



FINANCIAL REPORTS

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010:

City of Turlock
Basic Financial Statements

Redevelopment Agency of the City of Turlock
Component Unit 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, 2010

City of Turlock
For the year ended June 30, 2010
Table of Contents

	<u>Page</u>
Independent Auditors' Report	
Management's Discussion and Analysis	1
Basic Financial Statements	
Government-Wide Financial Statements	12
✓ Statement of Net Assets	
✓ Statement of Activities and Changes in Net Assets	
Fund Financial Statements	
Governmental Fund Financial Statements.....	16
✓ Balance Sheet	
✓ Reconciliation of the Governmental Funds Balance Sheet to the Governmental-Wide Statement of Net Assets	
✓ Statement of Revenue, Expenditures and Changes in Fund Balances	
✓ Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Governmental-Wide Statement of Activities and Changes in Net Assets	
Proprietary Fund Financial Statements.....	21
✓ Statement of Net Assets	
✓ Combining Statement of Revenues, Expenses and Changes in Net Assets	
✓ Statement of Cash Flows	
Fiduciary Fund Financial Statements.....	26
Statement of Fiduciary Net Assets	
Notes to Basic Financial Statements	28
Required Supplementary Information	62
Supplemental Information	
Non-Major Governmental Funds.....	68
✓ Combining Balance Sheet	
✓ Combining Statement of Revenues, Expenditures and Changes in Fund Balances	
Non-Major Proprietary Funds.....	79
Internal Service Funds.....	84
Fiduciary Funds.....	88

This page intentionally left blank.

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, 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 May 19, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The Management's Discussion and Analysis and the Required Supplementary Information as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
May 19, 2011

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 2009-10 financial statements (with comparative information for 2008-09). We encourage our readers to consider this information in conjunction with the information provided in the accompanying basic financial statements and notes thereto.

FISCAL YEAR 2009-10 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The City's net assets (assets in excess of liabilities) at June 30, 2010, totaled \$456 million. Governmental activities accounted for \$279 million of these net assets, while \$177 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$78.8 million; while total expenses were \$81.5 million.
- Governmental program revenues were \$21 million compared to governmental program expenses of \$55 million.
- Program revenues from business-type activities were \$29 million, while expenses for business-type activities were \$26 million.

Fund Highlights

- Net General Fund revenues exceeded expenditures by \$6.9 million as compared to the prior year when expenditures exceeded revenues by \$5.0 million. For financial reporting purposes, the "General Fund" includes not only the City's General Fund, but also the Arts Commission, Special Public Safety, Tourism (2 funds) and Parking Citations funds.
- General Fund fund balance of \$19 million at the June 30, 2010 compared to a projected \$14.1 million when the 2009-10 budget was originally adopted. The increase in fund balance is primarily due to one-time transfers in from the City's self-funded insurance programs. During 2009-10 City management reviewed the fund balances for the self-funded insurance programs and determined that the balances were in excess of the reserves necessary based on the most recent claims history. Approximately \$7.6 million dollars was transferred from the self-insurance funds back to the operating funds. Of this amount, \$5.3 million was transferred to the General Fund.

Additional discussion regarding the financial results for fiscal year 2009-10 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.

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*.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2010**

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.

- **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.

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 twenty-nine governmental funds of which four are considered major funds for presentation purposes. Each major fund is presented separately in the Governmental Fund Balance Sheet

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2010

and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. The City's four major funds are – the General, Housing Set-Aside, Redevelopment and Facility Fee funds. The financial information for the remaining twenty-five non-major governmental funds is combined into a single, aggregated presentation. The basic governmental fund financial statements can be found starting on page 17 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.

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 28.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2010

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	
	2010	2009	2010	2009	2010	2009
Cash and investments	\$ 94,423	\$ 104,045	\$ 80,334	\$ 78,016	\$ 174,757	\$ 182,061
Other assets	27,487	26,025	4,628	3,089	32,115	29,114
Capital assets, net	201,192	201,897	190,400	192,041	391,592	393,938
Total assets	<u>323,102</u>	<u>331,967</u>	<u>275,362</u>	<u>273,146</u>	<u>598,464</u>	<u>605,113</u>
Long-term liabilities	34,784	35,367	92,987	95,062	127,771	130,429
Other liabilities	9,154	9,895	5,503	6,054	14,657	15,949
Total liabilities	<u>43,938</u>	<u>45,262</u>	<u>98,490</u>	<u>101,116</u>	<u>142,428</u>	<u>146,378</u>
Net assets:						
Invested in capital assets, net of debt	178,409	183,012	112,720	116,311	291,129	299,323
Restricted	77,636	81,239			77,636	81,239
Unrestricted	23,119	22,454	64,152	55,719	87,271	78,173
Total net assets	<u>\$ 279,164</u>	<u>\$ 286,705</u>	<u>\$ 176,872</u>	<u>\$ 172,030</u>	<u>\$ 456,036</u>	<u>\$ 458,735</u>

As noted above, the City's primary investment is in its *capital assets, net of related debt*. Capital assets, which account for approximately 64% 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 \$78 million or 47% of the City's non-capital net assets are subject to external restrictions as to their use. The remaining \$87 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, \$23 million related to governmental activities and \$64 million to business-type activities.

The City's net assets decreased by \$2.7 million during the 2009-10 fiscal year. The following table provides additional detail for this decrease.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2010

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	
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charges for services	\$ 11,631	\$ 10,889	\$ 29,175	\$ 29,393	\$ 40,806	\$ 40,282
Operating grants and contributions	4,514	5,551			4,514	5,551
Capital grants and contributions	5,239	5,773		1,018	5,239	6,791
Total Program Revenues	<u>21,384</u>	<u>22,213</u>	<u>29,175</u>	<u>30,411</u>	<u>50,559</u>	<u>52,624</u>
General Revenues						
Property taxes	4,194	4,270			4,194	4,270
Sales taxes	9,082	9,702			9,082	9,702
Motor vehicle in lieu fees	5,076	5,312			5,076	5,312
Other taxes	8,624	9,340			8,624	9,340
Interest and investment earnings	666	1,508	838	1,773	1,504	3,281
Gain (loss) on disposal of capital assets	(232)	(374)		(54)	(232)	(428)
Total General Revenues	<u>27,410</u>	<u>29,758</u>	<u>838</u>	<u>1,719</u>	<u>28,248</u>	<u>31,477</u>
Total Overall Revenues	<u>48,794</u>	<u>51,971</u>	<u>30,013</u>	<u>32,130</u>	<u>78,807</u>	<u>84,101</u>
Expenses						
General government	3,655	3,957			3,655	3,957
Public safety	25,981	26,204			25,981	26,204
Public ways/facilities/transportation	9,200	11,272			9,200	11,272
Culture and recreation	3,556	4,297			3,556	4,297
Community development	11,546	5,163			11,546	5,163
Interest on long-term debt	1,472	1,528			1,472	1,528
Water			6,897	6,586	6,897	6,586
Sewer			16,765	16,838	16,765	16,838
Airport			79	91	79	91
Transportation			1,412	1,529	1,412	1,529
Building & Safety			943	1,735	943	1,735
Total Expenses	<u>55,410</u>	<u>52,421</u>	<u>26,096</u>	<u>26,779</u>	<u>81,506</u>	<u>79,200</u>
Increase (Decrease) in Net						
Assets before Transfers	(6,616)	(450)	3,917	5,351	(2,699)	4,901
Transfers	(924)	(159)	924	159	-	-
Change in Net Assets	<u>(7,540)</u>	<u>(609)</u>	<u>4,841</u>	<u>5,510</u>	<u>(2,699)</u>	<u>4,901</u>
Net Assets, beginning of year, as restated	286,705	287,314	172,030	166,520	458,735	453,834
Net Assets, end of year	<u>\$ 279,165</u>	<u>\$ 286,705</u>	<u>\$ 176,871</u>	<u>\$ 172,030</u>	<u>\$ 456,036</u>	<u>\$ 458,735</u>

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2010**

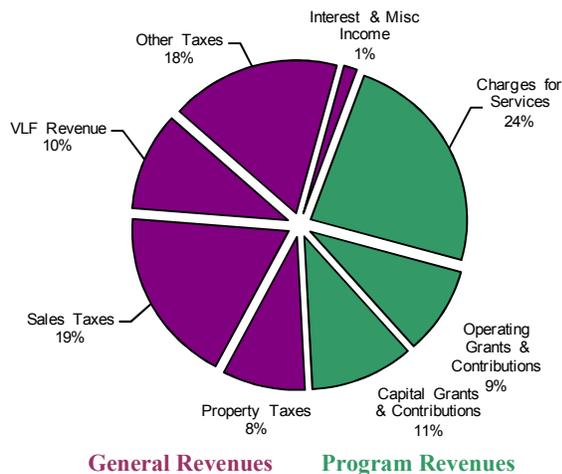
As the above table shows, \$50.6 million of the City’s \$78.8 million in total revenues comes from program revenue sources. GASB 34 defines program revenues as those derived directly from the program itself (user fees) or from parties outside the reporting government’s taxpayers or citizenry. Program 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 \$81.5 million, consisted of \$55.4 million for governmental activities and \$26.1 million for business-type activities. Of the \$55.4 million in governmental activity expenses, \$26 million or 47% relate to the provision of public safety (police and fire) services. The next largest component was \$11.5 million or 20.8% for community development which includes the activities of the City’s Redevelopment Agency and activities to support the supply of affordable housing.

Governmental Activities

Governmental activity revenues totaling \$48.8 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:

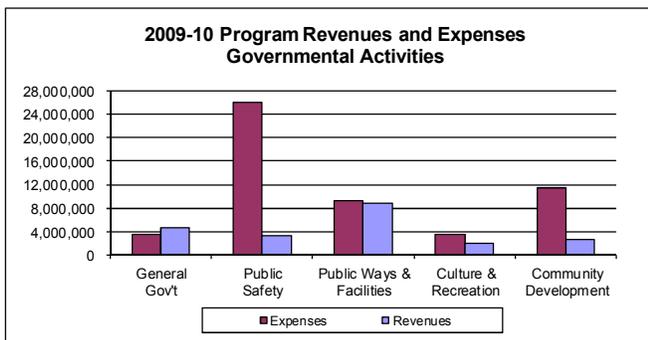


- Charges for Services – Revenues for specialized City services which are typically not demanded by the general population – totaled \$11,631,482 representing a 6.8% increase over the prior year. Included in this revenue category are the special assessment revenues charged by the City’s Lighting and 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 \$4,514,000 representing an 18.7% decrease over the prior year. Operating grants include revenues received from the (1) U.S. Department of Housing and Urban Development (HUD) 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.
- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure – totaled \$5,238,419 representing a 9.3% decrease over the prior year reflecting the stagnant construction environment currently existing in the Central Valley.

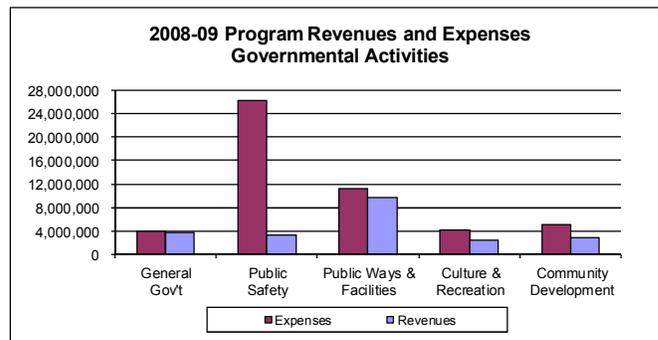
**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2010**

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 \$27.4 million for fiscal 2009-10, representing a 7.9% decrease from the prior year. As was the case in 2008-09, with the exception of transient occupancy taxes which rose by almost 18%, all other general revenue sources decreased in 2009-10. Property tax revenues (both City and Redevelopment Agency) decreased by approximately 2% reflecting the continued pull back in the values of real property in Turlock. Sales tax revenue continued down with a current year decline of 6.4%. Sales tax revenue has fallen over \$2 million since its high of \$11.1 million in fiscal year 2006-07. Motor vehicle in-lieu revenue declined by 4.4% reflecting a decline in the number of vehicles registered as well as the value of those vehicles. Under State budget legislation implemented in the 2004-05 fiscal year, a portion of the Motor vehicle in lieu revenue is tied to the change in assessed property values within the County. Therefore this revenue source will also rise and fall similar to property tax revenues. 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, 2009-10 expenses for Governmental Activities exceeded program revenues by \$34 million whereas in 2008-09 expenses exceeded revenues by \$30 million.

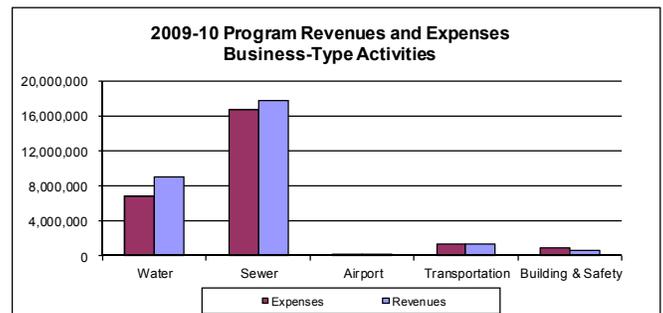
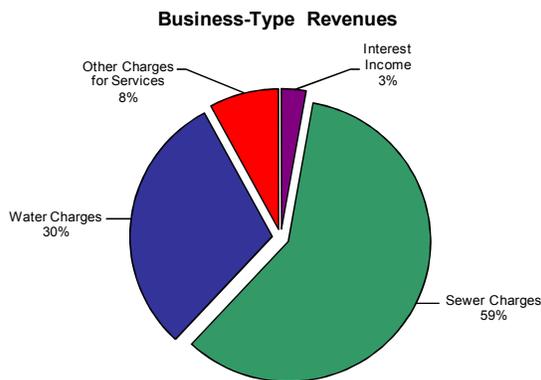
During 2009-10 operational budgets across the City were reduced in an effort to bring expenditures in line with declining revenues. Operational budgets decreased approximately 5% in 2009-10 as the result of employee salary and/or benefit concessions and the reduction in amounts being set aside in the City’s self-funded insurance programs. The overall increase in governmental expenditures is due to project expenditures in the Redevelopment Agency as well as payment of \$3.8 million to the State for the Supplemental Educational Revenue Augmentation Fund.



**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2010**

Business-Type Activities

Revenues for business-type activities totaled \$30 million and related expenses totaled \$26.1 million of which \$16.8 million or 64% 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 \$6.9 million or 26.4 % 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, 2010, the City’s governmental funds reported combined fund balances of \$83.2 million, which is a decrease of \$2.5 million when compared with the prior year. This compares with a \$10.6 million decrease in 2008-09. The General Fund’s fund balance is \$19 million at June 30, 2010. Governmental fund revenues were \$48.9 million this year, of which General Fund revenues totaled \$28.4 million or 58.0%. Governmental fund expenditures totaled \$56.7 million and the General fund represented 54.9% of the total or \$31.1 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, Tourism (2 funds) and Parking Citations funds. At June 30, 2010, the General Fund had a fund balance of \$19 million of which \$12.5 million was unreserved and undesignated. As noted in footnote 1(K), for financial statement purposes, amounts can only be reserved or restricted if the reservation or restriction is to satisfy a legal covenant or obligation.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2010

General Fund expenditures exceeded revenues (before transfers) by \$2.8 million during fiscal year 2009-10 as compared to \$3.8 million in excess expenditures for 2008-09. Due to the downturn in both property and sales tax revenues, the City Council has laid out a plan to bring expenditures in line with revenues over a 3-5 year period. During that time frame, reserves will be used to bridge the gap.

Overall expenditures decreased by \$2.1 million in 2009-10 due to salary and benefit concessions agreed to by all the City's employee units, the elimination of all non-essential transfers to the City's capital equipment replacement funds, the elimination of 15 full-time positions either through attrition or layoff, and a 10% reduction in other operational areas.

After including transfers, General Fund revenues exceeded expenditures by \$6.9 million. Included in the transfers is a one-time repayment of \$4.5 million by the City's Redevelopment Agency to the General Fund as well as transfers from the City's self-funded insurance programs. During the budget process for the 2010-11 fiscal year, management reviewed the funding status of the City's self-funded insurance programs as compared to recent claims history and determined that the worker's compensation, liability, long-term disability, and life insurance reserves were larger than necessary. Council approved reducing these reserves by \$7.6 million and transferring the excess funds back to the City's operating funds. The General Fund received \$5.3 million of the excess monies.

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. In the past, 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 to 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 – This fund accounts for activities funded by 20% of the tax increment revenue the Redevelopment Agency receives. During 2009-10, this fund received \$1.5 million in tax increment revenue and expended funds for rental assistance to low-income seniors and to assist in the development of a new multi-family housing project. See the discussion regarding the loan receivable to EAH, Inc. in footnote 3 for more information regarding the housing project.

Redevelopment Fund – This fund accounts for activities funded by 80% of the tax increment revenue the Agency receives as well as projects funded with bond proceeds. During 2009-10 the Agency continued to expend the proceeds of the Tax Allocation Revenue Bonds which were issued in August 2006. Funding assistance (using both bond proceeds and tax increment) included infrastructure projects within Westside Industrial Specific Plan area, improvements at Columbia Park, costs associated with rebuilding the Carnegie Arts facility, and funding provided to the Turlock Unified School District to rehabilitate a multi-purpose sports facility used by the District as well as citizens of Turlock for a variety of sporting activities. Also, pursuant to California Health and Safety Code Section 33690 for fiscal year 2009-10 the Agency remitted \$3,337,940 to the Stanislaus County Auditor for deposit in the County's Supplemental Educational Revenue Augmentation Fund (SERAF).

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2010**

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 2009-10 included continued design work on a new public safety facility and various roadway improvements.

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 \$4.8 million during fiscal year 2009-10, which compares to a \$5.5 million increase for fiscal year 2008-09. Overall operating revenues decreased by less than 1% while overall operating expenditures declined by 2.7%. Operating revenues for the City's water operations declined by 4.8% while operating revenues for the City's wastewater operations remained unchanged. Expenses for the water operations increased by 6.6% due in large part to increased utility costs as well as depreciation expenses. Expenses in the wastewater operations remained unchanged.

The wastewater system is in the 3rd year of a 6 year rate adjustment plan. Rates are being adjusted to provide funding for the system's operational expenses as well as for capital improvements necessary to maintain the system's functionality.

