

CITY OF CALIPATRIA

AUDIT REPORT

JUNE 30, 2014

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**CITY OF CALIPATRIA
OF IMPERIAL COUNTY**

CALIPATRIA, CALIFORNIA

June 30, 2014

The City of Calipatria was incorporated on February 28, 1918. The city is a General Law city with a City Manager form of Government. Calipatria is home to the tallest flagpole (184 feet) where the flag flies at sea level. The flagpole has been dedicated to "Good Neighborliness". Calipatria has a Planning Commission Board that seats five members. Services provided by the City of Calipatria include Police, Fire, and Parks.

ELECTED OFFICIALS

<u>Official</u>	<u>Office</u>
Maria Nava-Froelich	Mayor
Fred Beltran	Mayor Pro-tem
Fidel Flores	Council Member
Heather Beltran	Council Member
Nicole Carrigan	Council Member
Patricia Nelson	City Treasurer

APPOINTED OFFICIALS

Romualdo Medina
City Manager

Katherine Lopez
Finance Director

Christopher Hall
Fire Chief

Anthony Lynn Mara
Interim Police Chief

Alfred Spence
Public Works

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Daud

Governing Board
City of Calipatria
Calipatria, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Calipatria, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Calipatria's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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State Board of Accountancy*

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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Calipatria as of June 30, 2014, 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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as the budgetary comparison information on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Calipatria's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2015 on our consideration of the City of Calipatria's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Calipatria's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
February 3, 2015

CITY OF CALIPATRIA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 5,112,527	\$ -	\$ 5,112,527
Cash with fiscal agent	278,209	-	278,209
Restricted cash and investments	-	14,400	14,400
Accounts receivable	157,855	40,832	198,687
Loans receivable	5,974,931	-	5,974,931
Land held for resale	15,000	-	15,000
Capital assets, not depreciated	853,234	135,703	988,937
Capital assets, net of accumulated depreciation	379,918	1,261,681	1,641,599
Total Assets	12,771,674	1,452,616	14,224,290
LIABILITIES			
Deficit cash	640,632	254,758	895,390
Accrued liabilities	36,599	3,916	40,515
Unearned revenue	-	3,835	3,835
Long-term liabilities, current portion	60,000	11,000	71,000
Long-term liabilities, non-current portion	3,377,872	51,000	3,428,872
Total Liabilities	4,115,103	324,509	4,439,612
NET POSITION			
Net investment in capital assets	1,233,152	1,335,384	2,568,536
Restricted for			
Special revenues	5,489,541	-	5,489,541
Debt service	-	14,400	14,400
Unrestricted	1,933,878	(221,677)	1,712,201
Total Net Position	\$ 8,656,571	\$ 1,128,107	\$ 9,784,678

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

**CITY OF CALIPATRIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
General government	\$ 696,707	\$ -	\$ -	\$ (696,707)		\$ (696,707)
Public safety	782,158	227,272	294,787	(260,099)		(260,099)
Public works	3,637,780	1,887,713	974,000	(776,067)		(776,067)
Parks and recreation	74,594	22,330	402,831	350,567		350,567
Community development	70,606	200,280	21,125	150,799		150,799
Total Governmental Activities	\$ 5,261,845	\$ 2,337,595	\$ 1,692,743	(1,231,507)		(1,231,507)
BUSINESS-TYPE ACTIVITIES						
Sewage Treatment	691,114	612,090	-		\$ (79,024)	(79,024)
Airport	10,751	-	-		(10,751)	(10,751)
Total Business-Type Activities	701,865	612,090	-		(89,775)	(89,775)
Total Primary Government	\$ 5,963,710	\$ 2,949,685	\$ 1,692,743			\$ (1,321,282)
General revenues						
Taxes:						
Property taxes				34,511	-	34,511
Motor vehicle license fees				583,174	-	583,174
Transient lodging taxes				35,301	-	35,301
Franchise taxes				31,542	-	31,542
Other taxes				29,537	-	29,537
Use of money and property				43,464	-	43,464
Lease				-	12,956	12,956
Other				210,887	-	210,887
Subtotal, General Revenue				968,416	12,956	981,372
CHANGE IN NET POSITION				(263,091)	(76,819)	(339,910)
Net Position - Beginning				9,069,562	1,204,926	10,274,488
Prior Period Adjustment				(149,900)	-	(149,900)
Net Position - Ending				\$ 8,656,571	\$ 1,128,107	\$ 9,784,678

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

**CITY OF CALIPATRIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General Fund	RLF - 1st Time		Non-Major Governmental Funds	Total Governmental Funds
		Homebuyers	Successor Agency		
ASSETS					
Cash and investments	\$ -	\$ 364,836	\$ 1,757,344	\$ 2,990,347	\$ 5,112,527
Cash with fiscal agent	-	-	278,209	-	278,209
Accounts receivable	108,920	-	-	48,935	157,855
Land held for resale	-	-	15,000	-	15,000
Time-pay loans	13,478	973,916	-	-	987,394
Deferred loans	55,033	1,532,504	-	-	1,587,537
Total Assets	\$ 177,431	\$ 2,871,256	\$ 2,050,553	\$ 3,039,282	\$ 8,138,522
LIABILITIES					
Deficit cash	\$ 640,632	\$ -	\$ -	\$ -	\$ 640,632
Accounts payable	20,859	-	-	420	21,279
Accrued compensated absences	15,320	-	-	-	15,320
Unearned revenue	68,511	2,506,421	-	-	2,574,932
Total Liabilities	745,322	2,506,421	-	420	3,252,163
FUND BALANCES					
Restricted	35,291	364,835	2,050,553	3,038,862	5,489,541
Unassigned	(603,182)	-	-	-	(603,182)
Total Fund Balances	(567,891)	364,835	2,050,553	3,038,862	4,886,359
Total Liabilities and Fund Balances	\$ 177,431	\$ 2,871,256	\$ 2,050,553	\$ 3,039,282	\$ 8,138,522

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

**CITY OF CALIPATRIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2014**

Total Fund Balance - Governmental Funds \$ 4,886,359

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

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

Capital assets	\$ 2,387,985	
Accumulated depreciation	<u>(1,154,833)</u>	1,233,152

Long term notes receivable - Calipatria Family Apartments L.P. 3,400,000

Deferred recognition of earned but unavailable revenues:

In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements, is:

2,574,932

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported.

