

CITY OF HANFORD

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2012

CONTENTS

	<u>Page</u>
Principal city officials	i
Independent auditors' report	1-2
Management's discussion and analysis	3-13
 <u>FINANCIAL STATEMENTS:</u>	
Government-wide financial statements:	
Statement of net assets	14
Statements of activities and changes in net assets	15-16
Governmental fund financial statements:	
Combining balance sheet	17-18
Reconciliation of the governmental fund balance sheet to the government-wide statement of net assets	19
Combining statement of revenues, expenditures, and changes in fund balances	20-21
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities	22
Proprietary fund financial statements:	
Statement of net assets	23-24
Statement of revenues, expenses, and changes in net assets	25-26
Statement of cash flows	27-30
Fiduciary funds financial statements:	
Statement of fiduciary net assets – fiduciary funds	31
Statement of changes in fiduciary net assets	32
Notes to financial statements	33-63
Required supplementary information:	
Required supplementary information	64
Schedule of funding progress	65
Schedule of revenues, expenditures, and changes in fund balances:	
Budget and actual (GAAP Basis) general fund	66
Budget and actual (GAAP Basis) CDBG home/housing fund	67
Budget and actual (GAAP Basis) capital projects	68
Budget and actual (GAAP Basis) transportation fund	69

SUPPLEMENTARY INFORMATION SECTION:

Non-major special revenue funds:	
Combining balance sheet	70-73
Combining statement of revenues, expenditures, and changes in fund balances	74-77
Internal service funds:	
Combining statement of net assets	78-79
Combining statement of revenues, expenses, and changes in net assets	80-81
Combining statement of cash flows	82-83

TRUST AND AGENCY FUNDS:

Combining statement of fiduciary net assets	84
Combining statement of changes in fiduciary net assets	85

SINGLE AUDIT REPORTS:

Report on internal control over compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards	86-87
Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	88-89
Schedule of expenditures of federal awards	90
Notes to the schedule of expenditures of federal awards	91
Schedule of findings and questioned costs	92
Schedule of findings and recommendations	93-99
Summary schedule of prior audit findings	100

APPROPRIATIONS LIMIT REPORT:

Independent auditors' report on compliance with Article XIII B – appropriations limit	101
Appropriations limit schedules A and B	102

CITY OF HANFORD
June 30, 2011

CITY COUNCIL

NAME

POSITION

Sue Sorensen
Joleen Jameson
Dan Chin
Jim Irwin
Lou Martinez

Mayor
Vice Mayor
Council Member
Council Member
Council Member

ADMINISTRATION

Pamela McCarthy
Griswold, LaSalle, Cobb, Dowd & Gin, L.L.P.
Linda Rodriguez
Tom Dibble
Timothy Ieronimo
Cathy Cain
Carlos Mestas
John Doyel
Scott Yeager
Lou Camara

Interim City Manager
City Attorneys
City Clerk
Treasurer/Finance Director
Fire Chief
Interim Community Development Director
Police Chief
City Engineer
Recreation Director
Public Works Director

February 18, 2013

The Honorable City Council of
The City of Hanford
Hanford, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the fiduciary funds of the City of Hanford, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hanford's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information and the fiduciary funds of the City of Hanford, California, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated February 18, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and budgetary comparison schedule for the General Fund, the Community Development Block Grant Special Revenue Fund, the Capital Project Fund, the Transportation Funds, and the Schedule of Funding Progress – Public Retirement systems, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Hanford, California's basic financial statements. The combining and individual non-major fund financial statements identified in the table of contents, where applicable, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Hanford, California. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

This discussion and analysis of the City of Hanford's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- Assets of the City of Hanford exceed its liabilities at the close of the most recent fiscal year 2012 by about \$300.4 million. Of this amount, about \$49.2 million in unrestricted assets may be used to meet the City's ongoing obligations to citizens and creditors.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$58.3 million.
- Approximately 10.9% of the combined governmental fund balances is considered available for spending at the City's discretion.
- As of June 30, 2012, unassigned fund balance in the General Fund was \$6.3 million, or 30.8% of total General Fund Expenditures.
- The City's total debt decreased by \$5.47 million during the fiscal year 2012, which is due to 1) the normal maturity of debt in the general fund, the water system, and the wastewater system; 2) additional debt in the Wastewater Enterprise Fund borrowed to finance construction of an energy efficient solar panel system at the Wastewater Treatment Plant, and 3) the former redevelopment notes payable to the City of Hanford were transferred to the redevelopment agency successor agency trust fund.

THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Hanford (City) and its component units, using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No. 34. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

These **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. Additionally, certain eliminations have occurred as prescribed by the GASB statements in regards to inter-fund activity, payables and receivables.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

The **Fund Financial Statements** include statements for each of the three categories of activities – governmental, business-type and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the City as a whole and about its activities. These statements included all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and sales tax base.

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets, we separate the City activities as follows:

Governmental activities – Most of the City's basic services are reported in this category, including General Government, Police, Fire, Public Works, Parks/Recreation, and Community Development. Property and sales taxes, user fees, interest income, franchise fees, and state and federal shared revenues and grants generally financed these activities.

Business-Type activities – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's Water, Sewer, Storm Drain, Refuse, Airport, Intermodal, and Courthouse Square Funds are reported in this category.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

FUND FINANCIAL STATEMENTS

The City, like other state and local governments, uses fund accounting to account for a number of funding sources and activities. In general, fund accounting provides a mechanism for separately accounting for a variety of different funding sources, and enables the City to demonstrate compliance with legal and/or contractual requirements that may be associated with these funds. Thus, the accompanying fund financial statements present individual funds, organized into one of three groups based on the nature of the activities and their purpose: Governmental, Proprietary or Fiduciary Funds. Note that the fund financial statements only present the most significant (or "major") funds. In addition, the fund financial statements include a schedule that reconciles the fund financial statements to the Government-Wide Financial Statements. This is designed to explain the difference created by the integrated approach.

Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between the results shown in the governmental fund financial statements and those shown in the government-wide financial statements are explained in a reconciliation schedule following each governmental fund financial statement.

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 Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the City's self-insurance, fleet maintenance, and computer maintenance funds. The internal service funds are reported with governmental activities in the government-wide financial statements.

Fiduciary Funds – The City is the trustee, or fiduciary, for certain funds held on behalf of various third parties. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statement – The notes to the financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain “required supplementary information” concerning the City’s progress in funding its obligation to provide pension benefits to its employees, budgetary comparison schedules for the general fund and other major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City presents its financial statements under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34. The City is presenting prior fiscal years’ data for the purpose of providing comparative information for the Management Discussion and Analysis (MD&A).

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Hanford, assets exceeded liabilities by \$300,385,216 at the close of the most recent fiscal year.

By far the largest portion of the City of Hanford’s net assets 69.1% reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any outstanding debt used to acquire those assets. The City of Hanford uses these capital assets to provide services to citizens; consequently, their value is not available for future spending. Although the City of Hanford’s investment in its capital assets is reported net of related debt, it should be noted that the sources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Of the total current assets \$74,598,449, approximately 95% or \$70,638,955, consists of cash and investments. These funds are invested in accordance with State law and the City’s investment policy, and includes funds legally and/or contractually restricted as to their use.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current assets	\$ 44,829,151	\$ 46,418,090	\$ 29,769,298	\$ 25,058,682	\$ 74,598,449	\$ 71,476,772
Capital and non-current assets (net of depreciation)	<u>165,418,338</u>	<u>167,110,846</u>	<u>111,453,271</u>	<u>111,397,334</u>	<u>276,871,609</u>	<u>278,508,180</u>
Total assets	<u>210,247,489</u>	<u>213,528,936</u>	<u>141,222,569</u>	<u>136,456,016</u>	<u>351,470,058</u>	<u>349,984,952</u>
Liabilities:						
Current and other liabilities	1,276,794	1,976,423	4,794,120	3,200,313	5,824,464	5,176,736
Long-term liabilities	<u>1,732,466</u>	<u>2,501,872</u>	<u>43,281,462</u>	<u>41,294,833</u>	<u>45,260,378</u>	<u>43,796,705</u>
Total liabilities	<u>3,009,260</u>	<u>4,478,295</u>	<u>48,075,582</u>	<u>44,495,146</u>	<u>51,084,842</u>	<u>48,973,441</u>
Net Assets:						
Invested in capital assets, net of related debt	138,323,412	140,241,152	69,249,494	69,249,494	207,572,906	209,490,646
Restricted	43,047,770	42,916,367	595,802	595,743	43,643,572	43,512,110
Unrestricted	<u>25,867,047</u>	<u>25,893,122</u>	<u>23,301,691</u>	<u>22,115,633</u>	<u>49,168,738</u>	<u>48,008,755</u>
Total net assets	<u>\$207,238,229</u>	<u>\$209,050,641</u>	<u>\$ 93,146,987</u>	<u>\$ 91,960,870</u>	<u>\$300,385,216</u>	<u>\$301,011,511</u>

An additional portion of the City of Hanford's net assets \$43,643,572 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$49,168,738 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Hanford is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities. This means the City has sufficient current assets to satisfy both its current and long-term liabilities, fulfill its obligations pursuant to external restriction imposed on City assets, and still have assets remaining for discretionary spending. In short, the City is in excellent financial condition.

Statement of Activities

As discussed earlier, the Statement of Net Assets provides a measure of the financial health of an entity at a specific date in time (usually year end). The Statement of Activities provides details of how net assets changed from the beginning of the year to the end of the year, and whether net assets increased or decreased. Thus, it indicates whether the City as a whole is better off at June 30, 2012 than it was at June 30, 2011.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

STATEMENT OF ACTIVITIES

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES:						
Program revenues:						
Charges for services	\$ 3,137,476	\$ 5,339,922	\$18,582,319	\$18,377,584	\$ 21,719,795	\$ 23,717,506
Operating grants and contributions	478,516	1,347,547			478,516	1,347,547
Capital grants and contributions	1,912,822	2,941,570	911,970	1,226,436	2,824,792	4,168,006
General revenues:						
Taxes	19,753,533	20,365,709			19,753,533	20,365,709
Investment earnings	693,430	1,565,434	124,489	78,119	817,919	1,643,553
Other revenues	620,781	370,540	355,880	899,174	976,661	1,269,714
TOTAL REVENUES	<u>26,596,558</u>	<u>31,930,722</u>	<u>19,974,658</u>	<u>20,581,313</u>	<u>46,571,216</u>	<u>52,512,035</u>
EXPENSES:						
Governmental activities:						
General government	1,709,919	1,655,477			1,709,919	1,655,477
Public safety	13,971,460	13,277,169			13,971,460	13,277,169
Public works	11,713,618	8,796,335			11,713,618	8,796,335
Recreation	2,687,554	2,012,493			2,687,554	2,012,493
Community development	579,062	1,997,387			579,062	1,997,387
Interest on long-term debt	7,585	22,270			7,585	22,270
Business-type activities:						
Water system			5,555,687	5,080,257	5,555,687	5,080,257
Wastewater system			5,920,835	5,276,564	5,920,835	5,276,564
Storm drain			587,670	853,148	587,670	853,148
Refuse			6,044,857	4,810,287	6,044,857	4,810,287
Airport			382,711	377,512	382,711	377,512
Intermodal			86,055	91,020	86,055	91,020
Courthouse square			175,178	194,470	175,178	194,470
TOTAL EXPENSES	<u>30,669,198</u>	<u>27,761,131</u>	<u>18,752,993</u>	<u>16,683,258</u>	<u>49,422,191</u>	<u>44,444,389</u>
Increase in net assets before transfers	(4,072,640)	4,169,591	1,221,665	3,898,055	(2,850,975)	8,067,646
Transfers	35,548	(8,490)	(35,548)	8,490		
Extraordinary item – dissolution of Redevelopment Agency	2,224,680				2,224,680	
Change in net assets	(1,812,412)	4,161,101	1,186,117	3,906,545	(626,295)	8,067,646
Net assets, beginning of year, as previously reported	209,050,641	203,180,323	91,960,870	88,054,325	301,011,511	291,234,648
Prior period adjustment		1,709,217				1,709,217
Net assets, beginning of year, restated		204,889,540		88,054,325		292,943,865
Net assets, end of year	<u>\$207,238,229</u>	<u>\$209,050,641</u>	<u>\$93,146,987</u>	<u>\$91,960,870</u>	<u>\$300,385,216</u>	<u>\$301,011,511</u>

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

The City's revenue totaled \$46,571,216, with 47% generated from charges for services and 42% generated from taxes. The largest source of revenues in Governmental Activities comes from taxes at 74%. This is typical in that traditional services provided by a city, such as public safety, parks, recreation, and public works, are primarily funded from property, sales, transient occupancy, and other local taxes. The largest source of revenues in Business-Type Activities comes from charges for services at 93%. The Business-Type Activities include enterprise fund operations, such as Water, Sewer, Refuse, Airport and Intermodal Funds, all of which recover their costs through fees and charges just like a normal business.

Expenses of the City totaled \$49,422,191. The two largest categories of expense are public safety, which accounted for 28% of total costs and public works, which represents 24% of total costs. However, in relation to Governmental Activity expenses, public safety makes up 46% of the total.

As depicted in the Statement of Activities, net assets decreased during the year. In those funds included within the Governmental Activities category, net assets decreased by \$1,812,412 a decrease of 0.9%. Net assets increased in those funds included within the Business-Type Activities category by \$1,186,117, or 1.3%.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As previously noted, the City of Hanford uses fund accounting to demonstrate compliance with legal and contractual requirements. This section provides an analysis and discussion of individual funds and fund types presented in the financial statements.

Governmental Funds – The Focus of the City of Hanford's governmental funds is on short-term inflows and outflows and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2012, the City's governmental statement of activities reported total ending net assets of \$207,238,229, a decrease of \$1,812,412 from the beginning of the year. Approximately 12% of this total amount, \$25,867,047, is available for spending at the government's discretion as unreserved/undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to a specific future use.

The General Fund is the primary operating fund of the City of Hanford. At the end of the fiscal year, unassigned fund balance of the General Fund was \$6,339,610 while total fund balance reached \$14,659,342. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. The unassigned fund balance of the general fund represents approximately 30.8% of general fund expenditures.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

Capital Improvement Funds, which are categorized as governmental funds, show fluctuations in their ending fund balances because they are primarily used to account for capital improvement projects that span more than one year. Therefore, the change in fund balance is generally due to the timing of funding, which generally occurs in one year, in relation to the timing of expenditures, which occur over more than one year. Any remaining fund balances are either reserved or earmarked specifically for the continuing cost of the related projects.

Proprietary Funds – The City proprietary funds include the Water, Wastewater, Storm Drain, Refuse, Airport, Intermodal, and Courthouse Square Funds. All of the proprietary funds are highly capital intensive, requiring a significant investment in capital equipment and facilities to conduct their operations, whether it be in water and sewer lines, water and wastewater treatment facilities or runways.

The Water Fund has total net assets of \$28,913,718 at the end of the fiscal year. Total net assets include \$23,512,426 invested in capital assets and \$595,802 reserved for debt service, which are not available to pay for current expenses. The remaining net assets of \$5,401,292 are unrestricted and available to cover current operating and capital needs of the fund.

The Refuse Fund has total net assets of \$4,498,580 at the end of the fiscal year. Total net assets include \$174,213 invested in capital assets, which are not available to cover current expenses. The remaining net assets of \$4,324,367 are unrestricted and available to cover current operating and capital needs of the fund.

The Wastewater Fund has total net assets of \$29,973,739 at the end of the fiscal year. Total net assets include \$20,102,372 invested in capital assets, which are not available to cover current expenses. The fund has \$9,691,367 available to cover current operating and capital needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City of Hanford's investment in capital assets for its governmental and business type activities as of June 30, 2012 amounts to \$249,776,683 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities and roads. The net decrease in the City's investment in capital assets for the current fiscal year was \$2,231,803. This decrease is a result of annual depreciation in excess of land acquisition, normal equipment replacement, and construction of typical capital assets. Significant capital asset events during the fiscal year included the following:

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

- Construction on storm drainage facilities \$448,089.
- Construction on wastewater system treatment plan and collection system for \$1,819,750.
- Construction on the water system storage tanks, water wells, and water mains for \$394,967.
- Various street construction projects, rehabilitation and betterments for \$2,531,054.
- Depreciation for fiscal year 2011-12 \$7,607,929.

Capital Assets
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 60,432,656	\$ 60,432,656	\$ 11,035,847	\$11,035,847	\$ 71,468,503	\$ 71,468,503
Buildings	11,350,567	11,638,810	6,842,221	7,126,000	18,192,788	18,764,810
Infrastructure	58,882,422	57,953,722	88,610,687	89,850,270	147,493,109	147,803,992
Equipment	6,675,891	6,416,231	3,299,738	136,100	9,975,629	6,552,331
Construction in progress	<u>981,876</u>	<u>4,169,733</u>	<u>1,664,778</u>	<u>3,249,117</u>	<u>2,646,654</u>	<u>7,418,850</u>
Total capital assets	<u>\$138,323,412</u>	<u>\$140,611,152</u>	<u>\$111,453,271</u>	<u>\$111,397,334</u>	<u>\$249,776,683</u>	<u>\$252,008,486</u>

Long-Term Debt - At the end of the current fiscal year, the City of Hanford, primary government, had a total debt outstanding of \$46,489,503.

Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Compensated absences	\$ 803,467	\$ 784,620	\$ 161,223	\$ 165,231	\$ 964,690	\$ 949,851
Certificates of participation		370,000				370,000
Revenue bonds payable			24,480,000	25,520,000	24,480,000	25,520,000
Unamortized bond premium			143,043	151,983	143,043	151,983
Notes payable	246,450	1,035,809	14,878,713	15,466,773	15,125,163	16,502,582
Lease purchase			<u>5,776,607</u>	<u>1,677,549</u>	<u>5,776,607</u>	<u>1,677,549</u>
	<u>\$1,049,917</u>	<u>\$2,190,429</u>	<u>\$45,439,586</u>	<u>\$42,981,536</u>	<u>\$46,489,503</u>	<u>\$45,171,965</u>

With respect to the Governmental Activities, the reduction of \$370,000 in certificates of participation reflects the pay off of one issuance in 2001 for \$3,175,000 to finance the acquisition of the Recreational/Educational Facility Site for the Learning Center.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

In the Business-Type Activities, the revenue bonds payable consists of five separate issues. In 2006, the City received \$8,925,000 from the issuance of Water Revenue Bonds for the purpose of refunding the EDA Loan and 1993 Water Refunding Revenue Bond as well as expanding the City's water system. Three bonds were issued to expand or upgrade the wastewater system and treatment plant. These consist of an issue in 1996 of \$7,855,000, an issue in 1999 of \$5,000,000, and an issue in 2002 of \$10,555,000. In 2007, the City received \$8,150,000 through an installment sale agreement to finance arsenic remediation projects. In 2009, the City received \$1,998,290 through a lease purchase agreement to purchase and install auto read water meters.

The notes payable portion of the outstanding \$15,125,163 debt consists of three loans. In 2002, the City obtained a \$10,000,000 loan for the purpose of expanding the wastewater treatment plant and in 2007, the City obtained \$8,150,000 to finance construction of arsenic remediation projects. In September, 2011, the City obtained a \$246,450 shared appreciation loan from the Kings County Economic Development Corporation for purchase of land in the Kings Industrial Park.

For detail information regarding each of these bonds or notes please refer to Note 5 – Long-Term Debt, page 49.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was increased by \$113,471 primarily from grant funds obtained for purchase of equipment for police and fire. The actual revenues were less than budget estimates by about \$733,000 caused from reduced sales tax, investment earnings and development fees. Expenditure savings were about \$653,000, primarily in public works activities and public safety.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The key assumptions in the General Fund revenue forecast for fiscal year 2012-2013 were:

- Service charges will increase due to new services and rate increases that went into effect during the fiscal year.
- Property tax revenues will increase about 1% with assessed valuation and general growth.
- Sales tax revenues will grow by about 5%.
- State budget actions will negatively affect general fund revenues.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Continued)

Items addressed in the budget were:

Wastewater – Complete upgrades to sewer life stations and reserve funds for the 2018 sewer treatment plant expansion.

Airport – Design and construction of improvements /overlay of the airport apron and taxiway and replacement of the airport beacon.

Community Development – Commence planning for development of the easterly segment of downtown commercial area.

Water – The Completion of construction of various water main replacements.

Streets – The design and construction of widening 10th Avenue from Third Street to Hanford Armona Road, widening of 12th Avenue from Grangeville Blvd. to Fargo Avenue and installation of a traffic signal at Seventh Street and Mall Drive.

General Fund Operations – The budget maintains current services with the same level of employees and anticipates minimal revenue growth with no draw from reserves.

REQUESTS FOR INFORMATION

This Financial Report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in the report or requests for additional financial information can be sent via e-mail to finance@ci.hanford.ca.us. Formal written requests should be addressed to: City of Hanford, Attn: Finance Department, 315 N. Douty Street, Hanford, California 93230.

FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 45,916,766	\$ 24,126,387	\$ 70,043,153
Receivables	1,504,486	1,794,103	3,298,589
Internal balances	(2,847,955)	2,847,955	
Inventories	154,494	216,565	371,059
Deposits	100,000	10,000	110,000
Deferred charges		178,486	178,486
Other assets	1,360		1,360
Long-term notes receivable	19,881,683		19,881,683
Loan to Successor Agency	6,966,793		6,966,793
Restricted cash and investments		595,802	595,802
Land held for resale	246,450		246,450
Capital assets:			
Non-depreciable capital assets:			
Land	60,432,656	11,035,847	71,468,503
Construction in progress	981,876	1,664,778	2,646,654
Depreciable capital assets, net of depreciation	<u>76,908,880</u>	<u>98,752,646</u>	<u>175,661,526</u>
Total assets	<u>210,247,489</u>	<u>141,222,569</u>	<u>351,470,058</u>
LIABILITIES			
Accounts payable	649,144	1,327,301	1,976,445
Salary and benefits payable	353,850	66,138	419,988
Accrued interest payable		787,094	787,094
Deposits and deferred revenue	27,350	229,502	256,852
Long-term debt – due within one year		2,384,085	2,384,085
Long-term debt – due in more than one year	246,450	42,751,235	42,997,685
Unamortized bond premium		143,043	143,043
Compensated absences – long-term	803,467	161,223	964,690
Net OPEB liability	<u>928,999</u>	<u>225,961</u>	<u>1,154,960</u>
Total liabilities	<u>3,009,260</u>	<u>48,075,582</u>	<u>51,084,842</u>
NET ASSETS			
Invested in capital assets, net of related debt	138,323,412	69,249,494	207,572,906
Restricted for:			
Streets	7,912,689		7,912,689
Debt service		595,802	595,802
Housing	22,460,078		22,460,078
Public safety	1,792,404		1,792,404
Parks and recreation	1,962,766		1,962,766
Capital projects	8,919,833		8,919,833
Unrestricted	<u>25,867,047</u>	<u>23,301,691</u>	<u>49,168,738</u>
Total net assets	<u>\$207,238,229</u>	<u>\$ 93,146,987</u>	<u>\$300,385,216</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 1,709,919	\$ 52,552	\$153,146	\$	\$ (1,504,221)
Public safety	13,971,460	1,149,112	257,767	153,437	(12,411,144)
Public works	11,713,618	638,032		1,759,232	(9,316,354)
Recreation	2,687,554	448,106		153	(2,239,295)
Community development	579,062	849,674	67,603		338,215
Interest on long-term debt	<u>7,585</u>				<u>(7,585)</u>
Total governmental activities	<u>30,669,198</u>	<u>3,137,476</u>	<u>478,516</u>	<u>1,912,822</u>	<u>(25,140,384)</u>
Business-type activities:					
Water system	5,555,687	5,156,916		386,877	(11,894)
Wastewater system	5,920,835	5,413,260		242,181	(265,394)
Storm drain	587,670	1,307,886		282,912	1,003,128
Refuse	6,044,857	6,459,130			414,273
Airport	382,711	80,235			(302,476)
Intermodal	86,055	44,188			(41,867)
Courthouse square	<u>175,178</u>	<u>120,704</u>			<u>(54,474)</u>
Total business-type activities	<u>18,752,993</u>	<u>18,582,319</u>		<u>911,970</u>	<u>741,296</u>
Total primary government	<u>\$49,422,191</u>	<u>\$21,719,795</u>	<u>\$478,516</u>	<u>\$2,824,792</u>	<u>\$(24,399,088)</u>
Component unit:					
Redevelopment agency (1)	<u>\$ 493,286</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (493,286)</u>

(1) Period is for the seven months ended January 31, 2012

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2012
(Continued)

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			Component Unit Redevelopment Agency ⁽¹⁾
	Governmental Activities	Business-Type Activities	Total	
Primary Government:				
Governmental activities:				
General government	\$ (1,504,221)	\$	\$ (1,504,221)	\$
Public safety	(12,411,144)		(12,411,144)	
Public works	(9,316,354)		(9,316,354)	
Recreation	(2,239,295)		(2,239,295)	
Community development	338,215		338,215	
Interest on long-term debt	<u>(7,585)</u>		<u>(7,585)</u>	
Total governmental activities	<u>(25,140,384)</u>		<u>(25,140,384)</u>	
Business-type activities:				
Water system		(11,894)	(11,894)	
Wastewater system		(265,394)	(265,394)	
Storm drain		1,003,128	1,003,128	
Refuse		414,273	414,273	
Airport		(302,476)	(302,476)	
Intermodal		(41,867)	(41,867)	
Courthouse square		<u>(54,474)</u>	<u>(54,474)</u>	
Total business-type activities		<u>741,296</u>	<u>741,296</u>	
Total primary government	<u>(25,140,384)</u>	<u>741,296</u>	<u>(24,399,088)</u>	
Component unit:				
Redevelopment agency				<u>(493,286)</u>
General revenues:				
Taxes:				
Property taxes	10,055,377		10,055,377	1,078,739
Sales and use tax	6,239,308		6,239,308	
Franchise taxes	850,912		850,912	
Other taxes	2,607,936		2,607,936	
Revenue from use of money and property	693,430	124,489	817,919	26,301
Impact fees		250,925	250,925	
Gain on sale of assets	44,519		44,519	
Miscellaneous/other	576,262	104,955	681,217	
Transfers - interfund	<u>35,548</u>	<u>(35,548)</u>		<u>216,430</u>
Total general revenues and transfers	<u>21,103,292</u>	<u>444,821</u>	<u>21,548,113</u>	<u>1,321,470</u>
Extraordinary Item – Dissolution of Redevelopment Agency	2,224,680		2,224,680	2,483,901
Change in net assets	(1,812,412)	1,186,117	(626,295)	3,312,085
Net assets, beginning of year	<u>209,050,641</u>	<u>91,960,870</u>	<u>301,011,511</u>	<u>(3,312,085)</u>
Net assets, end of year	<u>\$207,238,229</u>	<u>\$93,146,987</u>	<u>\$300,385,216</u>	<u>\$</u>

(1) Period is for seven months ended January 31, 2012.

See independent auditors' report and notes to financial statements.

**GOVERNMENTAL
FUND FINANCIAL STATEMENTS**

CITY OF HANFORD
Combining Balance Sheet
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 7,316,614	\$ 610,905	\$7,307,928	\$238,043	\$ 13,380,573	\$28,854,063
Accounts receivable	746,259	274,271		211,628	257,550	1,489,708
Loan receivable	25,000	17,241,562			2,615,121	19,881,683
Due from other funds	64,980		1,641,947			1,706,927
Deposits	100,000					100,000
Other assets	260		1,100			1,360
Land for resale	246,450					246,450
Advances to successor agency	<u>6,966,793</u>					<u>6,966,793</u>
Total assets	<u>\$15,466,356</u>	<u>\$18,126,738</u>	<u>\$8,950,975</u>	<u>\$449,671</u>	<u>\$16,253,244</u>	<u>\$59,246,984</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	253,661	33,487	31,142		47,598	365,888
Accrued wages payable	280,289					280,289
Consumer deposits	26,614	736				27,350
Due to other funds					64,980	64,980
Loans payable	<u>246,450</u>					<u>246,450</u>
Total liabilities	<u>807,014</u>	<u>34,223</u>	<u>31,142</u>		<u>112,578</u>	<u>984,957</u>
FUND BALANCES						
Nonspendable:						
Long-term receivables	6,966,793				2,615,121	9,581,914
Land for resale	246,450					246,450
Insurance deposits	100,000					100,000
Restricted for:						
Community development		18,092,515				18,092,515
Streets and roads				449,671	6,688,051	7,137,722
Recreation					1,962,766	1,962,766
Landscape maintenance					776,169	776,169
Public safety					1,792,408	1,792,408
Aviation					10,000	10,000
Community development					700,511	700,511

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Governmental Funds
For the Year Ended June 30, 2012
(Continued)

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
Committed for:						
Parking and business improvement			8,919,833		461,742	9,381,575
Capital projects	1,006,489					1,006,489
Community Development					1,150,620	1,150,620
Unassigned	<u>6,339,610</u>				<u>(16,722)</u>	<u>6,322,888</u>
Total fund balances	<u>\$14,659,342</u>	<u>\$18,092,515</u>	<u>\$8,919,833</u>	<u>\$449,671</u>	<u>\$16,140,666</u>	<u>\$58,262,027</u>
Total liabilities and fund balances	<u>\$15,466,356</u>	<u>\$18,126,738</u>	<u>\$8,950,975</u>	<u>\$449,671</u>	<u>\$16,253,244</u>	<u>\$59,246,984</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Reconciliation of the Governmental Funds Balance Sheet
To the Government-Wide Statement of Net Assets
Governmental Activities
June 30, 2012

Total fund balances governmental funds		\$ 58,262,027
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:		
Capital assets at historical cost	\$194,331,035	
Accumulated depreciation	<u>(61,804,347)</u>	132,526,688
Internal service funds are used by management to charge the costs of fleet maintenance, purchasing, risk management, building usage, and computer maintenance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets:		
		18,181,980
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Compensated absences	\$ 803,467	
Unfunded OPEB liabilities	<u>928,999</u>	<u>(1,732,466)</u>
Total net assets – governmental activities		<u>\$207,238,229</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
REVENUES						
Taxes and special assessments	\$17,734,279	\$	\$ 7,290	\$194,173	\$ 2,627,265	\$20,563,007
Aid from other government agencies	1,297,858	450,154	23,787	110,605	153,146	2,035,550
Licenses and permits	358,983					358,983
Fines and forfeitures	137,029				74,741	211,770
Charges for services	604,691					604,691
Revenue from use of money and property	399,073	226,851		1,604	91,431	718,959
Miscellaneous	14,145	855	359,195			374,195
Unrealized gain on investments	<u> </u>	<u>829</u>	<u>9,806</u>	<u>315</u>	<u>16,106</u>	<u>27,056</u>
Total revenues	<u>20,546,058</u>	<u>678,689</u>	<u>400,078</u>	<u>306,697</u>	<u>2,962,689</u>	<u>24,894,211</u>
EXPENDITURES						
General government	1,600,409				7,500	1,607,909
Public safety	13,459,443					13,459,443
Public works	3,266,570				710,152	3,976,722
Recreation	1,382,587					1,382,587
Community development	867,232					867,232
Capital outlay		558,335	1,509,107	142,457	3,527,869	5,737,768
Debt service:						
Principal					370,000	370,000
Interest					<u>7,585</u>	<u>7,585</u>
Total expenditures	<u>20,576,241</u>	<u>558,335</u>	<u>1,509,107</u>	<u>142,457</u>	<u>4,623,106</u>	<u>27,409,246</u>
Excess (deficiency) of revenues over expenditures	<u>(30,183)</u>	<u>120,354</u>	<u>(1,109,029)</u>	<u>164,240</u>	<u>(1,660,417)</u>	<u>(2,515,035)</u>
Other financing sources (uses)						
Other sources					251,723	251,723
Operating transfers in	901,723				178,550	1,080,273
Operating transfers out	<u>(55,987)</u>		<u>(125,862)</u>		<u>(135,257)</u>	<u>(317,106)</u>
Total other financing sources (uses)	<u>845,736</u>		<u>(125,862)</u>		<u>295,016</u>	<u>1,014,890</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
Net change in fund balance before extraordinary item	<u>815,553</u>	<u>120,354</u>	<u>(1,234,891)</u>	<u>164,240</u>	<u>(1,365,401)</u>	<u>(1,500,145)</u>
Extraordinary gain(loss)						
Dissolution of Redevelopment Agency	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>2,224,680</u>	<u>2,224,680</u>
Net change in fund balances	815,553	120,354	(1,234,891)	164,240	859,279	724,535
Fund balances beginning of year	<u>13,843,789</u>	<u>17,972,161</u>	<u>10,154,724</u>	<u>285,431</u>	<u>15,281,387</u>	<u>57,537,492</u>
Fund balances end of year	<u>\$14,659,342</u>	<u>\$18,092,515</u>	<u>\$ 8,919,833</u>	<u>\$449,671</u>	<u>\$16,140,666</u>	<u>\$58,262,027</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Reconciliation of the Governmental Funds Statement
of Revenues, Expenditures, And Changes in Fund Balances
to the Government-Wide Statement of Activities
Governmental Activities
For the Year ended June 30, 2012

Total net change in fund balances – governmental funds		\$ 724,535
Amounts reported for governmental activities in the statement of activities different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:		
Expenditures for capital outlay	\$ 2,086,278	
Depreciation expense	<u>(5,888,469)</u>	(3,802,191)
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets:		1,450,624
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 the liabilities. Expenditures for repayment of the principal portion of the long-term debt were:		370,000
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 amounts earned. The difference between compensated absences paid and those earned was:		(18,847)
Internal service funds are used by management to charge the costs of fleet maintenance, purchasing, employee welfare, workers' compensation, general and unemployment insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities:		(288,977)
Unfunded OPEB liability: These expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in government funds.		<u>(247,556)</u>
Change in net assets of governmental activities		<u><u>\$(1,812,412)</u></u>