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, 2010, the City had \$391.6 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 2009-10 were over \$7.8 million. The majority of these additions related to infrastructure – streets/roads, water, sewer and storm drain pipes, and park - improvements. Additional information regarding the City's capital assets can be found in Note 5 on page 45 of this report.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$124.4 million in debt outstanding as compared to \$127.7 million for the prior year. The City's total debt service requirements for the 2010-11 are approximately \$9.4 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), the 2008 Water Bonds (\$2 million) and the 2006 Tax Allocation Revenue Bonds (\$1.5 million).

The City has no general revenue bonds outstanding. Of the total \$9.4 million in debt service requirements for 2010-11, approximately 26% or \$2.5 million is related to governmental activities and none is currently repaid with General Fund dollars.

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 47.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2010**

ECONOMIC FACTORS and NEXT YEAR'S BUDGET AND RATES

Developing the 2010-11 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 a \$3.6 million decline in operating revenues representing an 11.9% decrease over the three-year period. For 2010-11, overall revenues are projected at a level similar to the 2009-10 final results. Management believes that the decline in sales tax revenues has bottomed out and believes that overall property tax revenues are close to bottoming out.

With the assistance of the City's employee groups as well as the revisions to the funding assumptions for the City's self-funded insurance programs, budgeted expenditures for 2010-11 are project to be \$1.2 million less than budgeted expenditures for 2009-10. As previously mentioned, the City Council has laid out a 3-5 year plan to get General Fund expenditures in line with available revenues while using reserves to bridge the gap. 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.

This page intentionally left blank.

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, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 87,438,637	\$ 62,964,120	\$ 150,402,757
Cash and investments with fiscal agent	6,984,766	17,369,418	24,354,184
Accounts receivable	6,281,086	3,738,252	10,019,338
Interest receivable	179,249	198,787	378,036
Due from developers	20,040	157,663	177,703
Total current assets	<u>100,903,778</u>	<u>84,428,240</u>	<u>185,332,018</u>
Noncurrent assets:			
Loans receivable	20,406,068		20,406,068
Deferred charges	600,803	533,606	1,134,409
Capital assets:			
Non-depreciable	28,342,333	18,976,600	47,318,933
Depreciable, net	172,849,776	171,423,249	344,273,025
Total capital assets	<u>201,192,109</u>	<u>190,399,849</u>	<u>391,591,958</u>
Total noncurrent assets	<u>222,198,980</u>	<u>190,933,455</u>	<u>413,132,435</u>
Total Assets	<u>323,102,758</u>	<u>275,361,695</u>	<u>598,464,453</u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,393,615	377,476	4,771,091
Payroll payable	943,248	186,694	1,129,942
Interest payable	479,201	1,160,133	1,639,334
Deferred revenue	285,252	958,511	1,243,763
Deposits payable	1,528,836	344,450	1,873,286
Compensated absences, due within one year	488,652	142,844	631,496
Long-term debt, due within one year	1,036,281	2,332,138	3,368,419
Total current liabilities	<u>9,155,085</u>	<u>5,502,246</u>	<u>14,657,331</u>
Noncurrent liabilities:			
Claims liability	2,764,290		2,764,290
Compensated absences, due in more than one year	1,954,761	571,373	2,526,134
Net OPEB Obligation	1,038,843	420,693	1,459,536
Long-term debt, due in more than one year	29,025,858	91,994,970	121,020,828
Total noncurrent liabilities	<u>34,783,752</u>	<u>92,987,036</u>	<u>127,770,788</u>
Total Liabilities	<u>43,938,837</u>	<u>98,489,282</u>	<u>142,428,119</u>
NET ASSETS			
Invested in capital assets, net of related debt	178,408,586	112,720,661	291,129,247
Restricted for:			
Capital projects	50,121,352		50,121,352
Special projects and programs	27,514,526		27,514,526
Total restricted	<u>77,635,878</u>	<u>-</u>	<u>77,635,878</u>
Unrestricted	23,119,457	64,151,752	87,271,209
Total Net Assets	<u>\$ 279,163,921</u>	<u>\$ 176,872,413</u>	<u>\$ 456,036,334</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, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,654,724	\$ 4,445,264	\$ 66,163	\$ 203,723
Public safety	25,980,768	2,213,919	803,069	250,724
Public ways and facilities/transportation	9,200,471	2,833,644	1,281,361	4,675,891
Culture and recreation	3,556,231	1,525,061	431,555	72,918
Community development	11,545,490	613,594	1,931,852	35,163
Interest on long-term debt	1,471,969			
Total governmental activities	55,409,653	11,631,482	4,514,000	5,238,419
Business-type activities:				
Water	6,896,642	9,058,619		
Sewer	16,765,208	17,750,593		
Airport	78,769	250,845		
Transportation	1,412,164	1,450,146		
Building & Safety	943,315	664,684		
Total business-type activities	26,096,098	29,174,887	-	-
Total primary government	\$ 81,505,751	\$ 40,806,369	\$ 4,514,000	\$ 5,238,419

General revenues and transfers:

Taxes:
Property
Sales
Motor vehicles tax
Other
Total

Interest and investment earnings
Miscellaneous
Gain (loss) on disposal of capital assets
Transfers

Total general revenues and transfers

Changes in net assets

Net Assets:

Beginning of year

End of year

Net (Expense) Revenue and Changes in Net Assets			
Total	Governmental Activities	Business-type Activities	Total
\$ 4,715,150	\$ 1,060,426	\$	\$ 1,060,426
3,267,712	(22,713,056)		(22,713,056)
8,790,896	(409,575)		(409,575)
2,029,534	(1,526,697)		(1,526,697)
2,580,609	(8,964,881)		(8,964,881)
-	(1,471,969)		(1,471,969)
<u>21,383,901</u>	<u>(34,025,752)</u>	-	<u>(34,025,752)</u>
9,058,619		2,161,977	2,161,977
17,750,593		985,385	985,385
250,845		172,076	172,076
1,450,146		37,982	37,982
664,684		(278,631)	(278,631)
<u>29,174,887</u>	-	<u>3,078,789</u>	<u>3,078,789</u>
<u>\$ 50,558,788</u>	<u>(34,025,752)</u>	<u>3,078,789</u>	<u>(30,946,963)</u>
	4,194,395		4,194,395
	9,082,137		9,082,137
	5,075,991		5,075,991
	8,623,721		8,623,721
	<u>26,976,244</u>	-	<u>26,976,244</u>
	665,729	838,650	1,504,379
			-
	(232,307)		(232,307)
	<u>(924,283)</u>	<u>924,283</u>	<u>-</u>
	<u>26,485,383</u>	<u>1,762,933</u>	<u>28,248,316</u>
	(7,540,369)	4,841,722	(2,698,647)
	<u>286,704,290</u>	<u>172,030,691</u>	<u>458,734,981</u>
<u>\$ 279,163,921</u>	<u>\$ 176,872,413</u>	<u>\$</u>	<u>\$ 456,036,334</u>

This page intentionally left blank.

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 2009-10. 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. The remaining 80% of tax increment is accounted for in a Capital Projects fund titled "Redevelopment". Revenue and expenditure detail for this fund can be found in the Supplemental Information section.

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.

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, 2010

	Major Governmental Funds				Nonmajor Governmental Funds	Total
	General	Housing Set-Aside	Redevelopment	Facility Fees		
ASSETS						
Cash and investments	\$ 16,906,133	\$ 6,446,528	\$ 10,011,805	\$ 16,238,679	\$ 26,849,315	\$ 76,452,460
Cash and investments with fiscal agent			6,984,766		-	6,984,766
Accounts receivable	3,504,993	3,372	201,107	159,127	1,889,408	5,758,007
Interest receivable	50,918	9,038	38,902	24,248	31,381	154,487
Due from other funds	2,383,784					2,383,784
Due from developers	20,040					20,040
Loans receivable	33,200	6,398,354			13,974,514	20,406,068
Other Assets	14,833				-	14,833
Total assets	\$ 22,913,901	\$ 12,857,292	\$ 17,236,580	\$ 16,422,054	\$ 42,744,618	\$ 112,174,445
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 2,624,984	\$ 469,001	\$ 20,676	\$ 98,894	\$ 307,770	\$ 3,521,325
Payroll payable	772,814		4,065		71,955	848,834
Due to other funds					2,383,784	2,383,784
Deferred revenue	271,252	6,398,354			13,988,514	20,658,120
Deposits payable	253,908		1,269,755		-	1,523,663
Total liabilities	3,922,958	6,867,355	1,294,496	98,894	16,752,023	28,935,726
Fund Balances:						
Reserved:						
For loans receivable/due from developers	53,240				-	53,240
Unreserved - designated:						
General Fund	6,474,846					6,474,846
Special Revenue Funds					315,653	315,653
Capital Project Funds			24,771		-	24,771
Unreserved - undesignated:						
General Fund	12,462,857					12,462,857
Special Revenue Funds		5,989,937			20,255,629	26,245,566
Capital Project Funds			15,917,313	16,323,160	5,421,313	37,661,786
Total fund balance	18,990,943	5,989,937	15,942,084	16,323,160	25,992,595	83,238,719
Total liabilities and fund balance	\$ 22,913,901	\$ 12,857,292	\$ 17,236,580	\$ 16,422,054	\$ 42,744,618	\$ 112,174,445

City of Turlock
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds \$ 83,238,719

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.

Non-depreciable	\$ 28,342,333	
Depreciable	227,503,259	
Less accumulated depreciation	<u>(57,212,237)</u>	198,633,355

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet.

Compensated absences	\$ (2,180,255)	
Net OPEB obligation	\$ (856,538)	
Capital lease obligations	(954,509)	
Loans payable	(325,175)	
Bonds payable	(28,118,850)	
Unamortized cost of issuance included in deferred charges	<u>585,970</u>	(31,849,357)

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.

(468,883)

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the Governmental Funds Balance Sheet

20,372,868

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.

9,237,219

Net Assets of Governmental Activities **\$ 279,163,921**

City of Turlock
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	Major Governmental Funds				Nonmajor Governmental Funds	Total
	General	Housing Set-Aside	Redevelopment	Facility Fees		
REVENUES:						
Taxes and assessments	\$ 14,752,075	\$ 1,540,855	\$ 4,602,063		\$ 2,826,098	\$ 23,721,091
Licenses and permits	1,116,052			\$ 1,048,177	1,863,093	4,027,322
Fines, forfeitures, and penalties	342,662					342,662
Use of money and property	259,369	53,237	214,774	148,451	185,007	860,838
Intergovernmental	5,707,457				6,360,806	12,068,263
Charges for current services	3,272,575				538,432	3,811,007
Other	2,918,195		27,439	660,356	462,675	4,068,665
Total revenues	28,368,385	1,594,092	4,844,276	1,856,984	12,236,111	48,899,848
EXPENDITURES:						
Current:						
General government	2,802,634			400,964	97,326	3,300,924
Public safety	24,763,100			282	426,641	25,190,023
Public ways and facilities/ transportation	255,407			111	4,748,636	5,004,154
Culture and recreation	2,220,991				930,845	3,151,836
Community development	883,974	809,481	7,414,382		3,333,028	12,440,865
Capital outlay	60,760			2,977,672	2,206,548	5,244,980
Debt service:						
Principal	127,310		505,000	220,092	99,239	951,641
Interest and fiscal charges	14,893		1,364,345	33,319	33,586	1,446,143
Total expenditures	31,129,069	809,481	9,283,727	3,632,440	11,875,849	56,730,566
REVENUES OVER (UNDER) EXPENDITURES	(2,760,684)	784,611	(4,439,451)	(1,775,456)	360,262	(7,830,718)
OTHER FINANCING SOURCES (USES):						
Transfers in	9,850,813	127,878	20,221	172,847	1,471,336	11,643,095
Transfers out	(208,082)	(128,506)	(5,192,713)		(886,677)	(6,415,978)
Total other financing sources (uses)	9,642,731	(628)	(5,172,492)	172,847	679,030	5,321,488
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	6,882,047	783,983	(9,611,943)	(1,602,609)	1,039,292	(2,509,230)
FUND BALANCES:						
Beginning of year	12,108,896	5,205,954	25,554,027	17,925,769	24,953,303	85,747,949
End of year	\$ 18,990,943	\$ 5,989,937	\$ 15,942,084	\$ 16,323,160	\$ 25,992,595	\$ 83,238,719

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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (2,509,230)

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. 5,244,980

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. (5,285,741)

Net effect of the of the disposal of various capital assets resulting in a decrease in net assets. (265,417)

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.

Loan Proceeds	(94,371)	
Principal payments on long-term debt	951,641	857,270

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. 6,847

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. (315,445)

Governmental funds report deferred revenue related to long-term loans made. These deferred credits are not reported on the Statement of Net Assets. 953,307

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. (6,226,940)

Change in Net Assets of Governmental Activities \$ (7,540,369)

See accompanying Notes to Basic Financial Statements.

This page intentionally left blank.

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, 2010

	Major Enterprise Funds		Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
	Water	Sewer			
ASSETS					
Current assets:					
Cash and investments	\$ 26,111,823	\$ 34,492,990	\$ 2,359,307	\$ 62,964,120	\$ 10,986,177
Cash and investments with fiscal agent	12,592,149	4,777,269		17,369,418	
Accounts receivable	1,218,122	1,864,072	656,058	3,738,252	523,079
Interest receivable	68,101	127,960	2,726	198,787	24,762
Due from developers		157,663		157,663	
Total current assets	39,990,195	41,419,954	3,018,091	84,428,240	11,534,018
Capital assets					
Non-depreciable	14,051,206	4,328,663	596,731	18,976,600	
Depreciable, net of depreciation	32,218,775	133,766,137	5,438,337	171,423,249	2,558,754
Total capital assets	46,269,981	138,094,800	6,035,068	190,399,849	2,558,754
Other assets	165,034	368,572		533,606	
Total assets	86,425,210	179,883,326	9,053,159	275,361,695	14,092,772
LIABILITIES					
Current liabilities:					
Accounts payable	164,354	143,498	69,624	377,476	872,290
Payroll payable	44,006	123,582	19,106	186,694	94,414
Interest payable	237,910	922,223		1,160,133	10,318
Compensated absences - due within one year	31,331	96,792	14,721	142,844	52,601
Capital lease obligations - due within one year	41,069	41,069		82,138	82,138
Bonds payable - due within one year	600,000	1,650,000		2,250,000	
Deferred revenue			958,511	958,511	-
Deposits payable	329,450	15,000		344,450	5,173
Total current liabilities	1,448,120	2,992,164	1,061,962	5,502,246	1,116,934
Long-term liabilities:					
Claims liability - due in more than one year					2,764,290
Compensated absences - due in more than one year	125,326	387,166	58,881	571,373	210,557
Net OPEB obligation	13,836	325,104	81,753	420,693	182,305
Capital lease obligation-due in more than one year	290,734	290,734		581,468	581,467
Loans and Bonds payable, net of discounts - due in more than one year	30,442,919	60,970,583		91,413,502	
Total long-term liabilities	30,872,815	61,973,587	140,634	92,987,036	3,738,619
Total liabilities	32,320,935	64,965,751	1,202,596	98,489,282	4,855,553
NET ASSETS					
Invested in capital assets, net of related debt	27,355,327	79,330,266	6,035,068	112,720,661	1,895,149
Unrestricted	26,748,948	35,587,309	1,815,495	64,151,752	7,342,070
Total net assets	\$ 54,104,275	\$ 114,917,575	\$ 7,850,563	\$ 176,872,413	\$ 9,237,219

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2010

	Major Enterprise Funds		Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
	Water	Sewer			
OPERATING REVENUES:					
Charges for services	\$ 8,887,875	\$ 17,511,614	\$ 765,738	\$ 27,165,227	\$ 12,283,060
Intergovernmental			1,544,614	1,544,614	-
Connection fees	17,957	4,383		22,340	
Other income	152,787	234,596	55,323	442,706	905,196
Total operating revenues	9,058,619	17,750,593	2,365,675	29,174,887	13,188,256
OPERATING EXPENSES:					
Salaries	1,352,229	3,033,201	551,507	4,936,937	2,090,835
Benefits and insurance	766,897	1,791,976	267,459	2,826,332	10,071,869
Contractual	520,557	1,562,364	1,093,738	3,176,659	592,317
Supplies and maintenance	671,323	1,211,372	73,990	1,956,685	52,699
Utilities	1,051,249	1,486,760	17,976	2,555,985	83,695
Fleet expense	84,978	357,307	119,241	561,526	48,597
Depreciation and amortization	950,083	3,965,433	289,930	5,205,446	419,289
Other expenses	36,035	163,589	20,407	220,031	30,958
Total operating expenses	5,433,351	13,572,002	2,434,248	21,439,601	13,390,259
OPERATING INCOME (LOSS)	3,625,268	4,178,591	(68,573)	7,735,286	(202,003)
NONOPERATING REVENUES (EXPENSES):					
Interest income	276,108	547,922	14,620	838,650	136,630
Gain (loss) on disposal of capital assets				-	22,506
Interest expense	(1,463,291)	(3,193,206)		(4,656,497)	(32,673)
Total non-operating revenues (expenses)	(1,187,183)	(2,645,284)	14,620	(3,817,847)	126,463
INCOME (LOSS) BEFORE OPERATING TRANSFER	2,438,085	1,533,307	(53,953)	3,917,439	(75,540)
Transfers in	313,526	671,741	232,124	1,217,391	443,091
Transfers out	(185,069)	(92,257)	(15,782)	(293,108)	(6,594,491)
Total transfers	128,457	579,484	216,342	924,283	(6,151,400)
Net income (loss)	2,566,542	2,112,791	162,389	4,841,722	(6,226,940)
NET ASSETS:					
Beginning of year	51,537,733	112,804,784	7,688,174	172,030,691	15,464,159
End of year	\$ 54,104,275	\$ 114,917,575	\$ 7,850,563	\$ 176,872,413	\$ 9,237,219

