

CITY OF SAN JUAN BAUTISTA

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2012

CITY OF SAN JUAN BAUTISTA

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,214,428	\$ 339,897	\$ 1,554,325
Restricted cash and investments	-	791,092	791,092
Accounts receivable, net	-	156,145	156,145
Interest receivable	-	8,421	8,421
Due from other governmental agencies	359,669	-	359,669
Internal balances	1,895,884	(1,895,884)	-
Prepaid expense and other assets	31,480	-	31,480
Deferred charges - Bond issuance costs, net	-	337,753	337,753
Capital assets (net of allowance for depreciation)	806,674	15,473,414	16,280,088
Total assets	<u>4,308,135</u>	<u>15,210,838</u>	<u>19,518,973</u>
LIABILITIES			
Accounts payable and accrued expense	90,189	88,683	178,872
Accrued interest	-	162,667	162,667
Deposits	-	82,540	82,540
Deferred revenue	68,020	-	68,020
Long-term liabilities			
Due within one year	-	181,339	181,339
Due in more than one year	-	11,246,496	11,246,496
Total liabilities	<u>158,209</u>	<u>11,761,725</u>	<u>11,919,934</u>
NET ASSETS			
Invested in capital assets, net of related debt	806,674	4,045,579	4,852,253
Restricted for debt service	-	791,092	791,092
Restricted for specific projects and programs	318,905	-	318,905
Unrestricted/(deficit)	3,024,347	(1,387,558)	1,636,789
Total net assets/(deficit)	<u>\$ 4,149,926</u>	<u>\$ 3,449,113</u>	<u>\$ 7,599,039</u>

CITY OF SAN JUAN BAUTISTA

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenue				Net Revenue/(Expense) and Changes in Net Assets		
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 438,934	\$ 12,454	\$ 27,824	\$ -	\$ (398,656)	\$ -	\$ (398,656)
Public works	212,227	-	57,457	-	(154,770)	-	(154,770)
Parks and recreation	43,653	605	-	-	(43,048)	-	(43,048)
Public safety	321,118	1,311	156,652	-	(163,155)	-	(163,155)
Community development	8,086	26,479	-	50,000	68,393	-	68,393
Total governmental activities	1,024,018	40,849	241,933	50,000	(691,236)	-	(691,236)
Business-type activities							
Water	755,573	775,824	-	-	-	20,251	20,251
Sewer	855,626	869,469	-	-	-	13,843	13,843
Total business-type activities	1,611,199	1,645,293	-	-	-	34,094	34,094
Total primary government	\$ 2,635,217	\$ 1,686,142	\$ 241,933	\$ 50,000	(691,236)	34,094	(657,142)
General Revenues							
Property taxes and assessments					281,995	-	281,995
Sales taxes					389,242	-	389,242
Lodging taxes					38,367	-	38,367
Franchise taxes					44,602	-	44,602
Business licenses					17,889	-	17,889
Motor vehicle in-lieu					138,549	-	138,549
Interest and rent					41,487	44,726	86,213
Other					23,505	-	23,505
Transfers					174,606	(174,606)	-
Total general revenue and transfers					1,150,242	(129,880)	1,020,362
Change in Net Assets					459,006	(95,786)	363,220
Net Assets							
Beginning of year					3,690,920	3,544,899	7,235,819
End of year					4,149,926	3,449,113	7,599,039

CITY OF SAN JUAN BAUTISTA

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2012

	<u>General</u>	<u>COPS Grant</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 923,492	\$ 38,108	\$ 252,828	\$ 1,214,428
Due from other governmental agencies	330,165	20,898	8,606	359,669
Due from other funds	1,895,884	-	-	1,895,884
Prepaid expense and other assets	31,480	-	-	31,480
Total assets	<u>\$ 3,181,021</u>	<u>\$ 59,006</u>	<u>\$ 261,434</u>	<u>\$ 3,501,461</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expense	\$ 88,654	\$ -	\$ 1,535	\$ 90,189
Deferred revenue	104,597	-	-	104,597
Total liabilities	<u>193,251</u>	<u>-</u>	<u>1,535</u>	<u>194,786</u>
Fund Balance				
Nonspendable				
Advances to other funds	1,895,884	-	-	1,895,884
Prepaid	27,939	-	-	27,939
Restricted				
Public safety	-	59,006	-	59,006
Capital improvement projects	-	-	86,103	86,103
Circulation improvements	-	-	135,827	135,827
Lighting and landscape maintenance	-	-	37,969	37,969
Unassigned	1,063,947	-	-	1,063,947
Total fund balance	<u>2,987,770</u>	<u>59,006</u>	<u>259,899</u>	<u>3,306,675</u>
Total liabilities and fund balance	<u>\$ 3,181,021</u>	<u>\$ 59,006</u>	<u>\$ 261,434</u>	<u>\$ 3,501,461</u>