See independent auditors' report and notes to financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Water System Fund	Sewer Improvement Funds		Refuse Fund
		Wastewater Fund	Storm Drain Fund	
ASSETS				
Current assets:				
Cash and investments	\$ 5,374,172	\$ 10,887,969	\$ 3,548,455	\$ 4,119,561
Restricted cash	595,802			
Accounts receivable, net	548,753	470,678	126,030	588,645
Deposits	6,000	4,000		
Inventory	216,565			
Deferred charges	178,486			
Due from other funds		48,406		
Total current assets	<u>6,919,778</u>	<u>11,411,053</u>	<u>3,674,485</u>	<u>4,708,206</u>
Noncurrent assets:				
Capital assets:				
Land	324,114	4,135,650	3,453,076	
Buildings and improvements	46,057,451	68,478,465	15,718,498	218,590
Machinery and equipment	3,763,294	501,204	129,356	1,100,516
Construction in progress	38,170	1,577,569		10,500
Less accumulated depreciation	<u>(12,155,479)</u>	<u>(24,665,364)</u>	<u>(3,717,936)</u>	<u>(1,155,393)</u>
Total capital assets (net of accumulated depreciation)	<u>38,027,550</u>	<u>50,027,524</u>	<u>15,582,994</u>	<u>174,213</u>
Total noncurrent assets	<u>38,027,550</u>	<u>50,027,524</u>	<u>15,582,994</u>	<u>174,213</u>
Total assets	<u>\$44,947,328</u>	<u>\$ 61,438,577</u>	<u>\$19,257,479</u>	<u>\$ 4,882,419</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 177,763	\$ 945,675	\$ 2,319	\$ 192,061
Salaries and benefits payable	21,440	17,358		26,659
Deposits and deferred revenue	228,690			
Due to other funds				
Interest payable	133,816	653,278		
Current portion of long-term debt	838,087	1,545,998		
Total current liabilities	<u>1,399,796</u>	<u>3,162,309</u>	<u>2,319</u>	<u>218,720</u>
Noncurrent liabilities:				
Compensated absences payable	45,559	43,326		72,338
Net OPEB liability	73,131	60,049		92,781
Unamortized bond premium	143,043			
Bonds and notes payable	<u>14,372,081</u>	<u>28,379,154</u>		
Total noncurrent liabilities	<u>14,633,814</u>	<u>28,482,529</u>		<u>165,119</u>
Total liabilities	<u>16,033,610</u>	<u>31,644,838</u>	<u>2,319</u>	<u>383,839</u>
NET ASSETS				
Invested in capital assets net of related debt	23,512,426	20,102,372	15,582,994	174,213
Unrestricted	<u>5,401,292</u>	<u>9,691,367</u>	<u>3,672,166</u>	<u>4,324,367</u>
Total net assets	<u>\$ 28,913,718</u>	<u>\$ 29,793,739</u>	<u>\$19,255,160</u>	<u>\$ 4,498,580</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Net Assets
Proprietary Funds
June 30, 2012
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total	Governmental Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 195,194	\$ 1,036	\$	\$ 24,126,387	\$ 17,062,703
Restricted cash				595,802	
Accounts receivable, net	6,763		53,234	1,794,103	14,778
Deposit				10,000	
Inventory				216,565	154,494
Deferred charges				178,486	
Due from other funds				48,406	
Total current assets	<u>201,957</u>	<u>1,036</u>	<u>53,234</u>	<u>26,969,749</u>	<u>17,231,975</u>
Noncurrent assets:					
Capital assets:					
Land	2,596,623	526,384		11,035,847	
Buildings and improvements	6,710,403	1,784,997		138,968,404	
Machinery and equipment	30,354			5,524,724	15,912,768
Construction in progress	38,539			1,664,778	
Less: Accumulated depreciation	<u>(3,449,153)</u>	<u>(597,157)</u>		<u>(45,740,482)</u>	<u>(10,116,044)</u>
Total capital assets (net of accumulated depreciation)	<u>5,926,766</u>	<u>1,714,224</u>		<u>111,453,271</u>	<u>5,796,724</u>
Total noncurrent assets	<u>5,926,766</u>	<u>1,714,224</u>		<u>111,453,271</u>	
Total assets	<u>\$ 6,128,723</u>	<u>\$ 1,715,260</u>	<u>\$ 53,234</u>	<u>\$ 138,423,020</u>	<u>\$ 23,028,699</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 3,964	\$ 1,046	\$ 4,473	\$ 1,327,301	\$ 283,256
Salaries and benefits payable	194		487	66,138	73,561
Deposits and deferred revenue	812			229,502	
Due to other funds	395,468	606,305	688,580	1,690,353	
Interest payable				787,094	
Current portion of long-term debt				2,384,085	
Total current liabilities	<u>400,438</u>	<u>607,351</u>	<u>693,540</u>	<u>6,484,473</u>	<u>356,817</u>
Noncurrent liabilities:					
Compensated absence payable				161,223	
Net OPEB liability				225,961	
Unamortized bond premium				143,043	
Bonds and notes payable				42,751,235	
Total noncurrent liabilities				<u>43,281,462</u>	
Total liabilities	<u>400,438</u>	<u>607,351</u>	<u>693,540</u>	<u>49,765,935</u>	<u>356,817</u>
NET ASSETS					
Invested in capital assets, net of related debt	5,926,766	1,714,224		67,012,995	5,796,724
Unrestricted	<u>(198,481)</u>	<u>(606,315)</u>	<u>(640,306)</u>	<u>21,644,090</u>	<u>16,875,158</u>
Total net assets	<u>\$ 5,728,285</u>	<u>\$ 1,107,909</u>	<u>\$(640,306)</u>	<u>88,657,085</u>	<u>\$ 22,671,882</u>
Adjustments to reflect the consolidation of the Internal service funds related to enterprise funds				<u>4,489,902</u>	
Net assets of business-type activities				<u>\$ 93,146,987</u>	

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary funds
For the Year Ended June 30, 2012

	Water System Fund	Sewer Improvement Funds		Refuse Fund
		Wastewater Fund	Storm Drain Fund	
OPERATING REVENUES				
Charges for services	\$ 5,156,916	\$ 5,413,260	\$ 1,307,886	\$6,459,130
Other revenues	<u>159,437</u>	<u>115,302</u>	<u>19,445</u>	<u>2,303</u>
Total operating revenue	<u>5,316,353</u>	<u>5,528,562</u>	<u>1,327,331</u>	<u>6,461,433</u>
OPERATING EXPENSES				
Personnel services	1,365,752	1,167,087		1,713,950
Services and supplies	2,601,315	2,242,696	380,920	4,469,582
Depreciation and amortization	<u>967,849</u>	<u>1,226,559</u>	<u>209,911</u>	<u>7,231</u>
Total operating expenses	<u>4,934,916</u>	<u>4,636,342</u>	<u>590,831</u>	<u>6,190,763</u>
Operating income (loss)	<u>381,437</u>	<u>892,220</u>	<u>736,500</u>	<u>270,670</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental	30,080			
Interest income	32,599	44,786	18,942	1,696
Interest expense	(688,942)	(1,327,453)		
Gain (loss) on sale of assets				
Unrealized gain (loss) on investments	6,908	9,512	4,606	5,280
Miscellaneous	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total non-operating revenues (expenses)	<u>(619,355)</u>	<u>(1,273,155)</u>	<u>23,548</u>	<u>6,976</u>
Income (loss) before capital contributions and transfers	(237,918)	(380,935)	760,048	277,646
Capital contributions	356,797	242,181	282,912	
Transfers in (out)	<u>94,863</u>	<u>(19,705)</u>	<u> </u>	<u>450,869</u>
CHANGES IN NET ASSETS	213,742	(158,459)	1,042,960	728,515
TOTAL NET ASSETS, Beginning of year	<u>28,699,976</u>	<u>29,952,198</u>	<u>18,212,200</u>	<u>3,770,065</u>
TOTAL NET ASSETS, End of year	<u>\$28,913,718</u>	<u>\$29,793,739</u>	<u>\$19,255,160</u>	<u>\$4,498,580</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 80,235	\$ 44,188	\$ 120,704	\$18,582,319	\$ 5,367,382
Other revenues	<u>640</u>	<u>123</u>	<u> </u>	<u>297,250</u>	<u> </u>
Total operating revenue	<u>80,875</u>	<u>44,311</u>	<u>120,704</u>	<u>18,879,569</u>	<u>5,367,382</u>
OPERATING EXPENSES					
Personnel services	16,092		29,136	4,292,017	1,001,852
Services and supplies	63,552	51,934	147,622	9,957,621	3,210,035
Depreciation and amortization	<u>306,498</u>	<u>35,701</u>	<u> </u>	<u>2,753,749</u>	<u>991,921</u>
Total operating expenses	<u>386,142</u>	<u>87,635</u>	<u>176,758</u>	<u>17,003,387</u>	<u>5,203,808</u>
Operating income (loss)	<u>(305,267)</u>	<u>(43,324)</u>	<u>(56,054)</u>	<u>1,876,182</u>	<u>163,574</u>
NON-OPERATING REVENUES (EXPENSES)					
Intergovernmental				30,080	
Interest income	33			98,056	60,394
Interest expense				(2,016,395)	
Gain on sale of assets					52,492
Unrealized gain (loss) on investments	268	(10)	(131)	26,433	22,039
Miscellaneous	<u>58,630</u>	<u> </u>	<u> </u>	<u>58,630</u>	<u>235,562</u>
Total non-operating revenues (expenses)	<u>58,931</u>	<u>(10)</u>	<u>(131)</u>	<u>(1,803,196)</u>	<u>370,487</u>
Income (loss) before capital capital contributions and transfers	(246,336)	(43,334)	(56,185)	72,986	534,061
Capital contributions				881,890	171,370
Transfers in (out)	<u>63,342</u>	<u> </u>	<u> </u>	<u>589,369</u>	<u>(1,352,536)</u>
CHANGE IN NET ASSETS	(182,994)	(43,334)	(56,185)	1,544,245	(647,105)
TOTAL NET ASSETS, Beginning of year	<u>5,911,279</u>	<u>1,151,243</u>	<u>(584,121)</u>		<u>23,318,987</u>
TOTAL NET ASSETS, End of year	<u>\$5,728,285</u>	<u>\$1,107,909</u>	<u>\$(640,306)</u>		<u>\$22,671,882</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				<u>(358,128)</u>	
Change in net assets of business-type activities (Page 16)				<u>\$ 1,186,117</u>	

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year ended June 30, 2012

	Water System Fund	Sewer Improvement Funds		Refuse Fund	Airport Fund
		Wastewater Fund	Storm Drain Fund		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received for current services	\$ 5,084,674	\$ 5,358,023	\$1,292,623	\$ 6,406,444	\$ 75,673
Cash received for other operating revenues	159,437	115,302	19,445	2,303	640
Cash paid for services and supplies	(2,688,729)	(2,228,755)	(383,464)	(4,512,191)	(67,892)
Cash paid for salaries and benefits	<u>(1,338,901)</u>	<u>(1,146,106)</u>		<u>(1,687,081)</u>	<u>(16,041)</u>
Net cash provided (used) by operating activities	<u>1,216,481</u>	<u>2,098,464</u>	<u>928,604</u>	<u>209,475</u>	<u>(7,620)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Intergovernmental revenue	30,080				
Transfers (to) from other funds	94,863	(19,705)		450,869	63,342
Loans from/(to) other funds		<u>(48,406)</u>			<u>(10,000)</u>
Net cash provided (used) by non-capital financing activities	<u>124,943</u>	<u>(68,111)</u>		<u>450,869</u>	<u>53,342</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from lease purchase		4,325,556			
Principal paid on long-term debt	(777,341)	(1,044,846)			
Interest paid	(705,117)	(969,330)			
Proceeds from sale of equipment					
Capital contributions			282,912		
Capital expenditures	<u>(59,802)</u>	<u>(839,177)</u>	<u>(484,089)</u>	<u>(10,500)</u>	<u>(38,539)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,542,260)</u>	<u>1,472,203</u>	<u>(201,177)</u>	<u>(10,500)</u>	<u>(38,539)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Unrealized gain (loss) on investments	6,908	9,512	4,606	5,280	268
Other non-operating revenue					58,630
Interest received	<u>33,314</u>	<u>45,346</u>	<u>18,411</u>	<u>1,689</u>	<u>33</u>
Net cash provided by investing activities	<u>40,222</u>	<u>54,858</u>	<u>23,017</u>	<u>6,969</u>	<u>58,931</u>
Net increase (decrease) in cash and cash equivalents	(160,614)	3,557,414	750,444	656,813	66,114
Cash and cash equivalents, beginning of year	<u>6,130,588</u>	<u>7,330,555</u>	<u>2,798,011</u>	<u>3,462,748</u>	<u>129,080</u>
Cash and cash equivalents, end of year	<u>\$ 5,969,974</u>	<u>\$10,887,969</u>	<u>\$3,548,455</u>	<u>\$ 4,119,561</u>	<u>\$ 195,194</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(Continued)

	Water System Fund	Sewer Improvement Funds		Refuse Fund	Airport Fund
		Wastewater Fund	Storm Drain Fund		
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 381,437	\$ 892,220	\$ 736,500	\$ 270,670	\$(305,267)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	967,849	1,226,559	209,911	7,231	306,498
(Increase) decrease in net assets:					
Accounts receivable	(77,128)	(55,237)	(15,263)	(52,686)	(734)
Inventory	(35,732)				
Increase (decrease) in net liabilities:					
Accounts payable	(51,682)	13,941	(2,544)	(42,609)	(4,340)
Salaries and benefits payable	6,896	5,707		7,883	51
Compensated absences	711	(331)		(4,388)	
Deposits and deferred revenue	4,886				(3,828)
OPEB liability	19,244	15,605		23,374	
Total adjustments	<u>835,044</u>	<u>1,206,244</u>	<u>192,104</u>	<u>(61,195)</u>	<u>297,647</u>
Net cash provided (used) by operating activities	<u>\$ 1,216,481</u>	<u>\$ 2,098,464</u>	<u>\$ 928,604</u>	<u>\$ 209,475</u>	<u>\$ (7,620)</u>
Contributions of capital assets	<u>\$ 356,797</u>	<u>\$ 242,181</u>	<u>\$ 282,912</u>	<u>\$ _____</u>	<u>\$ _____</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(Continued)

	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities- Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for current services	\$ 44,188	\$ 119,034	\$ 18,380,659	\$ 4,248,415
Cash received for other operating revenues	123		297,250	
Cash paid for services and supplies		(148,511)	(10,029,542)	(2,043,757)
Cash paid for salaries and benefits	<u>(50,918)</u>	<u>(28,950)</u>	<u>(4,267,997)</u>	<u>(1,013,698)</u>
Net cash provided (used) by operating activities	<u>(6,607)</u>	<u>(58,427)</u>	<u>4,380,370</u>	<u>1,190,960</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Intergovernmental revenue			30,080	
Transfers (to) from other funds			589,369	(1,352,536)
Loans from/ (to) other funds	<u>7,653</u>	<u>58,558</u>	<u>7,805</u>	<u> </u>
Net cash provided (used) by non-capital financing activities	<u>7,653</u>	<u>58,558</u>	<u>627,254</u>	<u>(1,352,536)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from lease purchase			4,325,556	
Principal paid on long-term debt			(1,822,187)	
Interest paid			(1,674,447)	
Proceeds from sale of equipment				52,492
Capital contributions			282,912	1,097,657
Capital expenditures	<u> </u>	<u> </u>	<u>(1,432,107)</u>	<u>(884,377)</u>
Net cash provided (used) by capital and related financing activities	<u> </u>	<u> </u>	<u>(320,273)</u>	<u>265,772</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Unrealized gain (loss) on investments	(10)	(131)	26,433	22,039
Other non-operating revenue			58,630	235,562
Interest received	<u> </u>	<u> </u>	<u>98,793</u>	<u>60,226</u>
Net cash provided (used) by investing activities	<u>(10)</u>	<u>(131)</u>	<u>183,856</u>	<u>317,827</u>
Net increase (decrease) in cash and cash equivalents	1,036		4,871,207	422,023
Cash and cash equivalents, beginning of year	<u> </u>	<u> </u>	<u>19,850,982</u>	<u>16,640,680</u>
Cash and cash equivalents, end of year	<u>\$ 1,036</u>	<u>\$ </u>	<u>\$ 24,722,189</u>	<u>\$17,062,703</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(Continued)

	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities- Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:				
Operating income/(loss)	\$(43,324)	\$ (56,054)	\$ 1,876,182	\$ 163,574
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	35,701		2,753,749	991,921
(Increase) decrease in net assets:				
Accounts receivable		(1,670)	(202,718)	
Inventory			(35,732)	18,144
Increase (decrease) in net liabilities:				
Accounts payable	1,016	(889)	(87,107)	29,167
Salaries and benefits payable		186	20,723	(11,846)
Compensated absences			(4,008)	
Deposits and deferred revenue			1,058	
OPEB liability			58,223	
Total adjustments	<u>36,717</u>	<u>(2,373)</u>	<u>2,504,188</u>	<u>1,027,386</u>
Net cash provided (used) by operating activities	<u>\$ (6,607)</u>	<u>\$ (58,427)</u>	<u>\$ 4,380,370</u>	<u>\$ 1,190,960</u>
Contribution of capital assets	<u>\$</u>	<u>\$</u>	<u>\$ 881,890</u>	<u>\$</u>

See independent auditors' report and notes to financial statements.

FIDUCIARY FUNDS FINANCIAL STATEMENTS

CITY OF HANFORD
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Redevelopment Successor Agency Private-Purpose Trust Fund	Trust and Agency Funds
ASSETS		
Cash and investments	\$ 1,822,394	\$1,348,125
Accounts receivable	1,661	4,623
Assets held for resale	1,844,343	
Other		<u>1,970,000</u>
Total assets	<u>\$ 3,668,398</u>	<u>\$3,322,748</u>
LIABILITIES		
Accounts payable	\$ 775,214	\$ 156,406
Deposits held for others		307,833
Advances from City of Hanford	6,966,793	
Bonds/notes payable	<u>893,470</u>	<u>1,970,000</u>
Total liabilities	<u>8,635,477</u>	<u>2,434,239</u>
NET ASSETS (Deficit)		
Held in trust for the retirement of obligations of the former Hanford Redevelopment Agency and other purposes	<u>(4,967,079)</u>	<u>888,509</u>
Total net assets	<u>\$(4,967,079)</u>	<u>\$ 888,509</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Period Ended June 30, 2012

	Redevelopment Successor Agency Private-Purpose Trust Fund ⁽¹⁾	Trust and Agency Funds ⁽²⁾
ADDITIONS		
Taxes	\$ 305,714	\$
Investment earnings	23,483	
Gain on sale of assets	961,053	
Other additions	<u>180,454</u>	<u>490,467</u>
 Total additions	 <u>1,470,704</u>	 <u>490,467</u>
DEDUCTIONS		
General government	444,682	17,981
Other agencies	469,098	
Unrealized (gain) loss on investments		(778)
Debt service:		
Principal		330,000
Interest	<u> </u>	<u>127,060</u>
 Total deductions	 <u>913,780</u>	 <u>474,263</u>
 Change in net assets	 556,924	 16,204
 Net assets – beginning of year	 <u> </u>	 <u>872,305</u>
 Extraordinary gain (loss)		
Dissolution of redevelopment agency	<u>(5,524,003)</u>	<u> </u>
 Net assets (deficit) – end of year	 <u><u>\$(4,967,079)</u></u>	 <u><u>\$888,509</u></u>

(1) For the five months ended June 30, 2012

(2) For the year ended June 30, 2012

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Hanford (the “City”) have been prepared in conformity with U.S. Generally Accepted Accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements present the financial position of the City and the various funds and fund types, the results of operations of the City and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2012 and for the year then ended.

