and City Manager in an online paperless process. This should ensure that all purchases have proper approval and audit trail of approvers in the requisition-purchase order process.

Proposed Completion Date:

Full implementation of the new software is estimated to be by December 2017.

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

B. Financial Statement Findings

Finding Identification

2016-002 *Internal Controls – Utility Water Deposits*

Criteria or Specific Requirement

Per City Ordinance, "A guarantee deposit with the Water Department made by a consumer who owns the property receiving services and whose account has not been in arrears at any time during the first year of such deposit shall be returnable after the expiration of said year. If the service is discontinued in less than one year, the deposit will be returned provided all outstanding bills against the consumer for water services have been paid. Any deposit uncalled for within five (5) year after the date the deposit was made will become the property of, and be retained by, the Water Department. Deposits of renters will be retained until water services are discontinued."

Condition

While performing audit procedures related to the outstanding balance of \$96,000 for water service deposits collected by the City from residential and commercial customers, we were unable to confirm the accuracy of this balance as of June 30, 2016.

Effect

The water service deposits for residential and commercial customers being reported on the city's financial statements do not properly reflect the outstanding balance at year-end.

Cause

City personnel were unable to provide documentation to substantiate the balance of outstanding water service deposits recorded in the general ledger.

Questioned Costs

Not able to determine

Recommendation

We recommend that City personnel review the outstanding balance related to water service deposits to determine the amount that has become the property of the Water Department and make the necessary corrections to the balance.

Corrective Action Plan:

Name of contact person: Kenneth McDonald, Finance Director

Corrective Action:

The utility accounts have been examined and reports to review individual accounts have been found to correct all the erroneous utility account information in the system.

Proposed Completion Date:

This should be completed by June 30, 2017.

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

B. Financial Statement Findings

Finding Identification

2016-003 *Internal Controls – Utility Billing*

Criteria or Specific Requirement

Accounting principles generally accepted in the United States of America require internal controls which generate relevant and quality data to support the financial reporting of the City's financial information.

Condition

While performing audit procedures to reconcile a liability of \$12,349 related to overpayments by water customers on their utility service accounts and an accounts receivable balance of \$103,957 related to billings for water services, we were unable to obtain proper documentation to support these amounts.

Effect

Water service overpayments, and water service outstanding customer balances currently on the City's financial statements are not properly stated as of June 30, 2016.

Cause

Activity related to utility billing and customer payments is being reported in the City's general ledger using the utility billing software, however, City personnel were not able to reconcile this activity to detailed reports for the utility billing software.

Questioned Costs

Not able to determine

Recommendation

We recommend the implementation of a process to periodically review and monitor water utility service liability and asset balances to ensure they are accurate and properly supported by quality data.

Corrective Action Plan:

Name of contact person: Kenneth McDonald, Finance Director

The utility accounts have been examined and reports to review individual accounts have been found to correct all the erroneous utility account information in the system.

Proposed Completion Date:

This should be completed by June 30, 2017.

CITY OF FOWLER
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

B. Financial Statement Findings

Finding Identification

2016-004 *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 on subsequent disbursements in relation to accounts payable accruals, we noted invoices totaling \$4,101 for engineering services provided to the City during the fiscal year period but paid subsequent had not been included in the accounts payable accrual and expenditure balances at year end.

While reviewing the Community Development Block Grant (CDBG) business loan repayments and subsequent receipts in relation to accounts receivable accruals, we noted \$22,781 of CDBG business loan repayments due to the City by fiscal year end but paid subsequent had not been accrued as amounts due to the City.

Effect

The accounts payable and related expenditures were understated by \$4,101. The CDBG loan receivables and CDBG revenue were understated by \$22,781.

Cause

The understatement of accounts payable was due to an inadvertent oversight by the finance department staff in recording year end accruals. The understatement of CDBG loan receivables was due to the finance department staff not recognizing the current receivable portion of the business loans.

Questioned Costs

None

Recommendation

We recommend the City staff work together to strengthen procedures to identify all receivables and liabilities that need to be accrued at year end..

Corrective Action Plan:

Name of contact person: Kenneth McDonald, Finance Director

Corrective Action:

The accrual process will be examined more closely to ensure timely recognition of accruals at year end.

Proposed Completion Date:

This should be completed by June 30, 2017.