Long-term liabilities relating to governmental activities consist of:

Bonds payable	\$ 3,350,000	
Compensated absences	<u>87,872</u>	(3,437,872)

Total Net Position - Governmental Activities \$ 8,656,571

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

**CITY OF CALIPATRIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	RLF - 1st Time Homebuyers	Successor Agency	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 34,511	\$ -	\$ -	\$ -	\$ 34,511
Other taxes	64,838	-	128,273	-	193,111
License and permits	3,899	-	-	-	3,899
Intergovernmental	718,763	-	-	2,185,566	2,904,329
Interest	186	-	15,714	5,786	21,686
Other revenues	723,296	96,885	152,140	1,071,059	2,043,380
Total Revenues	1,545,493	96,885	296,127	3,262,411	5,200,916
EXPENDITURES					
Current					
General government	365,571	18,951	292,608	19,577	696,707
Public safety	780,158	-	-	2,000	782,158
Public works	424,545	-	550,000	2,663,235	3,637,780
Parks and recreation	74,594	-	-	-	74,594
Community development	70,606	-	-	-	70,606
Total Expenditures	1,715,474	18,951	842,608	2,684,812	5,261,845
Excess (Deficiency) of Revenues					
Over Expenditures	(169,981)	77,934	(546,481)	577,599	(60,929)
NET CHANGE IN FUND BALANCE	(169,981)	77,934	(546,481)	577,599	(60,929)
Fund Balance - Beginning	(287,667)	286,901	2,597,034	2,351,020	4,947,288
Prior Period Adjustment	(110,243)	-	-	110,243	-
Fund Balance - Ending	\$ (567,891)	\$ 364,835	\$ 2,050,553	\$ 3,038,862	\$ 4,886,359

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

**CITY OF CALIPATRIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Governmental Funds \$ (60,929)

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

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$	-	
Depreciation expense:		(106,549)	(106,549)

Debt service:

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

60,000

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

(716)

Other expenditures relating to prior periods:

Certain expenditures recognized in governmental funds relating to prior periods. Typical examples are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations were first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods were:

(154,897)

Change in Net Position of Governmental Activities	\$	(263,091)
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The accompanying notes are an integral part of these financial statements.

**CITY OF CALIPATRIA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014**

	Business-Type Activities		
	Enterprise Funds		
	Cliff Hatfield Memorial Airport	Sewage Treatment	Total
ASSETS			
Current assets			
Accounts receivable	\$ 13,846	\$ 26,986	\$ 40,832
Total current assets	13,846	26,986	40,832
Non-current assets			
Restricted Cash	-	14,400	14,400
Capital assets, not depreciated	-	135,703	135,703
Capital assets, net of accumulated depreciation	-	1,261,681	1,261,681
Total non-current assets	-	1,411,784	1,411,784
Total Assets	13,846	1,438,770	1,452,616
LIABILITIES			
Current liabilities			
Deficit cash	13,457	241,301	254,758
Accounts payable	-	3,916	3,916
Unearned revenue	-	3,835	3,835
Current portion of long-term debt	-	11,000	11,000
Total current liabilities	13,457	260,052	273,509
Non-current liabilities	-	51,000	51,000
Total Liabilities	13,457	311,052	324,509
NET POSITION			
Net investment in capital assets	-	1,335,384	1,335,384
Restricted	-	14,400	14,400
Unrestricted	389	(222,066)	(221,677)
Total Net Position	\$ 389	\$ 1,127,718	\$ 1,128,107

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

**CITY OF CALIPATRIA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities		
	Enterprise Funds		
	Cliff Hatfield Memorial Airport	Sewage Treatment	Total
OPERATING REVENUE			
Charges for services	\$ -	\$ 612,090	\$ 612,090
Total operating revenues	-	612,090	612,090
OPERATING EXPENSE			
Personnel salaries and benefits	3,934	199,714	203,648
Services and supplies	6,817	410,951	417,768
Depreciation	-	77,103	77,103
Total operating expenses	10,751	687,768	698,519
Operating income/(loss)	(10,751)	(75,678)	(86,429)
NON-OPERATING REVENUES/(EXPENSES)			
Rent revenues	12,956	-	12,956
Interest expense	-	(3,346)	(3,346)
Total non-operating revenues/(expenses)	12,956	(3,346)	9,610
CHANGE IN NET POSITION	2,205	(79,024)	(76,819)
Net Position - Beginning	(1,816)	1,206,742	1,204,926
Net Position - Ending	\$ 389	\$ 1,127,718	\$ 1,128,107

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

**CITY OF CALIPATRIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities		
	Enterprise Funds		
	Cliff Hatfield Memorial Airport	Sewage Treatment	Total
Cash flows from operating activities			
Cash received from customers	\$ (2,886)	\$ 620,219	\$ 617,333
Cash payments to suppliers for goods and services	(6,817)	(417,646)	(424,463)
Cash payments for employee services	(3,934)	(199,714)	(203,648)
Net cash provided by (used for) operating activities	(13,637)	2,859	(10,778)
Cash flows from capital and related financing activities			
Principal paid on debt	-	(11,000)	(11,000)
Interest paid on debt	-	(3,346)	(3,346)
Net cash provided by (used for) in capital and related financing activities	-	(14,346)	(14,346)
Cash flows from investing activities			
Rents received	12,956	-	12,956
Net cash provided by (used for) investing activities	12,956	-	12,956
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(681)	(11,487)	(12,168)
CASH AND CASH EQUIVALENTS			
Beginning of year	(12,776)	(215,414)	(228,190)
End of year	\$ (13,457)	\$ (226,901)	\$ (240,358)
Reconciliation of operating income (loss) to cash provided by (used for) operating activities			
Operating income (loss)	\$ (10,751)	\$ (75,678)	\$ (86,429)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	77,103	77,103
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(2,886)	8,129	5,243
Increase (decrease) in accounts payable	-	(5,279)	(5,279)
Increase (decrease) in unearned revenue	-	(1,416)	(1,416)
Net cash provided by (used for) operating activities	\$ (13,637)	\$ 2,859	\$ (10,778)

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

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity**

The City of Calipatria, California was incorporated in 1918 under the general laws of State of California. The City operates under an elected Council/City Manager form of government.