A. Description of the Reporting Entity

The City of Hanford was incorporated as a General Law city in 1891. The City operates under a Council-Administrator form of government and provides the following services: Public safety (police and fire), community development, community services, public works, cultural, general administrative services, and capital improvements.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Hanford (the primary government) and its component units. The component units discussed below is included in the City’s reporting entity because of the significance of their operational or financial relationship with the City. However, elected officials of the City of Hanford have a continuing accountability for fiscal matters of the other entities. The financial reporting entity consists of: (1) the City (2) organizations for which the City is financially accountable and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, component unit balances and transactions are reported in a manner similar to the balances and transactions of the City. A component unit is presented on a blended basis when the component unit’s governing body is substantially the same as the City’s or the component unit provides services almost entirely to the City, otherwise the component unit is presented discretely.

Blended Component Unit:

The financial statements of the City of Hanford include the financial activities of the City as well as of the Hanford Improvement Corporation. Although the Hanford Improvement Corporation is a legally distinct unit from the City, their financial operations are overseen by the City of Hanford and, in fact, the City Council is the board of directors of the Corporation.

Discretely presented Component Unit:

The Hanford Redevelopment Agency (Agency) was established pursuant to the State of California Health and Safety Codes, Section 33000 entitled “Community Redevelopment Law.” Its purpose is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational, and public facilities. The City’s council members appoint the Agency’s directors,

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

designate management, and have full accountability for the Agency's fiscal matters. As a result of California legislation, the Agency was dissolved in fiscal year 2012. Low and Moderate Income Housing Funds to the City's Housing Asset Special Revenue Fund and all other assets and liabilities of the Agency were transferred to the RDA Successor Agency and are reported in the Fiduciary Funds.

B. Basis of Presentation

Government-Wide Financial Statements

The Government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the primary government and its component units. For the most part, eliminations have been made to minimize the double counting on internal activities. These statements distinguish between the *governmental and business type activities* of the City and between the City and its discretely presented component unit. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements

The governmental fund financial statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as non-major funds.

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the principle operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds. For the City, the general fund includes basic governmental activities such as general government, public safety, public works and community service.

CDBG Home/Housing Fund – To receive and disburse funds in accordance with grants received from the Department of Housing and Urban Development for the repair and improvement of targeted housing areas.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Transportation Funds – These are funds used to account for receipt and disbursement of Federal and State Transportation Program moneys. The funds reported here include 1971 State Transportation Development Act (TDA) Funds, Federal Congestion Management and Air Quality (CMAQ) Funds, 2006 Statewide Proposition 1-B Bond Funds, and 2009 Federal American Recovery and Reinvestment Act (ARRA) Stimulus Funds.

The City reports the following major enterprise funds:

Water Fund – The Water Fund is used to account for the financial activities of water utility of the City.

Wastewater Fund – The Wastewater Fund is used to account for financial activities of sewage collection and wastewater treatment utility of the City.

Storm Drain Fund – The Storm Drain Fund is used to account for the financial activities of the City's storm drains.

Refuse Fund – The Refuse Fund is used to account for the financial activities of the collection of solid waste and disposal utility of the City.

Airport Fund – To account for all activities necessary to provide an airport to the residents of the City and surroundings areas.

Intermodal Fund – The Intermodal Fund is used to account for the financial activities of a building used to support state regional and local transportation.

Courthouse Square Fund – The Courthouse Square Fund is used to account for the financial activities of the maintenance and improvement of the property known as the Courthouse Square in downtown Hanford.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

The City reports the following fund types in aggregate as part of other non-major governmental funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds – 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 of the City other than debt service payments made by proprietary funds.

Additionally, the City reports the following fund types:

Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to another on a cost-reimbursement basis.

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

C. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

For its government-wide activities and enterprise funds, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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. Revenues and expenses not meeting this definition are reported as non-operating.

D. Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items

Cash and Investments

For purposes of the statement of cash flows, the City considers short term and highly liquid investments (including restricted assets) to be cash and cash equivalents.

Investments

Investments are stated at fair value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale).

Further cash and investment disclosures are presented in Note 2.

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statement as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Services provided, deemed to be a market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include intergovernmental and tax receivable. Business-type activities report trade and intergovernmental as their major receivables.

Inventory

Inventories of materials and supplies in the proprietary and internal services funds are valued at the lower of cost or market, carried on a first-in, first-out (FIFO) basis.

Land Held for Resale

Land held for resale is recorded at the lower of cost or estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of the land held for resale because such assets are not available to finance the City's current operations.

Capital Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

The City's capitalization threshold is \$5,000. In other words, fixed assets are capitalized only if they have a cost in excess of \$5,000 and have an expected useful life of three years or more. Fixed assets that have a cost below \$5,000 are expensed during the fiscal year they are acquired.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Infrastructure	20 to 50 years
Buildings	20 to 50 years
Improvements other than buildings	20 to 50 years
Machinery and equipment	4 to 20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits and compensatory time. All vacation, sick and compensatory pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. For additional information regarding compensated absences, see Note 4.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. 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 deferred charges and amortized over the terms of the related debt.

In the fund financial statements, however, debt principal payments of governmental funds are recognized as expenditures when paid. 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Net Assets/Fund Equity

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constructional provisions or enabling legislation.
- *Unrestricted net assets* – This category represents net assets of the City, not restricted for any project or other purpose.

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

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

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

Property Taxes

In 1978, a state constitutional amendment (Proposition 13) provided that the tax rate be limited to 1% of market value, levied only by the County and shared with all other jurisdictions. Such limitation on the rate may only be increased through voter approval. The County Collects property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdiction's assessed valuations and on the tax rate for voter-approved debt. In the fund financial statements, property tax is recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

The property tax calendar for the City and the Discretely Presented Component Unit is as follows:

Lien date	January 1
Levy dates	September 1
Due dates	November 1 – 1 st installment February 1 – 2 nd installment
Collection dates	December 10 – 1 st installment April 12 – 2 nd installment

E. Deferred Revenue

The City reports deferred revenue in its financial statements. Deferred revenue arises when resources are recovered by the government before it has legal claim to them.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

G. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The procedures established by the City Council in adopting the budgetary data reflected in the financial statements are as follows:

On or before the second meeting in May, the City Manager submits to the City Council a proposed operating and capital projects budget for the fiscal year commencing the following July 1. Following publication and public hearings, the budget is legally enacted by resolution.

The City Manager is authorized to transfer funds appropriated with respect to all classifications within the same department. The City Manager may transfer appropriated funds from any classification within other expenditure categories to existing capital outlay and capital projects classifications within the same department only; however, any revisions that alter the total expenditures of any department or create additional projects must be approved by the City Council.

Supplemental budgetary appropriations were negligible for the fiscal year ended June 30, 2012. All unencumbered appropriations lapse at year end.

For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds are considered a single department. Revenues are budgeted on a line item basis. A comparison of budgeted and actual revenues by line item would be too voluminous for this report.

Budgets for the General, Special Revenue, and Debt Service Funds are presented in the accompanying general purpose financial statements on a basis consistent with accounting principles generally accepted in the United States of America. Budgets for Capital Projects Funds are not presented because they are budgeted on a project basis rather than on an annual basis. No budgets are adopted for the Proprietary and Fiduciary Fund types.

Deficit Fund Equity/Net Assets

The Courthouse Square Proprietary Fund and the Grants Non-Major Special Revenue Fund had deficit fund balances of \$640,306 and \$16,722, respectively. These deficits are expected to be eliminated in future years through revenues or transfers from other funds.

Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expense of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

NOTE 2 – CASH AND INVESTMENTS

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

Statement of Net Assets:	
Cash and investments	\$70,043,153
Restricted cash and investments	595,802
Fiduciary funds:	
Cash and investments	<u>3,170,519</u>
 Total cash and investments	 <u>\$73,809,474</u>

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

Cash on hand	\$ 1,705
Deposits with financial institutions	10,426,361
Investments	<u>63,381,408</u>
 Total cash and investments	 <u>\$73,809,474</u>

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

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

Authorized Investment type	Maximum 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	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by bond trustees that are not subject to California Government Code Restrictions.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(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 of Hanford'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 Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosure Relating to Interest Rate risk

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

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

Investment Type		Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Federal Agency Securities	\$16,064,526	\$	\$	\$16,064,526
State Investment Pool	39,776,131	39,776,131		
Negotiable Certificates of Deposits Held by Bond Trustee:	2,755,300		251,985	2,503,315
Money Market Funds	<u>4,785,451</u>	<u>4,785,451</u>		
Total	<u>\$63,381,408</u>	<u>\$44,561,582</u>	<u>\$251,985</u>	<u>\$18,567,841</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Disclosures Relating to Credit Risk

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

Investment Type		Minimum Legal Rating	Standard & Poors Ratings as of Year End		
			AAA	AA	Not Rated
Federal Agency Securities	\$16,064,526	N/A	\$	\$16,064,526	\$
State Investment Pool	39,776,131	N/A			39,776,131
Negotiable Certificates of Deposits Held by Bond Trustee:	2,755,300	N/A			2,755,300
Money Market Funds	<u>4,785,451</u>	N/A			<u>4,785,451</u>
Total	<u>\$63,381,408</u>		<u>\$</u>	<u>\$16,064,526</u>	<u>\$47,316,882</u>

Concentration of Credit Risk

The investment policy of the City of Hanford contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of **total City of Hanford investments** are as follows:

Issuer	Investment Type	Reported Amount
FNMA	Federal Agency Securities	\$6,798,252
FFCB	Federal Agency Securities	\$5,258,621

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 (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 of Hanford's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following 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. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$11,722,779 of the City of Hanford's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

Investment in State Investment Pool

The City of Hanford is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City of Hanford's investment in this pool is reported in the accompanying financial statements at amounts based upon the City of Hanford'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.

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2012 for the City's individual major funds, nonmajor funds and internal service funds in the aggregate are as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Grants</u>	<u>Interest</u>	<u>Loans</u>	<u>Total</u>
Governmental Funds						
General	\$ 382,189	\$324,608	\$	\$39,462	\$	\$ 746,259
CDBG Home/Housing			273,203	1,068		274,271
Transportation Funds		183,197	28,043	388		211,628
Nonmajor and Other	<u>25,940</u>	<u>162,387</u>	<u>52,569</u>	<u>16,654</u>		<u>257,550</u>
Total	<u>\$ 408,129</u>	<u>\$670,192</u>	<u>\$353,815</u>	<u>\$57,572</u>	<u>\$</u>	<u>\$1,489,708</u>
Enterprise Funds						
Water System	\$ 541,241	\$	\$	\$ 7,512	\$	\$ 548,753
Wastewater	460,176			10,502		470,678
Storm Drain	121,114			4,916		126,030
Refuse	588,228			417		588,645
Airport	4,512			2,251		6,763
Courthouse Square	<u>53,234</u>					<u>53,234</u>
Total	<u>\$1,768,505</u>	<u>\$</u>	<u>\$</u>	<u>\$25,598</u>	<u>\$</u>	<u>\$1,794,103</u>
Internal Service Funds						
Fleet Maintenance Fund	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$14,778</u>	<u>\$</u>	<u>\$ 14,778</u>
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$14,778</u>	<u>\$</u>	<u>\$ 14,778</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

NOTE 4 – CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2012 were as follows:

	<u>Balance July 1, 2011</u>	<u>Addition Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2012</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 60,432,656	\$	\$	\$ 60,432,656
Construction in Progress	<u>4,169,733</u>	<u>729,977</u>	<u>(3,917,834)</u>	<u>981,876</u>
Total capital assets, not being depreciated	64,602,389	729,977	(3,917,834)	61,414,532
Capital assets being depreciated				
Buildings	18,079,179	30,552		18,109,731
Infrastructure	107,031,135	5,371,026		112,402,161
Equipment	<u>17,949,148</u>	<u>1,376,811</u>	<u>(1,008,580)</u>	<u>18,317,379</u>
Total capital assets being depreciated	143,059,462	6,778,389	(1,008,580)	148,829,271
Less: Accumulated depreciation				
Buildings	(6,440,369)	(318,795)		(6,759,164)
Infrastructure	(49,077,413)	(4,442,326)		(53,519,739)
Equipment	<u>(11,532,917)</u>	<u>(1,114,420)</u>	<u>1,005,849</u>	<u>(11,641,488)</u>
Total accumulated depreciation	(67,050,699)	(5,875,541)	1,005,849	(71,920,391)
Total capital assets being depreciated, net	<u>76,008,763</u>	<u>902,848</u>	<u>(2,731)</u>	<u>76,908,880</u>
Governmental activities capital assets, net	<u>\$140,611,152</u>	<u>\$ 1,632,825</u>	<u>\$(3,920,565)</u>	<u>\$138,323,412</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 11,035,847	\$	\$	\$ 11,035,847
Construction in progress	<u>3,249,117</u>	<u>1,664,778</u>	<u>(3,249,117)</u>	<u>1,664,778</u>
Total capital assets, not being depreciated	<u>14,284,964</u>	<u>1,664,778</u>	<u>(3,249,117)</u>	<u>12,700,625</u>
Capital assets being depreciated				
Buildings and improvement	137,825,390	1,143,014		138,968,404
Machinery and equipment	<u>2,289,478</u>	<u>3,235,246</u>		<u>5,524,724</u>
Total capital assets being depreciated	140,114,868	4,378,260		144,493,128
Less: Accumulated depreciation for:				
Buildings and improvement	(40,849,120)	(2,666,363)		(43,515,483)
Machinery and equipment	<u>(2,153,378)</u>	<u>(71,621)</u>		<u>(2,224,999)</u>
Total accumulated depreciation	(43,002,498)	(2,737,984)		(45,740,482)
Total capital assets being depreciated, net	<u>97,112,370</u>	<u>1,640,276</u>		<u>98,752,646</u>
Business-type activities capital assets, net	<u>\$111,397,334</u>	<u>\$ 3,305,054</u>	<u>\$(3,249,117)</u>	<u>\$111,453,271</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Depreciation expense for the fiscal year ending June 30, 2012 was charged to the following activities:

Governmental functions:	
General governmental	\$ 41,527
Public safety	286,752
Culture and recreation	650,059
Public works	3,773,551
Community development	131,731
Capital assets held by the internal service funds were charged to the various functions based on their usage	<u>991,921</u>
Total	<u>\$5,875,541</u>
 Business-type functions:	
Water system	\$ 952,084
Wastewater	1,226,559
Storm drain	209,911
Refuse	7,231
Airport	306,498
Intermodal	<u>35,701</u>
Total	<u>\$2,737,984</u>

Component Unit

The capital assets of the Redevelopment Agency (Component Unit) are now accounted for and reported in the Government Activities section of these financial statements.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

NOTE 5 – LONG-TERM DEBT

The following is a summary of the long-term debt activity for the year ended June 30, 2012:

<u>Type of Debt</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transferred to Trust Fund</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Governmental activities						
Certificates of participation	\$ 370,000	\$	\$ (370,000)	\$	\$	\$
Notes payable	1,035,809	246,450	(1,035,809)		246,450	
Compensated absences	<u>784,620</u>	<u>18,847</u>	<u></u>		<u>803,467</u>	
Total governmental activities	<u>2,190,429</u>	<u>265,297</u>	<u>(1,405,809)</u>		<u>1,049,917</u>	
Business activities						
Bonds payable	25,520,000		(1,040,000)		24,480,000	1,065,000
Add deferred amounts for issuance premium	151,983		(8,940)		143,043	
Notes payable	15,466,773		(588,060)		14,878,713	610,358
Capital lease	1,677,549	4,325,556	(226,498)		5,776,607	708,727
Compensated absences	<u>165,231</u>	<u></u>	<u>(4,008)</u>		<u>161,223</u>	
Total business activities	<u>42,981,536</u>	<u>4,325,556</u>	<u>(1,867,506)</u>		<u>45,439,586</u>	<u>2,384,085</u>
Total primary government	<u>45,171,965</u>	<u>4,590,853</u>	<u>(3,273,315)</u>		<u>46,489,503</u>	<u>2,384,085</u>
Discretely presented component unit						
Redevelopment Agency of the City of Hanford						
Notes payable						
City of Hanford	6,786,339	180,454		(6,966,793)		
Kings County Economic Development Corp	<u></u>	<u>1,035,809</u>	<u>(142,339)</u>	<u>(893,470)</u>		
Total discretely presented component unit	<u>6,786,339</u>	<u>1,216,263</u>	<u>(142,339)</u>	<u>(7,860,263)</u>		
Total reporting entity	<u>\$51,958,304</u>	<u>\$5,807,116</u>	<u>\$(3,415,654)</u>	<u>\$(7,860,263)</u>	<u>\$46,489,503</u>	<u>\$2,384,085</u>

Governmental Activities –

On December 1, 2001, the City of Hanford Public Improvement Corporation issued \$3,175,000 Variable Rate Certificates of Participation. The Certificates shall mature annually on December 1, and shall bear interest ranging from 2.5 to 7.5 percent interest with respect to the Certificates shall be payable on June 1 and December 1 of each year, commencing June 1, 2002. Payment of the principal and interest on the Certificates when due are insured by a financial guaranty insurance policy issued by the MBIA Insurance Corporation. The Certificates are secured by Hanford's City Hall and auditorium building pledged as collateral. The purpose of the Certificates is to finance the acquisition of the Recreational/Educational Facility Site for the Learning Center. In conjunction with the issuance, the City entered into an agreement with the College of Sequoias and the Hanford Union High School District that requires each party to pay one-third share of the Certificate. At June 30, 2012, the outstanding balance was paid off.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Notes Payable:

On September 20, 2011, the City entered into a loan agreement with the Kings County Economic Development Corporation in the amount of \$246,450 to fund 50% of the purchase price of 16.43 acres of vacant land for the Kings County Industrial Park Project. The note does not accrue interest at a fixed rate, but instead will pay a contingent deferred interest for a price in excess of \$30,000 per acre. The note represents a shared appreciation loan and the City is required to pay \$15,000 in principal for each acre it sells. The principal balance at June 30, 2012 was \$246,450.

During the first year the governing body of the Community Redevelopment Agency of the City of Hanford transferred prior year notes payable of \$1,035,809 back to the Redevelopment Agency where then was subsequently transferred to the Successor Agency.

