



FINANCIAL REPORTS

FOR THE YEAR ENDED JUNE 30, 2012

City of Turlock

This book contains the following financial statements for the City of Turlock and related entities for the fiscal year ended June 30, 2012:

City of Turlock
Basic Financial Statements

Turlock Public Financing Authority
Component Unit Financial Statements

City of Turlock
Single Audit Report

City of Turlock Transportation Development Act (TDA)
Financial Statements



CITY OF TURLOCK

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

City of Turlock
For the year ended June 30, 2012
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 12, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in California. On January 31, 2012, the Redevelopment Agency of the City of Turlock was dissolved. The assets and liability of the dissolved agency were assumed by the Successor Agency which is presented as a private purpose trust fund in the accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Marcum LLP

San Francisco, California
July 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis is provided by the management of the City of Turlock (City) for the fiscal year 2011-12 financial statements (with comparative information for 2010-11). We encourage our readers to consider this information in conjunction with the information provided in the accompanying basic financial statements and notes thereto.

IMPACT OF STATE LEGISLATION

Pursuant to Assembly Bill x1 26, (ABx1 26), the City of Turlock Redevelopment Agency was dissolved effective February 1, 2012. The dissolution of the Redevelopment Agency created an extraordinary gain of \$14.5 million on the Statement of Activities and an \$18.3 million extraordinary loss on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance. Additional information about the dissolution of the Redevelopment Agency can be found in Note 12 on page 65 of the financial statements.

FISCAL YEAR 2011-12 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The City's net assets (assets in excess of liabilities) at June 30, 2012, totaled \$486 million. Governmental activities accounted for \$300 million of these net assets, while \$186 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$79 million; while total expenses were \$78 million.
- Governmental program revenues were \$21 million compared to governmental program expenses of \$51 million.
- Program revenues from business-type activities were \$33 million, while expenses for business-type activities were \$27 million.

Fund Highlights

- Net General Fund expenditures exceeded revenues by \$2.3 million as compared to the prior year when revenues exceeded expenditures by \$691,000. For financial reporting purposes, the "General Fund" includes not only the City's General Fund, but also the Arts Commission, Special Public Safety, and Tourism (2 funds) funds.
- General Fund fund balance of \$17.4 million at the June 30, 2012 compared to a projected \$16.1 million when the 2011-12 budget was originally adopted.

Additional discussion regarding the financial results for fiscal year 2011-12 can be found in the "Financial Activities" section of this document.

OVERVIEW OF THESE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements which are broken into the following four parts:

- 1) Management's Discussion and Analysis (this part),
- 2) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
- 3) Required Supplemental Information, and
- 4) Supplemental Information.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2012**

THE BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

The Government-wide Financial Statements provide a longer-term, broader view of the City's activities as a whole. These Statements are more similar to private-sector financial statements than the fund financial statements. The Government-wide Financial Statements are comprised of the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*.

The *Statement of Net Assets* provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by the private sector. The difference between the City's assets and liabilities is reported as "net assets". Over time, this Statement may serve as an indicator of the City's general health and whether its overall financial position is improving or deteriorating.

The *Statement of Activities and Changes in Net Assets* provides information about all the City's revenues and all its expenses. This Statement is also prepared using the full accrual basis of accounting, with an emphasis on measuring net revenues or expenses for each of the City's programs.

All of the City's activities are grouped into either Governmental or Business-type activities as explained below. All the amounts in the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* are separated into Governmental or Business-type Activities in order to provide a summary of these two activities of the City as a whole.

- **Governmental activities**—All of the City's basic services are considered to be governmental activities. These services include public safety (police and fire), parks and recreation, streets and highways, public improvements, community development and general administration. General City revenues such as taxes and program-specific revenues such as developer impact fees support and finance these services.

The City's governmental activities include the activities of a separate legal entity, the City of Turlock Redevelopment Agency, because the City is financially accountable for the Agency.

As noted above, pursuant Assembly Bill 1X 26, (AB36), the City of Turlock Redevelopment Agency was dissolved effective February 1, 2012. Additional information about the dissolution of the Redevelopment Agency can be found in Note 12 on page 65 of the financial statements.

- **Business-type activities**—All the City's enterprise activities are reported here including water, sewer, airport, transit and building department operations. Unlike governmental services, these services are supported by charges paid by the users of these services.

As noted above, the Government-wide financial statements are prepared on the full accrual basis of accounting, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other major funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2012

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called "major funds". Major funds account for the most significant financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary with subordinate schedules presenting the detail for each of these other funds. The concept of major funds, and the determination of which funds are major funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Since the City's most significant fiscal activities may change from year to year, the funds designated as "major funds" may also change from year to year.

Fund Financial Statements include governmental, enterprise, internal service and fiduciary funds as follows:

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

The City of Turlock has thirty (30) governmental funds of which five are considered major funds for presentation purposes. Each major fund is presented separately in the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. The City's five major funds are – the General, Housing Set-Aside, Former LMI Housing Fund, Redevelopment and Facility Fee funds. The financial information for the remaining non-major governmental funds is combined into a single, aggregated presentation. The basic governmental fund financial statements can be found starting on page 16 in this report.

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis and include all their assets and liabilities, current and long-term. The City's Enterprise Funds account for the financial activity of the City's water, sewer, airport, transportation (fixed route and dial-a-ride) and building/safety services. The Internal Service funds account for the financial activity of the City's equipment pool, self-insurance, information systems, and engineering services activities. Because these activities primarily benefit the governmental rather than business-type functions, the resulting financial activities of the Internal Service funds have been included within the governmental activities in the governmental-wide financial statements. The Enterprise and Internal Service Fund Financial Statements can be found starting on page 21.

Fiduciary Fund Financial Statements are used to account for resources held for the benefit of parties outside the government. They are not included in the government-wide financial statements because their resources are not available to support City programs. With the dissolution of the Redevelopment Agency as noted above, the activities of the Successor Agency to the former Turlock Redevelopment Agency are reported as a Private Purpose Trust Fund in the Fiduciary Fund Section. Additional information about the dissolution of the Redevelopment Agency can be found in Note 12 on page 65 of the financial statements.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 29.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2012

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

Over time, net assets may serve as an indicator of a governmental entity's financial position. The following two tables focus on the net assets and changes in net assets of the City of Turlock's Governmental and Business-Type Activities as presented in the Government-wide *Statement of Net Assets* and *Statement of Activities and Changes in Net Assets*.

SCHEDULE OF NET ASSETS						
(in thousands of dollars)						
	Governmental Activities		Business-Type Activities		Total	
	For the FYE June 30		For the FYE June 30		For the FYE June 30	
	2012	2011	2012	2011	2012	2011
Cash and investments	\$ 68,954	\$ 98,046	\$ 85,700	\$ 84,311	\$ 154,654	\$ 182,357
Other assets	35,054	33,904	4,247	5,798	39,301	39,702
Capital assets, net	214,333	212,301	192,393	191,250	406,726	403,551
Total assets	<u>318,341</u>	<u>344,251</u>	<u>282,340</u>	<u>281,359</u>	<u>600,681</u>	<u>625,610</u>
Long-term liabilities	7,941	49,304	88,395	90,814	96,336	140,118
Other liabilities	10,501	12,703	8,209	9,104	18,710	21,807
Total liabilities	<u>18,442</u>	<u>62,007</u>	<u>96,604</u>	<u>99,918</u>	<u>115,046</u>	<u>161,925</u>
Net assets:						
Invested in capital assets, net of debt	179,950	189,275	117,731	114,565	297,681	303,840
Restricted	100,311	70,425	0		100,311	70,425
Unrestricted	19,638	22,544	68,005	66,876	87,643	89,420
Total net assets	<u>\$ 299,899</u>	<u>\$ 282,244</u>	<u>\$ 185,736</u>	<u>\$ 181,441</u>	<u>\$ 485,635</u>	<u>\$ 463,685</u>

As noted above, the City's primary investment is in its *capital assets, net of related debt*. Capital assets, which account for approximately 61.3% of the City's total net assets, include all infrastructure such as the street/roadway system; sewer, water and storm drain collection systems as well as retention basins; the wastewater treatment plant and water wells and pump stations; streetlights and traffic signals; and parks. Capital assets also include all vehicles, equipment and buildings used by City employees in the course of their daily activities. By their very nature and use, capital assets are not available for future spending and are therefore not available assets to fund future activities.

Approximately \$100.3 million or 20.7% of the City's non-capital net assets are subject to external restrictions as to their use. The remaining \$88 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, \$20 million related to governmental activities and \$68 million to business-type activities.

The City's net assets increased by \$22 million during the 2011-12 fiscal year. The majority of this increase (\$20.6 million) is due to the dissolution of the City's Redevelopment Agency and the resulting change in how the Successor Agency is reflected in the City's financial statements. As previously noted, more information on this situation can be found in the notes to the financial statements. The following table provides additional detail.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2012

SUMMARY OF CHANGES IN NET ASSETS

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	For the FYE June 30		For the FYE June 30		For the FYE June 30	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for services	\$ 11,109	\$ 9,745	\$ 32,555	\$ 30,364	\$ 43,664	\$ 40,109
Operating grants and contributions	6,233	9,188	-		6,233	9,188
Capital grants and contributions	3,781	4,953	161		3,942	4,953
Total Program Revenues	21,123	23,886	32,716	30,364	53,839	54,250
General Revenues						
Property taxes	3,823	3,804			3,823	3,804
Sales taxes	10,555	10,221			10,555	10,221
Motor vehicle in lieu fees	4,535	5,000			4,535	5,000
Other taxes	5,767	7,787			5,767	7,787
Interest and investment earnings	162	337	546	663	708	1,000
Gain (loss) on disposal of capital assets	(1)	214	-	(74)	(1)	140
Total General Revenues	24,841	27,363	546	589	25,387	27,952
Total Overall Revenues	45,964	51,249	33,262	30,953	79,226	82,202
Expenses						
General government	3,773	3,278			3,773	3,278
Public safety	26,951	25,996			26,951	25,996
Public ways/facilities/transportation	9,970	8,824			9,970	8,824
Parks and recreation	3,573	3,538			3,573	3,538
Community development	5,782	6,474			5,782	6,474
Interest on long-term debt	1,266	1,850			1,266	1,850
Water			7,509	6,782	7,509	6,782
Sewer			16,530	15,424	16,530	15,424
Airport			82	78	82	78
Transportation			1,377	1,286	1,377	1,286
Building & Safety			1,092	1,023	1,092	1,023
Total Expenses	51,315	49,960	26,590	24,593	77,905	74,553
Increase (Decrease) in Net						
Assets before Transfers and Extraordinary tem	(5,351)	1,289	6,672	6,360	1,321	7,649
Transfers	2,377	1,790	(2,377)	(1,790)	-	-
Contribution from private purpose trust	6,126				6,126	
Extraordinary item - RDA dissolution	14,503				14,503	
Change in Net Assets	17,655	3,079	4,295	4,570	21,950	7,649
Net Assets, beginning of year	282,244	279,165	181,441	176,871	463,685	456,036
Net Assets, end of year	\$ 299,899	\$ 282,244	\$ 185,736	\$ 181,441	\$ 485,635	\$ 463,685

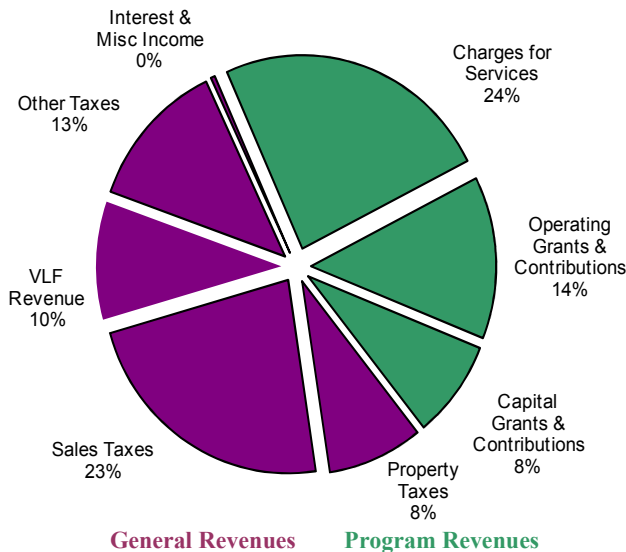
**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2012**

As the above table shows, \$53.8 million of the City’s \$79.2 million in total revenues comes from program revenue sources. GASB 34 defines program revenues as those derived directly from the program itself (user fees) or from parties outside the reporting government’s taxpayers or citizenry. Program revenues reduce the need for the cost of the function to be financed by general government revenues. The largest portion of the City’s program revenues is “Charges for Services” which include user fees from the City’s water and sewer operations, building permit-related fees, developer impact fees and special assessments.

Expenses are presented on a functional basis and represent only current year expenses. As such, they do not include capital outlay expenditures. In accordance with GASB 34, capital outlay expenditures are included in “capital assets” on the City’s *Statement of Net Assets*.

Citywide expenses, which totaled \$77.9 million, consisted of \$51.3 million for governmental activities and \$26.6 million for business-type activities. Of the \$51.3 million in governmental activity expenses, \$27 million or 52.5% relate to the provision of public safety (police and fire) services. The next largest component was \$10 million or 19.4% for public ways, facilities and transportation. This component accounts for activities involved in the maintenance and construction of City streets and roads as well as City buildings.

Governmental Activities



Governmental activity revenues totaling \$46 million are comprised of various non-dedicated tax revenues as well as revenues received for specific purposes. Specific purpose or “program” revenues are categorized as follows:

- Charges for Services – Revenues for specialized City services which are typically not demanded by the general population – totaled \$11.1 million representing a 14% increase over the prior year. Included in this revenue category are the special assessment revenues charged by the City’s Lighting and Landscape maintenance districts as well as charges for specialized services provided by departments throughout the City and fees for participation in City offered recreation programs.

- Operating Grants & Contributions –

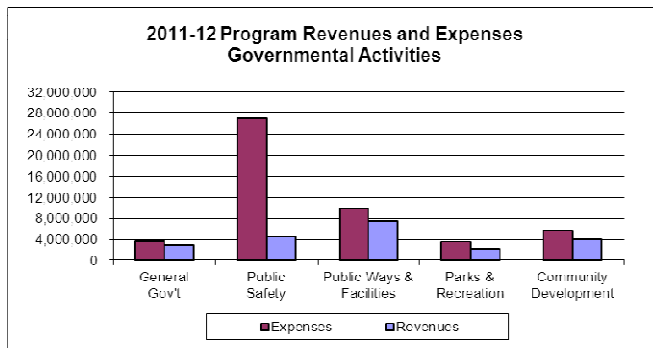
Revenues received from other governmental agencies which are primarily used for operational needs – totaled \$6.2 million, a \$3 million decrease from the amount received in 2010-11. Operating grants include revenues received from the (1) U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development supporting the City’s affordable housing activities; (2) U.S. Department of Justice and CA Office of Traffic Safety supporting various police activities; (3) Gas Tax and Local Transportation Funds used for street/road maintenance; and (4) revenues received by the City’s recreation division to support after school enrichment programs in lower income areas of town. Since these types of revenues are generally received on a reimbursement basis, annual amounts will vary from year-to-year depending on the activities in which the City is engaged.

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2012**

- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure – totaled \$3.8 million representing a \$1.2 million decrease over the prior year reflecting the stagnant construction environment currently existing in the Central Valley.

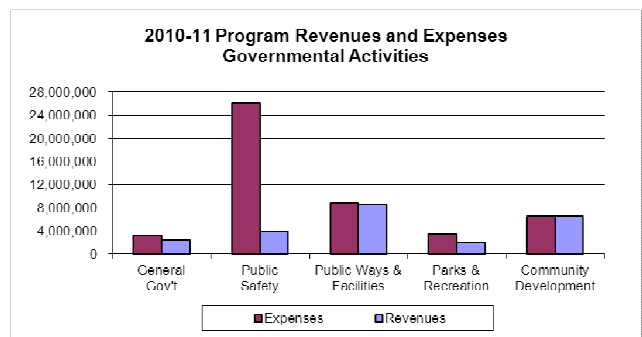
General revenues are all other revenues not classified as program revenues and are generally received for unrestricted uses. General revenues include property taxes, sales tax, motor vehicle in-lieu fees, franchise fees, business license fees, transient occupancy taxes and investment earnings. The City’s governmental activity general revenues totaled \$24.8 million for fiscal 2011-12, \$2.5 million less than received in 2010-11. The detail within the revenue did have mixed results. Property tax revenue is up slightly. In fiscal 2010-11, the City actually experienced a negative adjustment related to delinquent prior year property taxes. Comparisons excluding this adjustment show that property taxes are down approximately 4% for 2011-12. This decline is consistent with the decrease in assessed value for 2011-12.

Sales tax revenue increased approximately 3.3%. Staff continues to see improvement in sales tax revenues for the past few quarters and is hopeful these increases are indicative of an improving economic environment in the Turlock area. Investment earnings were off from the prior year which is reflective of the historic lows in rates of return for the investment vehicles in which the City invests as well as the use of reserves. Governmental activity revenues are primarily used to finance governmental activities such as public safety, park maintenance, culture and recreation programs and general government administration.



The tables to the left and below graphically depict the typical relationship between program revenues and expenses for Governmental Activities for the past two years. In total, 2011-12 expenses for Governmental Activities exceeded program revenues by \$30 million whereas in 2010-11 expenses exceeded revenues by \$26 million.

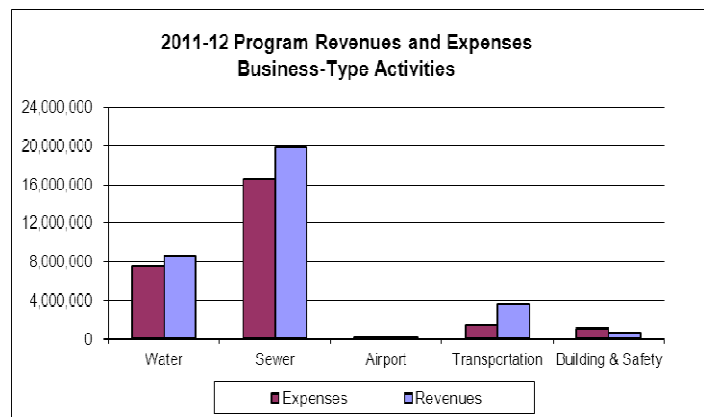
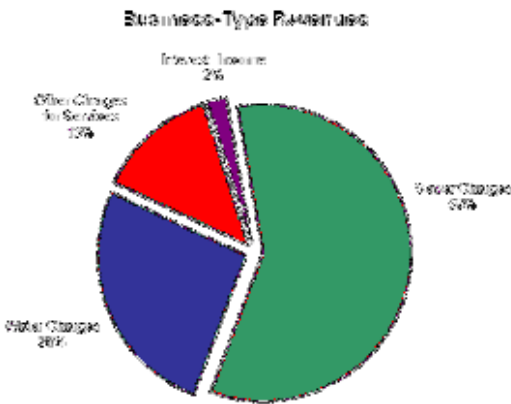
The City continues to work its way through the challenges the current economy presents. Employee concessions, first implemented in fiscal year 2010-11, continued in 2011-12. Although the exact nature of the concessions changed from 2010-11 to 2011-12 and were different among employee bargaining units, they were comprised of either sharing the cost of benefits and/or the elimination of certain benefits. These negotiated concessions were necessary as the cost of employee benefits – mainly health care and pension costs – continue to increase. The results of operations in other operating funds varied during 2011-12 due to available revenue. More information regarding specific funds can be found in the fund section of the document.



**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2012**

Business-Type Activities

Revenues for business-type activities totaled \$33.3 million and related expenses totaled \$26.6 million of which \$16.5 million or 62.2% related to the maintenance and operations of the City’s wastewater treatment plant and the City’s storm drain collection system. Potable water maintenance and operations accounted for \$7.5 million or 28.2% of business-type activities expenses. Other business-type activities include the operation of both fixed route and dial-a-ride transit systems which provide service in Turlock as well as connecting those in need with County-wide transportation services. The City’s Building division assists all residents and developers in their pursuits of property development and improvements within the City limits. Finally, the City owns an airport outside the City limits. The airport property was deeded to the City from the federal government in 1947. The property, which is located in Merced County, is operated under a long-term facilities management agreement by the Turlock Regional Aviation Association. The City receives federal grants to assist in the rehabilitation of the airport property under a master airport improvement plan.



THE CITY’S FUND FINANCIAL STATEMENTS

Governmental Funds

As noted earlier, the focus of the City’s governmental funds (General, Special Revenue and Capital Projects) is to provide information related to resource (mainly cash) near-term inflows, outflows and spendable balances. This focus does not include capital assets and long-term debt. For each fund, the “unreserved fund balance” may serve as a useful measure of the fund’s net spendable resources for the upcoming year.

At June 30, 2012, the City’s governmental funds reported combined fund balances of \$58.7 million, a \$30.6 million decrease over the prior year. When the effect of the extraordinary item related to the dissolution of the Redevelopment Agency is factored out, the decline is \$12.3 million. The General Fund’s fund balance is \$17.4 million at June 30, 2012. Governmental fund revenues were \$46 million this year, of which General Fund revenues totaled \$28.3 million or 61.6%. Governmental fund expenditures totaled \$66.2 million with the General fund representing 48% of the total or \$31.8 million. The following provides additional information for selected governmental funds.

General Fund – As previously mentioned, for financial reporting purposes, the “General Fund” includes not only the City’s General Fund, but also the Arts Commission, Special Public Safety, and Tourism (2 funds) funds. At June 30, 2012, the General Fund had a fund balance of \$17.4 million of which \$9.9 million was unassigned. As noted in footnote 7, fund balances in governmental funds can fall into one of five categories – nonspendable, restricted, committed, assigned or unassigned. Balances falling in the nonspendable through

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2012**

assigned categories are there by virtue of (1) legal restrictions, (2) City Council action to commit resources for specific activities, or (3) action taken by management which signals the City's intended use of resources.

General Fund expenditures exceeded revenues (before transfers) by \$3.4 during fiscal year 2011-12 as compared to \$956,000 in excess expenditures for 2010-11. After net transfers, revenues exceeded expenditures by \$2.3 for 2011-12. The increases are due to higher employee benefit costs in the area of healthcare, pension, and OPEB as explained below as well as the second year of a five-year planned capital expenditure program for General Fund activities.

Beginning with the 2008-09 fiscal year the City implemented the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). This Statement requires the City to report on post-employment benefits other than pensions in a fashion similar to how it reports pension activity. The City has negotiated a retiree health benefit contribution with each of its labor groups. Even though the City's negotiated labor agreements only require a contribution to the retiree health fund, GASB 45 requires the City to recognize revenue and expenditures for these plans as if the City was legally responsible for the benefits to be paid from these contributions. In addition, the funding the City has been setting aside for two of the four retiree health plans is not in an irrevocable trust, but in two separately identified funds within the City's general ledger. Prior to the implementation of GASB 45, these funds had been presented as Agency Funds on the City's financial statements. In accordance with GASB 45, for financial reporting purposes, the activity in Agency Funds has been transferred back to the original funding sources. (i.e. the amounts the General Fund departments contributed to the Agency Funds have been returned to the General Fund). For accountability to the City's employee groups, the City continues to use the Agency funds in its general ledger. See footnote 10 to the financial statements for more information regarding the City's OPEB funds.

Housing Set-Aside Fund and Redevelopment Fund – These funds accounted for the tax increment revenue the City's Redevelopment Agency receives which is used to protect and improve the affordable housing stock in town (Housing Set-Aside Fund) and to combat blight and promote economic development in Turlock (Redevelopment Fund).

As previously noted, on June 28, 2011 the State of California adopted ABx1 26, which was amended by AB 1484 on June 27, 2012, effectively dissolved all redevelopment agencies in California as of February 1, 2012. All assets of the former Turlock Redevelopment Agency were transferred as dictated by the law to either the Housing Successor or the Successor Agency. The "Redevelopment" and "Housing Set-Aside" funds presented in the 2011-12 financial statements represent only seven (7) months of activity for the former RDA.

The City Council of the City of Turlock elected to serve as Successor Agency of the Turlock Redevelopment Agency and also to retain the housing assets and functions previously performed by the former RDA. Note 12 to the financial statements provides additional information regarding the succession process and the net assets and liabilities transferred to the Successor Agency. The activities of the Successor Agency are accounted for as a fiduciary fund and are therefore no longer part of the governmental fund activities in the financial statements.

Facility Fees – The City charges a Capital Facilities Fee (CFF) to new development to fund citywide improvements for roadways, general government capital facilities, police service facilities and equipment, and fire service facilities and equipment. The program specifically identifies new capital improvement projects which are development driven and development's proportionate cost of the project. Major projects funded in 2011-12 include construction of the off-site and on-site improvements for a new public safety facility and various roadway improvements.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2012**

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements for business-type activities only in a little more detail. The net assets for the City's proprietary funds (exclusive of Internal Service funds) increased \$4.3 million during fiscal year 2011-12, which compares to a \$4.6 million increase for fiscal year 2010-11. Overall operating revenues increased by 19% while overall operating expenditures increased by 11%. Charges for services for the City's water operations increased by 0.1% while charges for services for the City's wastewater operations increased by 8.2%. Operating expenses for the water and wastewater operations increased by 14.1% and 9.7% respectively. Utility and personnel costs were higher for both activities.

During 2010-11 the water operations converted all users to monthly billing based on consumption rather than flat rates. At the City Council's direction, Staff is monitoring water usage and associated revenue for a period of 12 – 18 months to determine actual revenues based on consumption. Based on the results of this study, recommendations will be brought back to Council regarding the rate structure for consumption-based billing.

It should be noted that for both the water and wastewater systems, new development pays – via development impact fees - for the construction of infrastructure in the newly developing areas of town. The monthly user fees pay for the on-going delivery of water and sewer services as well as for the cost of replacing infrastructure either due to age or increasing regulatory requirements.

CAPITAL ASSETS

At June 30, 2012, the City had \$407 million, net of depreciation, invested in a broad range of capital assets used in governmental and business type activities. This investment includes land and improvements, buildings, machinery, equipment, vehicles, infrastructure and construction in progress. Infrastructure assets include items which are not moveable and are normally of use only to the City such as streets/roads, bridges, sidewalks, street lighting and traffic signals, parks, drainage systems, sewer collection and treatment systems and water distribution systems. Net additions to the City's capital asset investment (including construction in progress) during fiscal year 2011-12 were over \$24.1 million. The majority of these additions related to infrastructure – streets/roads, water, sewer and storm drain pipes, and park – improvements as well as construction of the public safety facility. Additional information regarding the City's capital assets can be found in Note 5 on page 46 of this report.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$91.4 million in debt outstanding as compared to \$136.8 million for the prior year. With the dissolution of the Turlock Redevelopment Agency, \$41.8 million in debt was transferred to the Successor Agency and is now reflected in the assets and liabilities of the Successor Agency in a fiduciary fund and is no longer part of the government-wide liabilities.

The City's total debt service requirements for the 2012-13 are approximately \$7.2 million with the bulk of the requirements coming from semi-annual payments for the 1999 and 2003A Sewer Revenue (\$1.5 million and \$3.2 million, respectively) and the 2008 Water Bonds (\$2 million), respectively).

Additional information regarding each of the City's debt issues as well as debt service requirements is discussed in greater detail in Note 6 to the financial statements starting on page 48.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2012**

ECONOMIC FACTORS and NEXT YEAR'S BUDGET AND RATES

Developing the 2012-13 General Fund budget presented the City Council and Staff with many of the same challenges that the City has been dealing with for the past few years. Since General Fund revenue peaked at \$30.4 million in fiscal year 2006-07, the City has experienced annual declines in operating revenues with fiscal year 2011-12 representing the fifth year of revenue declines. Budgeted 2012-13 revenues are at a level similar to final revenue for 2011-12. The City is starting to see increases in sales tax revenue, but it is still too early to say with certainty that the corner has been turned. Property tax revenues continue to be a challenge for 2012-13 and are projected to slightly decline. Other revenue sources are projected to hold steady with the prior year results.

