



**CITY OF MORGAN HILL  
CALIFORNIA  
YEAR ENDED JUNE 30, 2014  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**



# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2014**

**PREPARED BY  
ADMINISTRATIVE SERVICES**



**CITY OF MORGAN HILL**



**CITY OF MORGAN HILL  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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# INTRODUCTORY SECTION



**CITY OF MORGAN HILL**



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December 19, 2014

Honorable Mayor, Members of the City Council, City Manager, and Citizens of Morgan Hill:

The *Comprehensive Annual Financial Report* (CAFR) of the City of Morgan Hill, California for the fiscal year ended June 30, 2014, is submitted for your information and review. Responsibility for the accuracy of the information, and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. The financial statements within this report have been audited by the City's independent financial auditor, Moss, Levy, & Hartzheim LLP, which has issued an unqualified opinion. The auditor's opinion letter is included in this report.

The City was required to undergo a single audit for FY 13-14 Federal assistance under the provisions of the Single Audit Act, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The format of this report complies with the financial reporting model developed under Governmental Accounting Standards Board (GASB) Statement No. 34, as modified by additional published statements.

- The Statement of Net Position and the Statement of Activities represent a combination of all the City's funds, comprising the City's General Fund, Special Revenue, Capital Projects, Debt Service, Internal Service, and Enterprise Funds, including activities which are restricted. Information about individual funds can be found in the combining statements contained within the CAFR.
- The amount reported as "unrestricted" in the net position section of the Statement of Net Position includes: (i) amounts designated by the City Council for general reserve purposes; (ii) amounts that have accumulated in various internal service funds to be used for the purposes intended for those funds; and (iii) business-type net assets that have been collected from water and sewer rate payers that are needed to fund ongoing water and sewer operating and capital needs.
- The amount reported as infrastructure, as part of capital assets, includes the value of infrastructure acquired between 1980 and June 30, 2014.

To assist with the reader's review of the City's financial statements, a narrative section called Management's Discussion and Analysis (MD&A) is included. The MD&A reports on the financial highlights of the City and provides additional analysis on the variances and trends reported as part of the financial statements. The MD&A is designed to disclose any significant events or decisions that affect the financial condition of the City.

The financial reporting entity includes all of the funds of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Wastewater Facilities Financing Corporation and the



Morgan Hill Financing Authority are governed by boards which are substantially the same as the City's governing body. These two component units have been blended into the City's basic financial statements because the City is able to impose its will on these component units and because the component units provide services primarily to the City. The Morgan Hill Corporation Yard Commission is a joint powers authority between the City and the Morgan Hill Unified School District, and it functions for the benefit of the City and the School District. Since the services of the Corporation Yard Commission are not provided primarily to the City, the financial information for the Commission is discretely presented in the basic financial statements so that this information may be separately accounted for.

This report includes all funds of the City. The City provides a broad range of services including police protection, economic development, housing assistance, water and sewer service, streets and parks construction and maintenance, planning and engineering, code enforcement, recreation and community services, and general city administration and support services. January 2013 brought a change in how the City provides fire protection services. The City purchased two fire stations, two pumpers and one ladder truck, along with three pickup trucks. The City operates and maintains the two stations, with personnel provided under contract by the State's CalFire.

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all governmental fund types. Budgetary comparisons are reflected in the City's financial report for all governmental funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. Activities are defined as an individual program or division within a department. The City Council's approval is required for additional appropriations or transfers between activities. Unencumbered appropriations lapse at the end of each fiscal year.

## **ECONOMIC CONDITIONS AND OUTLOOK**

Morgan Hill's financial condition continues to grow strong following the recession beginning in fiscal year 2008-09. City Council addressed declining revenues as the recession continued by reducing expenditures, most significantly in personnel reductions. Just prior to the recession, Morgan Hill employed 189 FTE's (full time equivalents), dropping to a low of 169 FTE's. The number of FTE's grew to 174 in fiscal year 2013-14. Strong general fund and community development fund revenues provide resources for increasing the number of FTE's to meet the needs of the community.

Fiscal years 2011-12 and 2012-13 showed signs of a strengthening local economy with increases in consumer spending and a declining unemployment rate. As consumer confidence grows, consumer spending continues to grow resulting in sales tax revenue growth of nearly 76% since the low in fiscal year 2009-10. Morgan Hill's unemployment rate hit a high of 15% in 2010, and has dropped to 7% in 2014. This is slightly lower than the state wide unemployment rate of 7.1%, but still above the County of Santa Clara rate of 5.4%.

New housing in Morgan Hill had come to a standstill due to the recession, but in the past two years a steady stream of construction has added 325 new homes. Many of these projects were stalled due to the recession

creating a backlog of development projects. Many of these homes have now been built, and construction is still underway for more. Housing prices have seen a rocky but steady climb, to an average close to \$650,000 from a low of \$420,000 in 2011. It is yet to be seen if the average price of a home will climb to \$830,000 as in 2007 just before the recession. Commercial development has been slower to respond to the strengthening economy, but in the past year 209 thousand square feet of previously vacant commercial space in Morgan Hill has been occupied. As of June 30, 2014 there were no new commercial /industrial projects proposed or under construction.

Developments in the community, and higher assessed property values, have led to a steady increase in local property tax revenues. Property tax revenues are expected to increase an additional 8.7% to \$8.5 million in the next fiscal year. In addition, transient occupancy taxes and recreation revenues are at an all time high of \$1.7 million and \$5.6 million, respectively.

The good news- stronger housing market and development, consumer confidence and lower unemployment- have all contributed to the strength of the General Fund and the Community Development Fund. General Fund reserves were 40% of general fund revenues for the year ending June 30, 2014, increasing by \$2 million over the prior year. The Council recommended goal is 25% of general fund revenues, and the minimum level is set at 15%. The Community Development Fund revenue has climbed each year since a low point in 2010. This is mostly a result of the development backlog, projects that stagnated as the recession grew. This has led to Community Development being a self supporting operation, with fund balance 54% above the goal of 30% of expenditures. However, when construction and development projects level off, significant expenditure adjustments will need to be considered. The forecast of a high fund balance (49% of expenditures) in 2015-16 will quickly begin falling in 2016-17 if spending remains at its current level.

The City benefits from a reasonably diverse local economy that includes a variety of business activities and employers. The largest employers are: Morgan Hill Unified School District, Anritsu, Specialized Bicycle Components, Paramit, Flextronics, Infineon Technologies, City of Morgan Hill, Extreme Learning, Mission Bell Manufacturing and Wal-Mart. Business attraction and retention, economic development, recreation, affordable housing, and capital improvements provide the foundation of the City's strategy for enhancing economic growth. In addition, City Council directed staff to take all possible steps during the Great Recession to position Morgan Hill as the city of choice for businesses to expand and relocate as the economy rebounds. The largest undertaking is the development of the Morgan Hill Downtown, with significant infrastructure improvements such as a parking garage, undergrounding of utilities, public art, trails and plaza/park space scheduled to be completed by December 2015, and downtown opportunity sites currently being offered for private development. These sites were previously owned by the former Redevelopment Agency. The proposed downtown will be a user friendly mix of residential, retail, restaurants with parks and open space for pedestrians and bicyclists.

City staff prepares five-year projections for the General Fund, Community Development Fund and the Wastewater and Water Funds twice a year. In addition, a five year capital improvement plan is prepared and updated annually that addresses the infrastructure project or improvement and the funding/anticipated financing sources to complete. The forecasts will also include annual maintenance costs anticipated as the infrastructure and improvement projects are completed and taken into the City's operations.

These projections also include analysis of the City’s ability to meet its unassigned fund balance target over the entire five-year financial forecast horizon. The City Council considers this information when approving the budget and when making key financial decisions throughout the year, to help the City Council more closely monitor compliance with its reserves policy and fund balance goals.

### STATE LEGISLATION ABOLISHING REDEVELOPMENT

In December 2011, the California Supreme Court upheld State legislation (AB x1 26) that abolished and dissolved the Morgan Hill Redevelopment Agency—along with all other redevelopment agencies in California—effective February 1, 2012. Since that date the City has been winding down the activities of the former Agency by limiting itself to two tasks: (i) continuing to pay enforceable obligations; (ii) transferring to various governmental entities the physical and cash assets of the former Agency. The final chapter of the former Morgan Hill Redevelopment Agency is to complete the spending of the 2008 Bond proceeds for downtown improvements, as approved by the State Department of Finance, and to implement the long range property management plan.

### AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morgan Hill for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2013. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA certificate is valid for a period of one year only. The City has received this certificate for the last 19 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and will be submitting it to the GFOA again this year.

### ACKNOWLEDGMENTS

The *Comprehensive Annual Financial Report* represents many months of work by the City's entire Finance staff. Special thanks go to Accountants Harjot Sangha and Gina Nazareno for their professional contributions to this report. I also wish to express appreciation to the City Council and City Manager for their sound leadership in financial matters.

Sincerely,



Tina M Reza  
Interim Finance Director

**CITY OF MORGAN HILL, CALIFORNIA**  
**ELECTED OFFICIALS AND CITY STAFF AS OF JUNE 30, 2014**

**ELECTED OFFICIALS**

Steve Tate	Mayor
Marilyn Librers	Mayor Pro Tem
Larry Carr	Council Member
Gordon Siebert	Council Member
Rich Constantine	Council Member
Michael J. Roorda	City Treasurer
Irma Torrez	City Clerk

**CITY STAFF**

Steve Rymer	City Manager
Renee Gurza	City Attorney
Karl Bjarke	Public Works Director
Leslie Little	Assistant City Manager for Community Development
Kevin Riper	Administrative Services Director
Andrew Crabtree	Community Development Director
Christopher Ghione	Community Services Director
David Swing	Chief of Police







Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Morgan Hill  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

# FINANCIAL SECTION



**CITY OF MORGAN HILL**



**PARTNERS**  
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## INDEPENDENT AUDITORS' REPORT

City Council of the City of Morgan Hill  
Morgan Hill, California

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining information of the City of Morgan Hill, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principles*

As discussed in note 2 to the basic financial statements effective July 1, 2013, the City of Morgan Hill adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the budgetary comparison information on pages 77 through 79, the CalPERS schedules of funding progress on page 80, and the schedule of funding progress for postemployment benefits other than pensions on page 80 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morgan Hill's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, combining internal service fund financial statements, combining agency funds financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, combining internal service fund financial statements, and combining agency funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014, on our consideration of the City of Morgan Hill's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Moss, Remy & Hartgeim LLP*

Santa Maria, California  
December 17, 2014

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**Management's Discussion and Analysis (MD&A)**  
**For the Fiscal Year Ended June 30, 2014**

The management of the City of Morgan Hill (City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. Please read this overview in conjunction with the accompanying letter of transmittal and the basic financial statements. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 34, comparative data for the prior fiscal year is provided.

**FINANCIAL HIGHLIGHTS**

- During FY 13-14, the City's net position, representing the difference between total assets and total liabilities, increased by \$15.7 million to \$479.5 million. Of the total net position, \$117.2 million, about 24%, in unrestricted assets may be used to meet the City's ongoing obligations to citizens and creditors, and majority of the remaining, about 62%, consists of net investment in capital assets. Additional detailed information can be found in Note 13, of the Notes section, on page 73.
- Total revenues from all sources were \$81.9 million—\$8.4 million more than the prior year. Of the total increase, \$6.9 million was in government-type activities, most notable in charges for current services, followed by revenue received for operating grants/contributions and an increase in sales tax revenue. Business-type activities saw a net increase of \$1.5 million in revenues than the prior year.
- At June 30, 2014, the City had \$57.8 million in long-term debt, comprised of \$22 million in new debt secured by water revenues, \$13.5 million in wastewater capacity rights secured by sewer revenues, \$5.9 million in police facility lease revenue bonds subject to a City appropriations covenant, \$4.9 million in library/civic center lease revenue bonds subject to a City appropriations covenant, \$1.5 million in compensated absences, \$3.8 million for safety CalPERS side fund, \$1 million related to other post-employment benefits, and \$5.2 million for Fire stations and apparatus. The \$57.8 million in long-term debt outstanding reflects a net increase of \$10.9 million more than the prior year, primarily due to issuance of new Water Revenue Bonds for capital improvement projects and a prior period adjustment of \$2.5 million, due to removal of unamortized bond issuance costs in accordance with the implementation of GASB Statement No.65. Detailed information on long-term debt can be found on page 62.
- At June 30, 2014, the City's governmental funds reported ending fund balances of \$68.7 million, an increase of \$10.3 million in comparison with the prior fiscal year.
- The fund balance in the City's General Fund increased by \$2.1 million to \$12.7 million. The restricted fund balance in the Community Development Fund, which is closely related to the General Fund, more than doubled, with starting balance of \$1.6 to \$3.3 million by year-end. Much like last two fiscal years, growth in development-related revenue has led to the ongoing fiscal turnaround in this fund.
- During FY 13-14, General Fund revenues exceeded expenditures by \$1.5 million, excluding transfers. Transfers in exceeded transfers out, by \$0.6 million, adding to positive net change in fund balance by \$2.1 million, combined.

- Actual revenues in the General Fund were \$1.1 million more than the final budget, Franchise, hotel and other taxes revenue increased at \$.6 million, plus stronger positive variances for property and sales tax.
- Actual expenditures in the General Fund were about \$1.9 million less than the final budget, with the Police and Fire Departments contributing \$1.3 million, the general government category (City Attorney, City Manager, City Clerk and Finance) and culture and recreation contributing the rest.
- During FY 13-14, a prior period adjustment of \$(478,204) in governmental activities and \$(2,048,266) in business-type activities, was made in the government-wide statements and proprietary funds statements to remove unamortized bond issuance costs in accordance with the implementation of GASB Statement No.65.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components:

- Government-wide financial statements – These include the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the City as a whole and about the overall financial condition of the City in a manner similar to a private-sector business. These statements are described in more detail in a subsequent section in this MD&A and can be found on pages 19 and 20 of this report.
- Fund financial statements – These statements provide additional information about the City's major funds, including how services were financed in the short term and including fund balances available for financing future projects. These statements are described in more detail in a subsequent section of this MD&A and can be found on pages 23 through 34.

### A. Government-Wide Financial Statements

These statements include 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 current fiscal year revenues and expenses are accounted for regardless of when the cash is paid or received.

These statements report the City's net position and related changes. Net position, the difference between assets and liabilities, is one way to measure the City's financial position. Over time, increases or decreases in net position is indicator of whether the financial condition of the City is improving or deteriorating. However, it is also important to consider other non-financial factors, such as changes in the City's property tax and sales tax bases or in the condition of the City's infrastructure (for example, community facilities, parks and streets), to accurately assess the overall health of the City.

These statements present information about the City's activities, all of which are considered governmental in nature: police protection, economic development, housing assistance, water and wastewater service, streets and parks construction and maintenance, planning and engineering, code enforcement, recreation, community services and general city administration and support. The California Department of Forestry and Fire Protection (CALFIRE), serving as the Morgan Hill Fire Department, continue to assume contractual responsibility for providing fire protection services.

These services are funded from monies received from property, sales, and other taxes, direct charges for the services provided, grants, and contributions from other agencies.

## **B. Fund Financial Statements**

These statements provide more detailed information about the City's individual funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. Data for the other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements.

The City adopts an annual appropriated budget for each of the City's governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget.

**Proprietary funds:** The City maintains two different types of proprietary funds, *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for sewer and water operations, as well as for sewer and water capital project activities financed by development impact fees.

*Internal service funds* are accounting devices used to accumulate and allocate costs internally among the City's various functions and to build up reserves for the replacement of capital assets. The City uses internal service funds to account for building maintenance, building replacement, information systems, unemployment insurance, workers' compensation, employee benefits, general liability claims, fleet and equipment replacement, and capital improvement program administration. Because these services predominantly benefit governmental rather than business-type functions,

they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All nine internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements provide separate information for sewer operations, sewer capital project impact activities, water operations, and water capital project impact activities, all of which are presented as major funds of the City because of significant public interest.

**Fiduciary Funds:** The City acts as a trustee, or fiduciary, in collecting assessments and remitting bond payments for the Morgan Hill Business Ranch and Madrone Business Park assessment districts. The City has no legal, contingent, or moral obligation for the repayment of the debt associated with these particular assessment districts and merely ensures that assets received are used for their intended purposes. In addition, the City maintains a Special Deposits Fund in which the City accounts for deposits held in trust for the benefit of third parties. The City also maintains a fund to hold in trust amounts collected on the Santa Clara County property tax roll for the Downtown Morgan Hill Property Based Improvement District (PBID) pending their distribution to the PBID. These fiduciary activities are excluded from the City's fund financial statements because these assets cannot be used to finance operations. The activity for these funds, however, is provided for in a separate combining statement of changes in assets and liabilities contained elsewhere in this report.

Included in fiduciary funds is the Successor Agency Private Purpose Trust Fund created upon dissolution of the former Redevelopment Agency. The Trust Fund was created to hold the non-housing assets of the former Redevelopment Agency until they were transferred for governmental purposes to other entities, or distributed to the underlying taxing jurisdictions in Santa Clara County after the payment of enforceable obligations, most notably outstanding tax allocation bonds.

### **C. Notes to Basic Financial Statements**

The notes provide additional detail that is essential to a full understanding of the information in the government-wide and fund financial statements. The notes can be found on pages 35 through 79.

### **D. 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. Required supplementary information appears on page 83.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's combined net position for the fiscal year ended June 30, 2014, was \$479.5 million. A significant portion of the City's net position (\$297.1 million or 62 percent) reflects the City's investment in capital assets (for example, land, infrastructure, buildings, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net position (\$65.3 million or 14 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$117.1 million or 24 percent) may be used to meet the City's ongoing obligations to citizens and creditors. The \$117.1 million in unrestricted net position is comprised of \$102.5 million in governmental unrestricted net position and \$14.6 million in business-type unrestricted net position. The governmental unrestricted net position includes many assets that are not currently available for spending. The unrestricted business-type net position are funds that have been collected from water and sewer rate payers, and are needed to fund ongoing water and sewer operating and capital needs.

The table below summarizes the City's net position:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2013/14</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2012/13</u>
Current and other assets	\$ 151,488,628	\$ 139,828,671	\$ 46,932,286	\$ 32,014,987	\$ 198,420,914	\$ 171,843,658
Capital assets	<u>259,267,675</u>	<u>259,615,006</u>	<u>85,793,341</u>	<u>85,362,484</u>	<u>345,061,016</u>	<u>344,977,490</u>
<b>Total Assets</b>	<b>\$ 410,756,303</b>	<b>\$ 399,443,677</b>	<b>\$ 132,725,627</b>	<b>\$ 117,377,471</b>	<b>\$ 543,481,930</b>	<b>\$ 516,821,148</b>
Long-term liabilities	\$ 22,146,679	\$ 23,336,441	\$ 35,661,044	\$ 23,612,139	\$ 57,807,723	\$ 46,948,580
Other liabilities	<u>4,295,300</u>	<u>4,580,164</u>	<u>1,834,261</u>	<u>1,492,681</u>	<u>6,129,561</u>	<u>6,072,845</u>
<b>Total Liabilities</b>	<b>\$ 26,441,979</b>	<b>\$ 27,916,605</b>	<b>\$ 37,495,305</b>	<b>\$ 25,104,820</b>	<b>\$ 63,937,284</b>	<b>\$ 53,021,425</b>
<i>Net assets:</i>						
Net investment in capital assets	\$ 243,272,964	\$ 243,502,678	\$ 53,811,487	\$ 64,290,517	\$ 297,084,451	\$ 307,793,195
Restricted	38,526,702	34,245,650	26,762,669	22,194,353	65,289,371	56,440,003
Unrestricted	<u>102,514,658</u>	<u>93,778,744</u>	<u>14,656,166</u>	<u>5,787,781</u>	<u>117,170,824</u>	<u>99,566,525</u>
<b>Total Net Position</b>	<b>\$ 384,314,324</b>	<b>\$ 371,527,072</b>	<b>\$ 95,230,322</b>	<b>\$ 92,272,651</b>	<b>\$ 479,544,646</b>	<b>\$ 463,799,723</b>

**Governmental activities:** The table above shows that total assets increased compared to the prior year, by \$26.6 million, almost all of the change in the increase is in current and other assets. The increase of \$10.9 million in Long-term liabilities relates to the new water revenue bond debt in business-type activities.

The table and charts on the next pages summarize major program expenses, program revenues used to fund specific expenditure programs, and general City revenues available for funding all City programs. In FY 13-14, property tax revenue saw a gain of about 1 percent, compared to FY 12-13. In FY 12-13, almost 45 percent of the property tax revenue was lost due to abolition of redevelopment, compared to FY 11-12, prior to abolishment.

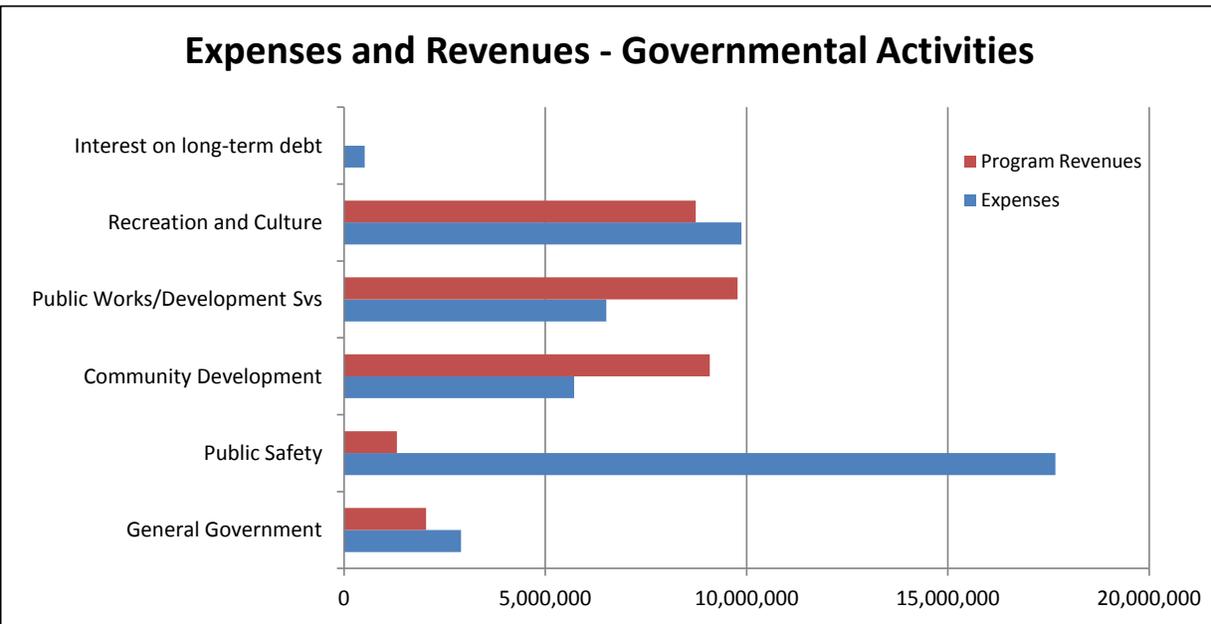
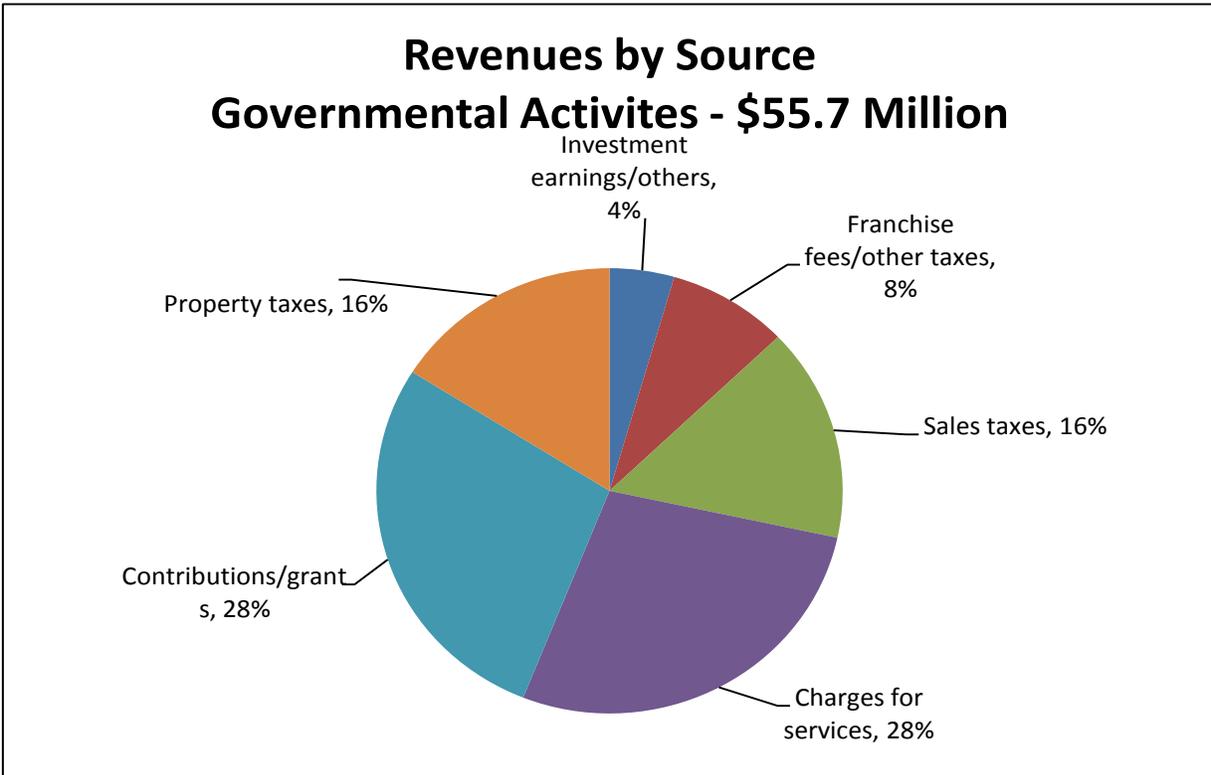
On the other hand, in contrast to its 20 percent decline in FY 09-10, sales tax revenue in FY 10-11 jumped by 24 percent, 18 percent in FY 11-12, 17 percent increase in FY 12-13, and 11 percent increase in FY13-14 as personal consumption continued its rebound, particularly in the transportation-related sector, on which the City depends heavily. For example, gasoline prices remained stable. With three freeway interchanges inside the City limits, and with the adjacent freeway interchanges to both the north and the south offering no services to motorists, the City receives sales tax revenue from gasoline purchases in a proportion twice that of the rest of the State.

Governmental expenses decreased from \$43.5 million in FY 12-13 to \$43.2 in FY 13-14. Public Safety expenses increased by \$0.4 million, a result of adding personnel. These additional costs were offset by a savings of \$.7 million by Community Development.

Overall, the change in the City's combined net position occurred almost entirely in the governmental activities category, with a modest increase in net position for business-type activities.

**CITY OF MORGAN HILL CHANGES IN NET POSITION**

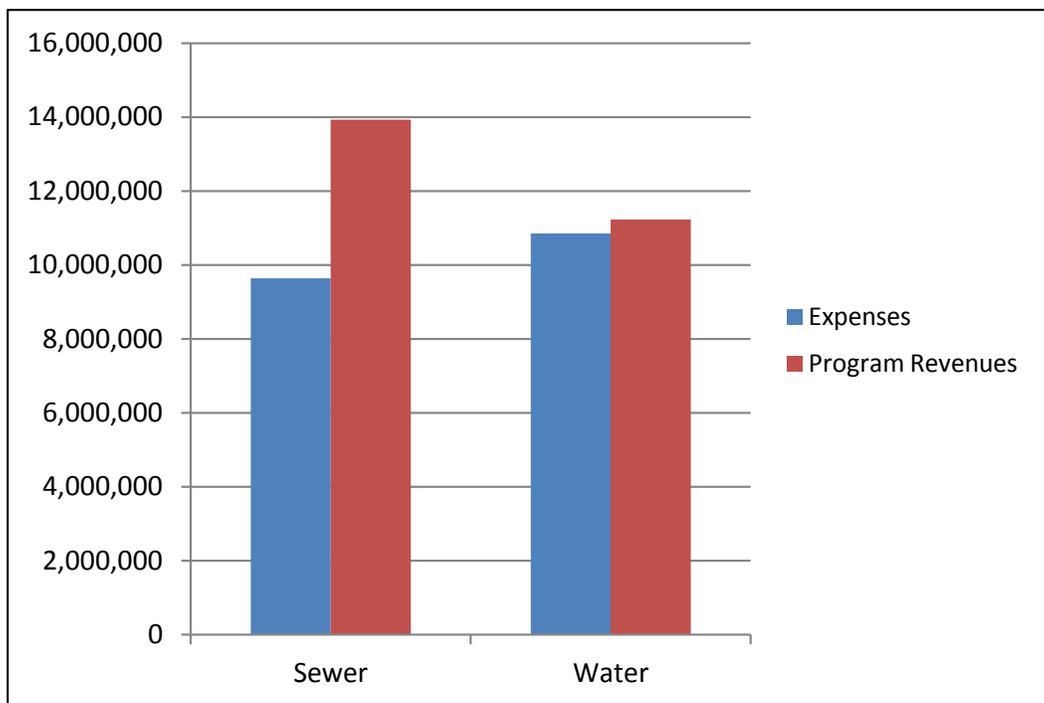
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2013/14</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2012/13</u>
<b>Revenues:</b>						
<i>Program Revenues:</i>						
Charges for services	\$ 15,401,376	\$ 11,226,281	\$ 25,153,755	\$ 23,246,955	\$40,555,131	\$ 34,473,236
Operating grants & contributions	4,601,340	3,227,567			4,601,340	3,227,567
Capital grants & contributions	10,942,471	12,024,593	946,507	1,399,261	11,888,978	13,423,854
<i>General Revenues:</i>						
Property taxes	8,933,340	8,867,646			8,933,340	8,867,646
Sales taxes	8,640,396	7,766,996			8,640,396	7,766,996
Franchise, hotel, & other taxes	3,786,751	3,359,018			3,786,751	3,359,018
Other general taxes/revenues	881,549	858,724			881,549	858,724
Unrestricted investment earnings	<u>2,494,499</u>	<u>1,424,940</u>	<u>174,824</u>	<u>119,266</u>	<u>2,669,323</u>	<u>1,544,206</u>
<b>Total Revenues</b>	<b><u>55,681,722</u></b>	<b><u>48,755,765</u></b>	<b><u>26,275,086</u></b>	<b><u>24,765,482</u></b>	<b><u>81,956,808</u></b>	<b><u>73,521,247</u></b>
<b>Expenses:</b>						
General Government	2,904,732	2,885,308			2,904,732	2,885,308
Public Safety	17,670,163	17,279,531			17,670,163	17,279,531
Community Development	5,717,704	6,435,624			5,717,704	6,435,624
Public Works/Development Services	6,516,103	6,249,886			6,516,103	6,249,886
Recreation and Culture	9,871,553	10,051,499			9,871,553	10,051,499
Interest on long-term debt	511,693	574,134			511,693	574,134
Sewer			9,642,194	9,942,911	9,642,194	9,942,911
Water			<u>10,851,273</u>	<u>10,438,233</u>	<u>10,851,273</u>	<u>10,438,233</u>
<b>Total Expenses</b>	<b><u>43,191,948</u></b>	<b><u>43,475,982</u></b>	<b><u>20,493,467</u></b>	<b><u>20,381,144</u></b>	<b><u>63,685,415</u></b>	<b><u>63,857,126</u></b>
Increase in net position before transfers	12,489,774	5,279,783	5,781,619	4,384,338	18,271,393	9,664,121
Transfers	<u>775,682</u>	<u>761,419</u>	<u>(775,682)</u>	<u>(761,419)</u>		
Increase/(decrease) in net position	<u>13,265,456</u>	<u>6,041,202</u>	<u>5,005,937</u>	<u>3,622,919</u>	<u>18,271,393</u>	<u>9,664,121</u>
Net position - beginning of year, restated	371,527,072	336,114,311	92,272,651	88,649,732	463,799,723	424,764,043
Restatement	<u>(478,204)</u>	<u>29,371,559</u>	<u>(2,048,266)</u>		<u>(2,526,470)</u>	<u>29,371,559</u>
Adjusted net position - beginning	<u>371,048,868</u>	<u>365,485,870</u>	<u>90,224,385</u>	<u>88,649,732</u>	<u>461,273,253</u>	<u>454,135,602</u>
<b>Net position - year-end</b>	<b><u>\$384,314,324</u></b>	<b><u>\$371,527,072</u></b>	<b><u>\$ 95,230,322</u></b>	<b><u>\$ 92,272,651</u></b>	<b><u>\$479,544,646</u></b>	<b><u>\$463,799,723</u></b>



**Business-type activities:** As noted in the preceding paragraph, business-type activities (water and wastewater) accounted for a modest increase of \$3 million of the City’s increase in net position. Expenditures saw a fractional change of less than a percent, compared to prior year. Revenue from charges for services in both the Water and Wastewater Funds increased by 8 percent, per scheduled annual mid-year rate increase. Scheduled water and wastewater rate increases effective each January 1 for 2014 through 2016 (6.25 percent annually for water; 3.5 percent annually for wastewater) are designed to keep both enterprise funds on the path to sound financial footing.

On January 17, 2014 State Governor, Edmund G. Brown, declared a drought state of emergency in California during the driest year in recorded state history, triggering water conservation efforts across state. As a result, the City Council enacted its stage 1 water restriction on April 2, 2014. This restriction only allows watering on Monday, Wednesday and Friday, to reduce water consumption. To date, Morgan Hill has been a leader in the County, consumption has been reduced almost 20% compared to the previous year. The reduced consumption has impacted revenues, though; it is too early to determine if there is a long-term effect.

During FY13-14, the City’s water activity consolidated existing debt by issuing new debt to fund future CIP projects.



**FINANCIAL ANALYSIS OF THE CITY’S FUNDS**

**GOVERNMENTAL FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2014, the City’s governmental funds reported combined ending fund balances of \$68.7 million, an increase of \$10.3 million in comparison with the prior fiscal year.

**General Fund**

The General Fund is the primary operating fund of the City. At the end of FY 13-14, total fund balance for the General Fund amounted to \$12.7 million, including \$12 million in unassigned fund balance.

During FY 13-14, General Fund revenues exceeded expenditures by \$1.5 million, due to combination of higher actual revenues and lower actual expenditures, than anticipated.

Significant changes in revenues and expenditures that affected the fund balance for the General Fund are as follows:

**a. Revenue Highlights**

Property tax revenue in the general fund was \$.4 million better than final budget. However, In comparison with prior year, the property tax revenue was over by \$1.5 million. That is due to additional property tax revenue payment which was received in FY12-13 primarily due to the dissolution of the Redevelopment Agency which re-distributed previous tax increment revenues to all County taxing agencies – including the City of Morgan Hill. Additional increases in property tax revenues reflect a combination of new growth and a cessation in the decline of assessed valuations for existing residential, commercial and industrial property.

Furthermore, sales tax revenue, after seeing a continuous jump of \$1 million for past three years, in FY13-14, fell shy of that \$1 million mark, at \$.8 million better than prior year, as residents of Morgan Hill and neighboring communities increased their personal consumption, and thus taxable sales within the City. An especially sharp rise in transportation-related sales (autos, light trucks, recreational vehicles and gasoline) contributed most of the City's sales tax revenue increase. Franchise, hotel, and other taxes grew by 13 percent because of increased hotel occupancy and room rates.

Charges for current services continued their climb upward, growing over 3 percent due to increased revenues associated with the Community Services Department's business and partnership model for recreational opportunities.

**b. Expenditure Highlights**

Expenditures saw a significant decrease of 11 percent from the prior year. This decrease is mainly due to higher FY12-13 expenditures, which included onetime capital purchase of two fire stations from the Santa Clara County Central Fire Protection District, and purchase of three fire trucks and additional fire fleet vehicles.

**c. Budgetary Highlights**

Over the course of the fiscal year, the City Council revised the City budget with adjustments that fell into one of the following three categories:

- Changes to adjust appropriations for capital project and encumbrance carryovers from the prior fiscal year
- Changes made during the fiscal year to align current year appropriations with unanticipated revenue

- Other revenue (usually grant revenues) and expenditure adjustments approved after the original budget was adopted

Budget adjustments approved by the City Council during FY 13-14 related primarily to projects and encumbrances carried over from the prior year, and grant-related activity.

After taking into account these adjustments, actual expenditures were less than final budget amounts by \$1.9 million, primarily from savings relating to the operations of the Police and Fire Departments.

**PROPRIETARY FUNDS**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at June 30, 2014, amounted to \$2.8 million for Sewer Operations and \$11.8 million for Water Operations. Water Operations' unrestricted net position increased by \$8.7 million compared to prior year, primarily due to the capital funds received from issuance of new debt for capital projects. In addition, the Sewer Impact capital projects fund had \$19.5 million in net position restricted for capital improvement and expansion, while the Water Impact capital projects fund had \$5.4 million for the same purpose.

**FIDUCIARY FUNDS**

During FY 13-14, the Successor Agency issued Refunding Revenue Bonds Series 2013 A & B (Taxable) to refund and defease the Morgan Hill Redevelopment Agency's previously issued variable rate tax allocation bonds, Series 2008 A & B (Taxable). The previous bonds were variable rate bonds, Federal Reserve's stated intent to keep short-term interest rates low until at least 2015, worked in the Agency's favor, along with the interest rate cap purchased by the Agency. This strategic decision was merely made as a risk reduction decision for the Agency, should the interest rates take a spike upwards, it was important and beneficial for the Agency to refund and defease the 2008 bonds, by issuing refunding bonds at a low, fixed interest rate.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:** The City's capital assets for its governmental activities as of June 30, 2014, amounted to \$259.3 million (net of accumulated depreciation), as summarized below. The capital assets included land, buildings, park and roadway improvements, vehicles and other equipment, infrastructure, and construction in progress, as summarized in the schedule below.