CITY OF SAN JUAN BAUTISTA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2012

Total governmental fund balances	\$ 3,306,675
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds	36,577
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	<u>806,674</u>
Net assets of governmental activities	<u>\$ 4,149,926</u>

CITY OF SAN JUAN BAUTISTA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

	General	COPS Grant	Non Major Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 874,588	\$ -	\$ 36,056	\$ 910,644
Intergovernmental	134,476	100,000	57,457	291,933
Charges for services	11,789	-	-	11,789
Licenses and permits	27,144	-	-	27,144
Fines and forfeitures	1,916	-	-	1,916
Interest and rent	41,487	-	-	41,487
Other	23,505	-	-	23,505
Total revenue	<u>1,114,905</u>	<u>100,000</u>	<u>93,513</u>	<u>1,308,418</u>
Expenditures				
Current				
General government	438,374	-	-	438,374
Public works	139,513	-	45,285	184,798
Parks and recreation	28,053	-	-	28,053
Public safety	170,559	140,760	-	311,319
Community development	8,086	-	-	8,086
Capital outlay	41,862	-	-	41,862
Total expenditures	<u>826,447</u>	<u>140,760</u>	<u>45,285</u>	<u>1,012,492</u>
Revenue over/(under) expenditures:	288,458	(40,760)	48,228	295,926
Other Financing Sources/(Uses)				
Operating transfers in	179,079	-	-	179,079
Operating transfers (out)	-	-	(4,473)	(4,473)
Total other financing sources (uses)	<u>179,079</u>	<u>-</u>	<u>(4,473)</u>	<u>174,606</u>
Change in Fund Balance	467,537	(40,760)	43,755	470,532
Fund Balance				
Beginning of year	2,520,233	99,766	216,144	2,836,143
End of year	<u>\$ 2,987,770</u>	<u>\$ 59,006</u>	<u>\$ 259,899</u>	<u>\$ 3,306,675</u>

CITY OF SAN JUAN BAUTISTA

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2012

Net change in fund balance - total governmental funds \$ 470,532

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

Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in Governmental Funds (53,388)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 41,862

Change in net assets of governmental activities \$ 459,006

CITY OF SAN JUAN BAUTISTA

**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2012**

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Proprietary Funds
ASSETS			
Current assets			
Cash and investments	\$ 205,089	\$ 134,808	\$ 339,897
Restricted cash and investments	435,101	355,991	791,092
Accounts receivable, net	63,988	92,157	156,145
Interest receivable	4,632	3,789	8,421
Total current assets	<u>708,810</u>	<u>586,745</u>	<u>1,295,555</u>
Non-current assets			
Deferred loan charges, net	185,764	151,989	337,753
Property, plant and equipment (net of allowance for depreciation)	<u>8,017,238</u>	<u>7,456,176</u>	<u>15,473,414</u>
Total noncurrent assets	<u>8,203,002</u>	<u>7,608,165</u>	<u>15,811,167</u>
Total assets	<u>8,911,812</u>	<u>8,194,910</u>	<u>17,106,722</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	34,275	54,408	88,683
Accrued interest	89,467	73,200	162,667
Due to other funds	1,042,736	853,148	1,895,884
Deposits	82,540	-	82,540
Current portion of long-term debt	99,736	81,603	181,339
Total current liabilities	<u>1,348,754</u>	<u>1,062,359</u>	<u>2,411,113</u>
Noncurrent Liabilities			
Long-term debt	<u>6,185,573</u>	<u>5,060,923</u>	<u>11,246,496</u>
Total liabilities	<u>7,534,327</u>	<u>6,123,282</u>	<u>13,657,609</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,731,929	2,313,650	4,045,579
Restricted for debt service	435,101	355,991	791,092
Unrestricted	<u>(789,545)</u>	<u>(598,013)</u>	<u>(1,387,558)</u>
Total net assets	<u>\$ 1,377,485</u>	<u>\$ 2,071,628</u>	<u>\$ 3,449,113</u>