Compensated Absences:

The City accounts for compensated absences (unpaid vacation, sick leave and compensatory time) in accordance with GASB Code Sec. C60. In governmental funds, compensated absences are recorded as expenditures in the year paid, as it is the City's intention to liquidate any unpaid compensated absences at June 30 from future resources, rather than current available financial resources. Accordingly, the unpaid liability for governmental funds is recorded in the government-wide statement of net assets.

\$803,467

Business Type Activities –

On April 1, 1996, the City of Hanford issued \$7,855,000 of Variable Rate Demand Sewer System Refunding Revenue Bonds. The Bonds are payable from and secured by a lien on and pledge of the net revenues of the City Sewer System. The Bond shall mature on April 1, 2023, and shall bear interest annually, ranging from 2.0 to 7.5 percent. Interest on the Bonds is payable on the first day of January, April, July, and October, commencing July 1, 1996. The purpose of the bonds is to provide funds to refund the City of Hanford Certificates of Participation dated April 1, 1987 and February 1, 1993. At June 30, 2012 the outstanding balance was \$4,700,000.

The future maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 400,000	\$ 171,550	\$ 571,550
2014	400,000	156,950	556,950
2015	400,000	142,350	542,350
2016	400,000	127,750	527,750
2017	400,000	113,150	513,150
2018-2022	2,200,000	343,100	2,543,100
2023	<u>500,000</u>	<u>18,250</u>	<u>518,250</u>
Total	<u>\$4,700,000</u>	<u>\$1,073,100</u>	<u>\$5,773,100</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

On October 1, 1999, the City of Hanford issued \$5,000,000 California Statewide Communities Development Authority (CSCDA) Water and Wastewater Revenue Bonds. The Bonds shall mature on October 1, 2029, and shall bear interest annually, ranging from 3.5 to 5.75 percent. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April, 2000. Payment of the principal and interest on the Bonds when due are insured by a financial guaranty insurance policy issued by the Financial Security Assurance Inc. The purpose of the Bonds is to provide financing of the expansion of the Wastewater Treatment Plan. As of June 30, 2012, the outstanding balance was \$3,835,000.

The future maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 130,000	\$ 214,293	\$ 344,293
2014	135,000	207,198	342,198
2015	145,000	199,358	344,358
2016	150,000	191,097	341,097
2017	160,000	182,418	342,418
2018-2022	950,000	761,407	1,711,407
2023-2027	1,235,000	452,131	1,687,131
2028-2030	<u>930,000</u>	<u>81,938</u>	<u>1,011,938</u>
Total	<u>\$3,835,000</u>	<u>\$2,289,840</u>	<u>\$6,124,840</u>

On April 16, 2002, the City of Hanford issued \$10,555,000 CSCDA Water and Wastewater Revenue Bonds. The Bonds shall mature on October 1, 2023, and shall bear interest annually, ranging from 3.9 to 5.0 percent. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing October 1, 2002. Payment of the principal and interest on the Bonds when due are insured by a financial guaranty insurance policy issued by the Financial Security Assurance Inc. The purpose of the Bonds is to provide additional financing for the expansion of the Wastewater Treatment Plant. As of June 30, 2012 the outstanding balance was \$9,020,000.

The future Maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 260,000	\$ 439,426	\$ 699,426
2014	270,000	427,995	697,995
2015	280,000	415,789	695,789
2016	295,000	402,704	697,704
2017	305,000	388,675	693,675
2018-2022	1,770,000	1,696,661	3,466,661
2023-2027	2,270,000	1,187,756	3,457,756
2028-2032	2,900,000	544,250	3,444,250
2033	<u>670,000</u>	<u>16,750</u>	<u>686,750</u>
Total	<u>\$9,020,000</u>	<u>\$5,520,006</u>	<u>\$14,540,006</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

On December 1, 2003, the City of Hanford issued \$8,925,000 CSCDA Water Revenue Bonds Series 2003 C. The Bonds shall mature on October 1, 2028, and shall bear interest annually ranging from 2.0 to 5.25 percent. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2004. The proceeds were used to refund the EDP Loan and 1993 Water Refunding Revenue Bond as well as to fund improvements to the City's water treatment facilities. As of June 30, 2012, the balance outstanding was \$6,925,000.

The future maturities of the Bonds payable were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 275,000	\$ 337,723	\$ 612,723
2014	285,000	327,218	612,218
2015	295,000	313,988	608,988
2016	315,000	297,975	612,975
2017	330,000	283,106	613,106
2018-2022	1,870,000	1,179,141	3,049,141
2023-2027	2,405,000	630,131	3,035,131
2028-2029	<u>1,150,000</u>	<u>61,163</u>	<u>1,211,163</u>
Total	<u>\$6,925,000</u>	<u>\$3,430,445</u>	<u>\$10,355,445</u>

Long-Term Debt – Notes Payable

On May 28, 2002, the City of Hanford obtained a loan from the California Infrastructure and Economic Development Bank in the amount of \$10,000,000. The term of the agreement is thirty (30) years with a maturity date of February 1, 2034, and an annual interest rate of 3.50%. Prior to the Bond Date, there is a .26% reduction in the interest rate, resulting in an initial rate of 3.24%. Interest on the loan is payable semiannually on each February 1 and August 1, commencing August 1, 2003. As of June 30, 2012, the balance outstanding was \$8,044,596.

The future maturities of the Note payable were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 284,466	\$ 276,583	\$ 561,049
2014	294,422	266,452	560,874
2015	304,727	255,967	560,694
2016	315,392	245,115	560,507
2017	326,431	233,883	560,314
2018-2022	1,811,740	986,686	2,798,426
2023-2027	2,151,780	640,696	2,792,476
2028-2032	<u>2,555,638</u>	<u>229,770</u>	<u>2,785,408</u>
Total	<u>\$8,044,596</u>	<u>\$3,135,152</u>	<u>\$11,179,748</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

On December 20, 2007, the City of Hanford entered into an installment sale agreement with the City of Hanford Public Improvement Corporation in the amount of \$8,150,000. The agreement was to enable the City to finance the costs of acquisition and construction of certain public facilities constituting a part of the City's water enterprise. The term of the agreement is thirty (30) years with a maturity date of December 1, 2027 and an annual interest rate of 2.0% to 5.25%. Interest on the loan is payable semi-annually on each June 1 and December 1, commencing June 1, 2008. As of June 30, 2012, the balance outstanding was \$6,834,117.

The future maturities of the Note payable were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 325,892	\$ 269,549	\$ 595,441
2014	339,032	256,409	595,441
2015	352,701	242,740	595,441
2016	366,921	228,520	595,441
2017	381,685	213,756	595,441
2018-2022	2,152,218	824,987	2,977,205
2023-2027	2,623,773	353,432	2,977,205
2028	<u>291,895</u>	<u>5,826</u>	<u>297,721</u>
Total	<u>\$6,834,117</u>	<u>\$2,395,219</u>	<u>\$9,229,336</u>

Capital Lease

In August, 2009, the City entered into a capital lease agreement with Government Capital Corporation, to lease water meters and AMR devices. The purchase price of the equipment was approximately \$3,050,000 and a down payment of \$950,000 was applied to the purchase. Semi-annual payments commenced on February, 2010, are \$151,096 including interest of 4.668%, with a final payment in August, 2017. The balance outstanding as of June 30, 2012 was 1,451,051.

The annual debt service requirements for the 2009 Capital Lease outstanding at June 30, 2012 are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 237,195	\$ 64,997	\$ 302,192
2014	248,396	53,796	302,192
2015	260,126	42,066	302,192
2016	272,410	29,782	302,192
2017	285,274	16,918	302,192
2018	<u>147,650</u>	<u>3,446</u>	<u>151,096</u>
Total	<u>\$1,451,051</u>	<u>\$211,005</u>	<u>\$1,662,056</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

In November, 2011, the City entered into a capital lease agreement with Bank of America to design and construct an energy efficient tracker system for the City's wastewater treatment plant. The purchase price of this project is \$4,325,556, with annual payments in varying amounts including interest at 3.33% commencing on July 8, 2012 with a final payment in July, 2026. The balance outstanding as of June 30, 2012 was \$4,325,556.

The annual debt service requirements for the 2011 Capital Lease outstanding at June 30, 2012 are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 375,505	\$ 96,027	\$ 471,532
2014	349,463	131,537	481,000
2015	371,092	119,899	490,991
2016	390,988	107,542	498,530
2017	418,118	94,522	512,640
2018-2022	898,188	350,220	1,248,408
2023-2027	<u>1,522,202</u>	<u>161,741</u>	<u>1,683,943</u>
Total	<u>\$4,325,556</u>	<u>\$1,061,488</u>	<u>\$5,387,044</u>

Component Unit

Note Payable – City of Hanford

On June 19, 1984, the Redevelopment Agency of the City of Hanford entered into a loan agreement with the City of Hanford whereby the City would loan the Agency money in order to complete the Kings County Industrial Park Project. During the year an additional \$180,454 was loaned to the agency for administration and public improvements. The loan agreement requires the Agency to pay 10% interest on the unpaid principal balance. The Agency's yearly principal repayment amounts vary yearly based on the amount of funding available and by the amount of the yearly tax increment. The principal balance at February 1, 2012 is \$6,966,793 and was transferred to the Successor Agency on February 1, 2012 due to the dissolution of the Agency.

Note Payable – Kings County Economic Development Corporation

On December 28, 1999, the Redevelopment Agency of the City of Hanford entered into a loan agreement with the Kings County Economic Development Corporation in the amount of \$300,533 to purchase 100 acres of real property for the Kings County Industrial Park Project. The Agency is required to pay \$3,095 in principal for each acre of property it sells. The note does not accrue interest at a fixed rate; rather the Agency must pay 34% in interest on the amount it receives per acre from the sale, if the sales price is at least above \$9,103. The principal balance due at January 31, 2012 was \$68,470 and was transferred to the Successor Agency on February 1, 2012 due to the dissolution of the Agency.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

On November 18, 2009, the Agency entered into a loan agreement with the Kings County Economic Development Corporation in the amount of \$825,000 to fund 50% of the purchase price of 110 acres of real property for the Kings County Industrial Park Project. The Agency is required to pay \$7,500 in principal for each acre of property it sells. The note does not accrue interest at a fixed rate rather the Agency must pay 50% in interest, on the amount it receives per acre from the sale, if the sales price is at least above \$15,000. The principal balance at January 31, 2012 was \$825,000 and was transferred to the Successor Agency on February 1, 2012 due to the dissolution of the Agency.

NOTE 6 – PENSION PLAN

Plan Description

The City’s defined benefit plans, the Miscellaneous, Police Safety and Fire Safety Plans of the City of Hanford, provide retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous, Police Safety and Fire Safety plans of the City of Hanford are part of the Public Agency portion of the California Public Employees’ Retirement System (CalPERS), an agent multiple-employer plan administered to by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State Statues within the Public Employees’ Retirement Law. The City of Hanford selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues 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 95814.

Funding Policy

The City makes the contributions required by City employees on their behalf and for their account. The present required contribution rates of annual covered salaries are as follows:

<u>Category</u>	<u>Members Rates as a Percentage of Wages</u>
Local miscellaneous members	8%
Local police safety members	9%
Local fire safety members	9%

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2012 was 27.113% for miscellaneous employees. The required employer contribution rate for police safety employees was 31.652% for the period July 1, 2011 through June 30, 2012. The required employer contribution rate for the fire safety employees was 30.340% for the period July 1, 2011 through June 30, 2012. The contribution requirements of plan members are established by State Statute and the employer contribution rate is established and may be amended by CalPERS.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions include a 4.5 percent investment rate of return, covered payroll increases of 3.25 percent per year, an inflation rate of 3.25 percent per year, and a medical increase trend rate starting at 10 percent per year, and decreasing gradually over a 10 year period to an ultimate rate of 4.50 percent per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years.

Annual Pension Costs

For the fiscal year ended June 30, 2012, the City's annual pension cost of \$4,489,525 for PERS was equal to the City's required and actual contributions. The required contribution for the fiscal year ended June 30, 2012 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expense), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.25% to 14.45% for police and fire safety members), and (c) 3.25% payroll growth. Both (a) and (b) included an inflation component of 3.00%. The actuarial values of the Miscellaneous, Police Safety and Fire Safety Plans of the City of Hanford's assets were determined by using a technique that smoothes the effects of short-term volatility in the next market value of investments over a two to five year period, depending on the size of investment gains and/or losses. The Miscellaneous and the Safety Plans of the City of Hanford's unfunded actuarial accrued liabilities (or excess assets) are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012 was 18 years for Miscellaneous, 17 years for Police Safety, and 17 years for Fire Safety.

Fiscal Year	Three-Year Trend Information for PERS		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
6/30/10	\$4,857,266	100.0%	
6/30/11	\$4,937,372	100.0%	
6/30/12	\$4,489,525	100.0%	

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 78.5% funded for non-safety employees and 85.3% funded for safety employees. The actuarial accrued liability for benefits was \$74 million for non-safety employees and \$2.06 billion for safety employees and the actuarial value of assets was \$58 million for non-safety employees and \$1.8 billion for safety employees, resulting in an unfunded actuarial accrued liability (UAAL) of \$16 million for non-safety employees and \$303 million for safety employees. The covered payroll (annual payroll of active employees covered by the plan) was \$8.4 million for non-safety members and \$225 million for safety members, and the ratio of UAAL to the covered payroll was 188.7% and 134.5% respectively.

The schedule of funding progress presented as RSI following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 7 – POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

During the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 45, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions. This statement establishes uniform financial reporting standards for employers providing post-employment benefits. The provisions of this statement are applied on a prospective basis.

The City participates in the CalPERS medical program under the Public Employees' Medical and Hospital and Care Act (PEMHCA). As such, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The City has selected the equal contribution method, where it resolves to contribute the same amount for retirees as is contributed toward active employee medical plan coverage. The City currently pays the minimum employer contribution (MEC) for both active and retired employees as well as their survivors, if covered at the time of the employee's death. The MEC is \$112 per month for 2012.

Dental insurance is available to retired employees as well, though the cost of coverage is paid entirely by the retiree. Once the retiree reaches age 65 the City no longer allows the retiree to stay on the dental plan.

The above coverage is available for employees who satisfy the requirements for retirement under CalPERS (attained age 50 with 5 years of State or public agency service or approved disability retirement). An employee cannot terminate employment before meeting the age condition and be entitled to receive benefits.

Funding Policy

Currently the City funds retiree healthcare benefits on a pay-as-you-go basis, paying a maximum of \$112 per month for retiree benefits from the City funds as they are due with no prefunding for future years. The City recognizes expenditures for its share of the annual premiums as these benefits become due. For fiscal years 2011-2012, the City paid \$52,764 for benefits of 36 retirees or their beneficiaries receiving benefits.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Annual PPEB and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount which was determined as part of the July 1, 2009 actuarial valuation in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no less that every three years.

The City's OPEB unfunded actuarial accrued liability as of July 1, 2011, the date of the most recent actuarial valuation, was a total of \$3,283,849. The OPEB obligation has been adjusted by an annual inflation percentage of 3.25% based on the assumptions of the actuarial valuation and a general salary increase of 3.25%.

The City has calculated and recorded the Net OPEB obligation, representing the difference between the ARC, amortization and contributions, as follows:

Annual required contributions (ARC) and annual OPEB cost	\$ 358,594
Interest on net OPEB obligation	38,213
Adjustment to the ARC	<u>(38,264)</u>
Annual required contribution annual OPEB cost (expense)	358,543
Less: Employer contribution	<u>(52,764)</u>
Increase in net OPEB obligation	305,779
Net OPEB obligations, beginning of year	<u>849,181</u>
Net OPEB obligations, end of year	<u><u>\$1,154,960</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$314,949	9.70%	\$ 555,397
6/30/11	\$335,163	12.35%	\$ 849,181
6/30/12	\$358,543	12.71%	\$1,154,960

Note: Disclosure of annual OPEB cost, percent contributed, and net OPEB obligation, if any, is required for the current fiscal year and each of the two preceding fiscal years. The fiscal year ended June 30, 2009 is the first year of implementation of the City's post-retirement health care plan accounted for and reported in accordance with the requirements of GASB 45.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about investment return, future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of June 30, 2012 was as follows:

Actuarial accrued liability	\$ 3,596,236
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial accrued liability (UAAL)	\$ 3,596,236
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$15,904,391
UAAL as a percentage of covered payroll	22.61%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

NOTE 8 – RISK MANAGEMENT

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA), a public entity risk pool for workers' compensation and general liability insurance. The CSJVRMA is a consortium of fifty-four cities located in California's San Joaquin Valley. It was established under the provisions of California Government Code Section 6500 et. Seq. CSJVRMA is governed by a Board of Directors, consisting of one member appointed by each member city. The day-to-day business operations are handled by a management group employed by CSJVRMA. The relationship between the City and CSJVRMA is such the CSJVRMA is not considered a component unit of the City for financial reporting purposes.

For liability insurance, the risk pool covers the City above its self-insurance retention level of \$100,000 up to \$1,000,000. CSJVRMA participates in an excess pool, which provides general liability coverage from \$1,000,000 to \$29,000,000.