<u>Item:</u>	<b>Governmental Activities June 30, 2014</b>
Land	\$ 40,071,442
Buildings & Other Improvements	115,019,232
Machinery, Equipment, & Vehicles	7,042,141
Infrastructure	89,735,724
Construction In Progress	<u>7,399,136</u>
Total Governmental Capital Assets	<u>\$ 259,267,675</u>

**Major capital asset events, in both activities, during the fiscal year included the following:**

Council Chamber Relocation	\$ 1,564,012
Barrett Sewer Line, Phase II	1,477,314
Llagas Flood control	1,031,657
East Dunne/Hill Road, Phase III	711,665

More detailed information concerning capital assets may be found in Note 5 beginning on page 52.

**LONG-TERM DEBT**

At the end of FY 13-14, the City had long-term debt outstanding of \$57.8 million. Of this amount, \$6.3 million represented debt to be paid directly from general City revenues and is related to employee services. A total of \$5.9 million in debt, associated with the acquisition and construction of the new police facility acquired in 2004, and a total of \$4.9 million in debt associated with the construction of the new library (completed in 2007) and other Civic Center improvements, were secured by certain bond accounts held by a trustee and by rental payments to be made by the City, under subleases between the City and the Morgan Hill Financing Authority, subject to City appropriation pledges. In the past the General Fund backstopped the revenue streams supporting these subleases. For example, during the Great Recession police impact fees fell to levels lower than anticipated at the time of debt issuance for the new police facilities, so the General Fund was forced to make a loan to the police impact fee fund in order for the latter to make its sublease payments for debt service.

The remaining \$35.7 million of the City's debt is almost all for bonds secured solely by specified water and sewer revenue sources. The City of Morgan Hill issued new debt in the Water business-type activity. A strategic decision was made to use these bond proceeds to consolidate debt and have an addition of \$13 million of the proceeds for future water activity capital projects. Additional detailed information on long-term debt can be found in Note 8, of the Notes Section, on page 62.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Morgan Hill, Finance Department, 17575 Peak Avenue, Morgan Hill, CA 95037.



**CITY OF MORGAN HILL**

# Basic Financial Statements



**CITY OF MORGAN HILL**

# Government-Wide Financial Statements



**CITY OF MORGAN HILL**

**City of Morgan Hill  
Statement of Net Position  
June 30, 2014**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>MH Corporation Yard Commission</b>
<b>Assets</b>				
Pooled cash and investments (Note 4)	\$ 69,353,479	\$ 17,098,432	\$ 86,451,911	\$ 648
Restricted pooled cash and investments	2,122,254	25,038,964	27,161,218	
Cash and investments with fiscal agents	875,931	1,849,400	2,725,331	
Receivables:				
Accrued interest	32,949	13,958	46,907	
Other accounts receivable	2,425,399	2,882,117	5,307,516	11
Deposit in Escrow/Prepaid items	123,610		123,610	
Loans receivable (Note 6)	76,533,423	49,215	76,582,638	
Prepaid expense	21,583	200	21,783	176
Capital assets, Net (Note 5)				
Non-Depreciable	47,470,578	2,677,920	50,148,498	
Depreciable	211,797,097	73,108,567	284,905,664	172,133
Sewer capacity rights (Note 8)		10,006,854	10,006,854	
<b>Total Assets</b>	<b>410,756,303</b>	<b>132,725,627</b>	<b>543,481,930</b>	<b>172,968</b>
<b>Liabilities</b>				
Accounts payable	1,264,777	1,387,211	2,651,988	578
Accrued liabilities	2,352,409	363,057	2,715,466	
Customer and other deposits	390,167	83,993	474,160	
Unearned revenue	287,947		287,947	
Non-current liabilities (Notes 7 & 8)				
Due within one year	617,770	1,985,000	2,602,770	
Due in more than one year	21,528,909	33,676,044	55,204,953	
<b>Total Liabilities</b>	<b>26,441,979</b>	<b>37,495,305</b>	<b>63,937,284</b>	<b>578</b>
<b>Net Position (Note 13)</b>				
Net investment in capital assets	243,272,964	53,811,487	297,084,451	172,133
Restricted for:				
Capital expansion projects	37,918,268	24,913,269	62,831,537	
Debt service	608,434	1,849,400	2,457,834	
Unrestricted	102,514,658	14,656,166	117,170,824	257
<b>Total Net Position</b>	<b>\$ 384,314,324</b>	<b>\$ 95,230,322</b>	<b>\$ 479,544,646</b>	<b>\$ 172,390</b>

See accompanying notes to basic financial statements

**City of Morgan Hill  
Statement of Activities  
For the Fiscal Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Corporation Yard
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 2,904,732	\$ 1,927,610	\$ 106,055	\$ -	\$ (871,067)	\$ -	\$ (871,067)	\$ -
Public safety	17,670,163	738,424	92,036	481,050	(16,358,653)		(16,358,653)	
Community development	5,717,704	6,719,080	2,364,398	(60)	3,365,714		3,365,714	
PW/development public service	6,516,103	181,583	1,312,491	8,284,135	3,262,106		3,262,106	
Recreation & culture	9,871,553	5,834,679	726,360	2,177,346	(1,133,168)		(1,133,168)	
Interest on long-term debt	511,693				(511,693)		(511,693)	
Total government activities	<u>43,191,948</u>	<u>15,401,376</u>	<u>4,601,340</u>	<u>10,942,471</u>	<u>(12,246,761)</u>		<u>(12,246,761)</u>	
Business-type activities:								
Sewer	9,642,194	13,927,768				4,285,574	4,285,574	
Water	10,851,273	11,225,987		946,507		1,321,221	1,321,221	
Total business-type activities	<u>20,493,467</u>	<u>25,153,755</u>		<u>946,507</u>		<u>5,606,795</u>	<u>5,606,795</u>	
Total primary government	<u>\$ 63,685,415</u>	<u>\$ 40,555,131</u>	<u>\$ 4,601,340</u>	<u>\$ 11,888,978</u>	<u>(12,246,761)</u>	<u>5,606,795</u>	<u>(6,639,966)</u>	
<b>Component unit:</b>								
Corporation Yard	<u>\$ 30,326</u>	<u>\$ 24,653</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(5,673)</u>
General revenues:								
Property taxes					8,933,340		8,933,340	
Sales taxes					8,640,396		8,640,396	
Franchise taxes					3,786,751		3,786,751	
Other general revenues/taxes					881,549		881,549	
Unrestricted investment earnings					2,494,499	174,824	2,669,323	83
Transfers					775,682	(775,682)		
Total general revenues and transfers					<u>25,512,217</u>	<u>(600,858)</u>	<u>24,911,359</u>	<u>83</u>
Change in net position					<u>13,265,456</u>	<u>5,005,937</u>	<u>18,271,393</u>	<u>(5,590)</u>
Net position - beginning					371,527,072	92,272,651	463,799,723	177,980
Restatement					(478,204)	(2,048,266)	(2,526,470)	
Net position - beginning, restated					<u>371,048,868</u>	<u>90,224,385</u>	<u>461,273,253</u>	<u>177,980</u>
Net position - ending					<u>\$ 384,314,324</u>	<u>\$ 95,230,322</u>	<u>\$ 479,544,646</u>	<u>\$ 172,390</u>

See accompanying notes to basic financial statements

# Fund Financial Statements



**CITY OF MORGAN HILL**

City of Morgan Hill  
Balance Sheet  
Governmental Funds  
June 30, 2014

	General	Community Development	Housing	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Pooled cash and investments	\$ 11,313,374	\$ 3,719,174	\$ -	\$ 44,660,171	\$ 59,692,719
Restricted pooled cash and investments			2,116,871	5,383	2,122,254
Cash and investments with fiscal agents				875,931	875,931
Receivables:					
Accrued interest	5,365	1,675	1,000	20,342	28,382
Other accounts receivable	2,294,670	141	2,082	25,935	2,322,828
Deposit in escrow/prepaid items				123,610	123,610
Loans receivable			72,910,670	3,622,753	76,533,423
Due from other funds	913	44,082			44,995
Advances receivable	668,362			64,646	733,008
Prepaid expenditures	21,083	500			21,583
<b>Total Assets</b>	<b>\$ 14,303,767</b>	<b>\$ 3,765,572</b>	<b>\$ 75,030,623</b>	<b>\$ 49,398,771</b>	<b>\$ 142,498,733</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 476,073	\$ 74,016	\$ 13	\$ 444,629	\$ 994,731
Accrued liabilities	761,917	53,005	4,415	110,882	930,219
Due to other funds				44,995	44,995
Advances payable				733,008	733,008
Unearned revenue	287,947				287,947
Customer and other deposits	63,228	324,939	2,000		390,167
<b>Total Liabilities</b>	<b>1,589,165</b>	<b>451,960</b>	<b>6,428</b>	<b>1,333,514</b>	<b>3,381,067</b>
<b>Deferred Inflows of Resources:</b>					
Unavailable loans receivable			66,794,848	3,622,753	70,417,601
<b>Total Deferred Inflows of Resources</b>			<b>66,794,848</b>	<b>3,622,753</b>	<b>70,417,601</b>
Fund Balances:					
Nonspendable:					
Prepaid expenditures	21,083	500			21,583
Advances receivable	668,362				668,362
Restricted:					
Community services				6,046,931	6,046,931
Parks and recreation				19,048,244	19,048,244
Streets and highways				11,875,750	11,875,750
Debt service				860,275	860,275
Public safety				4,962,563	4,962,563
Environmental services				536,621	536,621
Community development		3,313,112	8,229,347	1,750,491	13,292,950
Other purposes				78,271	78,271
Unassigned	12,025,157			(716,642)	11,308,515
<b>Total Fund Balances</b>	<b>12,714,602</b>	<b>3,313,612</b>	<b>8,229,347</b>	<b>44,442,504</b>	<b>68,700,065</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 14,303,767</b>	<b>\$ 3,765,572</b>	<b>\$ 75,030,623</b>	<b>\$ 49,398,771</b>	<b>\$ 142,498,733</b>

See accompanying notes to basic financial statements

**City of Morgan Hill**  
**Reconciliation of the Governmental Funds - Balance Sheet**  
**To the Statement of Net Position**  
**For the Fiscal Year Ended June 30, 2014**

Total fund balances - governmental funds \$ 68,700,065

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

Capital assets at historical cost	\$	358,805,454	
Accumulated depreciation		<u>(101,461,465)</u>	
Net			257,343,989

Internal service funds are used by management to charge the costs of building maintenance, management information systems, fleet management, general liability, workers' compensation, and CIP administration to the individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 8,560,351

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statements, it is recognized in the period that it is incurred. (251,841)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Bonds payable - Library/Civic Center	\$	4,880,309	
Bonds payable - Police		5,963,558	
Capital lease - Fire House		2,800,619	
Capital lease - Fire Equipment		2,293,911	
CalPERS side fund		3,768,456	
OPEB payable		<u>748,988</u>	
Total			(20,455,841)

Certain revenues in the governmental funds are deferred because the revenues are not collected within the prescribed time period after fiscal year-end. However, the revenues are included on the accrual basis used in the government-wide financial statements. 70,417,601

Total net position - governmental activities \$ 384,314,324

See accompanying notes to basic financial statements

**City of Morgan Hill**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Community Development</u>	<u>Housing</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Property taxes and special assessments	\$ 7,782,990	\$ -	\$ 1,150,350	\$ 181,583	\$ 9,114,923
Sales taxes	8,640,396				8,640,396
Franchise, hotel and other taxes	3,786,751				3,786,751
Licenses and permits	182,302				182,302
Funding from other governmental agencies	881,549			3,598,810	4,480,359
Charges for current services	7,344,568	5,188,262		8,328,493	20,861,323
Investment income and rentals	1,225,504	15,503	207,961	297,434	1,746,402
Other revenues	405,525	1,430	781,575	28,961	1,217,491
<b>Total Revenues</b>	<b><u>30,249,585</u></b>	<b><u>5,205,195</u></b>	<b><u>2,139,886</u></b>	<b><u>12,435,281</u></b>	<b><u>50,029,947</u></b>
<b>Expenditures</b>					
Current					
General government	2,923,290			47,013	2,970,303
Public safety	17,224,791			14,313	17,239,104
Community development	70,195	3,394,363		1,789,838	5,254,396
Housing services			1,454,793		1,454,793
Streets and highways	1,829,648			202,289	2,031,937
Parks and recreation	6,538,406			32,545	6,570,951
Other public services	209,855			309,723	519,578
Capital outlay					
Construction projects				3,613,722	3,613,722
Debt service					
Principal				300,000	300,000
Interest and fiscal charges				486,148	486,148
<b>Total Expenditures</b>	<b><u>28,796,185</u></b>	<b><u>3,394,363</u></b>	<b><u>1,454,793</u></b>	<b><u>6,795,591</u></b>	<b><u>40,440,932</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>1,453,400</u>	<u>1,810,832</u>	<u>685,093</u>	<u>5,639,690</u>	<u>9,589,015</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	1,882,765	90,000		1,973,964	3,946,729
Transfers out	(1,205,780)	(176,358)	(31,511)	(1,863,383)	(3,277,032)
Total other financing sources and uses	<u>676,985</u>	<u>(86,358)</u>	<u>(31,511)</u>	<u>110,581</u>	<u>669,697</u>
Net change in fund balances	2,130,385	1,724,474	653,582	5,750,271	10,258,712
Fund Balances - Beginning	10,584,217	1,589,138	7,575,765	38,692,233	58,441,353
<b>Fund Balances - Ending</b>	<b><u>\$ 12,714,602</u></b>	<b><u>\$ 3,313,612</u></b>	<b><u>\$ 8,229,347</u></b>	<b><u>\$ 44,442,504</u></b>	<b><u>\$ 68,700,065</u></b>

See accompanying notes to basic financial statements

**City of Morgan Hill  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balances of Governmental Funds  
 To the Statement of Activities  
 For the Fiscal Year Ended June 30, 2014**

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

Net change in fund balances-total governmental funds	\$ 10,258,712
Governmental funds report capital outlay as expenditures. This is the amount of capital outlay that has been recorded as an asset on the statement of net position.	3,693,308
Governmental funds report loans as an expenditure. Loans issued in the current fiscal year are reported as an asset on the statement of net position.	2,220,981
Governmental funds report the payment of debt service as an expenditure net of bond discount amortization. Payments for debt service reduce liabilities on the statement of net position.	1,828,894
The value of donated infrastructure assets are recognized as a revenue on the statement of activities.	3,803,432
Revenues in the statement of activities that do not provide current financial resources are reported as a revenue, instead of a liability, on the statement of activities.	(532,185)
Liabilities for expenditures, even though not requiring the use of current financial resources, are reported on the statement of activities.	(151,870)
Depreciation expense is reported in connection with all of a government's depreciable assets.	(8,406,487)
Net profit (loss) from Internal Service Funds need to be added to the government wide statement of activities	<u>550,671</u>
	<u><u>\$ 13,265,456</u></u>

See accompanying notes to basic financial statements

City of Morgan Hill  
Proprietary Funds  
Statement of Net Position  
June 30, 2014

	Business-type Activities			
	Enterprise Funds			
	Sewer Operations	Sewer Impact	Wastewater Financing Corp	Water Operations
<b>Assets</b>				
Current assets:				
Pooled cash and investment (Note 4)	\$ 5,649,910	\$ -	\$ -	\$ 11,448,522
Restricted pooled cash and investments		19,598,974		
Cash with fiscal agents	1,849,400			
Receivables:				
Accrued interest	2,487	5,033		4,367
Other accounts receivable	1,304,668	52,982		1,524,467
Notes receivable - current		49,215		
Prepaid expenses				200
Total current assets	<u>8,806,465</u>	<u>19,706,204</u>		<u>12,977,556</u>
Noncurrent assets:				
Capital assets, net (Note 5)				
Non-Depreciable		110,846		2,423,215
Depreciable	18,503,586	17,859,315		30,011,650
Sewer capacity rights (Note 9)	10,006,854			
Total noncurrent assets	<u>28,510,440</u>	<u>17,970,161</u>		<u>32,434,865</u>
<b>Total Assets</b>	<b><u>37,316,905</u></b>	<b><u>37,676,365</u></b>		<b><u>45,412,421</u></b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	545,569	174,071		608,173
Accrued liabilities	34,445			328,612
Customer deposits and unearned revenue		1,527		82,466
Current obligations for:				
Bonds payable				497,000
Capacity rights payable	1,275,000			
Lease obligation				
Compensated absences				
Total current liabilities	<u>1,855,014</u>	<u>175,598</u>		<u>1,516,251</u>
Noncurrent liabilities:				
Long term obligations for:				
Bonds payable (Note 8)				14,885,500
Lease obligation				
OPEB payable	86,378			116,006
Compensated absences (Note 8)				
Capacity rights payable (Note 8)	12,208,660			
Total noncurrent liabilities	<u>12,295,038</u>			<u>15,001,506</u>
<b>Total Liabilities</b>	<b><u>14,150,052</u></b>	<b><u>175,598</u></b>		<b><u>16,517,757</u></b>
Net Position: (Note 13)				
Net investment in capital assets	18,503,586	17,970,161		17,052,365
Restricted net position-debt service	1,849,400			
Restricted net position for capital expansion		19,530,606		
Unrestricted	2,813,867			11,842,299
<b>Total Net Position</b>	<b><u>\$ 23,166,853</u></b>	<b><u>\$ 37,500,767</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 28,894,664</u></b>

See accompanying notes to basic financial statements

continued...

City of Morgan Hill  
Proprietary Funds  
Statement of Net Position  
June 30, 2014

	Business-type Activities			Governmental Activities Internal Service Funds
	Enterprise Funds (continued)			
	Water Impact	Eliminations	Totals	
<b>Assets</b>				
Current assets:				
Pooled cash and investment (Note 4)	\$ -	\$ -	\$ 17,098,432	\$ 9,660,760
Restricted pooled cash and investments	5,439,990		25,038,964	
Cash with fiscal agents			1,849,400	
Receivables:				
Accrued interest	2,071		13,958	4,567
Other accounts receivable			2,882,117	102,571
Notes receivable - current			49,215	
Prepaid expenses			200	
Total current assets	<u>5,442,061</u>	<u></u>	<u>46,932,286</u>	<u>9,767,898</u>
Noncurrent assets:				
Capital assets, net (Note 5)				
Non-Depreciable	143,859		2,677,920	
Depreciable	6,734,016		73,108,567	1,923,686
Sewer capacity rights (Note 9)			10,006,854	
Total noncurrent assets	<u>6,877,875</u>	<u></u>	<u>85,793,341</u>	<u>1,923,686</u>
<b>Total Assets</b>	<b><u>12,319,936</u></b>	<b><u></u></b>	<b><u>132,725,627</u></b>	<b><u>11,691,584</u></b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	59,398		1,387,211	270,046
Accrued liabilities			363,057	1,170,349
Customer deposits and unearned revenue			83,993	
Current obligations for:				
Bonds payable	213,000		710,000	
Capacity rights payable			1,275,000	
Lease obligation				16,709
Compensated absences				475,380
Total current liabilities	<u>272,398</u>	<u></u>	<u>3,819,261</u>	<u>1,932,484</u>
Noncurrent liabilities:				
Long term obligations for:				
Bonds payable (Note 8)	6,379,500		21,265,000	
Lease obligation				39,605
OPEB payable			202,384	83,281
Compensated absences (Note 9)				1,075,863
Capacity rights payable (Note 8)			12,208,660	
Total noncurrent liabilities	<u>6,379,500</u>	<u></u>	<u>33,676,044</u>	<u>1,198,749</u>
<b>Total Liabilities</b>	<b><u>6,651,898</u></b>	<b><u></u></b>	<b><u>37,495,305</u></b>	<b><u>3,131,233</u></b>
Net Position: (Note 13)				
Net investment in capital assets	285,375		53,811,487	1,867,372
Restricted net position-debt service			1,849,400	
Restricted net position for capital expansion	5,382,663		24,913,269	
Unrestricted			14,656,166	6,692,979
<b>Total Net Position</b>	<b><u>\$ 5,668,038</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 95,230,322</u></b>	<b><u>\$ 8,560,351</u></b>

See accompanying notes to basic financial statements

City of Morgan Hill  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
For the Fiscal Year Ended June 30, 2014

	Business-type Activities			
	Enterprise Funds			
	Sewer Operations	Sewer Impact	Wastewater Financing Corp	Water Operations
<b>Operating Revenues:</b>				
Charges for current services	\$ 10,343,725	\$ 3,584,043	\$ -	\$ 10,174,021
Interest and rentals			125,893	
<b>Total Operating Revenues</b>	<b>10,343,725</b>	<b>3,584,043</b>	<b>125,893</b>	<b>10,174,021</b>
<b>Operating expenses:</b>				
Salaries and benefits	1,810,892			2,462,376
Utilities and taxes				3,470,702
Operations and maintenance	3,679,330	7,175		1,121,344
Depreciation	1,435,121	720,548		2,163,007
Amortization of sewer capacity rights	944,917			
Administrative charges	491,073	5,506		575,341
<b>Total Operating expenses</b>	<b>8,361,333</b>	<b>733,229</b>		<b>9,792,770</b>
Operating Income (Loss)	1,982,392	2,850,814	125,893	381,251
<b>Nonoperating revenues (expenses):</b>				
Investment earnings	23,372	75,620		43,573
Interest (expense)	(375,436)	(172,196)	(125,893)	(416,817)
Total nonoperating revenues (expenses)	(352,064)	(96,576)	(125,893)	(373,244)
Income (loss) before operating transfers and contributions	1,630,328	2,754,238		8,007
Capital Contributions				946,507
Transfers In (Out)	(543,236)	(2,814)		(2,483,647)
Change in net position	1,087,092	2,751,424		(1,529,133)
Total Net Position-Beginning	23,071,281	35,160,872		30,894,204
Restatement	(991,520)	(411,529)		(470,407)
Total Net Position-Beginning, Restated	22,079,761	34,749,343		30,423,797
<b>Total Net Position-Ending</b>	<b>\$ 23,166,853</b>	<b>\$ 37,500,767</b>	<b>\$ -</b>	<b>\$ 28,894,664</b>

See accompanying notes to basic financial statements

continued...

City of Morgan Hill  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
For the Fiscal Year Ended June 30, 2014

	Business-type Activities Enterprise Funds (continued)			Governmental Activities Internal Service Funds
	Water Impact	Eliminations	Totals	
<b>Operating Revenues:</b>				
Charges for current services	\$ 1,051,966	\$ -	\$ 25,153,755	\$ 7,034,816
Interest and rentals		(125,893)		159,548
<b>Total Operating Revenues</b>	<b>1,051,966</b>	<b>(125,893)</b>	<b>25,153,755</b>	<b>7,194,364</b>
<b>Operating expenses:</b>				
Salaries and benefits			4,273,268	2,392,694
Utilities and taxes			3,470,702	738,429
Operations and maintenance	4,515		4,812,364	2,844,361
Depreciation	328,742		4,647,418	445,240
Amortization of sewer capacity rights			944,917	
Administrative charges	2,524		1,074,444	379,890
<b>Total Operating expenses</b>	<b>335,781</b>		<b>19,223,113</b>	<b>6,800,614</b>
Operating Income (Loss)	716,185	(125,893)	5,930,642	393,750
<b>Nonoperating revenues (expenses):</b>				
Investment earnings	32,259		174,824	50,936
Interest (expense)	(305,905)	125,893	(1,270,354)	
Total nonoperating revenues (expenses)	(273,646)	125,893	(1,095,530)	50,936
Income (loss) before operating transfers and contributions	442,539		4,835,112	444,686
Capital Contributions			946,507	
Transfers In (Out)	2,254,015		(775,682)	105,985
Change in net position	2,696,554		5,005,937	550,671
Total Net Position-Beginning	3,146,294		92,272,651	8,009,680
Restatement	(174,810)		(2,048,266)	
Total Net Position-Beginning, Restated	2,971,484		90,224,385	8,009,680
<b>Total Net Position-Ending</b>	<b>\$ 5,668,038</b>	<b>\$ -</b>	<b>\$ 95,230,322</b>	<b>\$ 8,560,351</b>

See accompanying notes to basic financial statements

**City of Morgan Hill**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Business-Type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>Sewer</b>	<b>Sewer Impact</b>	<b>Water</b>
Cash Flows from Operating activities			
Receipts from customers and users	\$ 10,316,686	\$ 3,558,302	\$ 10,574,683
Payments for supplies and services	(3,334,027)	17,251	(4,282,241)
Payments to employees	(1,795,744)		(2,441,015)
Payments for interfund services	(491,073)	(5,506)	(575,341)
Net cash provided (used) by operating activities	<u>4,695,842</u>	<u>3,570,047</u>	<u>3,276,086</u>
Cash Flows From Noncapital Financing Activities			
Transfers in (out)	(543,236)	(2,814)	(2,483,647)
Net cash provided (used) by noncapital and financing activities	<u>(543,236)</u>	<u>(2,814)</u>	<u>(2,483,647)</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from capital lease			15,382,500
Proceeds from refunding bond			(1,646,950)
Acquisition and construction of capital assets	(1,348,212)	(1,889,785)	(5,347,413)
Principal paid on debt	(1,245,457)		(416,817)
Interest paid on debt	(375,436)	(172,196)	7,971,320
Net cash provided (used) by capital and related financing activities	<u>(2,969,105)</u>	<u>(2,061,981)</u>	<u>7,971,320</u>
Cash Flows From Investing Activities			
Interest earnings	22,642	79,895	40,308
Net cash provided (used) by investing activities	<u>22,642</u>	<u>79,895</u>	<u>40,308</u>
Net increase in cash and cash equivalents	<u>1,206,143</u>	<u>1,585,147</u>	<u>8,804,067</u>
Cash and cash equivalents, July 1, 2013	5,881,638	18,425,356	2,644,455
Restatement	411,529	(411,529)	
Cash and cash equivalents, July 1, 2013-restated	<u>6,293,167</u>	<u>18,013,827</u>	<u>2,644,455</u>
<b>Cash and Cash equivalents, June 30, 2014</b>	<b><u>\$ 7,499,310</u></b>	<b><u>\$ 19,598,974</u></b>	<b><u>\$ 11,448,522</u></b>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ 1,982,392	\$ 2,850,814	\$ 381,251
Adjustments to reconcile:			
Depreciation expense	1,435,121	720,548	2,163,007
Amortization of sewer capacity rights	944,917		
(Increase) decrease in accounts receivable	(27,039)	(43,772)	388,593
(Increase) decrease in prepaid expenses			(200)
(Increase) decrease in notes receivables		16,504	
Increase (decrease) in customer deposits		1,527	12,069
Increase (decrease) in accounts payable	345,303	24,426	310,005
Increase (decrease) in compensated absences			
Increase (decrease) in OPEB payable	15,148		21,361
Total adjustments	<u>2,713,450</u>	<u>719,233</u>	<u>2,894,835</u>
Net cash provided (used) by operating activities	<b><u>\$ 4,695,842</u></b>	<b><u>\$ 3,570,047</u></b>	<b><u>\$ 3,276,086</u></b>
Non-Cash Investing, Capital and Financing Related Activity			
Non-cash capital contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 946,507</u>

See accompanying notes to basic financial statements

continued....

**City of Morgan Hill**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Business-Type Activities</b>		<b>Governmental</b>
	<b>Enterprise Funds (continued)</b>		<b>Activities</b>
	<b>Water</b>		<b>Internal Service</b>
	<b>Impact</b>	<b>Total</b>	<b>Funds</b>
Cash Flows from Operating activities			
Receipts from customers and users	\$ 1,051,966	\$ 25,501,637	\$ 7,091,850
Payments for supplies and services	(356,265)	(7,955,282)	(3,224,029)
Payments to employees		(4,236,759)	(2,357,624)
Payments for interfund services	(2,524)	(1,074,444)	(379,890)
Net cash provided (used) by operating activities	<u>693,177</u>	<u>12,235,152</u>	<u>1,130,307</u>
Cash Flows From Noncapital Financing Activities			
Transfers in (out)	<u>2,254,015</u>	<u>(775,682)</u>	<u>105,985</u>
Net cash provided (used) by noncapital and financing activities	<u>2,254,015</u>	<u>(775,682)</u>	<u>105,985</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from capital lease			18,326
Proceeds from refunding bond	6,592,500	21,975,000	
Acquisition and construction of capital assets	(191,738)	(5,076,685)	(1,007,656)
Principal paid on debt	(5,418,000)	(12,010,870)	(18,851)
Interest paid on debt	(305,905)	(1,270,354)	
Net cash provided (used) by capital and related financing activities	<u>676,857</u>	<u>3,617,091</u>	<u>(1,008,181)</u>
Cash Flows From Investing Activities			
Interest earnings	<u>30,685</u>	<u>173,530</u>	<u>50,404</u>
Net cash provided (used) by investing activities	<u>30,685</u>	<u>173,530</u>	<u>50,404</u>
Net increase in cash and cash equivalents	<u>3,654,734</u>	<u>15,250,091</u>	<u>278,515</u>
Cash and cash equivalents, July 1, 2013	1,785,256	28,736,705	9,382,245
Restatement			
Cash and cash equivalents, July 1, 2013-restated	<u>1,785,256</u>	<u>28,736,705</u>	<u>9,382,245</u>
<b>Cash and Cash equivalents, June 30, 2014</b>	<b><u>\$ 5,439,990</u></b>	<b><u>\$ 43,986,796</u></b>	<b><u>\$ 9,660,760</u></b>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	<u>\$ 716,185</u>	<u>\$ 5,930,642</u>	<u>\$ 393,750</u>
Adjustments to reconcile:			
Depreciation expense	328,742	4,647,418	445,240
Amortization of sewer capacity rights		944,917	
(Increase) decrease in accounts receivable		317,782	(102,514)
(Increase) decrease in prepaid expenses		(200)	66,770
(Increase) decrease in notes receivables		16,504	
Increase (decrease) in customer deposits		13,596	
Increase (decrease) in accounts payable	(351,750)	327,984	291,991
Increase (decrease) in compensated absences			21,370
Increase (decrease) in OPEB payable		36,509	13,700
Total adjustments	<u>(23,008)</u>	<u>6,304,510</u>	<u>736,557</u>
Net cash provided (used) by operating activities	<u>\$ 693,177</u>	<u>\$ 12,235,152</u>	<u>\$ 1,130,307</u>
	<u>\$ -</u>	<u>\$ 946,507</u>	<u>\$ -</u>

See accompanying notes to basic financial statements

City of Morgan Hill  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2014

	<u>Private- Purpose Trust Fund</u>	
	<u>Successor Agency</u>	<u>Agency Funds</u>
<b><u>Assets:</u></b>		
Pooled cash and investments	\$ 22,556,948	\$ 3,286,987
Cash and investments with fiscal agents	12,945,458	1,785,053
Accounts receivable	19,135	19,776
Interest receivable	(128)	
Deposit in escrow/prepaid items	47,547	
Loans receivable, net	3,064,477	
Option deposit	1,705,000	
Investment in properties held for resale	71,049	
Capital assets, net		
Non-depreciable	21,636,298	
Depreciable	16,479,388	
<b>Total Assets</b>	<b><u>78,525,172</u></b>	<b><u>\$ 5,091,816</u></b>
<b><u>Liabilities</u></b>		
Accounts payable	65,337	6,952
Accrued liabilities	38,223	
Customer and other deposits		5,084,864
Unearned revenue	166,399	
Interest payable	1,296,586	
Non-current liabilities:		
Due within one year	4,050,000	
Due in more than one year	97,325,472	
<b>Total Liabilities</b>	<b><u>102,942,017</u></b>	<b><u>\$ 5,091,816</u></b>
<b><u>Net Position</u></b>		
Held (deficit) in trust	<b><u>\$ (24,416,845)</u></b>	

See accompanying notes to basic financial statements

**City of Morgan Hill**  
**Statement of Changes in Fiduciary Net Position**  
**Private Purpose Trust Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Private- Purpose Trust Fund</b>
	<b>Successor Agency</b>
<b><u>Additions:</u></b>	
Property tax	\$ 9,485,423
Grant/Project reimbursements	10,085
Other	5,683
Interest and rentals	187,181
Total additions	<b><u>9,688,372</u></b>
<b><u>Deductions:</u></b>	
Community development	2,962,994
Interest expense	2,047,217
Issuance cost	1,664,156
Depreciation expense	1,724,433
Total deductions	<b><u>8,398,800</u></b>
Change in net position	<b><u>1,289,572</u></b>
Total net position-beginning	(24,615,492)
Restatement	(1,090,925)
Total net position-beginning, restated	<b><u>(25,706,417)</u></b>
<b>Total net position-ending</b>	<b><u>\$ (24,416,845)</u></b>

See accompanying notes to basic financial statements

**1. DEFINITION OF THE REPORTING ENTITY**

The City of Morgan Hill, California, (the City) was incorporated in November 1906 as a general law city and operates under a Council-Manager form of government.

As required by Statement No. 14 of the Governmental Accounting Standards Board (GASB), as amended by GASB Statements No. 39 and No. 61, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 fiscal year end.

**Blended Component Units.** The financial reporting entity includes all of the funds of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Wastewater Facilities Financing Corporation and the Morgan Hill Financing Authority are governed by boards which are substantially the same as the City's governing body. These two component units have been blended into the City's basic financial statements because the City is able to impose its will on these component units and because the component units provide services primarily to the City. Until March 7, 2012 the Morgan Hill Economic Development Corporation was similarly governed by a board that was the same as the City's governing body, so its financial activity through that date has also been blended into the City's basic financial statements. The Corporation modified its bylaws on March 7 to change the make-up of the board. The number of board members increased from five to seven, only two of whom are members of the City Council. Therefore, for the purposes of financial reporting, the Corporation's financial activity beginning March 7 is excluded from the City's basic financial statements. The Morgan Hill Corporation Yard Commission is a joint powers authority between the City and the Morgan Hill Unified School District, and it functions for the benefit of the City and the School District. Since the services of the Corporation Yard Commission are not provided primarily to the City, the financial information for the Commission is discretely presented in the basic financial statements so that this information may be separately accounted for.

**Discretely Presented Component Units.** The Morgan Hill Corporation Yard Commission functions for the benefit of the City and the Morgan Hill Unified School District. The Commission is equally comprised of members from each governing body and one member at large. The Commission was formed in 1975 under a joint powers agreement to facilitate the operation of a joint tenancy between the school district and the City. The activities of the Commission are included in the City's basic financial statements as a discretely presented component unit because the Commission board is not substantially the same as the primary governments, nor does it operate exclusively, nor almost exclusively, for the benefit of the City. The City is fiscally liable and responsible for the day to day operations and financial reporting of the Commission. The City acts as management of the Commission.

**1. DEFINITION OF THE REPORTING ENTITY (continued)**

The Financing Corporation and the Financing Authority do not issue separate financial statements.

Complete financial statements for the Agency and the Commission may be obtained from the City at the following address:

City of Morgan Hill  
Attention: Finance Department  
17575 Peak Avenue  
Morgan Hill, CA 95037

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**(a) Measurement focus, basis of accounting and financial statements presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, fiduciary funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 collectible 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise fees, licenses, and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and therefore, have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund**

The General Fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

**Community Development Fund**

This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

**Housing Fund**

The Housing Fund accounts for housing services.

The City reports major funds on the government-wide financial statements separately from other funds. Major funds are defined as any fund the City believes to be of particular importance to financial statement users. At a minimum, the General Fund and any fund that meets both of the following criteria *must* be reported as a major fund:

Ten percent criterion. An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.

Five percent criterion. An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise fund of any one of the items for which it met the 10 percent criterion.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following major proprietary funds:

#### **Sewer Enterprise Funds**

The Sewer Enterprise funds account for the collection of sewer revenues, including user fees, operating costs of sewer collection and treatment and capital improvements.

#### **Water Enterprise Funds**

The Water Enterprise funds account for the revenues, including user fees, the pumping and distribution of water to commercial and residential users, the maintenance of the water system and capital improvements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

For its proprietary fund types, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Activities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB) and the Accounting Principles Board (APB), as well as Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with the GASB pronouncements.

Additionally, the City reports the following fund types:

Internal Service Funds account for services provided to other departments of the City such as information services, building maintenance, vehicle replacement, workers' compensation, unemployment and general liability insurance, and construction administration. Services are provided by these funds on a cost allocation basis.

Fiduciary funds are used to account for the assets held by the City in a trust capacity or as an agent for individuals, private organizations or other governmental units. Assets equal liabilities and the measurement of operations is not a focus of the Agency Funds. Fiduciary Funds use the full accrual basis of accounting for reporting receivables and payables. Fiduciary funds are reported in the fund financial statements but are not included for government wide reporting purposes. The City acts as a fiduciary for numerous assessment districts, recording the receipt of property tax levies to pay the debt service and administrative fees of the district.

Non-major governmental funds include special revenue funds where the revenues recorded in the funds are restricted for special purposes. Debt service funds are used to account for the collection of resources and payment of debt service obligations outstanding bonds. *Capital projects funds* are used to account for the revenues, including grants and development fees, and expenditures for capital improvements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

These funds do not meet the criteria for being reported as a major fund and are reported in the aggregate under one column, other governmental funds, on the financial statements.

**(b) Budgetary Information**

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all governmental fund types. Budgetary comparisons are reflected in the City's financial report for all governmental funds.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. Activities are defined as an individual program or division within a department. The City Council's approval is required for additional appropriations or transfers between activities. Unencumbered appropriations lapse at the end of each fiscal year.

Budget proposals are prepared by each of the City's department directors. The budget proposals and justifications are submitted to the Finance Department, which compiles the information and prepares the City's preliminary budget. The City Council reviews the City Manager's recommended budget at a meeting open to the public. Changes approved at this meeting are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

Any revisions that increase the total budgeted expenditures of any activity must be approved by the City Council. Budgeted amounts presented, for the General Fund and those funds which have legally adopted budgets, include the original adopted budget, the final amended budget and comparison to actual expenditures. Since the budget is controlled at the activity level, not the department level, the City produces a lengthy, separate report on budget versus actual variance for every activity in every fund.

**(c) Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all governmental fund types. Encumbrances outstanding at fiscal year-end are re-appropriated by the City Council in the next year. See Note 3 for significant encumbrances.