CITY OF SAN JUAN BAUTISTA

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
Charges for services	\$ 763,690	\$ 869,469	\$ 1,633,159
Other fees	12,134	-	12,134
Total operating revenue	<u>775,824</u>	<u>869,469</u>	<u>1,645,293</u>
Operating Expense			
Contractual services and utilities	78,120	214,622	292,742
Supplies, materials and repairs	15,416	3,147	18,563
Depreciation and amortization expense	310,581	297,918	608,499
Total operating expense	<u>404,117</u>	<u>515,687</u>	<u>919,804</u>
Operating income/(loss)	<u>371,707</u>	<u>353,782</u>	<u>725,489</u>
Nonoperating Revenue/(Expense)			
Interest income	24,599	20,127	44,726
Interest expense	(351,456)	(339,939)	(691,395)
Total nonoperating revenue/(expense)	<u>(326,857)</u>	<u>(319,812)</u>	<u>(646,669)</u>
Net income/(loss) before transfers	44,850	33,970	78,820
Operating Transfers In/(Out)	<u>(87,441)</u>	<u>(87,165)</u>	<u>(174,606)</u>
Change in Net Assets	<u>(42,591)</u>	<u>(53,195)</u>	<u>(95,786)</u>
Net Assets			
Beginning of year	1,420,076	2,124,823	3,544,899
End of year	<u>\$ 1,377,485</u>	<u>\$ 2,071,628</u>	<u>\$ 3,449,113</u>

CITY OF SAN JUAN BAUTISTA

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Business-Type Funds
Operating Activities			
Receipts from customers and users	\$ 803,184	\$ 873,352	\$ 1,676,536
Payments for contractual services and utilities	(100,052)	(212,701)	(312,753)
Payments to suppliers	(15,416)	(3,147)	(18,563)
Net cash provided by operating activities	<u>687,716</u>	<u>657,504</u>	<u>1,345,220</u>
Non-capital Financing Activities			
Payments and transfers (to)/from other funds	<u>(87,441)</u>	<u>(87,165)</u>	<u>(174,606)</u>
Net cash provided by (used in) noncapital financing activities	<u>(87,441)</u>	<u>(87,165)</u>	<u>(174,606)</u>
Capital and Related Financing Activities			
Purchase of property, plant and equipment	(17,174)	(6,383)	(23,557)
Principal paid on long-term debt	(95,186)	(77,880)	(173,066)
Interest paid on long-term debt	<u>(352,016)</u>	<u>(340,398)</u>	<u>(692,414)</u>
Net cash provided by (used in) capital and related financing activities	<u>(464,376)</u>	<u>(424,661)</u>	<u>(889,037)</u>
Investing Activities			
Interest received	<u>24,645</u>	<u>20,164</u>	<u>44,809</u>
Net cash provided by investing activities	<u>24,645</u>	<u>20,164</u>	<u>44,809</u>
Net Increase (Decrease) in Cash	160,544	165,842	326,386
Cash			
Beginning of year	<u>479,646</u>	<u>324,957</u>	<u>804,603</u>
End of year	<u>\$ 640,190</u>	<u>\$ 490,799</u>	<u>\$ 1,130,989</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 371,707	\$ 353,782	\$ 725,489
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization expense	310,581	297,918	608,499
(Increase) Decrease in Accounts Receivable	21,181	3,883	25,064
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>(15,753)</u>	<u>1,921</u>	<u>(13,832)</u>
Net Cash Provided by Operating Activities	<u>\$ 687,716</u>	<u>\$ 657,504</u>	<u>\$ 1,345,220</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of San Juan Bautista (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The City of San Juan Bautista, State of California (the "City"), was incorporated in 1869. The City operates under a Council-Manager form of government. The City's major operations include public safety; highways and streets; sewer and water; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information of all of the nonfiduciary activities of the primary government. For the most part, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities and Changes in Net Assets 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 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 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.