The 2012-13 budgeted expenditures again include employee concessions. For this fiscal year, employees are paying 9% of the California Public Employees Retirement System (PERS) costs. In addition employee groups agreed to other concessions which when combined with overall status quo budgeting results in a budget which projects using \$1 to \$1.5 million of General Fund reserves during 2012-13. The City Council had previously laid out a 3-5 year plan to get General Fund expenditures in line with available revenues while using reserves to bridge the gap. The 2012-13 budget falls within that plan. More information regarding the City's budget can be obtained by going to the Finance division section under Administrative Services on the City website at www.ci.turlock.ca.us.

REQUESTS FOR INFORMATION

This Basic Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the City's Finance Department, at 156 South Broadway, Suite 110, Turlock, CA 95380.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* (which were new under Government Accounting Standards Board (GASB) Statement No. 34), summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses; which means they include all the City's assets and liabilities, as well as all its revenues and expenses. This is known as the full accrual basis of accounting under which all of the City's transactions are taken into account, regardless of whether or when cash changes hands.

The *Statement of Net Assets* reports the difference between the City's total assets and the City's total liabilities. Capital assets are included as part of total assets and long-term debt is included as part of total liabilities. The *Statement of Net Assets* presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The financial information presented on the *Statement of Net Assets* is separated between the City's Governmental Activities in one column and the City's Business-Type Activities in another column. These two columns are combined into a "Total" column which presents the City's entire financial position.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue and Capital Projects funds. Since the City's Internal Service Funds provide service to the activities of these funds, the Internal Service fund activities are consolidated with Governmental Activities. As part of the consolidation process, inter-fund transactions and balances are eliminated. The City's Business-Type Activities include all its Enterprise Fund activities.

The *Statement of Activities and Changes in Net Assets* reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund Financial Statements, which reflect only current assets, current liabilities and available revenues and measurable expenditures.

The format of the *Statement of Activities and Changes in Net Assets* differs considerably from those used in the past. It presents the City's expenses first, listed by function or program for governmental activities, followed by expenses by function/program for its business-type activities. Program revenues – that is revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the *Statement of Net Assets*.

Both these Statements include the financial activities of the City, the Turlock Redevelopment Agency and the Turlock Public Financing Authority. The Agency and Authority, which are separate legal entities, are accounted for as blended component units of the City because they are controlled by the City Council and the City is financially accountable for the activities of each entity.

City of Turlock
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 68,954,306	\$ 70,091,985	\$ 139,046,291
Cash and investments with fiscal agent		15,608,047	15,608,047
Accounts receivable	8,099,808	3,841,456	11,941,264
Interest receivable	116,415	176,000	292,415
Internal balances	418,397	(418,397)	-
Due from developers	172,946	157,663	330,609
Total current assets	<u>77,761,872</u>	<u>89,456,754</u>	<u>167,218,626</u>
Noncurrent assets:			
Loans receivable	26,236,368		26,236,368
Deferred charges	10,316	489,928	500,244
Capital assets:			
Non-depreciable	40,834,712	19,314,989	60,149,701
Depreciable, net	173,498,529	173,078,037	346,576,566
Total capital assets	<u>214,333,241</u>	<u>192,393,026</u>	<u>406,726,267</u>
Total noncurrent assets	<u>240,579,925</u>	<u>192,882,954</u>	<u>433,462,879</u>
Total Assets	<u>318,341,797</u>	<u>282,339,708</u>	<u>600,681,505</u>
LIABILITIES			
Current liabilities:			
Accounts payable	8,209,078	1,743,622	9,952,700
Payroll payable	941,250	226,415	1,167,665
Interest payable	11,688	1,104,862	1,116,550
Deferred revenue	195,679	2,042,562	2,238,241
Deposits payable	335,553	375,819	711,372
Compensated absences, due within one year	601,411	165,472	766,883
Long-term debt, due within one year	206,259	2,550,118	2,756,377
Total current liabilities	<u>10,500,918</u>	<u>8,208,870</u>	<u>18,709,788</u>
Noncurrent liabilities:			
Claims liability	3,433,104		3,433,104
Compensated absences, due in more than one year	2,405,643	661,889	3,067,532
Net OPEB obligation	573,417	662,356	1,235,773
Long-term debt, due in more than one year	1,529,152	87,070,700	88,599,852
Total noncurrent liabilities	<u>7,941,316</u>	<u>88,394,945</u>	<u>96,336,261</u>
Total Liabilities	<u>18,442,234</u>	<u>96,603,815</u>	<u>115,046,049</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>179,950,814</u>	<u>117,730,643</u>	<u>297,681,457</u>
Restricted for:			
Capital projects	73,376,490		73,376,490
Special projects and programs	26,934,229		26,934,229
Total restricted	<u>100,310,719</u>	<u>-</u>	<u>100,310,719</u>
Unrestricted	<u>19,638,030</u>	<u>68,005,250</u>	<u>87,643,280</u>
Total Net Assets	<u>\$ 299,899,563</u>	<u>\$ 185,735,893</u>	<u>\$ 485,635,456</u>

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,773,418	\$ 2,574,011	\$ 86,586	\$ 337,111
Public safety	26,950,489	2,695,730	1,442,450	421,266
Public ways and facilities/transportation	9,970,474	2,922,828	1,661,893	2,820,800
Parks and recreation	3,572,848	1,475,159	499,313	150,149
Community development	5,782,395	1,441,227	2,542,809	51,934
Interest on long-term debt	1,265,660			
Total governmental activities	51,315,284	11,108,955	6,233,051	3,781,260
Business-type activities:				
Water	7,508,814	8,447,374		161,141
Sewer	16,530,352	19,808,745		
Airport	81,974	39,405		
Transportation	1,376,779	3,605,436		
Building & Safety	1,092,297	654,374		
Total business-type activities	26,590,216	32,555,334	-	161,141
Total primary government	\$ 77,905,500	\$ 43,664,289	\$ 6,233,051	\$ 3,942,401

General revenues and transfers:

Taxes:
Property
Sales
Motor vehicles tax
Other
Total
Interest and investment earnings
Gain (loss) on disposal of capital assets
Transfers
Contributions from a private purpose trust
Extraordinary item
Transfer from former Turlock Redevelopment Agency to Successor Agency Trust Fund *

Total general revenues and transfers

Changes in net assets

Net Assets:

Beginning of year
End of year

* Turlock Redevelopment Agency dissolved effective February 1, 2012 pursuant to H & S Section 34194.4
See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			
Total	Governmental Activities	Business-type Activities	Total
\$ 2,997,708	\$ (775,710)	\$	\$ (775,710)
4,559,446	(22,391,043)		(22,391,043)
7,405,521	(2,564,953)		(2,564,953)
2,124,621	(1,448,227)		(1,448,227)
4,035,970	(1,746,425)		(1,746,425)
-	(1,265,660)		(1,265,660)
21,123,266	(30,192,018)	-	(30,192,018)
8,608,515		1,099,701	1,099,701
19,808,745		3,278,393	3,278,393
39,405		(42,569)	(42,569)
3,605,436		2,228,657	2,228,657
654,374		(437,923)	(437,923)
32,716,475	-	6,126,259	6,126,259
\$ 53,839,741	(30,192,018)	6,126,259	(24,065,759)
	3,823,277		3,823,277
	10,554,727		10,554,727
	4,535,098		4,535,098
	5,767,353		5,767,353
	24,680,455	-	24,680,455
	162,242	545,626	707,868
	(1,029)		(1,029)
	2,377,219	(2,377,219)	-
	6,126,452		6,126,452
	14,502,838		14,502,838
	47,848,177	(1,831,593)	46,016,584
	17,656,159	4,294,666	21,950,825
	282,243,404	181,441,227	463,684,631
\$ 299,899,563	\$ 185,735,893	\$	\$ 485,635,456

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FUND FINANCIAL STATEMENTS

GASB 34 revised the format of the Fund Financial Statements so that only individual *major funds* are presented, while *non-major funds* are combined and presented in a single column. Major funds are generally defined as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

GOVERNMENTAL FUNDS

The funds described below were determined to be Major Governmental Funds by the City for fiscal year 2011-12. Individual non-major funds may be found in the Supplemental section. This section also contains a reconciliation between the Fund Balance and the Net Assets for Governmental Funds as well as a reconciliation between the Changes in Fund Balance and Changes in Net Assets for Governmental Funds.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds. Expenditure activities within the General Fund include public safety (police and fire), park maintenance, general City administration (includes City Clerk, payroll/personnel, accounts receivable, accounts payable, accounting), planning and the City attorney. For financial reporting purposes, the General Fund for the City of Turlock also includes the Arts Commission, Special Public Safety, Tourism (2 funds) and Parking Citations funds.

HOUSING SET-ASIDE

This Redevelopment Agency fund accounts for 20% of the tax increment generated within the Agency boundaries which is required under California law to be set aside for low- and moderate-income housing programs. Due to the dissolution of all redevelopment agencies in California, this fund accounts for activity up until the date of dissolution.

FORMER LMI HOUSING FUND

This fund accounts for the activity of the Housing Set-Aside funds post dissolution.

REDEVELOPMENT

This Redevelopment Agency fund accounts for 80% of the tax increment generated within the Agency boundaries (see Housing Set-Aside in major funds for the remaining 20%). This fund accounts for the repayment of Agency debt, the tax sharing obligations with various taxing agencies within the Agency boundaries, and the expenditure of funds to eliminate blight and encourage economic development consistent with the Agency's implementation plan. Like the Housing Set-Aside fund, the activity in this fund is for the seven months of 2011-12 prior to dissolution.

FACILITY FEES

The Facility Fees fund accounts for the revenue and related expenditures as outlined in the City's Capital Facilities Fee Improvement program. These fees, which are charged to new development, are designed to finance the roadway, police, fire and general government infrastructure, facilities and equipment needs throughout town which are the result of development within town.

City of Turlock
Balance Sheet
Governmental Funds
June 30, 2012

	Major Governmental Funds					Nonmajor Governmental Funds	Total
	General	Housing Set-Aside	Former LMI Housing Fund	Redevelopment	Facility Fees		
ASSETS							
Cash and investments	\$ 15,547,964		\$ 999,315	\$ -	\$ 15,654,556	\$ 27,201,676	\$ 59,403,511
Accounts receivable	3,898,861		450			1,885,432	5,784,743
Interest receivable	77,832		1,127		11,092	18,921	108,972
Due from other funds	1,945,560						1,945,560
Due from developers	20,041				152,905		172,946
Loans receivable	7,400		11,500,232			14,728,736	26,236,368
Other Assets	10,316						10,316
Total assets	\$ 21,507,974	\$ -	\$ 12,501,124	\$ -	\$ 15,818,553	\$ 43,834,765	\$ 93,662,416
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 2,832,993		\$ 556		\$ 1,610,611	\$ 1,371,618	\$ 5,815,778
Payroll payable	768,823					94,841	863,664
Due to other funds						1,527,163	1,527,163
Deferred revenue	181,679		11,500,232			14,742,736	26,424,647
Deposits payable	330,380						330,380
Total liabilities	4,113,875	-	11,500,788	-	1,610,611	17,736,358	34,961,632
Fund Balances:							
Non-Spendable	37,757				152,905		190,662
Restricted			1,000,336		14,055,037	12,867,987	27,923,360
Committed	4,445,610					13,180,263	17,625,873
Assigned	3,049,917					384,339	3,434,256
Unassigned	9,860,815					(334,182)	9,526,633
Total fund balance	17,394,099	-	1,000,336	-	14,207,942	26,098,407	58,700,784
Total liabilities and fund balance	\$ 21,507,974	\$ -	\$ 12,501,124	\$ -	\$ 15,818,553	\$ 43,834,765	\$ 93,662,416

City of Turlock
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2012

Total Fund Balances - Total Governmental Funds \$ 58,700,784

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in Governmental Funds Balance Sheet. (net of Internal Service Fund balances of \$2,012,538)

Non-depreciable	\$ 42,717,148	
Depreciable	246,632,242	
Less: accumulated depreciation	(67,915,703)	
Less: Net capital assets transferred to Private Purpose Trust Fund	<u>(9,112,984)</u>	212,320,703

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. (net of Internal Service Fund balances of \$959,929)

Compensated absences	\$ (2,652,788)	
Net OPEB obligation	(463,185)	
Capital lease obligations	(271,012)	
Loans payable	(968,968)	
Bonds payable	(41,774,472)	
Unamortized cost of issuance included in deferred charges	672,421	
Add: Net bonds payable and deferred charges transferred to Private Purpose Trust Fund	<u>41,102,051</u>	(4,355,953)

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.

Add: Interest payable transferred to Private Purpose Trust Fund	<u>(789,984)</u>	(3,985)
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Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the Governmental Funds Balance Sheet

26,228,968

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds that are reported with governmental activities.

7,009,046

Net Assets of Governmental Activities \$ 299,899,563

City of Turlock
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2012

	Major Governmental Funds						Total
	General	Housing Set-Aside	Former LMI Housing Fund	Redevelopment	Facility Fees	Nonmajor Governmental Funds	
REVENUES:							
Taxes and assessments	\$ 16,371,942			\$ 2,827,828		\$ 3,109,652	\$ 22,309,422
Licenses and permits	1,341,816					172,537	1,514,353
Fines, forfeitures, and penalties	451,731						451,731
Use of money and property	114,028	(3,487)	11,727	10,905	38,274	57,822	229,269
Intergovernmental	4,960,289					7,400,037	12,360,326
Charges for current services	3,424,672				1,269,583	1,597,565	6,291,820
Other	1,656,601		1,934		40,850	1,089,162	2,788,547
Total revenues	28,321,079	(3,487)	13,661	2,838,733	1,348,707	13,426,775	45,945,468
EXPENDITURES:							
Current:							
General government	3,042,003				262,947	109,819	3,414,769
Public safety	24,227,408				400	1,130,684	25,358,492
Public ways and facilities/ transportation	415,362				571,493	4,547,691	5,534,546
Parks and recreation	1,935,090					1,035,263	2,970,353
Community development	962,497	215,791	4,149,483	170,900		3,825,307	9,323,978
Capital outlay	1,096,713				12,110,740	3,925,581	17,133,034
Debt service:							
Principal	79,763			840,000	122,743	110,191	1,152,697
Interest and fiscal charges	3,533			1,270,811	3,962	22,634	1,300,940
Total expenditures	31,762,369	215,791	4,149,483	2,281,711	13,072,285	14,707,170	66,188,809
REVENUES OVER (UNDER) EXPENDITURES	(3,441,290)	(219,278)	(4,135,822)	557,022	(11,723,578)	(1,280,395)	(20,243,341)
OTHER FINANCING SOURCES (USES):							
Transfers in	1,830,494				5,553,503	2,698,147	10,082,144
Transfers out	(856,545)	(52,245)	(403,189)	(5,119,908)	(201,595)	(1,649,284)	(8,282,766)
Contributions from private purpose trust fund	179,814				5,946,638		6,126,452
Total other financing sources (uses)	1,153,763	(52,245)	(403,189)	(5,119,908)	11,298,546	1,048,863	7,925,830
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,287,527)	(271,523)	(4,539,011)	(4,562,886)	(425,032)	(231,532)	(12,317,511)
Extraordinary item							
Transfer from former Turlock Redevelopment Agency to Successor Agency Trust Fund		(5,539,347)	5,539,347	(18,272,228)			(18,272,228)
NET CHANGE IN FUND BALANCES	(2,287,527)	(5,810,870)	1,000,336	(22,835,114)	(425,032)	(231,532)	(30,589,739)
FUND BALANCES:							
Beginning of year	19,681,626	5,810,870	-	22,835,114	14,632,974	26,329,939	89,290,523
End of year	\$ 17,394,099	\$ -	\$ 1,000,336	\$ -	\$ 14,207,942	\$ 26,098,407	\$ 58,700,784

See accompanying Notes to Basic Financial Statements.

City of Turlock

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures

Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets

For the year ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (30,589,739)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	17,047,448
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Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds. (net of Internal Service Fund balances of \$368,690)	(5,623,400)
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Net effect of the of the disposal of various capital assets resulting in a decrease in net assets.	(20,945)
--	----------

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments. Principal payments on long-term debt	1,152,697
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Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in governmental funds. In addition, governmental funds report the effect of debt issuance costs when the debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the Statement of Activities.	60,216
--	--------

Changes in the accrual of compensated absences are reported in the Government-Wide Statement of Net Activities and Changes in Net Assets, but they do not require the use of (or provide) current financial resources. Therefore, changes in compensated absences are not reported as expenditures (or revenues) in governmental funds.	(78,041)
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Governmental funds report deferred revenue related to long-term loans made. These deferred credits are not reported on the Statement of Net Assets.	3,705,280
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities. These expenditures are reported as Loans Receivable and Deferred Revenue on the fund financial statements.	(772,423)
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Net bonds payable (including interest payable) transferred to Successor Agency Private Purpose Trust Fund when the former Redevelopment Agency was dissolved.	41,888,050
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Net capital assets accounted in the Redevelopment Agency funds were transferred to the Successor Agency Private Purpose Trust when the former RDA was dissolved	<u>(9,112,984)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 17,656,159</u>
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PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges. As noted with governmental funds, major fund reporting is also used for Proprietary Funds. The following briefly describes the City's major proprietary funds.

WATER

The Water Fund accounts for the revenues collected and expenses incurred in providing potable water to residents throughout the City. All activities necessary to provide this service, including administration, operations/maintenance, capital improvements, billing/collections and any financing costs are accounted for in this fund.

SEWER

The Sewer Fund accounts for the revenues collected and expenses incurred in conjunction with the operation and maintenance of the City's sewer and storm drainage systems throughout the City. All activities necessary to provide this service, including administration, operations/maintenance, capital improvements, billing/collections and any financing costs are accounted for in this fund.

City of Turlock
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Major Enterprise Funds		Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
	Water	Sewer			
ASSETS					
Current assets:					
Cash and investments	\$ 25,962,659	\$ 40,299,101	\$ 3,830,225	\$ 70,091,985	\$ 9,550,795
Cash and investments with fiscal agent	10,830,778	4,777,269		15,608,047	
Accounts receivable	1,156,569	2,036,790	648,097	3,841,456	2,315,065
Interest receivable	57,374	115,902	2,724	176,000	7,443
Due from developers		157,663		157,663	
Total current assets	38,007,380	47,386,725	4,481,046	89,875,151	11,873,303
Capital assets					
Non-depreciable	6,894,671	8,452,382	3,967,936	19,314,989	
Depreciable, net of depreciation	40,621,698	126,562,277	5,894,062	173,078,037	2,012,538
Total capital assets	47,516,369	135,014,659	9,861,998	192,393,026	2,012,538
Other assets	153,175	336,753		489,928	
Total assets	85,676,924	182,738,137	14,343,044	282,758,105	13,885,841
LIABILITIES					
Current liabilities:					
Accounts payable	403,748	1,101,897	237,977	1,743,622	2,393,300
Payroll payable	58,774	144,376	23,265	226,415	77,586
Interest payable	229,123	875,739		1,104,862	7,703
Due to other funds			418,397	418,397	-
Compensated absences - due within one year	31,961	116,605	16,906	165,472	70,853
Capital lease obligations - due within one year	45,059	45,059		90,118	90,119
Bonds payable - due within one year	650,000	1,810,000		2,460,000	
Deferred revenue			2,042,562	2,042,562	-
Deposits payable	375,819	-		375,819	5,173
Total current liabilities	1,794,484	4,093,676	2,739,107	8,627,267	2,644,734
Long-term liabilities:					
Claims liability - due in more than one year					3,433,104
Compensated absences - due in more than one year	127,844	466,419	67,626	661,889	283,413
Net OPEB obligation	(112,348)	619,006	155,698	662,356	110,232
Capital lease obligation-due in more than one year	202,656	202,656		405,312	405,312
Loans and Bonds payable, net of discounts - due in more than one year	29,177,410	57,487,978		86,665,388	
Total long-term liabilities	29,395,562	58,776,059	223,324	88,394,945	4,232,061
Total liabilities	31,190,046	62,869,735	2,962,431	97,022,212	6,876,795
NET ASSETS					
Invested in capital assets, net of related debt	28,149,432	79,719,213	9,861,998	117,730,643	1,517,107
Unrestricted	26,337,446	40,149,189	1,518,615	68,005,250	5,491,939
Total net assets	\$ 54,486,878	\$ 119,868,402	\$ 11,380,613	\$ 185,735,893	\$ 7,009,046

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2012

	Major Enterprise Funds		Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
	Water	Sewer			
OPERATING REVENUES:					
Charges for services	\$ 8,160,142	\$ 19,495,128	\$ 796,249	\$ 28,451,519	\$ 11,521,615
Intergovernmental	-		3,495,561	3,495,561	-
Connection fees	56,585	8,186		64,771	
Other income	230,647	305,431	7,405	543,483	3,772,631
Total operating revenues	8,447,374	19,808,745	4,299,215	32,555,334	15,294,246
OPERATING EXPENSES:					
Salaries and benefits	2,395,159	4,957,050	1,047,315	8,399,524	15,593,463
Contractual	405,818	1,034,071	889,079	2,328,968	488,966
Supplies and maintenance	217,588	1,383,155	29,446	1,630,189	43,500
Utilities	1,039,045	1,469,210	22,748	2,531,003	68,584
Fleet expense	53,599	249,438	158,293	461,330	63,082
Depreciation and amortization	1,840,412	3,922,050	375,675	6,138,137	368,690
Other expenses	144,754	476,413	28,494	649,661	33,700
Total operating expenses	6,096,375	13,491,387	2,551,050	22,138,812	16,659,985
OPERATING INCOME (LOSS)	2,350,999	6,317,358	1,748,165	10,416,522	(1,365,739)
NONOPERATING REVENUES (EXPENSES):					
Interest income	177,052	357,650	10,924	545,626	28,321
Capital contributions	161,141			161,141	-
Gain (loss) on disposal of capital assets				-	12,090
Interest expense	(1,412,439)	(3,038,965)		(4,451,404)	(24,936)
Total non-operating revenues (expenses)	(1,074,246)	(2,681,315)	10,924	(3,744,637)	15,475
INCOME (LOSS) BEFORE OPERATING TRANSFER	1,276,753	3,636,043	1,759,089	6,671,885	(1,350,264)
Transfers in	17,700	35,406	98,747	151,853	610,559
Transfers out	(1,513,706)	(994,325)	(21,041)	(2,529,072)	(32,718)
Total transfers	(1,496,006)	(958,919)	77,706	(2,377,219)	577,841
Net income (loss)	(219,253)	2,677,124	1,836,795	4,294,666	(772,423)
NET ASSETS:					
Beginning of year	54,706,131	117,191,278	9,543,818	181,441,227	7,781,469
End of year	\$ 54,486,878	\$ 119,868,402	\$ 11,380,613	\$ 185,735,893	\$ 7,009,046

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2012

	<u>Major Enterprise Funds</u>		Nonmajor Enterprise Funds	Total	Governmental
	Water	Sewer			Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 8,319,843	\$ 19,276,650	\$ 6,385,737	\$ 33,982,230	\$ 10,569,170
Cash paid to suppliers	(4,149,342)	(3,616,644)	(986,285)	(8,752,271)	195,233
Cash paid to employees	(2,512,913)	(4,752,501)	(682,669)	(7,948,083)	(15,602,396)
Other	85,893	(170,982)		(85,089)	3,738,931
Net cash provided (used) by operating activities	1,743,481	10,736,523	4,716,783	17,196,787	(1,099,062)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	17,700	35,406	98,747	151,853	610,559
Transfers out	(1,513,706)	(994,325)	(21,041)	(2,529,072)	(32,718)
Net cash provided (used) by noncapital financing activities	(1,496,006)	(958,919)	77,706	(2,377,219)	577,841
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(1,400,880)	(4,042,289)	(1,629,117)	(7,072,286)	(115,735)
Proceeds from disposal of capital assets				-	17,426
Principal payments on long-term debt	(668,018)	(1,778,018)		(2,446,036)	(86,036)
Interest paid	(1,416,674)	(3,055,152)		(4,471,826)	(26,274)
Net cash provided (used) by capital and related financing activities	(3,485,572)	(8,875,459)	(1,629,117)	(13,990,148)	(210,619)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	189,942	360,815	9,206	559,963	30,702
Net cash provided (used) by investing activities	189,942	360,815	9,206	559,963	30,702
Net increase (decrease) in cash and cash equivalents	(3,048,155)	1,262,960	3,174,578	1,389,383	(701,138)
CASH AND CASH EQUIVALENTS:					
Beginning of year	39,841,592	43,813,410	655,647	84,310,649	10,251,933
End of year	\$ 36,793,437	\$ 45,076,370	\$ 3,830,225	\$ 85,700,032	\$ 9,550,795

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds, Continued
For the year ended June 30, 2012

	<u>Major Enterprise Funds</u>		Nonmajor Enterprise Funds	Total	Governmental
	Water	Sewer			Activities Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 2,350,999	\$ 6,317,358	\$ 1,748,165	\$ 10,416,522	\$ (1,365,739)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,840,412	3,922,050	375,675	6,138,137	368,690
Changes in operating assets and liabilities:					
Accounts receivable	71,562	(226,664)	1,354,250	1,199,148	(952,445)
Accounts payable	(2,433,292)	519,230	141,775	(1,772,287)	190,551
Payroll payable	11,560	13,638	858	26,056	8,366
Due to other funds			316,943	316,943	
Compensated absences	3,047	58,838	7,296	69,181	66,868
Claims Liability					668,814
Net OPEB obligation	(132,361)	132,073	39,549	39,261	(84,167)
Deferred revenue			732,272	732,272	
Deposits payable	31,554			31,554	
	<u>\$ 1,743,481</u>	<u>\$ 10,736,523</u>	<u>\$ 4,716,783</u>	<u>\$ 17,196,787</u>	<u>\$ (1,099,062)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET:					
Cash and investments	\$ 25,962,659	\$ 40,299,101	\$ 3,830,225	\$ 70,091,985	\$ 9,550,795
Cash and investments with fiscal agent	10,830,778	4,777,269		15,608,047	-
Total cash and cash equivalents	<u>\$ 36,793,437</u>	<u>\$ 45,076,370</u>	<u>\$ 3,830,225</u>	<u>\$ 85,700,032</u>	<u>\$ 9,550,795</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital assets contributed by developers					
Capital asset cost	\$ 161,141			\$ 161,141	
Expense previously capitalized construction in progress					
Capital asset cost			\$ 1,930	1,930	
Total noncash capital and related financing activities	<u>\$ 161,141</u>	<u>\$ -</u>	<u>\$ 1,930</u>	<u>\$ 163,071</u>	<u>\$ -</u>

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FIDUCIARY FUNDS

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the Government-wide Financial Statements, but are presented in a separate Fiduciary Fund Financial Statement. For the City of Turlock, the following agent activities are accounted for within the Agency Funds:

- ✓ Turlock Community Facilities District (CFD) #1 – Mello Roos Assessment District
- ✓ Turlock Downtown Property and Business Improvement District (PBID) #2

Additional information related to the above Agency Funds can be found in the “Supplemental Information” section of this report.

PRIVATE PURPOSE TRUST FUND

The Successor Agency to the Turlock Redevelopment Agency (SA) was established as a result of the passage of Assembly Bill 1x 26, which dissolved all redevelopment agencies in the State of California effective February 1, 2012. By Resolution No. 2012-009 adopted on January 10, 2012, pursuant to Health and Safety Code Section 34173, the Turlock City Council declared that the City of Turlock would act in a special limited capacity as Successor Agency for the dissolved Turlock Redevelopment Agency (RDA), effective February 1, 2012. The SA is responsible for day to day administration of the former RDA, including identification and payment of enforceable and recognized obligations of the former RDA, and disbursement of available assets. An Oversight Board, consisting of 7 members appointed by various taxing entities within Stanislaus County as delineated in the dissolution law, supervises the SA’s activities in the winding down of the former RDA’s projects and programs.