The City maintains a self-insured retention level of \$200,000 for workers' compensation insurance. Coverage between \$200,000 and \$500,000 is provided through the risk pool. CSJVRMA participates in an excess pool, which provides workers' compensation coverage from \$500,000 to \$5,000,000 and purchases excess insurance above \$5,000,000 to the statutory limit.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

The most recent condensed financial information of CSJVRMA is as follows:

	As of and for the Year Ended June 30, 2012
Total Assets	<u>\$70,671,479</u>
Total Liabilities	\$58,388,460
Total Net Assets	<u>12,283,019</u>
Total Liabilities and Net Assets	<u>\$70,671,479</u>
Total Revenues for Year	\$30,698,619
Total Expenses for Year	<u>31,914,578</u>
Changes in Net Assets	<u>\$ (1,215,959)</u>

NOTE 9 – INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, service provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund due from/to other funds at June 30, 2012 were as follows:

	Due From Other Funds	Due To Other Funds
Governmental Funds		
General Fund	\$ 64,980	\$
Capital Project Fund	1,641,947	
Other Governmental Funds		64,980
Proprietary Funds		
Wastewater Fund	48,406	
Airport Fund		395,468
Intermodal Fund		606,305
Courthouse Square	<u> </u>	<u>688,580</u>
Total	<u>\$1,755,333</u>	<u>\$1,755,333</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2011/12 fiscal year as follows:

	Transfers In	Transfers Out
Governmental Funds		
General Fund	\$ 901,723	\$ 55,987
Capital Project Fund		125,862
Other Governmental funds	178,550	135,257
Proprietary Funds		
Airport Fund	65,269	1,927
Refuse Fund	450,869	
Water Fund	94,863	
Wastewater Fund		19,705
Internal Service Funds		
Fleet Management Fund		<u>1,352,536</u>
	<u>\$1,691,274</u>	<u>\$1,691,274</u>

NOTE 10 – CONTINGENT LIABILITIES

Litigation

The City is involved as a defendant in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no material effect on the financial position of the City.

Special Tax Bond Series 1998

The City, by resolution, issued \$5,365,000 of “Special Tax Bonds, Series 1998,” pursuant to the Mello-Roos Community Facilities Act of 1982, as amended commencing with Section 53311, et seq., of the Government Code of the State of California. Neither the full faith and credit nor the taxing power (except with respect to the special taxes) of the City of Hanford, the State of California or any political subdivision thereof is pledged to the payment of the bonds. The bonds are not general or special obligations of the City or general obligations of the Community Facilities District No. 91-1, but are limited obligations of the district payable solely from the special taxes and funds held pursuant to that agreement. The City is acting only as an agent for the property owners.

The City participates in a number of programs that are fully or partially funded by grants received from federal, state, and county governments. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor agency. As of June 30, 2012, significant amounts of grant expenditures have not been audited by the grantor agencies, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the City’s overall financial position.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

**NOTE 11 – RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA
REDEVELOPMENT AGENCIES**

On December 29, 2011, the Supreme Court of the State of California (the “Court”) upheld the enforceability of legislation that provides for the dissolution of California redevelopment agencies, but struck down the Assembly Bill X1 27 which would have provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. As a result of the Court ruling, the dissolution of California Redevelopment Agencies was effective as of February 1, 2012.

Assembly Bill X1 26 signed into law as part of the State’s budget package on June 29, 2011, requires each California Redevelopment Agency to suspend nearly all activities except to complete existing contracts, meet already-incurred obligations, preserve its assets, prepare for the impending dissolution of the agency, and transfer all of its assets to a Successor Agency that is governed by an oversight board representing the various taxing jurisdictions in the community.

Assembly Bill X1 26 also required each agency to adopt an Enforceable Obligation Payment Schedule and draft a Recognized Obligation Payment Schedule prior to September 30, 2011. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with Agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill X1 26. Only the amounts of tax revenues necessary to fund the payments reflected on the Enforceable Obligation Payment Schedule will be allocated to the Successor Agencies.

Assembly Bill X1 26 directs the Department of Finance of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the Successor Agency as defined in Assembly Bill X1 26.

On January 24, 2012, the City Council of the City of Hanford adopted Resolution No. 12-08R electing to retain the housing assets and functions previously performed by the dissolved Redevelopment Agency pursuant to Section 34176(a)(1) of the California Health and Safety Code. At January 31, 2012, the City has assumed the responsibility of the housing assets and functions for the Low and Moderate Income Housing Funds and transferred housing assets and liabilities in the net amount of \$2,224,680 to the Housing Asset Special Revenue Fund. All remaining assets and liabilities of the Agency under the Redevelopment Debt Service Fund and the Redevelopment Capital Projects Fund in the net amount of \$(5,524,003) were transferred to the RDA Successor Agency and are reported in the Fiduciary Funds.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2012
(Continued)

The transfer of the assets and liabilities of the former redevelopment agency from and after February 1, 2012, from the governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary gain for funds with a negative fund balance and an extraordinary loss for funds with a positive fund balance. The receipt of these assets and liabilities as of January 31, 2012, was reported in the Private-Purpose Trust Fund as an extraordinary loss and gain.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary gain recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary gain reported in governmental funds – increase to net assets of the Successor Agency Trust Fund	\$ 2,336,260
Long-term debt (net of issuance costs) reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund	<u>(7,860,263)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers	<u>\$(5,524,003)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HANFORD
Required Supplementary Information
June 30, 2012

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Schedule of Funding Progress – Defined Benefit Retirement Plan

Budgetary Comparison Schedule – General Fund, all major Special Revenue Funds, and Capital Projects Fund.

CITY OF HANFORD
Schedule of Funding Progress
June 30, 2012

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability	(B) Actuarial Asset Value	(C) Unfunded Liability (Excess Assets) (A)-(B)	(D) Funded Ratio (B)/(A)	(E) Covered Payroll	(F) Unfunded Actuarial Liability as Percentage of Covered Payroll (A)-(B)/(E)
<u>6/30/2009</u>						
Miscellaneous	\$ 66,619,342	\$ 50,395,886	\$ 16,223,456	75.6 %	\$ 8,614,584	188.3%
Police Safety	\$1,802,882,330	\$1,520,081,328	\$282,801,002	84.3%	\$221,600,192	127.6%
Fire Safety	\$1,802,882,330	\$1,520,081,328	\$282,801,002	84.3%	\$221,600,192	127.6%
<u>6/30/2010</u>						
Miscellaneous	\$ 69,202,177	\$ 54,144,195	\$ 15,057,982	78.2%	\$ 8,277,932	181.9%
Police Safety	\$1,915,095,826	\$1,628,915,283	\$286,180,543	85.1%	\$224,562,018	127.4%
Fire Safety	\$1,915,095,826	\$1,628,915,283	\$286,180,543	85.1%	\$224,562,018	127.4%
<u>6/30/2011</u>						
Miscellaneous	\$ 73,954,232	\$ 58,023,428	\$ 15,930,804	78.5 %	\$ 8,442,338	188.7%
Police Safety	\$2,061,923,933	\$1,759,286,797	\$302,637,136	85.3%	\$225,026,216	134.5%
Fire Safety	\$2,061,923,933	\$1,759,286,797	\$302,637,136	85.3%	\$225,026,216	134.5 %

*Pooled as of July 1, 2003 with similar agencies throughout the State, pursuant to State law.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
General Fund
For the Year Ended June 30, 2012

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$ 17,365,770	\$17,365,770	\$17,734,279	\$ 368,509
Aid from other governmental agencies	1,256,050	1,347,730	1,297,858	(49,872)
License and permits	435,920	435,920	358,983	(76,937)
Fines and forfeits	168,510	168,510	137,029	(31,481)
Charges for services	661,560	661,560	604,691	(56,869)
Revenue from use of money and property	1,055,940	1,055,940	399,073	(656,867)
Miscellaneous	<u>244,210</u>	<u>244,210</u>	<u>14,145</u>	<u>(230,065)</u>
Total revenues	<u>21,187,960</u>	<u>21,279,640</u>	<u>20,546,058</u>	<u>(733,582)</u>
EXPENDITURES				
General government	1,478,960	1,491,051	1,600,409	(109,358)
Public safety	13,786,000	13,877,180	13,459,443	417,737
Public works	3,373,360	3,383,560	3,266,570	116,990
Recreation	1,448,660	1,448,660	1,382,587	66,073
Community development	<u>1,028,730</u>	<u>1,028,730</u>	<u>867,232</u>	<u>161,498</u>
Total expenditures	<u>21,115,710</u>	<u>21,229,181</u>	<u>20,576,241</u>	<u>652,940</u>
Excess (deficiency) of revenue over expenditures	72,250	50,459	(30,183)	(80,642)
Other financing sources (uses)				
Operating transfers in	125,000	125,000	901,723	776,723
Operating transfers out	<u>(571,330)</u>	<u>(571,330)</u>	<u>(55,987)</u>	<u>515,343</u>
Total other financing sources (uses)	<u>(446,330)</u>	<u>(446,330)</u>	<u>845,736</u>	<u>1,292,066</u>
Net change in fund balances	(374,080)	(395,871)	815,553	1,211,424
Fund balances, beginning of year	<u>13,843,789</u>	<u>13,843,789</u>	<u>13,843,789</u>	<u> </u>
Fund balances, end of year	<u>\$13,469,709</u>	<u>\$13,447,918</u>	<u>\$14,659,342</u>	<u>\$1,211,424</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
CDBG Home/Housing
For the Year Ended June 30, 2012

	<u>CDBG Home/Housing</u>			Variance With Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
REVENUES				
Aid from other governmental agencies	\$ 1,058,580	\$ 1,287,450	\$ 450,154	\$ (837,296)
Revenue from use of money and property	66,330	66,330	226,851	160,521
Miscellaneous	155,730	397,750	855	(396,895)
Unrealized gain on investments			<u>829</u>	<u>829</u>
Total revenues	<u>1,280,640</u>	<u>1,751,530</u>	<u>678,689</u>	<u>(1,072,841)</u>
EXPENDITURES				
Principal payments		155,730		155,730
Capital outlay	<u>2,786,680</u>	<u>3,137,380</u>	<u>558,335</u>	<u>2,579,045</u>
Total expenditures	<u>2,786,680</u>	<u>3,293,110</u>	<u>558,335</u>	<u>2,734,775</u>
Excess (deficiency) of revenue over expenditures	<u>(1,506,040)</u>	<u>(1,541,580)</u>	<u>120,354</u>	<u>1,661,934</u>
Net change in fund balances	(1,506,040)	(1,541,580)	120,354	1,661,934
Fund balance, beginning of fiscal year	<u>17,972,161</u>	<u>17,972,161</u>	<u>17,972,161</u>	<u> </u>
Fund balance, end of fiscal year	<u>\$16,466,121</u>	<u>\$16,430,581</u>	<u>\$18,092,515</u>	<u>\$ 1,661,934</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
Capital Projects Fund
For the Year Ended June 30, 2012

	Capital Projects Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$	\$	\$ 7,290	\$ 7,290
Aid from other governmental agencies			23,787	23,787
Miscellaneous			359,195	359,195
Unrealized gain on investments			9,806	9,806
Total revenues			<u>400,078</u>	<u>400,078</u>
EXPENDITURES				
Capital outlay	<u>1,563,580</u>		<u>1,509,107</u>	<u>(1,509,107)</u>
Total expenditures	<u>1,563,580</u>		<u>1,509,107</u>	<u>(1,509,107)</u>
Excess (deficiency) of revenue over expenditures	<u>(1,563,580)</u>		<u>(1,109,029)</u>	<u>(1,109,029)</u>
Other financing sources (uses)				
Operating transfers in	15,710	15,710		(15,710)
Operating transfers out	<u>(198,870)</u>	<u>(198,870)</u>	<u>(125,862)</u>	<u>73,008</u>
Total other financing sources (uses)	<u>(183,160)</u>	<u>(183,160)</u>	<u>(125,862)</u>	<u>57,298</u>
Net change in fund balances	(1,746,740)	(183,160)	(1,234,891)	(1,051,731)
Fund balances, beginning of year	<u>10,154,724</u>	<u>10,154,724</u>	<u>10,154,724</u>	
Fund balances, end of year	<u>\$ 8,407,984</u>	<u>\$ 9,971,564</u>	<u>\$ 8,919,833</u>	<u>\$(1,051,731)</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
Transportation Funds
For the Year Ended June 30, 2012

	Transportation Funds			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$ 15,550	\$ 495,550	\$194,173	\$ (301,377)
Aid from other governmental agencies	118,000	1,115,000	110,605	(1,004,395)
Revenue from use of money and property			1,604	1,604
Unrealized gain on investments	_____	_____	315	315
Total revenues	<u>133,550</u>	<u>1,610,550</u>	<u>306,697</u>	<u>(1,303,853)</u>
EXPENDITURES				
Capital outlay	<u>143,000</u>	<u>2,632,070</u>	<u>142,457</u>	<u>2,489,613</u>
Total expenditures	<u>143,000</u>	<u>2,632,070</u>	<u>142,457</u>	<u>2,489,613</u>
Excess (deficiency) of revenue over expenditures	<u>(9,450)</u>	<u>(1,021,520)</u>	<u>164,240</u>	<u>1,185,760</u>
Net change in fund balances	(9,450)	(1,021,520)	164,240	1,185,760
Fund balances, beginning of year	<u>285,431</u>	<u>285,431</u>	<u>285,431</u>	_____
Fund balances, end of year	<u>\$275,981</u>	<u>\$ (736,089)</u>	<u>\$449,671</u>	<u>\$ 1,185,760</u>

See independent auditors' report and notes to financial statements.

SUPPLEMENTARY INFORMATION SECTION

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2012

	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund	Landscaping Assessment District
ASSETS					
Cash and investments	\$3,047,608	\$1,962,259	\$63,591	\$274,880	\$777,071
Accounts receivable	5,278	4,161		389	6,877
Loan receivable	<u> </u>	<u> </u>	<u> </u>	<u>56,180</u>	<u> </u>
Total assets	<u>\$3,052,886</u>	<u>\$1,966,420</u>	<u>\$63,591</u>	<u>\$331,449</u>	<u>\$783,948</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to other funds	\$	\$	\$	\$	\$
Accounts payable	<u>1,717</u>	<u>3,654</u>	<u> </u>	<u> </u>	<u>8,981</u>
Total liabilities	<u>1,717</u>	<u>3,654</u>	<u> </u>	<u> </u>	<u>8,981</u>
Fund balances					
Nonspendable:					
Long-term receivables				56,180	
Restricted for:					
Streets and roads	3,051,169				
Recreation		1,962,766			
Landscape maintenance					774,967
Public safety					
Aviation					
Community development					
Committed to:					
Parking and business improvement			63,591	275,269	
Community development					
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,051,169</u>	<u>1,962,766</u>	<u>63,591</u>	<u>331,449</u>	<u>774,967</u>
Total liabilities and fund balances	<u>\$3,052,886</u>	<u>\$1,966,420</u>	<u>\$63,591</u>	<u>\$331,449</u>	<u>\$783,948</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2012
(Continued)

	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees	Special Aviation
ASSETS					
Cash and investments	\$1,106,545	\$122,709	\$469,348	\$1,320,123	\$
Accounts receivable	1,566	173	802	2,131	25,780
Loan receivable	<u>1,330,810</u>	_____	_____	_____	_____
Total assets	<u>\$2,438,921</u>	<u>\$122,882</u>	<u>\$470,150</u>	<u>\$1,322,254</u>	<u>\$25,780</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to other funds	\$	\$	\$	\$	\$10,597
Accounts payable	_____	_____	_____	_____	<u>5,183</u>
Total liabilities	_____	_____	_____	_____	<u>15,780</u>
Fund balances					
Nonspendable:					
Long-term receivables	1,330,810				
Restricted for:					
Streets and roads					
Recreation					
Landscape maintenance					
Public safety			470,150	1,322,254	
Aviation					10,000
Community development					
Committed to:					
Parking and business improvement		122,882			
Community development	1,108,111				
Unassigned	_____	_____	_____	_____	_____
Total fund balances	<u>2,438,921</u>	<u>122,882</u>	<u>470,150</u>	<u>1,322,254</u>	<u>10,000</u>
Total liabilities and fund balances	<u>\$2,438,921</u>	<u>\$122,882</u>	<u>\$470,150</u>	<u>\$1,322,254</u>	<u>\$25,780</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2012
(Continued)

	Learning Center Operation	Traffic Safety	Street Tree Committee	State Gas Tax Fund
ASSETS				
Cash and investments	\$42,449	\$2,236	\$1,202	\$3,481,321
Accounts receivable	60	1,903		155,861
Loan receivable	_____	_____	_____	_____
Total assets	<u>\$42,509</u>	<u>\$4,139</u>	<u>\$1,202</u>	<u>\$3,637,182</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds	\$	\$1,743	\$	\$
Accounts payable	_____	<u>2,392</u>	_____	<u>300</u>
Total liabilities	_____	<u>4,135</u>	_____	<u>300</u>
Fund balances				
Nonspendable:				
Long-term receivables				
Restricted for:				
Streets and roads				3,636,882
Recreation				
Landscape maintenance			1,202	
Public safety		4		
Aviation				
Community development				
Committed to:				
Parking and business improvement				
Community development	42,509			
Unassigned	_____	_____	_____	_____
Total fund balances	<u>42,509</u>	<u>4</u>	<u>1,202</u>	<u>3,636,882</u>
Total liabilities and fund balances	<u>\$42,509</u>	<u>\$4,139</u>	<u>\$1,202</u>	<u>\$3,637,182</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2012
(Continued)

	Grants	Public Housing Authority	Total Non-Major Special Revenue Funds
ASSETS			
Cash and investments	\$	\$ 709,231	\$13,380,573
Accounts receivable	52,569		257,550
Loan receivable	<u> </u>	<u>1,228,131</u>	<u>2,615,121</u>
Total assets	<u>\$ 52,569</u>	<u>\$1,937,362</u>	<u>\$16,253,244</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 52,640	\$	\$ 64,980
Accounts payable	<u>16,651</u>	<u>8,720</u>	<u>47,598</u>
Total liabilities	<u>69,291</u>	<u>8,720</u>	<u>112,578</u>
Fund balances			
Nonspendable:			
Long-term receivables		1,228,131	2,615,121
Restricted for:			
Streets and roads			6,688,051
Recreation			1,962,766
Landscape maintenance			776,169
Public safety			1,792,408
Aviation			10,000
Community development		700,511	700,511
Committed to:			
Parking and business improvement			461,742
Community development			1,150,620
Unassigned	<u>(16,722)</u>	<u> </u>	<u>(16,722)</u>
Total fund balances	<u>(16,722)</u>	<u>1,928,642</u>	<u>16,140,666</u>
Total liabilities and fund balances	<u>\$ 52,569</u>	<u>\$1,937,362</u>	<u>\$16,253,244</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2012