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental 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.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

COPS Grant Fund – The COPS Grant Fund is used to account for State COPS Grants for Public Safety.

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. Nonexchange 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 asset 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 SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (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.

Financial Statement Amounts

Cash and Investments - Cash and investments represent the City's cash bank accounts including but not limited to certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

Accounts Receivable - Billed but unpaid services provided to individuals or non-governmental entities are recorded as accounts receivable. An allowance for doubtful accounts is provided to account for potentially uncollectible amounts.

San Benito County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is March 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital outlays are recorded as expenditures of the General and Special Revenue Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. 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.

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 are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings, structures and improvements	40
Infrastructure	40
Equipment	5 - 10

Compensated Absences - It is the City's policy to permit all employees to accumulate earned but unused vacation and compensatory time benefits. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.

Sick leave can be accumulated, but vesting is limited and will not be paid upon termination. For this reason, the City does not accrue any costs relating to sick leave.

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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 term 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.

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Assets.

Net Assets - 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 on net assets imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - This category represents net assets of the City, not restricted for any project or other purpose.

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, long-term portion of loans receivable, nonfinancial assets held for resale and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

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

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 SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the San Juan Bautista Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during June of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

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

Statement of Net Assets:	
Cash and Investments	\$ 1,554,325
Restricted Cash and Investments	<u>791,092</u>
Total Cash and Investments	<u>\$ 2,345,417</u>

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

Cash on hand	\$ 200
Deposits with Financial Institutions	1,491,270
Local Agency Investment Fund	62,854
Held by Fiscal Agent:	
Money Market Mutual Funds	15,312
Private Debt Obligations	<u>775,781</u>
Total Cash and Investments	<u>\$ 2,345,417</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

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

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
Banker's Acceptances	180 days	None	20%	10% or \$5 millior
Commercial Paper	180 days	A	15%	10%
Negotiable Certificates of Deposit	2 years	None	30%	None
Medium-Term Notes	5 years	AA	20%	10%
Money Market Mutual Funds	N/A	AAA	20%	10%
Repurchase Agreements	1 year	None	None	None
Time Deposits	2 years	None	10%	None
County Pooled Investment Funds	N/A	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million	None

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2012 the City had the following investments:

Investment Type	Amount	Maturity Date
Local Agency Investment Fund	\$ 62,854	N/A
Held by Fiscal Agent:		
Money Market Mutual Funds	15,312	N/A
Private Debt Obligations	<u>775,781</u>	10/01/18
Total	<u>\$ 853,947</u>	

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's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Rating as of Year End Not Rated
Local Agency Investment Fund	\$ 62,854	N/A	\$ 62,854
Held by Fiscal Agent:			
Money Market Mutual Funds	15,312	N/A	15,312
Private Debt Obligations	<u>775,781</u>	N/A	<u>775,781</u>
Total	<u>\$ 853,947</u>		<u>\$ 853,947</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At times, the City's bank accounts may exceed federally insured limits. The City has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision 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. As of June 30, 2012, the carrying amount of the City's bank deposits was \$1,491,270, and the respective bank balances totaled \$1,559,251, of the total bank balance. Of the bank balances, only \$351,399 is insured through the Federal Depository Insurance Company. The remaining balance is to be collateralized by the bank.