The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e. it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. The City currently has no such component units.

B. **Fund Accounting**

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein the operations of each fund are accounted for in a separate set of self-balancing accounts that records resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

B. Fund Accounting (*continued*)

The following is a summary of the fund types utilized by the City:

Governmental Fund Types

The **General Fund** is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenses and capital improvements costs which are no paid through other funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.

The City reports the following major governmental funds:

General Fund – To account for all the general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of general services by the City.

Successor Agency Fund – Used to account for the restricted housing assets of the former Calipatria Redevelopment Agency Fund (CRA) which were transferred to Successor Agency Fund upon acceptance of the Housing Successor role by the City.

Revolving Loan Funds (RLF) – 1st Time Homebuyers – Used to account for activities for the 1st time homebuyer’s program. Revenue generated from this fund comes in monthly based on 50% of all the RLF loan payment received. The remaining 50% is applied to the Housing Rehab Program.

Proprietary Fund Types

Enterprise Funds are used to account for operations that are financed and operated in manner similar to private business enterprise where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City reports the following major enterprise funds:

Cliff Hartfield Memorial Airport – Used to account for account for any airport related activities.

Sewage Treatment Fund – Used to account for the revenues and expenses for the maintenance, repair and depreciation of the sewers within the City.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Measurement Focus and Basis of Accounting

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as whole. These statements include separate columns for the governmental and business-type activities of the primary government. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accountants and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions were recognized in accordance with requirements of GASB Statement No. 33.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expense. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expense.

Fund Financial Statements

This underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major fund in the aggregate for governmental and enterprise funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Measurement Focus and Basis of Accounting

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as current net position. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City considers all revenues available if they are collected within 60 days after year end. Significant revenues subject to accrual under the measurable and available criteria include property taxes, sales taxes and utility user taxes.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Derived tax revenues are recognized as revenues in the period in which the underlying exchange transactions take place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenue arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met, and the resources are available.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (current net position) is considered to be a measurable of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current net position. Accordingly, they are said to present a summary and uses of “available spendable resources” during a period.

Governmental Funds (*continued*)

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurable focus. Special reporting treatments are used to indicate that they should not be considered “available spendable resources” since they do not represent current net position. Recognition of governmental fund type revenue represents by non-current receivables is unearned until they become current receivables. Non-current portions of long-term receivables are offset by non-spendable or restricted fund balance accounts.

Because of their spending measurement focus, expenditures recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect current net position, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing sources* rather than as fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Proprietary Funds

The City's Enterprise Funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of the City's proprietary funds is charges for service. Operating expenses include the cost of services provided, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary funds financial statements, rather than reported as expenses. Proceeds of long-term debt are recorded as a liability in the proprietary funds financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as an expense.

D. Cash and Investments

Investments are reported in the accompanying statements at fair value. The fair value of the investments is generally based on published market prices and quotations from major investment firms.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except investment is allocated to the various funds based on each fund's average cash and investment balance.

E. Cash Equivalents

For purposes for the statement of cash flows, cash equivalents are defined as short term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less. Cash equivalents represent the proprietary funds' share in the cash and investment pool of the City.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets

Acquisitions of capital assets (including infrastructure) are recorded at historical cost at the time of purchase. Donated capital assets are recorded at their fair market value at the time received.

Generally, capital asset acquisitions in excess of \$5,000 are capitalized if they have an expected useful life of one year or more. Capital assets include public domain (infrastructure) capital assets consisting of certain improvements, including streets (pavements, medians, curbs/gutters, sidewalks, and traffic signals), storm drains and water/sewer systems and improvements.

Capital assets used in operations are depreciated in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation of such assets is computed using the straight-line method over the estimated useful lives noted below and charged to operations:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	30 Years
Equipment	5-10 Years

G. Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for compensated absences (unpaid vacations, sick leave and compensatory time) since employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

H. Unearned Revenue

Unearned revenue in the fund financial statements represents receivable at year end that will not be collected soon enough to finance current year expenditures.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

J. Premiums and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

K. Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the City will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the City will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

L. Property Taxes

Under California law, property taxes are assessed and collected by the counties up to one percent of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas.

Secured property taxes become a lien on the property as of January 1, and are levied in two equal installments; the first delinquent after December 10; and the second delinquent after April 10. Property taxes on unsecured property become a lien on the property as of January 1, and are delinquent after August 31. The County of Imperial is responsible for the assessment, collection and apportionment for all jurisdictions within the County including the City.

M. Interfund Transfers

In the fund financial statements, transactions that constitute reimbursements to a fund for expenditures to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as transfers out in the reimbursing fund and as transfers in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are also reported as transfers.

N. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, during the reporting period, actual results could differ from those estimates.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, during the reporting period, actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

O. Use of Restricted Resources – Enterprise Funds and Government-wide

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

P. Land Held for Resale

Land Held for Resale is recorded at the lower of historical cost or estimated net realizable value.

Q. Fund Balance

Fund balance is classified in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following definitions and classifications described the relative strength of the spending constraints placed on the purposes for which resources can be used:

The City's policy establishes the procedures for reporting, within the annual financial statements, unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the City's governmental funds: General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds.

Definitions

Fund balance is the difference between the assets and liabilities reported in the City's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The five components of fund balance are as follows:

- **Nonspendable:** Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.
- **Restricted:** Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** Resources that are constrained to specific purposes by a formal action of the City Council such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the City Council. Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Q. Fund Balance (*continued*)

- Assigned: Resources that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed. The City of Calipatria has designated the Finance Director the authority to assign.
- Unassigned: The unassigned classifications is to be used by the General Fund, or in the Other Fund types when there are negative residual resources in excess of what can be properly classified as nonspendable, restricted, committed or assigned.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

R. New GASB Pronouncements

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. The City has implemented GASB Statement No. 63 for the year ended June 30, 2014.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The City has not determined if there will be an effect on the financial statements.