City of Turlock
Statement of Net Assets
Fiduciary Funds
June 30, 2012

ASSETS	Successor Agency Trust Fund	Agency Funds
Cash and investments	\$ 2,614,834	\$ 868,748
Cash and investments with fiscal agent	11,091,723	418,487
Accounts and interest receivable	7,191	53,819
Deferred charges	672,421	
Assets transferred from close of RDA	9,112,984	
Total assets	\$ 23,499,153	\$ 1,341,054
LIABILITIES		
Accounts and salaries payable	1,067,571	37,163
Interest payable	785,999	
Loan payable to Turlock Public Financing Authority	41,774,472	
Due to others		1,303,891
Total liabilities	43,628,042	1,341,054
Net deficit in assets held in trust for loans payable and capital assets	(20,128,889)	
Total net assets (deficit)	\$ (20,128,889)	

City of Turlock
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2012

	Successor Agency Trust Fund
ADDITIONS:	
Property tax receipts	\$ 1,784,944
Investment income	3,063
Total additions	<u>1,788,007</u>
DELETIONS:	
Administrative expenses	272,484
Interest and fiscal agent expenses of former redevelopment agency	1,194,936
Total deletions	<u>1,467,420</u>
ADDITIONS OVER (UNDER) DELETIONS	<u>320,587</u>
OTHER FINANCING (USES):	
Contributions to governmental fund	(5,946,638)
Extraordinary loss	(14,502,838)
Total other financing (uses)	<u>(20,449,476)</u>
CHANGE IN NET ASSETS	(20,128,889)
NET ASSETS:	
Beginning of year	<u>-</u>
End of year	<u><u>\$ (20,128,889)</u></u>

City of Turlock

Notes to Basic Financial Statements

For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Turlock, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City was incorporated in 1908. The City operates under a Council-Manager form of government and provides the following services: police and fire, streets and highways, sanitation, water, sewer, parks & recreation, public improvements, planning and zoning, and general administrative services.

The financial reporting entity as defined by the GASB consists of the primary government – the City, organizations for which the primary government is financially accountable, and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Turlock Public Financing Authority

The City Council acts as the governing body and is financially accountable for the Turlock Public Financing Authority (Authority) which was established on December 15, 1998, pursuant to Article 1, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California. The City of Turlock authorized the formation of a Joint Powers Authority with the Turlock Redevelopment Agency (RDA). The Authority provides pooled debt financing for the City and the RDA.

This organization is considered a component unit of the City and is included within the financial statements of the City using the blended method. The component unit, as well as the City, maintains a June 30 fiscal year. Financial statements for the City, as well as its component unit, can be obtained from the City's Finance Department.

Turlock Redevelopment Agency

The Turlock Redevelopment Agency was established by the City in October 1977, pursuant to the State of California Health and Safety Code, Section 33000, entitled Community Redevelopment Law. The RDA's purpose was to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.

The RDA was dissolved pursuant to Assembly Bill 1x 26 on February 1, 2012. The Turlock City Council is acting in a special limited capacity as the Successor Agency for the former RDA to oversee the day-to-day administration and wind down of the former RDA. The RDA's assets and liabilities were transferred to the Successor Agency Trust Fund on February 1, 2012.

Financial activity for the RDA from July 1, 2011 to January 31, 2012 is included in these financial statements as a blended component unit. Financial activity for the Successor Agency beginning February 1, 2012 through June 30, 2012 is separately presented as a private purpose fiduciary trust fund. See footnote #12 for additional information regarding the statewide dissolution of redevelopment agencies and the accounting for the private purpose trust fund.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus

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

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These Statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

Governmental-Wide Financial Statements

The government-wide financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 90 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, taxpayer-assessed tax revenues (transient occupancy taxes, franchise taxes, etc.) and earnings on investments. Due to State legislative changes in the methodology for remitting sales tax and motor vehicle in-lieu fees to local agencies, beginning with fiscal year 2004-05 the accrual period for these revenue sources is 7-12 months. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and nonmajor funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City's Fiduciary funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for using the accrual basis of accounting.

C. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements of Deposits and Investment Risks were made in the following areas:

- ✓ Interest Rate Risk
- ✓ Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as “Cash and Investments” in the accompanying Basic Financial Statements.

For purposes of the Statement of Cash Flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting funds with fiscal agents) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

E. Receivables

All receivables are shown net of an allowance for doubtful accounts. Service charge revenues (water, sewer and refuse collection) are recorded as billed to customers on a cyclical basis. All utility customers are billed monthly, in arrears. The amounts billed in July for June services are accrued as accounts receivable as of June 30.

F. Interfund Balances/Internal Balances

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation or by deferred revenue in the applicable governmental funds to indicate that they are not expendable available financial resources. Any unpaid interest due to lack of funds in the borrowing fund increases the principal owed and is reported in the lending fund as deferred revenue.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Interfund Balances/Internal Balances, Continued

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as “internal balances.”

G. Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. City policy has set the capitalization thresholds for reporting capital assets at the following:

General capital assets	\$ 5,000
Infrastructure capital assets	\$ 5,000

Depreciation has been provided on a straight-line basis over the following useful lives:

	<u>Years</u>
Land improvements and infrastructure	25-60
Buildings	30-50
Furniture and equipment	5-15
Vehicles	5-10

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments’ basic financial statements. In accordance with GASB Statement No. 34, the City has included all infrastructure into the current basic financial statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, parklands, and buildings. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during the construction of capital assets, if any, is capitalized for the business-type activities in the proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. Original costs were developed based on historical acquisition/construction records. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date, was computed on a straight line, unrecovered cost method using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Compensated Absences

Government-Wide Financial Statements

For governmental and business-type activities, compensated absences are recorded as earned (vested) and the related expenses and liabilities are reported in the government-wide financial statements.

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the year paid as it is the City's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial funds. In proprietary funds, compensated absences are expensed to the various funds as earned (vested) and each proprietary fund's share of the unpaid liability is recorded as a liability of the fund.

The City accrues vacation and sick time payable based on negotiated Memoranda of Understanding (MOU) with the City's various bargaining units. The MOU's indicate the methodology for accruing time and the maximum accrual limits.

I. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are prepaid charges for services.

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, long-term assessments, and loans receivable.

J. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as other assets and amortized on a straight-line basis over the life of the related bonds.

Fund Financial Statements

The Governmental Fund Financial Statements do not include long-term debt, as this liability is not payable in the current period. In addition, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, as a revenue or expenditure of the current period rather than amortizing them over the life of the bonds. The face amount of debt issued and any premiums received are reported as other financing sources, while discounts and issuance costs are reported as other financing uses.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Property Tax Revenue

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Secured property taxes are determined annually as of January 1, and attach as an enforceable lien on real property as of July 1. Taxes are due November 1 and February 1, and are delinquent if not paid by December 10 and April 10, respectively.

In November 1993, the City adopted the “Teeter Plan” method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55% in December, 40% in April, and 5% at the end of the fiscal year. Under this plan a need for an allowance for uncollectible taxes is eliminated.

Property tax is recognized when it is available and measurable. The City considers property tax as available if it is received within 60 days after the fiscal year end. Unsecured property taxes are due on July 1, and become delinquent if not paid by August 31.

L. Use of Estimates

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

2. CASH AND INVESTMENTS

The City maintains an internal cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled and are reported as cash and investments with fiscal agents.

Investment income earned on pooled cash and investments (including realized and unrealized gains and losses) is allocated quarterly to the various funds based on average quarterly cash balances. Investment income from cash and investments with fiscal agents is credited directly to the related funds.

The City’s Investment Policy is adopted by the City Council in accordance with California Government Code (Code) Section 53601 and has as its objectives the following (in order of priority):

- ✓ **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Turlock shall be undertaken in a manner that seeks to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- ✓ **Liquidity:** The City of Turlock's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- ✓ **Return on Investment:** The City of Turlock's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

A. Authorized Investments

Under provisions of the City’s Investment Policy, the City may invest in the following types of investments:

- ✓ U.S. Treasury notes, bonds, and/or bills;
- ✓ U.S. Government Federal Agency Securities;
- ✓ Certificate of Deposits;
- ✓ Bankers Acceptances, investment in any one commercial bank is limited to no more than 30% of the total investment in BA’s and the maximum maturity for any security at acquisition is 180 days;
- ✓ Commercial Paper, investment in any single issuer is limited to no more than 10% of total investment in Commercial Paper and the maximum maturity for any security at acquisition is 270 days;
- ✓ State of California Local Agency Investment Fund (LAIF);
- ✓ Money Market and Mutual Funds; and
- ✓ Corporate Notes, AAA rated.

Unless otherwise noted, the above investments are authorized within the limitations delineated in Code Sections 53600 et seq. A five-year maximum maturity (at acquisition) for each investment is allowed unless a longer term approved in advance by the City Council.

B. Cash Deposits

At June 30, 2012 the carrying amount of the City’s time and demand deposits was \$30,295,001. The difference between the bank balance of \$31,864,019 and the carrying amount resulted from outstanding checks and deposits in transit. Of the time deposits and demand deposits, \$100,000 was covered by federal depository insurance with the balance being collateralized with securities held by the counter party or its agent in accordance with Section 53652 of the Code. FDIC coverage is unlimited for noninterest bearing accounts through December 2012. The Code requires California banks and savings and loan associations to secure a city’s deposits by pledging government securities with a value of 110% of a city’s total deposits, or by pledging first trust deed mortgage notes having a value of 150% of a city’s total deposits.

The following is a summary of the pooled cash and investments and investment with fiscal agent at June 30, 2012:

	Government-Wide Statement of Net Assets			Fiduciary Funds Statement of Net Assets	Grand Total
	Governmental Activities	Business-Type Activities	Total		
Cash and investments	\$ 68,954,306	\$ 70,091,985	\$ 139,046,291	\$ 3,483,582	\$ 142,529,873
Cash and investments with fiscal agent	-	15,608,047	15,608,047	11,510,210	27,118,257
Total cash and investments	\$ 68,954,306	\$ 85,700,032	\$ 154,654,338	\$ 14,993,792	\$ 169,648,130

Cash and investments held with fiscal agent are restricted for payment of principal and interest for the City’s various bond issues (see footnote # 6) or for construction costs financed by the proceeds of the City’s bond issuances.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures

As of June 30, 2012, the City's cash and investments matured as follows:

	Fair Value	Due on Demand	Maturities (in years)			
			1 year or less	1-2 years	2-3 years	4-5 years
Cash on hand and demand deposits	\$ 30,295,001	\$ 30,295,001				
Brokerage Account	15,535	15,535				
Total Cash	30,310,536	30,310,536				
Investments						
U.S. Federal Agency Securities	\$ 9,004,359		\$ 2,000,960			\$ 7,003,399
Certificates of Deposit	21,012,732		16,910,139	\$ 4,102,593		
LAIF	60,079,825		60,079,825			
Corporate Notes	1,978,928				\$ 1,978,928	
Money Market Account	20,143,493		20,143,493			
Total Investments	\$ 112,219,337	\$ -	\$ 99,134,417	\$ 4,102,593	\$ 1,978,928	\$ 7,003,399
Total cash and investments	\$ 142,529,873	\$ 30,310,536	\$ 99,134,417	\$ 4,102,593	\$ 1,978,928	\$ 7,003,399
Investment maturities as a percent of total fair value			88.34%	3.66%	1.76%	6.24%

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. Maturities as a percentage of the total fair value of the investment portfolio are noted in the table above. The average life of the portfolio is 213 days.

Credit Risk - It is the City's policy that federal agency securities must have the highest rating issued by the nationally recognized statistical rating organizations. The Local Agency Investment Fund (LAIF), administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments.

At June 30, 2012 the City's credit risks, expressed on a percentage basis were as follows:

	S&P Credit Rating	% of Investments
US Federal Agency Securities	AAA	8.02%
CA Local Agency Investment Fund	not rated	53.54%
Certificates of deposit	not rated	18.73%
Corporate Notes	AA+	1.76%
Money Market account	not rated	17.95%
Total		100.00%

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. U.S. Federal Agency Securities are held by a third-party custodian (Wells Fargo Bank). Wells Fargo Bank is a registered member of the Federal Reserve Bank. The securities held by Wells Fargo are in street name and a customer number is assigned to the City identifying ownership. The investments in certificates of deposit and LAIF are held by the issuing agency in the City's name.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the City's investments be carried at fair market value instead of cost. Accordingly, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. The change in value of the City's investments from June 30, 2011 to June 30, 2012 amounted to an unrealized loss of \$47,450.

D. External Investment Pool

The City invests in the California Local Agency Investment Fund (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 on amortized cost or best estimate for those securities where market value is not readily available.

The City's investment with LAIF at June 30, 2012 includes a portion of pool funds invested in structured notes and asset-backed securities. These investments may include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises such as the Federal National Mortgage Association and the Federal Home Loan Bank System or an international agency such as the World Bank.

Asset-Backed Securities entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest payments from a pool of mortgages (e.g., CMOs) or small business loans or credit card receivables (such as ABCP).

As of June 30, 2012, the City had \$60,079,825 invested in LAIF, which had invested 2.75% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001219643 was used to calculate the fair value of investments in LAIF as of June 30, 2012.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. RECEIVABLES AND DEFERRED REVENUE

A. Government Wide Financial Statements

At June 30, 2012, the City had the following amounts due from developers and loans receivable. These amounts are further described below the table.

	Governmental Activities	Business-Type Activities	Total
Due from developers	\$ 172,946	\$ 157,663	\$ 330,609
Loans receivable	26,236,368		26,236,368
Total	\$ 26,409,314	\$ 157,663	\$ 26,566,977

Due from Developers

These amounts represent funds expended by the City in the preparation of the master plan and related planning documents required for the development of the City’s Northwest Specific Triangle Plan Area, its Northeast Master Plan Area and its Morgan Ranch Master Plan Area. The amounts expended by the City are being recovered as these Plan Areas develop via a specific development impact fee. The Northwest Triangle receivable of \$157,663 is recorded in the Sewer fund, the Northeast Master Plan receivable of \$20,041 is recorded in the General Fund and the Morgan Ranch Master Plan receivable of \$152,905 is recorded in the Facility Fees fund.

Loans Receivable

Loans receivable at June 30, 2012 consist of the following:

<u>Type of Loan/Borrower</u>	<u>Amount</u>
Central Valley Coalition for Affordable Housing	\$ 8,127,259
First Time Homebuyer Loans	7,931,129
EAH, Inc.	5,000,000
Owner-Occupied Rehabilitation Loans	3,524,618
Cherry Tree Village Loans	1,572,867
Rehabilitation Forgivable Loans for Energy Improvements	66,390
Rental Rehabilitation Loans	6,705
Executive MBA Program Loans	7,400
Total Loans	\$ 26,236,368

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable, Continued

Central Valley Coalition for Affordable Housing

The Central Valley Coalition for Affordable Housing (CVCAH) is a Community Housing Development Organization (CHDO) participating in various projects in Turlock. A CHDO is a private, nonprofit, community-based service organization that has the capacity to develop affordable housing for the community it serves. The City of Turlock, under the HOME Investment Partnership (HOME) Program, is required to reserve HOME funds for investment in housing to be developed, sponsored, or owned by CHDOs. The City must identify and certify qualifying nonprofit organizations as CHDOs through HUD regulations.

CVCAH is currently participating in three types of projects within the City of Turlock. The first is Crane Terrace, a 44-unit, three-story, low-income senior living apartment complex. Using 20% Set-Aside monies, the Redevelopment Agency loaned \$4 million to this \$10.5 million project under a Development and Disposition Agreement (DDA) dated April 26, 2005. The DDA calls for repayment of the 55-year note to begin in year 31 from residual rental receipts. The note carries 3% simple interest. The total outstanding principal and interest at June 30, 2012 was \$5,045,569.

The second type of project is the acquisition and rehabilitation of single-family residential units which will be rented out to HUD qualifying low/moderate income families. CVCAH currently has three of these properties for which the City holds promissory notes totaling \$1,017,529. The notes each carry a 5% annual interest rate and are due and payable, along with all accrued, unpaid interest at maturity, unless the underlying property is sold; at which time the note and all accrued, unpaid interest is due and payable. Total outstanding principal and interest at June 30, 2012 on these three properties was \$1,300,774.

The third type of project is the acquisition of multi-family properties which will be rented to HUD qualifying, low-income families. CVCAH currently owns three multi-family properties for which the City holds promissory notes totaling \$1,394,604. The notes each carry annual interest rates from 3% - 5% and are due and payable, along with all accrued, unpaid interest at maturity, unless the underlying property is sold; at which time the note and all accrued, unpaid interest is due and payable. Total outstanding principal and interest at June 30, 2012 on these three properties was \$1,780,916

First Time Homebuyer Loans

The First Time Homebuyer Loan program, funded using Federal and/or State of California HOME funds, CDBG funds, and Redevelopment Agency low-/moderate-income housing funds, provides eligible prospective homebuyers within the City of Turlock with up to \$80,000 in funding assistance through a silent second deed of trust on their home. The loans are interest free for the first five years and accrue interest at 3% - 5% simple interest annually thereafter. The loans are due and payable should the homeowner refinance or sell the property. Proceeds from repaid loans are used to extend new loans. As of June 30, 2012 the City had 150 loans outstanding.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable, Continued

EAH, Inc.

EAH, Inc. is a nonprofit corporation which develops and manages affordable housing projects in the western United States. The Redevelopment Agency entered into two Disposition and Development Agreements (DDA) with EAH to assist in the development and help secure financing for multi-family housing project on 6.7 acres of property in the area of Linwood Avenue and Hwy 99. The site is currently owned by the City of Turlock and will be conveyed to the developer (EAH) pursuant to the terms of the DDA. The proposed project is a two-phased, 144 unit, three-story, apartment complex for low- and very low-income families with amenities that would complement the project and surrounding neighborhood.

The DDA for Phase 1 and construction of the first 80 units contains funding of up to \$5 million of RDA low- and moderate-income funds divided into two separate funding horizons. The first is a pre-construction loan of up to \$1 million to reimburse the developer for certain pre-construction, design and engineering costs. The second is a development cost loan of up to \$4 million to be used for construction and development of the project, excluding development fees, management fees or other similar fees. The DDA contains conditions which must be achieved in order for the developer to be eligible to receive funding under either loan as well as conditions related to the development of the project, additional funding sources which must be obtained, and conditions for the transfer of ownership of the property.

Each loan will be memorialized with a Promissory Note and will become a recorded deed of trust against the property. The \$1 million pre-construction loan is interest free for the earlier of: (1) two years from the date of execution, or (2) when the construction loan closes. Both the pre-construction and development cost loans will be rolled into a permanent loan at the completion of construction. The combined loans will carry a 3% annual interest rate and be repaid using residual receipts over a 55 year period. As of June 30, 2012 the Agency had expended all the pre-construction funds and had provided a \$4 million construction loan for total outstanding loans of \$5 million.

Owner-Occupied Rehabilitation Loans

The Owner-Occupied Rehabilitation Loan program, funded with either Federal Community Development Block Grant (CDBG) or State of California HOME funds, provides eligible homeowners with funding for health, safety and/or building code related improvements to their home. Eligibility is established based on the age and income requirements for U.S. Department of Housing and Urban Development (HUD) funded programs. The loans are for a maximum of 20 years and can be either fully amortizing or deferred – depending on the age and income level of the applicant. The fully amortizing loans carry a 5% simple interest rate for the entire term, while the deferred loans accrue simple interest at 5% for the first 10 years and then no interest for the remaining 10 years. All loans are secured by a recorded silent second deed of trust on the property. The loans are due and payable should the homeowner refinance or sell the property. As of June 30, 2012 the City had 66 loans outstanding.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable, Continued

Cherry Tree Village Loans

The City and the City's Redevelopment Agency assisted in the development of Cherry Tree Village, a low-income senior housing project. Pursuant to a Loan Agreement dated September 23, 1998, the City using \$400,000 in CDBG funds and the Redevelopment Agency using \$600,000 in low/moderate-income housing funds loaned the project \$1,000,000. Loan proceeds were disbursed in increments as the project was completed in accordance with the terms of the Agreement. The loan proceeds have been fully disbursed. Interest accrues on the loan at an annual rate of 5% and is calculated based on the disbursement date of loan installments. The loan is to be repaid from residual rental income generated by the project. Any unpaid principal and accrued interest is due and payable at the end of forty years.

Rehabilitation Forgivable Loans for Energy Improvements

Using CDBG-R funding, the City has been able to provide forgivable loans for energy improvements made as part of the rehabilitation process for a qualified low/moderate income home owner. The forgivable loans can be used for structural (e.g. windows, weather stripping, insulation) and/or appliance (e.g. HVAC, refrigerator) improvements to the property which reduce the energy usage of the home. The forgivable loans are for up to \$10,000, carry no interest, and are forgiven equally over a five-year period provided the home continues to be the primary residence of the qualified home owner. At June 30, 2012 the City had 8 loans outstanding.

Rental Rehabilitation Loans

The Rental Rehabilitation Loan program, funded with CDBG funds, is similar to the owner-occupied program except it is for rental properties. To be eligible, the property must be occupied by a qualified low/moderate income tenant based on HUD requirements. These fully amortizing loans are for a maximum of 20 years and carry a 6.5% simple interest rate. The loans are due and payable should the homeowner refinance or sell the property or have a non-qualifying tenant. As of June 30, 2012 the City had one loan outstanding.

Executive MBA Program Loans

During 2008-09, California State University, Stanislaus in collaboration with the City operated a 15-month Executive MBA program. In exchange for the use of city hall on Saturday for this program, CSUS offered a scholarship to a city employee enrolled in the program who would be responsible for the facility during the term of the program. In order to facilitate this program and encourage qualified city employees to pursue their Master's degree, the City authorized non-interest bearing loans to qualified city employees. The loans are being repaid through payroll deductions. Three city employees qualified for the program and were approved to share the scholarship in return for sharing the facility use responsibilities. The loans were originally for \$18,000 each and at June 30, 2012, the unpaid balance for all three loans was \$7,400.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Unearned (Deferred) Revenue

Deferred revenue is recorded when the City receives funds in advance of performing the work required to be entitled to retain the funds. Deferred revenue at June 30, 2012 consisted of the following:

Governmental Activities		Business-Type	
General	Sports	Activities	
Fund	Facilities	Transportation	Total
\$ 181,679	\$ 14,000	\$ 2,042,562	\$ 2,238,241

B. Fund Financial Statements

Deferred Revenue

Deferred revenue is recorded for loans receivable when the timing of the repayment of these loans is uncertain and therefore not currently available, or when the City receives funds in advance of performing the work required to be entitled to retain the funds. Deferred revenue at June 30, 2012 consisted of the following:

	Governmental Activities			Business-Type	Total
	General	Former LMI		Non-Major	
		Fund	Housing		
Loans Receivable					
Central Valley Coalition for					
Affordable Housing		\$ 5,045,569	\$ 3,081,691		\$ 8,127,260
First Time Home Buyer		545,960	7,385,168		7,931,128
EAH, Inc.		5,000,000			5,000,000
Owner-Occupied Rehabilitation			3,524,618		3,524,618
Cherry Tree Village		908,703	664,164		1,572,867
Rehabilitation Forgivable Loans for					
Energy Improvements			66,390		66,390
Rental Rehabilitation			6,705		6,705
Other	\$ 181,679		14,000	\$ 2,042,562	2,238,241
Total	\$ 181,679	\$ 11,500,232	\$ 14,742,736	\$ 2,042,562	\$ 28,467,209

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

4. INTERFUND TRANSACTIONS

Fund Financial Statements

Due To, Due From

At June 30, 2012 the City's General Fund provided short-term funding to those funds with negative cash positions at year end. In all cases, the negative cash position will be covered by future receipts from the effected funds revenue sources.

		Due To
		Governmental Activities
		<u>General Fund</u>
Due From	Governmental Activities:	
	Nonmajor Funds	\$ 1,527,163
	Business-Type Activities:	
	Nonmajor Funds	418,397
	Total	<u>\$ 1,945,560</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

4. INTERFUND TRANSACTIONS, Continued

Fund Financial Statements, Continued

Transfers

At June 30, 2012 the City had the following transfers:

		Transfers Out						
		Governmental Activities						
		Former LMI						
		General	Housing Set-Aside	Housing Fund	RDA	Facility Fees	Nonmajor Funds	Total
Transfers In	Governmental Activities:							
	General		\$ 30,020		\$ 166,407	\$ 20,000	\$ 632,164	\$ 848,591
	Facility Fees				4,937,737		452,780	5,390,517
	Nonmajor	\$ 745,795	22,225	\$ 403,189	15,764	131,595	109,678	1,428,246
	Business-type Activities:							
	Water						17,700	17,700
	Sewer						35,406	35,406
	Nonmajor						98,747	98,747
	Internal Service Funds	110,750				50,000	302,809	463,559
	Total	\$ 856,545	\$ 52,245	\$ 403,189	\$ 5,119,908	\$ 201,595	\$ 1,649,284	\$ 8,282,766

		Transfers Out					
		Business-type Activities					
		Governmental Activities	Water	Sewer	Nonmajor Funds	Internal Service Funds	Grand Total
Transfers In	Governmental Activities:						
	General	\$ 848,591	\$ 302,045	\$ 678,858		\$ 1,000	\$ 1,830,494
	Facility Fees	5,390,517	56,280	106,706			5,553,503
	Nonmajor	1,428,246	1,130,381	88,761	\$ 21,041	29,718	2,698,147
	Business-type Activities:						
	Water	17,700					17,700
	Sewer	35,406					35,406
	Nonmajor	98,747					98,747
	Internal Service Funds	463,559	25,000	120,000		2,000	610,559
	Total	\$ 8,282,766	\$ 1,513,706	\$ 994,325	\$ 21,041	\$ 32,718	\$ 10,844,556

The City uses Interfund Transfers for two main purposes. First to apportion costs initially accounted for in one fund to other funds that benefit from the goods and/or services acquired. Secondly to account for shared funding of capital improvement projects. The City accounts for capital improvement projects in one fund and the funds that are providing funding assistance transfer monies representing their contribution to the project fund.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2012 the City's capital assets for governmental activities consisted of the following:

	Balance July 1, 2011	Additions	Deletions	Transfers	Transfer to Successor Agency Trust Fund	Balance June 30, 2012
Governmental Activity Capital Assets:						
Non-depreciable Assets:						
Land	\$ 15,282,306	\$ 110,625			\$ (1,882,436)	\$ 13,510,495
Construction in progress	24,003,065	16,322,477	\$ (85,586)	(12,915,739)		27,324,217
Total nondepreciable assets	39,285,371	16,433,102	(85,586)	(12,915,739)	(1,882,436)	40,834,712
Depreciable Assets:						
Land improvements	32,397,943			559,643	(8,710,028)	24,247,558
Buildings	21,785,178	370,354		6,590,593		28,746,125
Furniture and equipment	8,860,714	207,875	(5,633)	9,891	(40,361)	9,032,486
Vehicles	8,799,434	237,438	(255,788)			8,781,084
Infrastructure	167,991,900			5,755,612		173,747,512
Total depreciable assets	239,835,169	815,667	(261,421)	12,915,739	(8,750,389)	244,554,765
Less accumulated depreciation:						
Land improvements	(7,433,728)	(849,411)			1,479,480	(6,803,659)
Buildings	(7,150,218)	(806,245)				(7,956,463)
Furniture and equipment	(7,115,155)	(374,078)	5,633		40,361	(7,443,239)
Vehicles	(6,714,510)	(674,783)	229,507			(7,159,786)
Infrastructure	(38,405,516)	(3,287,573)				(41,693,089)
Total accumulated depreciation	(66,819,127)	(5,992,090)	235,140	-	1,519,841	(71,056,236)
Net depreciable assets	173,016,042	(5,176,423)	(26,281)	12,915,739	(7,230,548)	173,498,529
Total governmental activity capital assets	\$ 212,301,413	\$ 11,256,679	\$ (111,867)	\$ -	\$ (9,112,984)	\$ 214,333,241

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved. All capital assets associated with the former Turlock Redevelopment Agency have been transferred to a private purpose trust fund and are no longer accounted for within the City's governmental activities. See footnote #12 for additional information.