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

Investment in State Investment Pool

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

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 22,610	\$ -	\$ -	\$ 22,610
Total capital assets, not being depreciated	<u>22,610</u>	<u>-</u>	<u>-</u>	<u>22,610</u>
Capital assets, being depreciated				
Buildings and improvements	922,885	2,229	-	925,114
Infrastructure	526,919	32,281	-	559,200
Machinery and equipment	<u>774,786</u>	<u>7,352</u>	<u>-</u>	<u>782,138</u>
Total capital assets, being depreciated	<u>2,224,590</u>	<u>41,862</u>	<u>-</u>	<u>2,266,452</u>
Less accumulated depreciation for:				
Buildings and improvements	(584,844)	(17,786)	-	(602,630)
Infrastructure	(105,992)	(24,777)	-	(130,769)
Machinery and equipment	<u>(738,164)</u>	<u>(10,825)</u>	<u>-</u>	<u>(748,989)</u>
Total accumulated depreciation	<u>(1,429,000)</u>	<u>(53,388)</u>	<u>-</u>	<u>(1,482,388)</u>
Total capital assets, being depreciated, net	<u>795,590</u>	<u>(11,526)</u>	<u>-</u>	<u>784,064</u>
Governmental activities capital assets, net	<u>\$ 818,200</u>	<u>\$ (11,526)</u>	<u>\$ -</u>	<u>\$ 806,674</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 234,783	\$ -	\$ -	\$ 234,783
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>234,783</u>	<u>-</u>	<u>-</u>	<u>234,783</u>
Capital assets, being depreciated				
Building	323,861	-	-	323,861
Improvements other than buildings	17,770,462	17,175	-	17,787,637
Machinery and equipment	<u>416,712</u>	<u>6,383</u>	<u>-</u>	<u>423,095</u>
Total capital assets, being depreciated	<u>18,511,035</u>	<u>23,558</u>	<u>-</u>	<u>18,534,593</u>
Less: accumulated depreciation	<u>(2,698,143)</u>	<u>(597,819)</u>	<u>-</u>	<u>(3,295,962)</u>
Total capital assets, being depreciated, net	<u>15,812,892</u>	<u>(574,261)</u>	<u>-</u>	<u>15,238,631</u>
Business-type activities capital assets, net	<u>\$ 16,047,675</u>	<u>\$ (574,261)</u>	<u>\$ -</u>	<u>\$ 15,473,414</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 4 – Capital Assets (Continued)

Depreciation and amortization expense were charged to the following functions in the Statement of Activities:

Governmental Functions:

General Government	\$	560
Public Works		27,429
Parks and Recreation		15,600
Public Safety		9,799
	\$	<u>53,388</u>

Business-Type Functions:

Water	\$	304,707
Sewer		293,112
	\$	<u>597,819</u>

Note 5 – Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts. The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$36,577.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 6 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

In governmental fund types, debt discounts and issuance costs are recognized in the current period. Debt discounts and issuance costs incurred in proprietary funds are deferred and amortized over the term of the debt using the bonds-outstanding method, which approximates the effective interest method. The City's debt transactions are summarized below and discussed in detail thereafter:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portion</u>
<u>Business-Type Activity Long Term Debt</u>					
2008 Water and Sewer COP	\$ 10,915,000	\$ -	\$ 120,000	\$ 10,795,000	\$ 125,000
Pavex Note Payable	685,901	-	53,066	632,835	56,339
Total Business-Type Activity Debt	<u>\$ 11,600,901</u>	<u>\$ -</u>	<u>\$ 173,066</u>	<u>\$ 11,427,835</u>	<u>\$ 181,339</u>

Long-term debt payable at June 30, 2012 was comprised of the following individual issues:

2008 Water and Sewer COP – In October 2008, the city issued \$11,145,000 in water and wastewater revenue certificates of participation to fund major improvements to the city water and sewer facilities. As the project is a joint water and sewer undertaking, upon project completion, the debt was allocated 55% to the Water Fund and 45% to the Sewer Fund. The bonds require semi-annual interest payments with rates ranging from 3% to 6.25% per annum through 2044.

Pavex Note Payable – In June 2011, the city entered into a note payable to fund major improvements to the city water and sewer facilities. As the project is a joint water and sewer undertaking, upon project completion, the debt was allocated 55% to the Water Fund and 45% to the Sewer Fund. Interest and principal payments are payable monthly, with interest at 6.0 percent through July 2016.

The annual requirement to amortize the principal and interest on long-term debt at June 30, 2012, were as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>
2013	181,339	685,069
2014	189,814	676,700
2015	198,503	667,593
2016	201,646	657,781
2017	541,533	627,497
2018-2022	860,000	3,004,320
2023-2027	1,155,000	2,711,872
2028-2032	1,575,000	2,296,932
2033-2037	2,140,000	1,721,876
2038-2042	2,930,000	935,001
2043-2044	1,455,000	92,344
	<u>\$ 11,427,835</u>	<u>\$ 14,076,985</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 7 – Deferred Compensation Plan

On October 1, 1999, the City established a deferred compensation plan for its employees which provides them an opportunity to save for retirement. The plan meets the requirements of Internal Revenue Code Section 457. Under the plan, employees make tax deferred contributions up to the limits established by the Internal Revenue Service. The contributions made to the plan may be withdrawn only upon retirement separation from service, death or unforeseeable emergency. Employees are 100% vested in their contributions from the first date of participation. The plan provides for varying matching contributions.