	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund	Landscaping Assessment District
REVENUES					
Taxes and special assessments	\$ 187,233	\$ 155,383	\$	\$	\$347,467
Aid from other governmental agencies					
Fines and forfeits					
Revenue from use					
of money and property	19,297	11,244	8,064	5,547	
Unrealized gain (loss) on investments	<u>3,809</u>	<u>2,529</u>	<u>82</u>	<u>356</u>	<u>1,003</u>
Total revenues	<u>210,339</u>	<u>169,156</u>	<u>8,146</u>	<u>5,903</u>	<u>348,470</u>
EXPENDITURES					
General government					
Public works					318,756
Capital outlay	1,857,788	95,727			
Debt service					
Principal					
Interest					
Total expenditures	<u>1,857,788</u>	<u>95,727</u>			<u>318,756</u>
Excess (deficiency) of revenue over expenditures	<u>(1,647,449)</u>	<u>73,429</u>	<u>8,146</u>	<u>5,903</u>	<u>29,714</u>
Other financing sources (uses)					
Other sources					
Operating transfers in					
Operating transfers out	<u>(1,757)</u>				
Total other financing sources (uses)	<u>(1,757)</u>				
Net change in fund balances before extraordinary item	<u>(1,649,206)</u>	<u>73,429</u>	<u>8,146</u>	<u>5,903</u>	<u>29,714</u>
Extraordinary gain (loss)					
Dissolution of Redevelopment Agency					
Net change in fund balances	(1,649,206)	73,429	8,146	5,903	29,714
Fund balances, beginning of year	<u>4,700,375</u>	<u>1,889,337</u>	<u>55,445</u>	<u>325,546</u>	<u>745,253</u>
Fund balances end of year	<u>\$ 3,051,169</u>	<u>\$1,962,766</u>	<u>\$63,591</u>	<u>\$331,449</u>	<u>\$774,967</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2012
(Continued)

	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees	Special Aviation
REVENUES					
Taxes and special assessments	\$	\$ 99,184	\$ 13,954	\$ 26,650	\$ 46,612
Aid from other governmental agencies					
Fines and forfeits					
Revenue from use					
of money and property	13,963	674	2,728	7,700	
Unrealized gain (loss) on investments	<u>1,424</u>	<u>159</u>	<u>605</u>	<u>1,701</u>	
Total revenues	<u>15,387</u>	<u>100,017</u>	<u>17,287</u>	<u>36,051</u>	<u>46,612</u>
EXPENDITURES					
General government					
Public works					
Capital outlay	16,915	88,796			
Debt service					
Principal					
Interest					
Total expenditures	<u>16,915</u>	<u>88,796</u>			
Excess (deficiency) of revenue over expenditures	<u>(1,528)</u>	<u>11,221</u>	<u>17,287</u>	<u>36,051</u>	<u>46,612</u>
Other financing sources (uses)					
Other sources					
Operating transfers in					
Operating transfers out					(56,612)
Total other financing sources (uses)					<u>(56,612)</u>
Net change in fund balances before extraordinary item	<u>(1,528)</u>	<u>11,221</u>	<u>17,287</u>	<u>36,051</u>	<u>(10,000)</u>
Extraordinary gain (loss)					
Dissolution of Redevelopment Agency					
Net change in fund balances	(1,528)	11,221	17,287	36,051	(10,000)
Fund balances, beginning of year	<u>2,440,449</u>	<u>111,661</u>	<u>452,863</u>	<u>1,286,203</u>	<u>20,000</u>
Fund balances end of year	<u>\$2,438,921</u>	<u>\$122,882</u>	<u>\$470,150</u>	<u>\$1,322,254</u>	<u>\$ 10,000</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2012
(Continued)

	GWF Environment Oversight	Learning Center Operation	Traffic Safety	Street Tree Committee	State Gas Tax Fund
REVENUES					
Taxes and special assessments	\$	\$	\$	\$	\$1,725,315
Aid from other governmental agencies					
Fines and forfeits			74,741		
Revenue from use					
of money and property	680	2,046			19,488
Unrealized gain (loss) on investments	<u>(11)</u>	<u>55</u>	<u>3</u>	<u>3</u>	<u>4,512</u>
Total revenues	<u>669</u>	<u>2,101</u>	<u>74,744</u>	<u>3</u>	<u>1,749,315</u>
EXPENDITURES					
General government					7,500
Public works	221,598				
Capital outlay					1,094,504
Debt service					
Principal					
Interest					
Total expenditures	<u>221,598</u>				<u>1,102,004</u>
Excess (deficiency) of revenue over expenditures	<u>(220,929)</u>	<u>2,101</u>	<u>74,744</u>	<u>3</u>	<u>647,311</u>
Other financing sources (uses)					
Other sources					
Operating transfers in					
Operating transfers out			(76,888)		
Total other financing sources (uses)			<u>(76,888)</u>		
Net change in fund balances before extraordinary item	<u>(220,929)</u>	<u>2,101</u>	<u>(2,144)</u>	<u>3</u>	<u>647,311</u>
Extraordinary gain (loss)					
Dissolution of Redevelopment Agency					
Net change in fund balances	(220,929)	2,101	(2,144)	3	647,311
Fund balances, beginning of year	<u>220,929</u>	<u>40,408</u>	<u>2,148</u>	<u>1,199</u>	<u>2,989,571</u>
Fund balances end of year	<u>\$</u>	<u>\$42,509</u>	<u>\$ 4</u>	<u>\$1,202</u>	<u>\$3,636,882</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2012
(Continued)

	<u>Grants</u>	<u>Public Housing Authority</u>	<u>Total Non-Major Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Funds</u>
REVENUES					
Taxes and special assessments	\$	\$ 25,467	\$ 2,627,265	\$	\$ 2,627,265
Aid from other governmental agencies	153,146		153,146		153,146
Fines and forfeits			74,741		74,741
Revenue from use of money and property			91,431		91,431
Unrealized gain (loss) on investments	<u>(70)</u>	<u>(54)</u>	<u>16,106</u>		<u>16,106</u>
Total revenues	<u>153,076</u>	<u>25,413</u>	<u>2,962,689</u>		<u>2,962,689</u>
EXPENDITURES					
General government			7,500		7,500
Public works	169,798		710,152		710,152
Capital outlay		374,139	3,527,869		3,527,869
Debt service					
Principal				370,000	370,000
Interest				<u>7,585</u>	<u>7,585</u>
Total expenditures	<u>169,798</u>	<u>374,139</u>	<u>4,245,521</u>	<u>377,585</u>	<u>4,623,106</u>
Excess (deficiency) of revenue over expenditures	<u>(16,722)</u>	<u>(348,726)</u>	<u>(1,282,832)</u>	<u>(377,585)</u>	<u>(1,660,417)</u>
Other financing sources (uses)					
Other sources				251,723	251,723
Operating transfers in		52,688	52,688	125,862	178,550
Operating transfers out			<u>(135,257)</u>		<u>(135,257)</u>
Total other financing sources (uses)		<u>52,688</u>	<u>(82,569)</u>	<u>377,585</u>	<u>295,016</u>
Net change in fund balances before extraordinary item	<u>(16,722)</u>	<u>(296,038)</u>	<u>(1,365,401)</u>		<u>(1,365,401)</u>
Extraordinary gain (loss)					
Dissolution of Redevelopment Agency		<u>2,224,680</u>	<u>2,224,680</u>		<u>2,224,680</u>
Net change in fund balances	(16,722)	1,928,642	859,279		859,279
Fund balances, beginning of year			<u>15,281,387</u>		<u>15,281,387</u>
Fund balances end of year	<u>\$ (16,722)</u>	<u>\$ 1,928,642</u>	<u>\$ 16,140,666</u>	<u>\$</u>	<u>\$ 16,140,666</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund
ASSETS			
Current assets			
Cash and investments	\$11,151	\$4,007,770	\$1,789,015
Receivables, net	_____	_____	_____
Inventory	_____	_____	_____
Total current assets	<u>11,151</u>	<u>4,007,770</u>	<u>1,789,015</u>
Capital assets			
Machinery and equipment	_____	_____	_____
Accumulated depreciation	_____	_____	_____
Capital assets, net	_____	_____	_____
Total assets	<u>\$11,151</u>	<u>\$4,007,770</u>	<u>\$1,789,015</u>
LIABILITIES			
Accounts payable	\$	\$ 198,070	\$ 10,288
Salaries and benefits payable	<u>11,136</u>	_____	<u>1,780</u>
Total liabilities	<u>11,136</u>	<u>198,070</u>	<u>12,068</u>
NET ASSETS			
Investment in capital assets, net of related debt			
Unrestricted	<u>15</u>	<u>3,809,700</u>	<u>1,776,947</u>
Total net assets	<u>15</u>	<u>3,809,700</u>	<u>1,776,947</u>
Total liabilities and net assets	<u>\$11,151</u>	<u>\$4,007,770</u>	<u>\$1,789,015</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Assets
Internal Service Funds
June 30, 2012
(Continued)

	Building Fund	Fleet Maintenance Fund	Totals
ASSETS			
Current assets			
Cash and investments	\$781,635	\$ 10,473,132	\$ 17,062,703
Receivables, net		14,778	14,778
Inventory		154,494	154,494
Total current assets	<u>781,635</u>	<u>10,642,404</u>	<u>17,231,975</u>
Capital assets			
Machinery and equipment	12,341	15,900,427	15,912,768
Accumulated depreciation	<u>(12,341)</u>	<u>(10,103,703)</u>	<u>(10,116,044)</u>
Capital assets, net		<u>5,796,724</u>	<u>5,796,724</u>
Total assets	<u>\$781,635</u>	<u>\$ 16,439,128</u>	<u>\$ 23,028,699</u>
LIABILITIES			
Accounts payable	\$ 11,998	\$ 62,900	\$ 283,256
Salaries and benefits payable	<u>29,478</u>	<u>31,167</u>	<u>73,561</u>
Total liabilities	<u>41,476</u>	<u>94,067</u>	<u>356,817</u>
NET ASSETS			
Investment in capital assets, net of related debt		5,796,724	5,796,724
Unrestricted	<u>740,159</u>	<u>10,548,337</u>	<u>16,875,158</u>
Total net assets	<u>740,159</u>	<u>16,345,061</u>	<u>22,671,882</u>
Total liabilities and net assets	<u>\$781,635</u>	<u>\$ 16,439,128</u>	<u>\$ 23,028,699</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
and Changes in Net Assets
Internal Service funds
For the Year Ended June 30, 2012

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Charges for services	<u>\$</u>	<u>\$1,118,967</u>	<u>\$ 265,942</u>
EXPENSES			
Personnel services			110,770
Services and supplies		1,200,139	143,018
Depreciation	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u> </u>	<u>1,200,139</u>	<u>253,788</u>
Operating income (loss)	<u> </u>	<u>(81,172)</u>	<u>12,154</u>
Non-operating revenues			
Gain on sale of assets			
Interest income			
Unrealized gain on investments	13	5,170	2,304
Miscellaneous	<u> </u>	<u>234,034</u>	<u> </u>
Total non-operating revenue	<u>13</u>	<u>239,204</u>	<u>2,304</u>
Income before contributions and transfers	<u>13</u>	<u>158,032</u>	<u>14,458</u>
Capital contributions			
Operating transfers (out)	<u> </u>	<u> </u>	<u> </u>
Change in net assets	13	158,032	14,458
Net assets, beginning of year	<u>2</u>	<u>3,651,668</u>	<u>1,762,489</u>
Net assets, end of year	<u>\$15</u>	<u>\$3,809,700</u>	<u>\$1,776,947</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
and Changes in Net Assets
Internal Service Funds
For the Year Ended June 30, 2012
(Continued)

	Building Fund	Fleet Management Fund	Totals
REVENUES			
Charges for services	<u>\$ 705,007</u>	<u>\$ 3,277,466</u>	<u>\$ 5,367,382</u>
EXPENSES			
Personnel services	415,284	475,798	1,001,852
Services and supplies	262,969	1,603,909	3,210,035
Depreciation	<u> </u>	<u>991,921</u>	<u>991,921</u>
Total expenses	<u>678,253</u>	<u>3,071,628</u>	<u>5,203,808</u>
Operating income (loss)	<u>26,754</u>	<u>205,838</u>	<u>163,574</u>
Non-operating revenues			
Gain on sale of assets		52,492	52,492
Interest income		60,394	60,394
Unrealized gain on investments	1,000	13,552	22,039
Miscellaneous	<u> </u>	<u>1,528</u>	<u>235,562</u>
Total non-operating revenue	<u>1,000</u>	<u>127,966</u>	<u>370,487</u>
Income before contributions and transfers	<u>27,754</u>	<u>333,804</u>	<u>534,061</u>
Capital contributions		171,370	171,370
Operating transfers (out)	<u>(146,934)</u>	<u>(1,205,602)</u>	<u>(1,352,536)</u>
Change in net assets	(119,180)	(700,428)	(647,105)
Net assets, beginning of year	<u>859,339</u>	<u>17,045,489</u>	<u>23,318,987</u>
Net assets, end of year	<u>\$ 740,159</u>	<u>\$16,345,061</u>	<u>\$22,671,882</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for current services	\$	\$	\$ 265,942
Cash paid for services and supplies		(17,133)	(133,013)
Cash paid for salaries and benefits	<u>(17,633)</u>	<u> </u>	<u>(110,172)</u>
Net cash provided (used) by operating activities	<u>(17,633)</u>	<u>(17,133)</u>	<u>22,757</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfer (to) from other funds	<u> </u>	<u> </u>	<u> </u>
Net cash provided by noncapital financing activities	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from sale of equipment			
Capital contributions			
Capital expenditures	<u> </u>	<u> </u>	<u> </u>
Net cash provided by capital and related financing activities	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Unrealized gain on investments	13	5,170	2,304
Other non-operating revenue		234,034	
Interest received	<u> </u>	<u> </u>	<u> </u>
Net cash provided by investing activities	<u>13</u>	<u>239,204</u>	<u>2,304</u>
Net increase (decrease) in cash and cash equivalents	(17,620)	222,071	25,061
Cash and cash equivalents, beginning of year	<u>28,771</u>	<u>3,785,699</u>	<u>1,763,954</u>
Cash and cash equivalents, end of year	<u>\$ 11,151</u>	<u>\$4,007,770</u>	<u>\$1,789,015</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income/(loss)	\$	\$ (81,172)	\$ 12,154
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation and amortization			
(Increase) decrease in net assets:			
Inventory			
Increase (decrease) in net liabilities:			
Accounts payable		64,039	10,005
Salaries and benefits payable	<u>(17,633)</u>	<u> </u>	<u>598</u>
	<u>(17,633)</u>	<u>64,039</u>	<u>10,603</u>
Net cash provided (used) by operating activities	<u>\$ (17,633)</u>	<u>\$ (17,133)</u>	<u>\$ 22,757</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012
(Continued)

	Building Fund	Fleet Maintenance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for current services	\$ 705,007	\$ 3,277,466	\$ 4,248,415
Cash paid for services and supplies	(263,045)	(1,630,566)	(2,043,757)
Cash paid for salaries and benefits	<u>(410,219)</u>	<u>(475,674)</u>	<u>(1,013,698)</u>
Net cash provided by operating activities	<u>31,743</u>	<u>1,171,226</u>	<u>1,190,960</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers (to) from other funds	<u>(146,934)</u>	<u>(1,205,602)</u>	<u>(1,352,536)</u>
Net cash provided (used) by noncapital financing activities	<u>(146,934)</u>	<u>(1,205,602)</u>	<u>(1,352,536)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from sale of equipment		52,492	52,492
Capital contributions		1,097,657	1,097,657
Capital expenditures		<u>(884,377)</u>	<u>(884,377)</u>
Net cash provided by capital and related financing activities		<u>265,772</u>	<u>265,772</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Unrealized gain on investments	1,000	13,552	22,039
Other non-operating revenue		1,528	235,562
Interest received		<u>60,226</u>	<u>60,226</u>
Net cash provided by investing activities	<u>1,000</u>	<u>75,306</u>	<u>317,827</u>
Net increase (decrease) in cash and cash equivalents	(114,191)	306,702	422,023
Cash and cash equivalents, beginning of year	<u>895,826</u>	<u>10,166,430</u>	<u>16,640,680</u>
Cash and cash equivalents, end of year	<u>\$ 781,635</u>	<u>\$10,473,132</u>	<u>\$17,062,703</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income/(loss)	\$ 26,754	\$ 205,838	\$ 163,574
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation and amortization		991,921	991,921
(Increase) decrease in net assets:			
Inventory		18,144	18,144
Increase (decrease) in net liabilities:			
Accounts payable	(76)	(44,801)	29,167
Salaries and benefits payable	<u>5,065</u>	<u>124</u>	<u>(11,846)</u>
	<u>4,989</u>	<u>965,388</u>	<u>1,027,386</u>
Net cash provided (used) by operating activities	<u>\$ 31,743</u>	<u>\$ 1,171,226</u>	<u>\$ 1,190,960</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Fiduciary Net Assets
Trust and Agency Funds
June 30, 2012

	<u>Community Facilities District</u>	<u>Civil Subpoena</u>	<u>Renters' Insurance Deposits</u>	<u>COE Park Deposits</u>	<u>Miscellaneous Deposits Trust</u>	<u>Total</u>
ASSETS						
Cash and investments	\$ 887,519	\$116,519	\$1,617	\$481	\$341,989	\$1,348,125
Accounts receivable		884			3,739	4,623
Other	<u>1,970,000</u>	_____	_____	_____	_____	<u>1,970,000</u>
Total assets	<u>\$2,857,519</u>	<u>\$117,403</u>	<u>\$1,617</u>	<u>\$481</u>	<u>\$345,728</u>	<u>\$3,322,748</u>
LIABILITIES						
Accounts payable	\$	\$ 80	\$ 748	\$481	\$155,097	\$ 156,406
Deposits held for others		117,323	869		189,641	307,833
Bonds/notes payable	<u>1,970,000</u>	_____	_____	_____	_____	<u>1,970,000</u>
Total liabilities	<u>1,970,000</u>	<u>117,403</u>	<u>1,617</u>	<u>481</u>	<u>344,738</u>	<u>2,434,239</u>
NET ASSETS (Deficit)						
Unreserved	<u>887,519</u>	_____	_____	_____	<u>990</u>	<u>888,509</u>
Total net assets	<u>\$ 887,519</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 990</u>	<u>\$ 888,509</u>

See independent auditors' report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Changes in Assets and Liabilities
Trust and Agency Funds
For the Year Ended June 30, 2012

	Community Facilities District	Miscellaneous Deposits Trust	Total
ADDITIONS			
Other additions	<u>\$490,467</u>	<u>\$</u>	<u>\$490,467</u>
DEDUCTIONS			
General government	17,981		17,981
Unrealized (gain) loss on investments	(329)	(449)	(778)
Debt service:			
Principal	330,000		330,000
Interest	<u>127,060</u>	<u> </u>	<u>127,060</u>
Total Deductions	<u>474,712</u>	<u>(449)</u>	<u>474,263</u>
Change in net assets	<u>15,755</u>	<u>449</u>	<u>16,204</u>
Net assets – beginning of year	<u>871,764</u>	<u>541</u>	<u>872,305</u>
Net assets – end of year	<u>\$887,519</u>	<u>\$ 990</u>	<u>\$888,509</u>

See independent auditors' report and notes to financial statements.