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2010

	<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	\$ 8,070,755	\$ 16,605,609	\$ 2,631,003	\$ 27,307,367	\$ 12,129,421
Cash paid to suppliers	(2,615,378)	(4,924,745)	(1,348,594)	(8,888,717)	(1,124,959)
Cash paid to employees	(2,158,802)	(4,590,289)	(812,396)	(7,561,487)	(12,121,701)
Other	116,752	71,007		187,759	879,411
Net cash provided (used) by operating activities	3,413,327	7,161,582	470,013	11,044,922	(237,828)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	313,526	671,741	232,124	1,217,391	443,091
Transfers out	(185,069)	(92,257)	(15,782)	(293,108)	(6,594,491)
Net cash provided (used) by noncapital financing activities	128,457	579,484	216,342	924,283	(6,151,400)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(1,839,833)	(1,045,488)	(630,679)	(3,516,000)	(29,147)
Proceeds from disposal of capital assets				-	30,598
Other assets	(26)			(26)	
Principal payments on long-term debt	(619,208)	(1,829,208)		(2,448,416)	(78,418)
Interest paid	(1,467,683)	(3,202,380)		(4,670,063)	(33,892)
Net cash provided (used) by capital and related financing activities	(3,926,750)	(6,077,076)	(630,679)	(10,634,505)	(110,859)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	369,484	593,220	20,133	982,837	168,147
Net cash provided (used) by investing activities	369,484	593,220	20,133	982,837	168,147
Net increase (decrease) in cash and cash equivalents	(15,482)	2,257,210	75,809	2,317,537	(6,331,940)
CASH AND CASH EQUIVALENTS:					
Beginning of year	38,719,454	37,013,049	2,283,498	78,016,001	17,318,117
End of year	\$ 38,703,972	\$ 39,270,259	\$ 2,359,307	\$ 80,333,538	\$ 10,986,177

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds, Continued
For the year ended June 30, 2010

	<u>Major Enterprise Funds</u>		Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
	<u>Water</u>	<u>Sewer</u>			
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 3,625,268	\$ 4,178,591	\$ (68,573)	\$ 7,735,286	\$ (202,003)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	950,083	3,965,433	289,930	5,205,446	419,289
Changes in operating assets and liabilities:					
Accounts receivable	(829,387)	(925,388)	49,772	(1,705,003)	(153,639)
Accounts payable	(287,271)	(306,942)	(23,242)	(617,455)	(347,651)
Payroll payable	(3,085)	6,796	(31,334)	(27,623)	(3,954)
Due to other funds				-	
Compensated absences	(10,898)	46,505	3,278	38,885	(21,037)
Claims Liability					
Net OPEB obligation	(25,693)	181,587	34,626	190,520	65,994
Deferred revenue			215,556	215,556	
Deposits payable	(5,690)	15,000		9,310	5,173
	<u>\$ 3,413,327</u>	<u>\$ 7,161,582</u>	<u>\$ 470,013</u>	<u>\$ 11,044,922</u>	<u>\$ (237,828)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET:					
Cash and investments	\$ 26,111,823	\$ 34,492,990	\$ 2,359,307	\$ 62,964,120	\$ 10,986,177
Cash and investments with fiscal agent	12,592,149	4,777,269		17,369,418	-
Total cash and cash equivalents	<u>\$ 38,703,972</u>	<u>\$ 39,270,259</u>	<u>\$ 2,359,307</u>	<u>\$ 80,333,538</u>	<u>\$ 10,986,177</u>

See accompanying Notes to Basic Financial Statements.

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.

City of Turlock
Statement of Net Assets
Fiduciary Funds
June 30, 2010

	Agency Funds
ASSETS	
Cash and investments	\$ 459,501
Cash and investments with fiscal agent	418,490
Accounts and interest receivable	133,539
Total assets	\$ 1,011,530
LIABILITIES	
Due to others	\$ 1,011,530
Total liabilities	\$ 1,011,530

City of Turlock

Notes to Basic Financial Statements

For the year ended June 30, 2010

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, culture-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.

The City Council acts as the governing body and is financially accountable for the following organizations:

- Redevelopment Agency of the City of Turlock
- Turlock Public Financing Authority

The Redevelopment Agency of the City of Turlock (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 purpose is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.

The Turlock Public Financing Authority (Authority) 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 Agency. The Authority provides pooled debt financing for the City and the Agency.

These organizations are considered component units of the City and are included within the financial statements of the City using the blended method. The component units, as well as the City, maintain a June 30 fiscal year. Financial statements for the City, as well as its component units, can be obtained from the City's Finance Department.

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental-Wide Financial Statements

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.

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, 2010

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, 2010

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.

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.

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.”

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Compensated Absences (continued)

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Net Assets and Fund Equity

Government-Wide Financial Statements

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.”

Fund Financial Statements

Fund Equity – Reservations of fund balances of governmental funds and unrestricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

L. 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.

M. 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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Implementation of New GASB Pronouncements

In 2009-10 the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, establishes accounting and financial reporting requirements for intangible assets to improve financial reporting by reducing inconsistencies by enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. Many different types of assets may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. No retroactive adjustment was required upon adoption.

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, 2010

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, 2010 the carrying amount of the City’s time and demand deposits was \$50,529,351. The difference between the bank balance of \$51,667,341 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. 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, 2010:

	Government-Wide Statement of Net Assets			Fiduciary Funds Statement of Net Assets	Grand Total
	Governmental Activities	Business-Type Activities	Total		
Cash and investments	\$ 87,438,637	\$ 62,964,120	\$ 150,402,757	\$ 459,501	\$ 150,862,258
Cash and investments with fiscal agent	6,984,766	17,369,418	24,354,184	418,490	24,772,674
Total cash and investments	<u>\$ 94,423,403</u>	<u>\$ 80,333,538</u>	<u>\$ 174,756,941</u>	<u>\$ 877,991</u>	<u>\$ 175,634,932</u>

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, 2010

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures

As of June 30, 2010, 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	3-4 years	4-5 years
Cash on hand and demand deposits	\$ 50,529,351	\$ 50,529,351					
Brokerage Account	2,146,843	2,146,843					
Total Cash	52,676,194	52,676,194					
Investments							
U.S. Federal Agency Securities	\$ 15,132,248		\$ -	\$ 3,035,238	\$ 5,027,000	\$ 3,037,510	\$ 4,032,500
Certificates of Deposit	23,024,999		21,024,999	2,000,000			
LAIF	60,028,817		60,028,817				
Total Investments	\$ 98,186,064	\$ -	\$ 81,053,816	\$ 5,035,238	\$ 5,027,000	\$ 3,037,510	\$ 4,032,500
Total cash and investments	\$ 150,862,258	\$ 52,676,194	\$ 81,053,816	\$ 5,035,238	\$ 5,027,000	\$ 3,037,510	\$ 4,032,500

Investment maturities as a percent

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 221 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, 2010 the City's credit risks, expressed on a percentage basis were as follows:

	S&P Credit Rating	% of Investments
US Federal Agency Securities	AAA	15.41%
CA Local Agency Investment Fund	not rated	61.14%
Certificates of deposit	not rated	23.45%
Total		100.00%

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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, 2009 to June 30, 2010 amounted to an unrealized gain of \$228,900.

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, 2010 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, 2010, the City had \$60,028,818 invested in LAIF, which had invested 5.42% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001643776 was used to calculate the fair value of investments in LAIF as of June 30, 2010.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. RECEIVABLES AND DEFERRED REVENUE

A. Government Wide Financial Statements

At June 30, 2010, 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	\$ 20,040	\$ 157,663	\$ 177,703
Loans receivable	20,406,068		20,406,068
Total	\$ 20,426,108	\$ 157,663	\$ 20,583,771

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 and its Northeast 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 and the Northeast Master Plan receivable of \$20,040 is recorded in the General Fund.

Loans Receivable

Loans receivable at June 30, 2010 consist of the following:

<u>Type of Loan/Borrower</u>	<u>Amount</u>
Central Valley Coalition for Affordable Housing	\$ 7,644,409
First Time Homebuyer Loans	7,795,062
Owner-Occupied Rehabilitation Loans	2,996,812
Cherry Tree Village Loans	1,472,785
EAH, Inc.	447,066
Rental Rehabilitation Loans	16,734
Executive MBA Program Loans	33,200
Total Loans	\$ 20,406,068

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable, Continued

Central Valley Coalition for Affordable Housing (continued)

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, 2010 was \$4,796,168.

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, 2010 on these three properties was \$1,198,882.

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, 2010 on these three properties was \$1,649,359.

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 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, 2010 the City had 137 loans outstanding.

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, 2010 the City had 45 loans outstanding.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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. The total outstanding principal and interest at June 30, 2010 was \$1,472,785.

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 a Disposition and Development Agreement (DDA) with EAH to assist in the development and help secure financing for a 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 144 unit, three-story, apartment complex for low- and moderate-income families with amenities that would complement the project and surrounding neighborhood.

The DDA contains funding for up to \$4 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 \$3 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, 2010 the Agency had expended \$447,066 of the pre-construction funds.

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, 2010 the City had two loans outstanding.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statement, Continued

Loans Receivable, Continued

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 \$17,667 each and at June 30, 2010, the unpaid balance for all three loans was \$33,200.

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, 2010 consisted of the following:

Governmental Activities		Business-Type	Total
General Fund	Sports Facilities	Transportation	
\$ 271,252	\$ 14,000	\$ 958,511	\$ 1,243,763

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. RECEIVABLES AND DEFERRED REVENUE, Continued

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, 2010 consisted of the following:

	Governmental Activities			Business-Type	Total
	General Fund	Housing Set-Aside	Non-Major Funds	Non-Major Funds	
Loans Receivable					
First Time Home Buyer		\$ 306,500	\$ 7,488,562		\$ 7,795,062
Owner-Occupied Rehabilitation			2,996,812		2,996,812
Rental Rehabilitation			16,734		16,734
Cherry Tree Village		848,620	624,165		1,472,785
Central Valley Coalition for Affordable Housing		4,796,168	2,848,241		7,644,409
EAH, Inc.		447,066			447,066
Other	\$ 271,252		14,000	\$ 958,511	1,243,763
Total	\$ 271,252	\$ 6,398,354	\$ 13,988,514	\$ 958,511	\$ 21,616,631

4. INTERFUND TRANSACTIONS

Fund Financial Statements

Due To, Due From

At June 30, 2010 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	
		Nonmajor Funds	Total
Due From	Governmental Activities:		
	General Fund	\$ 2,383,784	\$ 2,383,784
	Total	\$ 2,383,784	\$ 2,383,784

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. INTERFUND TRANSACTIONS, Continued

Fund Financial Statements, Continued

Transfers

At June 30, 2010 the City had the following transfers:

		Transfers In					
		Governmental Activities					
		General	Housing Set-Aside	Redevelopment	Facility Fees	Nonmajor Funds	Total
Transfers Out	Governmental Activities:						
	General					\$ 203,466	\$ 203,466
	Housing Set-Aside					128,506	128,506
	Redevelopment	4,573,192	127,878		172,847	318,796	5,192,713
	Nonmajor	426,438				356,739	783,177
	Business-type Activities:						
	Water	140,001				24,997	164,998
	Sewer	91,165				818	91,983
	Nonmajor	6,392				9,069	15,461
	Internal Service Funds	4,613,625		20,221		428,945	5,062,791
Total	\$ 9,850,813	\$ 127,878	\$ 20,221	\$ 172,847	\$ 1,471,336	\$ 11,643,095	

		Transfers In					
		Governmental Activities	Business-type Activities		Internal Service Funds	Grand Total	
			Water	Sewer	Nonmajor Funds		
Transfers Out	Governmental Activities:						
	General	\$ 203,466				\$ 4,616	\$ 208,082
	Housing Set-Aside	128,506					128,506
	Redevelopment	5,192,713					5,192,713
	Nonmajor	783,177	50,000		\$ 50,000	3,500	886,677
	Business-type Activities:						
	Water	164,998		\$ 20,000		71	185,069
	Sewer	\$ 91,983				274	92,257
	Nonmajor	\$ 15,461				321	15,782
	Internal Service Funds	5,062,791	263,526	651,741	182,124	434,309	6,594,491
Total	\$ 11,643,095	\$ 313,526	\$ 671,741	\$ 232,124	\$ 443,091	\$ 13,303,577	

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, 2010

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2010 the City's capital assets for governmental activities consisted of the following:

	Balance July 1, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Governmental Activity Capital Assets:					
Non-depreciable Assets:					
Land	\$ 14,729,811				\$ 14,729,811
Construction in progress	17,494,976	5,048,292	\$ (55,120)	\$ (8,875,626)	13,612,522
Total nondepreciable assets	<u>32,224,787</u>	<u>5,048,292</u>	<u>(55,120)</u>	<u>(8,875,626)</u>	<u>28,342,333</u>
Depreciable Assets:					
Land improvements	30,706,290			57,038	30,763,328
Buildings	17,158,063		(563,664)	5,369,089	21,963,488
Furniture and equipment	8,556,407	228,397	(224,346)	87,833	8,648,291
Vehicles	8,823,637	52,048	(127,335)	(43,293)	8,705,057
Infrastructure	160,666,939			3,404,959	164,071,898
Total depreciable assets	<u>225,911,336</u>	<u>280,445</u>	<u>(915,345)</u>	<u>8,875,626</u>	<u>234,152,062</u>
Less accumulated depreciation:					
Land improvements	(5,838,126)	(768,589)			(6,606,715)
Buildings	(6,233,735)	(599,235)	302,187		(6,530,783)
Furniture and equipment	(6,719,629)	(403,060)	214,047	97,957	(6,810,685)
Vehicles	(5,818,324)	(869,023)	139,960	521,072	(6,026,315)
Infrastructure	(31,629,788)	(3,078,971)		(619,029)	(35,327,788)
Total accumulated depreciation	<u>(56,239,602)</u>	<u>(5,718,878)</u>	<u>656,194</u>	<u>-</u>	<u>(61,302,286)</u>
Net depreciable assets	<u>169,671,734</u>	<u>(5,438,433)</u>	<u>(259,151)</u>	<u>8,875,626</u>	<u>172,849,776</u>
Total governmental activity capital assets	<u>\$ 201,896,521</u>	<u>\$ (390,141)</u>	<u>\$ (314,271)</u>	<u>\$ -</u>	<u>\$ 201,192,109</u>

Governmental activities depreciation expense for capital assets for the year ended June 30, 2010 was as follows:

General government	\$ 222,301
Public safety	1,040,290
Public ways and facilities/transportation	3,891,385
Culture and recreation	533,003
Community development	31,899
Total depreciation expense	<u>\$ 5,718,878</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

At June 30, 2010 the City's capital assets for business-type activities consisted of the following:

	Balance July 1, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Business-Type Activity Capital Assets:					
Non-depreciable Assets:					
Land	\$ 523,844	\$ -		\$ 351,243	\$ 875,087
Construction in progress	24,157,833	\$ 3,337,477	\$ (85)	\$ (9,393,711)	18,101,514
Total nondepreciable assets	<u>24,681,677</u>	<u>3,337,477</u>	<u>(85)</u>	<u>(9,042,468)</u>	<u>18,976,601</u>
Depreciable Assets:					
Land improvements	6,826,211				6,826,211
Buildings	5,507,916				5,507,916
Furniture and equipment	14,274,408	147,120		121,607	14,543,135
Vehicles	2,224,117	31,488			2,255,605
Infrastructure	250,722,456			8,920,861	259,643,317
Total depreciable assets	<u>279,555,108</u>	<u>178,608</u>	<u>-</u>	<u>9,042,468</u>	<u>288,776,184</u>
Less accumulated depreciation:					
Land improvements	(1,127,036)	(218,542)		1	(1,345,577)
Buildings	(1,694,285)	(170,640)		27,373	(1,837,552)
Furniture and equipment	(11,889,945)	(342,057)		(4,498)	(12,236,500)
Vehicles	(616,539)	(147,347)		5,050	(758,836)
Infrastructure	(96,867,761)	(4,278,784)		(27,926)	(101,174,471)
Total accumulated depreciation	<u>(112,195,566)</u>	<u>(5,157,370)</u>	<u>-</u>	<u>-</u>	<u>(117,352,936)</u>
Net depreciable assets	<u>167,359,542</u>	<u>(4,978,762)</u>	<u>-</u>	<u>9,042,468</u>	<u>171,423,248</u>
Total business-type capital assets	<u>\$ 192,041,219</u>	<u>\$ (1,641,285)</u>	<u>\$ (85)</u>	<u>\$ -</u>	<u>\$ 190,399,849</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2010 was as follows:

Water	\$ 939,408
Sewer	3,928,032
Airport	78,766
Transportation	211,164
Total depreciation expense	<u>\$ 5,157,370</u>

5. CAPITAL ASSETS, Continued

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year	Due in More than One year
Governmental Activity Debt:						
1999 Revenue Bonds	\$ 3,540,000		\$ (145,000)	\$ 3,395,000	\$ 150,000	\$ 3,245,000
2006 Tax Allocation Revenue Bonds	24,790,000		(360,000)	24,430,000	375,000	24,055,000
Add: Unamortized Bond Premium	305,080		(11,230)	293,850		293,850
California Energy Commission	165,515		(27,509)	138,006	28,606	109,400
Economic Development Bank	92,798	94,371		187,169	-	187,169
Capital Leases:						
1996 City Hall Acquisition	577,170		(220,092)	357,078	234,335	122,743
2000 Regional Sports Complex	499,165		(71,730)	427,435	75,967	351,468
Various Others	297,306		(127,310)	169,996	90,235	79,761
Subtotal	30,267,034	94,371	(962,871)	29,398,534	954,143	28,444,391
Internal Service Long-Term Debt:						
2002 City Hall Addition	742,023		(78,418)	663,605	82,138	581,467
Compensated Absences	2,489,183		(45,770)	2,443,413	488,652	1,954,761
Total governmental activity debt	\$ 33,498,240	\$ 94,371	\$ (1,087,059)	\$ 32,505,552	\$ 1,524,933	\$ 30,980,619

6. LONG-TERM DEBT, Continued

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

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 (see below). 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 (see below). 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.

Pledged Revenues for 1999 Revenue Bonds and 2006 Tax Revenue Allocation Bonds

Pursuant to a Loan Agreement between the Agency, the Authority and the Bond Trustee, the Agency has pledged its tax increment revenue (reduced by the amount allocable to the Housing Set-Aside fund, unsubordinated pass through payments, and amounts payable to other taxing agencies under Redevelopment Law) for repayment of the Bonds. Pledged revenues are further limited to the current fiscal year's debt service requirements. Debt service for 2009-10 was 22.0% of total tax increment revenues. Total tax increment revenues (prior to Housing Set-Aside and pass through payments) for 2009-10 were \$8,491,729; while principal and interest payments on the bonds totaled \$1,869,345.