Governmental activities depreciation expense for capital assets for the year ended June 30, 2012 was as follows:

General government	\$ 309,433
Public safety	1,107,258
Public ways and facilities/transportation	3,939,565
Parks and recreation	579,129
Community development	56,705
Total depreciation expense	\$ 5,992,090

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

At June 30, 2012 the City's capital assets for business-type activities consisted of the following:

	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Business-Type Activity Capital Assets:					
Non-depreciable Assets:					
Land	\$ 875,087	\$ 161,141			\$ 1,036,228
Construction in progress	12,144,257	\$ 6,589,848	\$ (1,930)	\$ (453,414)	18,278,761
Total nondepreciable assets	13,019,344	6,750,989	(1,930)	(453,414)	19,314,989
Depreciable Assets:					
Land improvements	6,826,211				6,826,211
Buildings	5,507,916				5,507,916
Furniture and equipment	20,686,455	484,368			21,170,823
Vehicles	2,992,846				2,992,846
Infrastructure	265,430,129			453,414	265,883,543
Total depreciable assets	301,443,557	484,368	-	453,414	302,381,339
Less accumulated depreciation:					
Land improvements	(1,564,119)	(218,542)			(1,782,661)
Buildings	(2,008,191)	(170,640)			(2,178,831)
Furniture and equipment	(13,084,925)	(886,915)			(13,971,840)
Vehicles	(784,307)	(196,770)			(981,077)
Infrastructure	(105,771,699)	(4,617,194)			(110,388,893)
Total accumulated depreciation	(123,213,241)	(6,090,061)	-	-	(129,303,302)
Net depreciable assets	178,230,316	(5,605,693)	-	453,414	173,078,037
Total business-type capital assets	\$ 191,249,660	\$ 1,145,296	\$ (1,930)	\$ -	\$ 192,393,026

Business-type activities depreciation expense for capital assets for the year ended June 30, 2012 was as follows:

Water	\$ 1,829,737
Sewer	3,884,649
Airport	78,766
Transportation	296,909
Total depreciation expense	\$ 6,090,061

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

5. CAPITAL ASSETS, Continued

B. Fund Financial Statements

The Governmental Fund Financial Statements do not present general government capital assets, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements. Internal Service Fund capital assets are combined with governmental activities on the Government-Wide Financial Statements.

6. LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which are expected to have useful lives greater than or equal to the term of the related debt. Debt issuance costs and debt discounts are recognized in the current period in governmental fund types. In proprietary fund types, these costs are deferred and amortized on a straight-line basis over the term of the bonds.

A. Government-Wide Financial Statements

Governmental Activities

The City's outstanding governmental activities debt issues and transactions are summarized. More detail regarding each issue follows thereafter.

	Balance July 1, 2011	Additions	Retirements	Transfer to Successor Agency Trust Fund	Balance June 30, 2012	Due Within One Year	Due in More than One year
Governmental Activity Debt:							
1999 Revenue Bonds	\$ 3,245,000		\$ (160,000)	\$ (3,085,000)		\$	-
2006 Tax Allocation Revenue Bonds	24,055,000		(390,000)	(23,665,000)			-
Add: Unamortized Bond Premium	282,620		(11,230)	(271,390)			-
2011 Tax Allocation Revenue Bonds	15,300,000		(290,000)	(15,010,000)			-
Less: Unamortized Bond Discount	(266,232)		9,314	256,918			-
California Energy Commission	109,400		(29,737)		\$ 79,663	\$ 30,934	48,729
Economic Development Bank	889,305		-		889,305		889,305
Capital Leases:							
1996 City Hall Acquisition	122,743		(122,743)		-		-
2000 Regional Sports Complex	351,468		(80,456)		271,012	85,206	185,806
Various Others	79,761		(79,761)		-		-
Subtotal	<u>44,169,065</u>	<u>-</u>	<u>(1,154,613)</u>	<u>(41,774,472)</u>	<u>1,239,980</u>	<u>116,140</u>	<u>1,123,840</u>
Internal Service Long-Term Debt:							
2002 City Hall Addition	581,467		(86,036)		495,431	90,119	405,312
Compensated Absences	<u>2,456,388</u>	<u>\$ 550,666</u>			<u>3,007,054</u>	<u>601,411</u>	<u>2,405,643</u>
Total governmental activity debt	<u>\$ 47,206,920</u>	<u>\$ 550,666</u>	<u>\$ (1,240,649)</u>	<u>\$ (41,774,472)</u>	<u>\$ 4,742,465</u>	<u>\$ 807,670</u>	<u>\$ 3,934,795</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved. All debt associated with the former Turlock Redevelopment Agency has been transferred to a private purpose trust fund and is no longer accounted for within the City's governmental activities. See footnote #12 for additional information.

California Energy Commission

The City entered into a loan agreement with the California Energy Commission to provide funding for the replacement of the incandescent lights in the City's traffic signals with light emitting diode (LED) lights. The replacement lights are more energy efficient and longer lasting. The loan, totaling \$265,454, carries a 3.95% annual interest rate and requires semi-annual payments beginning in December 2005 through December 2014.

Economic Development Bank Loan

In an effort to spur economic development through infrastructure assistance, the Stanislaus County Economic Development Bank provides County cities funding assistance for qualifying projects. The City entered into a loan agreement with the County for the construction of a new traffic signal at W Main Street and Fransil Lane. The agreement is for \$889,305 and as of June 30, 2011 the City had drawn down the entire amount. In accordance with loan agreement, repayment of equal installments will begin 3 years after the project is complete and continue for seven years. Repayment will begin in January 2014.

Capital Leases

1996 City Hall Acquisition and Remodel

In September 1996 the City entered into a lease-purchase agreement in the amount of \$2,375,612 with LaSalle National Bank to finance the acquisition and remodel of the new City Hall and the police facilities. The lease has an imputed interest rate of 6.37% and requires semi-annual principal and interest lease payments due on the thirtieth of March and September until 2011, when the lease terminated and the City obtained title to the property.

2000 Regional Sports Complex

In January 2000 the City entered into a \$1,000,000 lease – lease buy back agreement with Calase Public Funding Corporation to finance the acquisition and development of a Regional Sports Complex. The lease carries an annual interest rate of 5.78% and requires quarterly principal and interest lease payments due on the first of January, April, July and October until April 2015 when the lease terminates.

2002 City Hall Addition

In March 2002 the City entered into a capital lease agreement with Municipal Services Group, Inc. to finance an addition to the current City Hall which houses the Engineering Department as well as the administrative personnel for the City's water and sewer operations. The lease payments are funded 50% by the Engineering Internal Service Fund (governmental activities) and 25% each by the Water and Sewer Enterprise Funds (business-type activities). The lease carries an annual interest rate of 4.69% and requires semi-annual principal and interest lease payments due on the first of March and September until March 2017 when the lease terminates.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

At June 30, 2012, the City's capital leases were related to capitalized assets totaling \$14,619,540 with accumulated depreciation of \$5,487,177. The total cost and accumulated depreciation for the 2002 City Hall addition, which is being repaid by (and benefitted) both Governmental and Business-type activities is included in these amounts.

Debt Service Requirements

Annual debt service requirements are shown below for all governmental activities long-term debt (excluding compensated absences):

For the Year Ending June 30,	Governmental Activities					
	Loans & Revenue Bonds		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	30,934	2,846	175,325	36,032	\$ 206,259	\$ 38,878
2014	32,167	1,612	184,633	26,723	216,800	28,335
2015	143,606	325	194,443	16,913	338,049	17,238
2016	127,044		103,565	8,745	230,609	8,745
2017	127,044		108,477	3,833	235,521	3,833
2018-2022	508,173		-	-	508,173	-
2023-2027			-	-	-	-
2028-2032			-	-	-	-
2033-2037			-	-	-	-
2038-2040			-	-	-	-
Total	\$ 968,968	\$ 4,783	\$ 766,443	\$ 92,246	\$ 1,735,411	\$ 97,029

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities

The City's outstanding business-type activities debt issues and transactions are summarized. More detail regarding each issue follows thereafter.

	Balance			Balance	Due	Due in
	July 1, 2011	Additions	Retirements	June 30, 2012	Within	More than
					One Year	One year
Business-Type Activities:						
1999 Sewer Revenue Bonds	\$ 17,105,000		\$ (635,000)	\$ 16,470,000	\$ 660,000	\$ 15,810,000
Less: Unamortized Bond Discount	(327,677)		20,796	(306,881)		(306,881)
2003A Sewer Revenue Bonds	44,455,000		(1,100,000)	43,355,000	1,150,000	42,205,000
Less: Unamortized Bond Discount	(230,543)		10,401	(220,142)		(220,142)
2008 Water Revenue Bonds	30,575,000		(625,000)	29,950,000	650,000	29,300,000
Less: Unamortized Bond Discount	(127,336)		4,745	(122,591)		(122,591)
Capital Leases:						
2002 City Hall Addition	581,468		(86,036)	495,432	90,118	405,314
Compensated Absences	758,180	69,181		827,361	165,472	661,889
Total business-type activity debt	\$ 92,789,092	\$ 69,181	\$ (2,410,094)	\$ 90,448,179	\$ 2,715,590	\$ 87,732,589

Revenue Bonds Payable

1999 Sewer Revenue Bonds

In August 1999 the Turlock Public Financing Authority issued \$22,000,000 in Sewer Revenue Bonds Series 1999 to (1) finance improvements to the City's wastewater treatment facility, and (2) advance refund (defease) the Series 1994A Sewer Revenue Bonds. The bonds, which carry coupon interest rates ranging from 4.25% - 6.25%, have semi-annual principal and interest payments on the fifteenth of March and September through September 2029.

2003A Sewer Revenue Bonds

In August 2003 the Turlock Public Financing Authority issued \$51,185,000 in Sewer Revenue Bonds Series 2003A to finance capital improvements to the City's tertiary wastewater treatment facility. The improvements are designed to meet wastewater discharge requirements imposed by the Water Quality Control Board. The bonds, which carry coupon interest rates ranging from 2.00% - 5.00%, have semi-annual principal and interest payments on the fifteenth of March and September through September 2033 and are on parity with the bonds issued in 1999.

Pledged Revenues for Sewer Revenue Bonds

Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged the net sewer system revenues (defined as total system revenues excluding certain revenues related to deposits, and proceeds from borrowings less maintenance and operating costs) from the Sewer Enterprise Fund operations for repayment of both the 1999 and 2003A bonds. Based on fiscal year 2011-12 net system revenues of \$9.8 million, annual principal and interest payments (totaling \$4.8 million in 2011-12) were 49% of net system revenues.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities, Continued

Revenue Bonds Payable, Continued

2008 Water Revenue Bonds

In May 2008 the Turlock Public Financing Authority issued \$32,365,000 in Water Revenue Bonds Series 2008 to finance capital improvements to the City's potable water system, including the installation of water meters and an automated meter reading system for all water service users within Turlock, the construction of two water storage reservoirs, and water line installations in the Westside Industrial Specific Plan area. The bonds, which carry coupon interest rates ranging from 3.50% - 5.00%, have semi-annual principal and interest payments on the first of November and May through May 2038.

Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged the net water system revenues (defined as total system revenues excluding certain revenues related to deposits, construction/developer revenues, and proceeds from borrowings less maintenance and operating costs) from the Water Enterprise Fund operations for repayment of the bonds. Based on fiscal year 2011-12 net system revenues of \$3.3 million, annual principal and interest payments (totaling \$2.1 million) were 64% of net system revenues.

Capital Leases

2002 City Hall Addition

In March 2002 the City entered into a capital lease agreement with Municipal Services Group, Inc. to finance an addition to the current City Hall which houses the Engineering Department as well as the administrative personnel for the City's water and sewer operations. The lease payments are funded 50% by the Engineering Internal Service Fund (governmental activities) and 25% each by the Water and Sewer Enterprise Funds (business-type activities). The lease carries an annual interest rate of 4.69% and requires semi-annual principal and interest lease payments due on the first of March and September until March 2017 when the lease terminates.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities, Continued

Debt Service Requirements

Annual debt service requirements are shown below for all business-type activities long-term debt (excluding compensated absences):

For the Year Ending June 30,	Business-Type Activities					
	Revenue Bonds & Loans		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 2,460,000	\$ 4,340,802	\$ 90,118	\$ 22,192	\$ 2,550,118	\$ 4,362,994
2014	2,570,000	4,230,703	94,394	17,916	2,664,394	4,248,619
2015	2,695,000	4,111,389	98,874	13,436	2,793,874	4,124,825
2016	2,810,000	3,990,544	103,565	8,745	2,913,565	3,999,289
2017	2,945,000	3,862,381	108,481	3,827	3,053,481	3,866,208
2018-2022	16,935,000	17,056,030			16,935,000	17,056,030
2023-2027	20,550,000	12,395,874			20,550,000	12,395,874
2028-2032	22,350,000	7,002,987			22,350,000	7,002,987
2033-2037	14,525,000	2,091,626			14,525,000	2,091,626
2038-2040	1,935,000	96,748			1,935,000	96,748
Total	\$ 89,775,000	\$ 59,179,084	\$ 495,432	\$ 66,116	\$ 90,270,432	\$ 59,245,200

Compensated Absences

The City's liability for compensated absences consists of accrued and vested vacation, sick and compensatory pay which is unpaid at year end.

B. Fund Financial Statements

The governmental fund financial statements do not present general government long-term debt but is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

C. Debt with no City Commitment

The City of Turlock has no legal liability with respect to the payment of any indebtedness of the Community Financing District No. 1 Monte Vista Crossings. The City acts solely as an agent for the bondholders in collecting and forwarding the special assessment. Accordingly, no liability for these bonds has been recorded in the City's basic financial statements. The principal amount of outstanding debt of the above District was \$3,390,000 at June 30, 2012.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. LONG-TERM DEBT, Continued

D. Fiduciary Funds - Loan Payable to Turlock Public Financing Authority

The following bonds are obligations of the Authority payable from and secured by loan payments made by the former Turlock Redevelopment Agency. The bonds are secured by the tax increment revenues of the former RDA and have been transferred to the Successor Agency for the Turlock Redevelopment Agency. The outstanding balances as of June 30, 2012 are as follows:

	Balance July 1, 2011	Transfers from Former RDA	Retirements	Balance June 30, 2012	Due Within One Year	Due in More than One year
1999 Revenue Bonds	\$ -	\$ 3,085,000	\$ -	\$ 3,085,000	\$ 170,000	\$ 2,915,000
2006 Tax Allocation Revenue Bonds	-	23,665,000		23,665,000	410,000	23,255,000
Add: Unamortized Bond Premium	-	271,390		271,390		271,390
2011 Tax Allocation Revenue Bonds	-	15,010,000		15,010,000		15,010,000
Less: Unamortized Bond Discount	-	(256,918)		(256,918)		(256,918)
Total fiduciary fund debt	\$ -	\$ 41,774,472	\$ -	\$ 41,774,472	\$ 580,000	\$ 41,194,472

1999 Revenue Bonds

Turlock Public Financing Authority Revenue Bonds, Series 1999

In March 1999 the Turlock Public Finance Authority (Authority) authorized the issuance of \$4,970,000 in revenue bonds the proceeds of which were loaned to the City of Turlock Redevelopment Agency (Agency) to be used to finance the rehabilitation of the City's downtown. Agency tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 3.5% - 5.55%, have semi-annual principal and interest payments on the first of March and September through September 2024.

2006 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2006

In August 2006 the Turlock Public Finance Authority (Authority) authorized the issuance of \$25,440,000 in Tax Allocation Revenue Bonds the proceeds of which were loaned to the City of Turlock Redevelopment Agency (Agency) to be used to finance various infrastructure projects to be constructed within the Agency's project area boundaries. Agency tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 4.0% - 5.0%, have semi-annual principal and interest payments on the first of March and September through September 2036.

2011 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2011

In February 2011, the Turlock Public Financing Authority (Authority) authorized the issuance of \$15,300,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to provide financing assistance for the construction of a new public safety facility in the City's downtown area. As with the bond issuances noted above, the Agency's tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. LONG-TERM DEBT, Continued

D. Fiduciary Funds - Loan Payable to Turlock Public Financing Authority, Continued

Debt Service Requirements

The annual debt service requirements are as follows:

For the Years Ending June 30,	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		2011 Tax Allocation Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	170,000	162,210	410,000	1,125,841	-	1,069,144	580,000	2,357,195
2014	180,000	153,023	430,000	1,106,942	-	1,069,144	610,000	2,329,109
2015	185,000	143,441	450,000	1,087,141	260,000	1,063,619	895,000	2,294,201
2016	195,000	133,466	470,000	1,066,441	270,000	1,051,681	935,000	2,251,588
2017	210,000	122,624	490,000	1,046,066	280,000	1,038,269	980,000	2,206,959
2018-2022	1,230,000	424,556	2,760,000	4,908,132	1,645,000	4,929,485	5,635,000	10,262,173
2023-2027	915,000	76,436	4,105,000	4,201,822	1,520,000	4,371,213	6,540,000	8,649,471
2028-2032			6,390,000	2,870,000	1,555,000	3,858,950	7,945,000	6,728,950
2033-2037			8,160,000	1,060,001	2,865,000	3,113,813	11,025,000	4,173,814
					6,615,000	599,436	6,615,000	599,436
	<u>\$ 3,085,000</u>	<u>\$ 1,215,756</u>	<u>\$ 23,665,000</u>	<u>\$ 18,472,386</u>	<u>\$ 15,010,000</u>	<u>\$ 22,164,754</u>	<u>\$ 41,760,000</u>	<u>\$ 41,852,896</u>

7. NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of all the City’s assets over all its liabilities, regardless of fund. Net Assets are divided into three captions on the Statement of Net Assets. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are further described below:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. NET ASSETS AND FUND BALANCES, Continued

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City has adopted the provisions of *GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions*. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification. The fund financial statements may consist of Nonspendable, Restricted, Committed, Assigned and Unassigned amounts as described below. The Turlock City Council has the authority to determine which revenue sources are designated as committed. The Council has delegated authority to the City Manager to determine revenue sources that will be designated as assigned.

Nonspendable Items that cannot be spent because they are not in spendable form, such as prepaid items, items that are legally or contractually required to be maintained intact, such as debt service reserve funds with fiscal agents or revolving loan fund.

Restricted Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner.

Assigned Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose.

Unassigned This category is for any balances that have no restrictions placed upon them.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the Agency uses the unrestricted resources in the following order: committed, assigned, and unassigned.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. NET ASSETS AND FUND BALANCES, Continued

B. Fund Balances, Continued

The following provides detail regarding the categorization of the fund balances in the City's governmental funds as of June 30, 2012:

	General	Special Revenue Former LMI Housing Fund	Capital Projects Facility Fees	Other Governmental Funds	Total
Non-spendable					
Prepaid expenditures	\$ 10,316				\$ 10,316
Loans receivable	7,400				7,400
Due from developers	20,041		152,905		172,946
Total Non-spendable	37,757		152,905		190,662
Restricted					
Resource conservation				\$ 674,134	674,134
Low-/moderate-income housing		\$ 1,000,336		702,540	1,702,876
Capital expenditures			\$ 14,055,037		14,055,037
Street maintenance				935,673	935,673
Assessment districts				10,313,755	10,313,755
Public safety				195,853	195,853
Parks and recreation				46,032	46,032
Total Restricted	-	1,000,336	14,055,037	12,867,987	27,923,360
Committed					
Public safety	520,042			94,051	614,093
Resource conservation				121,351	121,351
Parks and recreation				10,894	10,894
Tourism	133,397				133,397
Future deficit spending	1,500,000				1,500,000
Capital expenditures	2,292,171			12,953,967	15,246,138
Total Committed	4,445,610			13,180,263	17,625,873
Assigned					
Compensated absences	2,463,049			189,738	2,652,787
Retiree health (OPEB)	586,868			194,601	781,469
Total Assigned	3,049,917			384,339	3,434,256
Unassigned	9,860,815			(334,182)	9,526,633
Total fund balances	\$ 17,394,099	\$ 1,000,336	\$ 14,207,942	\$ 26,098,407	\$ 58,700,784

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

8. RISK MANAGEMENT

The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for general liability, workers' compensation and employee health care.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Central San Joaquin Valley Risk Management Authority (CSJVRMA), a public entity risk pool currently operating as a common risk management and insurance program for 58 cities. The purpose of CSJVRMA is to spread the adverse effect of losses among the members and to purchase excess insurance as a group, thereby reducing its expense. The pool covers City general liability claims between \$1,000,000 and \$29,000,000.

The City contributes its pro rata share of anticipated losses to a pool administered by CSJVRMA. Should actual losses among participants be greater than the anticipated losses, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. The City paid CSJVRMA premiums of \$580,796 and received \$174,771 in refunds during the fiscal year ended June 30, 2012. Settled claims have not exceeded commercial excess liability coverage in any of the past three fiscal years.

The following provides condensed financial information for CSJVRMA:

Central San Joaquin Valley Risk Management Authority
 Condensed Financial Information
 As of and for the Years Ended June 30, 2012 and 2011, respectively

	2012	2011
Total Assets	\$ 70,671,479	\$ 69,444,059
Total Liabilities	58,388,460	55,945,081
Net Assets	\$ 12,283,019	\$ 13,498,978
Operating Revenues	\$ 28,071,430	\$ 26,278,146
Operating Expenses	(31,914,578)	(26,326,659)
Net Non-Operating Revenues (Expenses)	2,627,189	1,663,567
Change in Net Assets	\$ (1,215,959)	\$ 1,615,054

All unpaid claims that were probable liabilities that occurred prior to the year-end and that were estimated based on actuarial studies or historical data were recorded in accordance with GASB No. 10. As of June 30, 2012 claims were \$3,433,104.

	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
For the Year Ended June 30,				
2010	\$ 2,764,290	\$ 6,185,711	\$ (6,185,711)	\$ 2,764,290
2011	\$ 2,764,290	\$ 6,835,055	\$ (6,835,055)	\$ 2,764,290
2012	\$ 2,764,290	\$ 9,032,802	\$ (8,363,988)	\$ 3,433,104

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

9. RETIREMENT PLAN

Plan Description - The City contributes to the California Public Employees Retirement System (PERS). The miscellaneous employees of the City are part of an agent multiple-employer defined benefit pension plan. The safety employees are part of a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office located at 400 P Street, Sacramento, California 95814.

Funding Policy – Eligible employees are required by State statute to contribute a stated percentage of their annual covered salary to the retirement plan. The rate was 8% for miscellaneous employees and 9% for public safety employees for 2011-12. The City's actuarially determined employer contributions as a percentage of covered payroll were as follows:

	<u>2011-12</u>
Miscellaneous employees	17.901%
Public Safety - Fire employees	28.142%
Public Safety - Police employees	29.715%

The contribution requirements of plan members and the City are established and may be amended annually by PERS.

Annual Pension Cost – For fiscal year 2011-12, the City's annual pension cost of \$5,208,724 for PERS was equal to the City's required and actual contributions as determined by the June 30, 2009 actuarial valuation. The following are the actuarial assumptions used for that valuation:

The following assumptions and valuation methodologies apply to all three of the City's employee groups (miscellaneous, safety - police and safety - fire):

Valuation date:	June 30, 2009
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level percent of payroll
Asset valuation method:	15 year smoothed market
Investment rate of return:	7.75% (net of administrative expenses)
Inflation:	3.00%
Payroll growth:	3.25%
Projected salary increases:	3.55% to 14.45% (depending on age, length of service and type of employment)
Individual salary growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

The following assumption varies for each employee group as noted below:

	<u>Miscellaneous</u>	<u>Safety - Police</u>	<u>Safety - Fire</u>
Amortization periods (as of valuation date):	14-30 years	15-30 years	16-30 years

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

9. RETIREMENT PLAN, Continued

Funding Status – The following is the funding status of the City’s retirement plans as of June 30, 2011 (the most recent actuarial date):

	Plan Assets	Accrued Liability	Unfunded Liability
Miscellaneous employees	\$ 70,352,214	\$ 92,422,591	\$ 22,070,377

Safety (Police and Fire) Employees - Beginning with the June 30, 2003 actuarial valuations, employer retirement plans with PERS having fewer than 100 active members could no longer be stand-alone plans and were pooled for valuation purposes. Both the City’s fire and police plans met the criteria for pooling and are now part of the “Safety 3% at 50 risk Pool” which is a cost-sharing multiple-employer defined benefit plan. Disclosure of the schedule of funding progress for this type of plan is not required.

The following is the three-year trend information for both the miscellaneous and safety (police and fire) plans:

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 4,521,164	100%	-
6/30/2011	\$ 4,373,434	100%	-
6/30/2012	\$ 5,208,724	100%	-

10. POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description – The City has four post-employment health care plans in place pursuant to negotiated Memoranda of Understanding (MOU) and Schedules of Benefit (Schedule) with its employee bargaining units. The City’s funding obligation for each plan is defined within the respective MOU or Schedule and is a specified percentage of payroll. The four plans and the City’s funding obligation for each plan are as follows:

Plan	Covered Employee Group	Funding Obligation
Management/Confidential	Employees covered by the Management and/or Confidential Employees Schedule of Benefits	2-1/2% of base salary
Miscellaneous	Employees covered by Turlock City Employees Association MOU	2% of base payroll
Police	Employees covered by Turlock Associated Police Officers MOU	3% of salary plus 3% of benefits
Fire	Employees covered by Turlock Firefighters Local #2434 MOU	4% of salary plus 4% of benefits

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Plan Description (continued)

The administration of benefits for each plan rests with the individual plan administrators. The City, by agreement either through the MOU or Schedule, administers the benefits for the Management/Confidential and Miscellaneous plans. The respective bargaining unit representatives administer the benefits for the Police and Fire plans.

In general, employees are required to retire from the City and be members of their respective covered group for 10-15 years to be eligible to receive a benefit from their respective plan. The benefit can only be used to purchase post-employment health insurance. The retiree has the option to continue on the City’s self-insured health plan (and pay the 100% of the premium for continued participation), to become a member of a non-City group plan, or to purchase an individual health insurance policy. The benefit can then be used to provide assistance with paying the monthly premium. In no case does the retiree receive a benefit greater than the monthly health insurance premium. For retirees who choose to remain on the City’s health plan, this eligibility terminates when the retiree becomes eligible for Medicare benefits, reaches age 65, is deceased, or chooses to voluntarily leave the plan, whichever comes first. Spousal eligibility requirements vary with each plan. The City currently has 36 retirees who have chosen to remain on the City’s health plan post retirement. The health insurance premium assistance described in this paragraph is referred to as the “offset benefit” below.

Funding Policy – Funding varies with each plan. For the Management/Confidential and Miscellaneous plans, the City sets aside the contributions as required by the respective MOU or Schedule in a separate general ledger fund for each plan. The City did not establish irrevocable trusts for these plans. During 2011-12, the City began transitioning both these plans to be defined contribution plans. Periodic contributions for for the Management/Confidential plan were deposited into individual accounts beginning in July 2011 and beginning in April 2012 for the Miscellaneous plan. The City began the process of distributing the plans’ existing assets (cash) to individual accounts and anticipates that the process will be completed by June 2013. At that time, the City will no longer administer the offset plan for the Management/Confidential and Miscellaneous plans as they will have been converted entirely to defined contribution plans and the plan beneficiaries (current employees and/or retirees) will administer their own individual accounts.

Under the requirements of GASB 45, the City is not able to include the undistributed set-aside funds as monies available to reduce its net OPEB obligation for these plans. The following provides the balance of funds as of June 30, 2012 set aside by the City to fund benefits under these plans. For financial statement purposes these monies have been included in the fund activity from which the employee’s regular payroll expenditures occur (see footnote #7 for the designated portion for governmental funds).