The plan is administered by the City. The participants are offered a choice of investment options and make their own investment decisions. The City has fiduciary obligation for due care in the administration of the plan, but is not responsible for the investments or performance results of the investment products offered under the plan, therefore, the City is not required to report these funds on the City's financial statements.

Note 8 – Risk Management

The City of San Juan Bautista is insured under the Public Agency Risk Sharing Authority of California (PARSAC) liability program. Protection is afforded for "bodily injury, property damage, personal injury and public officials' errors and omissions, subject to certain limitations".

Limit of protection - \$995,000 ultimate net loss as the result of any occurrence because of bodily injury, property damage, personal injury or public officials' errors and omissions or any combination thereof in excess of the retained limit.

Retained limit - \$5,000 ultimate net loss as the result of any occurrence because of bodily injury, property damage, personal injury or public officials' errors and omissions or any combination thereof.

The latest audited financial information and the most current information available for PARSAC for fiscal year ended June 30, 2012 is as follows:

Total assets	<u>\$ 38,498,081</u>
Total liabilities	<u>\$ 17,767,776</u>
Total equities	<u>\$ 20,730,305</u>
Total revenues	<u>\$ 10,792,364</u>
Total expenses	<u>\$ 10,960,886</u>
Revenues over (under) expenses	<u>\$ (168,522)</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 9 – Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2012 are as follows:

	<u>Due From</u>	<u>Due To</u>
Major Governmental Funds:		
General Fund	\$ 1,895,884	\$ -
Proprietary Funds:		
Water Fund	-	1,042,736
Sewer Fund	-	853,148
	<u>\$ 1,895,884</u>	<u>\$ 1,895,884</u>

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements.

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 179,079	\$ -
Proprietary Funds:		
Water Fund	-	(87,441)
Sewer Fund	-	(87,165)
Nonmajor Governmental Funds:		
Gas Tax Fund	-	(3,182)
Valle Vista Lighting & Landscaping District	-	(1,291)
	<u>\$ 179,079</u>	<u>\$ (179,079)</u>

The City transferred funds to the General Fund to cover overhead costs that are paid for by the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAN JUAN BAUTISTA

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive/ (Negative)</u>
Revenue				
Taxes	\$ 770,000	\$ 770,000	\$ 874,588	\$ 104,588
Intergovernmental	-	-	134,476	134,476
Charges for services	16,625	16,625	11,789	(4,836)
Licenses and permits	16,745	16,745	27,144	10,399
Fines and forfeitures	700	700	1,916	1,216
Interest and rent	54,000	54,000	41,487	(12,513)
Other	12,300	12,300	23,505	11,205
Total revenue	<u>870,370</u>	<u>870,370</u>	<u>1,114,905</u>	<u>244,535</u>
Expenditures				
Current				
General government	436,963	436,963	438,374	(1,411)
Public works	161,275	161,275	139,513	21,762
Parks and recreation	33,179	33,179	28,053	5,126
Public safety	222,979	222,979	170,559	52,420
Community development	80,525	80,525	8,086	72,439
Capital outlay	7,000	7,000	41,862	(34,862)
Total expenditures	<u>941,921</u>	<u>941,921</u>	<u>826,447</u>	<u>115,474</u>
Revenue over (under) expenditures	(71,551)	(71,551)	288,458	360,009
Other Financing Sources				
Transfers in (out) - net	<u>238,501</u>	<u>238,501</u>	<u>179,079</u>	<u>(59,422)</u>
Net Change in Fund Balance	<u>\$ 166,950</u>	<u>\$ 166,950</u>	<u>467,537</u>	<u>\$ 300,587</u>
Fund Balance				
Beginning of year			2,520,233	
End of year			<u>\$ 2,987,770</u>	