**(d) Cash and Investments**

Cash and investments of individual funds are combined for investment purposes in a commingled pool except for the investments held by fiscal agents, which are maintained and invested separately.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The City's cash and cash equivalents are considered to be cash on hand or demand deposits. Cash equivalents are stated at fair value. The fair value of investments is determined annually and is based on current market prices. Investment income earned on the commingled pool is allocated quarterly among the funds based upon the average daily balance of cash maintained by each fund.

Gains or losses on securities included in the investment portfolio are recognized at the earlier of the end of the fiscal year or when the related security is sold. Investments in securities purchased with the intent to trade for a profit are prohibited by the City's policy.

Resolutions authorizing certain bonds require that certain amounts be held by a fiscal agent to secure principal and interest payments. Such amounts are classified as restricted cash and investments held by fiscal agents. Each fund type's portion of this pool is displayed on the combined balance sheet as "pooled cash and investments" and "restricted pooled cash and investments" held by the City.

**(e) Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**(f) Capital Assets**

Capital assets, which include property, plant and equipment and infrastructure assets (streets, curbs and gutters, water and sewer systems, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$3,000 or more and an estimated useful life of at least three years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value, or engineering estimates in the case of infrastructure, at the date of donation.

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

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

Buildings and land improvements	30-50 years
Infrastructure	20-30 years
Machinery, equipment and vehicles	5-20 years

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Sewer Capacity Rights

Capacity rights are capitalized in the Sewer Enterprise Fund. Such rights are being amortized over 30 years, the estimated life of the sewer treatment facility. Sewer capacity rights will be fully amortized in 2023.

### (h) Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The City has no items which qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period. The City has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred inflows of resources the City has recognized.

### (i) Special Assessment Districts for which the City is Obligated in Some Manner

Recognition of revenue related to noncurrent receivables of the special assessment districts is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes full value will ultimately be received by the City. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

### (j) Compensated Absences and Post Employment Benefits

It is the City's policy to permit employees to accumulate earned but unused vacation, sick and compensatory time off subject to certain limits. There is no liability for unused sick leave as the City has no obligation to pay for any accumulated balance when employees separate from employment. The City does recognize a current liability in proprietary funds for 25% (50% for members of AFSCME who meet minimum balances) of the current fiscal year unused sick leave accrual due to bargaining group agreements to pay this amount if unused during the fiscal year. All vacation and compensatory time are accrued in the government-wide and proprietary fund financial statements.

Upon retirement or leave from the City, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employees' Retirement System (CalPERS) (see Note 11).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Compensated Absences and Post Employment Benefits (continued)**

The City participates in the CalPERS Health Program. This program provides medical insurance coverage for both current employees and retirees. Participating employers must contribute toward the cost of the health premiums for both employee groups. The City has chosen to contribute for retired and active employees under the unequal contribution option. California Government Code 22892 requires agencies to annually increase the monthly annuitant health care contribution to equal an amount not less than the number of years the agency has been in the PEMHCA program, multiplied by 5 percent of the current contribution for active employees, until the time that the employer contribution for retirees equals the employer contribution for active employees. The annual adjustment authorized cannot exceed \$100 per retiree per month. The City currently pays \$89.25 per retiree per month. As of June 30, 2014, there are 34 retirees eligible for this program. Other Post Employment Benefits are more fully described in Note 12.

**(k) Restricted Assets**

Assets which are restricted for specified uses by bond debt requirements, grant provisions, or other requirements are classified as restricted assets held by the City as fiscal agent.

**(l) Fund Balances**

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** – represents amounts that can only be used for a specific purpose because of a formal action by the City's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**Assigned Fund Balance** – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council and/or the City Manager. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. An assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the City.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of commitments made, which include future funding sources for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**(m) Interfund Transactions**

Interfund transactions are recorded as transfers on the fund financial statements which result in interfund receivables and payables. Balances reported in the fund financial statements are eliminated for the government-wide financial statements.

Interfund transfers reported on the fund financial statements are summarized as follows:

Transfers In							
	Community						Total
	General Fund	Development Fund	Housing Fund	Nonmajor Governmental	Water	Sewer	
General Fund	\$ -	\$ 90,000	\$ -	\$ 1,115,780	\$ -	\$ -	\$ 1,205,780
Community Development Fund				176,358			176,358
Housing Fund				31,511			31,511
Nonmajor governmental funds*	1,203,224			662,886			1,866,110
Water	434,521			51,513			486,034
Sewer	245,020			44,628	256,402		546,050
<b>Total Transfers In</b>	<b>\$1,882,765</b>	<b>\$ 90,000</b>	<b>\$ -</b>	<b>\$ 2,082,676</b>	<b>\$ 256,402</b>	<b>\$ -</b>	<b>\$ 4,311,843</b>
Transfers Out							
	Community						Total
	General Fund	Development Fund	Housing Fund	Nonmajor Governmental	Water	Sewer	
General Fund	\$ -	\$ -	\$ -	\$ 1,203,224	\$ 434,521	\$ 245,020	\$ 1,882,765
Community Development Fund	90,000						90,000
Housing Fund							
Nonmajor governmental funds*	1,115,780	176,358	31,511	662,886	51,513	44,628	2,082,676
Water						256,402	256,402
Sewer							
<b>Total Transfers Out</b>	<b>\$1,205,780</b>	<b>\$ 176,358</b>	<b>\$ 31,511</b>	<b>\$ 1,866,110</b>	<b>\$ 486,034</b>	<b>\$ 546,050</b>	<b>\$ 4,311,843</b>

\* Includes Internal Service Funds

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Interfund Transactions (continued)**

The principal purpose of the City's interfund transfers was for operational support to other funds.

Due From/Due to Other Funds

Individual interfund receivable and payables at June 30, 2014, are as follows:

	<u>Due From</u>	<u>Due to</u>
General	\$ 913	\$ -
Community Development Fund	44,082	
Community Development Block Grant		913
Civic Center		44,082
	<u>\$ 44,995</u>	<u>\$ 44,995</u>

**(n) Property Tax and Special Assessment Levy, Collection, and Maximum Rates**

The State of California's (the State) Constitution Article XIII A (commonly referred to as Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is further improved, sold or transferred. The State legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties and bills, collects, and distributes property taxes and special assessments as follows:

<b>Date Category</b>	<b>Secured</b>	<b>Unsecured</b>
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (For November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. Taxes on real estate, land, and buildings are secured by liens on the property being taxed.

**(o) Unbilled Service Receivables**

The City bills for water and sewer services on a monthly basis. All amounts not billed at fiscal year end are accrued and reflected as accounts receivable in the appropriate funds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Income Taxes

The City and its related entities fall under the purview of Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, they are not subject to federal or state income taxes.

### (q) Estimates

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

### (q) New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the statement and the impact on the City's financial statements are explained in Note 2 – h and Note 7.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Correction - 2012*. This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2014.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) New Accounting Pronouncements (continued)**

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50 *Pension Disclosures* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2014.

**3. BUDGETARY INFORMATION**

**Budgetary Results Reconciled to Generally Accepted Accounting Principles in the United States of America**

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (US GAAP basis). The results of operations for the General Fund are presented in the accompanying budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major difference between the budgetary basis actual and US GAAP basis is that fiscal year-end encumbrances are recognized as the equivalent of expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the US GAAP basis until recorded as actual expenditures.

**3. BUDGETARY INFORMATION (continued)**

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a US GAAP basis are listed below for governmental funds:

	General Fund	Community Development	Housing	Other Governmental Funds
Expenditures, US GAAP basis	\$ 28,796,185	\$ 3,394,363	\$ 1,454,793	\$ 6,795,591
Encumbrances	1,044,870			979,601
Expenditures, budgetary basis	\$ 29,841,055	\$ 3,394,363	\$ 1,454,793	\$ 7,775,192

**Excess of Expenditures Over Appropriations**

For the fiscal year ended June 30, 2014, expenditures exceeded appropriations at the legal level of control in Supplemental Law Enforcement by \$20, Environment Remediation Fund by \$12,612, Municipal Infrastructure CIP by \$1, and Police Impact by \$324. The excess expenditures, authorized by subsequent Council's action, were funded by available fund balance.

**4. CASH AND INVESTMENTS**

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

Statement of net position:

Primary Government	
Pooled cash and investments	\$ 86,451,911
Restricted pooled cash and investments	27,161,218
Cash and investments with fiscal agents	2,725,331
Discretely Presented Component Unit	
Pooled cash and investments	648
Fiduciary funds:	
Pooled cash and investments	25,843,935
Cash and investments with fiscal agents	14,730,511
	<u>\$ 156,913,554</u>
Cash on hand	\$ 6,500
Deposits with financial institutions	10,656,581
Investments	146,250,473
	<u>\$ 156,913,554</u>

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

Cash on hand	\$ 6,500
Deposits with financial institutions	10,656,581
Investments	146,250,473
	<u>\$ 156,913,554</u>

4. 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 City of Morgan Hill investment policy. The table also identifies certain provisions of the City's investment policy 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 instead governed by the provisions of trust agreements with the City.

<b><u>Authorized Investment Type</u></b>	<b><u>Maximum Maturity</u></b>	<b><u>Maximum Percentage of Portfolio</u></b>	<b><u>Maximum Investment in One Issuer</u></b>
U.S. treasury bills and notes	5 years	No limit	No limit
Dreyfus treasury cash and management fund	NA	No limit	No limit
U.S. government agencies	5 years	No limit	No limit
Local agency investment fund (LAIF)	NA	No limit	Gov't Code
Time deposits	5 years	5%*	\$2M/institution

\*5% of portfolio (excluding government agency and LAIF)

***Investments Authorized by Trust Agreements***

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

<b><u>Authorized Investment Type</u></b>	<b><u>Maximum Maturity</u></b>	<b><u>Maximum Percentage Allowed</u></b>	<b><u>Maximum Investment in One Issuer</u></b>
Repurchase agreements	NA	None	None
Federal agency securities	None	None	None
Investment contracts	None	None	None
Cash management funds	NA	None	None

***Disclosures Relating to Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City mitigates its exposure to interest rate risk is by structuring the portfolio so that securities mature at the same time that major cash outflows occur; thus, eliminating the need to sell securities prior to maturity. In addition, the City prohibits the taking of short positions; that is, selling securities that the City does not own.

The City tries to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, and allowed for under bond covenants as approved by the City Council, the City cannot directly invest in securities maturing more than five years from the date of purchase.

4. CASH AND INVESTMENTS (continued)

*Disclosures Relating to Interest Rate Risk (continued)*

Bond reserve funds and bond escrow funds, pursuant to bond documents, may be invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as possible with the expected use of the funds. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
Federal agency	\$ 36,995,905	3.540
US Treasury Notes	2,263,688	1.793
Money market	7,250,861	0.003
Local agency investment fund	82,284,177	0.014
Held by bond trustee:		
Federal agency securities	449,991	0.010
Cash management funds	<u>17,005,851</u>	0.003
Total	<u>\$ 146,250,473</u>	

*Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations*

The City does not have investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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

4. CASH AND INVESTMENTS (continued)

Investment Type	Amount	Legal Rating	Rating as of Fiscal Year End		
			AAA	AAAm	Not Rated
Federal agency	\$ 36,995,905	NA	\$ 36,995,905	\$ -	\$ -
US Treasury Notes	2,263,68	NA	2,263,68		
Money market	7,250,861	NA			7,250,861
Local agency investment fund	82,284,177	NA			82,284,177
Held by bond trustee:					
Federal agency securities	449,991	NA	449,991		
Cash management funds	17,005,851	NA		17,005,851	
Total	<u>\$ 146,250,473</u>		<u>\$ 39,709,584</u>	<u>\$ 17,005,851</u>	<u>\$ 89,535,038</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. 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 investments are as follows:

Issuer	Investment Type	Reported Amount	Percent of Total
FHLB	Federal agency securities	\$23,010,405	15.73%
FNMA	Federal agency securities	\$13,985,500	9.56%

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 fair 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.

The City's investment policy requires that as protection against potential losses by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All securities will be received and delivered using standard delivery-versus-

4. CASH AND INVESTMENTS (continued)

***Custodial Credit Risk (Continued)***

payment (DVP) procedures. The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to the City's funds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the City Treasurer.

As of June 30, 2014, \$11,018,728 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts. As of June 30, 2014, the City's investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Amount Reported</u>
Federal agency securities	\$ 36,995,905
US Treasury Notes	\$ 2,263,688
Money Market	\$ 7,250,861

***External Investment Pool***

The City invests in LAIF, a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

An elected State Treasurer manages the State's Pooled Money Investment Account of which LAIF is a component. The LAIF Advisory Board oversees the operations of LAIF.

The City valued its investments in LAIF as of June 30, 2014, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total's aggregate amortized cost by total aggregate fair value.

5. CAPITAL ASSETS

The following is a summary of governmental activities capital assets at June 30, 2014:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 40,066,442	\$ 5,000	\$ -	\$ 40,071,442
Construction in progress	4,424,107	2,975,029		7,399,136
Total Capital Assets, Not Being Depreciated	<u>44,490,549</u>	<u>2,980,029</u>		<u>47,470,578</u>
<b>Capital Assets, Being Depreciated:</b>				
Infrastructure	148,464,042	4,402,384		152,866,426
Buildings and other improvements	154,111,283	604,638		154,715,921
Machinery/Equipment/Vehicles	9,271,250	517,345		9,788,595
Total Capital Assets, Being Depreciated	<u>311,846,575</u>	<u>5,524,367</u>		<u>317,370,942</u>
<b>Less Accumulated Depreciation For:</b>				
Infrastructure	(58,839,940)	(4,290,762)		(63,130,702)
Buildings and other improvements	(35,781,584)	(3,915,105)		(39,696,689)
Machinery/Equipment/Vehicles	(2,100,594)	(645,860)		(2,746,454)
Total Accumulated Depreciation	<u>(96,722,118)</u>	<u>(8,851,727)</u>		<u>(105,573,845)</u>
Total Capital Assets Being Depreciated, Net	<u>215,124,457</u>	<u>(3,327,360)</u>		<u>211,797,097</u>
Governmental Activities, Net Capital Assets	<u>\$ 259,615,006</u>	<u>\$ (347,331)</u>	<u>\$ -</u>	<u>\$ 259,267,675</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Function	Expense
Administration	\$ 30,486
Community Development	101,059
Public Works	4,767,897
Public Safety	669,029
Parks & Recreation	3,283,256
<b>Total General Capital Assets</b>	<b>\$ 8,851,727</b>

5. CAPITAL ASSETS (Continued)

As of June 30, 2014, Capital assets of business-type activities on the government-wide financial statements consisted of:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets, Not Being Depreciated:				
Land	\$ 1,825,332	\$ -	\$ -	\$ 1,825,332
Construction in progress	587,732	837,007	572,151	852,588
Total Capital Assets, Not Being Depreciated	<u>2,413,064</u>	<u>837,007</u>	<u>572,151</u>	<u>2,677,920</u>
Capital Assets, Being Depreciated:				
Infrastructure	101,606,919	3,679,710		105,286,629
Buildings and other improvements	48,955,111	1,031,222		49,986,333
Machinery/Equipment/Vehicles	8,330,253	1,047,404		9,377,657
Sewer Capacity rights	28,347,522			28,347,522
Total Capital Assets, Being Depreciated	<u>187,239,805</u>	<u>5,758,336</u>		<u>192,998,141</u>
Less Accumulated Depreciation For:				
Infrastructure	(61,385,294)	(2,520,213)		(63,905,507)
Buildings and other improvements	(19,151,243)	(1,645,578)		(20,796,821)
Machinery/Equipment/Vehicles	(6,358,097)	(481,627)		(6,839,724)
Sewer Capacity rights	(17,395,751)	(944,917)		(18,340,668)
Total Accumulated Depreciation	<u>(104,290,385)</u>	<u>(5,592,335)</u>		<u>(109,882,720)</u>
Total Capital Assets Being Depreciated, Net	<u>82,949,420</u>	<u>166,001</u>		<u>83,115,421</u>
Enterprise Funds, Net Capital Assets	<u>\$ 85,362,484</u>	<u>\$ 1,003,008</u>	<u>\$ 572,151</u>	<u>\$ 85,793,341</u>

Depreciation and amortization expense was charged to business-type funds as follows:

Fund	Amount
Sewer	\$3,100,586
Water	2,491,749
<b>Total Business-Type Activities</b>	<b>\$5,592,335</b>

**6. GOVERNMENTAL LOANS RECEIVABLE**

Most of the housing loans described in the paragraphs below were originally made by the Morgan Hill Redevelopment Agency as part of its low- and moderate-income housing duties and responsibilities. Effective February 1, 2012 the State of California dissolved all redevelopment agencies, including Morgan Hill's. Pursuant to the redevelopment dissolution law the City itself chose to assume the housing-related assets, liabilities and functions of the former Redevelopment Agency.

The loans receivable on the statement of net position as of June 30, 2014 total \$76,533,423 consisted of the following types:

Description	Amount
CDBG	\$ 56,869
Housing Rehabilitation Loans	1,137,390
Sunrise Meadows	8,628,076
San Pedro Gardens	2,794,604
Morgan Hill Ranch Family Housing	2,448,030
Village Avante Apartments	1,996,067
Village Avante Apartments 2	979,867
Villa Ciolino	3,736,988
Jasmine Square	4,764,965
Murphy Ranch	7,877,522
Royal Court Apartments	4,789,729
Bella Terra	3,381,616
Millennium Housing	1,545,699
Habitat for Humanity	760,000
Madrone Plaza	346,913
SCH-Crest	7,085,937
UHC-The Crossings	3,371,622
SCH-Watsonville Road	1,014,171
BEGIN	3,516,587
Horizon Senior Housing	5,211,918
Down Payment Assistance-Citywide	1,090,000
Other Loans	9,998,853
<b>Total</b>	<b>\$ 76,533,423</b>

**(a) CDBG Loans/Housing Rehabilitation Loans**

The City administers two home improvement revolving loan funds using Federal Community Development Block Grant Funds (CDBG) and former Redevelopment Agency Housing monies. The program provides below market rate loans, secured by deeds of trust, to eligible participants for housing rehabilitation. Although payments for most loans are amortized over an established payment schedule, some loans allow for deferred payment of accrued interest and principal until the homeowner's property is sold or transferred, applicable primarily for seniors and very low income families. On August 22, 2012 the City authorized the Office of Affordable Housing of Santa Clara County to assume the servicing of the City's existing CDBG rehabilitation loans, manage new loans including transferring existing rehabilitation loan funds to cover the costs associated with new loans. The City will continue to service two loans due to unresolved issues. As of June 30, 2014, the City has a total balance of \$56,869, which includes accrued interest of \$21,675 in CDBG loans and City \$1,137,390 of former Redevelopment Agency Housing Rehab loans, which includes accrued interest of \$212,864.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(b) Sunrise Meadows**

The Sunrise Meadows project consisted of 24 self-help homes reserved for low income households, and 36 contractor-built units reserved for those at median income. The former Redevelopment Agency purchased the project (including land and all entitlements) for \$1,670,000. The entire project was then sold to South County Housing for this same amount. The Agency attached a third trust deed on each of the 24 self-help units for loan amounts varying from \$50,000 to \$100,000 each. The notes with accrued compound interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued compound interest due at the time of sale. After the borrower has occupied the residence for 20 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2014, there was a balance of \$8,628,076 outstanding, of which \$7,189,377 is accrued interest, in its Housing Fund.

**(c) San Pedro Gardens**

The San Pedro Gardens project consisted of 20 rental apartments and 16 self-help owner built units. The former Redevelopment Agency issued a loan for \$825,000 in June 1991, secured by a third trust deed, with the following repayment terms:

Of the total loan, \$400,000 has been split into 16 individual loans, secured by deeds of trust on the individual properties. The loan agreements allow the City to repurchase units during the first 4 years of ownership at a restricted sales price, and at market rates thereafter. If the borrower has occupied the unit for 20 years, 10% of the balance outstanding will be forgiven each year and the loan will be totally canceled at year 30. As of June 30, 2014, the balance of these loans is \$2,306,828, which includes accrued compound interest of \$2,011,028.

The remaining \$425,000 of the loan will accrue simple interest at 1% per year. Interest payments only are due on May 1st of each year payable solely from the surplus funds in the borrower's ground lease rent fund. Portions not paid due to insufficient funds shall accrue and be due on May 1st of the following year until paid. All principal and interest remaining unpaid shall be due and payable on June 15, 2021. The balance at June 30, 2014 is \$487,776, which includes accrued interest of \$62,776.

**(d) Morgan Hill Ranch Family Housing**

The Morgan Hill Ranch Family Housing Project consists of 96 residential rental units and a day care center. Ecumenical Association for Housing (EAH) developed the Project. The former Redevelopment Agency made a principal predevelopment loan of \$10,000 in FY 95-96 and principal development loan of \$610,579 FY 96-97. The Agency provided an additional loan for land acquisition and construction costs in the amount of \$2,524,585 in FY 97-98. Commencing on the date of the first disbursement of the loans, the loans accrue simple interest at 3% per annum. At June 30, 2014, the loan had accrued interest of \$60,852, bringing the loan balance to \$2,448,030. All loans are secured by deeds of trust.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(e) Village Avante Apartments**

On June 1, 1999, the former Redevelopment Agency entered into an agreement with Don Avante Family Homes, Inc. (affiliate of EAH) for the acquisition and rehabilitation of the existing Village Avante 112-unit housing project located in the City Project Area. Village Avante was initially a HUD subsidized rental apartment at risk of converting to a market rate project. The Agency's assistance mandated the long-term affordability of the units. The loan accrues simple interest at a rate of 4% per annum on the unpaid balance with annual payments until April 1, 2039 and is secured by a deed of trust. The current balance as of June 30, 2014 is \$1,996,067, which includes accrued interest of \$485,548.

**(f) Village Avante Apartments 2**

On March 22, 2000, the former Redevelopment Agency authorized a loan to Don Avante Associates II in the amount of \$640,000. This loan was used to provide more attractive and durable landscaping, new steel-post privacy fencing at each patio and new black vinyl-coated chain link fencing along the west property line. The loan also included provisions for site and street lighting to create a safer environment at night. The note is a residual receipts note with a 40-year term. It accrues simple interest at a rate of 4% per annum and is secured by deed of trust. The balance at June 30, 2014 is \$979,867, which includes accrued interest of \$340,568.

**(g) Villa Ciolino**

On November 23, 1999, the former Redevelopment Agency approved a loan of \$1.9 million to South County Housing Corporation to acquire a blighted trailer park and housing project. South County Housing replaced 21 dilapidated housing units, rehabilitated 8 more, and added 13 additional apartments to create a new 42-unit rental housing complex. The loan is a residual receipt note in second position, at 4% compounded annually, with a term of 55 years, and is secured by deed of trust. On December 15, 1999, the Agency modified the interest rate from compound to simple. On June 28, 2000, the loan was further modified by approving an increase of \$475,000 to cover the additional costs of material and labor incurred because of an increased scope for off-site work and because of the pressures of a very busy construction market place. The balance at June 30, 2014 is \$3,736,988, which includes accrued interest of \$1,361,988.

**(h) Jasmine Square**

In 2000, the Redevelopment Agency Board approved loans of \$3.25 million to South County Housing to purchase a four-plex, a dilapidated trailer park, and vacant parcels for development of an affordable housing project. Jasmine Square is a mixed-use 72 residential family apartments with 50,000 square feet of office space and a child care center. South County Housing replaced 23 sub-standard existing housing units with this project. The loan is secured by a deed of trust. On March 16, 2006, the Agency approved an additional loan amount of \$156,350 for the accrued interest on the loans previously made by the Agency which were refinanced by a permanent loan on September 12, 2005. The balance of the Jasmine Square loan at June 30, 2014, is \$4,764,965, which includes accrued interest of \$1,358,615.

The California Housing Finance Agency (CHFA) will be reimbursing the City for part of the disbursement through its HELP program. The Agency Board approved the CHFA loan in the amount of up to \$1 million. This is an unsecured loan to the Agency for use as "holding" funds for housing projects in development.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(i) Murphy Ranch**

On August 8, 2001, the former Redevelopment Agency entered into a loan agreement in the amount of \$3,300,000 with Murphy Ranch, LP. The purpose was to fund the acquisition of property and the predevelopment, infrastructure and related costs of the development of the first 62 units of a 100 unit affordable residential complex. The term of the loan is 55 years and bears simple interest at 4%. Payments are received annually. On May 7, 2002, the agreement was amended to increase the principal amount of the promissory note by \$1,990,000, increasing the total commitment to \$5,290,000 for the total development of the 100 unit project. On May 10, 2004, the agreement was further amended to increase the loan amount an additional \$1,570,000. At June 30, 2014, there is a balance of \$7,877,522, which includes accrued interest of \$2,204,698.

**(j) Royal Court Apartments**

On May 15, 2003, the former Redevelopment Agency entered into a loan agreement in the amount of \$3,750,000 with South County Housing. South County Housing has used the proceeds to acquire real property, remove 13 existing sub-standard housing units, construct 12 for-sale townhomes that will remain affordable to moderate and low income households, and construct at least 55 apartments that will remain affordable to low and very low income households. The term of the loan is for six years, bears simple interest at 3% and is secured by a deed of trust. The first disbursement was processed on July 2, 2003. In April 2005, the Agency approved a low-interest, short-term loan increase of \$1,900,000 for the project (\$5,650,000 total) in response to construction delays resulting in cost increases. In August 2006, South County Housing repaid \$1.4 million of the loan to the Agency, plus accrued interest. At June 30, 2014, the balance due is \$4,789,729, which includes accrued interest of \$1,139,569.

**(k) Bella Terra**

Bella Terra is an EAH affiliate which is a "tax credit limited partnership". Bella Terra includes 40 units of affordable senior rental housing with all resident units restricted to seniors over 55 and who qualify as low income households. On June 1, 2012 the former Redevelopment Agency approved a \$3,182,800 loan to Bella Terra. The term of the loan is for 55 years and is secured by a deed of trust. At June 30, 2014, the balance due is \$3,381,616, which includes accrued interest of \$198,816.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(l) Millennium Housing**

On November 3, 2004, the former Redevelopment Agency approved a loan in the amount of \$1,200,000 to Millennium Housing. Millennium Housing used the Agency's loan to assist in the purchase of the 166 unit Hacienda Mobile Home Senior Park. To "spread out" the impact of the rent increase on the residents, needed to finance the acquisition loan, the Agency has provided this loan to Millennium for a rental assistance fund. The loan is deferred with a 3% simple interest and is due upon the full repayment of the tax-exempt bonds or sale of the Park. These funds can be used for bond issuance costs and the rental assistance fund. Millennium will augment the rental assistance fund, as needed, to further subsidize residents in which a rent increase is deemed a hardship. New residents of the Park will not be eligible for this rent subsidy. Seventy-five percent of the units (75%) must remain affordable to lower income households for 55 years. At June 30, 2014, the balance due is \$1,545,699, which includes accrued interest of \$345,699. This loan is secured by a deed of trust.

**(m) Habitat for Humanity**

On August 8, 2006, the former Redevelopment Agency entered into an agreement with Silicon Valley Habitat for Humanity for a loan in the amount of \$560,000 for the purchase of land and payment of impact fees. The loan carries a zero interest rate and in the event the borrower complies with the Deed of Trust and Regulatory Agreement, the loan shall be forgiven. On December 11, 2008, the loan was amended to increase the amount of the loan by \$200,000 for the purpose of financing the cost of so-called "green building" enhancements to the affordable units, photovoltaic systems for the affordable units, and additional development costs. The balance due at June 30, 2014, was \$760,000.

**(n) Madrone Plaza**

On October 11, 2006, the former Redevelopment Agency and South County Community Builders (SCCB) entered into an agreement where the Agency would loan \$1,600,000 to SCCB for the Madrone Plaza housing project. This project includes 95 townhomes to be offered for sale to create a mixed-income community with homes affordable to low, medium and moderate income households. The loan will be for four years at a rate of 3%. On July 18, 2007, the Agency loaned an additional \$2,000,000 to SCCB; a portion of which was to be used for paying down interim financing at higher interest rates and a portion for predevelopment costs. On September 17, 2008 the Agency agreed to convert the \$1,600,000 original loan to a Down Payment Assistance Loan Program for Madrone Plaza first-time homebuyers and increase the loan to \$1,900,000. On July 9, 2010, the Agency approved an additional \$1,400,000 loan for the Down Payment Assistance Loan Program for Madrone Plaza. At time of escrow the Down Payment Assistance Payment loans are reduced from this loan balance. On December 19, 2012, the Agency approved converting the \$2 million loan plus interest secured note to an unsecured Deficiency Note in the amount of \$200,000. The term of the Deficiency Note is for five (5) years. The loan balance at June 30, 2014, is \$346,913, which includes accrued interest of \$81,413.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(o) SCH-Crest**

On September 3, 2008, the former Redevelopment Agency approved a loan in the amount of \$4,400,000 to South County Housing (SCH). SCH is using the Agency's loan for pre-development, acquisition, and construction for 52 units. In 2011, an additional \$1,875,000 was borrowed for the rehabilitation of all units. The 52 affordable rental units will be intended for extremely low and very low income eligible families. The term of the loan is 55 years and bears simple interest at 3%. The balance of this loan at June 30, 2014, is \$7,085,937, which includes accrued interest of \$346,913.

**(p) UHC-The Crossings**

On August 19, 2008, the former Redevelopment Agency approved a loan in the amount of \$2,600,000 to Urban Housing Communities (UHC). UHC is using this loan to rehabilitate a 24-unit affordable apartment complex. These units will be available to extremely low and low income families. Terms of the loan include repayment over 55 years through residual receipts at 3% simple interest. The balance at June 30, 2014, is \$3,371,622, which includes accrued interest of \$465,622.

**(q) SCH-Watsonville Road**

In November 2002, the former Redevelopment Agency approved a predevelopment loan agreement with South County Housing in the amount of \$50,000 for design, engineering, soil tests, processing fees, legal fees, and other pre-construction expenses for the Watsonville Road Teacher Housing project. This project consists of ten (10) single family homes that were sold to certain types of buyers and that will thereafter remain affordable to low and moderate income households. In February 2004, the Agency approved an amended predevelopment loan agreement to increase the loan by \$100,000. On September 2, 2004, the \$150,000 predevelopment loan was rolled over into the larger \$875,000 project loan. The balance at June 30, 2014, is \$1,014,171, which includes accrued interest of \$139,171.

**(r) BEGIN**

In 2007, the City of Morgan Hill received a grant award from the California Department of Housing and Community Development (HCD) for the Building Equity and Growth in Neighborhoods (BEGIN) program for the Madrone Plaza project. The BEGIN program provides down payment assistance to first time home buyers in the form of deferred payment loans. To date, seventy-one (71) home buyers have received down payment assistance. At June 30, 2014 the balance due is \$3,516,587, which includes accrued interest of \$252,910.

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(s) Horizon Senior Housing**

On March 19, 2008, the former Redevelopment Agency entered into a disposition, development and loan agreement for the Horizon Senior Housing project with UHC Morgan Hill, L.P. This project consists of forty-eight (48) residential rental units for occupancy at affordable housing cost by elderly households, one (1) residential rental unit for occupancy by property management staff and a three thousand (3,000) square foot community room. The term of the loan is 55 years and bears simple interest at 3%. The balance of this loan at June 30, 2014, is \$5,211,918, which includes accrued interest of \$537,366.

**(t) Down Payment Assistance-Citywide**

The Down Payment Assistance Program (DAP) assists first time home buyers who meet the income qualifications to buy their first home within the City limits. Loan payments are deferred for five years and amortized over 25 years; total amount due upon sale of property. At June 30, 2014, there were 22 loans with a total outstanding balance of \$1,090,000.

**(u) Other Loans**

The City and Agency have issued loans for several other projects, all of which are secured by deeds of trust. Detailed information for these loans is included in the following table.

Project Name	Loan Balance Outstanding	Interest Rate	Maturity Date	Special Provisions of Loan
SCH - (Skeels Hotel)	\$221,446	3.00%	2026	Annual installments until paid
Community Solutions La Casa Del Puente	152,000	0%	Upon sale	Due upon sale of property/change in use
Woodland Hills	6,518	Various	Various	Various
SCH-Villa Ciolino Comm.	174,511	3.00%	2015	None
Downpayment Assistance	223,216	Various	Various	Various
Downpayment Assistance - Madrone	3,035,526	3%	2054-2055	Loan will be forgiven at maturity unless borrower is in default
Employee computer loans	30,064	0.00%	various	Payments through payroll deductions
Appletree/Rose Chin	1,427	4.13%	2014	Development Agreement
Madrone Village Shopping Center	2,002	1.11%	2014	Development Agreement-Traffic Fee
Madrone Village Shopping Center-Eriks	6,038	1.00%		
Madrone Village Shopping Center-Bikram	6,655	1.01%		
Cochrane Animal Hospital	3,111	0.00%	2013	None
SERAF-Successor Agency	6,136,339	0.00%	2015-2016	\$4,311,000 due 6/30/15. \$1,825,339 due 6/30/2016
<b>Total</b>	<b>\$9,998,853</b>			

**6. GOVERNMENTAL LOANS RECEIVABLE (Continued)**

**(v) Recognition of Deferred Inflow of Resources**

The City has recognized deferred revenue on the governmental balance sheet for interest earned but not received and for principal owed but not yet paid on loans receivable. Interest on loans receivable recorded as deferred inflow of resources may be uncollectible or forgiven in the future.

**(w) Other Unearned Revenue**

Unearned revenue has been recognized as revenue in accordance with GASB Statement 34 on the government-wide statement of activities. Unearned interest earnings in the amount of \$2,220,981 were recognized on the statement of activities. Unearned revenue on the statement of net position represents business license and recreation program receipts received but not yet earned.

**7. DEFERRED INFLOWS OF RESOURCES**

At June 30, 2014, deferred inflow of resources, reported in the governmental fund financial statements consisted of the following:

	Housing Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
Unavailable loans revenue	<u>\$ 66,794,848</u>	<u>\$ 3,622,753</u>	<u>\$ 70,417,601</u>

8. LONG TERM DEBT

Summary of Changes in Long-Term Debt:

	Balance July 1, 2013	Prior Period Adjustment	Additions	Reductions	Balance June 30, 2014
<b>Governmental Activities:</b>					
Bonds Payable					
Library/Civic Center	\$ 4,764,222	\$ 241,101	\$ -	\$ (125,014)	\$ 4,880,309
Police	5,901,383	237,103		(174,928)	5,963,558
Capital leases					
Fire Houses	2,963,800			(163,181)	2,800,619
Fire Apparatus	2,426,084			(132,173)	2,293,911
Copier Equipment/Software	56,839		18,326	(18,851)	56,314
Loans Payable	1,114,951			(1,114,951)	
CalPERS Side Fund	3,887,103		276,965	(395,612)	3,768,456
OPEB Payable	692,186		167,815	(27,732)	832,269
Compensated Absences	1,529,873		505,895	(484,525)	1,551,243
Total Governmental Activities	<u>23,336,441</u>	<u>478,204</u>	<u>969,001</u>	<u>(2,636,967)</u>	<u>22,146,679</u>
<b>Business-type Activities:</b>					
2003 Water Facilities Loan	416,366	124,047		(540,413)	
1999 Certificates of Participation	2,213,558	271,442		(2,485,000)	
2004 Water Revenue Bonds	7,490,272	249,728		(7,740,000)	
2014 Water Revenue Bonds			21,975,000		21,975,000
Sewer Capacity Rights	13,326,068	1,403,049		(1,245,457)	13,483,660
OPEB payable	165,875		43,737	(7,228)	202,384
Total Business-type Activities	<u>23,612,139</u>	<u>2,048,266</u>	<u>22,018,737</u>	<u>(12,018,098)</u>	<u>35,661,044</u>
<b>Total Long-term Debt</b>	<u>\$ 46,948,580</u>	<u>\$ 2,526,470</u>	<u>\$ 22,987,738</u>	<u>\$ (14,655,065)</u>	<u>\$ 57,807,723</u>

(a) Public Library, Series 2006 Bonds

On October 1, 2006, the Morgan Hill Financing Authority issued \$5,675,000 in Lease Revenue Bonds. The proceeds of the Bonds were used to 1) assist the City of Morgan Hill in financing a portion of the construction costs of a new public library and related improvement, 2) assist the City in financing a portion of the costs for expanding City Hall facilities, 3) fund a reserve account for the Bonds, and 4) pay certain costs of issuance relating to the Bonds.

(b) Police Facility, Series 2004 Bonds

On August 1, 2004, the Morgan Hill Financing Authority issued \$7,395,000 in Lease Revenue Bonds. Proceeds of the Bonds were used to 1) assist the City of Morgan Hill in financing a portion of the acquisition and improvement costs of a new police headquarters and related facilities, 2) fund a reserve account for the Bonds, and 3) pay certain costs of issuance relating to the Bonds. The bonds bear an annual interest rate ranging from 3.0% to 4.75% and have a final maturity date of 2034. The bonds are payable from revenues consisting primarily of base rental payments made by the City to the Authority.

**8. LONG TERM DEBT (continued)**

**(c) Fire House Lease**

On April 1, 2014, the city of Morgan Hill entered into a lease agreement for the purchase of two fire stations, known as the El Toro Fire Station and the Dunne Hill Fire Station from the Santa Clara County Central Fire Protection District. Principal and interest payments are due March 1 and September 1 of each year and mature on March 2, 2028 with an effective interest rate of 3.77%. The balance of the lease at June 30, 2014 was \$2,800,619.

**(d) Fire Equipment Lease**

On September 7, 2012, the City of Morgan Hill entered into a lease agreement for the purchase of fire equipment. Annual principal and interest payments are due September of each year and mature on September 7, 2027 with an effective interest rate of 2.82%. The balance of the lease at June 30, 2014 was \$2,293,911.

**(e) Copier Equipment/Software Lease**

On October 5, 2012, the City of Morgan Hill entered into a lease agreement for the purchase of copier equipment. Annual principal and interest payments are due October 5 of each year and mature on October 5, 2016 with an effective interest rate of 3.10%. The balance of the lease at June 30, 2014 was \$41,937.