GASB Statement No. 69 – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The City has not determined if there will be an effect on the financial statements.

CITY OF CALIPATRIA
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

R. New GASB Pronouncements (*continued*)

GASB Statement No. 70 – In April, 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). The City does not participate in nonexchange transactions and this Statement will have no financial statement effect.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This standard seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year. The Statement is effective for periods beginning after June 15, 2014. The District has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Position	
Governmental activities	\$ 5,112,527
Deficit cash	(640,632)
Total cash and investments	<u>\$ 4,471,895</u>

Cash and investments as of June 30, 2014 consist of the following:

Deposits with financial institutions	\$ 2,787,314
Investments	2,325,213
Deficit cash	(640,632)
Total cash and investments	<u>\$ 4,471,895</u>

Cash with fiscal agent as of June 30, 2014 consisted of \$278,209 deposited in BNT Western Trust Company for purpose of retiring the agency's tax allocation bonds.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (continued)

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

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
U. S. Agency Securities	5 years	None	None
Banker’s Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 Million
Joint Powers Authority Pools	N/A	None	None

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S Treasury Obligations	5 years	None	None
U.S Agency Securities	5 years	None	None
Banker’s Acceptances	180 days	None	None
Money Market Mutual Funds	N/A	None	5%
Repurchase Agreements	30 days	None	None
Investment Contracts	30 days	None	None

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.

Information about the sensitivity of the fair values of the City’s investments (including investment held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investment by maturity:

Investment Type	Totals	Remaining Maturity (In Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Local Agency Investment Fund (LAIF)	\$ 2,047,004	\$ 2,047,004	\$ -	\$ -	\$ -
Money Market Mutual Funds	278,209	278,209	-	-	-
Total	\$ 2,325,213	\$ 2,325,213	\$ -	\$ -	\$ -

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Totals	Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
Local Agency Investment Fund (LAIF)	\$ 2,047,004	N/A	\$ -	\$ 2,047,004
Money Market Mutual Funds	278,209	N/A	-	278,209
Total	<u>\$ 2,325,213</u>		<u>\$ -</u>	<u>\$ 2,325,213</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investment, 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment of behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City’s investment in this pool is reported in the accompanying financial statements at amounts based upon the City’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The California Local Agency Investment Fund is not insured or collateralized.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 3 –RECEIVABLES

On November 1, 2007 the City entered into an agreement with Calipatria Family Apartments L.P to finance the development of property to construct a 72-unit rental housing development of which 35 units will be Assisted Units to be occupied by low income households. A promissory note in the principal amount of \$3,400,000, with a simple interest rate of 3% per annum, was provided by the City of Calipatria, under the State’s Home Investment Partnerships Program (the “HOME Program”) administered by the California Department of Housing and Community Development. As of June 30, 2014, the outstanding balance on the promissory note is \$3,400,000.

The City has also entered into loans consisting of deferred and time-pay loans for housing rehab projects, first time homebuyer projects, and infrastructure and offsite improvement projects. As of June 30, 2014, the outstanding balance on these loans is \$2,574,932.

The accounts receivable balance as of June 30, 2014 amounted to \$157,855 for Governmental Activities and \$40,832 for Business-Type Activities. The Governmental Activities balance consisted of trash billings, gas tax monies, and lease payments for office space. The Business Type-Activities balance consisted of sewer billings and airport lease payments.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, is shown below:

	Balance July 01, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 853,234	\$ -	\$ -	\$ 853,234
Total Capital Assets not Being Depreciated	853,234	-	-	853,234
Capital assets being depreciated				
Buildings & improvements	560,450	-	-	560,450
Furniture & equipment	974,301	-	-	974,301
Total Capital Assets Being Depreciated	1,534,751	-	-	1,534,751
Less Accumulated Depreciation	1,048,284	106,549	-	1,154,833
Governmental Activities				
Capital Assets, net	\$ 1,339,701	\$ (106,549)	\$ -	\$ 1,233,152
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 135,703	\$ -	\$ -	\$ 135,703
Total Capital Assets not Being Depreciated	135,703	-	-	135,703
Capital assets being depreciated				
Buildings & improvements	2,034,794	-	-	2,034,794
Furniture & equipment	181,571	-	-	181,571
Total Capital Assets Being Depreciated	2,216,365	-	-	2,216,365
Less Accumulated Depreciation	877,581	77,103	-	954,684
Business-Type Activities				
Capital Assets, net	\$ 1,474,487	\$ (77,103)	\$ -	\$ 1,397,384

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 5 – LONG-TERM DEBT

A schedule of changes in long-term liabilities for the year ended June 30, 2014 is shown below:

	Balance			Balance			Balance Due
	July 01, 2013	Additions	Deductions	June 30, 2014		In One Year	
Governmental Activities							
Bonds payable	\$ 3,410,000	\$ -	\$ 60,000	\$ 3,350,000	\$	60,000	
Compensated absences	87,156	716	-	87,872		-	
Total	\$ 3,497,156	\$ 716	\$ 60,000	\$ 3,437,872	\$	60,000	
Business-Type Activities							
Bonds payable	\$ 73,000	\$ -	\$ 11,000	\$ 62,000	\$	11,000	
Total	\$ 73,000	\$ -	\$ 11,000	\$ 62,000	\$	11,000	

Governmental Activities - Tax Allocation Bonds

The schedule of outstanding tax allocation bonds of the City as of June 30, 2014 is as follows:

Governmental Activities	Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2014	Balance Due In One Year
						Outstanding July 01, 2013	Additions	Deductions		
	1993 Tax Allocation Bonds	9/1/1993	9/1/2023	4.00% - 6.50%	\$ 1,000,000	\$ 585,000	\$ -	\$ 40,000	\$ 545,000	\$ 40,000
	1995 Tax Allocation Bonds	12/1/1995	9/1/2026	7.250%	3,000,000	205,000	-	10,000	195,000	10,000
	1998 Tax Allocation Bonds	12/1/1998	9/1/2028	5.875%	350,000	250,000	-	10,000	240,000	10,000
	2010 Tax Allocation Bonds	9/1/2010	9/1/2040	6.250%	2,370,000	2,370,000	-	-	2,370,000	-
						\$ 3,410,000	\$ -	\$ 60,000	\$ 3,350,000	\$ 60,000

The annual requirements to amortize the 1993 tax allocation bonds outstanding at June 30, 2014, are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 40,000	\$ 34,125	\$ 74,125
2016	45,000	31,363	76,363
2017	45,000	28,437	73,437
2018	50,000	25,350	75,350
2019	50,000	22,100	72,100
2020 - 2024	315,000	53,462	368,462
Total	\$ 545,000	\$ 194,837	\$ 739,837

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 5 – LONG-TERM DEBT (continued)

Governmental Activities - Tax Allocation Bonds (continued)

The annual requirements to amortize the 1995 tax allocation bonds outstanding at June 30, 2014, are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 10,000	\$ 13,775	\$ 23,775
2016	10,000	13,050	23,050
2017	10,000	12,325	22,325
2018	10,000	11,600	21,600
2019	15,000	10,694	25,694
2020 - 2024	80,000	36,975	116,975
2025 - 2027	60,000	6,525	66,525
Total	\$ 195,000	\$ 104,944	\$ 299,944

The annual requirements to amortize the 1998 tax allocation bonds outstanding at June 30, 2014, are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 10,000	\$ 13,806	\$ 23,806
2016	10,000	13,219	23,219
2017	10,000	12,631	22,631
2018	15,000	11,897	26,897
2019	15,000	11,016	26,016
2020 - 2024	85,000	41,272	126,272
2025 - 2029	95,000	13,072	108,072
Total	\$ 240,000	\$ 116,913	\$ 356,913

The annual requirements to amortize the 2010 tax allocation bonds outstanding at June 30, 2014, are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ -	\$ 148,125	\$ 148,125
2016	-	148,125	148,125
2017	-	148,125	148,125
2018	-	148,125	148,125
2019	-	148,125	148,125
2020 - 2024	-	740,625	740,625
2025 - 2029	335,000	694,531	1,029,531
2030 - 2034	665,000	538,281	1,203,281
2035- 2039	925,000	291,719	1,216,719
2040- 2041	445,000	27,656	472,656
Total	\$ 2,370,000	\$ 3,033,437	\$ 5,403,437

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 5 – LONG-TERM DEBT (continued)

Business-Type Activities

The schedule of outstanding sewer revenue bonds of the City as of June 30, 2014 is as follows:

Business-Type Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds		Balance Due In One Year
					Outstanding July 01, 2013	Additions	Deductions	Outstanding June 30, 2014		
Sewer Revenue Bonds	6/1/1979	6/1/2019	5.00%	\$ 247,000	\$ 73,000	\$ -	\$ 11,000	\$ 62,000	\$ 11,000	
					\$ 73,000	\$ -	\$ 11,000	\$ 62,000	\$ 11,000	

The annual requirements to amortize the sewer revenue bonds outstanding at June 30, 2014 are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 11,000	\$ 3,100	\$ 14,100
2016	12,000	2,550	14,550
2017	12,000	1,950	13,950
2018	13,000	1,350	14,350
2019	14,000	700	14,700
Total	\$ 62,000	\$ 9,650	\$ 71,650

NOTE 6 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

	Budget	Actual	Excess
Governmental Activities			
Gas Tax 2105, 2106, 2107	\$ 357,099	\$ 644,061	\$ (286,962)
Special Aviation	\$ 110	\$ 6,831	\$ (6,721)
Local Transportation Authority	\$ 600,000	\$ 1,721,623	\$ (1,121,623)
Successor Agency	\$ 351,004	\$ 842,608	\$ (491,604)
Impact Fees	\$ -	\$ 2,000	\$ (2,000)
Business-Type Activities			
Cliff Hatfield Memorial Airport	\$ -	\$ 10,751	\$ (10,751)
Sewage Treatment	\$ 638,884	\$ 687,768	\$ (48,884)

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 7 – DEFICIT FUND BALANCES

Governmental Activities	Fund Balance
General Fund	\$ <u>(567,891)</u>

NOTE 8 – 1979 SEWER REVENUE BOND – RESERVE REQUIREMENT

The following is a summary of the reserve requirement relating to Sewer Revenue Bonds issued by the City on June 1, 1979. The City has designated, as a reserve, a sum equal to the average annual amount of principal and interest on the bonds to be paid during their term. The following is the computation of the reserve requirement.

Total bond service - (principal & interest)	\$ 575,950
Years of bond service (divided by)	<u>40</u>
Total reserve fund requirement	<u>\$ 14,400</u>

A reservation of the retained earnings in the Sewage Treatment Fund has been recorded in the amount of \$14,400.

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 9 – DEFINED BENEFIT PENSION PLAN (PERS)

A. Plan Description

The City of Calipatria contributes to the California Public Employees Retirement Systems (PERS), a cost sharing, multiple employer public employee defined pension plan. PERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issue a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95811.

B. Funding Policy

Employees are required to contribute 7 percent of their annual covered salary. Contribution rates are set by State statute and the contribution rate is established and may be amended by CalPERS. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the CalPERS Board of Administration. The table below provides information based on PERS valuation of the plan as of June 30, 2014:

Year Ended June 30,	Annual Pension Cost		Percentage Contributed	Net Pension Obligation
	(Employer-Contribution)			
2014	\$	116,827	100%	\$ -
2013	\$	124,689	100%	\$ -
2012	\$	114,324	100%	\$ -
Valuation Date	June 30, 2013			
Actuarial Cost Method	Entry Age Normal Cost			
Amortization Method	Level-percentage of payroll			
Average Remaining Period	17 Years			
Asset Valuation Method	Market Value			
Actuarial Assumptions:				
Investment rate of return	7.50%			
Projected salary increases	3.30% to 14.20%			
Payroll growth	3.00%			
Inflation rate	2.75%			

CITY OF CALIPATRIA
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE 10 – RISK MANAGEMENT

The City does not participate in a public entity risk pool and all risk of loss is retained by the City. The City has purchased a commercial insurance policy from Glatfelter Public Practice Insurance Company for the period 3/21/14 to 3/21/15. The City has had no settlements which exceeded insurance coverage in the last three fiscal years, and no changes in insurance coverage from the prior year.