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, 2010 the City had drawn down \$187,169. In accordance with loan agreement, repayment of equal installments will begin 3 years after the project is complete and continue for seven years.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

At June 30, 2010, the City's capital leases were related to capitalized assets totaling \$14,561,801 with accumulated depreciation of \$4,509,186. 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.

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 will terminate and the City will obtain 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 Calease 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.

Various

The City has entered into various capital leases for firearms range equipment, communications equipment, furniture, and vehicles. The annual interest rates range from 4.87% to 5.47% and the leases terminate at various times through September 2011.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

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
2011	553,606	1,345,235	482,675	82,447	\$ 1,036,281	\$ 1,427,682
2012	579,737	1,318,755	368,996	52,661	948,733	1,371,416
2013	637,671	1,290,896	175,324	36,034	812,995	1,326,930
2014	668,905	1,261,575	184,633	26,725	853,538	1,288,300
2015	678,301	1,230,911	194,441	16,909	872,742	1,247,820
2016-2020	3,756,955	5,678,299	212,045	12,575	3,969,000	5,690,874
2021-2025	4,575,000	4,737,495			4,575,000	4,737,495
2026-2030	5,795,000	3,478,875			5,795,000	3,478,875
2031-2035	7,400,000	1,837,500			7,400,000	1,837,500
2036-2037	3,505,000	177,376			3,505,000	177,376
Total	\$ 28,150,175	\$ 22,356,917	\$ 1,618,114	\$ 227,351	\$ 29,768,289	\$ 22,584,268

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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, 2009	Additions	Retirements	June 30, 2010	Within	More than
					One Year	One year
Business-Type Activities:						
1999 Sewer Revenue Bonds	\$ 18,280,000		\$ (575,000)	\$ 17,705,000	\$ 600,000	\$ 17,105,000
Less: Unamortized Bond Discount	(369,271)		20,797	(348,474)		(348,474)
2003A Sewer Revenue Bonds	46,520,000		(1,015,000)	45,505,000	1,050,000	44,455,000
Less: Unamortized Bond Discount	(251,344)		10,401	(240,943)		(240,943)
2008 Water Revenue Bonds	31,755,000		(580,000)	31,175,000	600,000	30,575,000
Less: Unamortized Bond Discount	(136,827)		4,746	(132,081)		(132,081)
Economic Development Bank	200,000		(200,000)	-		-
Capital Leases:						
2002 City Hall Addition	742,023		(78,417)	663,606	82,138	581,468
Compensated Absences	675,332	38,885		714,217	142,844	571,373
Total business-type activity debt	\$ 97,414,913	\$ 38,885	\$ (2,412,473)	\$ 95,041,325	\$ 2,474,982	\$ 92,566,343

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 2009-10 net system revenues of \$9.4 million, annual principal and interest payments (totaling \$4.8 million in 2009-10) were 51% of net system revenues.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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 2009-10 net system revenues of \$4.8 million, annual principal and interest payments (totaling \$2.1 million) were 44% of net system revenues.

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 infrastructure assistance for the City's West Industrial Area. The City qualified for \$600,000 in interest-free assistance to be repaid in annual installments of \$200,000 beginning in July 2007.

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, 2010

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
2011	\$ 2,250,000	\$ 4,547,241	\$ 78,418	\$ 33,893	\$ 2,332,138	\$ 4,577,413
2012	2,360,000	4,445,552	82,137	30,173	2,446,036	4,471,826
2013	2,460,000	4,340,803	86,036	26,275	2,550,118	4,362,995
2014	2,570,000	4,230,703	90,118	22,191	2,664,394	4,248,619
2015	2,695,000	4,111,388	94,394	17,916	2,793,875	4,124,823
2016-2020	15,420,000	18,582,941	310,920	26,007	15,632,045	18,595,516
2021-2025	19,615,000	14,383,900			19,615,000	14,383,900
2026-2030	22,160,000	9,210,148			22,160,000	9,210,148
2031-2035	19,325,000	3,757,199			19,325,000	3,757,199
2036-2038	5,530,000	562,000			5,530,000	562,000
Total	\$ 94,385,000	\$ 68,171,875	\$ 742,023	\$ 156,455	\$ 95,048,606	\$ 68,294,439

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 \$3,700,000 at June 30, 2010.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. CLASSIFICATION OF FUND BALANCE

Fund Financial Statements

In the Fund Financial Statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions. The following summarizes reservations and designations for Governmental Funds:

	Major Funds					Total
	General	Housing Set-Aside	Redevelopment	Facility Fees	Non-Major Funds	
Reserved for:						
Loans receivable/ due from developers	\$ 53,240					\$ 53,240
Unreserved - designated for:						
Compensated absences	1,192,686		\$ 5,965		\$ 109,502	1,308,153
OPEB	872,841		18,806		206,151	1,097,798
Contingencies	4,409,319					4,409,319
Unreserved	<u>12,462,857</u>	<u>\$ 5,989,937</u>	<u>15,917,313</u>	<u>\$ 16,323,160</u>	<u>25,676,942</u>	<u>76,370,209</u>
Total fund balances	<u>\$ 18,990,943</u>	<u>\$ 5,989,937</u>	<u>\$ 15,942,084</u>	<u>\$ 16,323,160</u>	<u>\$ 25,992,595</u>	<u>\$ 83,238,719</u>

In proprietary funds, net assets are separated into the three categories as explained in footnote 1(K).

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 \$592,605 and received \$40,288 in refunds during the fiscal year ended June 30, 2010. Settled claims have not exceeded commercial excess liability coverage in any of the past three fiscal years.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

8. RISK MANAGEMENT, Continued

The following provides condensed financial information for CSJVRMA:

Central San Joaquin Valley Risk Management Authority	
Condensed Financial Information	
As of and for the Year Ended June 30, 2010	
Total Assets	\$ 67,337,173
Total Liabilities	55,453,249
Net Assets	<u>\$ 11,883,924</u>
Operating Revenues	\$ 29,546,299
Operating Expenses	(30,147,304)
Net Non-Operating Revenues (Expenses)	<u>3,181,476</u>
Change in Net Assets	<u>\$ 2,580,471</u>

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, 2010 claims were \$2,764,290.

For the Year Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2008	\$ 2,764,380	\$ 4,506,190	\$ (4,506,190)	\$ 2,764,380
2009	\$ 2,764,380	\$ 4,802,128	\$ (4,802,218)	\$ 2,764,290
2010	\$ 2,764,290	\$ 6,185,711	\$ (6,185,711)	\$ 2,764,290

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

9. RETIREMENT PLAN, Continued

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 2009-10. The City’s actuarially determined employer contributions as a percentage of covered payroll were as follows:

	<u>2009-10</u>
Miscellaneous employees	14.558%
Public Safety - Fire employees	22.935%
Public Safety - Police employees	25.924%

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

Annual Pension Cost – For fiscal year 2009-10, the City’s annual pension cost of \$4,521,164 for PERS was equal to the City’s required and actual contributions as determined by the June 30, 2007 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, 2007
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:	3.25% 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>
Average amortization period (as of valuation date):	21 years	16 years	16 years

Funding Status – The following is the funding status of the City’s retirement plans as of June 30, 2009 (the most recent actuarial date):

	<u>Plan Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Liability</u>
Miscellaneous employees	\$ 60,417,996	\$ 79,724,165	\$ 19,306,169

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

9. RETIREMENT PLAN, Continued

Funding Status (continued)

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	Percentage of	
	Pension Cost (APC)	APC Contributed	Net Pension Obligation
6/30/2008	\$ 3,831,256	100%	-
6/30/2009	\$ 4,692,274	100%	-
6/30/2010	\$ 4,521,164	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:

<u>Plan</u>	<u>Covered Employee Group</u>	<u>Funding Obligation</u>
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 payroll
Fire	Employees covered by Turlock Firefighters Local #2434 MOU	4% of payroll

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

10. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Plan Description (continued)

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 31 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 has not established irrevocable trusts for these plans nor are the contributions placed in individual accounts for the employees. Therefore, under the requirements of GASB 45, the City is not able to include the funds set aside as monies available to reduce its net OPEB obligation for these plans. The following provides the balance of funds as of June 30, 2010 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	\$ 823,867
Miscellaneous	\$1,337,195

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	\$801,899
Fire	\$667,095

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 2009-10 fiscal year. The table is broken out between the offset benefit and the City’s health insurance plan.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

10. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Annual OPEB Cost and Net OPEB Obligation (continued)

OFFSET PLAN	Mangement/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$ 60,017	\$ 145,983	\$ 613,948	\$ 75,137	\$ 895,085
Interest on net OPEB obligation	1,691	6,447	17,425	(11,281)	14,282
Adjustments	(2,285)	(8,708)	(23,538)	15,238	(19,293)
Annual OPEB cost (expense)	59,423	143,722	607,835	79,094	890,074
Contributions to irrevocable trust			(255,203)	(183,639)	(438,842)
Benefits payments	(45,010)	(43,401)			(88,411)
Increase (decrease) in NOO	14,413	100,321	352,632	(104,545)	362,821
Net OPEB obligation - beginning	37,585	143,263	387,229	(250,691)	317,386
Net OPEB obligation - ending	<u>\$ 51,998</u>	<u>\$ 243,584</u>	<u>\$ 739,861</u>	<u>\$ (355,236)</u>	<u>\$ 680,207</u>

HEALTH CARE PLAN	Mangement/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$ 104,312	\$ 592,152	\$ 242,238	\$ 166,591	\$ 1,105,293
Interest on net OPEB obligation	(1,634)	17,515	4,139	4,526	24,546
Adjustments	2,207	(23,659)	(5,591)	(6,113)	(33,156)
Annual OPEB cost (expense)	104,885	586,008	240,786	165,004	1,096,683
Contributions to irrevocable trust					-
Benefits payments	(176,471)	(313,968)	(276,737)	(95,636)	(862,812)
Increase (decrease) in NOO	(71,586)	272,040	(35,951)	69,368	233,871
Net OPEB obligation - beginning	(36,311)	389,226	91,972	100,571	545,458
Net OPEB obligation - ending	<u>\$ (107,897)</u>	<u>\$ 661,266</u>	<u>\$ 56,021</u>	<u>\$ 169,939</u>	<u>\$ 779,329</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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 2009-10 fiscal year are as follows:

<u>OFFSET PLAN</u>	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
Miscellaneous			
2008-09	\$147,954	3.17%	\$143,263
2009-10	\$143,722	30.20%	\$243,584
Police			
2008-09	\$566,560	31.65%	\$387,229
2009-10	\$607,835	41.99%	\$739,861
Fire			
2008-09	\$55,776	549.46%	-\$250,691
2009-10	\$79,094	232.18%	-\$355,236
 <u>HEALTH CARE PLAN</u> 			
Mangement/Confidential			
2008-09	\$83,623	143.42%	-\$36,311
2009-10	\$104,885	168.25%	-\$107,897
Miscellaneous			
2008-09	\$483,822	19.55%	\$389,226
2009-10	\$586,008	53.58%	\$661,266
Police			
2008-09	\$183,910	49.99%	\$91,972
2009-10	\$240,786	114.93%	\$56,021
Fire			
2008-09	\$119,934	16.14%	\$100,571
2009-10	\$165,004	57.96%	\$169,939

11. COMMITMENTS AND CONTINGENCIES

Litigation

As of June 30, 2010, 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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

11. COMMITMENTS AND CONTINGENCIES (continued)

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.

12. SUBSEQUENT EVENTS

On January 27, 2011 the Turlock Public Financing Authority issued \$15,300,000 in Tax Allocation Revenue Bonds. These Bonds, secured by tax increment revenue from the Turlock Redevelopment Agency, are being used to assist with the financing of a new public safety facility to be located within the Agency's project area boundaries. The Bonds carry coupons ranging from 2.50% - 7.50% and mature in September 2039.

REQUIRED SUPPLEMENTARY INFORMATION

City of Turlock
Required Supplementary Information
For the year ended June 30, 2010

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, 2010, 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, 2010

Budgetary Comparison Schedule -
General Fund

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 15,449,350	\$ 15,449,350	\$ 14,752,075	\$ (697,275)
Licenses and permits	1,320,500	1,320,500	1,116,052	(204,448)
Fines, forfeitures, and penalties	350,000	350,000	342,662	(7,338)
Use of money and property	721,000	721,000	259,369	(461,631)
Intergovernmental	5,462,059	5,462,059	5,707,457	245,398
Charges for current services	3,403,810	3,399,285	3,272,575	(126,710)
Other	1,562,101	1,581,293	2,918,195	1,336,902
Total revenues	28,268,820	28,283,487	28,368,385	84,898
EXPENDITURES:				
Current:				
General government	3,216,260	2,955,761	2,802,634	153,127
Public safety	24,224,045	24,304,465	24,763,100	(458,635)
Public ways and facilities/transportation	281,279	281,279	255,407	25,872
Culture and recreation	2,366,081	2,344,128	2,220,991	123,137
Community development	683,006	950,905	883,974	66,931
Capital outlay	64,750	60,798	60,760	38
Debt service:				
Principal	127,310	127,310	127,310	-
Interest and fiscal charges	14,892	14,892	14,893	(1)
Total expenditures	30,977,623	31,039,538	31,129,069	(89,531)
REVENUES OVER (UNDER)				
EXPENDITURES	(2,708,803)	(2,756,051)	(2,760,684)	(4,633)
OTHER FINANCING SOURCES (USES):				
Transfers in	4,952,815	9,563,908	9,850,813	286,905
Transfers out	(300,895)	(280,895)	(208,082)	72,813
Total other financing sources (uses)	4,651,920	9,283,013	9,642,731	359,718
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES				
	\$ 1,943,117	\$ 6,526,962	6,882,047	\$ 355,085
FUND BALANCES:				
Beginning of year			12,108,896	
End of year			\$ 18,990,943	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2010

Budgetary Comparison Schedule -
Housing Set-Aside Fund

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 1,387,100	\$ 1,387,100	\$ 1,540,855	\$ 153,755
Use of money and property	6,500	6,500	53,237	46,737
Total revenues	1,393,600	1,393,600	1,594,092	200,492
EXPENDITURES:				
Current:				
Community development	5,687,244	6,227,228	809,481	5,417,747
Capital outlay	3,000	3,000	-	3,000
Total expenditures	5,690,244	6,230,228	809,481	5,420,747
REVENUES OVER (UNDER)				
EXPENDITURES	(4,296,644)	(4,836,628)	784,611	5,621,239
OTHER FINANCING SOURCES (USES):				
Transfers in	169,147	169,147	127,878	(41,269)
Transfers out	(315,393)	(315,393)	(128,506)	186,887
Total other financing sources (uses)	(146,246)	(146,246)	(628)	145,618
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (4,442,890)	\$ (4,982,874)	783,983	\$ 5,766,857
FUND BALANCES:				
Beginning of year			5,205,954	
End of year			\$ 5,989,937	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2010

Budgetary Comparison Schedule -
Redevelopment

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 4,356,800	\$ 4,356,800	\$ 4,602,063	\$ 245,263
Use of money and property	100,000	100,000	214,774	114,774
Other			27,439	27,439
Total revenues	4,456,800	4,456,800	4,844,276	387,476
EXPENDITURES:				
Current:				
Community development	6,029,374	9,472,314	7,414,382	2,057,932
Debt service:				
Principal	505,000	505,000	505,000	-
Interest and fiscal charges	1,364,360	1,364,360	1,364,345	15
Total expenditures	7,898,734	11,341,674	9,283,727	2,057,947
REVENUES OVER (UNDER)				
EXPENDITURES	(3,441,934)	(6,884,874)	(4,439,451)	2,445,423
OTHER FINANCING SOURCES (USES):				
Transfers in		20,221	20,221	-
Transfers out	(18,168,966)	(18,168,966)	(5,192,713)	12,976,253
			-	-
Total other financing sources (uses)	(18,168,966)	(18,148,745)	(5,172,492)	12,976,253
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (21,610,900)	\$ (25,033,619)	(9,611,943)	\$ 15,421,676
FUND BALANCES:				
Beginning of year			25,554,027	
End of year			\$ 15,942,084	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2010

Budgetary Comparison Schedule -
Facility Fees

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Licenses and permits	\$ 915,000	\$ 915,000	\$ 1,048,177	\$ 133,177
Use of money and property	185,000	185,000	148,451	(36,549)
Other	1,635,800	1,635,800	660,356	(975,444)
Total revenues	2,735,800	2,735,800	1,856,984	(878,816)
EXPENDITURES:				
Current:				
General government	1,081,500	1,081,500	400,964	680,536
Public safety	3,500	3,500	282	3,218
Public ways and facilities/ transportation	750	750	111	639
Capital outlay	14,205,254	13,491,133	2,977,672	10,513,461
Debt service:				
Principal	220,091	220,091	220,092	(1)
Interest and fiscal charges	33,319	33,319	33,319	-
Total expenditures	15,544,414	14,830,293	3,632,440	11,197,853
REVENUES OVER (UNDER)				
EXPENDITURES	(12,808,614)	(12,094,493)	(1,775,456)	10,319,037
OTHER FINANCING SOURCES (USES):				
Transfers in	9,917,698	13,600,358	172,847	(13,427,511)
Transfers out	(636,900)	(386,900)	-	386,900
Loan Proceeds	889,305	889,305	-	(889,305)
Total other financing sources (uses)	10,170,103	14,102,763	172,847	(13,929,916)
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (2,638,511)	\$ 2,008,270	(1,602,609)	\$ (3,610,879)
FUND BALANCES:				
Beginning of year			<u>17,925,769</u>	
End of year			<u>\$ 16,323,160</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2010

PUBLIC EMPLOYEE RETIREMENT SYSTEMS (PERS)
SCHEDULE OF FUNDING PROGRESS

	Entry Age		Actuarial Assets			Actuarial Assets
	Actuarial	Actuarial	Over (Under)		Annual	Over (Under)
	Valuation	Accrued	Accrued	Funded	Covered	Liability as
	Date	Liability	Liability	Status	Payroll	Percentage of
		Value				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%

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

This page intentionally left blank.

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, Rental Rehabilitation and Stanislaus County Housing Consortium

This group of 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.