On October 17, 2013, the City of Morgan Hill entered into a lease agreement for the purchase of copier equipment. Annual principal and interest payments are due November 1 of each year and mature on November 1, 2018 with an effective interest rate of 4.55%. The balance of the lease at June 30, 2014 was \$7,437.

On November 13, 2013, the City of Morgan Hill entered into a lease agreement for the purchase of server backup software. Annual principal and interest payments are due November 1 of each year and mature on November 1, 2018 with an effective interest rate of 3.91%. The balance of the lease at June 30, 2014 was \$6,940.

**(f) Loans Payable**

On October 5, 2000, the City entered into a loan agreement with CHFA. This HELP loan is to be used as a revolving source of funds for the purpose of making loans to property owners or operators for acquisition and predevelopment expenses associated with the aggregation of parcels for multifamily rehabilitation and/or new construction developments. This loan, in the amount of \$1,000,000 was initially for the South County Housing Jasmine Square project. During FY 03-04, the former Redevelopment Agency borrowed an additional \$900,000 and in the FY 06-07 an additional \$2,000,000. The loan was paid in full during the fiscal year.

**8. LONG TERM DEBT (continued)**

**(g) Public Employees Retirement System Side Fund**

At the time the City joined the Public Employees Retirement System (PERS) Risk Pool, a side fund was required to be created to account for the difference between the funded status of the pool and the funded status of the City's plan, in addition to the existing plan's unfunded liability. The side fund will be credited, in an annual basis, with the actuarial investment return assumption which was 7.75% prior to July 1, 2012 and 7.5% after that date. A side fund liability will cause the City's required PERS employer contribution rate to increase by the amortization of the side fund. The side fund liability for the City's Safety plan as of June 30, 2014 was \$3,768,456.

**(h) Compensated Absences**

The City maintains a separate internal service fund, the Employee Benefits Fund, for the collecting and distributing of the cost of future compensated absences payouts. The funding for future payments is based on a 10 year amortization, with resources budgeted and set aside each year. The timing of payments for accrued vested vacation, sick leave, and compensatory time benefits (compensated absences) is not certain. This \$1,551,243 obligation will be payable with resources to be received in future periods. Compensated absences are paid by the Employee Benefits Fund. The amount due within one year is \$475,380.

**(i) Other Long-Term Debt (Business-type activities)**

The following is a schedule of long-term debt associated with business-type activities:

<b>Bond</b>	<b>Due Serially to</b>	<b>Interest Rates</b>	<b>Due Within One Year</b>	<b>Total Outstanding June 30, 2014</b>
2014 Water Revenue Bonds	2017	4.25%	\$ 710,000	\$ 21,975,000
Sewer Capacity Rights (Note 9)	2023	4.5-5.75%	1,275,000	13,483,660
OPEB payable				202,384
<b>Total Long-term Debt</b>			<b>\$ 1,985,000</b>	<b>\$ 35,661,044</b>

**2003 Water Facilities Loan**

On July 1, 1993, the California Statewide Communities Development Authority (Development Authority) issued \$14,195,000 Senior Series 1993A Bonds and \$8,000,000 Subordinate Series 1993B Bonds. Proceeds from the bonds enabled the Development Authority to make loans to numerous California public entities (borrowers). The bonds are limited obligations of the Development Authority and are secured by a pledge of water revenues from the borrowers. The City borrowed \$1,902,645 from the Development Authority.

**8. LONG TERM DEBT (continued)**

**(i) Other Long-Term Debt (Business-type activities) (continued)**

In December 2003, the Morgan Hill Financing Authority lent money to the City to refinance the 1993 loan. It was determined significant public benefits would accrue from such borrowing, consisting of savings in effective interest rates and financing costs. The City borrowed \$1,512,490 to prepay the 1993 loan and cover costs of borrowing. The new loan matures in 2017 and bears a 4.25 annual percentage rate.

The principal amount of the loan was paid in full on June 1, 2014, with the portion of the proceeds received from the issuance of the 2014 Water Revenue Bonds on May 1, 2014.

***1999 Certificates of Participation***

On May 1, 1999, the City issued \$5,090,000 Refunding Certificates of Participation to provide funds to advance refund the outstanding \$4,550,000 principal amount of the 1991 Certificates, originally issued to finance water capital projects. A portion of the proceeds of the Certificates was deposited into an escrow fund (the "1991 Certificates Escrow Fund") pursuant to an escrow agreement dated as of May 1, 1999, between the City and U. S. Bank Trust National Association, an escrow bank. Such amounts, together with monies transferred to the 1991 Certificates Escrow Fund from certain funds held by trustee for the 1991 Certificate, defeased the prior obligation. The prior bonds were subsequently redeemed by June 1, 2002.

The principal amount of the certificate of participation was paid in full on June 1, 2014, with the portion of the proceeds received from the issuance of the 2014 Water Revenue Bonds on May 1, 2014.

***2004 Water Revenue Bonds***

On October 1, 2004, the Morgan Hill Financing Authority issued \$7,740,000 in Water Revenue Bonds. The proceeds of the issue were used to finance capital improvements to the City's water system, fund a reserve account for the bonds and pay the costs of issuance of the bonds. The installment payments are special limited obligations of the City payable solely from and secured by a pledge of net revenues of the water system. The interest rate ranges from 4.25% to 4.5%. The bonds mature in the year 2034.

The principal amount of the bonds were paid in full on June 1, 2014, with the portion of the proceeds received from the issuance of the 2014 Water Revenue Bonds on May 1, 2014.

***2014 Water Revenue Bonds***

On May 1, 2014, the City issued \$21,975,000 in Water Revenue Bonds for capital improvement projects and to advance refund the outstanding principal amounts of the 2003 Water Facilities Loan, the 1999 Certificates of Participation, and the 2004 Water Revenue Bonds. The bond mature in 2034 and bears a 3.75 annual percentage rate.

8. LONG TERM DEBT (continued)

(j) Future Debt Service Payment Requirements

Governmental Activities											
Year Ended June 30	(A) Public Library Bond		(B) Police Facility Bond		(C) Fire House Lease		(D) Fire Equipment Lease		(E) Copier/Software Leases		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$ 130,000	\$ 204,475	\$ 180,000	\$ 264,538	\$ 155,161	\$ 104,135	\$ 135,900	\$ 64,688	\$ 16,709	\$ 2,604	\$ 1,258,210
2016	135,000	199,621	190,000	257,825	161,065	98,230	139,732	60,856	17,486	1,826	1,261,641
2017	140,000	194,499	195,000	250,606	167,195	92,101	143,673	56,915	18,300	1,014	1,259,303
2018	145,000	189,119	205,000	242,850	173,557	85,738	147,724	52,864	3,819	162	1,245,833
2019	155,000	183,341	210,000	234,550	180,162	79,133	151,890	48,698			1,242,774
2020-2024	860,000	817,741	1,200,000	1,027,725	1,009,022	287,454	826,167	176,774			6,204,883
2025-2029	1,060,000	618,078	1,485,000	725,535	954,457	82,724	748,825	53,526			5,728,145
2030-2034	1,315,000	361,963	1,870,000	332,415							3,879,378
2035-2037	940,000	64,574	430,000	10,212							1,444,786
Subtotals	4,880,000	2,833,411	5,965,000	3,346,256	2,800,619	829,515	2,293,911	514,321	56,314	5,606	23,524,953
Add (less) interest, unamortized discounts and premiums		309 (2,833,411)		(1,442) (3,346,256)		- (829,515)		- (514,321)		- (5,606)	(7,530,242)
<b>Totals</b>	<b>\$ 4,880,309</b>	<b>\$ -</b>	<b>\$ 5,963,558</b>	<b>\$ -</b>	<b>\$ 2,800,619</b>	<b>\$ -</b>	<b>\$ 2,293,911</b>	<b>\$ -</b>	<b>\$ 56,314</b>	<b>\$ -</b>	<b>\$ 15,994,711</b>

Business Type Activities			
Year Ended June 30	1999 Water COP		Totals
	Principal	Interest	
2015	\$ 710,000	\$ 892,734	\$ 1,602,734
2016	795,000	797,438	1,592,438
2017	835,000	767,625	1,602,625
2018	865,000	736,313	1,601,313
2019	895,000	703,875	1,598,875
2020-2024	4,750,000	3,028,500	7,778,500
2025-2029	6,270,000	2,008,125	8,278,125
2030-2034	6,855,000	740,625	7,595,625
Subtotals	21,975,000	9,675,235	31,650,235
Less interest		(9,675,235)	(9,675,235)
<b>Totals</b>	<b>\$ 21,975,000</b>	<b>\$ -</b>	<b>\$ 21,975,000</b>

(k) Special Assessment Debt for which the City is Not Obligated in Any Manner

Certain special assessment districts are established in various parts of the City to provide improvements to properties located in those districts. Properties in the assessment districts listed below are assessed for the cost of improvements and these assessments are payable solely by property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or to be the purchaser of last resort of foreclosed properties in these special assessment districts, nor is it obligated to advance the City's funds to repay this debt in the event of default. At June 30, 2014, the total balance of these districts' outstanding debt was \$17,020,000, comprised of \$7,380,000 for Morgan Hill Ranch 1998; \$1,435,000 for Morgan Hill Ranch Reassessment 2004; and \$8,205,000 for Madrone Business Park A & B.

**8. LONG TERM DEBT (continued)**

**(I) Legal Debt Limit and Debt Margin**

The City's legal debt limit and debt margin was \$888,463,000 as of June 30, 2014.

**9. SEWER CAPACITY RIGHTS/REFUNDING**

In May 1992, the City entered into a Joint Powers Agreement with the City of Gilroy to create the South County Regional Wastewater Authority (SCRWA). The Authority was formed to purchase or acquire property and own and operate wastewater treatment facilities through cooperative action.

In September 1992, the Authority issued bonds totaling \$66,480,000 of which the City's portion (42%) was \$28,065,000. The bonds mature serially through August 2022 and bear interest at rates ranging from 4.5% to 5.75%. Under the Joint Powers Agreement, proceeds from the City's portion of the bonds were used to retire \$5,000,000 outstanding 1988 Sewer Certificate of Participation (COPs) and to finance the City's share of the capacity expansion costs for the sewage treatment facility.

In October 2002, the South County Regional Wastewater Authority issued \$25,390,000 in advance refunding revenue bonds, Morgan Hill Series 2002, to reduce the cost of future debt service and interest payments related to the City's share of the bonds. The proceeds were used to refund and retire the 1992 B SCRWA bonds.

The bonds are limited obligations of the Authority and are secured by a pledge of net revenues of the City's sewer enterprise fund and those of the City of Gilroy. The City is obligated to make installment payments to the Authority in the amount of the debt service requirements applicable to its portion of the debt. The City maintained sufficient sewer rates to make the required payments.

Complete financial statements for the Authority may be obtained from the City of Gilroy (which maintains the financial records for the Authority) at the following address:

City of Gilroy  
Attention: Finance Department  
7351 Rosanna Street  
Gilroy, CA 95020.

**9. SEWER CAPACITY RIGHTS/REFUNDING (continued)**

Future installment payments due by the City as of June 30, 2014, are as follows:

Year Ended June 30	Principal	Interest	Installment Payment Due
2015	\$ 1,275,000	\$ 532,175	\$ 1,807,175
2016	1,320,000	483,463	1,803,463
2017	1,375,000	431,282	1,806,282
2018	1,430,000	376,900	1,806,900
2019	1,495,000	316,531	1,811,531
2020-2023	6,505,000	583,143	7,088,143
<b>Total principal and interest payments</b>	<b>13,400,000</b>	<b>2,723,494</b>	<b>16,123,494</b>
Add (less) amounts representing:			
Interest		(2,723,494)	(2,723,494)
Unamortized premium	83,660		83,660
<b>Total principal amount due (including current portion)</b>	<b>\$ 13,483,660</b>	<b>\$ -</b>	<b>\$ 13,483,660</b>

**10. DEFEASED DEBT**

On June 1, 2014, the City defeased \$10,702,884 of the previous water facilities loan, certificates of participation, and water revenue bonds. The debt is considered defeased and the related liabilities have been removed from the government-wide and fund statements. The amount of outstanding debt considered defeased at June 30, 2014, was \$0. The City recognized a net present value savings of \$602,150 on the difference from the issuance of \$21,975,000 of 2014 Water Revenue Bonds.

**11. EMPLOYEES' RETIREMENT PLAN**

**Plan Description**

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan, cost sharing for safety, which acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statutes and City ordinance.

Copies of the Fund's annual financial report may be obtained from:

CalPERS Executive Office  
400 P Street  
Sacramento, CA 95814

**11. EMPLOYEES' RETIREMENT PLAN (continued)**

**Funding Policy**

Public safety employees and all other employees have an obligation to contribute 9% and 8% of their salary to the Fund, respectively. The City's employees make the contributions required of them via payroll deduction, plus a small percentage of the employer's rate increase from fiscal year 2013. The City is required to contribute at an actuarially determined rate. The required employer contribution rates for FY 13-14, were 34.630% for public safety personnel and 16.384% for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statutes and the employer contribution rates are established and may be amended by CalPERS.

For fiscal year ending June 30, 2014, CalPERS covered payroll totaled \$16,300,892. Employees' contributions to the fund were \$1,387,826, paid by employees in compliance with the new Public Employees' Pension Reform Act.

**Annual Pension Cost**

The City's annual pension cost was equal to the City's required and actual contributions which were determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases that vary by duration of service, 3% overall. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen year period depending on the size of investment gains and/or losses. The unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of any unfunded actuarial liabilities (or excess assets) of the City has an average remaining period of 21 years, determined by the plan's date of entry. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period, with five year ramp up/ramp down in accordance with CalPERS board policy.

**Three-Year Trend Information**

The following table shows the employer's required contributions and the percentage contributed, for the current year and each of the preceding two fiscal years.

Fiscal Year Ending	Safety	Misc	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 1,374,976	\$ 1,693,700	100%	\$0
6/30/2013	\$ 1,461,071	\$ 1,813,007	100%	\$0
6/30/2014	\$ 1,592,793	\$ 1,912,450	100%	\$0

The schedule of funding progress for the defined benefit plan is shown on page 80 as required supplementary information. This table presents multiyear trend information regarding the actuarial value of plan assets and actuarial liability.

## 12. OTHER POST EMPLOYMENT BENEFITS (OPEB)

### A. Plan Description

The City contracts with CalPERS, an agent multiple-employer plan administered by CalPERS, to provide integrated medical/prescription drug coverage under the Public Employees' Medical and Hospital Care Act (PEMHCA). Employees may choose one of five medical options: Blue Shield HMO, Kaiser HMO, PERSCare PPO, Blue Shield Net Value HMO, or PERChoice PPO; a sixth option, PORAC, is also available to safety employees.

The City sets its monthly contribution rates for health insurance on behalf of active employees through negotiations with its employee associations and through discussions with its non-represented employees. Employees may designate additional amounts contributed by the City, up to a negotiated "Health Allowance" that varies by group (currently between \$575/month and \$715/month) to a cafeteria plan to be used for the purpose of paying PEMHCA premiums; the City then remits these additional amounts to CalPERS as employee contributions.

The City offers the same medical plans to its retirees as to its active employees, with the exception that once a retiree becomes eligible for Medicare (that is, reaches age 65), he or she must join a Medicare HMO or a Medicare Supplement plan under PEMHCA.

Employees become eligible to retire and receive the City's paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service, or by qualifying for disability retirement status. Benefits are paid for the lifetime of the retiree and, if applicable, the surviving spouse of the retiree. The City's contribution on behalf of all eligible retirees is determined under the "Unequal Contribution Method", under which the contribution for retirees is equal to the employer contribution for active employees, 5% multiplied by the number of years the City has participated in PEMHCA, to a maximum of 100% of the contribution for active employees after 20 years in PEMHCA. The City is currently in its fourteenth year in PEMHCA, and the contributions for active employees and retirees are \$119.00/month and \$89.25/month, respectively.

The City also pays a .34% premium administrative fee for all active employees and retirees.

### B. Funding Policy

As required by GASB Statement No. 45, an actuary will determine the City's Annual Required Contributions (ARC) at least once every three fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years.

GASB Statement No. 45 does not require pre-funding of OPEB benefits. Therefore, the City's funding policy is to continue to pay healthcare premiums for retirees as they fall due. The City has elected not to establish an irrevocable trust at this time.

The City Council reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the City.

**12. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

C. Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the City's Annual OPEB Cost for the fiscal year ended June 30, 2014, the amount actually contributed to the plan (including administrative costs), and changes in the City's Net OPEB Obligation/(Asset):

<u>Item</u>	<u>FYE 6/30/14</u>
Annual required contributions	\$ 202,600
Interest on net OPEB obligation/(asset)	42,903
Adjustment to annual required contributions	<u>(33,951)</u>
Annual OPEB costs (expense)	211,552
Contributions made	<u>(34,960)</u>
Increase in net OPEB obligation/(asset)	176,592
Net OPEB obligation/(asset)-beginning of fiscal year	<u>858,061</u>
<b>Net OPEB obligation/(asset)-end of fiscal year</b>	<b><u>\$ 1,034,653</u></b>

The City's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation/(Asset) for the fiscal year ended June 30, 2014, 2013, and 2012, are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/(Asset)</u>
6/30/2014	\$ 211,552	\$ 34,960	16.53%	\$ 1,034,653
6/30/2013	\$ 204,485	\$ 31,957	15.63%	\$ 858,061
6/30/2012	\$ 194,748	\$ 30,927	15.88%	\$ 685,533

D. Funded Status and Funding Progress

The funded status of the plan as of the July 1, 2011 actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 1,671,712
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,671,712</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$15,026,059
UAAL as a percentage of covered payroll	11%

**12. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

D. Funded Status and Funding Progress (continued)

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 future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

The plan's most recent actuarial valuation was performed as of July 1, 2011. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after 3 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of July 1, 2011, was 30 years.

**13. NET POSITION**

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provision or enabling legislations. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

Net position consists of restricted and unrestricted amounts. Restricted net position represents that portion which is not available for appropriation or expenditure, or is legally segregated for a specific future use.

**13. NET POSITION (continued)**

Net position at June 30, 2014, is as follows:

	Govt-Type Activities	Business-Type Activities	Component Unit
Net investment in capital assets	\$ 243,272,964	\$ 53,811,487	\$ 172,133
Restricted for:			
Capital improvements, under state law	37,918,268	24,913,269	
Debt service	608,434	1,849,400	
Total restricted net position	38,526,702	26,762,669	
Unrestricted	102,514,658	14,656,166	257
Total Net Position	\$ 384,314,324	\$ 95,230,322	\$ 172,390

**14. INTERFUND TRANSACTIONS**

Interfund transactions are reported on the governmental fund type statements but are eliminated for government-wide reporting. Long term loans from the general fund to the police impact fund in the amount of \$668,362 and fire impact fund in the amount of \$64,646 to cover cash shortage were outstanding at June 30, 2014, and are reflected in the fund financial statements.

**15. SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY**

(a) Loans receivable of the Successor Agency as of June 30, 2014, consisted of the following:

Project Name	Loan Balance Outstanding	Interest Rate	Maturity Date	Special Provisions of Loan
Morgan Hill Grange	\$ 1,384,380	7.00%	2026	Loan will be forgiven at maturity unless property is transferred
Sycamore Glen	406,000	4.60%	2028	Interest and principal due at maturity
Specialized Loan	420,000	6.00%	2039	After 10 yrs-interest free
MH School Relocation	228,602	6.00%	2025	Portion of construction loan and accrued interest forgiven. Balance of loan amortized over remaining 15 years.
Weston-Miles Granary	33,002	3.00%	2018	Interest and principal due at maturity
Weston-Miles		2.0-4.0%	2017	Loan will be forgiven if building permits are pulled by January 2014 for permanent development of premises.
Johnson Lumber	105,617	0%	2014	Development Agreement-interest free
Associated Concrete	405,637	0.60%	2018	If loan conditions are met, loan will be treated as a reimbursement grant
Huntington Station	81,239	1.50%	2018	First payment of principal and interest is due on June 1, 2011.
<b>Total</b>	<b>\$ 3,064,477</b>			

15. SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY (continued)

(b) Capital assets of the Successor Agency as of June 30, 2014, consisted of the following:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets, Not Being Depreciated:				
Land	\$ 5,152,584	\$ -	\$ -	\$ 5,152,584
Construction in progress	23,497,695	514,858	(7,528,839)	16,483,714
Total Capital Assets, Not Being Depreciated	<u>28,650,279</u>	<u>514,858</u>	<u>(7,528,839)</u>	<u>21,636,298</u>
Capital Assets, Being Depreciated:				
Buildings and other improvements	11,567,070	9,015,998		20,583,068
Total Capital Assets, Being Depreciated	<u>11,567,070</u>	<u>9,015,998</u>		<u>20,583,068</u>
Less Accumulated Depreciation For:				
Buildings and other improvements	(2,379,247)	(1,724,433)		(4,103,680)
Total Accumulated Depreciation	<u>(2,379,247)</u>	<u>(1,724,433)</u>		<u>(4,103,680)</u>
Total Capital Assets Being Depreciated, Net	<u>9,187,823</u>	<u>7,291,565</u>		<u>16,479,388</u>
Successor Agency, Net Capital Assets	<u>\$ 37,838,102</u>	<u>\$ 7,806,423</u>	<u>\$ (7,528,839)</u>	<u>\$ 38,115,686</u>

15. SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY (continued)

(c) On February 21, 2008, the former Redevelopment Agency issued \$96,200,000 in Variable Rate Tax Allocation Bonds (Ojo de Agua Redevelopment Project Area) Series 2008A Tax Exempt Bonds and \$13,800,000 in Variable Rate Tax Allocation Bonds (Ojo de Agua Redevelopment Project Area) Series 2008B Taxable Bonds. The proceeds from the sale of the Bonds are to: 1) finance redevelopment projects benefiting the Ojo de Agua Redevelopment Project Area; 2) fund a debt service reserve account; and 3) pay costs of issuance of the Bonds.

On November 19, 2013, the Successor Agency issued \$74,310,000 Series 2013A and \$14,365,000 Series 2013B Refunding Revenue Bonds. The bonds were issued to refund and defease the previously issued former Redevelopment Agency Series 2008A Tax Exempt Bonds and the Series 2008B Taxable Bonds.

Debt service payment requirements are as follows:

<b>Successor Agency Debt</b>			
<b>Year Ended</b>			
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
2015	\$ 4,050,000	\$ 3,879,633	\$ 7,929,633
2016	3,065,000	3,852,344	6,917,344
2017	3,100,000	3,811,124	6,911,124
2018	3,150,000	3,752,496	6,902,496
2019	4,185,000	3,660,650	7,845,650
2020-2024	17,585,000	15,648,000	33,233,000
2025-2029	23,525,000	10,555,438	34,080,438
2030-2034	30,015,000	3,898,125	33,913,125
Subtotals	88,675,000	49,057,810	137,732,810
Add (less) interest and unamortized premium	6,564,133	(49,057,810)	(42,493,677)
<b>Totals</b>	<b>\$ 95,239,133</b>	<b>\$ -</b>	<b>\$ 95,239,133</b>

(d) The loans payable in the amount of \$6,136,339 is due to the City for the State's Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The funds were previously borrowed from the former RDA's Low and Moderate Fund to pay the SERAF. Upon the dissolution of the RDA, the City took control of the housing activities and the net position of the Low and Moderate Fund, which includes the SERAF receivable due from the Successor Agency.

(e) A restatement of \$(1,090,925) was made in the Successor Agency fund to remove unamortized bond issuance costs in accordance with the implementation of GASB Statement No. 65.

(f) On November 13, 2013, the Successor Agency defeased \$94,460,000 of previous 2008A Tax Exempt Bonds and 2008B Taxable Bonds. The bonds are considered defeased and the related liability has been removed from the Fiduciary Fund statements. The amount of outstanding bonds considered defeased at June 30, 2014, was \$0. The net present value savings was undetermined as the bonds carried a variable interest rate.

16. COMMITMENTS/CONTINGENCIES

(a) Grant Programs

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City's compliance with applicable program requirements will be determined at a future date. The amount of any expenditure which may be disallowed by the grantor agencies cannot be determined at this time. However, the City expects such amounts to be immaterial and, to the best of staff's knowledge, has met all requirements of the various programs in the past.

(b) Risk Management

GASB Statements No. 10 and 30 require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. At June 30, 2014, the estimated probable loss is \$1,098,903.

Changes in the reported liability since June 30, 2010, resulted in the following:

	Unemployment Workers' Compensation	General Liability	Total
<b>Liability as of 6/30/10</b>	\$ 696,565	\$ 221,881	\$ 918,446
Claims and changes in estimates during the fiscal year ended 6/30/11	322,667	427,271	749,938
Claims payments during the fiscal year the fiscal year ended 6/30/11	(319,848)	(315,640)	(635,488)
<b>Liability as of 6/30/11</b>	\$ 699,384	\$ 333,512	\$ 1,032,896
Claims and changes in estimates during the fiscal year ended 6/30/12	495,414	392,906	888,320
Claims payments during the fiscal year the fiscal year ended 6/30/12	(558,826)	(392,906)	(951,732)
<b>Liability as of 6/30/12</b>	\$ 635,972	\$ 333,512	\$ 969,484
Claims and changes in estimates during the fiscal year ended 6/30/13	595,240	39,312	634,552
Claims payments during the fiscal year the fiscal year ended 6/30/13	(605,179)	(89,303)	(694,482)
<b>Liability as of 6/30/13</b>	\$ 626,033	\$ 283,521	\$ 909,554
Claims and changes in estimates during the fiscal year ended 6/30/14	548,043	556,653	1,104,696
Claims payments during the fiscal year the fiscal year ended 6/30/14	(476,445)	(438,902)	(915,347)
<b>Liability as of 6/30/14</b>	\$ 697,631	\$ 401,272	\$ 1,098,903

**16. COMMITMENTS/CONTINGENCIES (continued)**

**(b) Risk Management (continued)**

In addition, with respect to the general liability accrual, the City has several other unsettled lawsuits filed or claims asserted against it as of June 30, 2014. The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City.

As a result of such a review, the City has categorized such claims and lawsuits as “remote” loss contingencies, as defined in FASB Statement No. 5. The final outcome of claims and lawsuits which have been categorized as remote loss contingencies is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. The ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

The balances in the City's General Liability, Workers' Compensation and Unemployment Insurance Internal Service Funds include a reasonable reserve for anticipated future catastrophic losses.

**(c) Gann Spending Limitation Initiative**

Under Article XIII B of the California Constitution, the City is restricted as to the amount of annual appropriations from proceeds of taxes. If the proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following fiscal year. For the fiscal year ended June 30, 2014, based on calculations by the City's management, proceeds of taxes did not exceed the appropriations limit.

**(d) Construction and Other Significant Commitments**

Listed below are the projects for uncompleted contracts over \$200,000 outstanding as of June 30, 2014 for all funds.

Project Number	Project Name	Total Amount
248012	Council Chamber Relocation	\$ 1,439,494
421b11	East Dunne Ave/Hill Road, Phase III	\$ 769,132
504e02	Butterfield Blvd., Phase V	\$ 3,407,148
519w13	Sidewalk Replacement 2013 - La Crosse	\$ 331,697

**(e) Contracting out of Fire and Emergency Medical Services**

The City of Morgan Hill entered into a reimbursement agreement with the California Department of Forestry and Fire Protection (CALFIRE) effective September 1, 2012 for fire and life safety services. The City purchased the two fire houses located within Morgan Hill and also purchased three fire trucks and other emergency personnel vehicles. CALFIRE provides personnel services with the City reimbursing the state for those labor costs. All other costs associated are the responsibility of the City including equipment, supplies, and maintenance. The agreement for services between the City of Morgan Hill and the State of California expires June 30, 2017 and has a maximum amount of \$19,180,793.

## 17. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in Internal Service Funds. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported.

The City's basic financial statements also reflect as expenses the premiums assessed for insurance coverage, which are based on periodic actuarial studies by the firms providing coverage to the City.

The City is self-insured for workers' compensation up to a maximum of \$250,000 per occurrence; purchased insurance covers the excess up to \$5,000,000 per fiscal year. The City is also fully self-insured for unemployment insurance. In addition, the City participates in the Association of Bay Area Governments Pooled Liability Assurance Network (ABAG-PLAN), a self-funded pooled insurance corporation established by a joint powers authority in which the City is one of 31 members.

For the fiscal year ended June 30, 2014, ABAG-PLAN provided general liability insurance up to \$10,000,000 per occurrence through a combination of \$5,000,000 pool coverage and \$5,000,000 of excess insurance, subject to a \$100,000 deductible. The rights and responsibilities of the member agencies are governed by the bylaws of the ABAG-PLAN, the risk coverage agreement, and a related memorandum of coverage. Each member chooses its self-insured liability retention at a level between \$25,000 and \$250,000. Each member has a vote in approving the pool's self-insured retention level, in setting the coverage limit, in establishing the level of pool reserves, approving the premium allocation methodology for setting premiums for each member, and in approving the methodology for returning disburseable equity to members. ABAG-PLAN is responsible for administering the insurance program. ABAG-PLAN provides claims administration and risk management services to the members.

ABAG-PLAN also provides property insurance for the City, including a \$5,000 deductible per occurrence. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the City's insurance coverage during the fiscal year ended June 30, 2014.

Complete financial statements for ABAG-PLAN may be obtained at the following address:

ABAG Plan Corporation  
Finance Department  
P.O. Box 2050  
Oakland, CA 94604

**18. JOINT POWERS AUTHORITY (Discretely presented component unit)**

The City and the Morgan Hill Unified School District formed the Corporation Yard Commission, a joint powers authority, in 1975. The Commission issued bonds for real property improvements and leased the property to the City and the School District. The annual lease payments made to the Commission were approximately equal to debt service payments on the bonds and operating costs of the Commission. The lease expired in December 1999, coinciding with the final payment on the bond issue. Title to the property vested with the City at the end of the lease term.

In June of 1995, the property that is shared by the School District and the City was contaminated by a leaking fuel tank. Costs through June 30, 2014 for clean-up and legal fees totaled \$2,987,019 of which \$1,500,000 was reimbursed by the State Water Resources Control Board Underground Storage Tank Fund. At this time, it is anticipated that both State and the County will release all future liability on this project. This contamination has been mitigated and no future significant costs are expected related to clean up. Up to \$100,000 may be expended for closing down the project which includes removal of pump and monitoring system.

**19. PRIOR PERIOD ADJUSTMENTS**

A prior period adjustment in the governmental activities of \$(478,204) was made in the government-wide statements to remove unamortized bond issuance costs in accordance with the implementation of GASB Statement No. 65.

A prior period adjustment in the business-type activities of \$(2,048,266) was made in the government-wide and proprietary funds statements to remove unamortized bond issuance costs in accordance with the implementation of GASB Statement No. 65.



**CITY OF MORGAN HILL**

## Required Supplementary Information



**CITY OF MORGAN HILL**

City of Morgan Hill  
General Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Property taxes and special assessments	\$ 7,365,170	\$ 7,365,170	\$ 7,782,990	\$ 417,820
Sales taxes	8,265,590	8,265,590	8,640,396	374,806
Franchise, hotel and other taxes	3,222,028	3,222,028	3,786,751	564,723
Licenses and permits	171,057	171,057	182,302	11,245
Funding from other govt agencies	753,938	1,020,693	881,549	(139,144)
Charges for current services	7,054,345	7,054,345	7,344,568	290,223
Investment income and rentals	754,502	897,397	1,225,504	328,107
Other revenues	357,120	1,150,976	405,525	(745,451)
<b>Total revenues</b>	<b>27,943,750</b>	<b>29,147,256</b>	<b>30,249,585</b>	<b>1,102,329</b>
<b>Expenditures:</b>				
General government				
Council	185,551	187,056	187,056	
City Attorney	539,867	549,533	466,468	83,065
City Manager	301,159	322,159	263,288	58,871
Human Resources	464,768	469,456	469,457	(1)
City Clerk	394,035	452,658	428,283	24,375
Finance	1,180,802	1,180,802	1,120,695	60,107
Total General Government	3,066,182	3,161,664	2,935,247	226,417
Public Safety				
Police	13,223,001	13,426,858	12,722,764	704,094
Fire	5,113,943	5,113,943	4,502,027	611,916
Total Public Safety	18,336,944	18,540,801	17,224,791	1,316,010
Community Development				
Congestion Management	67,327	67,327	70,195	(2,868)
Total Community Development	67,327	67,327	70,195	(2,868)
Streets and Highways				
Street Maintenance	1,801,265	2,803,099	2,824,923	(21,824)
Total Streets and Highways	1,801,265	2,803,099	2,824,923	(21,824)
Culture and recreation				
Recreation	5,837,647	5,866,990	5,689,790	177,200
Cable TV/Comm.& Marketing	37,825	39,273	39,273	
Park Maintenance	815,561	839,561	807,054	32,507
Downtown maintenance	44,355	46,828	39,927	6,901
Total Culture and recreation	6,735,388	6,792,652	6,576,044	216,608
Other Public Services				
Solid Waste Management	151,160	359,572	209,855	149,717
Total Other Public Services	151,160	359,572	209,855	149,717
<b>Total Expenditures</b>	<b>30,158,266</b>	<b>31,725,115</b>	<b>29,841,055</b>	<b>1,884,060</b>
Excess (deficiency) of revenues over (under) expenditures	(2,214,516)	(2,577,859)	408,530	2,986,389
Other Financing sources (uses):				
Transfers in	1,877,255	1,877,255	1,882,765	5,510
Transfers (out)	(1,458,181)	(1,208,181)	(1,205,780)	2,401
Total other financing sources (uses)	419,074	669,074	676,985	7,911
Net change in fund balance	\$ (1,795,442)	\$ (1,908,785)	1,085,515	\$ 2,994,300
Adjustments to budgetary basis			1,044,870	
Fund Balance-Beginning			10,584,217	
<b>Fund Balance-Ending</b>			<b>\$ 12,714,602</b>	

City of Morgan Hill  
Community Development Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance-Budget and Actual  
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Charges for services	\$ 3,630,947	\$ 3,630,947	\$ 5,188,262	\$ 1,557,315
Investment income	4,734	4,734	15,503	10,769
Other revenues	5,000	5,000	1,430	(3,570)
<b>Total Revenues</b>	<b>3,640,681</b>	<b>3,640,681</b>	<b>5,205,195</b>	<b>1,564,514</b>
<b>Expenditures:</b>				
Current:				
Community development	3,805,081	4,507,116	3,394,363	1,112,753
<b>Total Expenditures</b>	<b>3,805,081</b>	<b>4,507,116</b>	<b>3,394,363</b>	<b>1,112,753</b>
Excess (deficiency) of revenues over (under) expenditures	(164,400)	(866,435)	1,810,832	2,677,267
<b>Other Financing Sources (Uses):</b>				
Transfers in	90,000	90,000	90,000	
Transfers (out)	(176,358)	(176,358)	(176,358)	
Total other financing sources (uses)	(86,358)	(86,358)	(86,358)	
Net change in fund balance	\$ (250,758)	\$ (952,793)	1,724,474	\$ 2,677,267
Adjustments to budgetary basis				
Fund Balance-Beginning			1,589,138	
<b>Fund Balance-Ending</b>			<b>\$ 3,313,612</b>	

**City of Morgan Hill**  
**Housing Fund**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance-Budget and Actual**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u> <u>(Negative)</u>
<b><u>Revenues:</u></b>				
Property taxes	\$ -	\$ -	\$ 1,150,350	\$ 1,150,350
Investment income	29,317	29,317	207,961	178,644
Other revenues	600,000	600,000	781,575	181,575
<b>Total Revenues</b>	<b>629,317</b>	<b>629,317</b>	<b>2,139,886</b>	<b>1,510,569</b>
<b><u>Expenditures:</u></b>				
Current:				
Housing services	273,470	1,454,793	1,454,793	
<b>Total Expenditures</b>	<b>273,470</b>	<b>1,454,793</b>	<b>1,454,793</b>	
Excess (deficiency) of revenues over (under) expenditures	355,847	(825,476)	685,093	1,510,569
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers (out)	(31,511)	(31,511)	(31,511)	
Total other financing sources (uses)	(31,511)	(31,511)	(31,511)	
Net change in fund balance	<u>\$ 324,336</u>	<u>\$ (856,987)</u>	653,582	<u>\$ 1,510,569</u>
Adjustments to budgetary basis			7,575,765	
Fund Balance-Beginning			<u>7,575,765</u>	
<b>Fund Balance-Ending</b>			<b><u>\$ 8,229,347</u></b>	

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**PENSION PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

**Miscellaneous Plan**

Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/06	\$ 33,776,636	\$ 27,666,544	\$ 6,110,092	81.9%	\$ 10,126,153	60.3%
6/30/07	\$ 38,614,749	\$ 32,004,713	\$ 6,610,036	82.9%	\$ 10,930,224	60.5%
6/30/08	\$ 43,442,007	\$ 36,321,867	\$ 7,120,140	83.6%	\$ 12,401,252	57.4%
6/30/09	\$ 52,214,753	\$ 40,360,597	\$ 11,854,156	77.3%	\$ 12,008,793	98.7%
6/30/10	\$ 56,071,005	\$ 43,907,861	\$ 12,163,144	78.3%	\$ 12,073,516	100.7%
6/30/11	\$ 60,469,811	\$ 49,391,914	\$ 11,077,897	81.7%	\$ 11,309,281	98.0%
6/30/12	\$ 65,944,050	\$ 53,402,541	\$ 12,541,509	81.0%	\$ 11,509,152	109.0%
6/30/13	\$ 71,047,232	\$ 52,183,933	\$ 18,863,299	73.4%	\$ 11,301,065	166.9%

**Safety Plan**

CalPERS requires plans with less than 100 active members to participate in a risk pool. The City participates in the 3% at 50 Risk Pool for Safety Members. This plan is a cost-sharing multiple-employer defined benefit plan. Below is the schedule of funding progress for the entire pool for fiscal years June 30, 2006 through June 30, 2010 and for the City's plan from fiscal years June 30, 2011 through June 30, 2013.

Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/06	\$ 7,278,049,834	\$6,102,615,567	\$1,175,434,267	83.8 %	\$ 754,730,438	155.7%
6/30/07	\$ 7,986,055,176	\$6,826,599,459	\$1,159,455,717	85.5%	\$ 831,607,658	139.4%
6/30/08	\$ 8,700,467,733	\$7,464,927,716	\$1,235,540,017	85.8%	\$ 914,840,596	135.1%
6/30/09	\$ 9,721,675,347	\$8,027,158,724	\$1,694,516,623	82.6%	\$ 973,814,168	174.0%
6/30/10	\$ 10,165,475,166	\$8,470,235,152	\$1,695,240,014	83.3%	\$ 955,980,815	177.3%
6/30/11	\$ 36,568,135	\$ 25,655,906	\$ 10,912,229	70.2%	\$ 4,268,644	255.6%
6/30/12	\$ 41,455,060	\$ 27,630,464	\$ 13,824,596	66.7%	\$ 4,689,472	294.8%
6/30/13	\$ 44,270,229	\$ 31,311,290	\$ 12,958,939	70.7%	\$ 4,770,320	271.7%

**OTHER POST EMPLOYMENT BENEFITS (OPEB)**  
**SCHEDULE OF FUNDING PROGRESS**

The funded status of the plan as of the July 1, 2011 actuarial valuation was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage Of Covered Payroll
07/01/08	\$0	\$1,293,371	\$1,293,371	0.00%	\$16,473,490	8%
07/01/11	\$0	\$1,671,712	\$1,671,712	0.00%	\$15,026,059	11%

**Combining and Individual Fund  
Financial Statements**



**CITY OF MORGAN HILL**

**Non Major Funds**



**CITY OF MORGAN HILL**

**CITY OF MORGAN HILL – NONMAJOR GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2014**

**Special Revenue Funds**

Special Revenue Funds account for the proceeds of special revenue sources, other than special assessments, and major capital projects, that are legally restricted to expenditures for specified purposes.

**Street Maintenance**-This fund receives monies from state gas taxes based on population, and the funds may be expended only for street and road repair, maintenance, design, construction, and traffic signal design and installation. Proposition 111 monies from state gas taxes are received for the Congestion Management Program.

**Supplemental Law Enforcement Services**-This fund accounts for the receipt of one time General Fund revenues, AB3229 and grant monies to be used to fund additional police officers and one time capital expenditures.

**Community Development**-This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

**General Plan Update**-This fund accounts for revenues and expenditures associated with City's general plan update.

**Community Recreation Center Start-up**-This fund was created to account for the startup costs of new recreation and community centers.

**Community Development Block Grants**-This fund receives revenues from Santa Clara County on a reimbursement basis, as a part of the federal government's program for low and moderate housing. Expenditures are restricted as to types of activities and nature of expense, and must benefit low and moderate income individuals seeking housing.

**Asset Seizure**-This fund accumulates revenue from the seizure of assets obtained by the police department from drug enforcement activities. Expenditures may be made from these funds only for police related activities in accordance with guidelines established by the state and federal governments.

**Lighting and Landscape Districts**-This fund derives its revenues from an assessment based on expenditures by the City for maintenance services to park areas within small developments. These services benefit the properties against which assessments are levied by ensuring proper upkeep.

**Environmental Programs**-Sources of funding are limited to 6% of the franchise fee and revenues from the countywide AB939 fee, which are used to fund expenditures related to solid waste management.

**CITY OF MORGAN HILL – NONMAJOR GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2014**

**Special Revenue Funds (Continued)**

**Mobile Home Rent Stabilization**-This fund was created to monitor the fees charged to the mobile home park owners and tenants, as regulated by the Rent Stabilization Ordinance, and to ensure that they cover the City's cost for arbitration and litigation.

**Housing Development**-This fund receives in-lieu funding from developers who compete in the City's Residential Development Control system (Measure P). Funds are used in providing shelter and other similar services.

**Employee Assistance**-This fund was created to support various employee financial assistance programs. The first program, the employee computer loans, makes technology use affordable for all employees and improves skills in the workplace by encouraging use at home. Fund will be used on a revolving basis, and any future loans will be made from the repayment of previous loans.

**Environmental Remediation**-This fund is used to account for activity related to any necessary environmental remediation activity for which the city is responsible.

**Capital Projects Funds**

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary and Special Revenue funds.

**Park Impact**-This fund receives revenues from developers of properties and the fund may only be used for the design, development, maintenance, and construction of new parks within the City.

**Park Maintenance**-This fund receives revenues from developers of properties and the funds may be used for the maintenance of the City's parks and for purchase of land for open space.

**Storm Drain**-This fund receives revenues from developers of properties and the funds may only be used for the design and construction of new storm drains.

**Open Space**-This fund receives revenues from developers of properties and the funds may be used for the purchase of land for open space.

**Street CIP**- This fund accounts for the cost of capital improvements to the City's streets, roads and bridges.

**Traffic Impact**-This fund receives revenues from developers when their projects have an adverse impact on traffic flows, etc. The funds collected may be expended on new streets, traffic signals and improvements of existing streets where they are impacted by new development.

**Municipal Infrastructure CIP** – This fund was created to set aside a portion of fuel sales tax and Interest earning revenues for the purpose of funding General Fund capital improvement projects.

**CITY OF MORGAN HILL – NONMAJOR GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2014**

**Capital Projects Funds (continued)**

**Police, Fire, and Library Impact**-These funds' revenues are derived from a fee charged to developers to cover the costs required for police, fire, and library capital expansion projects to assist in providing service to new developments.

**Morgan Hill Business Ranch**-This fund accounts for costs incurred in the design and construction of streets in this assessment district.

**Public Facilities**-This fund has no established source of revenue. Funds are transferred into this fund from the General Fund or other funds as they become available for capital projects which may not be funded by the other capital funds. Typical projects are sidewalk repair and replacement.

**Undergrounding**-This fund received revenues from developers for the undergrounding of utilities in areas of new development. Expenditures may be made only for the costs of design and construction associated with undergrounding.

**Community/Recreation Center Impact**-This fund was created to collect revenues derived from a fee charged to developers to cover the costs to construct new community centers in the City.

**Civic Center Construction**-This fund was used to account for the construction costs of the library and other civic center facilities.

**School/Pedestrian Traffic Safety**-This fund accounts for the revenues and expenditures relating the collection and use of development fees for this purpose.

**Debt Service Funds**

Debt Service Funds account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

**Cochrane Business Park**-This fund was established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Typically, these improvements are streets, curbs, gutters, sidewalks, water and sewer lines, undergrounding of utilities, and storm drains. The individual lots are assessed a proportionate share of the improvements and the

County levies this assessment as part of the annual property tax bill. The county remits the collections to the City, and which in turn pays the debt service on the bonds. The City has some legal obligation for repayment of these bonds.

**Police Facility**-On August 1, 2004, the Morgan Hill Financing Authority issued \$7,395,000 in Lease Revenue Bonds. Proceeds of the Bonds were used to 1) assist the City of Morgan Hill in financing a portion of the acquisition and improvement costs of a new police headquarters and related facilities, 2) fund a reserve account for the Bonds, and 3) pay certain costs of issuance relating to the Bonds. This fund will account for the accumulation of resources and payments of principal, interest and other related costs.

**CITY OF MORGAN HILL – NONMAJOR GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2014**

**Debt Service Funds (Continued)**

**Civic Center (Library)**-On October 1, 2006, the Morgan Hill Financing Authority issued \$5,675,000 in Lease Revenue Bonds. The proceeds of the Bonds were used to 1) assist the City of Morgan Hill in financing a portion of the construction costs of a new public library and related improvement, 2) assist the City in financing a portion of the costs for expanding City Hall facilities, 3) fund a reserve account for the Bonds, and 4) pay certain costs of issuance relating to the Bonds. This fund will account for the accumulation of resources and payments of principal, interest, and other related costs.

City of Morgan Hill  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2014

	<b>Special Revenue Funds</b>			
	<b>Street Maintenance</b>	<b>Supplemental Law Enforcement</b>	<b>General Plan Update</b>	<b>Community Centers</b>
<b>Assets</b>				
Pooled cash and investment	\$ 14,364	\$ 32,078	\$ 653,392	\$ 293
Restricted pooled cash and investments				
Cash and investments with fiscal agents				
Receivables:				
Accrued interest	58	25	288	
Other accounts receivable	906	25,000		
Deposit in escrow/prepaid item				
Loans receivable				
Advances receivable				
<b>Total Assets</b>	<b>\$ 15,328</b>	<b>\$ 57,103</b>	<b>\$ 653,680</b>	<b>\$ 293</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
Accounts payable	\$ -	\$ -	\$ 36,076	\$ -
Accrued liabilities			10,043	
Due to other funds				
Advances payable				
<b>Total Liabilities</b>			<b>46,119</b>	
<b>Deferred Inflows of Resources</b>				
Unavailable loans revenue				
<b>Total Deferred Inflows of Resources</b>				
<b>Fund Balances</b>				
Restricted	15,328	57,103	607,561	293
Unassigned				
<b>Total Fund Balances</b>	<b>15,328</b>	<b>57,103</b>	<b>607,561</b>	<b>293</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 15,328</b>	<b>\$ 57,103</b>	<b>\$ 653,680</b>	<b>\$ 293</b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	<b>Special Revenue Funds (continued)</b>			
	<b>Community Dev Block Grant</b>	<b>Asset Seizure</b>	<b>Landscape and Lighting</b>	<b>Community Facilities</b>
<b>Assets</b>				
Pooled cash and investment	\$ 45,010	\$ 16,893	\$ 132,089	\$ 11,000
Restricted pooled cash and investments				
Cash and investments with fiscal agents				
Receivables:				
Accrued interest	22	8	38	
Other accounts receivable	29			
Deposit in escrow/prepaid Item				
Loans receivable	56,869			
Advances receivable				
<b>Total Assets</b>	<b>\$ 101,930</b>	<b>\$ 16,901</b>	<b>\$ 132,127</b>	<b>\$ 11,000</b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 5,844	\$ 3,230
Accrued liabilities			5,464	
Due to other funds	913			
Advances payable				
<b>Total liabilities</b>	<b>913</b>		<b>11,308</b>	<b>3,230</b>
<b>Deferred Inflows of Resources</b>				
Unavailable loans revenue	56,869			
<b>Total Deferred Inflows of Resources</b>	<b>56,869</b>			
<b>Fund Balances</b>				
Restricted	44,148	16,901	120,819	7,770
Unassigned				
<b>Total Fund Balances</b>	<b>44,148</b>	<b>16,901</b>	<b>120,819</b>	<b>7,770</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 101,930</b>	<b>\$ 16,901</b>	<b>\$ 132,127</b>	<b>\$ 11,000</b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	<u>Special Revenue Funds (continued)</u>			
	<u>Environmental Programs</u>	<u>Mobile Home Park Rent Stabilization</u>	<u>Housing Development</u>	<u>Employee Assistance</u>
<b><u>Assets</u></b>				
Pooled cash and investment	\$ 314,256	\$ 24,303	\$ 4,942,873	\$ 39,220
Restricted pooled cash and investments				
Cash and investments with fiscal agents				
Receivables:				
Accrued interest	148	12	2,197	17
Other accounts receivable				
Deposit in escrow/prepaid item				
Loans receivable			3,516,587	30,064
Advances receivable				
<b>Total Assets</b>	<b><u>\$ 314,404</u></b>	<b><u>\$ 24,315</u></b>	<b><u>\$ 8,461,657</u></b>	<b><u>\$ 69,301</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 233	\$ -	\$ 28,300	\$ -
Accrued liabilities			6,263	
Due to other funds				
Advances payable				
<b>Total liabilities</b>	<b><u>233</u></b>		<b><u>34,563</u></b>	
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable loans revenue			3,516,587	30,064
<b>Total Deferred Inflows of Resources</b>			<b><u>3,516,587</u></b>	<b><u>30,064</u></b>
<b><u>Fund Balances</u></b>				
Restricted	314,171	24,315	4,910,507	39,237
Unassigned				
<b>Total Fund Balances</b>	<b><u>314,171</u></b>	<b><u>24,315</u></b>	<b><u>4,910,507</u></b>	<b><u>39,237</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 314,404</u></b>	<b><u>\$ 24,315</u></b>	<b><u>\$ 8,461,657</u></b>	<b><u>\$ 69,301</u></b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	<u>Special Revenue Funds (con't)</u>		<u>Capital Projects Funds</u>	
	<u>Environment Remediation</u>	<u>Special Revenue Total</u>	<u>Park Impact</u>	<u>Park Maintenance</u>
<b><u>Assets</u></b>				
Pooled cash and investment	\$ 222,355	\$ 6,448,126	\$ 9,886,251	\$ 4,956,729
Restricted pooled cash and investments				
Cash and investments with fiscal agents				
Receivables:				
Accrued interest	95	2,908	4,722	2,348
Other accounts receivable		25,935		
Deposit in escrow/prepaid item				
Loans receivable		3,603,520		
Advances receivable				
<b>Total Assets</b>	<b><u>\$ 222,450</u></b>	<b><u>\$ 10,080,489</u></b>	<b><u>\$ 9,890,973</u></b>	<b><u>\$ 4,959,077</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 73,683	\$ 1,000	\$ 126
Accrued liabilities		21,770	10,490	2,371
Due to other funds		913		
Advances payable				
<b>Total liabilities</b>		<b><u>96,366</u></b>	<b><u>11,490</u></b>	<b><u>2,497</u></b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable loans revenue		3,603,520		
<b>Total Deferred Inflows of Resources</b>		<b><u>3,603,520</u></b>		
<b><u>Fund Balances</u></b>				
Restricted	222,450	6,380,603	9,879,483	4,956,580
Unassigned				
<b>Total Fund Balances</b>	<b><u>222,450</u></b>	<b><u>6,380,603</u></b>	<b><u>9,879,483</u></b>	<b><u>4,956,580</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 222,450</u></b>	<b><u>\$ 10,080,489</u></b>	<b><u>\$ 9,890,973</u></b>	<b><u>\$ 4,959,077</u></b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

Capital Projects Funds (continued)

	<u>Drainage Impact</u>	<u>Open Space</u>	<u>Street CIP</u>	<u>Traffic Impact</u>	<u>Municipal Infrastructure CIP</u>
<b>Assets</b>					
Pooled cash and investment	\$ 5,647,297	\$ 4,076,661	\$ 1,929,283	\$ 4,034,486	\$ 72,830
Restricted pooled cash and investments					
Cash and investments with fiscal agents					
Receivables:					
Accrued interest	2,699	1,934	909	1,170	
Other accounts receivable					
Deposit in escrow/prepaid item			123,610		
Loans receivable				16,122	
Advances receivable					
<b>Total Assets</b>	<u><u>\$ 5,649,996</u></u>	<u><u>\$ 4,078,595</u></u>	<u><u>\$ 2,053,802</u></u>	<u><u>\$ 4,051,778</u></u>	<u><u>\$ 72,830</u></u>
<b>Liabilities</b>					
Accounts payable	\$ 79,721	\$ -	\$ 29,516	\$ -	\$ 33,796
Accrued liabilities	379	65,678	2,210		
Due to other funds					
Advances payable					
<b>Total liabilities</b>	<u><u>80,100</u></u>	<u><u>65,678</u></u>	<u><u>31,726</u></u>		<u><u>33,796</u></u>
<b>Deferred Inflows of Resources</b>					
Unavailable loans revenue				16,122	
<b>Total Deferred Inflows of Resources</b>				<u><u>16,122</u></u>	
<b>Fund Balances</b>					
Restricted	5,569,896	4,012,917	2,022,076	4,035,656	39,034
Unassigned					
<b>Total Fund Balances</b>	<u><u>5,569,896</u></u>	<u><u>4,012,917</u></u>	<u><u>2,022,076</u></u>	<u><u>4,035,656</u></u>	<u><u>39,034</u></u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u><u>\$ 5,649,996</u></u>	<u><u>\$ 4,078,595</u></u>	<u><u>\$ 2,053,802</u></u>	<u><u>\$ 4,051,778</u></u>	<u><u>\$ 72,830</u></u>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

<b>Capital Projects Funds (continued)</b>					
	<b>Police Impact</b>	<b>Fire Impact</b>	<b>MH Business Ranch CIP</b>	<b>Public Facilities</b>	<b>Library Impact</b>
<b>Assets</b>					
Pooled cash and investment	\$ 16,351	\$ 3,624,916	\$ 158	\$ 1,324,368	\$ 1,111,484
Restricted pooled cash and investments					
Cash and investments with fiscal agents					
Receivables:					
Accrued interest	15	1,776		649	625
Other accounts receivable					
Deposit in escrow/prepaid item					
Loans receivable					
Advances receivable		64,646			
<b>Total Assets</b>	<b>\$ 16,366</b>	<b>\$ 3,691,338</b>	<b>\$ 158</b>	<b>\$ 1,325,017</b>	<b>\$ 1,112,109</b>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ 226,393	\$ -
Accrued liabilities					
Due to other funds					
Advances payable	733,008				
<b>Total liabilities</b>	<b>733,008</b>			<b>226,393</b>	
<b>Deferred Inflows of Resources</b>					
Unavailable loans revenue					
<b>Total Deferred Inflows of Resources</b>					
<b>Fund Balances</b>					
Restricted		3,691,338	158	1,098,624	1,112,109
Unassigned	(716,642)				
<b>Total Fund Balances</b>	<b>(716,642)</b>	<b>3,691,338</b>	<b>158</b>	<b>1,098,624</b>	<b>1,112,109</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 16,366</b>	<b>\$ 3,691,338</b>	<b>\$ 158</b>	<b>\$ 1,325,017</b>	<b>\$ 1,112,109</b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	<b>Capital Projects Funds (continued)</b>				
	<b>Under Grounding</b>	<b>School Pedestrian &amp; Traffic Safety</b>	<b>Community/ Rec Center Impact Fund</b>	<b>Civic Center</b>	<b>Capital Projects Total</b>
<b>Assets</b>					
Pooled cash and investment	\$ 232,682	\$ 1,204,582	\$ 70,167	\$ -	\$ 38,188,245
Restricted pooled cash and investments					
Cash and investments with fiscal agents				44,678	44,678
Receivables:					
Accrued interest	112	623	34	(21)	17,595
Other accounts receivable					
Deposit in escrow/prepaid item					123,610
Loans receivable	3,111				19,233
Advances receivable					64,646
<b>Total Assets</b>	<b>\$ 235,905</b>	<b>\$ 1,205,205</b>	<b>\$ 70,201</b>	<b>\$ 44,657</b>	<b>\$ 38,458,007</b>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ 394	\$ 370,946
Accrued liabilities		7,984			89,112
Due to other funds				44,082	44,082
Advances payable					733,008
<b>Total liabilities</b>	<b>-</b>	<b>7,984</b>		<b>44,476</b>	<b>1,237,148</b>
<b>Deferred Inflows of Resources</b>					
Unavailable loans revenue	3,111				19,233
<b>Total Deferred Inflows of Resources</b>	<b>3,111</b>				<b>19,233</b>
<b>Fund Balances</b>					
Restricted	232,794	1,197,221	70,201	181	37,918,268
Unassigned					(716,642)
<b>Total Fund Balances</b>	<b>232,794</b>	<b>1,197,221</b>	<b>70,201</b>	<b>181</b>	<b>37,201,626</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 235,905</b>	<b>\$ 1,205,205</b>	<b>\$ 70,201</b>	<b>\$ 44,657</b>	<b>\$ 38,458,007</b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	<b>Debt Service Funds</b>			
	<b>Civic Center Debt Svs</b>	<b>Police Fac Bond Debt Svs</b>	<b>Cochrane Business Park</b>	<b>Debt Service Total</b>
<b>Assets</b>				
Pooled cash and investment	\$ 12,789	\$ -	\$ 11,011	\$ 23,800
Restricted pooled cash and investments		5,383		5,383
Cash and investments with fiscal agents	343,821	487,432		831,253
Receivables:				
Accrued interest	(105)	(61)	5	(161)
Other accounts receivable				
Deposit in escrow/prepaid item				
Loans receivable				
Advances receivable				
<b>Total Assets</b>	<b><u>\$ 356,505</u></b>	<b><u>\$ 492,754</u></b>	<b><u>\$ 11,016</u></b>	<b><u>\$ 860,275</u></b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities				
Due to other funds				
Advances payable				
<b>Total liabilities</b>				
<b>Deferred Inflows of Resources</b>				
Unavailable loans revenue				
<b>Total Deferred Inflows of Resources</b>				
<b>Fund Balances</b>				
Restricted	356,505	492,754	11,016	860,275
Unassigned				
<b>Total Fund Balances</b>	<b><u>356,505</u></b>	<b><u>492,754</u></b>	<b><u>11,016</u></b>	<b><u>860,275</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 356,505</u></b>	<b><u>\$ 492,754</u></b>	<b><u>\$ 11,016</u></b>	<b><u>\$ 860,275</u></b>

City of Morgan Hill  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	<b>Total Nonmajor Govt Funds</b>
<b><u>Assets</u></b>	
Pooled cash and investment	\$ 44,660,171
Restricted pooled cash and investments	5,383
Cash and investments with fiscal agents	875,931
Receivables:	
Accrued interest	20,342
Other accounts receivable	25,935
Deposit in escrow/prepaid item	123,610
Loans receivable	3,622,753
Advances receivable	64,646
<b>Total Assets</b>	<b><u><u>\$ 49,398,771</u></u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 444,629
Accrued liabilities	110,882
Due to other funds	44,995
Advances payable	733,008
<b>Total liabilities</b>	<b><u><u>1,333,514</u></u></b>
<b><u>Deferred Inflows of Resources</u></b>	
Unavailable loans revenue	<u>3,622,753</u>
<b>Total Deferred Inflows of Resources</b>	<b><u><u>3,622,753</u></u></b>
<b><u>Fund Balances</u></b>	
Restricted	45,159,146
Unassigned	<u>(716,642)</u>
<b>Total Fund Balances</b>	<b><u><u>44,442,504</u></u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u><u>\$ 49,398,771</u></u></b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2014

	Special Revenue Funds				
	Street Maintenance	Supplemental Law Enforcement	General Plan Update	Community Centers	Community Dev Block Grant
<b>Revenues:</b>					
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies	692,821	91,667			60,150
Charges for current services			578,747		
Investment income	603	267	3,004	2	2,956
Other revenues					
<b>Total Revenues</b>	<b>693,424</b>	<b>91,934</b>	<b>581,751</b>	<b>2</b>	<b>63,106</b>
<b>Expenditures:</b>					
Current:					
General government					
Public safety		2,220			
Community development			674,745		
Streets and highways	6,474				
Parks and recreation				220	
Other public services					
Capital outlay:					
Construction projects					
Debt service:					
Principal					
Interest and fiscal charges					
<b>Total Expenditures</b>	<b>6,474</b>	<b>2,220</b>	<b>674,745</b>	<b>220</b>	
Excess (deficiency) of revenues over (under) expenditures	686,950	89,714	(92,994)	(218)	63,106
<b>Other Financing Sources (Uses)</b>					
Transfers in			337,840		
Transfers (out)	(686,891)	(83,333)			
Total other financing sources (uses)	(686,891)	(83,333)	337,840		
Net change in fund balances	59	6,381	244,846	(218)	63,106
Fund Balances-Beginning	15,269	50,722	362,715	511	(18,958)
<b>Fund Balances-Ending</b>	<b>\$ 15,328</b>	<b>\$ 57,103</b>	<b>\$ 607,561</b>	<b>\$ 293</b>	<b>\$ 44,148</b>

City of Morgan Hill  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Fiscal Year Ended June 30, 2014

	<b>Special Revenue Funds (continued)</b>				
	<b>Asset Seizure</b>	<b>Landscape and Lighting</b>	<b>Community Facilities</b>	<b>Environmental Programs</b>	<b>Mobile Home Park Rent Stabilization</b>
<b>Revenues:</b>					
Property taxes and special assessment	\$ -	\$ 181,583	\$ -	\$ -	\$ -
Funding from other governmental agencies					
Charges for current services	10,498		11,000	94,478	3,588
Investment income	102	552		1,503	130
Other revenues					
<b>Total Revenues</b>	<b>10,600</b>	<b>182,135</b>	<b>11,000</b>	<b>95,981</b>	<b>3,718</b>
<b>Expenditures:</b>					
Current:					
General government					
Public safety	11,032				
Community development					1,501
Streets and highways					
Parks and recreation					
Other public services		158,908	3,230	144,329	
Capital outlay:					
Construction projects					
Debt service:					
Principal					
Interest and fiscal charges					
<b>Total Expenditures</b>	<b>11,032</b>	<b>158,908</b>	<b>3,230</b>	<b>144,329</b>	<b>1,501</b>
Excess (deficiency) of revenues over (under) expenditures	(432)	23,227	7,770	(48,348)	2,217
<b>Other Financing Sources (Uses)</b>					
Transfers in				142,541	
Transfers (out)					
Total other financing sources (uses)				142,541	
Net change in fund balances	(432)	23,227	7,770	94,193	2,217
Fund Balances-Beginning	17,333	97,592		219,978	22,098
<b>Fund Balances-Ending</b>	<b>\$ 16,901</b>	<b>\$ 120,819</b>	<b>\$ 7,770</b>	<b>\$ 314,171</b>	<b>\$ 24,315</b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2014

	<u>Special Revenue Funds (continued)</u>			
	<u>Housing Development</u>	<u>Employee Assistance</u>	<u>Environment Remediation</u>	<u>Special Revenue Total</u>
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ 181,583
Funding from other governmental agencies	2,221,411			3,066,049
Charges for current services				698,311
Investment income	58,587	184	1,154	69,044
Other revenues		37,567		37,567
<b>Total Revenues</b>	<b><u>2,279,998</u></b>	<b><u>37,751</u></b>	<b><u>1,154</u></b>	<b><u>4,052,554</u></b>
<b>Expenditures:</b>				
Current:				
General government		34,401	12,612	47,013
Public safety				13,252
Community development	1,113,592			1,789,838
Streets and highways				6,474
Parks and recreation				220
Other public services				306,467
Capital outlay:				
Construction projects				
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b><u>1,113,592</u></b>	<b><u>34,401</u></b>	<b><u>12,612</u></b>	<b><u>2,163,264</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>1,166,406</u>	<u>3,350</u>	<u>(11,458)</u>	<u>1,889,290</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in				480,381
Transfers (out)	(150,496)			(920,720)
Total other financing sources (uses)	<u>(150,496)</u>			<u>(440,339)</u>
Net change in fund balances	1,015,910	3,350	(11,458)	1,448,951
Fund Balances-Beginning	3,894,597	35,887	233,908	4,931,652
<b>Fund Balances-Ending</b>	<b><u>\$ 4,910,507</u></b>	<b><u>\$ 39,237</u></b>	<b><u>\$ 222,450</u></b>	<b><u>\$ 6,380,603</u></b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2014

	<u>Capital Project Funds</u>				
	<u>Park Impact</u>	<u>Park Maintenance</u>	<u>Drainage Impact</u>	<u>Open Space</u>	<u>Street CIP</u>
<b>Revenues:</b>					
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies					532,761
Charges for current services	1,445,198	684,973	1,738,152	817,036	358,051
Investment income	51,945	26,603	30,394	20,646	6,707
Other revenues					
<b>Total Revenues</b>	<b><u>1,497,143</u></b>	<b><u>711,576</u></b>	<b><u>1,768,546</u></b>	<b><u>837,682</u></b>	<b><u>897,519</u></b>
<b>Expenditures:</b>					
Current:					
General government					
Public safety					
Community development					
Streets and highways			14,940	142,426	31,329
Parks and recreation	24,021	8,304			
Other public services					
Capital outlay:					
Construction projects	98,877	32,014	1,067,539		360,351
Debt service:					
Principal					
Interest and fiscal charges					
<b>Total Expenditures</b>	<b><u>122,898</u></b>	<b><u>40,318</u></b>	<b><u>1,082,479</u></b>	<b><u>142,426</u></b>	<b><u>391,680</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>1,374,245</u>	<u>671,258</u>	<u>686,067</u>	<u>695,256</u>	<u>505,839</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in					750,000
Transfers (out)	<u>(37,221)</u>	<u>(404,221)</u>	<u>(8,442)</u>		
Total other financing sources (uses)	<u>(37,221)</u>	<u>(404,221)</u>	<u>(8,442)</u>		<u>750,000</u>
Net change in fund balances	1,337,024	267,037	677,625	695,256	1,255,839
Fund Balances-Beginning	<u>8,542,459</u>	<u>4,689,543</u>	<u>4,892,271</u>	<u>3,317,661</u>	<u>766,237</u>
<b>Fund Balances-Ending</b>	<b><u>\$ 9,879,483</u></b>	<b><u>\$ 4,956,580</u></b>	<b><u>\$ 5,569,896</u></b>	<b><u>\$ 4,012,917</u></b>	<b><u>\$ 2,022,076</u></b>

City of Morgan Hill  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Fiscal Year Ended June 30, 2014

	<b>Capital Project Funds (continued)</b>				
	<b>Traffic Impact</b>	<b>Municipal Infrastructure CIP</b>	<b>Police Impact</b>	<b>Fire Impact</b>	<b>MH Business Ranch CIP</b>
<b>Revenues:</b>					
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies					
Charges for current services	897,687		230,781	165,625	
Investment income	19,690		(198)	20,122	1
Other revenues	(8,606)				
<b>Total Revenues</b>	<b>908,771</b>		<b>230,583</b>	<b>185,747</b>	<b>1</b>
<b>Expenditures:</b>					
Current:					
General government					
Public safety			446	615	
Community development					
Streets and highways	4,752				
Parks and recreation					
Other public services					
Capital outlay:					
Construction projects	223,364	240,171			
Debt service:					
Principal					
Interest and fiscal charges					
<b>Total Expenditures</b>	<b>228,116</b>	<b>240,171</b>	<b>446</b>	<b>615</b>	
Excess (deficiency) of revenues over (under) expenditures	680,655	(240,171)	230,137	185,132	1
<b>Other Financing Sources (Uses)</b>					
Transfers in					
Transfers (out)	(16,884)		(235,356)		
Total other financing sources (uses)	(16,884)		(235,356)		
Net change in fund balances	663,771	(240,171)	(5,219)	185,132	1
Fund Balances-Beginning	3,371,885	279,205	(711,423)	3,506,206	157
<b>Fund Balances-Ending</b>	<b>\$ 4,035,656</b>	<b>\$ 39,034</b>	<b>\$ (716,642)</b>	<b>\$ 3,691,338</b>	<b>\$ 158</b>

City of Morgan Hill  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2014

	<b>Capital Project Funds (continued)</b>				
	<b>Public Facilities</b>	<b>Library Impact</b>	<b>Under Grounding</b>	<b>School Pedestrian &amp; Traffic Safety</b>	<b>Community/ Rec Center Impact</b>
<b>Revenues:</b>					
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies					
Charges for current services	415,395	674,080	6,343	159,915	
Investment income	9,694	5,733	1,287	8,482	390
Other revenues					
<b>Total Revenues</b>	<b>425,089</b>	<b>679,813</b>	<b>7,630</b>	<b>168,397</b>	<b>390</b>
<b>Expenditures:</b>					
Current:					
General government					
Public safety					
Community development					
Streets and highways			267	2,101	
Parks and recreation					
Other public services	1,655	1,601			
Capital outlay:					
Construction projects	1,114,939			458,529	
Debt service:					
Principal					
Interest and fiscal charges					
<b>Total Expenditures</b>	<b>1,116,594</b>	<b>1,601</b>	<b>267</b>	<b>460,630</b>	
Excess (deficiency) of revenues over (under) expenditures	(691,505)	678,212	7,363	(292,233)	390
<b>Other Financing Sources (Uses)</b>					
Transfers in					
Transfers (out)		(240,539)			
Total other financing sources (uses)		(240,539)			
Net change in fund balances	(691,505)	437,673	7,363	(292,233)	390
Fund Balances-Beginning	1,790,129	674,436	225,431	1,489,454	69,811
<b>Fund Balances-Ending</b>	<b>\$ 1,098,624</b>	<b>\$ 1,112,109</b>	<b>\$ 232,794</b>	<b>\$ 1,197,221</b>	<b>\$ 70,201</b>

City of Morgan Hill  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Fiscal Year Ended June 30, 2014

	<u>Capital Projects Funds (continued)</u>		<u>Debt Service Funds</u>	
	<u>Civic Center</u>	<u>Capital Projects Total</u>	<u>Civic Center Debt</u>	<u>Police Fac Bond Debt Svs</u>
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies		532,761		
Charges for current services		7,593,236	36,946	
Investment income	(232)	201,264	(709)	27,774
Other revenues		(8,606)		
<b>Total Revenues</b>	<b>(232)</b>	<b>8,318,655</b>	<b>36,237</b>	<b>27,774</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety		1,061		
Community development				
Streets and highways		195,815		
Parks and recreation		32,325		
Other public services		3,256		
Capital outlay:				
Construction projects	17,938	3,613,722		
Debt service:				
Principal			125,000	175,000
Interest and fiscal charges			211,972	274,176
<b>Total Expenditures</b>	<b>17,938</b>	<b>3,846,179</b>	<b>336,972</b>	<b>449,176</b>
Excess (deficiency) of revenues over (under) expenditures	(18,170)	4,472,476	(300,735)	(421,402)
<b>Other Financing Sources (Uses)</b>				
Transfers in		750,000	297,833	445,750
Transfers (out)		(942,663)		
Total other financing sources (uses)		(192,663)	297,833	445,750
Net change in fund balances	(18,170)	4,279,813	(2,902)	24,348
Fund Balances-Beginning	18,351	32,921,813	359,407	468,406
<b>Fund Balances-Ending</b>	<b>\$ 181</b>	<b>\$ 37,201,626</b>	<b>\$ 356,505</b>	<b>\$ 492,754</b>

**City of Morgan Hill**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Debt Service Funds</u>		<u>Total NonMajor Govt Funds</u>
	<u>Cochrane Business Park</u>	<u>Debt Service Total</u>	
<b><u>Revenues:</u></b>			
Property taxes and special assessment	\$ -	\$ -	\$ 181,583
Funding from other governmental agencies			3,598,810
Charges for current services		36,946	8,328,493
Investment income	61	27,126	297,434
Other revenues			28,961
<b>Total Revenues</b>	<b><u>61</u></b>	<b><u>64,072</u></b>	<b><u>12,435,281</u></b>
<b><u>Expenditures:</u></b>			
Current:			
General government			47,013
Public safety			14,313
Community development			1,789,838
Streets and highways			202,289
Parks and recreation			32,545
Other public services			309,723
Capital outlay:			
Construction projects			3,613,722
Debt service:			
Principal		300,000	300,000
Interest and fiscal charges		486,148	486,148
<b>Total Expenditures</b>		<b><u>786,148</u></b>	<b><u>6,795,591</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>61</u>	<u>(722,076)</u>	<u>5,639,690</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in		743,583	1,973,964
Transfers (out)			<u>(1,863,383)</u>
Total other financing sources (uses)		<u>743,583</u>	<u>110,581</u>
Net change in fund balances	61	21,507	5,750,271
Fund Balances-Beginning	10,955	838,768	38,692,233
<b>Fund Balances-Ending</b>	<b><u>\$ 11,016</u></b>	<b><u>\$ 860,275</u></b>	<b><u>\$ 44,442,504</u></b>

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	<b>Special Revenue Funds</b>			
	<b>Street Maintenance</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies	603,363	603,363	692,821	89,458
Charges for current services				
Investment income	66	66	603	537
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>603,429</b>	<b>603,429</b>	<b>693,424</b>	<b>89,995</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways	4,024	6,474	6,474	
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>4,024</b>	<b>6,474</b>	<b>6,474</b>	
Excess (deficiency) of revenues over (under) expenditures	599,405	596,955	686,950	89,995
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(603,363)	(686,891)	(686,891)	
Total other financing sources (uses)	(603,363)	(686,891)	(686,891)	
Net change in fund balances	\$ (3,958)	\$ (89,936)	59	\$ 89,995
Adjustments to budgetary basis				
Fund Balances-Beginning			15,269	
<b>Fund Balances-Ending</b>			<b>\$ 15,328</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	<b>Special Revenue Funds (continued)</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Supplemental Law Enforcement</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies	102,500	102,500	91,667	(10,833)
Charges for current services				
Investment income	254	254	267	13
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>102,754</b>	<b>102,754</b>	<b>91,934</b>	<b>(10,820)</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety	2,200	2,200	2,220	(20)
Community development				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>2,200</b>	<b>2,200</b>	<b>2,220</b>	<b>(20)</b>
Excess (deficiency) of revenues over (under) expenditures	100,554	100,554	89,714	(10,840)
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(100,000)	(100,000)	(83,333)	16,667
Total other financing sources (uses)	(100,000)	(100,000)	(83,333)	16,667
Net change in fund balances	\$ 554	\$ 554	6,381	\$ 5,827
Adjustments to budgetary basis				
Fund Balances-Beginning			50,722	
<b>Fund Balances-Ending</b>			<b>\$ 57,103</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	Special Revenue Funds (continued)			Variance with Final Budget Positive (Negative)
	General Plan Update			
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services	391,500	391,500	578,747	187,247
Investment income	559	559	3,004	2,445
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>392,059</b>	<b>392,059</b>	<b>581,751</b>	<b>189,692</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development	919,996	1,063,031	727,683	335,348
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>919,996</b>	<b>1,063,031</b>	<b>727,683</b>	<b>335,348</b>
Excess (deficiency) of revenues over (under) expenditures	(527,937)	(670,972)	(145,932)	525,040
<b>Other Financing Sources (Uses):</b>				
Transfers in	337,840	337,840	337,840	
Transfers (out)				
Total other financing sources (uses)	337,840	337,840	337,840	
Net change in fund balances	\$ (190,097)	\$ (333,132)	191,908	\$ 525,040
Adjustments to budgetary basis			52,938	
Fund Balances-Beginning			362,715	
<b>Fund Balances-Ending</b>			<b>\$ 607,561</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	<b>Special Revenue Funds (continued)</b>			
	<b>Community Rec Centers Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services				
Investment income	209	209	2	(207)
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>209</b>	<b>209</b>	<b>2</b>	<b>(207)</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways				
Parks and recreation	220	220	220	
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>220</b>	<b>220</b>	<b>220</b>	
Excess (deficiency) of revenues over (under) expenditures	(11)	(11)	(218)	(207)
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ (11)	\$ (11)	(218)	\$ (207)
Adjustments to budgetary basis				
Fund Balances-Beginning			511	
<b>Fund Balances-Ending</b>			<b>\$ 293</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Special Revenue Funds (continued)</b>				
<b>Community Dev Block Grant</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies	60,000	71,337	60,150	(11,187)
Charges for current services				
Investment income	276	276	2,956	2,680
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b><u>60,276</u></b>	<b><u>71,613</u></b>	<b><u>63,106</u></b>	<b><u>(8,507)</u></b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	60,000	71,337		71,337
<b>Total Expenditures</b>	<b><u>60,000</u></b>	<b><u>71,337</u></b>		<b><u>71,337</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>276</u>	<u>276</u>	<u>63,106</u>	<u>62,830</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	<u>\$ 276</u>	<u>\$ 276</u>	63,106	<u>\$ 62,830</u>
Adjustments to budgetary basis				
Fund Balances-Beginning			(18,958)	
<b>Fund Balances-Ending</b>			<b><u>\$ 44,148</u></b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