NOTE 11 - JOINT VENTURES – LOCAL TRANSPORTATION AUTHORITY

The City is a participant, along with Imperial County and the other cities in the county, in the Imperial County Local Transportation Authority (LTA). The LTA is considered a joint venture without equity interest. The City is also not obligated in any manner for debt of the LTA. Each participating jurisdiction appoints one member to the governing board of the LTA. The LTA was approved by voters of Imperial County at a special election on November 8, 1989. The ballot measure (Measure D) increased the sales tax in Imperial County by one-half of one percent (0.5%) for a period of twenty years, to provide funding for transportation improvements. The revenues are allocated to each participating jurisdiction based on a formula contained in the ballot measure.

On May 2, 2012, the LTA issued \$53,795,000 in Sales Tax Revenue Bonds secured by pledge of Pledged Allocable Sales Tax Revenues from each participating agency. The bonds allocated to the City of Calipatria are \$2,305,000. Additional financial information on the LTA is available from the Imperial County Public Works Department.

NOTE 12 – RESTATEMENT TO NET POSITION

The beginning net position of Governmental Activities has been restated in order to reflect the elimination of amortization of debt issuance costs in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 9,069,562
Restatement	(149,900)
Net Position - Beginning, as Restated	<u>\$ 8,919,662</u>

NOTE 13 – GOING CONCERN

As indicated in the accompanying financial statements, the City showed a decrease in fund balance of \$169,981 in the General Fund during the year ended June 30, 2014 for a total deficit fund balance of \$567,891. As of that date, the City's general fund total liabilities exceeded its total assets by \$567,891. The City projects the 2014-15 budget to deficit spend in the general fund and all other funds. These factors, as well as the uncertain conditions that the City faces regarding meeting its future operating costs and declining revenue sources, create an uncertainty about the City's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the City is unable to continue as a going concern.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF CALIPATRIA
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED June 30, 2014**

	Budget	Actual	Variances - Final to Actual
REVENUES			
Property taxes	\$ 25,000	\$ 34,511	\$ 9,511
Other taxes	78,588	64,838	(13,750)
License and permits	8,000	3,899	(4,101)
Intergovernmental	967,744	718,763	(248,981)
Interest	206	186	(20)
Other revenues	723,681	723,296	(385)
Total Revenues	1,803,219	1,545,493	(257,726)
EXPENDITURES			
Current			
General government	748,976	365,571	383,405
Public safety	808,456	780,158	28,298
Public works	128,857	424,545	(295,688)
Parks and recreation	70,906	74,594	(3,688)
Community development	9,715	70,606	(60,891)
Total Expenditures	1,766,910	1,715,474	51,436
NET CHANGE IN FUND BALANCE	36,309	(169,981)	(206,290)
Fund Balance - Beginning	(287,667)	(287,667)	-
Prior Period Adjustment	-	(110,243)	(110,243)
Fund Balance - Ending	\$ (251,358)	\$ (567,891)	\$ (316,533)

CITY OF CALIPATRIA
RLF 1st TIME HOME BUYERS – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variances - Final to Actual</u>
REVENUES			
Other revenues	\$ 46,848	\$ 96,885	\$ 50,037
Total Revenues	<u>46,848</u>	<u>96,885</u>	<u>50,037</u>
EXPENDITURES			
Current			
General government	100,165	18,951	81,214
Total Expenditures	<u>100,165</u>	<u>18,951</u>	<u>81,214</u>
NET CHANGE IN FUND BALANCE	<u>(53,317)</u>	<u>77,934</u>	<u>131,251</u>
Fund Balance - Beginning	286,901	286,901	-
Fund Balance - Ending	<u>\$ 233,584</u>	<u>\$ 364,835</u>	<u>\$ 131,251</u>

**CITY OF CALIPATRIA
 SUCCESSOR AGENCY – BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variances - Final to Actual</u>
REVENUES			
Other taxes	\$ 351,804	\$ 128,273	\$ (223,531)
Interest	3,377	15,714	12,337
Other revenues	9,588	152,140	142,552
Total Revenues	<u>364,769</u>	<u>296,127</u>	<u>(68,642)</u>
EXPENDITURES			
Current			
General government	-	292,608	(292,608)
Total Expenditures	<u>-</u>	<u>842,608</u>	<u>(842,608)</u>
NET CHANGE IN FUND BALANCE	<u>364,769</u>	<u>(546,481)</u>	<u>(911,250)</u>
Fund Balance - Beginning	2,597,034	2,597,034	-
Fund Balance - Ending	<u>\$ 2,961,803</u>	<u>\$ 2,050,553</u>	<u>\$ (911,250)</u>

CITY OF CALIPATRIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED June 30, 2014

NOTE 1 – BUDGET CONTROL AND ACCOUNTING

The City adheres to the following general procedures in establishing its annual budget, which is reflected in the accompanying schedules:

- Budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General, and Special Revenue Funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. From the effectiveness date of the budget, the amounts stated there in as proposed expenditures become appropriations to the various City departments.
- Reported budget amounts represent the original legally adopted budget as amended. Individual amendments were not material in relation to the original adopted budget amounts. The City Council may amend the budget to increase appropriations only by a duly adopted minute resolution during a regular meeting, providing that sufficient monies are available and that expenditures of proceeds of taxes will not be increased beyond the constitutional appropriation limit as imposed by Article XIII B of the State Constitution. Management can transfer, without City Council approval, budgeted amounts provided that they do not increase or decrease total fund appropriations adopted by the City Council.
- Unexpected budgeted amounts lapse at the end of the budget year. Spending control for the fund established by the amount of expenditures budgeted for the fund, but management control is exercised at budgetary line item levels.
- Expenditures may not legally exceed overall budgeted appropriations.
- The budgets of the City's capital projects are primarily "long term" budgets which emphasize major programs and capital outlay plans extending over a number of fiscal periods.