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, 2010

	Special Revenue				
	Police Crime Prevention	Gas Tax/ Street Improvement	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
ASSETS					
Cash and investments	\$ 13,459	\$ 2,942,851	\$ 552,492	\$ 42,558	\$ 63,690
Accounts receivable		389,119	18,507		9,977
Interest receivable		623	871		
Loans receivable					
Other assets					
Total assets	\$ 13,459	\$ 3,332,593	\$ 571,870	\$ 42,558	\$ 73,667
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 109,336	\$ 466	\$ 673	\$ 6,102
Payroll payable		20,021			7,927
Due to other funds					
Deferred revenue					14,000
Total liabilities	-	129,357	466	673	28,029
Fund Balances:					
Unreserved:					
Designated for compensated absences		71,412			
Designated for OPEB		101,311			20,602
Undesignated	13,459	3,030,513	571,404	41,885	25,036
Total fund balances	13,459	3,203,236	571,404	41,885	45,638
Total liabilities and fund balances	\$ 13,459	\$ 3,332,593	\$ 571,870	\$ 42,558	\$ 73,667

Special Revenue						
Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$ 27,474	\$ 4,882,433 - 7,091	\$ 2,871,702 25,699	\$ 982,876 1,486	\$ 602,785 907	\$ 7,973,645 109,864 12,258	\$ 55,088
<u>\$ 27,474</u>	<u>\$ 4,889,524</u>	<u>\$ 2,897,401</u>	<u>\$ 984,362</u>	<u>\$ 603,692</u>	<u>\$ 8,095,767</u>	<u>\$ 55,088</u>
\$ 3,008	\$ 41,490	\$ 9,555			\$ 15,845 18,497	
<u>3,008</u>	<u>41,490</u>	<u>9,555</u>	<u>-</u>	<u>-</u>	<u>34,342</u>	<u>-</u>
24,466	4,848,034	2,887,846	984,362	603,692	20,002 41,006 8,000,417	55,088
<u>24,466</u>	<u>4,848,034</u>	<u>2,887,846</u>	<u>984,362</u>	<u>603,692</u>	<u>8,061,425</u>	<u>55,088</u>
<u>\$ 27,474</u>	<u>\$ 4,889,524</u>	<u>\$ 2,897,401</u>	<u>\$ 984,362</u>	<u>\$ 603,692</u>	<u>\$ 8,095,767</u>	<u>\$ 55,088</u>

(Continued)

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2010

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus County Housing Consortium
ASSETS					
Cash and investments	\$ 68,384	\$ 33,205	\$ 172,790		\$ 10,027
Accounts receivable	8,420	136,100		795	\$1,049,696
Interest receivable	571				
Loans receivable		4,901,864	3,788,996	16,734	5,266,920
Other assets					
Total assets	\$ 77,375	\$ 5,071,169	\$ 3,961,786	\$ 17,529	\$ 6,326,643
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 21,815		\$ 33,835	\$ 47,542
Payroll payable		10,163			2,338
Due to other funds		36,522		1,172,859	988,000
Deferred revenue		4,901,864	3,788,996	\$ 16,734	5,266,920
Total liabilities	-	4,970,364	3,788,996	1,223,428	6,304,800
Fund Balances:					
Unreserved:					
Designated for compensated absences		18,088			
Designated for OPEB		33,205			10,027
Undesignated	77,375	49,512	172,790	(1,205,899)	11,816
Total fund balances	77,375	100,805	172,790	(1,205,899)	21,843
Total liabilities and fund balances	\$ 77,375	\$ 5,071,169	\$ 3,961,786	\$ 17,529	\$ 6,326,643

Special Revenue		Capital Projects				
Grant Funds	Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
\$ 10,588	\$ 21,306,047	\$ 630,757	\$ 160,304	\$ 251,699	\$ 3,126,176	\$ 1,285,754
141,231	1,889,408					
-	23,807	948	241		4,701	1,684
	13,974,514					
	-					
<u>\$ 151,819</u>	<u>\$ 37,193,776</u>	<u>\$ 631,705</u>	<u>\$ 160,545</u>	<u>\$ 251,699</u>	<u>\$ 3,130,877</u>	<u>\$ 1,287,438</u>
\$ 16,574	\$ 306,241	\$ 620				
13,009	71,955					
58,403	2,255,784					
	13,988,514					
	-					
<u>87,986</u>	<u>16,622,494</u>	<u>620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-					
	109,502					
	206,151					
63,833	20,255,629	631,085	160,545	251,699	3,130,877	1,287,438
63,833	20,571,282	631,085	160,545	251,699	3,130,877	1,287,438
<u>\$ 151,819</u>	<u>\$ 37,193,776</u>	<u>\$ 631,705</u>	<u>\$ 160,545</u>	<u>\$ 251,699</u>	<u>\$ 3,130,877</u>	<u>\$ 1,287,438</u>

(Continued)

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2010

	Capital Projects			Total Nonmajor Funds
	Westside Industrial Specific Plan	East Tuolumne Master Plan	Total	
ASSETS				
Cash and investments	\$ 88,578		\$ 5,543,268	\$ 26,849,315
Accounts receivable			-	1,889,408
Interest receivable			7,574	31,381
Loans receivable			-	13,974,514
Other assets			-	-
Total assets	\$ 88,578	\$ -	\$ 5,550,842	\$ 42,744,618
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 909		\$ 1,529	\$ 307,770
Payroll payable			-	71,955
Due to other funds		128,000	128,000	2,383,784
Deferred revenue			-	13,988,514
Total liabilities	909	128,000	129,529	16,752,023
Fund Balances:				
Unreserved:				
Designated for compensated absences			-	109,502
Designated for OPEB			-	206,151
Undesignated	87,669	(128,000)	5,421,313	25,676,942
Total fund balances	87,669	(128,000)	5,421,313	25,992,595
Total liabilities and fund balances	\$ 88,578	\$ -	\$ 5,550,842	\$ 42,744,618

(Concluded)

This page intentionally left blank.

City of Turlock

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

Nonmajor Governmental Funds

For the year ended June 30, 2010

	Special Revenue				
	Police Crime Prevention	Gas Tax/ Street Improvement	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
REVENUES:					
Taxes and assessments					
Licenses and permits					
Use of money and property		\$ 9,028	\$ 4,075		244
Intergovernmental	\$ 16,795	3,545,823	62,531		
Charges for current services			53,769	20,062	\$ 221,049
Other		116,890	3,668		9,738
Total revenues	16,795	3,671,741	124,043	20,062	231,031
EXPENDITURES:					
Current:					
General government			52,940		
Public safety	5,000			4,835	
Public ways and facilities/transportation		1,806,283			
Culture and recreation					436,059
Community development					
Capital outlay		545,361			
Debt service:					
Principal		27,509			
Interest and fiscal charges		6,270			
Total expenditures	5,000	2,385,423	52,940	4,835	436,059
REVENUES OVER (UNDER) EXPENDITURES	11,795	1,286,318	71,103	15,227	(205,028)
OTHER FINANCING SOURCES (USES):					
Transfers in		201,246	196		215,391
Transfers out	(10,000)	(350,916)			(1,949)
Loan Proceeds					
Total other financing sources (uses)	(10,000)	(149,670)	196	-	213,442
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,795	1,136,648	71,299	15,227	8,414
FUND BALANCES:					
Beginning of year	11,664	2,066,588	500,105	26,658	37,224
End of year	\$ 13,459	\$ 3,203,236	\$ 571,404	\$ 41,885	\$ 45,638

Special Revenue

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$ 26,660		\$ 92,583			2,367,110	
	\$ 53,089		78,421			
	42,678	-	7,170	4,437	69,723	
		243,552				
36	-	26,647			17,622	
26,696	95,767	362,782	85,591	4,437	2,454,455	-
	-	27,742				
24,108	-	11,438				
	23,618	9,083	25,037		1,652,698	
	-	1,681				
	-	109,401				
	558,971	304,310	2,507			
	-	-				
	71,730	-				
	27,316	-				
24,108	681,635	463,655	27,544	-	1,652,698	-
2,588	(585,868)	(100,873)	58,047	4,437	801,757	-
	264,929	48,373			75,324	
	(6,567)	(58,500)	(50,000)		(2,318)	
-	258,362	(10,127)	(50,000)	-	73,006	-
2,588	(327,506)	(111,000)	8,047	4,437	874,763	-
21,878	5,175,540	2,998,846	976,315	599,255	7,186,662	55,088
\$ 24,466	\$ 4,848,034	\$ 2,887,846	\$ 984,362	\$ 603,692	\$ 8,061,425	\$ 55,088

City of Turlock
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds, Continued
For the year ended June 30, 2010

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus Housing Consortium
REVENUES:					
Taxes and assessments	\$ 339,745				
Licenses and permits					
Use of money and property	\$ 5,154				117
Intergovernmental		\$ 556,165			\$ 1,375,687
Charges for current services					
Other		146,029	28,803	\$ 6,129	6,326
Total revenues	344,899	702,194	28,803	6,129	1,382,130
EXPENDITURES:					
Current:					
General government	11,436				
Public safety					
Public ways and facilities/transportation					
Culture and recreation					
Community development		552,579		1,244,731	1,426,317
Capital outlay		200,000			
Debt service:					
Principal					
Interest and fiscal charges					
Total expenditures	11,436	752,579	-	1,244,731	1,426,317
REVENUES OVER (UNDER) EXPENDITURES	333,463	(50,385)	28,803	(1,238,602)	(44,187)
OTHER FINANCING SOURCES (USES):					
Transfers in		112,355		28,157	57,568
Transfers out	(306,200)				(125)
Loan Proceeds					
Total other financing sources (uses)	(306,200)	112,355	-	28,157	57,443
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	27,263	61,970	28,803	(1,210,445)	13,256
FUND BALANCES:					
Beginning of year	50,112	38,835	143,987	4,546	8,587
End of year	\$ 77,375	\$ 100,805	\$ 172,790	\$ (1,205,899)	\$ 21,843

Special Revenue		Capital Projects				
Grant Funds	Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
	\$ 2,826,098					
	131,510				\$ 10,599	\$ 1,699,303
\$ 102	142,728	\$ 4,830	1,182		28,438	7,829
803,805	6,360,806					
	538,432					
100,787	462,675					
904,694	10,462,249	4,830	1,182	-	39,037	1,707,132
-	92,118	5,208				
371,989	417,370	9,271				
-	3,516,719	2,018			35,079	1,123,835
486,217	923,957	6,888				
-	3,333,028					
16,618	1,627,767	16,848	406		16,612	
-						
-	99,239					
	33,586					
874,824	10,043,784	40,233	406	-	51,691	1,123,835
29,870	418,465	(35,403)	776	-	(12,654)	583,297
12,896	1,016,435	47,781				
(100,102)	(886,677)					
	-					
(87,206)	129,758	47,781	-	-	-	-
(57,336)	548,223	12,378	776	-	(12,654)	583,297
121,169	20,023,059	618,707	159,769	251,699	3,143,531	704,141
\$ 63,833	\$ 20,571,282	\$ 631,085	\$ 160,545	\$ 251,699	\$ 3,130,877	\$ 1,287,438

City of Turlock

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds, Continued For the year ended June 30, 2010

	Capital Projects			Total Nonmajor Funds
	Westside Industrial Specific Plan	East Tuolumne Master Plan	Total	
REVENUES:				
Taxes and assessments			\$	\$ 2,826,098
Licenses and permits	\$ 21,681		1,731,583	1,863,093
Use of money and property			42,279	185,007
Intergovernmental			-	6,360,806
Charges for current services			-	538,432
Other			-	462,675
Total revenues	21,681	-	1,773,862	12,236,111
EXPENDITURES:				
Current:				
General government			5,208	97,326
Public safety			9,271	426,641
Public ways and facilities/transportation	50,985	20,000	1,231,917	4,748,636
Culture and recreation			6,888	930,845
Community development			-	3,333,028
Capital outlay	544,915		578,781	2,206,548
Debt service:				
Principal			-	99,239
Interest and fiscal charges			-	33,586
Total expenditures	595,900	20,000	1,832,065	11,875,849
REVENUES OVER (UNDER) EXPENDITURES	(574,219)	(20,000)	(58,203)	360,262
OTHER FINANCING SOURCES (USES):				
Transfers in	407,120		454,901	1,471,336
Transfers out			-	(886,677)
Loan Proceeds	94,371		94,371	94,371
Total other financing sources (uses)	501,491	-	549,272	679,030
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(72,728)	(20,000)	491,069	1,039,292
FUND BALANCES:				
Beginning of year	160,397	(108,000)	4,930,244	24,953,303
End of year	\$ 87,669	\$ (128,000)	\$ 5,421,313	\$ 25,992,595

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, 2010

	Airport	Transportation	Building & Safety	Total Nonmajor Funds
ASSETS				
Current assets:				
Cash and investments	\$ 60,729	\$ 2,017,273	\$ 281,305	\$ 2,359,307
Accounts receivable		656,003	55	656,058
Interest receivable		2,726		2,726
Due from other funds				-
Total current assets	60,729	2,676,002	281,360	3,018,091
Capital assets				
Non-depreciable	266,263	330,468		596,731
Depreciable, net of depreciation	2,133,242	3,305,095		5,438,337
Total capital assets	2,399,505	3,635,563	-	6,035,068
Total Assets	2,460,234	6,311,565	281,360	9,053,159
LIABILITIES				
Current liabilities:				
Accounts payable		68,974	650	69,624
Salaries payable		2,439	16,667	19,106
Deferred revenue		958,511		958,511
Compensated absences - due in one year		3,611	11,110	14,721
Total current liabilities	-	1,033,535	28,427	1,061,962
Compensated absences - due in more than one year		14,442	44,439	58,881
Net OPEB Obligation		7,979	73,774	81,753
Total liabilities	-	1,055,956	146,640	1,202,596
NET ASSETS				
Invested in capital assets, net of related debt	2,399,505	3,635,563	-	6,035,068
Unrestricted	60,729	1,620,046	134,720	1,815,495
Total net assets	\$ 2,460,234	\$ 5,255,609	\$ 134,720	\$ 7,850,563

City of Turlock
Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds
For the year ended June 30, 2010

	Airport	Transportation	Building & Safety	Total
OPERATING REVENUES:				
Charges for services		\$ 129,357	\$ 636,381	\$ 765,738
Intergovernmental	\$ 250,845	1,293,769		1,544,614
Other income		27,020	28,303	55,323
Total operating revenues	250,845	1,450,146	664,684	2,365,675
OPERATING EXPENSES:				
Salaries		70,148	481,359	551,507
Benefits and insurance		38,727	228,732	267,459
Contractual	3	882,991	210,744	1,093,738
Supplies and maintenance		70,084	3,906	73,990
Utilities		7,654	10,322	17,976
Fleet expense		114,632	4,609	119,241
Depreciation and amortization	78,766	211,164		289,930
Other expenses		16,764	3,643	20,407
Total operating expenses	78,769	1,412,164	943,315	2,434,248
Operating income (loss)	172,076	37,982	(278,631)	(68,573)
NONOPERATING REVENUES (EXPENSES):				
Interest income		13,789	831	14,620
Loss on disposal of capital assets				-
Total nonoperating revenues (expenses)	-	13,789	831	14,620
INCOME (LOSS) BEFORE OPERATING TRANSFERS	172,076	51,771	(277,800)	(53,953)
Transfers in		7,779	224,345	232,124
Transfers out		(12,392)	(3,390)	(15,782)
Total transfers	-	(4,613)	220,955	216,342
Net income (loss)	172,076	47,158	(56,845)	162,389
NET ASSETS:				
Beginning of year	2,288,158	5,208,451	191,565	7,688,174
End of year	\$ 2,460,234	\$ 5,255,609	\$ 134,720	\$ 7,850,563

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2010

	Airport	Transportation	Building & Safety	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 250,845	\$ 1,715,529	\$ 664,629	\$ 2,631,003
Cash paid to suppliers	(3)	(1,091,392)	(257,199)	(1,348,594)
Cash paid to employees		(103,084)	(709,312)	(812,396)
Net cash provided (used) by operating activities	<u>250,842</u>	<u>521,053</u>	<u>(301,882)</u>	<u>470,013</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in		7,779	224,345	232,124
Transfer out		(12,392)	(3,390)	(15,782)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>(4,613)</u>	<u>220,955</u>	<u>216,342</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets	(266,264)	(364,415)		(630,679)
Proceeds from sale of capital assets		-		-
Net cash provided (used) by capital and related financing activities	<u>(266,264)</u>	<u>(364,415)</u>	<u>-</u>	<u>(630,679)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received		18,412	1,721	20,133
Net cash provided (used) by investing activities	<u>-</u>	<u>18,412</u>	<u>1,721</u>	<u>20,133</u>
Net increase (decrease) in cash and cash equivalents	<u>(15,422)</u>	<u>170,437</u>	<u>(79,206)</u>	<u>75,809</u>
CASH AND CASH EQUIVALENTS:				
Beginning of year	76,151	1,846,836	360,511	2,283,498
End of year	<u>\$ 60,729</u>	<u>\$ 2,017,273</u>	<u>\$ 281,305</u>	<u>\$ 2,359,307</u>

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2010

	<u>Airport</u>	<u>Transportation</u>	<u>Building & Safety</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 172,076	\$ 37,982	\$ (278,631)	\$ (68,573)
Noncash items included in operating income (loss)				
Depreciation and amortization	78,766	211,164		289,930
Changes in assets and liabilities				
Accounts receivable		49,827	(55)	49,772
Accounts payable		733	(23,975)	(23,242)
Salaries payable		(73)	(31,261)	(31,334)
Deferred revenue		215,556		215,556
Compensated absences		1,430	1,848	3,278
Net OPEB obligation		4,434	30,192	34,626
Net cash provided (used) by operating activities	<u>\$ 250,842</u>	<u>\$ 521,053</u>	<u>\$ (301,882)</u>	<u>\$ 470,013</u>