	Special Revenue Funds (continued)			
	Asset Seizure			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
Original	Final			
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services			10,498	10,498
Investment income	110	110	102	(8)
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>110</b>	<b>110</b>	<b>10,600</b>	<b>10,490</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety		11,100	11,032	68
Community development				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>		<b>11,100</b>	<b>11,032</b>	<b>68</b>
Excess (deficiency) of revenues over (under) expenditures	110	(10,990)	(432)	10,558
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ 110	\$ (10,990)	(432)	\$ 10,558
Adjustments to budgetary basis				
Fund Balances-Beginning			17,333	
<b>Fund Balances-Ending</b>			<b>\$ 16,901</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

	Special Revenue Funds (continued)			
	Landscape and Lighting			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
Original	Final			
<b>Revenues:</b>				
Property taxes and special assessment	\$ 183,884	\$ 181,884	\$ 181,583	\$ (301)
Funding from other govt agencies				
Charges for current services				
Investment income	469	469	552	83
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>184,353</b>	<b>182,353</b>	<b>182,135</b>	<b>(218)</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways				
Parks and recreation				
Other public services	176,252	180,173	169,706	10,467
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>176,252</b>	<b>180,173</b>	<b>169,706</b>	<b>10,467</b>
Excess (deficiency) of revenues over (under) expenditures	8,101	2,180	12,429	10,249
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ 8,101	\$ 2,180	12,429	\$ 10,249
Adjustments to budgetary basis			10,798	
Fund Balances-Beginning			97,592	
<b>Fund Balances-Ending</b>			<b>\$ 120,819</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

	<b>Special Revenue Funds (continued)</b>			
	<b>Community Facilities</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services		11,000	11,000	
Investment income				
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>		<b>11,000</b>	<b>11,000</b>	
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways				
Parks and recreation				
Other public services		11,000	3,230	7,770
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>		<b>11,000</b>	<b>3,230</b>	<b>7,770</b>
Excess (deficiency) of revenues over (under) expenditures			7,770	7,770
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ -	\$ -	7,770	\$ 7,770
Adjustments to budgetary basis				
Fund Balances-Beginning				
<b>Fund Balances-Ending</b>			<b>\$ 7,770</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

<b>Special Revenue Funds (continued)</b>				
<b>Environmental Programs</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies	20,000	29,440		(29,440)
Charges for current services	55,708	55,708	94,478	38,770
Investment income	788	788	1,503	715
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>76,496</b>	<b>85,936</b>	<b>95,981</b>	<b>10,045</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development				
Streets and highways				
Parks and recreation				
Other public services	197,502	426,919	144,329	282,590
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>197,502</b>	<b>426,919</b>	<b>144,329</b>	<b>282,590</b>
Excess (deficiency) of revenues over (under) expenditures	(121,006)	(340,983)	(48,348)	292,635
<b>Other Financing Sources (Uses):</b>				
Transfers in	142,542	142,542	142,541	(1)
Transfers (out)				
Total other financing sources (uses)	142,542	142,542	142,541	(1)
Net change in fund balances	\$ 21,536	\$ (198,441)	94,193	\$ 292,634
Adjustments to budgetary basis				
Fund Balances-Beginning			219,978	
<b>Fund Balances-Ending</b>			<b>\$ 314,171</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

<b>Special Revenue Funds (continued)</b>				
<b>Mobile Home Park Rent Stabilization</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services	5,500	5,500	3,588	(1,912)
Investment income	99	99	130	31
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b><u>5,599</u></b>	<b><u>5,599</u></b>	<b><u>3,718</u></b>	<b><u>(1,881)</u></b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development	947	1,501	1,501	
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b><u>947</u></b>	<b><u>1,501</u></b>	<b><u>1,501</u></b>	
Excess (deficiency) of revenues over (under) expenditures	<u>4,652</u>	<u>4,098</u>	<u>2,217</u>	<u>(1,881)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	<u>\$ 4,652</u>	<u>\$ 4,098</u>	2,217	<u>\$ (1,881)</u>
Adjustments to budgetary basis				
Fund Balances-Beginning			22,098	
<b>Fund Balances-Ending</b>			<b><u>\$ 24,315</u></b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
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	Special Revenue Funds (continued)			Variance with Final Budget Positive (Negative)
	Housing Development			
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies	1,050,000	1,050,000	2,221,411	1,171,411
Charges for current services				
Investment income	25,944	25,944	58,587	32,643
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>1,075,944</b>	<b>1,075,944</b>	<b>2,279,998</b>	<b>1,204,054</b>
<b>Expenditures:</b>				
Current:				
General government				
Public safety				
Community development	730,416	1,191,349	1,191,349	
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>730,416</b>	<b>1,191,349</b>	<b>1,191,349</b>	
Excess (deficiency) of revenues over (under) expenditures	345,528	(115,405)	1,088,649	1,204,054
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(150,496)	(150,496)	(150,496)	
Total other financing sources (uses)	(150,496)	(150,496)	(150,496)	
Net change in fund balances	\$ 195,032	\$ (265,901)	938,153	\$ 1,204,054
Adjustments to budgetary basis			77,757	
Fund Balances-Beginning			3,894,597	
<b>Fund Balances-Ending</b>			<b>\$ 4,910,507</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
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	Special Revenue Funds (continued)			
	Employee Assistance			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
Original	Final			
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services				
Investment income	310	310	184	(126)
Fines, forfeitures, and other revenues	42,356	42,356	37,567	(4,789)
<b>Total Revenues</b>	<b>42,666</b>	<b>42,666</b>	<b>37,751</b>	<b>(4,915)</b>
<b>Expenditures:</b>				
Current:				
General government	50,743	50,743	34,401	16,342
Public safety				
Community development				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>50,743</b>	<b>50,743</b>	<b>34,401</b>	<b>16,342</b>
Excess (deficiency) of revenues over (under) expenditures	(8,077)	(8,077)	3,350	11,427
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ (8,077)	\$ (8,077)	3,350	\$ 11,427
Adjustments to budgetary basis				
Fund Balances-Beginning			35,887	
<b>Fund Balances-Ending</b>			<b>\$ 39,237</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
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 For the Fiscal Year Ended June 30, 2014

	Special Revenue Funds (continued)			Variance with Final Budget Positive (Negative)
	Environmental Remediation		Actual Amounts	
	Budgeted Amounts			
	Original	Final		
<b>Revenues:</b>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -
Funding from other govt agencies				
Charges for current services				
Investment income	1,644	1,644	1,154	(490)
Fines, forfeitures, and other revenues				
<b>Total Revenues</b>	<b>1,644</b>	<b>1,644</b>	<b>1,154</b>	<b>(490)</b>
<b>Expenditures:</b>				
Current:				
General government			12,612	(12,612)
Public safety				
Community development				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>			<b>12,612</b>	<b>(12,612)</b>
Excess (deficiency) of revenues over (under) expenditures	1,644	1,644	(11,458)	(13,102)
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ 1,644	\$ 1,644	(11,458)	\$ (13,102)
Adjustments to budgetary basis				
Fund Balances-Beginning			233,908	
<b>Fund Balances-Ending</b>			<b>\$ 222,450</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
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Total Special Revenue Funds

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes and special assessment	\$ 183,884	\$ 181,884	\$ 181,583	\$ (301)
Funding from other govt agencies	1,835,863	1,856,640	3,066,049	1,209,409
Charges for current services	452,708	463,708	698,311	234,603
Investment income	30,728	30,728	69,044	38,316
Fines, forfeitures, and other revenues	42,356	42,356	37,567	(4,789)
<b>Total Revenues</b>	<b>2,545,539</b>	<b>2,575,316</b>	<b>4,052,554</b>	<b>1,477,238</b>
<b>Expenditures:</b>				
Current:				
General government	50,743	50,743	47,013	3,730
Public safety	2,200	13,300	13,252	48
Community development	1,651,359	2,255,881	1,920,533	335,348
Streets and highways	4,024	6,474	6,474	
Parks and recreation	220	220	220	
Other public services	373,754	618,092	317,265	300,827
Capital outlay:				
Construction projects	60,000	71,337		71,337
<b>Total Expenditures</b>	<b>2,142,300</b>	<b>3,016,047</b>	<b>2,304,757</b>	<b>711,290</b>
Excess (deficiency) of revenues over (under) expenditures	403,239	(440,731)	1,747,797	2,188,528
<b>Other Financing Sources (Uses):</b>				
Transfers in	480,382	480,382	480,381	(1)
Transfers (out)	(853,859)	(937,387)	(920,720)	16,667
Total other financing sources (uses)	(373,477)	(457,005)	(440,339)	16,666
Net change in fund balances	\$ 29,762	\$ (897,736)	1,307,458	\$ 2,205,194
Adjustments to budgetary basis			141,493	
Fund Balances-Beginning			4,931,652	
<b>Fund Balances-Ending</b>			<b>\$ 6,380,603</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

	<b>Capital Project Funds</b>			
	<b>Park Impact</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
<b>Original</b>	<b>Final</b>			
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	1,122,075	1,122,075	1,445,198	323,123
Investment income	23,360	23,360	51,945	28,585
Other revenues				
<b>Total Revenues</b>	<b>1,145,435</b>	<b>1,145,435</b>	<b>1,497,143</b>	<b>351,708</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation	19,578	19,578	24,021	(4,443)
Other public services				
Capital outlay:				
Construction projects	8,375,000	8,406,721	116,325	8,290,396
<b>Total Expenditures</b>	<b>8,394,578</b>	<b>8,426,299</b>	<b>140,346</b>	<b>8,285,953</b>
Excess (deficiency) of revenues over (under) expenditures	(7,249,143)	(7,280,864)	1,356,797	8,637,661
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(37,221)	(37,221)	(37,221)	
Total other financing sources (uses)	(37,221)	(37,221)	(37,221)	
Net change in fund balances	\$ (7,286,364)	\$ (7,318,085)	1,319,576	\$ 8,637,661
Adjustments to budgetary basis			17,448	
Fund Balances-Beginning			8,542,459	
<b>Fund Balances-Ending</b>			<b>\$ 9,879,483</b>	

City of Morgan Hill  
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 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Park Maintenance</b>				
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	428,539	428,539	684,973	256,434
Investment income	21,699	21,699	26,603	4,904
Other revenues				
<b>Total Revenues</b>	<b>450,238</b>	<b>450,238</b>	<b>711,576</b>	<b>261,338</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation	4,958	4,958	8,304	(3,346)
Other public services				
Capital outlay:				
Construction projects	145,000	145,000	32,014	112,986
<b>Total Expenditures</b>	<b>149,958</b>	<b>149,958</b>	<b>40,318</b>	<b>109,640</b>
Excess (deficiency) of revenues over (under) expenditures	300,280	300,280	671,258	370,978
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(404,221)	(404,221)	(404,221)	
Total other financing sources (uses)	(404,221)	(404,221)	(404,221)	
Net change in fund balances	\$ (103,941)	\$ (103,941)	267,037	\$ 370,978
Adjustments to budgetary basis				
Fund Balances-Beginning			4,689,543	
<b>Fund Balances-Ending</b>			<b>\$ 4,956,580</b>	

City of Morgan Hill  
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<b>Capital Project Funds (continued)</b>				
<b>Drainage Impact</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	924,800	924,800	1,738,152	813,352
Investment income	22,853	22,853	30,394	7,541
Other revenues				
<b>Total Revenues</b>	<b>947,653</b>	<b>947,653</b>	<b>1,768,546</b>	<b>820,893</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	10,920	10,920	14,940	(4,020)
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	1,330,000	2,396,771	1,347,205	1,049,566
<b>Total Expenditures</b>	<b>1,340,920</b>	<b>2,407,691</b>	<b>1,362,145</b>	<b>1,045,546</b>
Excess (deficiency) of revenues over (under) expenditures	(393,267)	(1,460,038)	406,401	1,866,439
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(8,442)	(8,442)	(8,442)	
Total other financing sources (uses)	(8,442)	(8,442)	(8,442)	
Net change in fund balances	\$ (401,709)	\$ (1,468,480)	397,959	\$ 1,866,439
Adjustments to budgetary basis			279,666	
Fund Balances-Beginning			4,892,271	
<b>Fund Balances-Ending</b>			<b>\$ 5,569,896</b>	

City of Morgan Hill  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Open Space</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	417,892	417,892	817,036	399,144
Investment income	13,964	13,964	20,646	6,682
Other revenues				
<b>Total Revenues</b>	<b>431,856</b>	<b>431,856</b>	<b>837,682</b>	<b>405,826</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	102,345	122,356	162,437	(40,081)
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	50,000	50,000		50,000
<b>Total Expenditures</b>	<b>152,345</b>	<b>172,356</b>	<b>162,437</b>	<b>9,919</b>
Excess (deficiency) of revenues over (under) expenditures	279,511	259,500	675,245	415,745
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ 279,511	\$ 259,500	675,245	\$ 415,745
Adjustments to budgetary basis			20,011	
Fund Balances-Beginning			3,317,661	
<b>Fund Balances-Ending</b>			<b>\$ 4,012,917</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Streets CIP</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Funding from other govt agencies	\$ 569,644	\$ 569,644	\$ 532,761	\$ (36,883)
Charges for current services	610,000	610,000	358,051	(251,949)
Investment income	3,010	3,010	6,707	3,697
Other revenues				
<b>Total Revenues</b>	<b>1,182,654</b>	<b>1,182,654</b>	<b>897,519</b>	<b>(285,135)</b>
<b><u>Expenditures:</u></b>				
Current:				
Public safety				
Streets and highways	31,182	31,182	31,329	(147)
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	1,300,000	1,855,694	530,790	1,324,904
<b>Total Expenditures</b>	<b>1,331,182</b>	<b>1,886,876</b>	<b>562,119</b>	<b>1,324,757</b>
Excess (deficiency) of revenues over (under) expenditures	(148,528)	(704,222)	335,400	1,039,622
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers in	1,000,000	750,000	750,000	
Transfers (out)				
Total other financing sources (uses)	1,000,000	750,000	750,000	
Net change in fund balances	\$ 851,472	\$ 45,778	1,085,400	\$ 1,039,622
Adjustments to budgetary basis			170,439	
Fund Balances-Beginning			766,237	
<b>Fund Balances-Ending</b>			<b>\$ 2,022,076</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Traffic Impact</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	375,075	375,075	897,687	522,612
Investment income	15,044	15,044	19,690	4,646
Other revenues			(8,606)	(8,606)
<b>Total Revenues</b>	<b>390,119</b>	<b>390,119</b>	<b>908,771</b>	<b>518,652</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	3,195	3,195	4,752	(1,557)
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	550,000	772,663	223,364	549,299
<b>Total Expenditures</b>	<b>553,195</b>	<b>775,858</b>	<b>228,116</b>	<b>547,742</b>
Excess (deficiency) of revenues over (under) expenditures	(163,076)	(385,739)	680,655	1,066,394
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(16,884)	(16,884)	(16,884)	
Total other financing sources (uses)	(16,884)	(16,884)	(16,884)	
Net change in fund balances	\$ (179,960)	\$ (402,623)	663,771	\$ 1,066,394
Adjustments to budgetary basis				
Fund Balances-Beginning			3,371,885	
<b>Fund Balances-Ending</b>			<b>\$ 4,035,656</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Municipal Infrastructure CIP</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services				
Investment income	826	826		(826)
Other revenues				
<b>Total Revenues</b>	<b>826</b>	<b>826</b>		<b>(826)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	181,000	280,000	280,001	(1)
<b>Total Expenditures</b>	<b>181,000</b>	<b>280,000</b>	<b>280,001</b>	<b>(1)</b>
Excess (deficiency) of revenues over (under) expenditures	(180,174)	(279,174)	(280,001)	(827)
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ (180,174)	\$ (279,174)	(280,001)	\$ (827)
Adjustments to budgetary basis			39,830	
Fund Balances-Beginning			279,205	
<b>Fund Balances-Ending</b>			<b>\$ 39,034</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Police Impact</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	156,600	156,600	230,781	74,181
Investment income			(198)	(198)
Other revenues				
<b>Total Revenues</b>	<b>156,600</b>	<b>156,600</b>	<b>230,583</b>	<b>73,983</b>
<b>Expenditures:</b>				
Current:				
Public safety	122	122	446	(324)
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>122</b>	<b>122</b>	<b>446</b>	<b>(324)</b>
Excess (deficiency) of revenues over (under) expenditures	156,478	156,478	230,137	73,659
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(238,528)	(238,528)	(235,356)	3,172
Total other financing sources (uses)	(238,528)	(238,528)	(235,356)	3,172
Net change in fund balances	\$ (82,050)	\$ (82,050)	(5,219)	\$ 76,831
Adjustments to budgetary basis				
Fund Balances-Beginning			(711,423)	
<b>Fund Balances-Ending</b>			<b>\$ (716,642)</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Fire Impact</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	141,525	150,525	165,625	15,100
Investment income	17,133	17,133	20,122	2,989
Other revenues				
<b>Total Revenues</b>	<b>158,658</b>	<b>167,658</b>	<b>185,747</b>	<b>18,089</b>
<b>Expenditures:</b>				
Current:				
Public safety	285	615	615	
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>285</b>	<b>615</b>	<b>615</b>	
Excess (deficiency) of revenues over (under) expenditures	158,373	167,043	185,132	18,089
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ 158,373	\$ 167,043	185,132	\$ 18,089
Adjustments to budgetary basis				
Fund Balances-Beginning			3,506,206	
<b>Fund Balances-Ending</b>			<b>\$ 3,691,338</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>MH Business Ranch CIP</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services				
Investment income			1	1
Other revenues				
<b>Total Revenues</b>			<b>1</b>	<b>1</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>				
Excess (deficiency) of revenues over (under) expenditures			1	1
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ -	\$ -	1	\$ 1
Adjustments to budgetary basis				
Fund Balances-Beginning			157	
<b>Fund Balances-Ending</b>			<b>\$ 158</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Public Facilities</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	744,625	744,625	415,395	(329,230)
Investment income	7,363	7,363	9,694	2,331
Other revenues				
<b>Total Revenues</b>	<b><u>751,988</u></b>	<b><u>751,988</u></b>	<b><u>425,089</u></b>	<b><u>(326,899)</u></b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation				
Other public services	728	931	1,655	(724)
Capital outlay:				
Construction projects	1,266,000	1,992,704	1,265,537	727,167
<b>Total Expenditures</b>	<b><u>1,266,728</u></b>	<b><u>1,993,635</u></b>	<b><u>1,267,192</u></b>	<b><u>726,443</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>(514,740)</u>	<u>(1,241,647)</u>	<u>(842,103)</u>	<u>399,544</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	<u>\$ (514,740)</u>	<u>\$ (1,241,647)</u>	(842,103)	<u>\$ 399,544</u>
Adjustments to budgetary basis			150,598	
Fund Balances-Beginning			1,790,129	
<b>Fund Balances-Ending</b>			<b><u>\$ 1,098,624</u></b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Library Impact</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	535,211	535,211	674,080	138,869
Investment income	1,451	1,451	5,733	4,282
Other revenues				
<b>Total Revenues</b>	<b>536,662</b>	<b>536,662</b>	<b>679,813</b>	<b>143,151</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation				
Other public services	843	1,601	1,601	
Capital outlay:				
Construction projects				
<b>Total Expenditures</b>	<b>843</b>	<b>1,601</b>	<b>1,601</b>	
Excess (deficiency) of revenues over (under) expenditures	535,819	535,061	678,212	143,151
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)	(240,539)	(240,539)	(240,539)	
Total other financing sources (uses)	(240,539)	(240,539)	(240,539)	
Net change in fund balances	\$ 295,280	\$ 294,522	437,673	\$ 143,151
Adjustments to budgetary basis				
Fund Balances-Beginning			674,436	
<b>Fund Balances-Ending</b>			<b>\$ 1,112,109</b>	

City of Morgan Hill  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Undergrounding</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	61,200	61,200	6,343	(54,857)
Investment income	1,133	1,133	1,287	154
Other revenues				
<b>Total Revenues</b>	<b>62,333</b>	<b>62,333</b>	<b>7,630</b>	<b>(54,703)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	267	267	267	
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	95,000	95,000		95,000
<b>Total Expenditures</b>	<b>95,267</b>	<b>95,267</b>	<b>267</b>	<b>95,000</b>
Excess (deficiency) of revenues over (under) expenditures	(32,934)	(32,934)	7,363	40,297
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ (32,934)	\$ (32,934)	7,363	\$ 40,297
Adjustments to budgetary basis				
Fund Balances-Beginning			225,431	
<b>Fund Balances-Ending</b>			<b>\$ 232,794</b>	

City of Morgan Hill  
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<b>Capital Project Funds (continued)</b>				
<b>School Pedestrian &amp; Traffic Safety</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services	371,250	371,250	159,915	(211,335)
Investment income	6,121	6,121	8,482	2,361
Other revenues				
<b>Total Revenues</b>	<b><u>377,371</u></b>	<b><u>377,371</u></b>	<b><u>168,397</u></b>	<b><u>(208,974)</u></b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways	537	537	2,101	(1,564)
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects	670,000	1,060,694	618,645	442,049
<b>Total Expenditures</b>	<b><u>670,537</u></b>	<b><u>1,061,231</u></b>	<b><u>620,746</u></b>	<b><u>440,485</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>(293,166)</u>	<u>(683,860)</u>	<u>(452,349)</u>	<u>231,511</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	<u>\$ (293,166)</u>	<u>\$ (683,860)</u>	(452,349)	<u>\$ 231,511</u>
Adjustments to budgetary basis			160,116	
Fund Balances-Beginning			1,489,454	
<b>Fund Balances-Ending</b>			<b><u>\$ 1,197,221</u></b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
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 For the Fiscal Year Ended June 30, 2014

		<b>Capital Project Funds (continued)</b>				
		<b>Community/Rec Center Impact</b>				
		<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>	
		<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>	
				<b>Positive</b>		
				<b>(Negative)</b>		
<b>Revenues:</b>						
Funding from other govt agencies	\$	-	\$	-	\$	-
Charges for current services						
Investment income		348	348	390		42
Other revenues						
<b>Total Revenues</b>		<b>348</b>	<b>348</b>	<b>390</b>		<b>42</b>
<b>Expenditures:</b>						
Current:						
Public safety						
Streets and highways						
Parks and recreation						
Other public services						
Capital outlay:						
Construction projects						
<b>Total Expenditures</b>						
Excess (deficiency) of revenues over (under) expenditures		348	348	390		42
<b>Other Financing Sources (Uses):</b>						
Transfers in						
Transfers (out)						
Total other financing sources (uses)						
Net change in fund balances	\$	348	\$	348		390
Adjustments to budgetary basis						
Fund Balances-Beginning				69,811		
<b>Fund Balances-Ending</b>				<b>70,201</b>		

City of Morgan Hill  
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 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Civic Center</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ -	\$ -	\$ -	\$ -
Charges for current services				
Investment income	154	154	(232)	(386)
Other revenues				
<b>Total Revenues</b>	<b>154</b>	<b>154</b>	<b>(232)</b>	<b>(386)</b>
<b>Expenditures:</b>				
Current:				
Public safety				
Streets and highways				
Parks and recreation				
Other public services				
Capital outlay:				
Construction projects		17,938	17,938	
<b>Total Expenditures</b>		<b>17,938</b>	<b>17,938</b>	
Excess (deficiency) of revenues over (under) expenditures	154	(17,784)	(18,170)	(386)
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	\$ 154	\$ (17,784)	(18,170)	\$ (386)
Adjustments to budgetary basis				
Fund Balances-Beginning			18,351	
<b>Fund Balances-Ending</b>			<b>\$ 181</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Capital Project Funds (continued)</b>				
<b>Total Capital Projects</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Funding from other govt agencies	\$ 569,644	\$ 569,644	\$ 532,761	\$ (36,883)
Charges for current services	5,888,792	5,897,792	7,593,236	1,695,444
Investment income	134,459	134,459	201,264	66,805
Other revenues			(8,606)	(8,606)
<b>Total Revenues</b>	<b>6,592,895</b>	<b>6,601,895</b>	<b>8,318,655</b>	<b>1,716,760</b>
<b>Expenditures:</b>				
Current:				
Public safety	407	737	1,061	(324)
Streets and highways	148,446	168,457	215,826	(47,369)
Parks and recreation	24,536	24,536	32,325	(7,789)
Other public services	1,571	2,532	3,256	(724)
Capital outlay:				
Construction projects	13,962,000	17,073,185	4,431,819	12,641,366
<b>Total Expenditures</b>	<b>14,136,960</b>	<b>17,269,447</b>	<b>4,684,287</b>	<b>12,585,160</b>
Excess (deficiency) of revenues over (under) expenditures	(7,544,065)	(10,667,552)	3,634,368	14,301,920
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,000,000	750,000	750,000	
Transfers (out)	(945,835)	(945,835)	(942,663)	3,172
Total other financing sources (uses)	54,165	(195,835)	(192,663)	3,172
Net change in fund balances	\$ (7,489,900)	\$ (10,863,387)	3,441,705	\$ 14,305,092
Adjustments to budgetary basis			838,108	
Fund Balances-Beginning			32,921,813	
<b>Fund Balances-Ending</b>			<b>\$ 37,201,626</b>	

City of Morgan Hill  
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	<b>Debt Service Funds</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Civic Center Debt Service</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	
<b>Revenues:</b>				
Charges for current services	\$ -	\$ -	\$ 36,946	\$ 36,946
Investment income	107	107	(709)	(816)
<b>Total Revenues</b>	<b>107</b>	<b>107</b>	<b>36,237</b>	<b>36,130</b>
<b>Expenditures:</b>				
Debt service:				
Principal	125,000	125,000	125,000	
Interest and fiscal charges	217,216	217,216	211,972	5,244
<b>Total Expenditures</b>	<b>342,216</b>	<b>342,216</b>	<b>336,972</b>	<b>5,244</b>
Excess (deficiency) of revenues over (under) expenditures	(342,109)	(342,109)	(300,735)	41,374
<b>Other Financing Sources (Uses):</b>				
Transfers in	334,780	334,780	297,833	(36,947)
Total other financing sources (uses)	334,780	334,780	297,833	(36,947)
Net change in fund balances	\$ (7,329)	\$ (7,329)	(2,902)	\$ 4,427
Fund Balances-Beginning			359,407	
<b>Fund Balances-Ending</b>			<b>\$ 356,505</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Debt Service Funds, (continued)</b>				
<b>Police Facility Bond</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Charges for current services	\$ -	\$ -	\$ -	\$ -
Investment income			27,774	27,774
<b>Total Revenues</b>			<b>27,774</b>	<b>27,774</b>
<b>Expenditures:</b>				
Debt service:				
Principal	175,000	175,000	175,000	
Interest and fiscal charges	277,068	277,068	274,176	2,892
<b>Total Expenditures</b>	<b>452,068</b>	<b>452,068</b>	<b>449,176</b>	<b>2,892</b>
Excess (deficiency) of revenues over (under) expenditures	(452,068)	(452,068)	(421,402)	30,666
<b>Other Financing Sources (Uses):</b>				
Transfers in	451,322	451,322	445,750	(5,572)
Total other financing sources (uses)	451,322	451,322	445,750	(5,572)
Net change in fund balances	\$ (746)	\$ (746)	24,348	\$ 25,094
Fund Balances-Beginning			468,406	
<b>Fund Balances-Ending</b>			<b>\$ 492,754</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Debt Service Funds (continued)</b>				
<b>Cochrane Business Park</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Charges for current services	\$ -	\$ -	\$ -	\$ -
Investment income	55	55	61	6
<b>Total Revenues</b>	<b>55</b>	<b>55</b>	<b>61</b>	<b>6</b>
<b>Expenditures:</b>				
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>				
Excess (deficiency) of revenues over (under) expenditures	55	55	61	6
<b>Other Financing Sources (Uses):</b>				
Transfers in				
Total other financing sources (uses)				
Net change in fund balances	\$ 55	\$ 55	61	\$ 6
Fund Balances-Beginning			10,955	
<b>Fund Balances-Ending</b>			<b>\$ 11,016</b>	

City of Morgan Hill  
 Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances-Budget and Actual  
 For the Fiscal Year Ended June 30, 2014

<b>Total Debt Service Funds</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Charges for current services	\$ -	\$ -	\$ 36,946	\$ 36,946
Investment income	162	162	27,126	26,964
<b>Total Revenues</b>	<b>162</b>	<b>162</b>	<b>64,072</b>	<b>63,910</b>
<b>Expenditures:</b>				
Debt service:				
Principal	300,000	300,000	300,000	
Interest and fiscal charges	494,284	494,284	486,148	8,136
<b>Total Expenditures</b>	<b>794,284</b>	<b>794,284</b>	<b>786,148</b>	<b>8,136</b>
Excess (deficiency) of revenues over (under) expenditures	(794,122)	(794,122)	(722,076)	72,046
<b>Other Financing Sources (Uses):</b>				
Transfers in	786,102	786,102	743,583	(42,519)
Total other financing sources (uses)	786,102	786,102	743,583	(42,519)
Net change in fund balances	<u>\$ (8,020)</u>	<u>\$ (8,020)</u>	21,507	<u>\$ 29,527</u>
Fund Balances-Beginning			838,768	
<b>Fund Balances-Ending</b>			<b><u>\$ 860,275</u></b>	

## Internal Service Funds



**CITY OF MORGAN HILL**

**CITY OF MORGAN HILL – INTERNAL SERVICE FUNDS  
JUNE 30, 2014**

Internal Service Funds account for the financing of goods or services provided by a department for other departments on a cost-reimbursement basis.

**Information Systems**-Based on the information technology equipment in each department, the Information Systems fund levies for the costs of operating this fund.

**Building and Maintenance**-This fund levies a charge against each department for its share, based on the square footage of the City's owned facilities, of the costs of operations for building maintenance.

**Building Replacement**-This fund accounts for reserves set aside for the future replacement of major building components. A funding schedule based on the replacement cost and life of the major building components is used as an allocation to user departments.

**CIP Administration**-This fund levies a charge against each fund for its share of the costs of implementing the capital improvements program including the costs incurred for personnel, administration and capital outlay.

**Unemployment Insurance**-This fund receives funds through charging each department an assessment, based on gross salaries, to cover the cost of charges for unemployment benefits levied by the State.

**Workers' Compensation** -This fund assesses a levy against all labor expenditures to provide the revenue to cover the costs for excess workers' compensation insurance premiums, claims administration, and expenses for the workers' compensation program. A fund reserve covers the City's \$250,000 deductible per claim.

**Equipment Replacement**-This fund is used to accumulate reserves, via a charge to all operating departments with equipment and/or vehicles to fund the replacement of the equipment and vehicles.

**Employee Benefits**-This fund collects and holds the annual increase in employee paid leave liability, the difference between accrued and taken. In addition, this fund reports the compensated absence liability for the City as a whole.

**General Liability Insurance**-This fund levies a charge against each operating fund/department for its share, based on payroll, of the liability and property insurance programs to cover expenditures for insurance premiums, claims administration, and claims expense. A fund reserve covers the City's \$100,000 deductible per liability claim.