**SUPPLEMENTARY
INFORMATION**

CITY OF CALIPATRIA
COMBINING BALANCE SHEET
June 30, 2014

	Gas Tax 2105, 2106, 2107	Special Aviation	SB 325	SB 821	Local Transportation Authority
ASSETS					
Cash and investments	\$ 119,303	\$ 41,285	\$ 281	\$ 32,088	\$ 1,819,453
Accounts receivable	25,293	10,000	-	-	13,642
Total Assets	\$ 144,596	\$ 51,285	\$ 281	\$ 32,088	\$ 1,833,095
LIABILITIES					
Accounts payable	\$ 420	-	-	-	-
Total Liabilities	420	-	-	-	-
FUND BALANCES					
Restricted	144,176	51,285	281	32,088	1,833,095
Total Fund Balances	144,176	51,285	281	32,088	1,833,095
Total Liabilities and Fund Balance	\$ 144,596	\$ 51,285	\$ 281	\$ 32,088	\$ 1,833,095

See accompanying note to supplementary information.

CITY OF CALIPATRIA
COMBINING BALANCE SHEET, continued
June 30, 2014

	Offsite			2010 Bond	Sewer Connection	Non-Major
	RLF - Housing	Improvements	Impact Fees	Projects	Fees	Governmental Funds
ASSETS						
Cash and investments	\$ 258,231	\$ 152,920	\$ 234,738	\$ 267,664	\$ 64,384	\$ 2,990,347
Accounts receivable	-	-	-	-	-	48,935
Total Assets	\$ 258,231	\$ 152,920	\$ 234,738	\$ 267,664	\$ 64,384	\$ 3,039,282
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 420
Total Liabilities	-	-	-	-	-	420
FUND BALANCES						
Restricted	258,231	152,920	234,738	267,664	64,384	3,038,862
Total Fund Balances	258,231	152,920	234,738	267,664	64,384	3,038,862
Total Liabilities and Fund Balance	\$ 258,231	\$ 152,920	\$ 234,738	\$ 267,664	\$ 64,384	\$ 3,039,282

See accompanying note to supplementary information.

CITY OF CALIPATRIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED June 30, 2014

	Gas Tax 2105, 2106, 2107	Special Aviation	SB 325	SB 821	Local Transportation Authority
REVENUES					
Intergovernmental	\$ 590,753	\$ 10,000	\$ -	\$ 12,385	\$ 1,572,428
Interest	184	114	6	72	3,587
Other revenues	-	-	-	-	411,235
Total Revenues	590,937	10,114	6	12,457	1,987,250
EXPENDITURES					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	644,061	6,831	3,625	4,540	1,721,623
Total Expenditures	644,061	6,831	3,625	4,540	1,721,623
Excess (Deficiency) of Revenues					
Over Expenditures	(53,124)	3,283	(3,619)	7,917	265,627
NET CHANGE IN FUND BALANCE	(53,124)	3,283	(3,619)	7,917	265,627
Fund Balance - Beginning	197,300	48,002	3,900	24,171	1,457,225
Prior Period Adjustment	-	-	-	-	110,243
Fund Balance - Ending	\$ 144,176	\$ 51,285	\$ 281	\$ 32,088	\$ 1,833,095

See accompanying note to supplementary information.

CITY OF CALIPATRIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES, continued
FOR THE YEAR ENDED June 30, 2014

	RLF - Housing	Offsite Improvements	Impact Fees	2010 Bond Projects	Sewer Connection Fees	Non-Major Governmental Funds
REVENUES						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	2,185,566
Interest	507	351	586	219	160	5,786
Other revenues	96,109	13,715	-	550,000	-	1,071,059
Total Revenues	96,616	14,066	586	550,219	160	3,262,411
EXPENDITURES						
Current						
General government	19,577	-	-	-	-	19,577
Public safety	-	-	2,000	-	-	2,000
Public works	-	-	-	282,555	-	2,663,235
Total Expenditures	19,577	-	2,000	282,555	-	2,684,812
Excess (Deficiency) of Revenues						
Over Expenditures	77,039	14,066	(1,414)	267,664	160	577,599
NET CHANGE IN FUND BALANCE	77,039	14,066	(1,414)	267,664	160	577,599
Fund Balance - Beginning	181,192	138,854	236,152	-	64,224	2,351,020
Prior Period Adjustment	-	-	-	-	-	110,243
Fund Balance - Ending	\$ 258,231	\$ 152,920	\$ 234,738	\$ 267,664	\$ 64,384	\$ 3,038,862

See accompanying note to supplementary information.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

**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**

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Daud

Independent Auditors' Report

Governing Board
City of Calipatria

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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Calipatria, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Calipatria's basic financial statements, and have issued our report thereon dated February 3, 2015.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Internal Control over Financial Reporting

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In planning and performing our audit of the financial statements, we considered City of Calipatria'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 Calipatria's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Calipatria's internal control.

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

*Licensed by the California
State Board of Accountancy*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2014-1, #2014-2, #2014-3)

Compliance and Other Matters

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

City of Calipatria's Response to Findings

City of Calipatria's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Calipatria'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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christy White Associates

San Diego, California
February 3, 2015

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**CITY OF CALIPATRIA
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINDING #2014-1 DISBURSEMENTS

Criteria: Disbursements made by the City should be budgeted for and pre-approved by appropriate management personnel.

Condition: In testing controls over disbursements we found that not all disbursements contained evidence of pre-approval by city management during the 2013-14 fiscal year.

Cause: Inadvertent oversight of management.

Effect: Purchases may not be for approved city purposes, funds may not have been budgeted for, and proper approvals may not be obtained.