<u>Plan</u>	<u>Amount Set Aside</u>
Management/Confidential	\$ 561,954
Miscellaneous	\$1,075,782

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Funding Policy, Continued

For the Police and Fire plans, the City remits the contributions as required by the respective MOU to each plan on a quarterly basis. These plans have each established irrevocable trusts for their respective plan assets. As noted above, the plans' trustees are responsible for the development of benefit levels that can be sustained by the contributions to be received as well as the general plan administration. The City does not have any responsibility for nor involvement in these activities. The following provide the assets available for plan benefits as of July 1, 2009, the date of the latest actuarial valuation.

<u>Plan</u>	<u>Trust Fund Assets</u>
Police	\$1,226,297
Fire	\$1,019,359

Annual OPEB Cost and Net OPEB Obligation – The City's annual post-employment health benefit cost is calculated based on the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table presents the components of the City's annual OPEB cost, amounts actually contributed and changes in the City's Net OPEB Obligation for the year. The amounts are based on actuarial valuations dated July 1, 2009 and amounts contributed for the 2011-12 fiscal year. The table is broken out between the offset benefit and the City's health insurance plan.

OFFSET PLAN	Mangement/ Confidential		Miscellaneous	Police	Fire	Total
Annual required contribution	\$ 50,335	\$ 130,932		\$ 467,137	\$ 66,891	\$ 715,295
Interest on net OPEB obligation	2,915	14,460		47,426	(18,319)	46,482
Adjustments	(4,092)	(20,302)		(66,585)	25,719	(65,260)
Annual OPEB cost (expense)	49,158	125,090		447,978	74,291	696,517
Contributions to irrevocable trust				(297,550)	(193,227)	(490,777)
Benefits payments	(65,735)	(63,539)				(129,274)
Balances distributed to individual accounts	(154,051)	(323,827)				(477,878)
Increase (decrease) in NOO	(170,628)	(262,276)		150,428	(118,936)	(401,412)
Net OPEB obligation - beginning	64,770	321,338		1,053,915	(407,078)	1,032,945
Net OPEB obligation - ending	<u>\$ (105,858)</u>	<u>\$ 59,062</u>		<u>\$ 1,204,343</u>	<u>\$ (526,014)</u>	<u>\$ 631,533</u>

HEALTH CARE PLAN	Mangement/ Confidential		Miscellaneous	Police	Fire	Total
Annual required contribution	\$ 113,156	\$ 598,067		\$ 253,380	\$ 200,696	\$ 1,165,299
Interest on net OPEB obligation	(17,383)	42,863		4,154	(226)	29,408
Adjustments	24,406	(60,178)		(5,831)	317	(41,286)
Annual OPEB cost (expense)	120,179	580,752		251,703	200,787	1,153,421
Premiums paid by retirees	(78,160)	(99,994)		(94,372)	(138,046)	(410,572)
Benefits payments	(242,092)	(230,651)		(67,394)	(251,963)	(792,100)
Increase (decrease) in NOO	(200,073)	250,107		89,937	(189,222)	(49,251)
Net OPEB obligation - beginning	(386,297)	952,509		92,301	(5,022)	653,491
Net OPEB obligation - ending	<u>\$ (586,370)</u>	<u>\$ 1,202,616</u>		<u>\$ 182,238</u>	<u>\$ (194,244)</u>	<u>\$ 604,240</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the 2011-12 fiscal year are as follows:

OFFSET PLAN	Annual OPEB Cost	Percent Contributed	Net OPEB Obligation
Mangement/Confidential			
2008-09	\$58,696	35.97%	\$37,585
2009-10	\$59,423	75.75%	\$51,998
2010-11	\$59,137	78.40%	\$64,770
2011-12	\$49,158	447.10%	(\$105,858)
Miscellaneous			
2008-09	\$147,954	3.17%	\$143,263
2009-10	\$143,722	30.20%	\$243,584
2010-11	\$141,861	45.19%	\$321,338
2011-12	\$125,090	309.67%	\$59,062
Police			
2008-09	\$566,560	31.65%	\$387,229
2009-10	\$607,835	41.99%	\$739,861
2010-11	\$601,430	47.78%	\$1,053,915
2011-12	\$447,978	66.42%	\$1,204,343
Fire			
2008-09	\$55,776	549.46%	(\$250,691)
2009-10	\$79,094	232.18%	(\$355,236)
2010-11	\$81,147	163.89%	(\$407,078)
2011-12	\$74,291	260.09%	(\$526,014)
HEALTH CARE PLAN			
Mangement/Confidential			
2008-09	\$83,623	143.42%	(\$36,311)
2009-10	\$104,885	168.25%	(\$107,897)
2010-11	\$106,138	362.30%	(\$386,297)
2011-12	\$120,179	266.48%	(\$586,370)
Miscellaneous			
2008-09	\$483,822	19.55%	\$389,226
2009-10	\$586,008	53.58%	\$661,266
2010-11	\$580,964	49.87%	\$952,509
2011-12	\$580,752	56.93%	\$1,202,616
Police			
2008-09	\$183,910	49.99%	\$91,972
2009-10	\$240,786	114.93%	\$56,021
2010-11	\$241,290	84.96%	\$92,301
2011-12	\$251,703	64.27%	\$182,238
Fire			
2008-09	\$119,934	16.14%	\$100,571
2009-10	\$165,004	57.96%	\$169,939
2010-11	\$163,715	206.87%	(\$5,022)
2011-12	\$200,787	194.24%	(\$194,244)

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

11. COMMITMENTS AND CONTINGENCIES

Litigation

As of June 30, 2012, the City is a party to various lawsuits. There are certain personal injury lawsuits which have been denied by the City Council. The outcome and eventual liability to the City, if any, in these cases is not known at this time. After reviewing these lawsuits with legal counsel, management estimates that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

Grants

The City has received Federal grants for specific purposes that are subject to review and audit by the Federal government. Although such audits could result in expenditure disallowance under the grant terms, any estimated required reimbursements would not be material.

Proposition 1A Securitization

As part of the State of California's 2009-10 budget package, legislation was passed and signed into law authorizing the State to borrow 8% of the amount of property tax revenue that would normally be apportioned to cities, counties and special districts. This action suspended Proposition 1A which was passed by California voters in 2004 to ensure local property tax and sales tax revenues remained with local government to safeguard funding for local public services. The suspension can only occur if the Governor declares a fiscal emergency and two-thirds of the Legislature agrees. The State will repay the local agencies in June 2013.

Included in the legislation suspending Prop 1A was a provision allowing local agencies to securitize their receivable from the State. Under this program the California Statewide Communities Development Authority (CSCDA), a joint powers authority sponsored by the CA State Association of Counties and the League of California Cities, purchased the Proposition 1A receivables from participating local agencies and issued bonds.

The proceeds of the bond issuance will be used to pay the participating agencies the amount of their Prop 1A receivable in two equal installments on January 15, 2010 and May 3, 2010. The bonds will be redeemed and the bondholders repaid in June 2013 when the State would have normally repaid the local agencies.

The securitization transaction closed November 19, 2009 and the proceeds of the issuance to be used to pay local agencies have been deposited in a trust account for the exclusive benefit of those local agencies participating in the securitization program. Participating local agencies will receive 100% of their receivable as all issuance costs and interest expense incurred with this financing will be borne by the State of California. The responsibility for repayment to bondholders rests with the State of California as the bond documents expressly state that the bonds are not an obligation of any participating local agency.

The City of Turlock participated in this securitization program selling 100% of its Proposition 1A receivable, \$915,185 to CSCDA.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

12. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER TURLOCK REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill x1 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Turlock that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the entity creating the redevelopment agency or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and/or local government. By Resolution No. 2012-009 adopted on January 10, 2012, pursuant to Health and Safety Code Section 34173, the Turlock City Council declared that the City of Turlock would act in a special limited capacity as Successor Agency for the dissolved Turlock Redevelopment Agency (RDA), effective February 1, 2012.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in California could not enter into new projects, obligation or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

The Bill directs the California State Controller (SCO) to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the SCO is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the CA Supreme Court on December 29, 2011) all redevelopment agencies in California were dissolved and ceased to operate as legal entities on February 1, 2012. Prior to that date, the final seven months of activity of the RDA continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved RDA are reported in a fiduciary fund (private-purpose trust fund) in the City’s financial statements. Included in prior year RDA financial statements was the Downtown Improvement Project Fund. This fund was originally established to account for the construction of infrastructure improvements in the City’s downtown core. This project was funded with the proceeds of the 1999 Revenue Bond along with sewer, water and street funds. The residual monies in this fund after the completion of the project represented excess funds contributed by the sewer, water and street funds. Management decided to leave these residual funds in this Fund to provide a source of funds for future repairs. This Fund is presented as a non-major fund in the governmental fund combining statements.

The transfer of assets and liabilities of the former RDA as of February 1, 2012 (effectively January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (current financial resources) and the measurement focus of the trust funds (economic resources), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statement. The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

12. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER TURLOCK REDEVELOPMENT AGENCY, Continued

The extraordinary loss reported in the governmental funds – increase to net assets of the Successor Agency Trust Fund		\$ 18,272,228
Capital assets recorded in the government-wide financial statements – increase to net assets of the Successor Agency Trust Fund		9,112,984
Accrued bond interest reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund		(785,999)
Long-term debt reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund		
Outstanding principal		
1999 Revenue Bonds	\$ (3,085,000)	
2006 Tax Allocation Revenue Bonds	(23,665,000)	
2011 Tax Allocation Revenue Bonds	(15,010,000)	
Unamortized Bond Premium on 2006 Bonds	(271,390)	
Unamortized Bond Discount on 2011 Bonds	256,918	
Unamortized Cost of Issuance on 2006 Bonds	541,182	
Unamortized Cost of Issuance on 2011 Bonds	<u>131,239</u>	<u>(41,102,051)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount extraordinary gain reported in the government-wide financial statements of the City)		<u>\$ (14,502,838)</u>

For detailed information related to the long-term debt and capital assets that are accounted for in the Private Purpose Trust created with the dissolution of the Turlock Redevelopment Agency, please refer to the financial statement of the Turlock Public Financing Authority. These statements are available from the City’s Finance Department at 156 South Broadway, Turlock CA, and on the City’s website at www.ci.turlock.ca.us.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 19, 2013 and except as described below, no other events requiring recognition in, or disclosure of, within the financial statements were identified.

On September 6, 2012, the Turlock Public Financing Authority issued \$51,915,000 in Sewer Revenue Bonds, Series 2012. The proceeds of these Bonds, secured by revenue from the City’s Wastewater Treatment operations as defined in the bond documents, are being used to refund the Authority’s outstanding 1999 and 2003A Sewer Revenue Bonds. The 1999 Sewer Revenue Bonds will be refunded in their entirety on September 15, 2012, their next payment date. Funds to refund the 2003A Sewer Revenue Bonds will be placed in escrow upon the closing of the 2012 Bond issuance and then the 2003A Bonds will be refunded on September 15, 2013. No new project monies were included in this bond issuance. The 2012 Bonds carry coupons ranging from 2.00% - 5.00% and mature in September 2033.

REQUIRED SUPPLEMENTARY INFORMATION

City of Turlock
Required Supplementary Information
For the year ended June 30, 2012

BUDGETARY CONTROL AND ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year beginning July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled meetings which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested citizens.
3. Prior to July 1, the budget is legally adopted through a passage of a resolution.
4. The City Manager is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The City Council must authorize transfers between funds, between departments, and from the fund balances reserved for specific purposes.
5. Formal budgetary accounting is employed as a management tool for all funds, except the Agency funds, which do not have revenues or expenditures. Annual budgets are legally adopted and amended as required for the General, Special Revenue, Enterprise, and Internal Service funds. Capital Projects funds are budgeted by project, which usually span more than one fiscal year. All budgets are prepared on a basis consistent with generally accepted accounting principles in the United States.
6. Budgeted amounts are reflected after all applicable amendments are revisions.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g. City Attorney) or an entire department having multiple organizations (e.g. Parks and Recreation) or an entire fund (e.g. Downtown Support).

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations, and if certain proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or refunded to the taxpayers through revised tax rates or revised fee schedules. For the fiscal year ended June 30, 2012, proceeds of taxes did not exceed allowable appropriations.

The accompanying Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual present comparisons of the legally-adopted budget with actual data on a basis consistent with generally accepted accounting principles.

Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end are not rolled over to the next fiscal year. Departments are required to process new encumbrances based on the new fiscal year's budget. If the new fiscal year's budget is insufficient, an additional appropriation must be approved by the City Council prior to processing the encumbrance. Encumbrances do not represent expenditures or liabilities.

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2012

Budgetary Comparison Schedule -
General Fund

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 15,235,400	\$ 15,235,400	\$ 16,371,942	\$ 1,136,542
Licenses and permits	1,254,800	1,254,800	1,341,816	87,016
Fines, forfeitures, and penalties	325,000	325,000	451,731	126,731
Use of money and property	180,150	180,150	114,028	(66,122)
Intergovernmental	5,352,458	5,402,458	4,960,289	(442,169)
Charges for current services	3,398,515	3,437,415	3,424,672	(12,743)
Other	448,418	448,418	1,656,601	1,208,183
Total revenues	26,194,741	26,283,641	28,321,079	2,037,438
EXPENDITURES:				
Current:				
General government	2,851,002	3,137,593	3,042,003	95,590
Public safety	24,312,964	23,959,053	24,227,408	(268,355)
Public ways and facilities/transportation	363,614	362,058	415,362	(53,304)
Parks and recreation	1,726,221	1,742,191	1,935,090	(192,899)
Community development	996,547	1,055,587	962,497	93,090
Capital outlay	637,375	1,732,769	1,096,713	636,056
Debt service:				
Principal	79,765	79,765	79,763	2
Interest and fiscal charges	3,882	3,882	3,533	349
Total expenditures	30,971,370	32,072,898	31,762,369	310,529
REVENUES OVER (UNDER)				
EXPENDITURES	(4,776,629)	(5,789,257)	(3,441,290)	2,347,967
OTHER FINANCING SOURCES (USES):				
Transfers in	1,908,351	1,908,060	1,830,494	(77,566)
Transfers out	(666,680)	(766,197)	(856,545)	(90,348)
Contributions from private purpose trust fund			179,814	179,814
Total other financing sources (uses)	1,241,671	1,141,863	1,153,763	11,900
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (3,534,958)	\$ (4,647,394)	(2,287,527)	\$ 2,359,867
FUND BALANCES:				
Beginning of year			19,681,626	
End of year			<u>\$ 17,394,099</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2012

Budgetary Comparison Schedule -
Housing Set-Aside Fund

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 1,265,000	\$ 1,265,000	\$ -	\$ (1,265,000)
Use of money and property	5,000	5,000	(3,487)	(8,487)
Total revenues	<u>1,270,000</u>	<u>1,270,000</u>	<u>(3,487)</u>	<u>(1,273,487)</u>
EXPENDITURES:				
Current:				
Community development	2,922,860	4,103,350	215,791	3,887,559
Capital outlay		350,000	-	350,000
Total expenditures	<u>2,922,860</u>	<u>4,453,350</u>	<u>215,791</u>	<u>4,237,559</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(1,652,860)</u>	<u>(3,183,350)</u>	<u>(219,278)</u>	<u>2,964,072</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(165,714)	(165,714)	(52,245)	113,469
Total other financing sources (uses)	<u>(165,714)</u>	<u>(165,714)</u>	<u>(52,245)</u>	<u>113,469</u>
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	<u>\$ (1,818,574)</u>	<u>\$ (3,349,064)</u>	<u>(271,523)</u>	<u>\$ 3,077,541</u>
Extraordinary item				
Transfer from former Turlock Redevelopment Agency to Successor Agency Trust Fund			<u>(5,539,347)</u>	
NET CHANGE IN FUND BALANCES			<u>(5,810,870)</u>	
FUND BALANCES:				
Beginning of year			<u>5,810,870</u>	
End of year			<u>\$ -</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2012

*Budgetary Comparison Schedule -
Former LMI Housing Fund*

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments			\$ -	\$ -
Use of money and property			11,727	11,727
Other			1,934	1,934
Total revenues	-	-	13,661	13,661
EXPENDITURES:				
Current:				
Community development			4,149,483	(4,149,483)
Capital outlay			-	-
Total expenditures	-	-	4,149,483	(4,149,483)
REVENUES OVER (UNDER) EXPENDITURES	-	-	(4,135,822)	(4,135,822)
OTHER FINANCING SOURCES (USES):				
Transfers out			(403,189)	(403,189)
Total other financing sources (uses)	-	-	(403,189)	(403,189)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	(4,539,011)	<u>\$ (4,539,011)</u>
Extraordinary item				
Transfer from former Turlock Redevelopment Agency to Successor Agency Trust Fund			5,539,347	
NET CHANGE IN FUND BALANCES			1,000,336	
FUND BALANCES:				
Beginning of year			-	
End of year			<u>\$ 1,000,336</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2012

Budgetary Comparison Schedule -
Redevelopment

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 6,208,827	\$ 6,208,827	\$ 2,827,828	\$ (3,380,999)
Use of money and property			10,905	10,905
Other	9,800	9,800	-	(9,800)
Total revenues	6,218,627	6,218,627	2,838,733	(3,379,894)
EXPENDITURES:				
Current:				
Community development	2,678,326	2,681,577	170,900	2,510,677
Debt service:				
Principal	840,000	840,000	840,000	-
Interest and fiscal charges	2,456,255	2,456,255	1,270,811	1,185,444
Issuance costs for Tax Allocation Bonds			-	-
Total expenditures	5,974,581	5,977,832	2,281,711	3,696,121
REVENUES OVER (UNDER)				
EXPENDITURES	244,046	240,795	557,022	316,227
OTHER FINANCING SOURCES (USES):				
Transfers out	(15,149,115)	(15,148,824)	(5,119,908)	10,028,916
Proceeds from long-term debt			-	-
Total other financing sources (uses)	(15,149,115)	(15,148,824)	(5,119,908)	10,028,916
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (14,905,069)	\$ (14,908,029)	(4,562,886)	\$ 10,345,143
Extraordinary item				
Transfer from former Turlock Redevelopment Agency to Successor Agency Trust Fund			(18,272,228)	
NET CHANGE IN FUND BALANCES			(22,835,114)	
FUND BALANCES:				
Beginning of year			22,835,114	
End of year			\$ -	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2012

Budgetary Comparison Schedule -
Facility Fees

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Use of money and property	\$ 75,000	\$ 75,000	\$ 38,274	\$ (36,726)
Charges for current services	645,000	645,000	1,269,583	624,583
Other	15,800	15,800	40,850	25,050
Total revenues	735,800	735,800	1,348,707	612,907
EXPENDITURES:				
Current:				
General government	534,181	470,405	262,947	207,458
Public safety	600	600	400	200
Public ways and facilities/ transportation	260,000	824,771	571,493	253,278
Capital outlay	27,066,961	27,046,067	12,110,740	14,935,327
Debt service:				
Principal	122,745	122,745	122,743	2
Interest and fiscal charges	3,910	3,910	3,962	(52)
Total expenditures	27,988,397	28,468,498	13,072,285	15,396,213
REVENUES OVER (UNDER)				
EXPENDITURES	(27,252,597)	(27,732,698)	(11,723,578)	16,009,120
OTHER FINANCING SOURCES (USES):				
Transfers in	14,367,222	14,509,483	5,553,503	(8,955,980)
Transfers out	(435,200)	(585,795)	(201,595)	384,200
Contributions from private purpose trust fund			5,946,638	5,946,638
Total other financing sources (uses)	13,932,022	13,923,688	11,298,546	(2,625,142)
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (13,320,575)	\$ (13,809,010)	(425,032)	\$ 13,383,978
FUND BALANCES:				
Beginning of year			14,632,974	
End of year			\$ 14,207,942	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2012

PUBLIC EMPLOYEE RETIREMENT SYSTEMS (PERS)
SCHEDULE OF FUNDING PROGRESS

						Actuarial Assets Over (Under)
Actuarial Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Asset Value	Actuarial Assets Over (Under) Accrued Liability	Funded Status	Annual Covered Payroll	Liability as Percentage of Covered Payroll
<i>Miscellaneous Employees</i>						
6/30/2003	40,603,454	36,018,211	(4,585,243)	88.7%	10,402,637	-44.1%
6/30/2004	45,110,930	38,459,983	(6,650,947)	85.3%	11,280,476	-59.0%
6/30/2005	49,114,899	41,597,551	(7,517,348)	84.7%	11,569,699	-65.0%
6/30/2006	56,731,507	45,557,368	(11,174,139)	80.3%	12,142,839	-92.0%
6/30/2007	60,368,519	50,006,943	(10,361,576)	82.8%	12,929,803	-80.1%
6/30/2008	68,808,705	55,401,703	(13,407,002)	80.5%	15,071,186	-89.0%
6/30/2009	79,724,165	60,417,996	(19,306,169)	75.8%	15,405,516	-125.3%
6/30/2010	85,536,258	65,593,400	(19,942,858)	76.7%	13,747,656	-145.1%
6/30/2011	92,422,591	70,352,214	(22,070,377)	76.1%	13,048,348	-169.1%

Safety (Police and Fire) Employees

Beginning with the June 30, 2003 actuarial valuations, employer retirement plans with PERS having fewer than 100 active members could no longer be stand-alone plans and were pooled for valuation purposes. Both the City's fire and police plans met the criteria for pooling and are now part of the "Safety 3% at 50 Risk Pool" which is a cost-sharing multiple-employer defined benefit plan. Disclosure of the schedule of funding progress for this type of plan is not required.

SUPPLEMENTAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

The following provides a brief narrative for some the City's more substantial non-major governmental funds.

Gas Tax/Street Improvement

The Gas Tax/Street Improvement fund accounts for the City's Gas Tax (Highway User's Tax) and Local Transportation Fund revenues as well as federal/state/local grants received for street improvement purposes. These revenue sources are used in the maintenance of the City's street/road system including street sweeping, pothole repairs, street light/traffic signal lighting and maintenance, and various street reconstruction projects which are the result of wear and tear. Expenditures in this fund do not include street construction projects which are due to development.

Integrated Waste Management (AB939)

This fund is used to account for revenues received from recycling-related efforts. These revenues are used to fund recycling education programs as well as the City's "Take-Pride-In-Turlock" community cleanup.

Development Impact Fees

Various development impact fee programs are accounted for in this fund. These revenues are collected for and expended on infrastructure improvements designed to mitigate the effects of development throughout the City. These fees are separate, and in most cases, in addition to the impact fees described in the Facility Fee Fund. Not included in this fund are impact fees collected for sewer and/or water infrastructure improvements.

Equipment Replacement

The Equipment Replacement fund accounts for monies set aside to fund the replacement of existing equipment (including computer related equipment) used by various City departments.

Lighting & Landscaping Assessment Districts

This fund accounts for the expenditure of revenues collected under either the Landscaping and Lighting Act of 1972 or the Benefit Assessment Act of 1982. These Acts provide a funding mechanism for the maintenance costs associated with various lighting, landscaping and street improvements within the assessment districts formed under the respective Act.

CDBG, State HOME Program, and Housing Stimulus Funds

This group of funds, when combined with the Stanislaus County Housing Consortium (see major funds), accounts for the various federal funding sources the City receives on an annual basis to assist in the preservation and production of affordable housing within the City.

Stanislaus County Housing Consortium

When combined with the CDBG, State HOME programs and Housing Stimulus Funds (see non-major funds), accounts for the various federal funding sources the City receives on an annual basis to assist in the preservation and production of affordable housing within the City. The Consortium specifically is a collaboration of six cities in Stanislaus County and the County who together use Federal HOME monies to provide assistance for affordable housing within the County and the participating City jurisdictions

North Turlock Master Plan

The North Turlock Master Plan fund accounts for the collection and expenditure of development impact fees collected specifically within the master plan boundaries. Fees are collected to fund the cost of infrastructure – transportation, sewer and storm drainage – improvements necessary due to development within the master plan area.