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Net Position  
June 30, 2014

	<u>Information Systems</u>	<u>Building Maintenance</u>	<u>Building Replacement</u>	<u>CIP Administration</u>	<u>Unemployment Insurance</u>
<b><u>Assets:</u></b>					
Current assets					
Pooled cash and investment	\$ 229,849	\$ 287,921	\$ 2,162,897	\$ 69,609	\$ 213,000
Receivables:					
Accrued interest	92	92	1,030	12	104
Other accounts receivable		3,186			
Total current assets	<u>229,941</u>	<u>291,199</u>	<u>2,163,927</u>	<u>69,621</u>	<u>213,104</u>
Noncurrent assets					
Advance to other funds					
Capital assets, net	57,295	155,653	1,023,720	5,440	
Total noncurrent assets	<u>57,295</u>	<u>155,653</u>	<u>1,023,720</u>	<u>5,440</u>	
<b>Total Assets</b>	<b><u>287,236</u></b>	<b><u>446,852</u></b>	<b><u>3,187,647</u></b>	<b><u>75,061</u></b>	<b><u>213,104</u></b>
<b><u>Liabilities:</u></b>					
Current liabilities					
Accounts payable	30,887	133,583	73,545	3,359	
Accrued liabilities	13,339	30,807		25,744	
Current obligations for:					
Capital lease	1,637				
Compensated absences					
Total current liabilities	<u>45,863</u>	<u>164,390</u>	<u>73,545</u>	<u>29,103</u>	
Noncurrent liabilities					
Long term obligations for:					
Advance from other funds		41,280			
Capital lease	5,303				
OPEB payable	18,069	9,786		55,426	
Compensated absences					
Total noncurrent liabilities	<u>23,372</u>	<u>51,066</u>		<u>55,426</u>	
<b>Total Liabilities</b>	<b><u>69,235</u></b>	<b><u>215,456</u></b>	<b><u>73,545</u></b>	<b><u>84,529</u></b>	
<b><u>Net Position:</u></b>					
Net investment in capital assets	50,355	155,653	1,023,720	5,440	
Unrestricted	167,646	75,743	2,090,382	(14,908)	213,104
<b>Total Net Position</b>	<b><u>\$ 218,001</u></b>	<b><u>\$ 231,396</u></b>	<b><u>\$ 3,114,102</u></b>	<b><u>\$ (9,468)</u></b>	<b><u>\$ 213,104</u></b>

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Net Position  
June 30, 2014

	<u>Workers'</u> <u>Compensation</u>	<u>Equipment</u> <u>Replacement</u>	<u>Employee</u> <u>Benefits</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
<b>Assets:</b>					
Current assets					
Pooled cash and investment	\$ 1,659,496	\$ 3,955,925	\$ 312,222	\$ 769,841	\$ 9,660,760
Receivables:					
Accrued interest	759	1,943	198	337	4,567
Other accounts receivable		9,952		89,433	102,571
Total current assets	<u>1,660,255</u>	<u>3,967,820</u>	<u>312,420</u>	<u>859,611</u>	<u>9,767,898</u>
Noncurrent assets					
Advance to other funds		41,280			41,280
Capital assets, net		664,931		16,647	1,923,686
Total noncurrent assets		<u>706,211</u>		<u>16,647</u>	<u>1,964,966</u>
<b>Total Assets</b>	<b><u>1,660,255</u></b>	<b><u>4,674,031</u></b>	<b><u>312,420</u></b>	<b><u>876,258</u></b>	<b><u>11,732,864</u></b>
<b>Liabilities:</b>					
Current liabilities					
Accounts payable	13,984	2,824		11,864	270,046
Accrued liabilities	697,631	1,555		401,273	1,170,349
Current obligations for:					
Capital lease		15,072			16,709
Compensated absences			475,380		475,380
Total current liabilities	<u>711,615</u>	<u>19,451</u>	<u>475,380</u>	<u>413,137</u>	<u>1,932,484</u>
Noncurrent liabilities					
Long term obligations for:					
Advance from other funds					41,280
Capital lease		34,302			39,605
OPEB payable					83,281
Compensated absences			1,075,863		1,075,863
Total noncurrent liabilities		<u>34,302</u>	<u>1,075,863</u>		<u>1,240,029</u>
<b>Total Liabilities</b>	<b><u>711,615</u></b>	<b><u>53,753</u></b>	<b><u>1,551,243</u></b>	<b><u>413,137</u></b>	<b><u>3,172,513</u></b>
<b>Net Position:</b>					
Net investment in capital assets		615,557		16,647	1,867,372
Unrestricted	948,640	4,004,721	(1,238,823)	446,474	6,692,979
<b>Total Net Position</b>	<b><u>\$ 948,640</u></b>	<b><u>\$ 4,620,278</u></b>	<b><u>\$ (1,238,823)</u></b>	<b><u>\$ 463,121</u></b>	<b><u>\$ 8,560,351</u></b>

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2014

	<u>Information Systems</u>	<u>Building Maintenance</u>	<u>Building Replacement</u>	<u>CIP Administration</u>	<u>Unemployment Insurance</u>
<b><u>Operating Revenues:</u></b>					
Charges for current services	\$ 819,999	\$ 1,793,742	\$ 378,338	\$ 1,595,350	\$ -
Other operating income	<u>18,791</u>	<u>25,337</u>	<u>410</u>	<u>71</u>	
Total Operating Revenues	<u>838,790</u>	<u>1,819,079</u>	<u>378,748</u>	<u>1,595,421</u>	
<b><u>Operating Expenses:</u></b>					
Salaries and benefits	512,995	136,680		1,258,495	
Claims and insurance premiums					18,864
Operations and maintenance	145,965	1,541,506	786	48,949	
Depreciation	32,686	31,099	90,520	4,589	
Administrative charges	<u>14,477</u>	<u>71,205</u>		<u>294,208</u>	
Total Operating Expenses (Loss)	<u>706,123</u>	<u>1,780,490</u>	<u>91,306</u>	<u>1,606,241</u>	<u>18,864</u>
<b>Operating Income</b>	<b><u>132,667</u></b>	<b><u>38,589</u></b>	<b><u>287,442</u></b>	<b><u>(10,820)</u></b>	<b><u>(18,864)</u></b>
<b><u>Nonoperating revenues(expenses):</u></b>					
Investment earnings	<u>666</u>	<u>733</u>	<u>12,680</u>	<u>92</u>	<u>1,257</u>
Total nonoperating revenue (expenses)	<u>666</u>	<u>733</u>	<u>12,680</u>	<u>92</u>	<u>1,257</u>
Income (loss) before operating transfers	<u>133,333</u>	<u>39,322</u>	<u>300,122</u>	<u>(10,728)</u>	<u>(17,607)</u>
Transfers in (out)		<u>81,035</u>	<u>27,677</u>	<u>(2,727)</u>	
Change in net position	<u>133,333</u>	<u>120,357</u>	<u>327,799</u>	<u>(13,455)</u>	<u>(17,607)</u>
Total net position-beginning	<u>84,668</u>	<u>111,039</u>	<u>2,786,303</u>	<u>3,987</u>	<u>230,711</u>
<b>Total net position-ending</b>	<b><u>\$ 218,001</u></b>	<b><u>\$ 231,396</u></b>	<b><u>\$ 3,114,102</u></b>	<b><u>\$ (9,468)</u></b>	<b><u>\$ 213,104</u></b>

City of Morgan Hill  
Internal Service Funds  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2014

	<u>Workers'</u> <u>Compensation</u>	<u>Equipment</u> <u>Replacement</u>	<u>Employee</u> <u>Benefits</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
<b><u>Operating Revenues:</u></b>					
Charges for current services	\$ 965,430	\$ 444,031	\$ 292,486	\$ 745,440	\$ 7,034,816
Other operating income	1,990	22,198		90,751	159,548
Total Operating Revenues	<u>967,420</u>	<u>466,229</u>	<u>292,486</u>	<u>836,191</u>	<u>7,194,364</u>
<b><u>Operating Expenses:</u></b>					
Salaries and benefits			484,524		2,392,694
Claims and insurance premiums	719,565				738,429
Operations and maintenance	45,259	2,018		1,059,878	2,844,361
Depreciation		280,120		6,226	445,240
Administrative charges					379,890
Total Operating Expenses (Loss)	<u>764,824</u>	<u>282,138</u>	<u>484,524</u>	<u>1,066,104</u>	<u>6,800,614</u>
<b>Operating Income</b>	<b><u>202,596</u></b>	<b><u>184,091</u></b>	<b><u>(192,038)</u></b>	<b><u>(229,913)</u></b>	<b><u>393,750</u></b>
<b><u>Nonoperating revenues(expenses):</u></b>					
Investment earnings	7,814	21,655	2,803	3,236	50,936
Total nonoperating revenue (expenses)	<u>7,814</u>	<u>21,655</u>	<u>2,803</u>	<u>3,236</u>	<u>50,936</u>
Income (loss) before operating transfers	210,410	205,746	(189,235)	(226,677)	444,686
Transfers in (out)					105,985
Change in net position	<u>210,410</u>	<u>205,746</u>	<u>(189,235)</u>	<u>(226,677)</u>	<u>550,671</u>
Total net position-beginning	738,230	4,414,532	(1,049,588)	689,798	8,009,680
<b>Total net position-ending</b>	<b><u>\$ 948,640</u></b>	<b><u>\$ 4,620,278</u></b>	<b><u>\$ (1,238,823)</u></b>	<b><u>\$ 463,121</u></b>	<b><u>\$ 8,560,351</u></b>

**City of Morgan Hill  
Internal Service Funds  
Combining Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2014**

	<u>Information Systems</u>	<u>Building Maintenance</u>	<u>Building Replacement</u>	<u>CIP Administration</u>	<u>Unemployment Insurance</u>
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 838,790	\$ 1,815,950	\$ 378,748	\$ 1,595,421	\$ -
Payment for supplies and services	(110,215)	(1,522,621)	36,540	(43,517)	(18,864)
Payments to employees	(509,881)	(134,961)		(1,249,628)	
Payments for interfund services	(14,477)	(71,205)		(294,208)	
Net cash provided (used) by operating activities	<u>204,217</u>	<u>87,163</u>	<u>415,288</u>	<u>8,068</u>	<u>(18,864)</u>
<b>Cash Flows from NonCapital Financing Activities</b>					
Interfund loans received (paid)		41,280			
Transfers (to)/from other funds		81,035	27,677	(2,727)	
Net cash provided (used) by noncapital financing activities		<u>122,315</u>	<u>27,677</u>	<u>(2,727)</u>	
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from capital lease	8,848				
Principal paid on capital debt	(1,908)				
Purchases of capital assets	(19,253)	(144,836)	(602,046)		
Net cash provided (used) by capital and related financing activities	<u>(12,313)</u>	<u>(144,836)</u>	<u>(602,046)</u>		
<b>Cash Flows from Investing Activities</b>					
Interest earnings	588	709	12,678	90	1,258
Net cash provided (used) by investing activities	<u>588</u>	<u>709</u>	<u>12,678</u>	<u>90</u>	<u>1,258</u>
Net increase (decrease) in cash and equivalents	192,492	65,351	(146,403)	5,431	(17,606)
Cash and equivalents at July 1, 2013	37,357	222,570	2,309,300	64,178	230,606
<b>Cash and equivalents at June 30, 2014</b>	<b><u>\$ 229,849</u></b>	<b><u>\$ 287,921</u></b>	<b><u>\$ 2,162,897</u></b>	<b><u>\$ 69,609</u></b>	<b><u>\$ 213,000</u></b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 132,667	\$ 38,589	\$ 287,442	\$ (10,820)	\$ (18,864)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	32,686	31,099	90,520	4,589	
(Increase) in receivables		(3,129)			
(Increase) in prepaid expenses					
Increase (decrease) in accounts payable	35,750	18,885	37,326	5,432	
Increase (decrease) in compensated absences					
Increase (decrease) in OBEB payable	3,114	1,719		8,867	
Total adjustments	<u>71,550</u>	<u>48,574</u>	<u>127,846</u>	<u>18,888</u>	
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ 204,217</u></b>	<b><u>\$ 87,163</u></b>	<b><u>\$ 415,288</u></b>	<b><u>\$ 8,068</u></b>	<b><u>\$ (18,864)</u></b>

**City of Morgan Hill  
Internal Service Funds  
Combining Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2014**

	<u>Workers' Compensation</u>	<u>Equipment Replacement</u>	<u>Employee Benefits</u>	<u>General Liability</u>	<u>Total</u>
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 967,420	\$ 456,277	\$ 292,486	\$ 746,758	\$ 7,091,850
Payment for supplies and services	(626,815)	13,604		(952,141)	(3,224,029)
Payments to employees			(463,154)		(2,357,624)
Payments for interfund services					(379,890)
Net cash provided (used) by operating activities	<u>340,605</u>	<u>469,881</u>	<u>(170,668)</u>	<u>(205,383)</u>	<u>1,130,307</u>
Cash Flows from NonCapital Financing Activities					
Interfund loans received (paid)		(41,280)			
Transfers (to)/from other funds					105,985
Net cash provided (used) by noncapital financing activities		<u>(41,280)</u>			<u>105,985</u>
Cash Flows from Capital and Related Financing Activities					
Proceeds from capital lease		9,478			18,326
Principal paid on capital debt		(16,943)			(18,851)
Purchases of capital assets		(223,476)		(18,045)	(1,007,656)
Net cash provided (used) by capital and related financing activities		<u>(230,941)</u>		<u>(18,045)</u>	<u>(1,008,181)</u>
Cash Flows from Investing Activities					
Interest earnings	7,617	21,365	2,800	3,299	50,404
Net cash provided (used) by investing activities	<u>7,617</u>	<u>21,365</u>	<u>2,800</u>	<u>3,299</u>	<u>50,404</u>
Net increase (decrease) in cash and equivalents	348,222	219,025	(167,868)	(220,129)	278,515
Cash and equivalents at July 1, 2013	1,311,274	3,736,900	480,090	989,970	9,382,245
<b>Cash and equivalents at June 30, 2014</b>	<u><b>\$ 1,659,496</b></u>	<u><b>\$ 3,955,925</b></u>	<u><b>\$ 312,222</b></u>	<u><b>\$ 769,841</b></u>	<u><b>\$ 9,660,760</b></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 202,596	\$ 184,091	\$ (192,038)	\$ (229,913)	\$ 393,750
Adjustments to reconcile operating income (loss) to net cash provided(used) by operating activities:					
Depreciation expense		280,120		6,226	445,240
(Increase) in receivables		(9,952)		(89,433)	(102,514)
(Increase) in prepaid expenses	52,623	14,147			66,770
Increase (decrease) in accounts payable	85,386	1,475		107,737	291,991
Increase (decrease) in compensated absences			21,370		21,370
Increase (decrease) in OBEB payable					13,700
Total adjustments	<u>138,009</u>	<u>285,790</u>	<u>21,370</u>	<u>24,530</u>	<u>736,557</u>
<b>Net cash provided(used) by operating activities</b>	<u><b>\$ 340,605</b></u>	<u><b>\$ 469,881</b></u>	<u><b>\$ (170,668)</b></u>	<u><b>\$ (205,383)</b></u>	<u><b>\$ 1,130,307</b></u>



**CITY OF MORGAN HILL**

# Fiduciary Funds

**City of Morgan Hill  
Statement of Changes in Assets and Liabilities  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2014**

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>
<b><u>Special Deposits</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 1,016,011	\$ 56,526	\$ 112,952	\$ 959,585
Accounts receivable	468	570	548	490
Total Assets	<u>\$ 1,016,479</u>	<u>\$ 57,096</u>	<u>\$ 113,500</u>	<u>\$ 960,075</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 6,543	\$ 26,217	\$ 25,808	\$ 6,952
Customer and other deposits	1,009,936	30,879	87,692	953,123
Total Liabilities	<u>\$ 1,016,479</u>	<u>\$ 57,096</u>	<u>\$ 113,500</u>	<u>\$ 960,075</u>
<b><u>Downtown MH PBID</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 45,043	\$ 169,041	\$ 84,263	\$ 129,821
Accounts receivable	15	63	15	63
Total Assets	<u>\$ 45,058</u>	<u>\$ 169,104</u>	<u>\$ 84,278</u>	<u>\$ 129,884</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 45,058	\$ 169,104	\$ 84,278	\$ 129,884
Total Liabilities	<u>\$ 45,058</u>	<u>\$ 169,104</u>	<u>\$ 84,278</u>	<u>\$ 129,884</u>
<b><u>Morgan Hill Business Ranch 1998</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 760,532	\$ 2,249,747	\$ 2,045,689	\$ 964,590
Cash with fiscal agents	879,950		13,305	866,645
Accounts receivable	174	286	174	286
Total Assets	<u>\$ 1,640,656</u>	<u>\$ 2,250,033</u>	<u>\$ 2,059,168</u>	<u>\$ 1,831,521</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 1,640,656	\$ 2,250,033	\$ 2,059,168	\$ 1,831,521
Total Liabilities	<u>\$ 1,640,656</u>	<u>\$ 2,250,033</u>	<u>\$ 2,059,168</u>	<u>\$ 1,831,521</u>
<b><u>Morgan Hill Business Ranch 2004</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 486,939	\$ 227,357	\$ 675,772	\$ 38,524
Cash with fiscal agents	209,091	1,913	211,004	--
Total Assets	<u>\$ 703,290</u>	<u>\$ 229,289</u>	<u>\$ 894,036</u>	<u>\$ 38,543</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 703,290	\$ 229,289	\$ 894,036	\$ 38,543
Total Liabilities	<u>\$ 703,290</u>	<u>\$ 229,289</u>	<u>\$ 894,036</u>	<u>\$ 38,543</u>
<b><u>Tennant Business Park A.D.</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 565,438	\$ 3,750	\$ 610	\$ 568,578
Accounts receivable	255	274	255	274
Total Assets	<u>\$ 565,693</u>	<u>\$ 4,024</u>	<u>\$ 865</u>	<u>\$ 568,852</u>
<b><u>Liabilities</u></b>				
Customer and other deposits	\$ 565,693	\$ 4,024	\$ 865	\$ 568,852
Total Liabilities	<u>\$ 565,693</u>	<u>\$ 4,024</u>	<u>\$ 865</u>	<u>\$ 568,852</u>

City of Morgan Hill  
Statement of Changes in Assets and Liabilities  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2014

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b><u>Madrone Business Park A.D.</u></b>				
<u>Assets:</u>				
Restricted pooled cash and investments	\$ 612,475	\$ 1,665,011	\$ 1,676,827	\$ 600,659
Cash with fiscal agents	897,881	21,910	1,383	918,408
Accounts receivable	111	18,632	111	18,632
Total Assets	<u>\$ 1,510,467</u>	<u>\$ 1,705,553</u>	<u>\$ 1,678,321</u>	<u>\$ 1,537,699</u>
<u>Liabilities</u>				
Customer and other deposits	\$ 1,510,467	\$ 1,705,553	\$ 1,678,321	\$ 1,537,699
Total Liabilities	<u>\$ 1,510,467</u>	<u>\$ 1,705,553</u>	<u>\$ 1,678,321</u>	<u>\$ 1,537,699</u>
<b><u>Police Donation Trust</u></b>				
Restricted pooled cash and investments	\$ 24,644	\$ 1,063	\$ 477	\$ 25,230
Accounts receivable	11	12	11	12
Total Assets	<u>\$ 24,655</u>	<u>\$ 1,075</u>	<u>\$ 488</u>	<u>\$ 25,242</u>
<u>Liabilities</u>				
Customer and other deposits	\$ 24,655	\$ 1,075	\$ 488	\$ 25,242
Total Liabilities	<u>\$ 24,655</u>	<u>\$ 1,075</u>	<u>\$ 488</u>	<u>\$ 25,242</u>
<b><u>Total Agency Funds</u></b>				
<u>Assets:</u>				
Restricted pooled cash and investments	\$ 3,511,082	\$ 4,372,495	\$ 4,596,590	\$ 3,286,987
Cash with fiscal agents	1,986,922	23,823	225,692	1,785,053
Accounts receivable	8,294	19,856	8,374	19,776
Total Assets	<u>\$ 5,506,298</u>	<u>\$ 4,416,174</u>	<u>\$ 4,830,656</u>	<u>\$ 5,091,816</u>
<u>Liabilities</u>				
Accounts payable	\$ 6,543	\$ 26,217	\$ 25,808	\$ 6,952
Customer and other deposits	5,499,755	4,389,957	4,804,848	5,084,864
Total Liabilities	<u>\$ 5,506,298</u>	<u>\$ 4,416,174</u>	<u>\$ 4,830,656</u>	<u>\$ 5,091,816</u>



**CITY OF MORGAN HILL**

**Capital Assets Used In The Operation  
Of Government Funds**



**CITY OF MORGAN HILL**

**City of Morgan Hill**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Comparative Schedules by Source**  
**For the Fiscal Years Ended June 30, 2014 and June 30, 2013**

	<u>2014</u>	<u>2013</u>
<b><u>Governmental Funds Capital Assets:</u></b>		
Land	\$ 40,071,442	\$ 40,066,442
Buildings and Improvements	115,019,232	118,329,699
Machinery, Equipment and Vehicles	7,042,141	7,170,656
Infrastructure	89,735,724	89,624,102
Construction in Progress	7,399,136	4,424,107
<b>Total Governmental Funds Capital Assets</b>	<b><u>\$ 259,267,675</u></b>	<b><u>\$ 259,615,006</u></b>
<b><u>Investments in Governmental Capital Assets by Source:</u></b>		
Administration	\$ 2,887,526	\$ 2,347,547
Community Development	42,332,353	41,105,170
Housing	2,828,958	2,839,237
Public Works	97,627,303	95,970,343
Public Safety	12,353,219	12,964,507
Parks and Recreation	101,238,316	104,388,202
<b>Total Governmental Funds Capital Assets</b>	<b><u>\$ 259,267,675</u></b>	<b><u>\$ 259,615,006</u></b>

**City of Morgan Hill**  
**Capital Assets Used in the Operation of Government Funds**  
**Schedule by Function and Activity**  
**For the Fiscal Year Ended June 30, 2014**

<b>Function and Activity</b>	<b>Land</b>	<b>Buildings &amp; Other Improvements</b>	<b>Machinery, Equipment and Vehicles</b>	<b>Infra- Structure</b>	<b>Construction in Progress</b>	<b>Total</b>
General Government						
Administration	\$ 545,070	\$ 1,861,013	\$ 5,745,388	\$ -	\$ -	\$ 8,151,471
Community Development	5,166,301	40,984,764	100,555		2,144,955	48,396,575
Housing	2,537,552	353,736				2,891,288
Public Works	2,464,466	624,965	162,936	152,866,426	5,047,592	161,166,385
Public Safety	859,005	12,300,836	3,658,271		11,738	16,829,850
Parks and Recreation	28,499,048	98,590,607	121,445		194,851	127,405,951
Total Governmental Capital Assets	40,071,442	154,715,921	9,788,595	152,866,426	7,399,136	364,841,520
Less Accumulated Depreciation		(39,696,689)	(2,746,454)	(63,130,702)		(105,573,845)
<b>Capital Assets, Net</b>	<b>\$ 40,071,442</b>	<b>\$ 115,019,232</b>	<b>\$ 7,042,141</b>	<b>\$ 89,735,724</b>	<b>\$ 7,399,136</b>	<b>\$ 259,267,675</b>

**City of Morgan Hill**  
**Capital Assets Used in the Operation of Government Funds**  
**Schedule of Changes by Function and Activity**  
**For the Fiscal Year Ended June 30, 2014**

<u>Function and Activity</u>	<b>Governmental Funds Capital Assets July 1, 2013</b>	<b>Additions</b>	<b>Deductions/ Transfers</b>	<b>Accumulated Depreciation</b>	<b>Governmental Funds Capital Assets, Net June 30, 2014</b>
General Government					
Administration	\$ 7,128,341	\$ 1,023,130	\$ -	\$ (5,263,945)	\$ 2,887,526
Community Development	47,086,033	1,310,542		(6,064,222)	42,332,353
Housing	2,891,288			(62,330)	2,828,958
Public Works	155,197,831	5,968,554		(63,539,082)	97,627,303
Public Safety	16,772,109	57,741		(4,476,631)	12,353,219
Parks and Recreation	127,261,522	144,429		(26,167,635)	101,238,316
<b>Total General Government</b>	<b><u>\$ 356,337,124</u></b>	<b><u>\$ 8,504,396</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (105,573,845)</u></b>	<b><u>\$ 259,267,675</u></b>



**CITY OF MORGAN HILL**

# STATISTICAL SECTION

## STATISCAL SECTION

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**City of Morgan Hill  
Net Position by Component  
Last Ten Fiscal Years**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Governmental activities</u>										
Net investment in capital assets	\$ 101,587,834	\$ 158,692,057	\$ 184,670,527	\$ 170,600,402	\$ 210,599,605	\$ 144,747,662	\$ 154,973,003	\$ 204,525,131	\$ 243,502,678	\$ 243,272,964
Restricted	17,146,710	59,148,848	69,546,699	86,900,525	89,096,812	130,431,751	31,636,883	9,619,462	34,245,650	38,526,702
Unrestricted	80,245,972	51,061,018	48,303,559	60,047,413	38,302,432	157,606,137	164,406,578	121,969,718	93,778,744	102,514,658
Total governmental activities net position	<u>\$ 198,980,516</u>	<u>\$ 268,901,923</u>	<u>\$ 302,520,785</u>	<u>\$ 317,548,340</u>	<u>\$ 337,998,849</u>	<u>\$ 432,785,550</u>	<u>\$ 351,016,464</u>	<u>\$ 336,114,311</u>	<u>\$ 371,527,072</u>	<u>\$ 384,314,324</u>
<u>Business-type activities</u>										
Net investment in capital assets	\$ 47,019,085	\$ 50,896,938	\$ 54,356,132	\$ 57,270,212	\$ 59,093,288	\$ 63,416,430	\$ 63,111,831	\$ 62,956,217	\$ 64,290,517	\$ 53,811,487
Restricted	9,782,649	11,694,740	11,966,854	24,010,501	22,651,286	21,011,955	20,074,671	20,374,278	22,194,353	26,762,669
Unrestricted	18,318,684	14,090,673	13,906,668	14,706,801	14,670,610	7,802,422	5,893,060	5,319,237	5,787,781	14,656,166
Total business-type activities net position	<u>\$ 75,120,418</u>	<u>\$ 76,682,351</u>	<u>\$ 80,229,654</u>	<u>\$ 95,987,514</u>	<u>\$ 96,415,184</u>	<u>\$ 92,230,807</u>	<u>\$ 89,079,562</u>	<u>\$ 88,649,732</u>	<u>\$ 92,272,651</u>	<u>\$ 95,230,322</u>
<u>Primary government</u>										
Net investment in capital assets	\$ 148,606,919	\$ 209,588,995	\$ 239,026,659	\$ 227,870,614	\$ 269,692,893	\$ 208,164,092	\$ 218,084,834	\$ 267,481,348	\$ 307,793,195	\$ 297,084,451
Restricted	26,929,359	70,843,588	81,513,553	110,911,026	111,748,098	151,443,706	51,711,554	29,993,740	56,440,003	65,289,371
Unrestricted	98,564,656	65,151,691	62,210,227	74,754,214	52,973,042	165,408,559	170,299,638	127,288,955	99,566,525	117,170,824
Total primary government net position	<u>\$ 274,100,934</u>	<u>\$ 345,584,274</u>	<u>\$ 382,750,439</u>	<u>\$ 413,535,854</u>	<u>\$ 434,414,033</u>	<u>\$ 525,016,357</u>	<u>\$ 440,096,026</u>	<u>\$ 424,764,043</u>	<u>\$ 463,799,723</u>	<u>\$ 479,544,646</u>

Source: City of Morgan Hill Annual Financial Reports

**City of Morgan Hill  
Changes in Net Position, Last Ten Fiscal Years  
(accrual basis of accounting)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Expenses</b>										
<b>Governmental activities:</b>										
General Government	\$ 9,278,891	\$ 9,209,144	\$ 7,577,805	\$ 8,858,306	\$ 8,878,261	\$ 16,360,096	\$ 11,037,315	\$ 4,766,029	\$ 2,885,308	\$ 2,904,732
Public Safety	12,236,802	13,302,406	13,929,180	15,187,458	16,075,877	16,116,741	16,139,261	16,638,629	17,279,531	17,670,163
Community development	4,939,486	9,279,390	11,481,897	8,998,978	10,450,462	5,648,317	8,088,271	4,839,149	6,435,624	5,717,704
Public Works development	4,519,109	5,005,130	5,039,388	5,740,885	6,317,670	4,680,068	6,463,307	8,788,778	6,249,886	6,516,103
Recreation and culture	4,098,111	4,421,183	6,095,759	7,073,354	7,204,213	6,726,266	7,327,153	9,062,677	10,051,499	9,871,553
Interest on long term debt	235,612	418,064	524,696	2,156,092	2,925,396	1,606,032	1,570,816	885,105	574,134	511,693
<b>Total governmental activities expenses</b>	<b>35,308,011</b>	<b>41,635,317</b>	<b>44,648,725</b>	<b>48,015,073</b>	<b>51,851,879</b>	<b>51,137,520</b>	<b>50,626,123</b>	<b>44,980,367</b>	<b>43,475,982</b>	<b>43,191,948</b>
<b>Business-type activities:</b>										
Sewer	7,418,775	8,464,676	7,806,494	9,096,361	9,086,415	9,319,927	9,365,344	9,000,914	9,942,911	9,642,194
Water	8,081,951	9,690,548	9,625,878	10,202,736	10,045,025	9,790,197	9,981,476	9,645,196	10,438,233	10,851,273
<b>Total Business-type activities expenses</b>	<b>15,500,726</b>	<b>18,155,224</b>	<b>17,432,372</b>	<b>19,299,097</b>	<b>19,131,440</b>	<b>19,110,124</b>	<b>19,346,820</b>	<b>18,646,110</b>	<b>20,381,144</b>	<b>20,493,467</b>
<b>Total primary government expenses</b>	<b>\$ 50,808,737</b>	<b>\$ 59,790,541</b>	<b>\$ 62,081,097</b>	<b>\$ 67,314,170</b>	<b>\$ 70,983,319</b>	<b>\$ 70,247,644</b>	<b>\$ 69,972,943</b>	<b>\$ 63,626,477</b>	<b>\$ 63,857,126</b>	<b>\$ 63,685,415</b>
<b>Program Revenues</b>										
<b>Governmental activities:</b>										
<b>Charges for services:</b>										
General Government	\$ 1,367,877	\$ 1,723,067	\$ 2,354,508	\$ 2,492,233	\$ 2,614,067	\$ 2,733,726	\$ 2,815,111	\$ 2,624,813	\$ 2,034,479	\$ 1,927,610
Public Safety	585,428	420,461	486,205	444,479	717,811	932,391	605,624	527,037	583,799	738,424
Community development	7,599,544	5,729,578	6,280,679	5,766,747	3,910,314	1,693,674	3,724,059	3,426,873	2,817,569	6,719,080
Public Works development	4,568,552	492,697	398,837	213,385	197,182	166,202	160,390	166,805	149,794	181,583
Recreation and culture	2,190,898	2,163,043	2,939,023	3,766,068	4,049,151	4,248,023	4,591,037	5,003,708	5,640,640	5,834,679
Operating grants and contributions	933,533	2,747,309	4,944,629	3,389,347	2,061,109	1,219,140	1,990,487	6,149,144	3,227,567	4,601,340
Capital grants and contributions	3,357,549	7,404,748	14,602,602	16,858,820	11,927,826	5,687,684	4,271,069	5,575,964	12,024,593	10,942,471
<b>Total governmental activities program revenues</b>	<b>20,603,381</b>	<b>20,680,903</b>	<b>32,006,483</b>	<b>32,931,079</b>	<b>25,477,460</b>	<b>16,680,840</b>	<b>18,157,777</b>	<b>23,474,344</b>	<b>26,478,441</b>	<b>30,945,187</b>
<b>Business-type activities:</b>										
<b>Charges for services:</b>										
Sewer	7,902,418	8,506,415	8,765,599	8,500,177	8,197,498	7,948,974	9,234,177	9,497,789	12,524,768	13,927,768
Water	7,523,731	8,100,196	8,882,213	9,132,868	8,385,210	7,244,864	7,513,699	8,636,971	10,722,187	11,225,987
Operating grants and contributions										
Capital grants and contributions			2,618,786	2,527,586	2,375,590	64,070		587,287	1,399,261	946,507
<b>Total business-type activities program revenues</b>	<b>15,426,149</b>	<b>16,606,611</b>	<b>20,266,598</b>	<b>20,160,631</b>	<b>18,958,298</b>	<b>15,257,908</b>	<b>16,747,876</b>	<b>18,722,047</b>	<b>24,646,216</b>	<b>26,100,262</b>
<b>Total primary government program revenues</b>	<b>\$ 36,029,530</b>	<b>\$ 37,287,514</b>	<b>\$ 52,273,081</b>	<b>\$ 53,091,710</b>	<b>\$ 44,435,758</b>	<b>\$ 31,938,748</b>	<b>\$ 34,905,653</b>	<b>\$ 42,196,391</b>	<b>\$ 51,124,657</b>	<b>\$ 57,045,449</b>
<b>Net(Expense)/Revenue</b>										
Governmental activities	\$ (14,704,630)	\$ (20,954,414)	\$ (12,642,242)	\$ (15,083,994)	\$ (26,374,419)	\$ (34,456,680)	\$ (32,468,346)	(21,506,023)	\$ (16,997,541)	\$ (12,246,761)
Business-type activities	(74,577)	(1,548,613)	2,834,226	861,534	(173,142)	(3,852,216)	(2,598,944)	75,937	4,265,072	5,606,795
<b>Total primary government net expense</b>	<b>\$ (14,779,207)</b>	<b>\$ (22,503,027)</b>	<b>\$ (9,808,016)</b>	<b>\$ (14,222,460)</b>	<b>\$ (26,547,561)</b>	<b>\$ (38,308,896)</b>	<b>\$ (35,067,290)</b>	<b>\$ (21,430,086)</b>	<b>\$ (12,732,469)</b>	<b>\$ (6,639,966)</b>
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental activities:</b>										
Property taxes	\$ 28,012,338	\$ 30,508,930	\$ 33,494,500	\$ 31,119,435	\$ 30,017,644	\$ 27,617,280	\$ 25,778,767	16,223,976	\$ 8,867,646	\$ 8,933,340
Sales taxes	5,196,224	6,183,960	6,552,031	6,862,003	5,680,409	4,514,936	5,604,863	6,638,381	7,766,996	8,640,396
Franchise taxes	2,663,021	2,802,148	2,890,282	2,508,042	2,429,152	2,504,462	2,893,942	2,893,942	3,359,018	3,786,751
Other general revenue taxes	1,058,233	711,297	501,973	593,476	910,887	1,052,510	1,073,963	928,469	858,724	881,549
Unrestricted investment earnings	3,175,062	3,016,306	2,119,282	2,365,477	7,290,413	2,861,158	3,599,520	1,640,975	1,424,940	2,494,499
Special item-transfer to Economic Development Corporation								(19,931,051)		
Extraordinary item-Loss on dissolution of the redevelopment agency								(1,617,196)		
Transfers	640,000	701,200	703,036	(13,336,884)	666,875	725,828	737,279	(703,201)	761,419	775,682
<b>Total governmental activities</b>	<b>40,744,878</b>	<b>43,923,841</b>	<b>46,261,104</b>	<b>30,111,549</b>	<b>46,995,380</b>	<b>39,276,174</b>	<b>39,399,260</b>	<b>6,074,295</b>	<b>23,038,743</b>	<b>25,512,217</b>

Business-type activities:										
Investment earnings	583,148	872,644	1,416,113	1,559,442	1,267,687	393,667	184,978	197,434	119,266	174,824
Transfers	<u>(640,000)</u>	<u>(701,200)</u>	<u>(703,036)</u>	<u>13,336,884</u>	<u>(666,875)</u>	<u>(725,828)</u>	<u>(737,279)</u>	<u>(703,201)</u>	<u>(761,419)</u>	<u>(775,682)</u>
Total business-type activities	<u>(56,852)</u>	<u>171,444</u>	<u>713,077</u>	<u>14,896,326</u>	<u>600,812</u>	<u>(332,161)</u>	<u>(552,301)</u>	<u>(505,767)</u>	<u>(642,153)</u>	<u>(600,858)</u>
Total primary government	<u>\$ 40,688,026</u>	<u>\$ 44,095,284</u>	<u>\$ 46,974,181</u>	<u>\$ 45,007,875</u>	<u>\$ 47,596,192</u>	<u>\$ 38,944,013</u>	<u>\$ 38,846,959</u>	<u>\$ 5,568,528</u>	<u>\$ 22,396,590</u>	<u>\$ 24,911,359</u>
Change in Net Position										
Governmental activities	\$ 26,040,248	\$ 22,969,427	\$ 33,618,862	\$ 15,027,555	\$ 20,620,961	\$ 4,819,494	\$ 6,930,914	\$ (15,431,728)	\$ 6,041,202	\$ 13,265,456
Business-type activities	<u>(131,429)</u>	<u>(1,377,169)</u>	<u>3,547,303</u>	<u>15,757,860</u>	<u>427,670</u>	<u>(4,184,377)</u>	<u>(3,151,245)</u>	<u>(429,830)</u>	<u>3,622,919</u>	<u>5,005,937</u>
Total primary government	<u>\$ 25,908,819</u>	<u>\$ 21,592,257</u>	<u>\$ 37,166,165</u>	<u>\$ 30,785,415</u>	<u>\$ 21,048,631</u>	<u>\$ 635,117</u>	<u>\$ 3,779,669</u>	<u>\$ (15,861,558)</u>	<u>\$ 9,664,121</u>	<u>\$ 18,271,393</u>

Source: City of Morgan Hill Annual Financial Reports

**City of Morgan Hill  
Fund Balances, Governmental Funds  
Last Ten Fiscal Years**

	2005	2006	2007	2008	2009	2010	2011*	2012	2013	2014
General Fund										
Reserved	\$ 18,423	\$ 180,168	\$ 80,546	\$ 40,425	\$ 217,263	\$ 178,137				
Unreserved	9,828,553	9,973,430	10,218,678	10,728,945	8,343,680	7,751,153				
Nonspendable							\$ 1,903,035	\$ 1,064,453	\$ 718,372	\$ 689,445
Unassigned							5,379,127	6,022,504	9,865,845	12,025,157
Total General Fund	<u>\$ 9,846,976</u>	<u>\$ 10,153,598</u>	<u>\$ 10,299,224</u>	<u>\$ 10,769,370</u>	<u>\$ 8,560,943</u>	<u>\$ 7,929,290</u>	<u>\$ 7,282,162</u>	<u>\$ 7,086,957</u>	<u>10,584,217</u>	<u>12,714,602</u>
All Other Governmental Funds										
Reserved	\$ 25,391,171	\$ 45,118,315	\$ 40,456,359	\$ 39,953,766	\$ 27,663,410	\$ 49,718,704				
Unreserved, reported in:										
Special revenue funds	8,037,603	6,942,175	8,273,952	7,365,330	6,121,254	4,678,586				
Capital projects funds	19,849,483	1,231,890	11,944,603	101,510,345	87,742,618	70,047,659				
Nonspendable							\$ 12,863,046	\$ 808,950		\$ 500
Restricted							93,672,686	44,489,941	\$ 48,587,517	56,701,605
Unassigned							(709,844)	(718,327)	(730,381)	(716,642)
Total all other governmental funds	<u>\$ 53,278,257</u>	<u>\$ 53,292,380</u>	<u>\$ 60,674,914</u>	<u>\$ 148,829,441</u>	<u>\$ 121,527,282</u>	<u>\$ 124,444,949</u>	<u>\$ 105,825,888</u>	<u>\$ 44,580,564</u>	<u>\$ 47,857,136</u>	<u>\$ 55,985,463</u>
Total Governmental Funds	<u>\$ 63,125,233</u>	<u>\$ 63,445,978</u>	<u>\$ 70,974,138</u>	<u>\$ 159,598,811</u>	<u>\$ 130,088,225</u>	<u>\$ 132,374,239</u>	<u>\$ 113,108,050</u>	<u>\$ 51,667,521</u>	<u>\$ 58,441,353</u>	<u>\$ 68,700,065</u>

\* GASB 54 was implemented FY 2010/11, prior years not restated

Source: City of Morgan Hill Annual Financial Reports

**City of Morgan Hill  
Changes in Fund Balances, Governmental Funds  
Last Ten Fiscal Years**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Revenues</b>										
Property taxes	\$ 28,731,805	\$ 31,204,587	\$ 33,850,167	\$ 31,480,440	\$ 30,366,428	\$ 27,943,938	\$ 25,945,308	\$ 16,399,498	\$ 9,807,260	\$9,114,923
Sales taxes	5,196,224	6,183,960	6,552,031	6,862,003	5,680,409	4,514,936	5,604,863	6,638,381	7,766,996	8,640,396
Franchise, hotel and other taxes	2,663,021	2,802,148	3,234,995	2,858,524	2,791,845	2,504,462	2,604,868	2,893,942	3,359,018	3,786,751
Licenses and permits	199,522	165,114	166,662	176,039	176,670	163,657	165,451	162,164	166,257	182,302
Funding from other governmental agencies	2,247,942	1,941,465	2,120,285	2,413,293	3,016,887	2,310,043	2,369,187	4,434,670	2,137,551	4,480,359
Charges for current services	13,015,944	11,908,335	14,146,253	13,036,349	9,484,108	12,293,781	13,282,176	14,021,433	19,702,922	20,861,323
Investment income and rentals	2,758,145	2,852,108	4,432,538	6,114,880	7,411,536	2,816,008	1,917,890	1,522,122	716,840	1,746,402
Other revenues	2,126,079	3,063,315	7,598,526	1,208,240	2,566,112	923,295	1,672,421	1,439,652	2,402,060	1,217,491
<b>Total Revenues</b>	<u>56,938,682</u>	<u>60,121,032</u>	<u>72,101,457</u>	<u>64,149,768</u>	<u>61,493,995</u>	<u>53,470,120</u>	<u>53,562,164</u>	<u>47,511,862</u>	<u>46,058,904</u>	<u>50,029,947</u>
<b>Expenditures</b>										
General government	9,313,420	9,592,620	8,010,946	8,547,074	8,736,094	16,292,724	10,169,203	4,684,494	2,921,137	2,970,303
Public safety	12,081,467	12,935,399	13,576,639	14,811,690	15,625,613	15,609,126	15,692,997	16,193,066	16,688,342	17,239,104
Community development	3,350,148	5,774,404	4,388,662	5,105,685	4,874,387	3,646,059	4,306,819	4,290,003	5,745,943	5,254,396
Housing services	5,538,980	4,912,721	7,215,674	3,339,289	8,861,963	3,657,418	7,630,051	3,238,969	614,133	1,454,793
Streets and Highways	1,637,479	1,998,346	1,844,441	1,660,620	1,959,312	1,671,103	2,206,211	2,838,999	1,829,659	2,031,937
Parks and recreation	3,633,195	3,778,586	5,411,776	6,298,051	6,344,024	5,819,347	5,642,790	5,869,353	6,768,239	6,570,951
Other public services	1,305,144	562,875	422,734	826,819	760,139	773,855	456,664	661,125	489,920	519,578
Capital outlay*	14,172,203	20,889,440	28,979,080	27,980,863	21,721,800	18,413,241	18,754,074	15,122,565	8,717,393	3,613,722
Debt service:										
Interest	564,598	407,098	821,381	2,884,920	2,646,643	3,040,000	1,304,526	833,282	496,913	486,148
Principal	120,000	300,000	280,000	390,000	1,780,000	1,331,049	3,335,000	3,115,000	295,000	300,000
<b>Total Expenditures</b>	<u>51,716,634</u>	<u>61,151,489</u>	<u>70,951,333</u>	<u>71,845,011</u>	<u>73,309,975</u>	<u>70,253,922</u>	<u>69,498,335</u>	<u>56,846,856</u>	<u>44,566,679</u>	<u>40,440,932</u>
Excess of revenues over (under) expenditures	<u>5,222,048</u>	<u>(1,030,457)</u>	<u>1,150,124</u>	<u>(7,695,243)</u>	<u>(11,815,980)</u>	<u>(16,783,802)</u>	<u>(15,936,171)</u>	<u>(9,334,994)</u>	<u>1,492,225</u>	<u>9,589,015</u>