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, 2010

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
ASSETS					
Current assets:					
Cash and investments	\$ 2,024,653	\$ 7,867,756	\$ 232,553	\$ 861,215	\$ 10,986,177
Accounts receivable	13,694	505,571		3,814	523,079
Interest receivable	2,774	21,697		291	24,762
Total current assets	2,041,121	8,395,024	232,553	865,320	11,534,018
Capital assets - net	1,203,856			1,354,898	2,558,754
Total assets	3,244,977	8,395,024	232,553	2,220,218	14,092,772
LIABILITIES					
Current liabilities:					
Accounts payable	20,638	841,579	6,722	3,351	872,290
Payroll payable	23,476		12,907	58,031	94,414
Interest payable				10,318	10,318
Compensated absences - due within one year	8,313		13,343	30,945	52,601
Capital lease obligations - due within one year				82,138	82,138
Deposits payable				5,173	5,173
Total current liabilities	52,427	841,579	32,972	189,956	1,116,934
Long-term liabilities:					
Claims liability - due in more than one year		2,764,290			2,764,290
Compensated absences - due in more than one year	33,254		53,374	123,929	210,557
Net OPEB obligation	(32,476)		40,352	174,429	182,305
Capital lease obligation - due in more than one year				581,467	581,467
Total long-term liabilities	778	2,764,290	93,726	879,825	3,738,619
Total liabilities	53,205	3,605,869	126,698	1,069,781	4,855,553
NET ASSETS					
Invested in capital assets, net of related debt	1,203,856		-	691,293	1,895,149
Unrestricted	1,987,916	4,789,155	105,855	459,144	7,342,070
Total net assets	\$ 3,191,772	\$ 4,789,155	\$ 105,855	\$ 1,150,437	\$ 9,237,219

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Internal Service Funds
For the year ended June 30, 2010

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
OPERATING REVENUES:					
Charges for services	\$ 918,998	\$ 8,915,843	\$ 585,119	\$ 1,863,100	\$ 12,283,060
Refunds & Other Income	81,666	665,199	9,809	148,522	905,196
Total operating revenues	1,000,664	9,581,042	594,928	2,011,622	13,188,256
OPERATING EXPENSES:					
Salaries	322,083		329,004	1,439,748	2,090,835
Benefits and insurance	173,729	9,034,778	153,637	709,725	10,071,869
Contractual	32,639		146,888	412,790	592,317
Supplies and maintenance	11,245		6,948	34,506	52,699
Utilities	35,842		20,360	27,493	83,695
Fleet expense	36,376		172	12,049	48,597
Depreciation and amortization	352,207		1,757	65,325	419,289
Other expenses	2,094	22,910		5,954	30,958
Total operating expenses	966,215	9,057,688	658,766	2,707,590	13,390,259
Operating income (loss)	34,449	523,354	(63,838)	(695,968)	(202,003)
NONOPERATING REVENUES (EXPENSES):					
Interest income	16,682	114,674	537	4,737	136,630
(Loss) on disposal of capital assets	13,459		(511)	9,558	22,506
Interest expense				(32,673)	(32,673)
Total nonoperating revenues (expenses)	30,141	114,674	26	(18,378)	126,463
Income (loss) before operating transfers	64,590	638,028	(63,812)	(714,346)	(75,540)
Transfers in	83,992		71,794	287,305	443,091
Transfers out	(22,196)	(6,562,990)	(301)	(9,004)	(6,594,491)
Total transfers	61,796	(6,562,990)	71,493	278,301	(6,151,400)
Net income (loss)	126,386	(5,924,962)	7,681	(436,045)	(6,226,940)
NET ASSETS:					
Beginning of year	3,065,386	10,714,117	98,174	1,586,482	15,464,159
End of year	<u>\$ 3,191,772</u>	<u>\$ 4,789,155</u>	<u>\$ 105,855</u>	<u>\$ 1,150,437</u>	<u>\$ 9,237,219</u>

City of Turlock
Combining Statement of Cash Flows
Internal Service Funds
For the year ended June 30, 2010

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 910,901	\$ 8,774,115	\$ 585,119	\$ 1,859,286	\$ 12,129,421
Cash paid to suppliers	(338,227)	(131,432)	(167,693)	(487,607)	(1,124,959)
Cash paid to employees	(542,074)	(9,034,778)	(467,604)	(2,077,245)	(12,121,701)
Other	79,572	642,289	9,809	147,741	879,411
Net cash provided (used) by operating activities	110,172	250,194	(40,369)	(557,825)	(237,828)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in	83,992		71,794	287,305	443,091
Operating transfers out	(22,196)	(6,562,990)	(301)	(9,004)	(6,594,491)
Net cash provided (used) by noncapital capital financing activities	61,796	(6,562,990)	71,493	278,301	(6,151,400)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(29,147)				(29,147)
Proceeds from disposal of capital assets	14,681			15,917	30,598
Principal payments on long-term debt				(78,418)	(78,418)
Interest paid				(33,892)	(33,892)
Net cash provided (used) by capital and related financing activities	(14,466)	-	-	(96,393)	(110,859)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	19,432	140,572	537	7,606	168,147
Net cash provided (used) by investing activities	19,432	140,572	537	7,606	168,147
Net increase (decrease) in cash and cash equivalents	176,934	(6,172,224)	31,661	(368,311)	(6,331,940)
CASH AND CASH EQUIVALENTS:					
Beginning of year	1,847,719	14,039,980	200,892	1,229,526	17,318,117
End of year	\$ 2,024,653	\$ 7,867,756	\$ 232,553	\$ 861,215	\$ 10,986,177
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 34,449	\$ 523,354	\$ (63,838)	\$ (695,968)	\$ (202,003)
Noncash items included in operating income (loss)					
Depreciation	352,207		1,757	65,325	419,289
Changes in assets and liabilities					
Accounts receivable	(8,097)	(141,728)		(3,814)	(153,639)
Accounts payable	(222,125)	(131,432)	6,675	(769)	(347,651)
Payroll payable	11,232		(7,290)	(7,896)	(3,954)
Compensated absences	(10,108)		2,837	(13,766)	(21,037)
Deposits				5,173	5,173
Claims liability					-
Net OPEB obligation	(47,386)		19,490	93,890	65,994
Net cash provided (used) by operating activities	\$ 110,172	\$ 250,194	\$ (40,369)	\$ (557,825)	\$ (237,828)

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 – 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, 2010

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Northwest Triangle - Mello Roos Assessments				
Assets				
Cash and investments	\$ 531,316	\$ 339,469	\$ (429,900)	\$ 440,885
Cash and investments with fiscal agents	418,585	395	(490)	418,490
Accounts and interest receivable	51,276	129,735	(51,387)	129,624
Total assets	\$ 1,001,177	\$ 469,599	\$ (481,777)	\$ 988,999
Liabilities				
Due to others	\$ 1,001,177	\$ 469,599	\$ (481,777)	\$ 988,999
Total liabilities	\$ 1,001,177	\$ 469,599	\$ (481,777)	\$ 988,999
Property & Business Improvement District #2				
Assets				
Cash and investments	\$ 57,631	\$ 157,902	\$ (196,917)	\$ 18,616
Accounts and interest receivable	10,937	3,950	(10,972)	3,915
Total assets	\$ 68,568	\$ 161,852	\$ (207,889)	\$ 22,531
Liabilities				
Accounts payable	\$ 20,171	\$ -	\$ (20,171)	\$ -
Due to others	48,397	161,852	(187,718)	22,531
Total liabilities	\$ 68,568	\$ 161,852	\$ (207,889)	\$ 22,531
Total - All Agency Funds				
Assets				
Cash and investments	\$ 588,947	\$ 497,371	\$ (626,817)	\$ 459,501
Cash and investments with fiscal agents	418,585	395	(490)	418,490
Accounts and interest receivable	62,213	133,685	(62,359)	133,539
Total assets	\$ 1,069,745	\$ 631,451	\$ (689,666)	\$ 1,011,530
Liabilities				
Accounts payable	\$ 20,171	\$ -	\$ (20,171)	\$ -
Due to others	1,049,574	631,451	(669,495)	1,011,530
Total liabilities	\$ 1,069,745	\$ 631,451	\$ (689,666)	\$ 1,011,530

This page intentionally left blank.



**REDEVELOPMENT AGENCY OF
THE CITY OF TURLOCK**

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Redevelopment Agency of the City of Turlock
For the year ended June 30, 2010

Table of Contents

	<u>Page</u>
Independent Auditors' Report	
Basic Financial Statements	
Government-Wide Financial Statements:	
✓ Statement of Net Assets.....	1
✓ Statement of Activities and Changes in Net Assets.....	2
Governmental Fund Financial Statements:	
✓ Balance Sheet	3
✓ Reconciliation of the Governmental Funds Balance Sheet to the Governmental-Wide Statement of Net Assets.....	4
✓ Statement of Revenue, Expenditures and Changes in Fund Balances	5
✓ Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Governmental-Wide Statement of Activities and Changes in Net Assets.....	6
Notes to Basic Financial Statements	7
Required Supplementary Information	20
Independent Auditors' Compliance Report.....	23



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Redevelopment Agency of the City of Turlock
Turlock, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Turlock (Agency), a component unit of the City of Turlock, California (City), as of and for the year ended June 30, 2010, as listed in the foregoing table of contents, which collectively comprise the Agency's basic financial statements. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information was derived from the Agency's 2009 financial statements, which were audited by Caporicci & Larson, CPA's, whose operations by merger became a wholly owed subsidiary of Marcum LLP as of October 1, 2010, and whose report dated December 28, 2009, expressed an unqualified opinion on those financial statements. As discussed in Note 8, the Agency has restated its 2009 financial statements during the current year to reflect adjustments made to Agency accounts during the audit of the City's financial statements, in conformity with accounting principles general accepted in the United States of America. The other auditors' reported on the 2009 financial statements before the restatement.

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 Agency'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 the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 8 that were applied to restate the 2009 financial statements. In our opinion, such adjustments were appropriate and have been properly applied.

To the Board of Directors
of the Redevelopment Agency of the City of Turlock
Turlock, California
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010, on our consideration of the Agency'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.

The Required Supplementary Information (budget comparison information) as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it. The Agency has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the financial statements.

Capricci & Larson, Inc.

Certified Public Accountants

San Francisco, California
December 29, 2010

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Redevelopment Agency of the City of Turlock

Statement of Net Assets

June 30, 2010

(With comparative totals for June 30, 2009)

ASSETS	Governmental Activities	
	2010	2009 (restated)
Current assets:		
Cash and investments	\$ 16,709,375	\$ 19,895,036
Cash and investments with fiscal agent	6,984,766	11,819,659
Accounts receivable	204,479	284,922
Interest receivable	47,940	84,733
Total current assets	<u>23,946,560</u>	<u>32,084,350</u>
Noncurrent assets:		
Loans receivable	6,398,354	5,828,280
Deferred charges	585,969	608,363
Capital assets:		
Nondepreciable	1,557,751	1,557,751
Depreciable, net	<u>7,523,070</u>	<u>7,669,331</u>
Total capital assets	<u>9,080,821</u>	<u>9,227,082</u>
Total noncurrent assets	<u>16,065,144</u>	<u>15,663,725</u>
Total Assets	<u>40,011,704</u>	<u>47,748,075</u>
LIABILITIES		
Current liabilities:		
Accounts payable	489,677	33,129
Payroll payable	4,065	3,872
Interest payable	448,363	456,257
Deposits payable	1,269,755	1,042,910
Long-term debt, due within one year	525,000	505,000
Total current liabilities	<u>2,736,860</u>	<u>2,041,168</u>
Noncurrent liabilities:		
Long-term debt, due in more than one year	<u>27,593,850</u>	<u>28,130,080</u>
Total noncurrent liabilities	<u>27,593,850</u>	<u>28,130,080</u>
Total Liabilities	<u>30,330,710</u>	<u>30,171,248</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,060,485	6,062,592
Restricted for:		
Capital projects	-	305,275
Special projects and programs	<u>12,594,096</u>	<u>11,208,960</u>
Total restricted	<u>12,594,096</u>	<u>11,514,235</u>
Unrestricted	<u>(8,973,587)</u>	<u>-</u>
Total Net Assets	<u>\$ 9,680,994</u>	<u>\$ 17,576,827</u>

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Statement of Activities and Changes in Net Assets
For the fiscal year ended June 30, 2010

(With comparative totals for the fiscal year ended June 30, 2009)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue And Changes in Net Assets	
			Charges for Services	Governmental Activities
			2010	2009 (restated)
Primary government:				
Governmental activities:				
Community development	\$ 7,782,562	\$ 16,588	\$ (7,765,974)	\$ (2,196,199)
Interest on long-term debt	1,367,615		(1,367,615)	(1,391,123)
Total governmental activities	<u>9,150,177</u>	<u>16,588</u>	<u>(9,133,589)</u>	<u>(3,587,322)</u>
General revenues and transfers:				
Taxes:				
Property			6,142,918	6,720,383
Interest and investment earnings			267,958	574,686
Transfers to other City funds			(5,173,120)	(2,773,367)
Total general revenues and transfers			<u>1,237,756</u>	<u>4,521,702</u>
Changes in net assets			(7,895,833)	934,380
Net Assets:				
Beginning of year			<u>17,576,827</u>	<u>16,642,447</u>
End of year			<u>\$ 9,680,994</u>	<u>\$ 17,576,827</u>

See accompanying Notes to Basic Financial Statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Redevelopment Agency of the City of Turlock
Balance Sheet
Governmental Funds
June 30, 2010
(With comparative totals for June 30, 2009)

	Major Funds			Total	
	Special Revenue	Capital Projects		2010	2009
	Housing Set Aside	Redevelopment	Downtown Improvement Project		
<u>Assets</u>					
Cash and investments	\$ 6,446,528	\$ 10,011,148	\$ 251,699	\$ 16,709,375	\$ 19,895,036
Cash and investments with fiscal agent		6,984,766		6,984,766	11,819,659
Accounts Receivable	3,372	201,107		204,479	284,922
Interest receivable	9,038	38,902		47,940	84,733
Loans receivable	6,398,354			6,398,354	5,828,280
Other assets					
Total Assets	\$ 12,857,292	\$ 17,235,923	\$ 251,699	\$ 30,344,914	\$ 37,912,630
<u>Liabilities and Fund Balances</u>					
<u>Liabilities</u>					
Accounts payable	\$ 469,001	\$ 20,676		\$ 489,677	\$ 33,129
Payroll payable		4,065		4,065	3,872
Deferred revenue	6,398,354			6,398,354	5,821,039
Deposits payable		1,269,755		1,269,755	1,042,910
Due to City					
Advances from other City funds					
Total Liabilities	6,867,355	1,294,496		8,161,851	6,900,950
<u>Fund Balances</u>					
Reserved for:					
Loans receivable					31,522
For other assets					
Unreserved, designated for:					
Post Employment Retirement Benefits					
Compensated absences		5,965		5,965	3,681
Unreserved, undesignated	5,989,937	15,935,462	251,699	22,177,098	30,976,477
Total Fund Balances	5,989,937	15,941,427	251,699	22,183,063	31,011,680
Total Liabilities and Fund Balances	\$ 12,857,292	\$ 17,235,923	\$ 251,699	\$ 30,344,914	\$ 37,912,630

See accompanying Notes to Basic Financial Statements.

**Redevelopment Agency of the City of Turlock
 Reconciliation of the Governmental Funds Balance Sheet
 to the Government-Wide Statement of Net Assets
 June 30, 2010**

Total Fund Balances - Total Governmental Funds \$ 22,183,063

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. Therefore capital assets were not reported in the Governmental Funds Balance Sheet.

Non depreciable capital assets	\$ 1,557,751
Depreciable capital assets	8,750,389
Accumulated depreciation	<u>(1,227,319)</u>

Total capital assets	9,080,821
----------------------	-----------

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. (448,363)

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 - due within one year	\$ (525,000)
Long-term liabilities - due in more than one year	(27,593,850)
Unamortized cost of issuance included in deferred charges	<u>585,969</u>

Total long-term liabilities, net of deferred charges	(27,532,881)
--	--------------

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the Governmental Funds Balance Sheet. 6,398,354

Net Assets of Governmental Activities	<u><u>\$ 9,680,994</u></u>
--	----------------------------

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010
(With comparative totals for the fiscal year ended June 30, 2009)

	Major Funds				Total	
	Special Revenue	Capital Projects		2010	2009	
	Housing Set Aside	Redevelopment	Downtown Improvement Project			
Revenues						
Taxes and assessments	\$ 1,540,855	\$ 4,602,063		\$ 6,142,918	\$ 6,720,383	
Use of money and property	53,237	214,721		267,958	574,686	
Miscellaneous		16,588		16,588	2,637	
Total Revenues	1,594,092	4,833,372		6,427,464	7,297,706	
Expenditures						
Current:						
Public ways/facilities						
Community development	809,481	7,404,135		8,213,616	2,157,706	
Capital outlay					140,000	
Debt service						
Principal		505,000		505,000	480,000	
Interest and fiscal charges		1,364,345		1,364,345	1,387,254	
Issuance costs for Tax Allocation Bonds						
Total Expenditures	809,481	9,273,480		10,082,961	4,164,960	
Excess (Deficit) of Revenues over Expenditures	784,611	(4,440,108)		(3,655,497)	3,132,746	
Other Financing Sources (Uses)						
Transfers in from other City funds	127,878	20,221		148,099	11,460	
Transfers out to other City funds	(128,506)	(5,192,713)		(5,321,219)	(2,784,827)	
Issuance of Tax Allocation Bonds						
Premium on Tax Allocation Bonds						
Total Other Financing Sources (Uses)	(628)	(5,172,492)		(5,173,120)	(2,773,367)	
Net change in fund balances	783,983	(9,612,600)		(8,828,617)	359,379	
Fund Balances, July 1	5,205,954	25,554,027	251,699	31,011,680	30,652,301	
Fund Balances, June 30	\$ 5,989,937	\$ 15,941,427	\$ 251,699	\$ 22,183,063	\$ 31,011,680	

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
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 fiscal year ended June 30, 2009

Net change in fund balances - Total Governmental Funds \$ (8,828,617)

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. This is the amount of capital assets recorded in the current period. -

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditures in the governmental funds. (146,261)

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. 505,000
 Principal payments on long-term debt

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. (3,270)

Expenses reported in the Statement of Activities which do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenditures are reported as Loans Receivable and Deferred Revenue on the Fund Financial Statements. 577,315

Change in Net Assets of Governmental Activities \$ (7,895,833)

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency (Agency) 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 Agency's accounting policies are described below.

A. Reporting Entity

The Agency, a blended component unit of the City of Turlock (City), was created in October 1977 by a City ordinance pursuant to the California Community Redevelopment Law. The members of the City Council serve as the governing board for the Agency. All powers of the Agency are vested in the governing board. The Agency is a separate public body and exercises governmental functions in planning and carrying out redevelopment projects. The Agency can facilitate the development of on- and off-site improvements, acquire and sell property, construct public buildings and provide services to the project area. The Agency has broad general powers to fulfill the objectives contained in the redevelopment plan, and has created a single redevelopment plan within the boundaries of the City.

The financial transactions of the Agency 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.