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

	Special Revenue				
	Asset Forfeitures	Gas Tax/ Street Improvement	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
ASSETS					
Cash and investments	\$ 22,603	\$ 1,828,142	\$ 782,107	\$ 53,603	\$ 73,419
Accounts receivable		300,187	17,717		8,206
Interest receivable		1,310	655		
Loans receivable					
Total assets	\$ 22,603	\$ 2,129,639	\$ 800,479	\$ 53,603	\$ 81,625
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 970,135	\$ 4,660	\$ 814	\$ 3,717
Payroll payable		24,823	334		8,905
Due to other funds					
Deferred revenue					14,000
Total liabilities		994,958	4,994	814	26,622
Fund Balances:					
Non-Spendable					
Restricted		935,673	674,134		
Committed	22,603		121,351	52,789	10,894
Assigned		199,008			44,109
Unassigned					
Total fund balances	22,603	1,134,681	795,485	52,789	55,003
Total liabilities and fund balances	\$ 22,603	\$ 2,129,639	\$ 800,479	\$ 53,603	\$ 81,625

Special Revenue							
Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District	
\$ 20,285	\$ 4,667,325	\$ 2,978,354	\$ 916,803	\$ 609,539	\$ 10,186,801	\$ 55,088	
	3,801	26,968	780	13,537	107,816		
				514	8,468		
<u>\$ 20,285</u>	<u>\$ 4,671,126</u>	<u>\$ 3,005,322</u>	<u>\$ 917,583</u>	<u>\$ 623,590</u>	<u>\$ 10,303,085</u>	<u>\$ 55,088</u>	
\$ 1,626	\$ 8,554	\$ 124,894			\$ 19,860		
					21,818		
<u>1,626</u>	<u>8,554</u>	<u>124,894</u>			<u>41,678</u>		
18,659	4,662,572	2,880,428	917,583	623,590	10,179,338	55,088	
					82,069		
<u>18,659</u>	<u>4,662,572</u>	<u>2,880,428</u>	<u>917,583</u>	<u>623,590</u>	<u>10,261,407</u>	<u>55,088</u>	
<u>\$ 20,285</u>	<u>\$ 4,671,126</u>	<u>\$ 3,005,322</u>	<u>\$ 917,583</u>	<u>\$ 623,590</u>	<u>\$ 10,303,085</u>	<u>\$ 55,088</u>	

(Continued)

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2012

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus County Housing Consortium
ASSETS					
Cash and investments	\$ 69,727	\$ 48,260	\$ 702,540		\$ 11,603
Accounts receivable	9,602	2,638		25,075	982,342
Interest receivable					
Loans receivable		5,604,581	3,994,215	159,495	4,970,445
Total assets	\$ 79,329	\$ 5,655,479	\$ 4,696,755	\$ 184,570	\$ 5,964,390
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 38,033		\$ 2,610	\$ 103,882
Payroll payable		12,133			3,006
Due to other funds				307,828	877,455
Deferred revenue		5,604,581	3,994,215	\$ 159,495	4,970,445
Total liabilities		5,654,747	3,994,215	469,933	5,954,788
Fund Balances:					
Non-Spendable					
Restricted	79,329		702,540		
Committed					
Assigned		33,488			25,665
Unassigned		(32,756)		(285,363)	(16,063)
Total fund balances	79,329	732	702,540	(285,363)	9,602
Total liabilities and fund balances	\$ 79,329	\$ 5,655,479	\$ 4,696,755	\$ 184,570	\$ 5,964,390

Special Revenue		Capital Projects				
Grant Funds	Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
\$ 127,951	\$ 23,154,150	\$ 659,641	\$ 141,999	\$ 250,755	\$ 2,507,730	\$ 369,074
391,344	1,885,432					
	15,528	574	88		2,327	404
	14,728,736					
\$ 519,295	\$ 39,783,846	\$ 660,215	\$ 142,087	\$ 250,755	\$ 2,510,057	\$ 369,478
\$ 64,708	\$ 1,343,493	\$ 2,158	\$ 23,476		\$ 2,491	
23,822	94,841					
188,880	1,374,163					
	14,742,736					
277,410	17,555,233	2,158	23,476		2,491	
241,885	12,867,987					
	9,310,469	658,057	118,611	250,755	2,507,566	369,478
	384,339					
	(334,182)					
241,885	22,228,613	658,057	118,611	250,755	2,507,566	369,478
\$ 519,295	\$ 39,783,846	\$ 660,215	\$ 142,087	\$ 250,755	\$ 2,510,057	\$ 369,478

(Continued)

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2012

	Capital Projects			Total Nonmajor Funds
	Turlock Regional Industrial Park	East Tuolumne Master Plan	Total	
ASSETS				
Cash and investments	\$ 118,327		\$ 4,047,526	\$ 27,201,676
Accounts receivable				1,885,432
Interest receivable			3,393	18,921
Loans receivable				14,728,736
Total assets	\$ 118,327	\$ -	\$ 4,050,919	\$ 43,834,765
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable			\$ 28,125	\$ 1,371,618
Payroll payable				94,841
Due to other funds		\$ 153,000	153,000	1,527,163
Deferred revenue				14,742,736
Total liabilities		153,000	181,125	17,736,358
Fund Balances:				
Non-Spendable				
Restricted				12,867,987
Committed	118,327	(153,000)	3,869,794	13,180,263
Assigned				384,339
Unassigned				(334,182)
Total fund balances	118,327	(153,000)	3,869,794	26,098,407
Total liabilities and fund balances	\$ 118,327	\$ -	\$ 4,050,919	\$ 43,834,765

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City of Turlock

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the year ended June 30, 2012

	Special Revenue					
	Asset Forfeitures	Gas Tax/ Street Improvement	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities	Animal Fees Forfeiture
REVENUES:						
Taxes and assessments						
Licenses and permits				\$ 10,781		
Use of money and property		\$ 6,631	\$ 2,396		79	
Intergovernmental	\$ 6,821	3,120,115	86,586			
Charges for current services		165,285	66,365		\$ 281,935	\$ 19,717
Other		20,552	7,566		2,336	36
Total revenues	6,821	3,312,583	162,913	10,781	284,350	19,753
EXPENDITURES:						
Current:						
General government			38,881			
Public safety	3,000			5,426		22,718
Public ways and facilities/transportation		1,676,660				
Parks and recreation					506,856	
Community development						
Capital outlay		1,727,869			1,723	
Debt service:						
Principal		29,737				
Interest and fiscal charges		4,042				
Total expenditures	3,000	3,438,308	38,881	5,426	508,579	22,718
REVENUES OVER (UNDER) EXPENDITURES	3,821	(125,725)	124,032	5,355	(224,229)	(2,965)
OTHER FINANCING SOURCES (USES):						
Transfers in		186,966			226,038	
Transfers out		(483,823)			(2,578)	
Total other financing sources (uses)	-	(296,857)	-	-	223,460	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	3,821	(422,582)	124,032	5,355	(769)	(2,965)
FUND BALANCES:						
Beginning of year	18,782	1,557,263	671,453	47,434	55,772	21,624
End of year	\$ 22,603	\$ 1,134,681	\$ 795,485	\$ 52,789	\$ 55,003	\$ 18,659

Special Revenue

Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
	\$ 96,424			\$ 2,560,727	
\$ 161,756					
-	-	\$ 2,877	\$ 1,969	28,349	
13,325					
-	255,373	73,019	14,335	10,814	
-	6,986			3,918	
175,081	358,783	75,896	16,304	2,603,808	-
-	56,207				
-	84,366				
87,331	30,434	86		1,441,278	
-	8,649				
-	71,225				
15,488	171,020	12,613		1,723	
-	-				
80,454	-				
18,592	-				
201,865	421,901	12,699	-	1,443,001	-
(26,784)	(63,118)	63,197	16,304	1,160,807	-
-	442,628				
-	(355,960)	(25,000)		(78,288)	
-	86,668	(25,000)	-	(78,288)	-
(26,784)	23,550	38,197	16,304	1,082,519	-
4,689,356	2,856,878	879,386	607,286	9,178,888	55,088
\$ 4,662,572	\$ 2,880,428	\$ 917,583	\$ 623,590	\$ 10,261,407	\$ 55,088

(Continued)

City of Turlock

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds, Continued

For the year ended June 30, 2012

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus Housing Consortium
REVENUES:					
Taxes and assessments	\$ 452,501				
Licenses and permits					
Use of money and property	2,434	161			39
Intergovernmental		\$ 780,563	\$ 204,760	\$ 484,141	\$ 974,980
Charges for current services					
Other		164,323	48,210	808,934	6,441
Total revenues	454,935	945,047	252,970	1,293,075	981,460
EXPENDITURES:					
Current:					
General government	13,787				
Public safety					
Public ways and facilities/transportation					
Parks and recreation					
Community development		1,077,672	206,506	1,477,256	992,648
Capital outlay		28,682			
Debt service:					
Principal					
Interest and fiscal charges					
Total expenditures	13,787	1,106,354	206,506	1,477,256	992,648
REVENUES OVER (UNDER) EXPENDITURES	441,148	(161,307)	46,464	(184,181)	(11,188)
OTHER FINANCING SOURCES (USES):					
Transfers in		158,575	405,176	34,573	11,942
Transfers out	(441,000)	(69,141)		(2,200)	(8,836)
Total other financing sources (uses)	(441,000)	89,434	405,176	32,373	3,106
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	148	(71,873)	451,640	(151,808)	(8,082)
FUND BALANCES:					
Beginning of year	79,181	72,605	250,900	(133,555)	17,684
End of year	\$ 79,329	\$ 732	\$ 702,540	\$ (285,363)	\$ 9,602

Special Revenue		Capital Projects				
Grant Funds	Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
	\$ 3,109,652					
	172,537					
\$ 39	44,974	\$ 2,260	\$ 438		\$ 8,497	\$ 1,653
1,596,212	7,267,503		132,534			
5,925	892,768	8,477			18,282	515,700
19,860	1,089,162					
1,622,036	12,576,596	10,737	132,972	-	26,779	517,353
-	108,875			944		
1,015,174	1,130,684					
-	3,235,789	16,211	7,390		292	1,287,937
519,758	1,035,263					
-	3,825,307					
14,494	1,973,612	40,169	168,235		569,934	
-						
-	110,191					
	22,634					
1,549,426	11,442,355	56,380	175,625	944	570,226	1,287,937
72,610	1,134,241	(45,643)	(42,653)	(944)	(543,447)	(770,584)
51,113	1,517,011	40,175				
(47,458)	(1,514,284)				(35,000)	(60,000)
3,655	2,727	40,175	-	-	(35,000)	(60,000)
76,265	1,136,968	(5,468)	(42,653)	(944)	(578,447)	(830,584)
165,620	21,091,645	663,525	161,264	251,699	3,086,013	1,200,062
\$ 241,885	\$ 22,228,613	\$ 658,057	\$ 118,611	\$ 250,755	\$ 2,507,566	\$ 369,478

(Continued)

City of Turlock

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds, Continued For the year ended June 30, 2012

	Capital Projects			Total Nonmajor Funds
	Turlock Regional Industrial Park	East Tuolumne Master Plan	Total	
REVENUES:				
Taxes and assessments			\$	\$ 3,109,652
Licenses and permits			-	172,537
Use of money and property			12,848	57,822
Intergovernmental			132,534	7,400,037
Charges for current services	162,338		704,797	1,597,565
Other			-	1,089,162
Total revenues	162,338	-	850,179	13,426,775
EXPENDITURES:				
Current:				
General government			944	109,819
Public safety			-	1,130,684
Public ways and facilities/transportation	72		1,311,902	4,547,691
Parks and recreation			-	1,035,263
Community development			-	3,825,307
Capital outlay	1,173,631		1,951,969	3,925,581
Debt service:				
Principal			-	110,191
Interest and fiscal charges			-	22,634
Total expenditures	1,173,703	-	3,264,815	14,707,170
REVENUES OVER (UNDER) EXPENDITURES	(1,011,365)	-	(2,414,636)	(1,280,395)
OTHER FINANCING SOURCES (USES):				
Transfers in	1,140,961		1,181,136	2,698,147
Transfers out	(35,000)	(5,000)	(135,000)	(1,649,284)
Total other financing sources (uses)	1,105,961	(5,000)	1,046,136	1,048,863
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	94,596	(5,000)	(1,368,500)	(231,532)
FUND BALANCES:				
Beginning of year	23,731	(148,000)	5,238,294	26,329,939
End of year	\$ 118,327	\$ (153,000)	\$ 3,869,794	\$ 26,098,407

(Concluded)

NON-MAJOR PROPRIETARY FUNDS

Airport

This fund accounts for grant revenues received from the State and Federal governments which are being expended to fund capital improvements at the Turlock Municipal Airport. The day-to-day operations of the airport and the capital improvement projects are under the control of the Turlock Regional Aviation Association under a Facilities Management Agreement with the City of Turlock.

Transportation

The Transportation fund accounts for the activities of the City's fixed-route (BLST) and Dial-a-Ride bus systems which are in part funded with Local Transportation and Federal Transportation funds.

Building & Safety

This fund accounts for the activities of the City's Building Division. These activities include the issuance of building permits, checking building plans submitted for compliance with applicable State and local codes (plan check), performing building inspection for construction projects in town and providing assistance as needed to citizens with building-related questions/issues.

City of Turlock
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2012

	Airport	Transportation	Building & Safety	Total Nonmajor Funds
ASSETS				
Current assets:				
Cash and investments	\$ 91,035	\$ 3,607,710	\$ 131,480	\$ 3,830,225
Accounts receivable		648,097		648,097
Interest receivable		2,724		2,724
Total current assets	91,035	4,258,531	131,480	4,481,046
Capital assets				
Non-depreciable	281,129	3,686,807		3,967,936
Depreciable, net of depreciation	1,975,710	3,918,352		5,894,062
Total capital assets	2,256,839	7,605,159	-	9,861,998
Total Assets	2,347,874	11,863,690	131,480	14,343,044
LIABILITIES				
Current liabilities:				
Accounts payable		231,474	6,503	237,977
Salaries payable		3,451	19,814	23,265
Due to other funds			418,397	418,397
Deferred revenue		2,042,562		2,042,562
Compensated absences - due in one year		4,205	12,701	16,906
Total current liabilities	-	2,281,692	457,415	2,739,107
Compensated absences - due in more than one year		16,820	50,806	67,626
Net OPEB Obligation		17,495	138,203	155,698
Total liabilities	-	2,316,007	646,424	2,962,431
NET ASSETS				
Invested in capital assets, net of related debt	2,256,839	7,605,159	-	9,861,998
Unrestricted	91,035	1,942,524	(514,944)	1,518,615
Total net assets	\$ 2,347,874	\$ 9,547,683	\$ (514,944)	\$ 11,380,613

City of Turlock
Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds
For the year ended June 30, 2012

	Airport	Transportation	Building & Safety	Total
OPERATING REVENUES:				
Charges for services		\$ 145,827	\$ 650,422	\$ 796,249
Intergovernmental	\$ 39,405	3,456,156		3,495,561
Other income		3,453	3,952	7,405
Total operating revenues	39,405	3,605,436	654,374	4,299,215
OPERATING EXPENSES:				
Salaries, benefits and insurance	2,618	134,470	910,227	1,047,315
Contractual	590	729,754	158,735	889,079
Supplies and maintenance		25,433	4,013	29,446
Utilities		13,081	9,667	22,748
Fleet expense		153,606	4,687	158,293
Depreciation and amortization	78,766	296,909		375,675
Other expenses		23,526	4,968	28,494
Total operating expenses	81,974	1,376,779	1,092,297	2,551,050
Operating income (loss)	(42,569)	2,228,657	(437,923)	1,748,165
NONOPERATING REVENUES (EXPENSES):				
Interest income		10,647	277	10,924
Total nonoperating revenues (expenses)	-	10,647	277	10,924
INCOME (LOSS) BEFORE OPERATING TRANSFERS				
	(42,569)	2,239,304	(437,646)	1,759,089
Transfers in			98,747	98,747
Transfers out	(11,025)	(7,071)	(2,945)	(21,041)
Total transfers	(11,025)	(7,071)	95,802	77,706
Net income (loss)	(53,594)	2,232,233	(341,844)	1,836,795
NET ASSETS:				
Beginning of year	2,401,468	7,315,450	(173,100)	9,543,818
End of year	\$ 2,347,874	\$ 9,547,683	\$ (514,944)	\$ 11,380,613

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2012

	Airport	Transportation	Building & Safety	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 39,405	\$ 5,691,958	\$ 654,374	\$ 6,385,737
Cash paid to suppliers	(590)	(796,860)	(188,835)	(986,285)
Cash paid to employees	(2,618)	(126,845)	(553,206)	(682,669)
Net cash provided (used) by operating activities	<u>36,197</u>	<u>4,768,253</u>	<u>(87,667)</u>	<u>4,716,783</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in			98,747	98,747
Transfer out	(11,025)	(7,071)	(2,945)	(21,041)
Net cash provided (used) by noncapital financing activities	<u>(11,025)</u>	<u>(7,071)</u>	<u>95,802</u>	<u>77,706</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets	(14,866)	(1,614,251)		(1,629,117)
Proceeds from sale of capital assets		-		-
Net cash provided (used) by capital and related financing activities	<u>(14,866)</u>	<u>(1,614,251)</u>	<u>-</u>	<u>(1,629,117)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received		8,929	277	9,206
Net cash provided (used) by investing activities	<u>-</u>	<u>8,929</u>	<u>277</u>	<u>9,206</u>
Net increase (decrease) in cash and cash equivalents	10,306	3,155,860	8,412	3,174,578
CASH AND CASH EQUIVALENTS:				
Beginning of year	80,729	451,850	123,068	655,647
End of year	<u>\$ 91,035</u>	<u>\$ 3,607,710</u>	<u>\$ 131,480</u>	<u>\$ 3,830,225</u>

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2012

	Airport	Transportation	Building & Safety	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (42,569)	\$ 2,228,657	\$ (437,923)	\$ 1,748,165
Noncash items included in operating income (loss)				
Depreciation and amortization	78,766	296,909		375,675
Changes in assets and liabilities				
Accounts receivable		1,354,250	-	1,354,250
Accounts payable		148,540	(6,765)	141,775
Salaries payable		50	808	858
Deferred revenue		732,272		732,272
Due to other funds			316,943	316,943
Compensated absences		2,464	4,832	7,296
Net OPEB obligation		5,111	34,438	39,549
Net cash provided (used) by operating activities	\$ 36,197	\$ 4,768,253	\$ (87,667)	\$ 4,716,783

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Expense previously capitalized construction in progress				
Capital asset cost		\$ 1,930		1,930
Total noncash capital and related financing activities	\$ -	\$ 1,930	\$ -	\$ 1,930

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for services or activities performed by one City department for the benefit of other City departments on a cost reimbursement basis.

The concept of major funds introduced by GASB 34 does not apply to Internal Service Funds because, in general, they do not do business with outside parties. GASB 34 requires that for the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the City department(s) which benefit(s) from the services the internal service fund provides. The balance sheet items are consolidated with the Governmental Funds in the Statement of Net Assets.

The activities of Internal Service funds continue to be presented separately in the Fund Financial Statements.

Equipment Pool

This fund accounts for repair and maintenance activities for all City vehicles and large equipment as well as monies set aside for the replacement of vehicles used by City departments.

Self Insurance

The Self Insurance fund accounts for the activities of the City's risk management and workers' compensation, property/liability and health (medical, dental and vision) insurance programs.

Information Technology

This fund accounts for the costs incurred to maintain and enhance the City's information technology systems.

Engineering

The Engineering fund accounts for the cost of in-house Engineering services provided both to City departments involved in capital projects as well as to the development community external to City operations. The cost of services to the development community is recovered through various permitting processes.

City of Turlock
Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
ASSETS					
Current assets:					
Cash and investments	\$ 2,362,107	\$ 6,603,010	\$ 298,015	\$ 287,663	\$ 9,550,795
Accounts receivable	19,758	2,295,307			2,315,065
Interest receivable	1,952	5,491			7,443
Total current assets	2,383,817	8,903,808	298,015	287,663	11,873,303
Capital assets - net	787,645			1,224,893	2,012,538
Total assets	3,171,462	8,903,808	298,015	1,512,556	13,885,841
LIABILITIES					
Current liabilities:					
Accounts payable	1,770	2,386,505	3,886	1,139	2,393,300
Payroll payable	9,684		13,914	53,988	77,586
Interest payable				7,703	7,703
Compensated absences - due within one year	11,193		17,375	42,285	70,853
Capital lease obligations - due within one year				90,119	90,119
Deposits payable				5,173	5,173
Total current liabilities	22,647	2,386,505	35,175	200,407	2,644,734
Long-term liabilities:					
Claims liability - due in more than one year		3,433,104			3,433,104
Compensated absences - due in more than one year	44,771		69,502	169,140	283,413
Net OPEB obligation	(120,919)		82,188	148,963	110,232
Capital lease obligation - due in more than one year				405,312	405,312
Total long-term liabilities	(76,148)	3,433,104	151,690	723,415	4,232,061
Total liabilities	(53,501)	5,819,609	186,865	923,822	6,876,795
NET ASSETS					
Invested in capital assets, net of related debt	787,645		-	729,462	1,517,107
Unrestricted	2,437,318	3,084,199	111,150	(140,728)	5,491,939
Total net assets	\$ 3,224,963	\$ 3,084,199	\$ 111,150	\$ 588,734	\$ 7,009,046

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Internal Service Funds
For the year ended June 30, 2012

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
OPERATING REVENUES:					
Charges for services	\$ 537,574	\$ 8,465,597	\$ 708,651	\$ 1,809,793	\$ 11,521,615
Refunds & Other Income	58,336	3,552,952		161,343	3,772,631
Total operating revenues	595,910	12,018,549	708,651	1,971,136	15,294,246
OPERATING EXPENSES:					
Salaries, benefits and insurance	425,119	12,575,672	606,255	1,986,417	15,593,463
Contractual	18,774	12,833	82,288	375,071	488,966
Supplies and maintenance	12,596		2,111	28,793	43,500
Utilities	24,945		20,852	22,787	68,584
Fleet expense	51,341		331	11,410	63,082
Depreciation and amortization	303,687		-	65,003	368,690
Other expenses	2,817	712	8,307	21,864	33,700
Total operating expenses	839,279	12,589,217	720,144	2,511,345	16,659,985
Operating income (loss)	(243,369)	(570,668)	(11,493)	(540,209)	(1,365,739)
NONOPERATING REVENUES (EXPENSES):					
Interest income	7,418	19,596	181	1,126	28,321
Gain (loss) on disposal of capital assets	12,090				12,090
Interest expense				(24,936)	(24,936)
Total nonoperating revenues (expenses)	19,508	19,596	181	(23,810)	15,475
Income (loss) before operating transfers	(223,861)	(551,072)	(11,312)	(564,019)	(1,350,264)
Transfers in	315,250			295,309	610,559
Transfers out	(6,136)		(4,171)	(22,411)	(32,718)
Total transfers	309,114	-	(4,171)	272,898	577,841
Net income (loss)	85,253	(551,072)	(15,483)	(291,121)	(772,423)
NET ASSETS:					
Beginning of year	3,139,710	3,635,271	126,633	879,855	7,781,469
End of year	\$ 3,224,963	\$ 3,084,199	\$ 111,150	\$ 588,734	\$ 7,009,046

City of Turlock
Combining Statement of Cash Flows
Internal Service Funds
For the year ended June 30, 2012

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 520,929	\$ 7,529,797	\$ 708,651	\$ 1,809,793	\$ 10,569,170
Cash paid to suppliers	(131,893)	874,863	(101,887)	(445,850)	195,233
Cash paid to employees	(453,878)	(12,575,672)	(565,691)	(2,007,155)	(15,602,396)
Other	55,519	3,552,240	(8,307)	139,479	3,738,931
Net cash provided (used) by operating activities	(9,323)	(618,772)	32,766	(503,733)	(1,099,062)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in	315,250			295,309	610,559
Operating transfers out	(6,136)		(4,171)	(22,411)	(32,718)
Net cash provided (used) by noncapital capital financing activities	309,114	-	(4,171)	272,898	577,841
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(115,735)				(115,735)
Proceeds from disposal of capital assets	17,426				17,426
Principal payments on long-term debt				(86,036)	(86,036)
Interest paid				(26,274)	(26,274)
Net cash provided (used) by capital and related financing activities	(98,309)	-	-	(112,310)	(210,619)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	7,644	21,751	181	1,126	30,702
Net cash provided (used) by investing activities	7,644	21,751	181	1,126	30,702
Net increase (decrease) in cash and cash equivalents	209,126	(597,021)	28,776	(342,019)	(701,138)
CASH AND CASH EQUIVALENTS:					
Beginning of year	2,152,981	7,200,031	269,239	629,682	10,251,933
End of year	\$ 2,362,107	\$ 6,603,010	\$ 298,015	\$ 287,663	\$ 9,550,795
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (243,369)	\$ (570,668)	\$ (11,493)	\$ (540,209)	\$ (1,365,739)
Noncash items included in operating income (loss)					
Depreciation	303,687			65,003	368,690
Changes in assets and liabilities					
Accounts receivable	(16,645)	(935,800)			(952,445)
Accounts payable	(24,237)	218,882	3,695	(7,789)	190,551
Payroll payable	(219)		2,111	6,474	8,366
Compensated absences	10,307		15,978	40,583	66,868
Claims liability		668,814			668,814
Net OPEB obligation	(38,847)		22,475	(67,795)	(84,167)
Net cash provided (used) by operating activities	\$ (9,323)	\$ (618,772)	\$ 32,766	\$ (503,733)	\$ (1,099,062)

AGENCY FUNDS

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the Government-wide Financial Statements, but are presented in a separate Fiduciary Fund Financial Statement. For the City of Turlock, the following agent activities are accounted for within the Agency Funds:

- ✓ Turlock Community Facilities District (CFD) #1 – Mello Roos Assessment District – This district was established as a funding mechanism to partially pay for the infrastructure improvements installed in the Monte Vista Crossings shopping area. These improvements were in part funded with the proceeds of a bond issuance which is being retired through annual assessments to the owners of the parcels within the District’s boundaries.

- ✓ Turlock Downtown Property and Business Improvement District (PBID) #2 – This is a successor District to one originally established to fund maintenance efforts in downtown Turlock. The current district was established in June 2003 via a vote of the affected property owners. The District has a ten year life and through annual assessments funds prescribed maintenance efforts within the District’s boundaries as well as promotional activities for the downtown area.

City of Turlock
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Northwest Triangle - Mello Roos Assessments				
Assets				
Cash and investments	\$ 691,861	\$ 400,755	\$ (431,868)	\$ 660,748
Cash and investments with fiscal agents	418,487	45	(45)	418,487
Accounts and interest receivable	4,527	40,248	(4,527)	40,248
Total assets	\$ 1,114,875	\$ 441,048	\$ (436,440)	\$ 1,119,483
Liabilities				
Due to others	\$ 1,114,875	\$ 441,048	\$ (436,440)	\$ 1,119,483
Total liabilities	\$ 1,114,875	\$ 441,048	\$ (436,440)	\$ 1,119,483
Property & Business Improvement District #2				
Assets				
Cash and investments	\$ 31,246	\$ 280,259	\$ (103,505)	\$ 208,000
Accounts and interest receivable	41,808	13,571	(41,808)	13,571
Total assets	\$ 73,054	\$ 293,830	\$ (145,313)	\$ 221,571
Liabilities				
Accounts payable	\$ 24,542	\$ 116,120	\$ (103,499)	\$ 37,163
Due to others	48,512	177,710	(41,814)	184,408
Total liabilities	\$ 73,054	\$ 293,830	\$ (145,313)	\$ 221,571
Total - All Agency Funds				
Assets				
Cash and investments	\$ 723,107	\$ 681,014	\$ (535,373)	\$ 868,748
Cash and investments with fiscal agents	418,487	45	(45)	418,487
Accounts and interest receivable	46,335	53,819	(46,335)	53,819
Total assets	\$ 1,187,929	\$ 734,878	\$ (581,753)	\$ 1,341,054
Liabilities				
Accounts payable	\$ 24,542	\$ 116,120	\$ (103,499)	\$ 37,163
Due to others	1,163,387	618,758	(478,254)	1,303,891
Total liabilities	\$ 1,187,929	\$ 734,878	\$ (581,753)	\$ 1,341,054

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TURLOCK PUBLIC FINANCING AUTHORITY

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

Turlock Public Financing Authority
For the year ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the City of Turlock Public Financing Authority
Turlock, California

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Turlock Public Financing Authority (Authority), a component unit of the City of Turlock, California (City), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of the Authority are intended to present the financial position, and changes in financial position and changes in cash flows of only that portion of the City of Turlock, California that is attributable to the Authority. They do not purport to, and do not present the financial position of the City as of June 30, 2012, and changes in its financial position and changes in its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2013 on our consideration of the Authority'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* and should be considered in assessing the results of our audit.



To the Board of Directors
of the City of Turlock Public Financing Authority
Turlock, California
Page 2

Management has elected to omit the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America requires to be presented as supplementary information to the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statement is not affected by this omitted information.

Marcum LLP

San Francisco, California
July 19, 2013

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Turlock Public Financing Authority
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Interest receivable	\$ 785,999	\$ 1,097,159	\$ 1,883,158
Total current assets	785,999	1,097,159	1,883,158
Noncurrent assets:			
Cash and investments with fiscal agent	11,091,723	6,897,157	17,988,880
Leases receivable	38,197,077	81,738,303	119,935,380
Deferred charges	671,921	489,928	1,161,849
Total noncurrent assets	49,960,721	89,125,388	139,086,109
Total assets	50,746,720	90,222,547	140,969,267
LIABILITIES			
Current liabilities:			
Accrued interest	785,999	1,097,159	1,883,158
Bonds payable, due within one year	580,000	2,460,000	3,040,000
Total current liabilities	1,365,999	3,557,159	4,923,158
Noncurrent liabilities:			
Bonds payable, due in more than one year	41,194,472	86,665,388	127,859,860
Total noncurrent liabilities	41,194,472	86,665,388	127,859,860
Total liabilities	42,560,471	90,222,547	132,783,018
NET ASSETS			
Restricted for:			
Debt service	3,562,923		3,562,923
Capital projects	4,623,326		4,623,326
Total net assets	\$ 8,186,249	\$ -	\$ 8,186,249

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets		
			Governmental Activities	Business-type Activities	Total
Governmental activities:					
Interest on long-term debt	\$ 2,403,041	\$ -	\$ (2,403,041)	\$ -	\$ (2,403,041)
Total governmental activities	2,403,041	-	(2,403,041)	-	(2,403,041)
Business-type activities:					
Sewer	3,063,898	2,810,533	-	(253,365)	(253,365)
Water	1,410,646	1,346,239	-	(64,407)	(64,407)
Total business-type activities	4,474,544	4,156,772	-	(317,772)	(317,772)
Total	\$ 6,877,585	\$ 4,156,772	(2,403,041)	(317,772)	(2,720,813)
General revenues:					
Lease revenues			12,340		12,340
Interest and investment earnings			2,377,805	317,772	2,695,577
Total general revenues			2,390,145	317,772	2,707,917
Transfers to City of Turlock			(10,554,538)		(10,554,538)
Total general revenues and transfers			(8,164,393)	317,772	(7,846,621)
Changes in net assets			(10,567,434)	-	(10,567,434)
Net Assets:					
Beginning of year			18,753,683	-	18,753,683
End of year			\$ 8,186,249	\$ -	\$ 8,186,249

See accompanying Notes to Basic Financial Statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Turlock Public Financing Authority
Balance Sheet
Governmental Funds
June 30, 2012

	Debt Service Funds			Total
	1999 Revenue Bonds	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	
<u>Assets</u>				
Cash and investments with fiscal agent	\$ 374,807	\$ 1,858,794	\$ 8,858,122	\$ 11,091,723
Leases receivable	2,710,193	21,806,206	13,680,678	38,197,077
Total Assets	<u>3,085,000</u>	<u>23,665,000</u>	<u>22,538,800</u>	<u>49,288,800</u>
<u>Liabilities</u>				
Deferred revenue	2,710,193	21,806,206	13,680,678	38,197,077
Total Liabilities	<u>2,710,193</u>	<u>21,806,206</u>	<u>13,680,678</u>	<u>38,197,077</u>
<u>Fund Balances</u>				
Non-Spendable				
Fiscal Agent Cash	374,807	1,858,794	1,329,322	3,562,923
Restricted				
Capital projects	-	-	7,528,800	7,528,800
Total Fund Balances	<u>374,807</u>	<u>1,858,794</u>	<u>8,858,122</u>	<u>11,091,723</u>
Total Liabilities and Fund Balance	<u>\$ 3,085,000</u>	<u>\$ 23,665,000</u>	<u>\$ 22,538,800</u>	<u>\$ 49,288,800</u>

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2012

Total Fund Balances - Total Governmental Funds \$ 11,091,723

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (785,999)

Interest receivable on long-term loans. 785,999

Deferred revenue on the governmental funds statement is an offset against leases receivable but on the government-wide statement long-term debt is the offset against leases receivable less any restricted cash and the deferred revenue has been eliminated. 38,197,077

Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported as a liability in the Governmental Funds Balance Sheet.