SINGLE AUDIT REPORTS



February 18, 2013

The Honorable Mayor and Members of the City Council
City of Hanford
Hanford, California

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hanford as of and for the year ended June 30, 2012 which collectively comprise the City of Hanford's basic financial statements and have issued our report thereon dated February 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Hanford is responsible for establishing and maintaining effective internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or 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.

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

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, Items 2012-1 and 2012-2. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hanford'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*.

The City of Hanford's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hanford's response and, accordingly, we express no opinions on it.

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

Sampson, Sampson & Patterson, LLP



February 18, 2013

The Honorable Mayor and Members of the City Council
City of Hanford
Hanford, California

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

Compliance

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

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

As described in Item 2012-3 in the accompanying schedule of findings and questioned costs, the City of Hanford did not comply with reporting, monitoring and timeliness requirements of the CDBG programs. Compliance with such requirements is necessary, in our opinion, for the City of Hanford to comply with requirements applicable to those programs.

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

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-3 to be a significant deficiency.

City of Hanford's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hanford's responses and, accordingly, we express no opinion on the responses.

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

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Catalog Number	Pass-Through Grantors Number	Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through State Office of Homeland Security State Domestic Preparedness Equipment and Support Program	97.004	2010-0006-031-000	\$ <u>81,389</u>
Total U.S. Department of Homeland Security			<u>81,389</u>
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration			
Airport Improvement	20.106	3-06-0098	36,612
Federal Highway Administration			
Passed through California Department of Transportation			
Highway Planning and Construction	20.205	CML-5091(36)	23,143
Highway Planning and Construction	20.205	CML-5091(48)	4,900
Passed through California Office of Traffic Safety			
National Highway Safety Programs	20.601	TSCAL1157	<u>11,818</u>
Total U.S. Department of Transportation			<u>76,473</u>
<u>U.S. Department of Housing and Urban Development</u>			
Office of Community Planning and Development			
CDBG/Entitlement Grants (A)	14.218	B-12-MC-06-0061	177,493
CDBG/Entitlement Grants (A)	14.218	A-09-MC-06-0061	6,846
CDBG/Entitlement Grants (A)	14.218	A-10-MC-06-0061	14,862
CDBG/Entitlement Grants (A)	14.218	B-11-MC-06-0061	164,631
Office of Sustainable Housing and Community			
Sustainable Communities Regional Housing	14.703	SC360080-11-13	<u>116,553</u>
Total U.S. Department of Housing and Urban Development			<u>480,385</u>
<u>U.S. Department of Justice</u>			
Direct Program			
Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0031	104,784
Edward Byrne Justice Assistance Grant	16.804	2010-DJ-BX-0686	14,300
Bullet Proof Vest Partnership Program	16.607	1121-0235	<u>2,764</u>
Total U.S. Department of Justice			<u>121,848</u>
<u>U.S. Department of Energy</u>			
Direct Program			
Energy Efficiency and Conservation Block Grant	81.128	EE0002294	<u>3,226</u>
Total U.S. Department of Energy			<u>3,226</u>
Total Expenditures of Federal Awards			<u>\$763,321</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF HANFORD
Notes to Schedule of Expenditures of Federal Awards
June 30, 2012

1. Summary of Significant Accounting Policies:

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the awards transactions of the City recorded in the governmental and proprietary fund types.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The accrual basis of accounting is utilized by proprietary funds. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds distinguish operating revenues and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California are included in the Schedule.

The Schedule was presented only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

FINDINGS AND QUESTIONED COSTS

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Part I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiency(s) identified not considered to be material weakness(es)?	_____ <u>X</u> Yes	_____ No	
Noncompliance material to financial statements notes?	_____ Yes	_____ <u>X</u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiency(s) identified not considered to be material weakness(es)?	_____ <u>X</u> Yes	_____ No	
Type of auditors' report issued on compliance for major programs:			

	Qualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510 (a))?	_____ Yes	_____ <u>X</u> No	

Programs Subjected to Audit Procedures as Major Programs

	Name of Federal Program or Cluster
14.703	Sustainable Communities Regional Planning Grant Program
14.218	CDBG Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes _____ No

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Part II - Financial Statement Finding Section

Significant Deficiencies, Material Weaknesses and Instances of Noncompliance Related to the Financial Statements:

Significant Deficiency

2012-1 – Payroll

Condition:

During our testing of internal controls over payroll the following was noted as a result of our testing. Two populations tested; one based on risk (two pay-periods tested), one based on a random sample (two pay-periods tested):

1. Five employees were getting paid amounts that were higher than their approved pay rates per the Compensation Report approved by Council.
2. Five employee's position descriptions were not found in the Compensation Report approved by Council,
3. Three employees were considered part-time employees but were filling full-time employee positions.
4. Payroll accountant is able to add employees into the payroll system, process payroll, print payroll checks and mail out checks without a supervisor's review.
5. Temps working in personnel have access to sensitive employee information and are able to add new employees into the payroll system and change employee pay rates without the payroll clerk knowing.

Criteria:

Internal control over payroll dictates that all employees should have documentation of their pay rate in their employee personnel file that has been properly approved, timesheets should be properly approved, and pay rates and employee job descriptions should agree to the Compensation Report approved by Council. Internal controls over payroll also indicate the importance of segregation of duties within the payroll environment as well as the importance of establishing effective access controls around the payroll software.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012
(Continued)

Effect of Condition:

Failure of proper approval of employee pay rates could result in employees being overpaid or underpaid without Council knowing. Timesheet approval provides a review of the hours worked to indicate accuracy. Pay rates and employee job descriptions that do not agree to the Compensation Report indicate employees are being hired that were not budgeted for and without Council's approval. Employee's receiving a pay rate that is above what is in the Compensation Report indicates a pay rate that has not been approved by Council. Lack of segregation of duties within the payroll environment raises concerns surrounding the ability to create a fictitious employee, run payroll, process the payroll checks and mail the checks out without a second pair of eyes reviewing the process. The lack of access-restrictions to the payroll system raises concerns regarding the ability to change employee payroll rates, as well as other sensitive information, without the payroll clerk knowing.

Cause of Condition:

Failure to follow the Compensation Report with regards to employee pay rates, position descriptions, and the hiring of employees not included in the Compensation Report.

Recommendation:

Staff should review their established procedures for payroll and make sure they are following company policy. Some revisions/additions should be made to the policy to ensure there are stronger internal controls over payroll. Every employee should have an updated personnel status form in their personnel file that has been properly approved. Employee pay rates should agree to the Compensation Report. Employees should not be hired unless their position has been approved by Council in the annual Compensation Report. Part-time employees should not be hired to fill full-time positions. Access to the payroll system should be restricted to employees that work in payroll. Access should not be given to temporary employees. Segregation of duties should be set up in order to prevent the payroll clerk from being able to create employees, process payroll, print payroll checks and mail the checks out without a supervisor's review.

Response:

1. Five employees were getting paid amounts that were higher than their approved pay rates per the Compensation Report.

The current administration agrees with the finding. The five "employees" identified in the findings were all "Part-Time Temporary" employees. Their salaries were negotiated on an individual basis. All of the positions identified were vacated during a major change in the administration for the City. It was mission-critical that experienced "interim" professionals were brought on board to ensure the City did not incur additional liability during this critical period. All five individuals identified have finished their assignments and are no longer employed by the City of Hanford. The City found itself in a pinch, with little option, and had to pay these professionals what they demanded to accomplish the tasks at hand and to keep the City of Hanford from experiencing massive organization and operational failure. New job descriptions will be created and adopted to account for such a need in the future, should it arise.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012
(Continued)

2. Five employee's position descriptions were not found in the Compensation Report approved by Council.

The current administration agrees with the finding. As described in response to the first finding, additional job descriptions are being created to prevent this scenario from repeating itself in the future, should the need arise. A recruitment for a new Human Resources Manager is currently underway. We hope to have a full-time regular employee on board to fill this critical position before the end of the current fiscal year.

3. Three employees were considered part-time employees but were filling full-time employee positions.

The current administration agrees with the finding. Several recruitments have been conducted recently to fill full-time positions with full-time employees. Administration recognizes the ramifications of using part-time employees to fill full-time positions. Our goal was to remain compliant with all applicable laws while full-time employees were being recruited.

4. Payroll accountant is able to add employees into the payroll system, process payroll, print payroll checks and mail out checks without a supervisor's review.

The current administration agrees with the finding. Under the staffing shortage in Human Resources and Finance, the City did experience shortfalls in internal controls. With an Accounting Manager position in current recruitment and a Human Resources Manager position in current recruitment under way, this internal control issue will be rectified as soon as staffing allows.

5. Temps working in personnel have access to sensitive employee information and are able to add new employees into the payroll system and change employee pay rates without the payroll clerk knowing.

The current administration agrees with the finding. This scenario is again directly attributed to a staffing shortage in Human Resources and Finance. The Temp employee just went through a recruitment process and was brought in on a full-time City employee capacity, so one portion of the internal control gap has been resolved. As soon as the Accounting Manager and Human Resources Manager positions are full, this last gap in internal control will be closed.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012
(Continued)

Significant Deficiency

2012-2 – Credit Cards

Condition:

During our testing of controls over credit cards, we note that the procedures over the credit cards were not being consistently applied. The following was a result of our testing of credit cards.

1. Four out of eight credit card payments tested were missing proper support. Purchase orders were not attached to all of the purchases made on the credit card statement.
2. Two out of eight credit card payments tested were not properly checked out/in properly. The purchases were made without the actual credit card and the credit card number was written down to complete the order.
3. One credit card had the name of an unknown individual on the face of the credit card.
4. One credit card belonging to the prior City Manager was still active.
5. Three of the credit cards in the City's name were not used due to the difficulty to make purchases or an online account was set-up, or the card was never activated.

Criteria:

Procedures in place for credit cards dictate that all credit cards should be logged in/out properly and both receipts and purchase orders should be attached to the credit card statements. Procedures also indicate that purchase orders should be completely filled out and approved by proper management prior to purchase.

Effect of Condition:

Failure to follow established procedures for credit cards could result in improper use of credit cards leading to possible non business purchases being made on the credit cards. All credit cards should be logged in/out properly to indicate what card is in use and what cards are still available.

Cause of Condition:

Failure to follow the procedures for the use of credit cards.

Recommendation:

Staff should review their established procedures for credit cards and make sure they are following the City's credit card policies. Some revisions or additions should be added to that policy to make sure that there are stronger internal controls over credit cards.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012
(Continued)

To strengthen credit card policies already in place, the following should be considered or implemented: (1) All credit card purchases should have purchase orders attached. (2) The Department Heads should sign the purchase orders stating that there are funds available for the purchase, especially in the case where a blanket purchase order is being used for the purchase. (3) All credit cards should have their own "sign out sheet" stating which credit card is being checked out/in. (4) All unused credit cards and those which have no activity should be cancelled and destroyed.

Response:

City Management agrees with the audit findings and recommendations. Corrections and improvements to purchasing and credit card procedures have been implemented. Management has reviewed and updated policies and procedures with finance staff as well as user departments supervisorial and clerical staff involved in purchase order and credit card use. Purchase orders, invoices, and receipts are to be attached to credit card and purchase order purchases. Appropriate managerial staff are to sign purchase order and payment requests and ensure that required documentation is attached before forwarding to finance accounts payable. Each credit card has its own "sign out/in sheet" to ensure greater accountability for credit card use and security. Unused and non-essential credit cards have been cancelled and destroyed.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012
(Continued)

Part III - Federal Award Findings and Questioned Costs Section

U.S. Department of Housing and Urban Development C.F.D.A. #14.218

Significant Deficiencies, Material Weaknesses and Instances of Noncompliance Related to the Audit of Major Federal Programs:

Significant Deficiency

2012-3 – CDBG Grant Program

Condition:

During our audit of the City's Community Development Block Grant programs, the following deficiencies were noted:

1. Staff was unable to provide copies of various required reports such as Activity Summary Reports, Performance Reports and Annual Reports. We were not provided report SF-425, Federal Financial Report or any other reports, so we were unable to test information from those reports or to ascertain that they have been filed.
2. The City uses an outside consultant to administer their CDBG grant programs; however it does not appear that the City is monitoring the activities of the consulting firm. The response to our confirmation requesting reports relating to the internal controls of the consulting organization was that they (consultants) do not have any reports related to the internal controls of their organization. We were referred to their 10K filing by the outside consultant.
3. A letter from the U.S. Department of Housing and Urban Development referred to a timeliness issue as it pertains to carrying out activities in a timely manner. CDBG programs funds are usually for a certain time period to complete the various projects.

Criteria:

CDBG standards require that certain reports be filed and submitted timely, that the use of sub recipients in administering the programs be monitored for compliance with the requirements of those programs and that program funds be expended within the time period stated on the grants.

Effect of Condition:

Failure to follow CDBG rules and regulations could put the City in jeopardy for receiving future funding.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012
(Continued)

Cause of Condition:

There does not appear that there is any knowledgeable management of these programs and that staff is not adequately trained to accomplish and comply with all the requirements of these programs.

Recommendation:

The City needs to appoint a Federal Grant Manager who would be responsible for overseeing all Federal Grant programs. In addition an assistant should also be assigned to make sure that transitions of new personnel proceed smoothly. Staff assigned to the grant programs need to be adequately trained, so that all requirements of the programs are maintained including timely filing of all reports.

Response:

Reports:

As of today's date, the City has not completed the quarterly reports (SF425). The CAPER (annual report), however, has been submitted timely since the City has been an entitlement jurisdiction.

Monitoring Consulting Firm:

The City currently partners with Willdan Engineering to administer the City's Housing Rehabilitation Program utilizing CDBG Entitlement and HOME funding. While the City has not "officially monitored" Willdan, it is very involved in the consultant's daily activities.

City's staff oversees consultant's expenditures, reviews and processes invoices; reviews and approves all proposed rehabilitation work, reviews all closed files to insure program compliance; reviews and signs all environmental forms prior to submittal; participates in conversations/emails with state and federal representatives with regards to programmatic issues.

CDBG Timeliness Issue:

The \$1.3 million dollars identified in letter dated March 28, 2012 is a "snapshot" from IDIS that includes all open grants. The City has since provided HUD with a detailed milestone expenditure plan; and has been keeping close contact with our HUD representative.

The City recently amended its action plan to reallocate unspent dollars to faster moving projects, such as the purchase of a fire truck and the installation of a water splash pad at the Hanford Park. The new activities will spend dollars more timely; and will result in the City meeting the 1.5 expenditure milestone by the April 30, 2013 deadline.

CITY OF HANFORD
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2012

There were no reportable audit findings in the prior fiscal year ended June 30, 2011.

APPROPRIATIONS LIMIT REPORT

February 18, 2013

The Honorable City Council
City of Hanford
Hanford, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH ARTICLE XIII B – APPROPRIATIONS LIMIT

We have applied the procedures enumerated below to the accompanying appropriations limit of the City of Hanford for the year ended June 30, 2012. These procedures, which were agreed to by the League of California Cities and presented in their Article XIII B Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirement of Section 1.5 of Article XIII B of the California Constitution. This report is intended for the information of management and the City Council. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

The procedures performed and our findings were as follows:

1. We obtained computations from the City of Hanford and determined that the limit and annual adjustment factors were adopted by resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
2. For the accompanying Appropriations Limit, we added last year's limit to total adjustments, and agreed the resulting amount of this year's limit.
3. We agreed the current year information presented in the accompanying Appropriations Limit to the other computations described above.
4. We agreed the prior year Appropriations Limit presented in the accompanying Appropriations Limit to the Prior year Appropriations Limit adopted by the City Council during the prior year.

These agreed upon procedures are substantially less in scope than an audit, the objective of which is the expression of an opinion on the accompanying Appropriations Limit. Accordingly, we do not express such an opinion.

Based on the application of the procedures referred to above, nothing came to our attention that caused us to believe that the accompanying Appropriations Limit was not computed in accordance with Article XIII B of the California Constitution. Had we performed additional procedures or had we made an audit of the accompanying Appropriations Limit and the other completed worksheets described above, matters might have come to our attention that would have been reported to you.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Appropriations Limit
Schedules A and B
June 30, 2012

Schedule A	Fiscal Year 2011-2012	Amount
A. Last Years Limit – 2011		\$45,869,389
B. Add: Adjustment for Annexation Service Deliver Charge		<u>0</u>
Subtotal		<u>\$45,869,389</u>
Apply ratio of Change Factor (Schedule B)		1.0544
C. Appropriations Limit – Fiscal Year 2011-2012		<u>\$48,364,684</u>

Schedule B	Worksheet for Permitted Growth in Appropriations Limit 2011-2012	
Kings County Population Change	(1)	2.86 %
Converted to a Ratio		1.0286
California Per Capita Income Change	(1)	2.51%
Converted to a Ratio		1.0251
Calculation of Factor for 2011-2012		1.0286 x 1.0251
Ratio of Change Factor		1.0544

(1) Provided by the California State Department of Finance