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

B. Basis of Accounting/Management Focus

The accounts of the Agency 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 Agency'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 activities for the Agency.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency'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 Agency 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.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Management Focus (continued)

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 Agency has presented all funds as major funds.

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 90 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the Agency are property tax increment and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Major Funds

The Agency reports the following major governmental funds:

Special Revenue, Housing Set Aside

This fund accounts for 20% of the tax increment revenue generated within the Agency boundaries which is required under California law to be set aside for low- and moderate-income housing programs.

Capital Projects, Redevelopment

This fund accounts for 80% of the tax increment revenue generated within the Agency boundaries as well as the use of bond proceeds. Activities accounted for in this fund include the repayment of Agency debt, the payment of 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.

Capital Projects, Downtown Improvement Project

This fund accounts for unexpended monies left from the City's downtown improvement project. These monies can be used for additional improvements and art work within in the downtown.

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 Agency's policy is to apply restricted net assets first.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash, Cash Equivalents, and Investments

In order to facilitate the management of cash, the Agency pools its cash and investments with those of the City of Turlock. 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.

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. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Land Improvements	25-60 years
Furniture and Equipment	5 years

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 Agency has included all infrastructure into the basic financial statements.

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

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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 fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

G. Net Assets and Fund Equity

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that 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.”

Fund Financial Statements

Fund Equity – Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

H. Tax Increment Revenue

When redevelopment agency project areas are adopted a base year assessed value is determined. The property tax revenue generated by this base year assessed value is distributed to respective taxing entities in the same manner as prior to the adoption of a project area. The post-adoption growth in the assessed value for parcels within the project area is referred to as “incremental growth” and the associated property taxes as “tax increment revenue”. Tax increment revenue is determined and distributed by Stanislaus County as part of the County’s overall property tax apportionment activities as described below.

All property taxes are collected and allocated by Stanislaus County 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.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Tax Increment Revenue (continued)

In November 1993, the Agency adopted the “Teeter Plan” method of property tax distribution. Under the Teeter Plan, the County remits tax increment revenue to the Agency 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.

Tax increment revenue is recognized when it is available and measurable. The Agency considers tax increment revenue as available if it is received within 60 days after the fiscal year end.

I. 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

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 Agency is a participant in the City’s pooled cash activity. The Agency’s share of the City’s pooled cash at June 30, 2010, was \$16,709,375. 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.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

2. CASH AND INVESTMENTS (continued)

A. Authorized Investments (continued)

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, 2010 the carrying amount of the City's time and demand deposits was \$50,785,312. The difference between the bank balance of \$51,673,271 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. 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 221 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.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

2. CASH AND INVESTMENTS (continued)

C. Risk Disclosures (continued)

At June 30, 2010 the City's credit risks, expressed on a percentage basis were as follows:

	<u>S&P Credit Rating</u>	<u>% of Investments</u>
US Governments Agencies	AAA	15.08%
CA Local Agency Investment Fund	not rated	59.82%
Certificates of deposit	not rated	22.96%
Money Market/Mututal Funds	not rated	2.14%
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. All securities, with the exception of LAIF, Certificates of Deposit and Money Market/Mutual Funds, 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.

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, 2009 to June 30, 2010 amounted to an unrealized gain of \$228,900.

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 values its investment in LAIF at amortized cost, which approximates the fair market value.

The City's investment with LAIF at June 30, 2010 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).

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

2. CASH AND INVESTMENTS (continued)

D. External Investment Pool (continued)

As of June 30, 2010, the City had \$60,003,775 invested in LAIF, which had invested 5.42% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001643776 was used to calculate the fair value of investments in LAIF as of June 30, 2010.

3. LOANS RECEIVABLE

Government Wide Financial Statements

At June 30, 2010, the Agency's loans receivable consisted of the following:

	<u>Governmental Activities</u>
Cherry Tree Village	\$ 848,621
Central Valley Coalition for Affordable Housing	4,796,167
First Time Homebuyer Loans	306,500
EAH, Inc.	447,066
Total	<u><u>\$ 6,398,354</u></u>

Cherry Tree Village

The Agency has a loan receivable with Cherry Tree Village Partners, L.P. to assist with the development of a low/moderate-income housing apartment complex. The loan receivable is pursuant to a Loan Agreement which calls for the Agency to advance a total of \$600,000 to the project over eleven years. The loan carries a 5% simple interest rate and is repayable from residual rental receipts per the terms of the Agreement. As of June 30, 2010, the Agency's receivable consists of the full \$600,000 in principal plus accrued interest of \$248,621

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 – one of which is using Redevelopment Agency low/moderate income housing funds. CVCAH developed *Crane Terrace*, a 44-unit, three-story, low-income senior living apartment complex which was completed and occupied in August 2006. Since then it has averaged close to 100% occupancy. The Redevelopment Agency has 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, 2010 was \$4,796,167.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

3. LOANS RECEIVABLE (continued)

Government Wide Financial Statements (continued)

First Time Homebuyer Loans

The First Time Homebuyer Loan (FTHB) program, funded using Federal and/or State of California HOME funds along with 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 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, 2010, the Agency funded or assisted in funding 15 outstanding FTHB loans.

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 a Disposition and Development Agreement (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 144 unit, three-story, apartment complex for low- and moderate-income families with amenities that would complement the project and surrounding neighborhood.

The DDA contains funding for up to \$4 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 \$3 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, 2010 the Agency had expended \$447,066 of the pre-construction funds.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

4. CAPITAL ASSETS

Government-Wide Financial Statements

At June 30, 2010, the Agency's capital assets consisted of the following:

<u>Governmental Activities</u>	Balance			Balance
	July 1, 2009	Additions	Deletions	June 30, 2010
Non-depreciable Assets:				
Land	\$ 1,555,251			\$ 1,555,251
Construction in progress	2,500			2,500
Total nondepreciable assets	1,557,751	-	-	1,557,751
Depreciable Assets:				
Furniture & Equipment	40,361			40,361
Land Improvements	8,710,028			8,710,028
Total depreciable assets	8,750,389	-	-	8,750,389
Less accumulated depreciation:				
Furniture & Equipment	(40,360)	(1)		(40,361)
Land Improvements	(1,040,698)	(146,260)		(1,186,958)
Total accumulated depreciation	(1,081,058)	(146,261)	-	(1,227,319)
Net depreciable assets	7,669,331	(146,261)	-	7,523,070
Total governmental activities	\$ 9,227,082	\$ (146,261)	\$ -	\$ 9,080,821

Governmental activities depreciation expense for capital assets for the year ended June 30, 2010 as \$149,261 which was recorded as part of Community Development activity expenses.

5. LONG-TERM DEBT

Government-Wide Financial Statements

Following is a summary of the Agency's long-term debt transactions during the fiscal year ended June 30, 2010:

<u>Governmental Activities</u>	Balance			Balance June 30, 2010	Due within one year	Due in more than one year
	July 1, 2009	Additions	Retirements			
Loans payable to City of Turlock						
Public Financing Authority	\$ 28,330,000		\$ (505,000)	\$ 27,825,000	\$ 525,000	\$ 27,300,000
Add: Unamortized Bond Premium	305,080		(11,230)	293,850		293,850
Total	\$ 28,635,080	\$ -	\$ (516,230)	\$ 28,118,850	\$ 525,000	\$ 27,593,850

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

5. LONG-TERM DEBT (Continued)

Government-Wide Financial Statements (continued)

Loans Payable to City of Turlock Public Financing Authority

Loans payable to the City of Turlock Public Financing Authority (Authority) consist of the proceeds of two bond issues consummated by the Authority, the proceeds of which were loaned to the Agency. The following provides additional information related to these two loans.

In March 1999, the Authority issued \$4,970,000 in Revenue Bonds and loaned the proceeds to the Agency to finance the rehabilitation of the City's downtown area. The Agency's tax increment revenue is pledged for repayment of the bonds (see below) which carry coupon interest rates ranging from 3.5% - 5.55% and have semi-annual principal and interest payments on the first of March and September through September 2024. The outstanding principal for this loan as of June 30, 2010 is \$3,395,000.

In August 2006, the Authority issued \$25,440,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to finance various infrastructure projects to be constructed within the Agency's project area boundaries. As with the 1999 Bonds, the Agency's tax increment revenue is pledged for repayment of these bonds (see below). 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 outstanding principal for this loan as of June 30, 2010 is \$24,430,000.

Pledged Revenues for 1999 Revenue Bonds and 2006 Tax Revenue Allocation Bonds

Pursuant to a Loan Agreement between the Agency, the Authority and the Bond Trustee, the Agency has pledged its tax increment revenue (reduced by the amount allocable to the Housing Set-Aside fund, unsubordinated pass through payments, and amounts payable to other taxing agencies under Redevelopment Law) for repayment of the Bonds. Pledged revenues are further limited to the current fiscal year's debt service requirements. Debt service for 2009-10 was 22% of total tax increment revenues. Total tax increment revenues (prior to Housing Set-Aside and pass through payments) for 2009-10 were \$8,491,729; while principal and interest payments on the bonds totaled \$1,869,360.

The annual debt service requirements for the loans payable to the Authority are as follows:

For the Years Ending June 30,	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 150,000	\$ 179,009	\$ 375,000	\$ 1,161,054	\$ 525,000	\$ 1,340,063
2012	160,000	170,872	390,000	1,143,841	550,000	1,314,713
2013	170,000	162,210	410,000	1,125,841	580,000	1,288,051
2014	180,000	153,023	430,000	1,106,941	610,000	1,259,964
2015	185,000	143,442	450,000	1,087,141	635,000	1,230,583
2016-2020	1,100,000	551,344	2,550,000	5,126,955	3,650,000	5,678,299
2021-2025	1,450,000	205,739	3,125,000	4,531,756	4,575,000	4,737,495
2026-2030			5,795,000	3,478,875	5,795,000	3,478,875
2031-2035			7,400,000	1,837,500	7,400,000	1,837,500
2036-2037			3,505,000	177,376	3,505,000	177,376
	<u>\$ 3,395,000</u>	<u>\$ 1,565,639</u>	<u>\$ 24,430,000</u>	<u>\$ 20,777,280</u>	<u>\$ 27,825,000</u>	<u>\$ 22,342,919</u>

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

6. RISK MANAGEMENT

The Agency participates in the City's risk management program. All claims are accounted for in the City's general and workers' compensation claims. All claims that were probable liabilities that occurred prior to the year-end and that were estimable were recorded in accordance with GASB Statement No. 10.

7. COMMITMENT – SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUNDS (SERAF)

In July 2009, the State Legislature passed and the governor signed, Assembly Bill (AB) 26x4, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds" (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools.

The California Redevelopment Association (CRA) in conjunction with redevelopment agencies across the State filed suit in Sacramento Superior Court challenging the constitutionality of the SERAF transfers. On May 4, 2010, the Court denied the CRA petition and also rejected a request to stay making payments in accordance with the legislation. CRA appealed the court's decision as well as the denial of a stay on the payments. On May 7, 2010, the Third District Court of Appeals denied CRA's appeal of the stay on making the payments which were due to the County Auditor-Controller's on May 10, 2010. The Court of Appeals has not yet issued a ruling on CRA's appeal of the Superior Court decision.

The Agency's obligation under AB26x4 was \$3,337,940 for the 2009-10 fiscal year and will be \$687,223 for fiscal year 2010-11. The Agency's 2009-10 payment was made in a timely fashion using excess increment funds.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2010

8. PRIOR PERIOD ADJUSTMENT

When the 2008-09 Agency financial statements were prepared, the citywide *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* adjustment had not yet been completed. Additionally, during this process, it was determined that the City would no longer be presenting the amounts that it had been setting aside outside of an irrevocable trust for OPEB as Agency Funds. For financial statement purposes, these amounts were 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). The following table presents the effects of these adjustments on the Agency's 2008-09 Statement of Net Assets and Statement of Activities.

	As Originally Presented	OPEB Adjustment	Close Agency Fund	As Currently Presented
<u>Statement of Net Assets</u>				
Cash and investments	\$ 19,876,887		\$ 18,149	\$19,895,036
Net Assets	\$ 17,558,678		\$ 18,149	\$17,576,827
<u>Statement of Activities</u>				
Community development expenses	\$ (2,200,041)	\$ (1,365)	\$ 2,570	\$ (2,198,836)
Community development charges for services	1,272	1,365		2,637
Interest on long-term debt	(1,391,123)			(1,391,123)
Net Expense and changes in net assets	(3,589,892)	0	2,570	(3,587,322)
Total general revenue and transfers	4,521,702			4,521,702
Changes in net assets	931,810	0	2,570	934,380
Net assets - beginning of year	16,626,868		15,579	16,642,447
Net assets - end of year	\$ 17,558,678	\$ -	\$ 18,149	\$17,576,827

REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Turlock
Required Supplementary Information
For the year ended June 30, 2010

BUDGETARY CONTROL AND ACCOUNTING

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

1. The Executive Director submits to the Agency Board a proposed budget for the fiscal year beginning July 1. The budget includes proposed expenditures and the means of financing them.
2. The Board reviews the proposed budget at specially scheduled meetings which are open to the public. The Board 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 Executive Director is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The Board 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. Annual budgets are legally adopted and amended as required for the Special Revenue and Capital Projects funds.
6. All budgets are prepared on a basis consistent with generally accepted accounting principles in the United States.
7. Budgeted amounts are reflected after all applicable amendments are revisions.
8. Appropriations lapse at the end of the fiscal year and are rebudgeted, if necessary, for the coming year.
9. 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).

**Redevelopment Agency of the City of Turlock
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes
 In Fund Balances - Budget and Actual -
 Housing Set Aside Fund
 For the Fiscal Year Ended June 30, 2010**

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 1,387,100	\$ 1,387,100	\$ 1,540,855	\$ 153,755
Use of money and property	6,500	6,500	53,237	46,737
Other			-	-
Total Revenues	<u>1,393,600</u>	<u>1,393,600</u>	<u>1,594,092</u>	<u>200,492</u>
Expenditures				
Current				
Community development	5,690,244	6,230,228	809,481	5,420,747
Capital Outlay			-	-
Total Expenditures	<u>5,690,244</u>	<u>6,230,228</u>	<u>809,481</u>	<u>5,420,747</u>
Excess (Deficit) of Revenues over Expenditures	<u>(4,296,644)</u>	<u>(4,836,628)</u>	<u>784,611</u>	<u>5,621,239</u>
Other Financing Sources (Uses)				
Transfers in from other City funds	169,147	169,147	127,878	41,269
Transfers out to other City funds	<u>(315,393)</u>	<u>(315,393)</u>	<u>(128,506)</u>	<u>(186,887)</u>
Total Other Financing Sources (Uses)	<u>(146,246)</u>	<u>(146,246)</u>	<u>(628)</u>	<u>(145,618)</u>
Net change in fund balance	<u>\$ (4,442,890)</u>	<u>\$ (4,982,874)</u>	<u>783,983</u>	<u>\$ 5,475,621</u>
Fund Balance, July 1			<u>5,205,954</u>	
Fund Balance, June 30			<u>\$ 5,989,937</u>	

Redevelopment Agency of the City of Turlock
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes
In Fund Balances - Budget and Actual -
Redevelopment
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 4,356,800	\$ 4,356,800	\$ 4,602,063	\$ 245,263
Use of money and property	100,000	100,000	214,721	114,721
Other	-	-	16,588	16,588
Total Revenues	<u>4,456,800</u>	<u>4,456,800</u>	<u>4,833,372</u>	<u>376,572</u>
Expenditures				
Current				
Community development	4,029,374	7,472,314	7,404,135	68,179
Capital Outlay	2,000,000	2,000,000	-	2,000,000
Debt service				
Principal	505,000	505,000	505,000	-
Interest and fiscal charges	1,364,360	1,364,360	1,364,345	15
Total Expenditures	<u>7,898,734</u>	<u>11,341,674</u>	<u>9,273,480</u>	<u>2,068,194</u>
Excess (Deficit) of Revenues over Expenditures	<u>(3,441,934)</u>	<u>(6,884,874)</u>	<u>(4,440,108)</u>	<u>2,444,766</u>
Other Financing Sources (Uses)				
Transfers in	-	20,221	20,221	-
Transfers out to other City funds	<u>(18,168,966)</u>	<u>(18,168,966)</u>	<u>(5,192,713)</u>	<u>12,976,253</u>
Total Other Financing Sources (Uses)	<u>(18,168,966)</u>	<u>(18,148,745)</u>	<u>(5,172,492)</u>	<u>12,976,253</u>
Net change in fund balance	<u><u>\$ (21,610,900)</u></u>	<u><u>\$ (25,033,619)</u></u>	<u><u>(9,612,600)</u></u>	<u><u>\$ 15,421,019</u></u>
Fund Balance, July 1			<u>25,554,027</u>	
Fund Balance, June 30			<u><u>\$ 15,941,427</u></u>	



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**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 Redevelopment Agency of the City of Turlock
Turlock, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Turlock (Agency), a component unit of the City of Turlock, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected, on a timely basis.

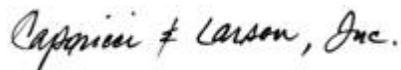
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 Redevelopment Agency of the City of Turlock
Turlock, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 result 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, the board of Directors of the Agency, others within the entity, and the State controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants

San Francisco, California
December 29, 2010



TURLOCK PUBLIC FINANCING AUTHORITY

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Turlock Public Financing Authority
For the year ended June 30, 2010

Table of Contents

	<u>Page</u>
Independent Auditors' Report	
Basic Financial Statements	
Government-Wide Financial Statements:	
✓ Statement of Net Assets.....	1
✓ Statement of Activities and Changes in Net Assets.....	2
Governmental Fund Financial Statements	
✓ Balance Sheet	3
✓ Reconciliation of the Governmental Funds Balance Sheet to the Governmental-Wide Statement of Net Assets.....	4
✓ Statement of Revenues, Expenditures and Changes in Fund Balances	5
✓ Reconciliation of the Governmental Statement of Revenues, Expenditures and Changes in Fund Balances to the Governmental-Wide Statement of Activities and Changes in Net Assets.....	6
Proprietary Fund Financial Statements	
✓ Statement of Net Assets.....	7
✓ Statement of Activities and Changes in Net Assets.....	8
✓ Statement of Cash Flows	9
Notes to Basic Financial Statements	10
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	16

This page intentionally left blank.