(Continued)

**City of Morgan Hill  
Changes in Fund Balances, Governmental Funds  
Last Ten Fiscal Years**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
(Continued)										
Other Financing Sources (Uses)										
Transfers in	1,869,405	2,079,222	6,543,868	3,830,167	2,649,092	4,367,582	9,426,126	9,195,528	3,354,602	3,946,729
Transfers out	(1,278,430)	(1,378,022)	(5,840,832)	(17,167,051)	(1,972,217)	(3,696,550)	(12,756,144)	(8,320,898)	(2,692,325)	(3,277,032)
Issuance of long term debt	7,395,000		5,675,000	110,000,000						
Proceeds from sale of capital assets		650,000								
Proceeds from capital leases									5,500,210	
Other financing use				(343,200)						
Total other financing sources (uses)	<u>7,985,975</u>	<u>1,351,200</u>	<u>6,378,036</u>	<u>96,319,916</u>	<u>676,875</u>	<u>671,032</u>	<u>(3,330,018)</u>	<u>874,630</u>	<u>6,162,487</u>	<u>669,697</u>
Special and Extraordinary Items										
Special item-transfer to Economic Development Corporation								(5,809,583)		
Extraordinary item-loss on dissolution of the redevelopment agency								(47,170,582)		
Total special and extraordinary items								<u>(52,980,165)</u>		
Net change in fund balances	<u>\$ 13,208,023</u>	<u>\$ 320,743</u>	<u>\$ 7,528,160</u>	<u>\$ 88,624,673</u>	<u>\$ (11,139,105)</u>	<u>\$ (16,112,770)</u>	<u>\$ (19,266,189)</u>	<u>\$ (61,440,529)</u>	<u>\$ 7,654,712</u>	<u>\$ 10,258,712</u>

\*Fiscal Years 2003 and 2004 included multiple land purchase agreements which were paid in full in 2004.  
Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill  
 Assessed and Actual Value of Taxable Property  
 Last Ten Fiscal Years

Fiscal Year Ended June 30,	Residential Property	Industrial & Manufacturing	Retail Property	Office Property	Agricultural * Misc	Less Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2005	\$ 3,490,650,000	\$ 530,400,000	\$ 235,750,000	\$ 95,870,000	\$ 227,320,000	\$ 55,442,000	\$ 4,524,548,000	1.1622%
2006	3,899,280,000	529,970,000	269,200,000	90,550,000	264,960,000	46,130,000	5,007,830,000	1.0887%
2007	4,315,730,000	538,000,000	296,200,000	100,570,000	353,410,000	46,464,100	5,557,445,900	1.1260%
2008	4,807,420,000	589,880,000	316,160,000	109,862,052	392,440,000	48,154,002	6,167,608,050	1.1182%
2009	4,961,070,000	603,450,000	383,790,000	119,210,000	411,710,000	48,820,000	6,430,410,000	1.1191%
2010	4,738,320,000	619,490,000	427,080,000	125,130,000	358,270,000	49,310,000	6,218,980,000	1.1417%
2011	4,433,150,460	558,011,467	430,523,811	110,443,961	353,667,109	49,494,200	5,836,302,608	1.1527%
2012	4,484,372,914	550,932,270	421,156,042	113,249,579	368,116,195	48,816,600	5,889,010,400	1.1590%
2013	4,507,614,537	539,717,016	421,320,064	117,463,292	352,093,930	48,455,400	5,889,753,439	1.1521%
2014	4,962,067,340	512,710,837	421,152,501	122,140,120	316,791,276	48,370,000	6,286,492,074	1.2069%

Source: Santa Clara County Annual Assessor's Report

**City of Morgan Hill  
Direct and Overlapping Property Tax Rates  
Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>State Property Tax Rate Maximum Permitted by Prop 13</b>	<b>Voter-Approved Local Rates</b>		<b>State plus Voter-Approved Local Tax Rate</b>
		<b>County</b>	<b>Debt Service for Schools and Other Districts</b>	
2005	1.00%	0.0412%	0.1210%	1.1622%
2006	1.00%	0.0412%	0.0475%	1.0887%
2007	1.00%	0.0412%	0.0848%	1.1260%
2008	1.00%	0.0412%	0.0770%	1.1182%
2009	1.00%	0.0412%	0.0779%	1.1191%
2010	1.00%	0.0412%	0.1005%	1.1417%
2011	1.00%	0.0412%	0.1115%	1.1527%
2012	1.00%	0.0463%	0.1127%	1.1590%
2013	1.00%	0.0463%	0.1058%	1.1521%
2014	1.00%	0.0447%	0.1622%	1.2069%

Source: Santa Clara County Tax Rates and Information Report

**City of Morgan Hill  
Principal Property Tax Payers  
Current Fiscal Year and Ten Years Ago**

<u>Taxpayer</u>	<u>Land Use</u>	<u>2014</u>			<u>2005*</u>		
		<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Value</u>
Jtj Apartment Investors LLC (16945 Del Monte)	Real Estate	\$ 28,906,070	1	0.46%			
Lsref2 Newton LLC	Commercial	27,627,421	2	0.44%			
Woodland Residents Inc	Housing	25,665,165	3	0.41%			
Willowbrook California Props LLC	Industrial	23,731,932	4	0.38%			
Morgan Hill Sr Living L P	Housing	20,518,266	5	0.33%			
Villa Ciolino Assocs Ltd Partnership	Housing	18,191,901	6	0.29%			
Church & Mont Rd Assoc (16500 Church St)	Retail	17,472,564	7	0.28%			
Nmhcs	School/Commercial	16,941,742	8	0.27%			
Wal-Mart Stores Inc	Commercial	16,549,530	9	0.26%			
Uhc Morgan Hill LLP	Housing	16,441,380	10	0.25%			
		<u>\$ 212,045,971</u>		<u>3.37%</u>			

\*Not available

Source: County of Santa Clara Metroscan

City of Morgan Hill  
Property Tax Levies and Collections  
Last Ten Fiscal years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2005	\$ 4,387,053	\$ 4,387,053	100%	<b>*City of Morgan Hill participates in the Teeter Plan</b>		
2006	5,234,590	5,234,590	100%			
2007	5,903,101	5,903,101	100%			
2008	7,342,726	7,342,726	100%			
2009	6,926,194	6,926,194	100%			
2010	6,865,673	6,865,673	100%			
2011	6,334,456	6,334,456	100%			
2012	6,361,401	6,361,401	100%			
2013	6,441,484	6,441,484	100%			
2014	7,207,535	7,207,535	100%			

\*The Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided.

Source: City of Morgan Hill Annual Financial Reports

**City of Morgan Hill  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal years**

Fiscal Year Ended June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>					Sewer Capacity Rights	Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Lease Revenue Bonds	Loans Payable	Special Assessment Bonds	Water Facilities Loan	Water Certificates of Participation	Water Revenue Bonds					
2005	\$ -	\$ 7,066,014	\$ 2,047,158	\$ 1,075,000	\$ 1,015,960	\$ 3,639,257	\$ 7,395,138	\$ 20,874,113	\$ 43,112,640	0.22%	1,184	
2006	-	6,906,980	2,104,158	945,000	955,897	3,488,545	7,407,030	20,018,732	41,826,342	0.25%	1,128	
2007	-	12,145,295	4,172,336	805,000	890,906	3,332,833	7,418,922	19,143,352	47,908,644	0.22%	1,247	
2008	108,631,722	11,926,573	4,600,188	655,000	823,844	3,172,120	7,430,814	18,242,972	155,483,233	0.06%	3,905	
2009	107,331,453	11,692,853	4,713,349	485,000	751,592	3,001,408	7,442,706	17,317,591	152,735,952	0.06%	3,836	
2010	104,758,995	11,449,131	4,826,107	335,000	674,822	2,820,695	7,454,597	16,372,210	148,691,557	0.07%	3,695	
2011	102,093,134	11,195,409	3,339,246	-	593,482	2,629,983	7,466,489	15,391,830	142,709,573	0.07%	3,464	
2012	-	10,939,327	1,114,951	-	507,406	2,429,269	7,478,381	14,376,449	36,845,783	0.26%	894	
2013	-	16,165,817	1,143,352	-	416,367	2,213,558	7,490,272	13,326,068	40,755,434	0.23%	989	
2014		15,938,397	-		-	-	21,975,000	13,483,660	51,397,057	0.18%	1,248	

Source: City of Morgan Hill Annual Financial Reports

**City of Morgan Hill**  
**Ratios of Net General Bonded Debt Outstanding**  
 Last Ten Fiscal Years

<b>Fiscal Year Ended <u>June 30,</u></b>	<b><u>General Bonded Debt Outstanding</u></b>	<b><u>Less Resources Restricted for Principal</u></b>	<b><u>Net General Bonded Debt Outstanding</u></b>	<b><u>Percent of Actual Property Value</u></b>	<b><u>Per Capita</u></b>
2004	\$	\$	\$	\$	\$
2005					
2006					
2007					
2008					
2009					
2010					
2011					
2012					
2013					
2014					

City has no outstanding General Obligation Bonds.

Source: City of Morgan Hill Annual Financial Report

**City of Morgan Hill  
Direct and Overlapping Governmental Activities Debt  
As of June 30, 2014**

2013-14 Assessed Valuation: \$6,600,029,869

	<b>Total Debt 6/30/2014</b>	<b>% Applicable (1)</b>	<b>City's Share of Debt 6/30/2014</b>
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>			
Santa Clara County	\$ 804,700,000	1.973%	\$ 15,876,731
Gavilan Joint Community College District	100,410,000	27.427%	27,539,451
Morgan Hill Unified School District	98,059,040	62.420%	61,208,453
City of Morgan Hill 1915 Act Bonds	13,565,000	100.00%	13,565,000
Santa Clara Valley Water District Benefit Assessment District	115,045,000	1.973%	2,269,838
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$120,459,473</b>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
Santa Clara County General Fund Obligations	757,814,320	1.973%	14,951,677
Santa Clara County Pension Obligations	375,419,144	1.973%	7,407,020
Santa Clara County Board of Education Certificates Of Participation	9,730,000	1.973%	191,973
Morgan Hill Unified School District Certificates of Participation	13,505,000	62.420%	8,429,821
Santa Clara County Vector Control Certificates of Participation	3,275,000	1.973%	64,616
<b>City of Morgan Hill General Fund Obligations</b>	<b>10,845,000</b>	<b>100%</b>	<b>10,845,000</b>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$41,890,107</b>
Less: Santa Clara County supported obligations			10,525,889
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$31,364,218</b>

(Continued...)

City of Morgan Hill  
 Direct and Overlapping Governmental Activities Debt  
 As of June 30, 2014

2013-14 Assessed Valuation: \$6,600,029,869

	Total Debt 6/30/2014	% Applicable (1)	City's Share of Debt 6/30/2014
(Continued...)			
<b><u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u></b>	\$88,675,000	100%	\$88,675,000
<b>TOTAL DIRECT DEBT</b>			\$10,845,000
TOTAL GROSS OVERLAPPING DEBT			\$240,179,580
TOTAL NET OVERLAPPING DEBT			\$229,653,691
GROSS COMBINED TOTAL DEBT			\$251,024,580
NET COMBINED TOTAL DEBT			\$240,498,691

(2)

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of overlapping district's assessed value that is within the boundaries of the city divided by the district's total assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:

Total Overlapping Tax and Assessment Debt.....	1.83%
<b>Total Direct Debt (\$10,845,000).....</b>	<b>0.16%</b>
Gross Combined Total Debt.....	3.80%
Net Combined Total Debt.....	3.64%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$1,939,302,303):

Total Overlapping Tax Increment Debt.....	4.57%
---	-------

**City of Morgan Hill  
 Legal Debt Margin Information  
 Last Ten Fiscal Years (In thousands)**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Debt limit	\$ 678,682	\$ 751,175	\$ 833,617	\$ 925,141	\$ 964,561	\$ 932,847	\$ 875,445	\$ 883,352	\$ 883,463	\$ 942,974
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>\$ 678,682</u>	<u>\$ 751,175</u>	<u>\$ 833,617</u>	<u>\$ 925,141</u>	<u>\$ 964,561</u>	<u>\$ 932,847</u>	<u>\$ 875,445</u>	<u>\$ 883,352</u>	<u>\$ 883,463</u>	<u>\$ 942,974</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Sources: County of Santa Clara Tax Rates and Information and City of Morgan Hill Annual Financial Report

City of Morgan Hill  
Pledged -Revenue Coverage  
Last Ten Fiscal Years

<b>Sewer Bonds</b>											
Fiscal Year Ended June 30,	Utility Services Charges		Less: Operating Costs		Net Available Revenue		Debt Service Principal Interest		Coverage		
2005	\$	8,240,960	\$	4,445,509	\$	3,795,451	\$	975,000	\$	834,738	2.10
2006		8,826,444		5,163,101		3,663,343		995,000		946,365	1.89
2007		9,635,948		5,427,367		4,208,581		1,015,000		926,098	2.17
2008		9,424,049		6,552,427		2,871,622		1,040,000		905,340	1.48
2009		9,043,072		5,528,626		3,514,446		1,065,000		879,201	1.81
2010		8,235,801		5,737,510		2,498,291		1,085,000		849,631	1.29
2011		9,370,444		5,756,237		3,614,207		1,120,000		819,312	1.86
2012		9,618,420		5,324,664		4,293,756		1,155,000		655,156	2.37
2013		12,524,768		6,215,680		6,309,088		1,190,000		617,050	3.49
2014		13,927,768		5,993,976		7,933,792		1,235,000		576,100	4.38

<b>Water Bonds</b>											
Fiscal Year Ended June 30,	Utility Services Charges		Less: Operating Costs		Net Available Revenue		Debt Service Principal Interest		Coverage		
2005	\$	9,793,041	\$	7,489,739	\$	2,303,302	\$	261,807	\$	356,508	3.73
2006		9,368,026		7,577,775		1,790,251		275,516		684,925	1.86
2007		10,097,980		7,573,149		2,524,831		284,363		672,551	2.64
2008		9,768,438		8,060,209		1,708,229		293,520		662,641	1.79
2009		8,807,323		7,187,410		1,619,913		307,705		649,195	1.69
2010		7,351,704		6,875,846		475,858		322,223		635,793	0.50
2011		7,562,410		7,045,126		517,284		336,722		512,780	0.61
2012		8,713,774		6,699,127		2,014,647		351,530		531,436	2.28
2013		10,722,187		7,454,660		3,267,527		371,525		515,629	3.68
2014		11,225,987		7,636,802		3,589,185		384,023		571,463	3.76

Source: City of Morgan Hill Annual Financial Report

**City of Morgan Hill  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<b>Year</b>	<b>Population</b>	<b>Median Household Income</b>	<b>Median Persons Per Household</b>	<b>Per Capita Median Income</b>	<b>County Unemployment Rate</b>	<b>Median Age</b>	<b>School Enrollment</b>
2005	36,423	\$ 94,950	3.034	\$ 31,295	5.7	34.0	8,666
2006	37,091	105,000	3.000	35,000	5.0	34.0	8,784
2007	38,418	105,954	3.000	35,318	4.5	34.0	8,930
2008	39,218	95,033	3.050	31,158	6.0	34.9	9,023
2009	39,814	96,703	3.100	31,195	11.7	36.1	9,194
2010	40,246	97,957	3.490	28,068	11.4	36.3	9,096
2011	38,309	99,243	3.060	32,432	13.3	33.5	9,006
2012	39,127	99,464	3.040	32,718	7.9	36.8	8,763
2013	40,079	105,500	4.000	26,375	7.1	36.2	8,701
2014	41,197	94,238	3.010	31,308	6.8	38.4	8,528

Source: State of Calif, Dept of Finance, Bureau of Labor Statistics

**City of Morgan Hill  
Principal Employers  
Current Fiscal Year, Prior Fiscal Year and Ten Years Ago**

<u>Employer</u>	<u>Fiscal Year 2014</u>			<u>Fiscal Year 2013</u>			<u>Fiscal Year 2005*</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>
Morgan Hill Unified School District	796	1	4.65%	692	1	4.14%	903	1	6.02%
Anritsu Company	544	2	3.18%	522	2	3.13%	487	3	3.25%
Specialized Bicycle Components	522	3	3.05%	522	3	3.13%			
Flextronics International USA, Inc.	341	4	1.99%	210	5	1.26%			
Paramit	320	5	1.87%	370	4	2.22%	261	7	1.74%
Infineon Technologies, North America Corp	210	6	1.23%	202	6	1.21%			
Lusamerica Foods, Inc.	190	7	1.11%	157	11	0.94%			
Mission Bell Mfg., Inc.	185	8	1.08%	162	9	0.97%			
Wal-Mart Supercenter #5766	160	9	0.94%	160	10	0.96%			
Extreme Learning	173	10	1.01%	173	7	1.04%			
City of Morgan Hill	169	11	0.99%	169	8	1.01%			
Young's Market Company, LLC	151	12	0.88%	151	12	0.90%			
The Home Depot #7572	147	13	0.86%	126	16	0.75%			
Gryphon Financial Group	140	14	0.82%	128	15	0.77%			
Target Store #T2252	138	15	0.81%	141	13	0.84%			
Covenant Care MH LLC, dba: Pacific Hills Manor	138	16	0.81%	138	14	0.83%			
Del Monaco Specialty Foods, Inc.	126	17	0.74%	73		0.44%			
Safeway Inc. #1891	108	18	0.63%	109	18	0.65%	162	9	1.08%
Safeway Inc. #1455	108	19	0.63%	107	20	0.64%	315	5	2.10%
Andpak, Inc	106	20	0.62%	108	19	0.65%			
TenCate Advanced Composites USA, Inc				125	17	0.75%			
Comcast Cable Communications							434	4	2.89%
Fox Racing USA, Inc							340	5	2.27%
Hospira, Inc							542	2	3.61%
E.D.O. Reconnaissance & Surveillance Systems Inc.							315	6	2.10%
Global Motorsport Group, Inc. (Custom Chrome)							165	8	1.10%
Alien Technology Corp							155	10	1.03%
<b>Total</b>	<b>4,772</b>		<b>27.90%</b>	<b>4,545</b>		<b>27.23%</b>	<b>4,079</b>		<b>27.19%</b>

\*2005 collected data for top ten employers only

**City of Morgan Hill**  
**Full-time Equivalent City Government Employees by Function/Program**  
**Last Ten Fiscal Years**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
City Council	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.30	5.00	5.00
City Manager	3.00	3.00	4.00	4.00	4.00	11.00	3.00	0.95	0.70	0.95
City Attorney	2.00	2.00	2.00	2.00	2.00	3.00	3.00	2.53	2.63	2.63
Administrative Services							18.00	15.95	16.30	18.25
Community Services	11.00	13.75	16.00	18.50	18.50	14.00	14.00	24.23	23.90	24.65
Police	55.50	57.50	58.00	61.50	61.50	58.00	59.00	52.96	55.50	56.50
Fire									0.25	0.25
Community Development	22.00	22.00	21.00	19.50	20.00	13.50	81.00	19.12	20.33	20.08
Public Works	57.50	57.50	57.50	59.50	60.50	60.00		34.24	31.79	31.79
Internal Services								13.57	13.10	13.90
Finance*	10.00	10.00	10.50	10.50	10.50	13.00				
Business Assistance & Housing Services*	9.50	4.00	8.50	10.50	10.50	9.50				
Council Svcs/Records Management*		3.50	3.50	4.75	4.75					
Information Services*				3.00	3.00					
Human Resources*	2.50	2.50	2.50	2.50	2.50					
City Clerk*	3.50									
<b>Total City Government Employees</b>	<b>181.50</b>	<b>180.75</b>	<b>188.50</b>	<b>201.25</b>	<b>202.75</b>	<b>187.00</b>	<b>183.00</b>	<b>168.85</b>	<b>169.50</b>	<b>174.00</b>

Source: City of Morgan Hill

**City of Morgan Hill  
Operating Indicators by Function/Program  
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Recreation and Community Services</u>										
Daily Visitors	55,462	48,658	124,849	179,614	181,252	282,617	331,400	378,913	373,591	327,313
Recreation Program Visits	39,842	50,296	52,861	51,633	93,240	94,327	96,381	99,863	78,596	96,879
RCS Facility Rental Reservation Hours	27,561	24,426	33,604	38,764	47,495	34,796	35,750	37,237	43,712	48,600
CRC/AC Memberships			2,297	2,973	3,169	3,350	3,910	4,379	4,620	4,697
% of expenditures for capital outlay	4.30%	7.92%	34.93%	30.01%	0.18%	13.03%	0.17%	8.64%	0.00%	1.46%
<u>Public Safety</u>										
Police										
Number of crimes reported	1,139	1,282	1,197	1,115	965	4,066	3,867	3,480	4,176	3,388
% of expenditures for capital outlay	36.66%	0.92%	12.55%	1.81%	0.68%	2.52%	0.14%	0.21%	0.46%	0.32%
Fire										
Fire and Life Safety Inspections									501	1,214
Public Education Attendees									1,009	2,223
% of expenditures for capital outlay									53%	0.36%
<u>Public Works</u>										
Sewer Operations										
Sewer lines flushed (ft)	494,277	643,171	607,175	401,201	649,622	684,973	648,424	527,853	649,943	372,834
Sanitary Sewer Overflows (SSO)	3	1	4	8	14	6	3	5	6	10
% of expenditures for capital outlay	12.56%	11.86%	1.60%	6.90%	0.52%	8.03%	1.23%	12.50%	0.66%	0.00%
Water Operations										
Water production (thous gal)	2,448,874	2,578,337	2,802,215	2,831,486	2,646,925	2,392,682	2,405,758	2,592,366	2,742,031	2,808,225
Water meters installed	181	325	168	126	92	90	114	93	218	258
Water meters repaired or replaced	53	80	961	588	559	880	864	182	819	1,087
Water customer accounts	11,743	11,979	12,141	12,139	12,156	12,256	12,711	12,423	12,713	12,857
% of expenditures for capital outlay	3.57%	19.14%	6.96%	5.02%	5.73%	9.47%	3.93%	8.34%	5.00%	8.72%
Streets Maintenance										
New signs installed	50	34	47	119	97	4	6	10	11	19
Signs repaired/replaced	35	22	86	91	92	29	64	93	106	130
% of expenditures for capital outlay	20.77%	25.39%	64.37%	0.00%	0.001%	43.87%	0.00%	0.00%	0.00%	0.00%
<u>Community Development</u>										
Planning applications	276	183	185	291	183	128	126	130	182	216
Building permits issued	1,388	1,194	1,188	1,085	795	902	1,053	1,050	1,734	1,966
% of expenditures for capital outlay	0.58%	0.94%	0.00%	7.43%	0.40%	2.64%	0.00%	0.00%	0.00%	22.92%
<u>Housing Agency</u>										
Rehab loans	1	4	3	2	3	6	5	0	0	0
Below Market Rate home sales	20	18	22	16	24	4	9	2	25	21
% of expenditures for capital outlay	10.61%	4.67%	0.64%	6.54%	0.77%	0%	0.00%	0.00%	0.00%	0.00%
<u>Total City Government Employees</u>	181.5	180.8	188.5	201.3	202.8	187.0	168.0	168.9	169.5	174

Fire Services added January 1, 2013  
Source: Departments of the City of Morgan Hill

**City of Morgan Hill  
Capital Asset Statistics by Function  
Last Ten Fiscal Years**

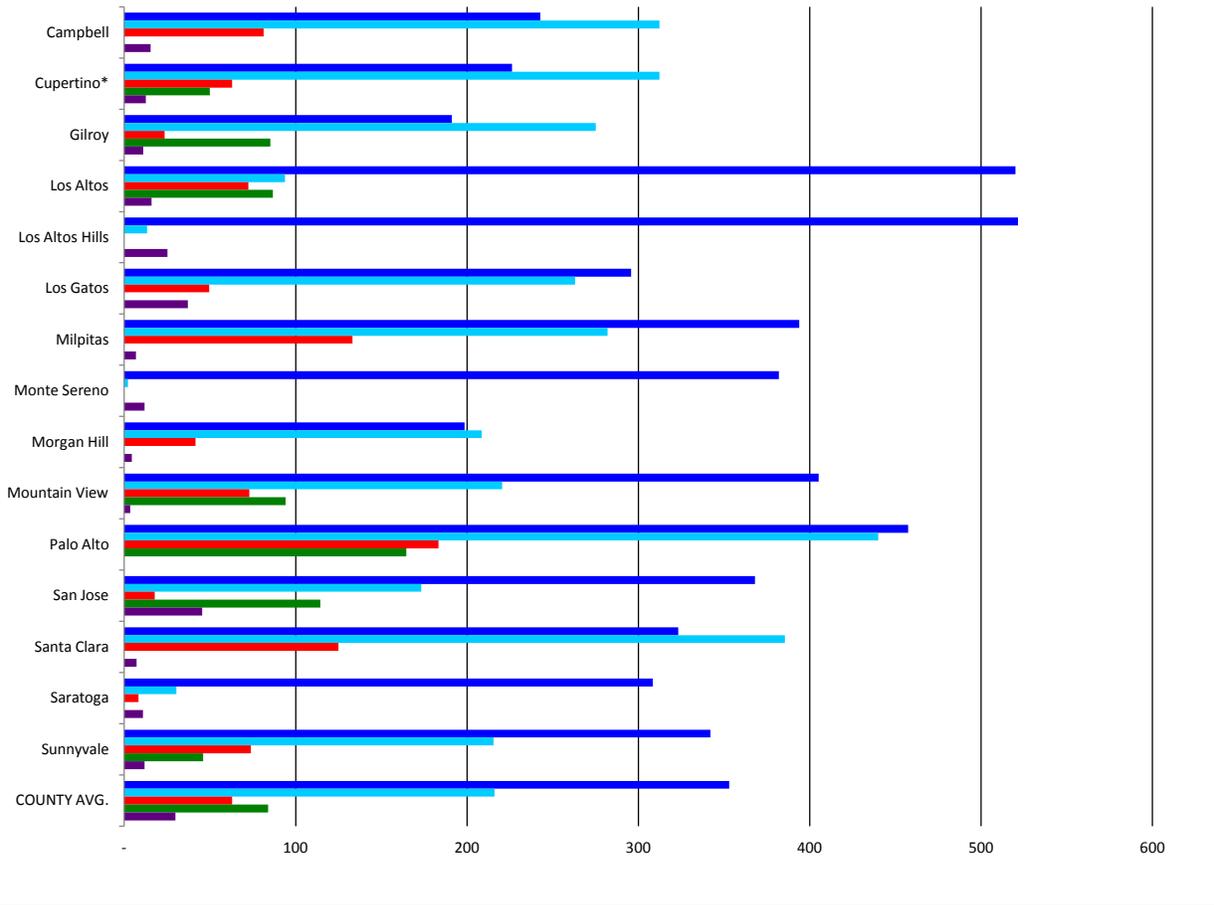
<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Community Services										
Parks & Open Space Acreage*	58	58	58	58	78	78	470	470	470	470
Parks*	9	9	9	9	11	11	22	22	22	22
Swimming Pools	2	4	4	4	4	4	4	4	4	4
Community and Recreation Centers	2	3	4	4	4	4	4	4	4	4
Streets										
Streets (miles)	114	114	114	116	118	118	143	143	148	149
Streetlights	4,552	4,552	4,552	3,562	3,498	3,498	3,600	3,600	3,649	3,689
Public Safety										
Police Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	14	14	18	19	19	19	19	19	20	22
Motorcycle Patrol Units	-	2	2	2	2	2	2	2	2	2
Fire Houses (new 2013)	-	-	-	-	-	-	-	-	2	2
Fire Apparatus (new 2013)	-	-	-	-	-	-	-	-	3	3
Fire Personnel Vehicles (new 2013)	-	-	-	-	-	-	-	-	3	3
Sewer										
Sewer lines (miles)	135	135	150	150	150	150	150	155	160	167
Storm drains (miles)					95	95	95	95	96	110
Maximum daily capacity (thousand gallons)	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900
Water										
Water mains (miles)	164	164	175	175	175	175	175	182	182	185
Water wells	16	16	16	16	17	18	18	17	17	17
Maximum daily capacity (thousand gallons)	12,381	12,381	14,000	14,000	14,000	16,000	16,150	15,700	15,200	15,200

\*Data prior to 2011 do not include Open Space Acreage nor Neighborhood parks

Source: Departments of the City of Morgan Hill

## City of Morgan Hill, California

Property Tax per Capita, Sales Tax per Capita, Transient Occupancy Tax per Capita, and Business License Tax Per Capita - Santa Clara County Cities - 2013-2014

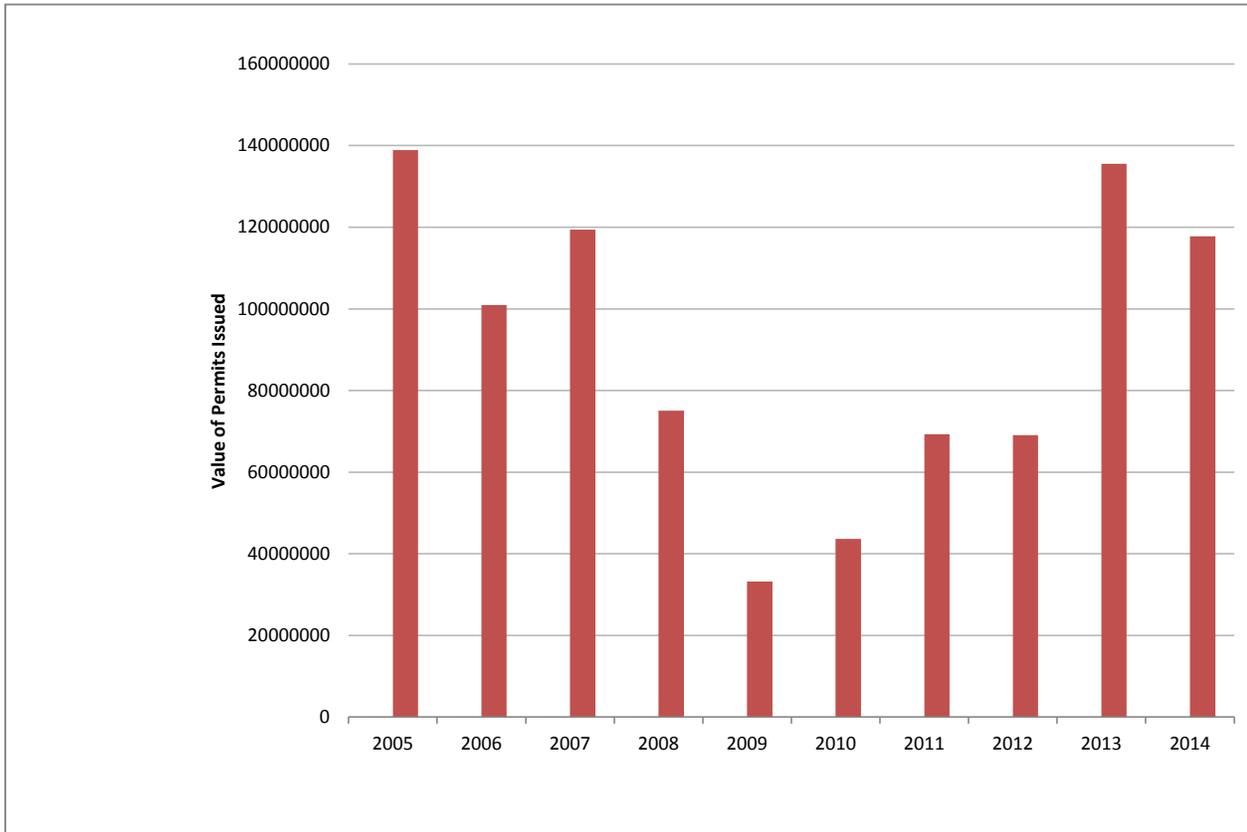


City	Population	Property Tax		Sales Tax		Transient Occupancy		Utility Tax		Business License	
		Amount	Per capita	Amount	Per capita	Amount	Per capita	Amount	Per capita	Amount	Per capita
Campbell	41,993	\$ 10,195,501	243	\$ 13,115,263	312	\$ 3,417,412	81	\$ -	-	\$ 647,873	15
Cupertino*	59,946	13,565,465	226	18,721,193	312	3,768,504	63	2,994,526	50	748,040	12
Gilroy	52,413	10,019,181	191	14,423,130	275	1,234,798	24	4,468,346	85	576,470	11
Los Altos	29,969	15,586,328	520	2,809,490	94	2,168,556	72	2,600,033	87	475,298	16
Los Altos Hills	8,354	4,356,583	521	110,474	13	-	-	-	-	211,137	25
Los Gatos	30,532	9,031,871	296	8,029,571	263	1,512,846	50	-	-	1,130,020	37
Milpitas	70,092	27,607,559	394	19,766,138	282	9,336,309	133	-	-	482,125	7
Monte Sereno	3,450	1,318,167	382	7,576	2	-	-	-	-	40,595	12
Morgan Hill	<b>41,197</b>	<b>8,183,076</b>	<b>199</b>	<b>8,594,986</b>	<b>209</b>	<b>1,714,492</b>	<b>42</b>	-	-	<b>179,848</b>	<b>4</b>
Mountain View	76,781	31,120,500	405	16,935,700	221	5,594,900	73	7,226,400	94	267,700	3
Palo Alto	66,861	30,587,000	457	29,424,000	440	12,255,000	183	11,008,000	165	-	-
San Jose	1,000,536	368,233,000	368	173,412,000	173	17,812,000	18	114,486,000	114	45,501,000	45
Santa Clara	121,229	39,187,491	323	46,735,959	386	15,140,910	125	-	-	874,135	7
Saratoga	30,887	9,526,189	308	941,350	30	257,010	8	-	-	336,911	11
Sunnyvale	147,055	50,293,384	342	31,675,532	215	10,858,671	74	6,754,263	46	1,742,401	12
COUNTY AVG.	118,753	\$ 41,920,753	\$ 353	\$ 25,646,824	\$ 216	\$ 5,671,427	\$ 63	\$ 9,676,543	84	\$ 3,547,570	\$ 30

Source: Cities in Santa Clara County (Cupertino 2013 data)

# City of Morgan Hill, California

## Property Values, Construction and Permits Issued - Last Ten Fiscal Years



Fiscal Year	Assessed Property Values	Value of Permits Issued for			Bank Deposits	
		Total Building Permits Issued	Commercial	Residential		Total
2005	\$ 4,524,548,000	1,388	\$ 39,216,150	\$ 99,694,496	\$ 138,910,646	\$ 717,698,000
2006	5,007,830,000	1,194	24,346,471	76,622,893	100,969,364	756,232,000
2007	5,557,445,900	1,188	57,743,169	61,637,400	119,380,569	781,078,000
2008	6,167,608,050	1,085	28,321,547	46,745,413	75,066,960	755,603,000
2009	6,430,410,000	795	20,561,964	12,625,349	33,187,313	778,298,000
2010	6,218,980,000	902	9,898,059	33,727,046	43,625,105	794,430,000
2011	5,836,302,608	1,053	15,985,102	53,316,931	69,302,033	801,868,000
2012	5,889,010,400	1,050	56,039,495	12,991,892	69,031,387	810,218,000
2013	5,889,753,439	1,734	9,440,434	126,140,682	135,581,116	na
2014	6,286,492,074	1,966	10,296,037	107,467,327	117,763,364	na

Source: City of Morgan Hill Building Department  
Bank Deposits from Findley Reports service discontinued 2013

# City of Morgan Hill, California

## Miscellaneous Statistics - June 30, 2014

### General Information

Date of Incorporation	October 1906
Form of Government	Council/Manager
Area	12 square miles
Miles of Streets	149
Number of Street Lights	3,689
Taxable Sales	\$712,538,500
Number of Registered voters	19,658
Median household income for Morgan Hill	\$94,238
Elevation in feet	320
Building Permits Issued during year	1,966

### Demographics:

Median Age	38.4
Median Persons per household	3.0
Population (consisting of)	41,197
White	51.3%
Hispanic	32.2%
Asian	9.7%
Black	2.7%
Native American	0.1%
Other, mixed	3.4%

### Fire Protection:

Number of stations (2 City, 1 State)	3
Fire Apparatus	2
Fire Vehicles Other	3

### Police Protection:

Number of stations	1
Number of reserves	4
Number of police cars/motorcycles	24

### Municipal Water Services:

Number of Active Accounts	12,857
Average Daily Consumption (gallons)	7,693,767
Miles of Water Mains	185
Pumping Capacity(thousand gallons/day)	12,000

### Education:

Elementary Schools	15
Junior High and High Schools	14
Total Average Daily Attendance	9,532

### Health Facilities:

Dentists and Optometrists	39
Physicians/Surgeons	34
Chiropractors	10
Therapists	44
Medical Clinics	8
Veterinarians	4

### Culture and Recreation:

Parks	22
Acres in parks	470
Libraries	1
Theaters	1
Churches	28
Radio Stations	3
Reservoirs	11
Recreation Centers	4

### Employees:

City Council	5.00
City Manager	0.95
City Attorney	2.63
Administrative Services	18.25
Community Services	24.65
Police	56.50
Fire	0.25
Community Development	20.08
Public Works	31.79
Internal Services	13.90

Total Employees 174.00

### Sewer Services

Peak Flow (thousand gallons/day)	5,900
Miles of sewer lines	167