Recommendation: We recommend that City management pre-approve all disbursements to ensure that expenditures/expenses are authorized for City purposes and that sufficient funds are available within department budgets.

Management's Response: All disbursements will be reviewed, approved and disbursed as per the financial policies and procedures referenced above.

**CITY OF CALIPATRIA
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINDING #2014-2 PAYROLL

Criteria: Employees should fill out time sheets for each pay period. These time sheets should be sent to the department supervisor for approval. Once the supervisor has approved employee hours, they should submit the approved time sheets to payroll for processing.

Condition: In our audit of payroll, we noted that 1 of 31 personnel tested did not have time sheets that were signed by the department supervisor and 1 of 31 worked 19 hours but was paid for 32 hours.

Cause: Inadequate controls to ensure that all time sheets are approved by the department supervisor.

Effect: Employees could potentially be overpaid or underpaid.

Recommendation: We recommend that the City adopt policies to ensure that all employees submit their time sheets to their supervisors each pay period and that the supervisor approves these before sending to payroll.

Management's Response: All time sheets will be reviewed and approved by department supervisor prior to payroll execution as per the financial policies and procedures referenced above.

FINDING #2014-3 CAPITAL ASSETS

Criteria: Each year, the City should perform an annual fixed asset inventory count. This will ensure that any obsolete items included in the listing are removed and will help test for impairment.

Condition: In obtaining an understanding of fixed assets, we noted that the City has not performed an annual fixed asset inventory count in the last few years. In addition, the City has not tested fixed assets for potential impairment.

Cause: Inadequate controls over the valuation and completeness of fixed assets.

Effect: The potential for fixed assets to be over stated due to obsolete items or impairment of fixed assets.

Recommendation: We recommend that the City adopt procedures to ensure that fixed assets have an annual inventory count to ensure that there are no obsolete items included in the ending balance. In addition, the City should ensure that they are testing their fixed assets for impairment on an annual basis in addition to the inventory count.

Management's Response: All assets will be addressed annually as per the established asset policy.

**CITY OF CALIPATRIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINDING #2013-1 SEGREGATION OF DUTIES

Criteria: Proper internal controls should be in place that provides reasonable assurance that those responsibilities for authorization, recording, custody and reconciliation are not controlled by one individual.

Condition: In testing controls over receipts and payroll functions, it appears that these duties are not properly segregated due to the small size of finance department staff.

Cause: Short staffing due to budget constraints within the City.

Effect: Potential for mistakes or fraudulent behavior in payroll department due to lack of segregation of duties.

Recommendation: We understand that due to budget constraints within the city it is difficult to implement proper internal controls, however, we recommend that a policy be developed and implemented to segregate duties to the extent possible for receipting and payroll functions.

Management's Response: The City has prepared a draft policy to include segregation of duties.

Current Status: Implemented

**CITY OF CALIPATRIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2014**

FINDING #2013-2 DISBURSEMENTS

Criteria: Disbursements made by the City should be budgeted for and pre-approved by appropriate management personnel.

Condition: In testing controls over disbursements we found that not all disbursements contained evidence of pre-approval by city management.

Cause: Inadvertent oversight of management.

Effect: Purchases may not be for approved city purposes, funds may not have been budgeted for, and proper approvals may not be obtained.

Recommendation: We recommend that City management pre-approve all disbursements to ensure that expenditures/expenses are authorized for City purposes and that sufficient funds are available within department budgets.

Management's Response: The City is now implementing a purchase order system.

Current Status: See Finding #2014-1.

**CITY OF CALIPATRIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2014**

FINDING #2013-3 PAYROLL

Criteria: Employees should fill out time sheets for each pay period. These time sheets should be sent to the department supervisor for approval. Once the supervisor has approved employee hours, they should submit the approved time sheets to payroll for processing.

Condition: In our audit of payroll, we noted that 6 of 20 personnel tested did not have time sheets that were signed by the department supervisor. One of the six did not have a place for a supervisor signature.

Cause: Inadequate controls to ensure that all time sheets are approved by the department supervisor.

Effect: Employees could potentially be overpaid or underpaid.

Recommendation: We recommend that the City adopt policies to ensure that all employees submit their time sheets to their supervisors each pay period and that the supervisor approves these before sending to payroll.

Management's Response: The City has prepared a draft policy to include this requirement.

Current Status: See Finding #2014-2.

**CITY OF CALIPATRIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2014**

FINDING #2013-4 CAPITAL ASSETS

Criteria: Each year, the City should perform an annual fixed asset inventory count. This will ensure that any obsolete items included in the listing are removed and will help test for impairment.

Condition: In obtaining an understanding of fixed assets, we noted that the City has not performed an annual fixed asset inventory count in the last few years. In addition, the City has not tested fixed assets for potential impairment.

Cause: Inadequate controls over the valuation and completeness of fixed assets.

Effect: The potential for fixed assets to be over stated due to obsolete items or impairment of fixed assets.

Recommendation: We recommend that the City adopt procedures to ensure that fixed assets have an annual inventory count to ensure that there are no obsolete items included in the ending balance. In addition, the City should ensure that they are testing their fixed assets for impairment on an annual basis in addition to the inventory count.

Management's Response: The City will implement an asset inventory on a yearly basis.

Current Status: See Finding 2014-3.

**CITY OF CALIPATRIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2014**

FINDING #2013-5 FEDERAL CLEARINGHOUSE

Criteria: All entities subject to single audit requirements shall submit to the Federal clearinghouse designated by OMB a single copy of the data collection form within 9 months of the fiscal year end.

Condition: In our testing of the Community Development Block Grant it was determined that the City's last submission to the Federal clearinghouse was for the 2005 fiscal year.

Cause: Oversight by the predecessor audit firm and the City.

Effect: Non-compliance with the requirements of OMB Circular A-133.

Recommendation: We recommend that the city consult with an audit firm to have all fiscal years subjected to single audit between 2005 and 2011 properly submitted to the federal clearinghouse.

Management's Response: The City will request this response from the previous audit firm. If necessary the City will request a proposal for completion of these tasks.

Current Status: Implemented