Long-term liabilities - Bonds payable due within one year (580,000)

Long-term liabilities - Bonds payable due in more than one year (41,194,472)

Unamortized cost of issuance included in deferred charges 671,921

Total long-term liabilities, net of deferred charges (41,102,551)

Net Assets of Governmental Activities \$ 8,186,249

Turlock Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	Debt Service Funds			Total
	1999 Revenue Bonds	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	
Revenues				
Lease revenue	\$ 160,048	\$ 333,151	\$ 284,859	\$ 778,058
Use of money and property	170,872	1,143,841	1,141,538	2,456,251
Total Revenues	<u>330,920</u>	<u>1,476,992</u>	<u>1,426,397</u>	<u>3,234,309</u>
Expenditures				
Debt service				
Principal	160,000	390,000	290,000	840,000
Interest and fiscal charges	170,872	1,143,841	1,141,538	2,456,251
Total Expenditures	<u>330,872</u>	<u>1,533,841</u>	<u>1,431,538</u>	<u>3,296,251</u>
Excess (Deficit) of Revenues over Expenditures	<u>48</u>	<u>(56,849)</u>	<u>(5,141)</u>	<u>(61,942)</u>
Other Financing Sources (Uses)				
Transfer to Turlock Redevelopment Agency		(4,522,323)	(6,032,215)	(10,554,538)
Total Other Financing Sources	<u>-</u>	<u>(4,522,323)</u>	<u>(6,032,215)</u>	<u>(10,554,538)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	48	(4,579,172)	(6,037,356)	(10,616,480)
Fund Balances, July 1, 2011	<u>374,759</u>	<u>6,437,966</u>	<u>14,895,478</u>	<u>21,708,203</u>
Fund Balances, June 30, 2012	<u>\$ 374,807</u>	<u>\$ 1,858,794</u>	<u>\$ 8,858,122</u>	<u>\$ 11,091,723</u>

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Reconciliation of the Governmental Statement of Revenues, Expenditures and
Changes in Fund Balances to the Government-Wide Statement of Activities and
Changes in Net Assets
For the year ended June 30, 2012

Net change in fund balances - Total Governmental Funds \$ (10,616,480)

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

Lease revenue is recognized as revenue on the fund financial statements, (765,718)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.

Principal payments on long-term debt	840,000	840,000
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Interest expense is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. The following amount represents the change in accrued interest from the prior year. In addition, governmental funds report the effect of debt issuance costs when the debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the Statement of Activities.

Change in accrued interest payable	78,446	
Amortization of issuance costs	(25,236)	53,210

Interest revenue from long-term loans receivable is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. The following amount represents the change in accrued interest from the prior year. (78,446)

Change in Net Assets of Governmental Activities \$ (10,567,434)

Turlock Public Financing Authority
Statement of Net Assets
Proprietary Funds
June 30, 2012

<u>Assets</u>	1999 <u>Sewer Bonds</u>	2003A <u>Sewer Bonds</u>	2008 <u>Water Bonds</u>	<u>Total</u>
Cash and investments with fiscal agent	\$ 1,540,619	\$ 3,236,650	\$ 2,119,888	\$ 6,897,157
Interest receivable	258,545	613,343	225,271	1,097,159
Deferred charges		336,753	153,175	489,928
Leases receivable	14,622,501	39,561,455	27,554,347	81,738,303
Total Assets	<u>16,421,665</u>	<u>43,748,201</u>	<u>30,052,681</u>	<u>90,222,547</u>
 <u>Liabilities</u> 				
Current liabilities:				
Interest payable	258,545	613,343	225,271	1,097,159
Current portion - bonds payable	660,000	1,150,000	650,000	2,460,000
Total current liabilities	<u>918,545</u>	<u>1,763,343</u>	<u>875,271</u>	<u>3,557,159</u>
Long-term liabilities:				
Bonds payable	<u>15,503,120</u>	<u>41,984,858</u>	<u>29,177,410</u>	<u>86,665,388</u>
Total Liabilities	<u>16,421,665</u>	<u>43,748,201</u>	<u>30,052,681</u>	<u>90,222,547</u>
 <u>Net Assets</u> 				
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Statement of Activities and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	1999	2003A	2008	Total
	<u>Sewer Bonds</u>	<u>Sewer Bonds</u>	<u>Water Bonds</u>	<u>Total</u>
Operating Revenue				
Lease Revenue	\$ 823,344	\$ 1,987,189	\$ 1,346,239	\$ 4,156,772
Total Operating Revenue	<u>823,344</u>	<u>1,987,189</u>	<u>1,346,239</u>	<u>4,156,772</u>
Operating Income	<u>823,344</u>	<u>1,987,189</u>	<u>1,346,239</u>	<u>4,156,772</u>
Non-Operating Revenues (Expenses)				
Interest income	93,296	160,069	64,407	317,772
Interest expense	<u>(916,640)</u>	<u>(2,147,258)</u>	<u>(1,410,646)</u>	<u>(4,474,544)</u>
Total Non-Operating Revenues (Expenses)	<u>(823,344)</u>	<u>(1,987,189)</u>	<u>(1,346,239)</u>	<u>(4,156,772)</u>
Net Income (Loss)	-	-	-	-
Net assets, July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	1999	2003A	2008	Total
	Sewer Bonds	Sewer Bonds	Water Bonds	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 1,437,548	\$ 3,059,895	\$ 1,989,802	\$ 6,487,245
Net Cash Provided (Used) by Operating Activities	1,437,548	3,059,895	1,989,802	6,487,245
Cash Flows from Capital and Related Financing Activities:				
Principal payments on long-term debt	(635,000)	(1,100,000)	(625,000)	(2,360,000)
Interest paid	(905,075)	(2,136,940)	(1,403,537)	(4,445,552)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,540,075)	(3,236,940)	(2,028,537)	(6,805,552)
Cash Flows from Investing Activities:				
Interest received	102,527	176,061	67,973	346,561
Net Cash Provided (Used) by Investing Activities	102,527	176,061	67,973	346,561
Net Increase (Decrease) in Cash and Cash Equivalents	-	(984)	29,238	28,254
Cash and Cash Equivalents, July 1, 2011	1,540,619	3,237,634	2,090,650	6,868,903
Cash and Cash Equivalents, June 30, 2012	\$ 1,540,619	\$ 3,236,650	\$ 2,119,888	\$ 6,897,157
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Cash Flows from Operating Activities:				
Operating income (loss)	\$ 823,344	\$ 1,987,189	\$ 1,346,239	\$ 4,156,772
Changes in assets and liabilities				
Leases Receivable	614,204	1,072,706	643,563	2,330,473
Net Cash Provided (Used) by Operating Activities	\$ 1,437,548	\$ 3,059,895	\$ 1,989,802	\$ 6,487,245

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Turlock Public Financing (Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority, a blended component unit of the City of Turlock (City), was created on December 15, 1998, pursuant to Article 1 Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as a joint powers authority between the City and the Turlock Redevelopment Agency. The members of the City Council serve as the governing board for the Authority. All powers of the Authority are vested in the governing board.

The financial transactions of the Authority are also included in the City's Basic Financial Statements and can be obtained from the City's Finance Department located at 156 South Broadway, Turlock, CA 95380.

The Authority is a legally separate organization for which the primary government, the City, is financially accountable; and which the nature and significance of the Authority's relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Dissolution of Turlock Redevelopment Agency

The revenue bond activity presented in the Governmental Fund Section of these financial statements is debt associated with the former Turlock Redevelopment Agency. The information below describes the dissolution of all redevelopment agencies in California.

On December 29, 2011, the California Supreme Court upheld Assembly Bill x1 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. The Bill provides that upon dissolution of a redevelopment agency, either the entity creating the redevelopment agency or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and/or local government. By Resolution No. 2012-009 adopted on January 10, 2012, pursuant to Health and Safety Code Section 34173, the Turlock City Council declared that the City of Turlock would act in a special limited capacity as Successor Agency for the dissolved Turlock Redevelopment Agency (RDA), effective February 1, 2012.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in California could not enter into new projects, obligation or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In accordance with the timeline set forth in the Bill (as modified by the CA Supreme Court on December 29, 2011), the Turlock Redevelopment Agency was dissolved and ceased to operate as a legal entity on February 1, 2012.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

Dissolution of Turlock Redevelopment Agency (continued)

The effect on the Authority of this legislation relates to the receipt of revenue that has been pledged for repayment of the outstanding bonds. In the past the RDA received this revenue. The revenue will now be received by the Successor Agency. According to law, the Successor Agency will be allocated revenue in an amount necessary to pay the estimated annual payment on enforceable obligations of the former RDA. This is accomplished by the semi-annual preparation of a Recognized Obligation Payment Schedule which is submitted to the California Department of Finance for approval prior to the allocation of revenue by the Stanislaus County Auditor Controller's office. This process for revenue allocation will continue until all enforceable obligations of the former RDA have been paid.

B. Basis of Accounting/Management Focus

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

Government - Wide Financial Statements

The Authority's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the Authority.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Authority are reported as charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Authority has presented all funds as major funds. Note 4, Long-term Debt, provides descriptions for each of the Authority's outstanding bonds. Each fund within these financial statements accounts for the activity associated with its delineated bond issuance.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Management Focus (continued)

Governmental Fund Financial Statements (continued)

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue source which has been treated as susceptible to accrual by the Authority is investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents, and Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate activities.

Fund Financial Statements

The Governmental Fund Financial Statements do not include long-term debt, as this liability is not payable in the current period. Long-term debt activity is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

In the proprietary fund financial statements, long-term debt and other financed obligations are reported as liabilities in the appropriate funds.

F. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosed contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

2. CASH AND INVESTMENTS

All of the Authority's cash at June 30, 2012 was held and invested by third-party trustees pursuant to indenture and investment agreements entered into when the related debt was issued. The cash balance with the third party trustees at June 30, 2012 was \$17,988,880. All cash and investments held by third party trustees are reported at fair value.

3. LEASES RECEIVABLE AND DEFERRED REVENUE

The Authority has recorded leases receivable in the amount of \$119,935,380 pursuant to the lease agreements between the Authority and the City in relation to the bonded indebtedness. The leases receivable along with investments held by fiscal agents secure the repayment of the different debt issues. The lease revenue is equal to the Authority's debt service requirements and is used for that purpose.

In the fund financial statements a corresponding amount is recorded as deferred revenue since the assets are not current financial resources. In the Government-Wide Financial Statements the assets are offset by long-term debt with any remaining amounts being reflected in Net Assets.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

4. LONG-TERM DEBT

Government-Wide Financial Statements

Following is a summary of the Authority's long-term debt transactions during the fiscal year ended June 30, 2012:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due within one year	Due in more than one year
<u>Governmental Activities</u>						
1999 Revenue Bonds	\$ 3,245,000		\$ (160,000)	\$ 3,085,000	\$ 170,000	\$ 2,915,000
2006 Tax Allocation Revenue Bonds	24,055,000		(390,000)	23,665,000	410,000	23,255,000
Add: Unamortized Bond Premium	282,620		(11,230)	271,390		271,390
2011 Tax Allocation Revenue Bonds	15,300,000		(290,000)	15,010,000	-	15,010,000
Less: Unamortized Bond Discount	(266,232)		9,314	(256,918)		(256,918)
Total Governmental Activities	42,616,388	-	(841,916)	41,774,472	580,000	41,194,472
<u>Business-Type Activities</u>						
1999 Sewer Revenue Bonds	17,105,000		(635,000)	16,470,000	660,000	15,810,000
Less: Unamortized Bond Discount	(327,676)		20,796	(306,880)		(306,880)
2003A Sewer Revenue Bonds	44,455,000		(1,100,000)	43,355,000	1,150,000	42,205,000
Less: Unamortized Bond Discount	(230,543)		10,401	(220,142)		(220,142)
2008 Water Revenue Bonds	30,575,000		(625,000)	29,950,000	650,000	29,300,000
Less: Unamortized Bond Discount	(127,335)		4,745	(122,590)		(122,590)
Total Business-Type Activities	91,449,446	-	(2,324,058)	89,125,388	2,460,000	86,665,388
Total Long-Term Debt	\$ 134,065,834	\$ -	\$ (3,165,974)	\$ 130,899,860	\$ 3,040,000	\$ 127,859,860

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

4. LONG-TERM DEBT, continued

Government-Wide Financial Statements, continued

1999 Revenue Bonds

Turlock Public Financing Authority Revenue Bonds, Series 1999

In March 1999 the Authority authorized the issuance of \$4,970,000 in Revenue Bonds the proceeds of which were loaned to the City of Turlock Redevelopment Agency (Agency) to be used to finance the rehabilitation of the City's downtown. Agency tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 3.5% - 5.55%, have semi-annual principal and interest payments on the first of March and September through September 2024. The annual debt service requirements are as follows:

For the Years Ending June 30,	1999 Revenue Bonds	
	Principal	Interest
2013	170,000	162,210
2014	180,000	153,023
2015	185,000	143,441
2016	195,000	133,466
2017	210,000	122,624
2018-2022	1,230,000	424,556
2023-2026	915,000	76,436
	<u>\$ 3,085,000</u>	<u>\$ 1,215,756</u>

2006 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2006

In August 2006 the Authority authorized the issuance of \$25,440,000 in Tax Allocation Revenue Bonds the proceeds of which were loaned to the Agency to be used to finance various infrastructure projects to be constructed within the Agency's project area boundaries. Agency tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 4.0% - 5.0%, have semi-annual principal and interest payments on the first of March and September through September 2036. The annual debt service requirements are as follows:

For the Years Ending June 30,	2006 Tax Allocation Revenue Bonds	
	Principal	Interest
2013	410,000	1,125,841
2014	430,000	1,106,942
2015	450,000	1,087,141
2016	470,000	1,066,441
2017	490,000	1,046,066
2018-2022	2,760,000	4,908,132
2023-2027	4,105,000	4,201,822
2028-2032	6,390,000	2,870,000
2033-2037	8,160,000	1,060,001
	<u>\$ 23,665,000</u>	<u>\$ 18,472,386</u>

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

4. LONG-TERM DEBT, continued

Government-Wide Financial Statements, continued

2011 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2011

In February 2011, the Authority issued \$15,300,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to provide financing assistance for the construction of a new public safety facility in the City's downtown area. As with the bond issuances noted above, the Agency's tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039. The annual debt service requirements are as follows:

For the Years Ending June 30,	2011 Tax Allocation Revenue Bonds	
	Principal	Interest
2013	-	1,069,144
2014	-	1,069,144
2015	260,000	1,063,619
2016	270,000	1,051,681
2017	280,000	1,038,269
2018-2022	1,645,000	4,929,485
2023-2027	1,520,000	4,371,213
2028-2032	1,555,000	3,858,950
2033-2037	2,865,000	3,113,813
2038-2040	6,615,000	599,436
	<u>\$ 15,010,000</u>	<u>\$ 22,164,754</u>

1999 Sewer Revenue Bonds

In August 1999 the Authority issued \$22,400,000 in Sewer Revenue Bonds Series 1999 to (1) finance improvements to the City's wastewater treatment facility, and (2) advance refund (defease) the Series 1994A Sewer Revenue Bonds. Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged net system revenues from the Sewer Enterprise Fund operations for repayment of the bonds. The bonds, which carry coupon interest rates ranging from 4.25% - 6.25%, have semi-annual principal and interest payments on the fifteenth of March and September through September 2029. The annual debt service requirements are as follows:

For the Years Ending June 30,	1999 Sewer Revenue Bonds	
	Principal	Interest
2013	\$ 660,000	\$ 872,700
2014	700,000	838,350
2015	735,000	801,666
2016	775,000	762,488
2017	820,000	720,619
2018-2022	4,795,000	2,878,569
2023-2027	5,195,000	1,426,288
2028-2032	2,790,000	235,673
	<u>\$ 16,470,000</u>	<u>\$ 8,536,353</u>

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

4. LONG-TERM DEBT, continued

Government-Wide Financial Statements, continued

2003A Sewer Revenue Bonds

In August 2003 the Authority issued \$51,185,000 in Sewer Revenue Bonds Series 2003A to finance capital improvements to the City's tertiary wastewater treatment facility. The improvements are designed to meet wastewater discharge requirements imposed by the Water Quality Control Board. Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged net system revenues from the Sewer Enterprise Fund operations for repayment of the bonds. The bonds, which carry coupon interest rates ranging from 2.00% - 5.00%, have semi-annual principal and interest payments on the fifteenth of March and September through September 2033 and are on parity with the bonds issued in 1999. The annual debt service requirements are as follows:

For the Years Ending June 30,	2003A Sewer Revenue Bonds	
	Principal	Interest
2013	\$ 1,150,000	\$ 2,086,440
2014	1,200,000	2,033,440
2015	1,260,000	1,977,610
2016	1,310,000	1,923,943
2017	1,370,000	1,866,650
2018-2022	7,870,000	8,304,747
2023-2027	10,085,000	6,088,625
2028-2032	12,955,000	3,222,375
2033-2037	6,155,000	311,626
	<u>\$ 43,355,000</u>	<u>\$ 27,815,456</u>

2008 Water Revenue Bonds

In May 2008 the Authority issued \$32,365,000 in Water Revenue Bonds Series 2008 to finance capital improvements to the City's potable water system, including the installation of water meters and an automated meter reading system for all water service users within Turlock, the construction of two water storage reservoirs, and water line installations in the Westside Industrial Specific Plan area. Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged the net water system revenues from the Water Enterprise Fund operations for repayment of the bonds. The bonds, which carry coupon interest rates ranging from 3.50% - 5.00%, have semi-annual principal and interest payments on the first of November and May through May 2038. The annual debt service requirements are as follows:

For the Years Ending June 30,	2008 Water Revenue Bonds	
	Principal	Interest
2013	\$ 650,000	\$ 1,381,662
2014	670,000	1,358,913
2015	700,000	1,332,113
2016	725,000	1,304,113
2017	755,000	1,275,112
2018-2022	4,270,000	5,872,714
2023-2027	5,270,000	4,880,961
2028-2032	6,605,000	3,544,939
2033-2037	8,370,000	1,780,000
2038-2040	1,935,000	96,748
	<u>\$ 29,950,000</u>	<u>\$ 22,827,275</u>

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

5. NET ASSETS AND FUND EQUITY

A. Net Assets

Net Assets is the excess of all the Authority's assets over all its liabilities, regardless of fund. Net Assets are only determined on the Government-Wide financial statements. The narratives below describe the components of Net Assets found on the Authority's Statement of Net Assets.

Restricted for Debt Service – This amount represents funds required by bond covenants to be held by the Authority's third party trustee for future debt service payments.

Restricted for Capital Projects – This amount represents the unexpended portion of debt which was issued to finance capital improvement projects.

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The Authority has adopted the provisions of *GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions*. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification. The fund financial statements may consist of Nonspendable, Restricted, Committed, Assigned and Unassigned amounts as described below. Due to the nature of these financial statements, the bond documents and covenants for each bond issuance govern the use and restriction of available funds. Therefore these funds will never have committed or assigned balances.

Nonspendable Items that cannot be spent because they are not in spendable form, such as prepaid items, items that are legally or contractually required to be maintained intact, such as debt service reserve funds with fiscal agents or revolving loan fund.

Restricted Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. As of June 30, 2012, the Authority did not have any committed fund balances.

Assigned Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. As of June 30, 2012, the Authority did not have any assigned fund balances.

Unassigned This category is for any balances that have no restrictions placed upon them. As of June 30, 2012, the Authority did not have any unassigned fund balances.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2012

6. SUBSEQUENT EVENT

Management has evaluated subsequent events through July 19, 2013 and except as described below, no other events requiring recognition in, or disclosure of, within the financial statements were identified.

Issuance of Additional Debt

On September 6, 2012, the Turlock Public Financing Authority issued \$51,915,000 in Sewer Revenue Bonds, Series 2012. The proceeds of these Bonds, secured by revenue from the City's Wastewater Treatment operations as defined in the bond documents, are being used to refund the Authority's outstanding 1999 and 2003A Sewer Revenue Bonds. The 1999 Sewer Revenue Bonds will be refunded in their entirety on September 15, 2012, their next payment date. Funds to refund the 2003A Sewer Revenue Bonds will be placed in escrow upon the closing of the 2012 Bond issuance and then the 2003A Bonds will be refunded on September 15, 2013. No new project monies were included in this bond issuance. The 2012 Bonds carry coupons ranging from 2.00% - 5.00% and mature in September 2033.



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

To the Board of Directors of the
City of Turlock Public Financing Authority
Turlock, California

We have audited the basic financial statements of the City of Turlock Public Financing Authority (Authority), a component unit of the City of Turlock, California (City), as of and for the year ended June 30, 2012, as listed in the table of contents and have issued our report thereon dated July 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

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



To the Board of Directors of the
City of Turlock Public Financing Authority
Turlock, California
Page 2

Compliance and Other Matters

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

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

Marcum LLP

San Francisco, California
July 19, 2013



CITY OF TURLOCK

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

City of Turlock
Single Audit Report
For the year ended June 30, 2012

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

To the Honorable Mayor and Members of the City Council
of the City of Turlock
Turlock, California

We have audited the financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Turlock (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item FS2012-01 to be material weakness.



To the Honorable Mayor and Members of the City Council
of the City of Turlock
Turlock, California
Page 2

Compliance and Other Matters

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

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

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

Marcum LLP

San Francisco, California
July 19, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of the City Council
of the City of Turlock
Turlock, California

Compliance

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

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item SA2012-01.

Internal Control over Compliance

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

To the Honorable Mayor and Members of the City Council
of the City of Turlock
Turlock, California
Page 2

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA2012-01 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated July 19, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

Marcum LLP

San Francisco, California
July 19, 2013

City of Turlock
Single Audit Report
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct Programs:</i>			
Community Development Block Grant (CDBG) Program	14.228	B-09-MC-06-0039	\$ 329,259
Community Development Block Grant (CDBG) Program	14.228	B-10-MC-06-0039	466,725
Program Income - CDBG	14.228	N/A	<u>128,724</u>
<i>Cluster total</i>			924,708
HOME Investment Partnerships (HOME) Program	14.239	M-10-DC-06-0240	982,342
Program Income - HOME	14.239	N/A	<u>13,400</u>
<i>Cluster total</i>			995,742
CDBG ARRA Entitlement Grants (CDBG-R)	14.253	B-09-MY-06-0039	59,279
<i>Passed through the California Department of Housing and Community Development:</i>			
Neighborhood Stabilization Program (NSP)	14.264	09-NSP1-6268	477,906
<i>Passed through CSU Fresno Foundation:</i>			
Smart Valley Places Grant	14.703	SC360080-11-05	<u>88,475</u>
Total U.S. Department of Housing and Urban Development			<u><u>2,546,110</u></u>
U. S. Department of Justice			
<i>Direct Programs</i>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2009-DJ-BX-0632	10,392
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2010-DJ-BX-1232	14,046
Edward Byrne Memorial Justice Assistance Grant (JAG) Program - ARRA	16.804	2009-SB-B9-0171	<u>54,332</u>
<i>Cluster total</i>			78,770
Community Oriented Policing Services (COPS) Program - ARRA	16.710	2009-RK-WX-0167	<u>391,325</u>
Total U. S. Department of Justice			<u><u>470,095</u></u>
U. S. Department of Transportation			
<i>Direct Programs:</i>			
Federal Transit Formula Grants	20.507	69080138	460,839
Federal Transit Formula Grants - ARRA	20.507	N/A	<u>1,605,663</u>
<i>Cluster total</i>			2,066,502
<i>Passed through the California Department of Transportation:</i>			
Congestion Mitigation And Air Quality Improvement Program (CMAQ)	20.205	CML-5165(025,029 - 031)	56,709
Surface Transportation Program (STP)	20.205	N/A	<u>1,206,852</u>
<i>Cluster total</i>			1,263,561
Sustained Traffic Enforcement Program (STEP)	20.605	PT0823	72,283
Sustained Traffic Enforcement Program (STEP) began Sept 2011	20.605	20617	37,210
AVOID Anti-DUI Program	20.605	AL0967	69,926
AVOID Anti-DUI Program began Sept 2011	20.605	20793	<u>34,570</u>
<i>Cluster total</i>			<u>213,989</u>
Total U. S. Department of Transportation			<u><u>3,544,052</u></u>
U. S. Department of Energy			
<i>Direct Programs</i>			
Energy Efficiency and Conservation Block Grant - ARRA	81.128	DE-SC0002257	<u>167,152</u>
Total U. S. Department of Energy			<u><u>167,152</u></u>
U. S. Department of Homeland Security			
<i>Direct Programs</i>			
Assistance to Firefighters Grant	97.044	EMW-2010-FH-00358	<u>271,355</u>
Total U. S. Department of Homeland Security			<u><u>271,355</u></u>
Total Federal Awards Expenditures			<u><u>\$ 6,998,764</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Turlock
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012

1. REPORTING ENTITY

The City was incorporated in 1908. The City operates under a Council-Manager form of government and provides the following services: police and fire, streets and highways, sanitation, water, sewer, parks and recreation, public improvements, planning and zoning, and general administrative services. The financial reporting entity consists of the City, the primary government, and its component unit. The component unit listed below is included in the reporting entity because of its operational or financial relationships with the City.

- Turlock Public Financing Authority

A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial statements for the above component unit can be obtained from the City of Turlock, 156 South Broadway, Suite 110, Turlock, CA 95380.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting*

Funds received under the various grant programs have been recorded within the General, Special Revenue, Capital Projects, and Enterprise funds of the City. The City utilizes the modified accrual method of accounting for the General, Special Revenue, and Capital Projects funds, and utilizes the full accrual method of accounting for the Enterprise funds. Expenditures of Federal awards reported on the Schedule of Expenditures of Federal Awards (Schedule) are recognized when the related liability for the goods or services is incurred.

B. *Schedule of Expenditures of Federal Awards*

The accompanying Schedule presents the activity of all Federal financial assistance programs of the City. Federal financial assistance received directly from Federal agencies, as well as Federal financial assistance passed through the State of California, Stanislaus County, and the University of California, Berkeley, is included in the Schedule. The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs
For the year ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Types of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal awards programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified not considered to be material weakness? Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes X No

Identification of major programs:

Major Program	Federal CFDA Number	Federal Expenditures
Community Oriented Policing Services (COPS) Program - ARRA	16.710	\$ 391,325
Federal Transit Formula Grant (ARRA)	20.507	2,066,502
Highway Planning and Construction Cluster (ARRA)	20.205	1,263,561
Energy Efficiency and Conservation Block Grant	81.128	167,152
Total Major Program Expenditures		<u>\$ 3,888,540</u>
Total Federal Expenditures		<u>\$ 6,998,764</u>
Percent of Total Federal Award Expenditures		<u>56%</u>

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133? No

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2012

Section II - Financial Statement Findings

Finding FS2012-01 - Internal Control over Financial Closing and Reporting

Criteria or Specific Requirement

An effective internal control system over financial closing and reporting provides reasonable assurance for both reliable financial information and timely financial closing and reporting.