CITY OF SAN JUAN BAUTISTA

BUDGETARY COMPARISON SCHEDULE

COPS GRANT FUND

YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Total revenue	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Expenditures				
Current				
Public safety	<u>130,000</u>	<u>130,000</u>	<u>140,760</u>	<u>(10,760)</u>
Total expenditures	<u>130,000</u>	<u>130,000</u>	<u>140,760</u>	<u>(10,760)</u>
Revenue over (under) expenditures	(30,000)	(30,000)	(40,760)	(10,760)
Net Change in Fund Balance	<u>\$ (30,000)</u>	<u>\$ (30,000)</u>	(40,760)	<u>\$ (10,760)</u>
Fund Balance				
Beginning of year			<u>99,766</u>	
End of year			<u>\$ 59,006</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF SAN JUAN BAUTISTA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds					Non-major Governmental Funds
	Public Parking Fund	Gas Tax Fund	Roads & Restrooms Fund	Valley Vista Lighting & Landscaping Assessment District		
ASSETS						
Cash and investments	\$ 17,447	\$ 130,941	\$ 68,656	\$ 35,784	\$	\$ 252,828
Due from other governmental agencies	-	6,421	-	2,185		8,606
Total assets	\$ 17,447	\$ 137,362	\$ 68,656	\$ 37,969	\$	\$ 261,434
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable and accrued expense	\$ -	\$ 1,535	\$ -	\$ -	\$	\$ 1,535
Total liabilities	-	1,535	-	-	-	1,535
Fund Balance						
Restricted	17,447	-	68,656	-	-	86,103
Capital improvement projects	-	135,827	-	-	-	135,827
Circulation improvements	-	-	-	37,969	-	37,969
Lighting and landscape maintenance	-	-	-	-	-	-
Total fund balance	17,447	135,827	68,656	37,969		259,899
Total liabilities and fund balance	\$ 17,447	\$ 137,362	\$ 68,656	\$ 37,969	\$	\$ 261,434

CITY OF SAN JUAN BAUTISTA

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds					Non-major Governmental Funds
	Public Parking Fund	Gas Tax Fund	Roads & Restrooms Fund	Valley Vista Lighting & Landscaping Assessment District		
Revenue						
Taxes	\$ -	\$ -	\$ 6,395	\$ 29,661	\$	\$ 36,056
Intergovernmental	-	57,457	-	-	-	57,457
Total revenue	-	57,457	6,395	29,661	-	93,513
Expenditures						
Current						
Public works	-	21,988	280	23,017	-	45,285
Capital outlay	-	-	-	-	-	-
Total expenditures	-	21,988	280	23,017	-	45,285
Revenue over (under) expenditures	-	35,469	6,115	6,644	-	48,228
Other financing sources/(uses)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	(3,182)	-	(1,291)	-	(4,473)
	-	(3,182)	-	(1,291)	-	(4,473)
Revenue and other financing sources over (under) expenditures and other financing uses	-	32,287	6,115	5,353	-	43,755
Fund Balance						
Beginning of year	17,447	103,540	62,541	32,616	-	216,144
End of year	\$ 17,447	\$ 135,827	\$ 68,656	\$ 37,969	\$	\$ 259,899

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

To the Honorable Mayor and City Council
City of San Juan Bautista, California

We have audited the financial statements of the City of San Juan Bautista, as of, and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

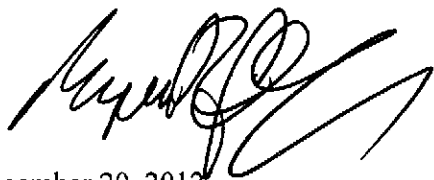
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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.

Compliance and Other Matters

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

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

A handwritten signature in black ink, appearing to be 'Ayub' followed by a stylized flourish.

December 20, 2012

CITY OF SAN JUAN BAUTISTA

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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To the Honorable Mayor and City Council
City of San Juan Bautista, California

In planning and performing our audit of the basic financial statements of the City of San Juan Bautista (City) for the year ended June 30, 2012, in accordance with generally accepted auditing standards in the United States, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls.

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.

In addition, we noted other matters involving internal control and its operation that we have reported to management in a separate letter dated December 20, 2012.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the City's staff for its cooperation during our audit.



December 20, 2012

To the Honorable Mayor and City Council
City of San Juan Bautista, California

We have audited the financial statements of the City of San Juan Bautista, California (City) for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We did not identify any significant audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Meyer" followed by a stylized flourish.

December 20, 2012