CITY OF FOWLER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>City Explanation if Not Implemented</u>
1. While performing procedures related to subsequent disbursements, we noted invoices totaling \$12,489 for equipment rented during the 2015/16 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 1 st quarter 2016 franchise fee payment of \$26,462 due to the City had not been accrued at year-end. We recommended that 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	Not Implemented	Activity related to utility billing and customer payments is being reported in the City's general ledger using the utility billing software, however, City personnel were not able to reconcile this activity to detailed reports for the utility billing software.
2. 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.	Not Implemented	The City staff did not properly implement the purchase order system per Board designated policy.

Board of Trustees
City of Fowler
Fowler, California

In planning and performing our audit of the financial statements of City of Fowler for the year ended June 30, 2016 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of matters discussed below that are opportunities to strengthen internal controls and operating efficiency. This letter does not affect our report dated April 28, 2017 on the financial statements of the City which also includes our report on the City's internal control.

Internal Control - Management's Review of Batch Payables Edit List, Fee Collections Related to Water Billing and other Collections Received at the City's office, Recording Receipts Transactions on the City's Books and Buyout of Unused Administrative and Vacation Time for Employees.

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. While performing our audit fieldwork procedures we noted the following:

- During our walkthrough of the City's procedure to process disbursements and record expenditures, we noted that for a part of the year, the Batch Payables Edit List was not reviewed and approved by management prior to the disbursement of payments for expenditures. We recommend management implement a continuous and consistent review of the Batch Payables Edit List prior to the disbursement of payment on the City's expenditures to ensure the expenditures are complete and proper expenditures of the City.
- During our walkthrough of the City's procedure to process fee collections for water utility billings we noted the following:
 - Some customer water billing vouchers retained by the city to support the cash/check collected from customers showed the original preprinted billed amount on the voucher as crossed off and a different dollar amount handwritten. Per discussion with the collections clerk at the City, many customers overpay on their water service bill to avoid making a high volume of payments to the City. The customers prefer to build a credit balance on their account which is then applied to their monthly billings. We recommend the City to include a brief explanation documented on the customer billing voucher when a customer overpays on their water service bill and the clerk who receives the payment to initial by the handwritten amount noted as collected from the customer. This ensure an audit trail is in place for the change in collections from the customer.
 - It is our understanding the City uses a couple of interchangeable cash boxes to place water billing collections and other miscellaneous fund collections received during a normal business day at the City. We noted the cash box was placed on top of the collections clerk's desk and the key was attached to the lock. We confirmed with the collections clerk the cash box remained on top of her desk during the business day. We recommend the cash box is kept in a locked drawer with access limited to the time of storing cash/checks received during the business day.

- At the end of each business day, the collections clerk prepares a reconciliation of the cash and checks collected at the City by printing a report from the City's accounting and billing software showing all collections received. The reconciliation and cash box containing the cash and checks collected during the day is provided to the accounting technician who reviews the collections summary against contents in the cash box and proceeds to prepare the deposit to be taken to the bank by the finance director. It is our understanding, the accounting technician does not document her review of the collections reconciliation versus the contents of the cash box. We recommend the accounting technician document her review of the reconciliations report against the collections in the cash box by signing and dating a certifying statement on the reconciliation report noting she has ensured collections received agree to cash/checks contained in the cash box.
- During our review of subsequent receipts, we requested supporting documentation for a sales tax revenue receipt of \$93,900. The supporting documentation provided consisted of a copy of the bank electronic wire transfer memo and did not include information on the reason for the receipt and the period to which it pertained. Per discussion with the City staff, they relied solely on the bank deposit memo to record the receipt on the City's books. We recommend requesting or researching information if needed to ensure sufficient details are known and on hand for each receipt to support the reason for the receipt and the period in which it should be recorded on the City's books.
- During our review of Compensated Absences, we noticed a substantial reduction in accrued liability for one individual, after our detail review we noted that one hundred ninety-two hours of vacation and administrative time combined were cashed out during the fiscal year ended June 30, 2016. City policy allows the buyback of unused time up to a maximum of one hundred sixty hours. Per discussion with City staff it appears there was confusion about the maximum amount as a result the discrepancy was not identified. We have discussed the matter and City personnel will institute procedures to properly track the utilization and buy out of accrued vacation, sick leave, compensatory time and administrative leave. The excess buy out of accrued time totaled \$2,168.00.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with City personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

We wish to thank the City staff for their support and assistance during our audit.

This report is intended solely for the information and use of management, the Board, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Borchardt, Corona & Faeth

Fresno, California
April 28, 2017