Condition

The City did not timely complete reporting on its basic financial statements and federal single audit due to its inability to assemble information for, and get processed, its Other Post Employment Benefit (OPEB) valuation. The June 30, 2012 basic financial statements and federal single audit were issued on July 19, 2013, thirteen months after year-end closing.

Cause

The City has eight (8) OPEB plans with its various bargaining units. Four of the plans account for the amounts the City contributes pursuant to its Memoranda of Understanding and/or Schedule of Benefits with the various bargaining units to fund the cost of post-employment healthcare regardless of the health insurance plan in which the retiree chooses to participate.

Two of these plans are administered by the bargaining unit for whom the Plan was established and not by the City. The only legal obligation the City has to these plans is to make the required contributions. The City does not guarantee any post-employment benefit level nor does it have any legal responsibility for any deficit between the assets in the Plan(s) and the cost of the benefits as determined by the bargaining unit trustees. These Plans were determined to be OPEB plans under GASB 45 solely because the contributions are pooled and not deposited into individual employee/retiree accounts. It is due to the difference between the legal and accounting obligations that the Plan Trustees asserted that these are not OPEB reportable plans. It took several months before the Plan Trustees and their legal counsel concluded that although there was a disparity between the legal and accounting obligations, these Plans were in fact OPEB reportable plans under GASB 45 and only then would provide the information necessary to complete the actuarial studies. As soon as the required information was obtained, the City's actuary expediently completed the valuations

The other four plans account for the cost of retiree participation in the City's self-insurance health plan. The completion of the actuarial valuations for two of these plans was also delayed for the same reasons as described above.

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2012

Questioned Costs

No questioned costs were identified.

Context and Effect

The delay in completing the OPEB Plans' actuarial evaluation prevented the timely completion of the City's basic financial statements as well as its single audit.

Recommendation

We recommend the City review its financial reporting process to ensure all information is obtained and available for accurate and timely financial closing and reporting.

Views of Responsible Officials and Planned Corrective Actions

The City does not agree with the auditor's assertion that our financial reporting process is deficient. Absent the situation described above, over which the City is able to exercise little control, the financial statements and federal single audit reporting would have been completed on a timely basis. City Staff are hopeful that through the discussion we had this year with the impacted bargaining units, the issue of the applicability of GASB 45 reporting has been put to rest that the issue will not re-occur in the future.

The person responsible for the corrective action is Marie Lorenzi, Senior Accountant, who can be contacted at (209) 668-5542 Ext. 1318.

Section III- Federal Awards Findings

A. Current Year Findings and Questioned Costs - Federal Award Programs

Finding SA2012-01 - Report Submission

Criteria or Specific Requirement

OMB Circular A-133, Subpart C, §___.320 requires that the data collection form and reporting package shall be submitted to the Federal Single Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition

The City did not submit the Single Audit report and data collection form within nine months of its fiscal year end.

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2012

Cause

There was a significant delay in financial reporting (see finding FS2012-01). The annual required audit was not completed until July 19, 2013.

Questioned Costs

No questioned costs were noted for noncompliance of late report filing.

Context and Effect

The City's Single Audit report was not issued within nine months of its fiscal year end and did not meet the established filing requirements under *OMB Circular A-133*. The City cannot be considered a low-risk entity for Federal Single Audit purposes for fiscal year 2013 and 2014.

Recommendation:

We recommend the City review its financial reporting process to ensure all information is obtained and available for accurate and timely financial closing and reporting; such that the Single Audit report and data collection form can be filed timely in compliance with *OMB Circular A-133*.

Views of Responsible Offices and Planned Corrective Actions

The City does not agree with the auditor's assertion that our financial reporting process is deficient. Absent the situation described as the cause of Finding FS2012-01, over which the City is able to exercise little control, the financial statements and federal single audit reporting would have been completed on a timely basis. City Staff are hopeful that through the discussion we had this year with the impacted bargaining units, the issue of the applicability of GASB 45 reporting has been put to rest and that single audit reporting will be more timely in the future.

The person responsible for the corrective action is Marie Lorenzi, Senior Accountant, who can be contacted at (209) 668-5542 Ext. 1318.

B. Prior Year Findings and Questioned Costs - Federal Award Programs

No findings or questioned costs were reported for federal award programs for the year ended June 30, 2011.



**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
For the year ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California

We have audited the accompanying financial statements of the Streets Special Revenue Fund and the Transportation Enterprise Fund (collectively the Transportation Development Act Article III Funds or TDA Program Funds) of the City of Turlock, California (City), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TDA Program Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of the TDA Program Funds are intended to present the financial position, and changes in financial position of only that portion of the City of Turlock, California that is attributable to the TDA Program Funds. They do not purport to, and do not present fairly the financial position of the City as of June 30, 2012, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TDA Program Funds as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the Streets Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013 on our consideration of the TDA Program Funds' 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* and should be considered in assessing the results of our audit.

Management has elected to omit the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this omitted information.

Marcum LLP

San Francisco, California
June 17, 2013

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Balance Sheet
Governmental Fund - Streets Special Revenue Fund
June 30, 2012

		Special Revenue Fund <u>Streets</u>
<u>Assets</u>		
Cash and investments		\$ 83,124
Total Assets		<u>\$ 83,124</u>
<u>Liabilities and Fund Balance</u>		
Liabilities		
Accounts and salaries payable		<u>\$ 27,540</u>
Total Liabilities		<u>27,540</u>
Fund Balance:		
Restricted for:		
Street maintenance and capital expenditures		<u>55,584</u>
Total Fund Balance		<u>55,584</u>
Total Liabilities and Fund Balance		<u>\$ 83,124</u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund - Streets Special Revenue Fund
For the Fiscal Year Ended June 30, 2012

Revenues	
Intergovernmental revenues	\$ 649,444
Interest income and other revenues	19,149
	<u> </u>
Total Revenues	<u>668,593</u>
Expenditures	
Public ways and facilities/transportation	509,043
Capital outlay	44,096
	<u> </u>
Total Expenditures	<u>553,139</u>
Excess (Deficit) of Revenues over Expenditures	<u>115,454</u>
Other Financing Sources (Uses)	
Transfers in from other City funds	4,666
Transfers out to other City funds	(486,558)
	<u> </u>
Total Other Financing Sources (Uses)	<u>(481,892)</u>
Net Change in Fund Balance	(366,438)
Fund Balance, July 1, 2011	<u>422,022</u>
Fund Balance, June 30, 2012	<u><u>\$ 55,584</u></u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Revenues, Expenditures, and Changes in Fund
Balance - Budget and Actual
Governmental Fund - Streets Special Revenue Fund
For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental revenues	\$ 35,000	\$ 35,000	\$ 649,444	\$ 614,444
Interest income and other revenues			19,149	19,149
Total Revenues	35,000	35,000	668,593	633,593
Expenditures				
Public ways and facilities/transportation	700,550	702,216	509,043	193,173
Capital outlay	100,000	100,000	44,096	55,904
Total Expenditures	800,550	802,216	553,139	249,077
Excess (Deficit) of Revenues over Expenditure	(765,550)	(767,216)	115,454	882,670
Other Financing Sources (Uses)				
Transfers in from other City funds	3,000	4,666	4,666	-
Transfers out to other City funds	(113,779)	(113,779)	(486,558)	(372,779)
Total Other Financing Sources (Uses)	(110,779)	(109,113)	(481,892)	(372,779)
Net Change in Fund Balance	\$ (876,329)	\$ (876,329)	(366,438)	\$ 509,891
Fund Balance, July 1, 2011			422,022	
Fund Balance, June 30, 2012			\$ 55,584	

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Net Assets
Proprietary Fund - Transportation Enterprise Fund
June 30, 2012

	<u>Enterprise Fund Transportation</u>
<u>Assets</u>	
Current assets:	
Cash and investments	\$ 3,607,710
Accounts receivable	648,097
Interest receivable	2,724
Total current assets	<u>4,258,531</u>
Capital assets - net	<u>7,605,159</u>
 Total Assets	 <u>11,863,690</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	231,474
Salaries payable	3,451
Deferred revenue	2,042,562
Compensated absences - due in one year	4,205
Total current liabilities	<u>2,281,692</u>
Compensated absences - due in more than one year	16,820
Net OPEB obligation	17,495
Total Liabilities	<u>2,316,007</u>
Net Assets:	
Invested in capital assets, net of related debt	7,605,159
Restricted for transportation activities	<u>1,942,524</u>
 Total Net Assets	 <u>\$ 9,547,683</u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund - Transportation Enterprise Fund
For the Fiscal Year Ended June 30, 2012

Operating Revenues	
Charges for services	\$ 145,827
Other income	3,453
	<u> </u>
Total Operating Revenues	<u>149,280</u>
Operating Expenses	
Salaries, benefits and insurance	134,470
Contractual	729,754
Supplies and maintenance	25,433
Utilities	13,081
Fleet expense	153,606
Depreciation	296,909
Other expenses	23,526
	<u> </u>
Total Operating Expenses	<u>1,376,779</u>
Operating Loss	<u>(1,227,499)</u>
Non-Operating Revenues (Expenses)	
Intergovernmental revenues	3,456,156
Interest income	10,647
	<u> </u>
Total Non-Operating Revenues	<u>3,466,803</u>
Income Before Operating Transfers	2,239,304
Transfers Out	<u>(7,071)</u>
Net Income	2,232,233
Net Assets, July 1, 2011	<u>7,315,450</u>
Net Assets, June 30, 2012	<u><u>\$ 9,547,683</u></u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Cash Flows
Proprietary Fund - Transportation Enterprise Fund
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,503,530
Cash paid to suppliers	(796,860)
Cash paid to employees	(126,845)
Net cash provided (used) by operating activities	<u>579,825</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(1,614,251)
Net cash (used) by capital and related financing activities	<u>(1,614,251)</u>

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers out	(7,071)
Intergovernmental revenues	4,188,428
Net cash provided (used) by capital and related financing activities	<u>4,181,357</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	8,929
Net cash provided by investing activities	<u>8,929</u>

Net increase in cash and cash equivalents 3,155,860

CASH AND CASH EQUIVALENTS:

Beginning of year	451,850
End of year	<u>\$ 3,607,710</u>

RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating (loss)	\$ (1,227,499)
Noncash items included in operating (loss)	
Depreciation and amortization	296,909
Changes in assets and liabilities	
Accounts receivable	1,354,250
Accounts payable	148,540
Salaries payable	50
Compensated absences	2,464
Net OPEB obligation	5,111
Net cash provided (used) by operating activities	<u>\$ 579,825</u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements
For fiscal year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Turlock Transportation Development Act have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. The Reporting Entity

The financial statements are intended to present the financial position, results of operations, and cash flows of only those transactions that are accounted for in the Transportation Enterprise Fund and the Streets Special Revenue Fund of the City of Turlock (City). They are not intended to present the City's financial position or results of operations as a whole.

B. Fund Accounting

The City uses funds and account groups to report on its financial position, results of operations, and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available resources. Funds are classified into two categories: governmental and proprietary. Each category, in turn, is divided into separate "fund types."

C. Basis of Presentation, Basis of Accounting, and Measurement Focus

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements.

Governmental Fund Type

Governmental funds are accounted for using the modified accrual basis of accounting and "*current financial resources*" measurement focus. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized in the accounting period in which they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City's accrual period is generally 90 days after fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

A Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specific purposes. The Streets Special Revenue Fund is used to account for the City's share of the Transportation Development Act (TDA) allocations that are legally restricted for street maintenance and capital improvements. In addition, this fund accounts for the Proposition 42 and Proposition 1B funds whose use is generally restricted to pavement maintenance, rehabilitation and/or reconstruction.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation, Basis of Accounting, and Measurement Focus (continued)

Proprietary Fund Type

Proprietary funds are accounted for using the accrual basis of accounting and the “*economic resources*” measurement focus. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period in which they are incurred. Proprietary funds are used to account for activities that are similar to those found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The following is the City's proprietary fund type:

The Transportation Enterprise Fund is used to account for the operation and management of the City's transit operations. TDA and Federal Transit Administration (FTA) allocations for transit operations are accounted for in this fund along with Proposition 1B funds designated for transit programs.

Capital Assets

Capital assets acquired by the Streets Fund are recorded as expenditures in the special revenue fund and capitalized at cost and recorded as part of the City's *Statement of Net Assets* in the government-wide financial statements. The costs of infrastructure (roads, curbs, gutters, streets, bridges, sidewalks, drainage systems, right-of-ways, and land related to such assets) are recorded as expenditures in the special revenue fund and are also capitalized and recorded in the City's *Statement of Net Assets* in the government-wide financial statements. These infrastructure assets become the property of the City and are maintained by the City.

Capital assets acquired by the Transportation Fund are recorded at cost in the Transportation Fund and are depreciated using the straight-line method over estimated useful lives. Operating expenses include depreciation on all depreciable fixed assets. Repairs and maintenance are charged to expense when the services are rendered.

D. Cash, Cash Equivalents, and Investments

The City pools cash reserves from all funds in order to facilitate cash management. The cash balances that are a part of the TDA statements participate in the City-wide pool. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risk are made in the following areas:

- ✓ Interest Rate Risk
- ✓ Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash, Cash Equivalents, and Investments (continued)

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as “Cash and Investments” in the accompanying Basic Financial Statements.

For purposes of the Statement of Cash Flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of funds held by fiscal agents) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

E. Receivables

All receivables are shown net of an allowance for doubtful accounts. Amounts receivable relate to either grant revenues due on a reimbursement basis for expenditures incurred prior to year end or to transit funds earned prior to June 30 but received during the entity’s 90 day accrual period following year end.

F. Deferred Revenue

Deferred revenue is recorded for revenue which has been received, but for which related expenditures have not yet been incurred. Typical transactions for which deferred revenue is recorded are the receipt of TDA revenue in excess of amounts need to fund current year operating or capital expenditures.

G. Use of Estimates

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

H. Proprietary Fund Accounting

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

2. CASH AND INVESTMENTS

The City maintains an internal cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. The cash balances associated with the TDA activities, totally \$3,690,834 at June 30, 2012, participate in the pool. The following information pertains to the City's cash and investment activity.

Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled and are reported as cash and investments with fiscal agents.

Investment income earned on pooled cash and investments (including realized and unrealized gains and losses) is allocated quarterly to the various funds based on average quarterly cash balances. Investment income from cash and investments with fiscal agents is credited directly to the related funds.

A. Authorized Investments

The City's Investment Policy is adopted by the City Council in accordance with California Government Code (Code) Section 53601 and has as its objectives the following (in order of priority):

- ✓ **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Turlock shall be undertaken in a manner that seeks to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- ✓ **Liquidity:** The City of Turlock's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- ✓ **Return on Investment:** The City of Turlock's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

Under provisions of the City's Investment Policy, the City may invest in the following types of investments:

- ✓ U.S. Treasury notes, bonds, and/or bills;
- ✓ U.S. Government Federal Agency Securities;
- ✓ Certificate of Deposits;
- ✓ Bankers Acceptances, investment in any one commercial bank is limited to no more than 30% of the total investment in BA's and the maximum maturity for any security at acquisition is 180 days;
- ✓ Commercial Paper, investment in any single issuer is limited to no more than 10% of total investment in Commercial Paper and the maximum maturity for any security at acquisition is 270 days;
- ✓ State of California Local Agency Investment Fund (LAIF);
- ✓ Money Market and Mutual Funds; and
- ✓ Corporate Notes, AAA rated.

Unless otherwise noted, the above investments are authorized within the limitations delineated in Code Sections 53600 et seq. A five-year maximum maturity (at acquisition) for each investment is allowed unless a longer term approved in advance by the City Council.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

2. CASH AND INVESTMENTS (continued)

B. Cash Deposits

At June 30, 2012 the carrying amount of the City's time and demand deposits was \$30,295,001. The difference between the bank balance of \$31,864,019 and the carrying amount resulted from outstanding checks and deposits in transit. Of the time deposits and demand deposits, \$100,000 was covered by federal depository insurance with the balance being collateralized with securities held by the counter party or its agent in accordance with Section 53652 of the Code. FDIC coverage is unlimited for noninterest bearing accounts through December 2012. The Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's total deposits, or by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

C. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. Maturities as a percentage of the total fair value of the investment portfolio are noted in the table above. The average life of the portfolio is 213 days.

Credit Risk - It is the City's policy that federal agency securities must have the highest rating issued by the nationally recognized statistical rating organizations. The Local Agency Investment Fund (LAIF), administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments.

At June 30, 2012 the City's credit risks, expressed on a percentage basis were as follows:

	<u>S&P Credit Rating</u>	<u>% of Investments</u>
US Federal Agency Securities	AAA	8.02%
CA Local Agency Investment Fund	not rated	53.54%
Certificates of deposit	not rated	18.73%
Corporate Notes	AA+	1.76%
Money Market account	not rated	17.95%
Total		<u>100.00%</u>

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. U.S. Federal Agency Securities are held by a third-party custodian (Wells Fargo Bank). Wells Fargo Bank is a registered member of the Federal Reserve Bank. The securities held by Wells Fargo are in street name and a customer number is assigned to the City identifying ownership. The investments in certificates of deposit and LAIF are held by the issuing agency in the City's name.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the City's investments be carried at fair market value instead of cost. Accordingly, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. The change in value of the City's investments from June 30, 2011 to June 30, 2012 amounted to an unrealized loss of \$47,450.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

2. CASH AND INVESTMENTS (continued)

D. External Investment Pool

The City invests in the California Local Agency Investment Fund (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 on amortized cost or best estimate for those securities where market value is not readily available.

The City's investment with LAIF at June 30, 2012 includes a portion of pool funds invested in structured notes and asset-backed securities. These investments may include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises such as the Federal National Mortgage Association and the Federal Home Loan Bank System or an international agency such as the World Bank.

Asset-Backed Securities entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest payments from a pool of mortgages (e.g., CMOs) or small business loans or credit card receivables (such as ABCP).

As of June 30, 2012, the City had \$60,079,825 invested in LAIF, which had invested 2.75% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001219643 was used to calculate the fair value of investments in LAIF as of June 30, 2012.

3. CAPITAL ASSETS

Capital assets of the Transportation Enterprise Fund at June 30, 2012 consist of the following:

	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Non-depreciable Assets:					
Construction in process	\$ 2,075,056	\$ 1,613,681	\$ (1,930)		\$ 3,686,807
Total non-depreciable assets	<u>2,075,056</u>	<u>1,613,681</u>	<u>(1,930)</u>	-	<u>3,686,807</u>
Depreciable Assets:					
Buildings & improvements	1,915,344				1,915,344
Buses & equipment	3,216,204	2,500			3,218,704
Total asset cost	<u>5,131,548</u>	<u>2,500</u>	-	-	<u>5,134,048</u>
Less: Accumulated depreciation					
Buildings & improvements	(46,200)	(63,845)		(133,472)	(243,517)
Buses & equipment	(872,587)	(233,064)		133,472	(972,179)
Total accumulated depreciation	<u>(918,787)</u>	<u>(296,909)</u>	-	-	<u>(1,215,696)</u>
Total depreciable assets	<u>4,212,761</u>	<u>(294,409)</u>	-	-	<u>3,918,352</u>
Net capital assets	<u>\$ 6,287,817</u>	<u>\$ 1,319,272</u>	<u>\$ (1,930)</u>	<u>\$ -</u>	<u>\$ 7,605,159</u>

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

4. NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of assets over liabilities, regardless of fund. Net Assets are found in the Proprietary Fund statements for the (TDA). The following describes the components of Net Assets for the TDA report.

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted for Transportation Activities – This amount represents funds received whose expenditure is legally or contractually required to be for transportation purposes.

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City has adopted the provisions of *GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions*. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The fund financial statements may consist of Nonspendable, Restricted, Committed, Assigned and Unassigned amounts as described below. The use of the funds accounted for in these Statements is restricted by law; therefore these funds will never have committed or assigned balances.

B. Fund Balances (continued)

Nonspendable Items that cannot be spent because they are not in spendable form, such as prepaid items, items that are legally or contractually required to be maintained intact, such as debt service reserve funds with fiscal agents or revolving loan fund.

Restricted Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner.

Assigned Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose.

Unassigned This category is for any fund balances that do not fit in the above categories.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

5. TRANSPORTATION DEVELOPMENT ACT (TDA)

The State of California established the TDA to provide funds for public transportation. The funds are administered by the Stanislaus Council of Governments (StanCOG). TDA created a Local Transportation Fund (LTF) in each county for the transportation purposes specified in the Transportation Development Act Statutes and Administrative Code. Revenues of the LTF are derived from a 1/4 of one percent sales tax rate levied in each county.

**6. PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE
ENHANCEMENT ACCOUNT**

In November 2006, California Voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by the statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation or replacement.

Since fiscal year 2007-08, the City has received funding for the following projects: (1) the construction of a Compressed Natural Gas (CNG) fueling station; (2) the purchase of a new CNG bus for the City's fixed route transit system; (3) the purchase of bus LED designation signs and brochure holders; and (4) the acquisition of property for the development of a transit transfer hub. The schedule on the following page delineates the funds received and the expenditure of these funds along with the interest earned on the unexpended funds.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

**6. PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE
ENHANCEMENT ACCOUNT, Continued**

PTMISEA funds received in June 2008	\$ 823,965
Expenditures incurred during 2007-08:	
Design and engineering for CNG fueling station	(30,337)
Unexpended proceeds at June 30, 2008	<u>\$ 793,628</u>
Interest earned during 2008-09	16,674
Expenditures incurred during 2008-09:	
Design and engineering for CNG fueling station along with initial payment for fueling station equipment	(45,728)
Preliminary engineering for purchase of CNG bus	(2,431)
Acquisition and installation of LED designation signs and brochure holders	(13,138)
Unexpended proceeds at June 30, 2009	<u>\$ 749,005</u>
Revenue received during 2009-10:	
PTMISEA funds received in June 2010	442,194
Interest	3,674
Expenditures incurred during 2009-10:	
Construction and installation of fueling station equipment	(119,046)
Design and specifications for purchase of a CNG bus	(30,051)
Unexpended proceeds at June 30, 2010	<u>\$ 1,045,776</u>
Revenue received during 2010-11:	
PTMISEA funds received in March 2011	411,038
Interest	2,399
Expenditures incurred during 2010-11:	
Construction and installation of fueling station equipment	(84,743)
Purchase of a CNG bus	(474,852)
Design and property purchase for a transit transfer hub	(403,398)
Unexpended proceeds at June 30, 2011	<u>\$ 496,220</u>
Revenue received during 2011-12:	
PTMISEA funds received in October 2011	920,082
Interest	2,956
Expenditures incurred during 2011-12:	
Design and property purchase for a transit transfer hub	(38,279)
Planning and design for second phase of transit transfer hub	(8,018)
Unexpended proceeds at June 30, 2012	<u>\$ 1,372,961</u>

7. CONTINGENT LIABILITIES

The City receives Federal Transit Administration (FTA) monies for the purchase of buses, construction of related maintenance facilities, and for partial funding of its transit operations. State and federal grants received by the City for specific purposes are subject to review and audit by the grantor agencies. Such audits could lead to request for reimbursement for expenditures disallowed under the terms of the grants. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2012

8. RISK MANAGEMENT

The funds are exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets, and natural disaster. The funds participate in the Central San Joaquin Valley Risk Management Authority (CSJVRMA), as a part of the City. The purpose of CSJVRMA is to spread the adverse effect of losses among the members and to purchase excess insurance as a group, thereby reducing its expense. The funds, through cost allocation from the City, contribute their pro rata share of anticipated losses to pools administered by CSJVRMA.

9. OTHER EMPLOYEE BENEFITS

Personnel costs accounted for under TDA and FTA funding include costs associated with the City's compensated absences and retiree healthcare benefit plans. The costs attributed to TDA and FTA funding are part of the City-wide plans and are allocated to TDA and FTA funds in the same manner as they are allocated to other City funds which have personnel expenditures. More information regarding these plans can be found in the financial statements for the City of Turlock.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 17, 2013, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

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

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California

We have audited the accompanying financial statements of the Streets Special Revenue Fund and the Transportation Enterprise Fund (collectively the Transportation Development Act Article III Funds or TDA Program Funds) of the City of Turlock, California (City) as of and for the year ended June 30, 2012, and have issued our report thereon dated June 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered TDA Program Funds' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TDA Program Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TDA Program Funds' internal control over financial reporting.

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

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

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California
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Compliance and Other Matters

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

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

Marcum LLP

San Francisco, California
June 17, 2013



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON TDA PROGRAM FUNDS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH SECTION 6666 AND 6667 OF THE RULES AND REGULATIONS OF THE CALIFORNIA ADMINISTRATIVE CODE IN THE TRANSPORTATION DEVELOPMENT ACT STATUTES AND ADMINISTRATIVE CODE FOR 1987 AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE STANISLAUS COUNCIL OF GOVERNMENTS

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California

Compliance

We have audited the compliance of the City of Turlock, California's (City) Streets Special Revenue Fund and the Transportation Enterprise Fund (collectively the Transportation Development Act Article III Funds or TDA Program Funds) with the types of compliance requirements described in Section 6666 and 6667 of the *Rules and Regulations of the California Administrative Code in the Transportation Development Act Statutes and Administrative Code for 1987* (the Act) and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG) for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the TDA Program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; Section 6666 and 6667 of the *Rules and Regulations of the California Administrative Code in the Transportation Development Act Statutes and Administrative Code for 1987* (the Act) and the allocation instructions and resolutions of the Stanislaus Council of Governments. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the TDA Program Funds. An audit includes examining, on a test basis, evidence about the TDA Program Funds' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the TDA Program Funds' compliance with those requirements.

In our opinion the TDA Program Funds allocated to and received by the City pursuant to the Act were expended in conformance with the applicable statutes, rules and regulations of the Act and the allocation instructions and resolutions of the Stanislaus Council of Governments for the year ended June 30, 2012.

Also as part of our audit, we performed test of compliance to determine whether certain state funds were received and expended in accordance with the applicable bond act and state accounting requirement.



To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California
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In November 2006, California Voters passed a bond measure enacting the Highway Safety, Traffic reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by the statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation or replacement.

During the 2007-08 fiscal year the City received \$823,965 from the State’s PTMISEA account for (1) the construction of a Compressed Natural Gas (CNG) fueling station, (2) the purchase of a new CNG bus for the City’s fixed route transit system, and (3) the purchase of bus LED designation signs and brochure holders. At June 30, 2009, \$749,005 was unspent. In 2009-10 the City received an additional \$442,194 in funding identified for use in the acquisition of property for the development of a transit transfer hub. At June 30, 2010, \$1,045,776 was unspent. In 2010-11 the City received an additional \$411,038 in funding. At June 30, 2011, \$496,220 was unspent. In 2011-12 the City received an additional \$920,082 in funding. The following delineates the expenditure of these funds along with the interest earned on the unexpended funds.

Unexpended proceeds at June 30, 2011	\$ 496,220
Revenue received during 2011-12:	
PTMISEA funds received in October 2011	920,082
Interest	2,956
Expenditures incurred:	
Design and property purchase for a transit transfer hub	(38,279)
Planning and design for second phase of a transit transfer hub	(8,018)
	<hr/>
Unexpended proceeds at June 30, 2012	<u>\$ 1,372,961</u>

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City’s internal control over compliance that could have a direct and material effect on the TDA Program Funds to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the standards referred to in the first paragraph of this report, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

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

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

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

Marcum LLP

San Francisco, California
June 17, 2013