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, 2010, as listed in the foregoing table of contents, which collectively comprise the Authority's basic financial statements. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2010, and the respective changes in financial position and cash flows (as applicable) 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 June 29, 2011, 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 grants 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

The Authority has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
June 29, 2011

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Turlock Public Financing Authority
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Interest receivable	\$ 448,363	\$ 1,149,815	\$ 1,598,178
Total current assets	448,363	1,149,815	1,598,178
Noncurrent assets:			
Cash and investments with fiscal agent	6,984,766	6,803,375	13,788,141
Leases receivable	25,528,376	86,326,522	111,854,898
Deferred charges	585,470	533,606	1,119,076
Total noncurrent assets	33,098,612	93,663,503	126,762,115
Total assets	33,546,975	94,813,318	128,360,293
LIABILITIES			
Current liabilities:			
Accrued interest	448,363	1,149,815	1,598,178
Long-term debt, due within one year	525,000	2,250,000	2,775,000
Total current liabilities	973,363	3,399,815	4,373,178
Noncurrent liabilities:			
Bonds payable, due in more than one year	27,593,850	91,413,503	119,007,353
Total noncurrent liabilities	27,593,850	91,413,503	119,007,353
Total liabilities	28,567,213	94,813,318	123,380,531
NET ASSETS			
Restricted for:			
Debt service	2,296,624		2,296,624
Capital projects	2,683,138		2,683,138
Total net assets	\$ 4,979,762	\$ -	\$ 4,979,762

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, 2010

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	\$ 1,367,615	\$ -	\$ (1,367,615)	\$ -	\$ (1,367,615)
Total governmental activities	1,367,615	-	(1,367,615)	-	(1,367,615)
Business-type activities:					
Sewer	3,214,270	2,954,589	-	(259,681)	(259,681)
Water	1,457,630	1,486,228	-	28,598	28,598
Total business-type activities	4,671,900	4,440,817	-	(231,083)	(231,083)
Total	\$ 6,039,515	\$ 4,440,817	(1,367,615)	(231,083)	(1,598,698)
General revenues:					
Lease revenues			40,259		40,259
Interest and investment earnings			1,356,451	231,083	1,587,534
Total general revenues			1,396,710	231,083	1,627,793
Transfers to City of Turlock			(4,871,795)		(4,871,795)
Total general revenues and transfers			(3,475,085)	231,083	(3,244,002)
Changes in net assets			(4,842,700)	-	(4,842,700)
Net Assets:					
Beginning of year			9,822,462	-	9,822,462
End of year			\$ 4,979,762	\$ -	\$ 4,979,762

See accompanying Notes to Basic Financial Statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Turlock Public Financing Authority
Balance Sheet
Governmental Funds
June 30, 2010

<u>Assets</u>	<u>1999 Revenue Bonds</u>	<u>2006 Tax Allocation Revenue Bonds</u>	<u>Total</u>
Cash and investments with fiscal agent	\$ 374,664	\$ 6,610,102	\$ 6,984,766
Leases receivable	3,020,336	22,508,040	25,528,376
Total Assets	<u>\$ 3,395,000</u>	<u>\$ 29,118,142</u>	<u>\$ 32,513,142</u>
 <u>Liabilities</u> 			
Deferred revenue	\$ 3,020,336	\$ 22,508,040	\$ 25,528,376
Total Liabilities	<u>3,020,336</u>	<u>22,508,040</u>	<u>25,528,376</u>
 <u>Fund Balances</u> 			
Reserved:			
Debt service	374,664	1,921,960	2,296,624
Capital projects		4,688,142	4,688,142
Total Fund Balances	<u>374,664</u>	<u>6,610,102</u>	<u>6,984,766</u>
Total Liabilities and Fund Balance	<u>\$ 3,395,000</u>	<u>\$ 29,118,142</u>	<u>\$ 32,513,142</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, 2010

Total Fund Balances - Total Governmental Funds \$ 6,984,766

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. (448,363)

Interest receivable on long-term loans. 448,363

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. 25,528,376

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 - due within one year (525,000)

Long-term liabilities - due in more than one year (27,593,850)

Unamortized cost of issuance included in deferred charges 585,470

Total long-term liabilities, net of deferred charges (27,533,380)

Net Assets of Governmental Activities \$ 4,979,762

Turlock Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	1999 Revenue Bonds	2006 Tax Allocation Revenue Bonds	Total
Revenues			
Lease revenue	\$ 141,654	\$ 400,248	\$ 541,902
Use of money and property	186,754	1,177,591	1,364,345
Total Revenues	<u>328,408</u>	<u>1,577,839</u>	<u>1,906,247</u>
Expenditures			
Debt service			
Principal	145,000	360,000	505,000
Interest and fiscal charges	186,754	1,177,591	1,364,345
Total Expenditures	<u>331,754</u>	<u>1,537,591</u>	<u>1,869,345</u>
Excess (Deficit) of Revenues over Expenditures	<u>(3,346)</u>	<u>40,248</u>	<u>36,902</u>
Other Financing Sources (Uses)			
Transfer to Turlock Redevelopment Agency		(4,871,795)	(4,871,795)
Total Other Financing Sources	<u>-</u>	<u>(4,871,795)</u>	<u>(4,871,795)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(3,346)	(4,831,547)	(4,834,893)
Fund Balances, July 1, 2009	<u>378,010</u>	<u>11,441,649</u>	<u>11,819,659</u>
Fund Balances, June 30, 2010	<u>\$ 374,664</u>	<u>\$ 6,610,102</u>	<u>\$ 6,984,766</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, 2010

Net change in fund balances - Total Governmental Funds **\$ (4,834,893)**

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

Lease revenue is recognized as revenue on the fund financial statements, (501,643)

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 505,000

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	7,894	
Amortization of issuance costs	(11,164)	(3,270)

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. (7,894)

Change in Net Assets of Governmental Activities **\$ (4,842,700)**

Turlock Public Financing Authority
Statement of Net Assets
Proprietary Funds
June 30, 2010

<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	\$ 2,026,106	\$ 6,803,375
Interest receivable	276,281	640,783	232,751	1,149,815
Deferred charges		368,572	165,034	533,606
Leases receivable	15,815,908	41,658,835	28,851,779	86,326,522
Total Assets	<u>17,632,808</u>	<u>45,904,840</u>	<u>31,275,670</u>	<u>94,813,318</u>
 <u>Liabilities</u> 				
Current liabilities:				
Interest payable	276,281	640,783	232,751	1,149,815
Current portion - bonds payable	600,000	1,050,000	600,000	2,250,000
Total current liabilities	<u>876,281</u>	<u>1,690,783</u>	<u>832,751</u>	<u>3,399,815</u>
Long-term liabilities:				
Bonds payable	<u>16,756,527</u>	<u>44,214,057</u>	<u>30,442,919</u>	<u>91,413,503</u>
Total Liabilities	<u>17,632,808</u>	<u>45,904,840</u>	<u>31,275,670</u>	<u>94,813,318</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, 2010

	1999	2003A	2008	Total
	<u>Sewer Bonds</u>	<u>Sewer Bonds</u>	<u>Water Bonds</u>	<u>Total</u>
Operating Revenue				
Lease Revenue	\$ 883,255	\$ 2,071,334	\$ 1,486,228	\$ 4,440,817
Total Operating Revenue	<u>883,255</u>	<u>2,071,334</u>	<u>1,486,228</u>	<u>4,440,817</u>
Operating Income (Loss)	<u>883,255</u>	<u>2,071,334</u>	<u>1,486,228</u>	<u>4,440,817</u>
Non-Operating Revenues (Expenses)				
Interest income	93,457	166,224	(28,598)	231,083
Interest expense	<u>(976,712)</u>	<u>(2,237,558)</u>	<u>(1,457,630)</u>	<u>(4,671,900)</u>
Total Non-Operating Revenues (Expenses)	<u>(883,255)</u>	<u>(2,071,334)</u>	<u>(1,486,228)</u>	<u>(4,440,817)</u>
Net Income (Loss)	-	-	-	-
Net assets, July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, June 30, 2010	<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, 2010

	1999	2003A	2008	Total
	Sewer Bonds	Sewer Bonds	Water Bonds	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 1,437,436	\$ 3,060,010	\$ 2,017,913	\$ 6,515,359
Net Cash Provided (Used) by Operating Activities	1,437,436	3,060,010	2,017,913	6,515,359
Cash Flows from Capital and Related Financing Activities:				
Principal payments on long-term debt	(575,000)	(1,015,000)	(580,000)	(2,170,000)
Interest paid	(963,855)	(2,221,577)	(1,450,738)	(4,636,170)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,538,855)	(3,236,577)	(2,030,738)	(6,806,170)
Cash Flows from Investing Activities:				
Interest received	101,398	176,553	(24,815)	253,136
Net Cash Provided (Used) by Investing Activities	101,398	176,553	(24,815)	253,136
Net Increase (Decrease) in Cash and Cash Equivalents	(21)	(14)	(37,640)	(37,675)
Cash and Cash Equivalents, July 1, 2009	1,540,640	3,236,664	2,063,746	6,841,050
Cash and Cash Equivalents, June 30, 2010	\$ 1,540,619	\$ 3,236,650	\$ 2,026,106	\$ 6,803,375
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Cash Flows from Operating Activities:				
Operating income (loss)	\$ 883,255	\$ 2,071,334	\$ 1,486,228	\$ 4,440,817
Changes in assets and liabilities				
Leases Receivable	554,181	988,676	531,685	2,074,542
Net Cash Provided (Used) by Operating Activities	\$ 1,437,436	\$ 3,060,010	\$ 2,017,913	\$ 6,515,359

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2010

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.

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.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Management Focus (continued)

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.

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.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. Net Assets and Fund Equity

Government-Wide Financial Statements

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 issued during 2006-07 that will be used to finance capital improvement projects.

Fund Financial Statements

Fund Equity – Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

G. 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.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS

All of the Authority's cash at June 30, 2010 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, 2010 was \$13,788,141. 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 \$111,854,898 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.

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, 2010:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2009	Due within one year	Due in more than one year
Governmental Activities						
1999 Revenue Bonds	\$ 3,540,000		\$ (145,000)	\$ 3,395,000	\$ 150,000	\$ 3,245,000
2006 Tax Allocation Revenue Bonds	24,790,000		(360,000)	24,430,000	375,000	24,055,000
Add: Unamortized Bond Premium	305,080		(11,230)	293,850		293,850
Total Governmental Activities	28,635,080	-	(516,230)	28,118,850	525,000	27,593,850
Business-Type Activities						
1999 Sewer Revenue Bonds	18,280,000		(575,000)	17,705,000	600,000	17,105,000
Less: Unamortized Bond Discount	(369,271)		20,797	(348,474)		(348,474)
2003A Sewer Revenue Bonds	46,520,000		(1,015,000)	45,505,000	1,050,000	44,455,000
Less: Unamortized Bond Discount	(251,343)		10,402	(240,941)		(240,941)
2008 Water Revenue Bonds	31,755,000		(580,000)	31,175,000	600,000	30,575,000
Less: Unamortized Bond Discount	(136,827)		4,745	(132,082)		(132,082)
Total Business-Type Activities	95,797,559	-	(575,255)	93,663,503	2,250,000	91,413,503
Total Long-Term Debt	\$ 124,432,639	\$ -	\$ (1,091,485)	\$ 121,782,353	\$ 2,775,000	\$ 119,007,353

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2010

4. LONG-TERM DEBT, 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.

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.

Annual debt service requirements are shown below for governmental activity long-term debt:

For the Years Ending June 30,	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 150,000	\$ 179,009	375,000	\$ 1,161,054	\$ 525,000	\$ 1,340,063
2012	160,000	170,872	390,000	1,143,841	550,000	1,314,713
2013	170,000	162,210	410,000	1,125,841	580,000	1,288,051
2014	180,000	153,023	430,000	1,106,941	610,000	1,259,964
2015	185,000	143,442	450,000	1,087,141	635,000	1,230,583
2016-2020	1,100,000	551,344	2,550,000	5,126,955	3,650,000	5,678,299
2021-2025	1,450,000	205,739	3,125,000	4,531,756	4,575,000	4,737,495
2026-2030			5,795,000	3,478,875	5,795,000	3,478,875
2031-2035			7,400,000	1,837,500	7,400,000	1,837,500
2036-2037			3,505,000	177,376	3,505,000	177,376
	<u>\$ 3,395,000</u>	<u>\$ 1,565,639</u>	<u>\$ 24,430,000</u>	<u>\$ 20,777,280</u>	<u>\$ 27,825,000</u>	<u>\$ 22,342,919</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.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2010

4. LONG-TERM DEBT, 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.

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.

Annual debt service requirements are shown below for all business-type activity long-term debt:

For the Years Ending June 30,	Sewer Revenue Bonds		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 1,650,000	\$ 3,119,703	600,000	1,427,538	\$ 2,250,000	\$ 4,547,241
2012	1,735,000	3,042,015	625,000	1,403,537	2,360,000	4,445,552
2013	1,810,000	2,959,140	650,000	1,381,663	2,460,000	4,340,803
2014	1,900,000	2,871,790	670,000	1,358,913	2,570,000	4,230,703
2015	1,995,000	2,779,276	700,000	1,332,112	2,695,000	4,111,388
2016-2020	11,485,000	12,372,528	3,935,000	6,210,413	15,420,000	18,582,941
2021-2025	14,780,000	9,071,688	4,835,000	5,312,212	19,615,000	14,383,900
2026-2030	16,130,000	5,088,260	6,030,000	4,121,888	22,160,000	9,210,148
2031-2035	11,725,000	1,209,124	7,600,000	2,548,075	19,325,000	3,757,199
2036-2038			5,530,000	562,000	5,530,000	562,000
Total	\$ 63,210,000	\$ 42,513,524	\$ 31,175,000	\$ 25,658,351	\$ 94,385,000	\$ 68,171,875

5. SUBSEQUENT EVENTS

On January 27, 2011 the Turlock Public Financing Authority issued \$15,300,000 in Tax Allocation Revenue Bonds. These Bonds, secured by tax increment revenue from the Turlock Redevelopment Agency, are being used to assist with the financing of a new public safety facility to be located within the Agency's project area boundaries. The Bonds carry coupons ranging from 2.50% - 7.50% and mature in September 2039.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**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, 2010, and have issued our report thereon dated June 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 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 would not necessarily 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 result 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, 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. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
June 29, 2011



CITY OF TURLOCK

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

City of Turlock
Single Audit Report
For the year ended June 30, 2010

Table of Contents

	<u>Page</u>
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 <i>Government Auditing Standards</i>	1
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 the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133.....	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards.....	6
Schedule of Findings and Questioned Costs	7



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 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*.

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. However, this report is a matter of public record and its distribution is not limited.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
May 19, 2011



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**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 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 compliance of the City of Turlock (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. 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, 2010.

Internal Control over Compliance

The 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

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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.

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, 2010, and have issued our report thereon dated May 19, 2011. 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

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. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
May 19, 2011

City of Turlock
Single Audit Report
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

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-07-MC-06-0039	\$ 147,378
Community Development Block Grant (CDBG) Program	14.228	B-08-MC-06-0039	408,788
Program Income - CDBG	14.228	N/A	105,491
HOME Investment Partnerships (HOME) Program	14.239	M-07-DC-06-0240	593,600
HOME Investment Partnerships (HOME) Program	14.239	M-08-DC-06-0240	782,087
Program Income - HOME	14.239	N/A	5,633
Community Development Block Grant (CDBG) Program (ARRA)	14.253	B-09-MY-06-0039	27,461
Total U.S. Department of Housing and Urban Development			2,070,438
U. S. Department of Transportation			
<i>Passed through the California Department of Transportation:</i>			
Congestion Mitigation And Air Quality Improvement Program (CMAQ)	20.205	CML-5165(025,029 - 031)	34,119
Surface Transportation Program (STP)	20.205	N/A	32,243
Highway Planning and Construction (ARRA)	20.205	N/A	56,250
Sustained Traffic Enforcement Program (STEP)	20.605	PT0823	27,812
AVOID Anti-DUI Program	20.605	AL0967	119,458
<i>Passed through the University of California, Berkeley:</i>			
Click It or Ticket	20.600	CT 10-438	10,425
<i>Direct Programs:</i>			
Federal Transit Cluster	20.507	69080138	609,958
Airport Improvement Program	20.106	3-06-0265-08-2009	250,845
Total U. S. Department of Transportation			1,141,110
U. S. Department of Justice			
<i>Direct Programs</i>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2007-DJ-BX-0516	6,251
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2008-DJ-BX-0694	11,462
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2009-DJ-BX-0632	28,094
Bulletproof Vest Partnership Program	16.607	N/A	5,385
Community Oriented Policing Services (COPS) Program (ARRA)	16.710	2009-RK-WX-0167	73,972
Edward Byrne Memorial Justice Assistance Grant (JAG) Program (ARRA)	16.804	2009-SB-B9-0171	18,070
Total U. S. Department of Justice			143,234
U. S. Department of Energy			
<i>Direct Programs</i>			
Weatherization Assistance for Low-Income Persons (WAP) Program	81.042	N/A	406
Total U. S. Department of Energy			406
Total Federal Awards Expenditures			\$ 3,355,188

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, 2010

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, culture-recreation, public improvements, planning and zoning, and general administrative services. The financial reporting entity consists of the City, the primary government, and its component units. The component units discussed below are included in the reporting entity because of their operational or financial relationships with the City.

- Redevelopment Agency of the City of Turlock
- Turlock Public Financing Authority

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations 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 units 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 incurred. The accompanying Schedule has been prepared accordingly.

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, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Turlock, California (City).
2. No material weaknesses were identified and no significant deficiencies were reported relating to internal control over financial reporting.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. No material weaknesses were identified and no significant deficiencies were reported relating to internal control over the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the City were identified or reported.
7. The programs tested as major programs include:

Major Program	Expenditures
HOME Investment Partnerships (HOME) Program	\$ 1,381,320
Highway Planning and Construction (ARRA)	122,612
Federal Transit Cluster	609,958
Total Major Program Expenditures	\$ 2,113,890
Total Federal Expenditures	\$ 3,355,188
Percent of Total Federal Award Expenditures	63%

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City qualified as a low risk auditee under Section 530 of OMB Circular A-133.

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

No financial statement findings were noted.

C. CURRENT YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

No findings or questioned costs were noted for the City's major federal award programs for the year ended June 30, 2010.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

No findings or questioned costs were noted for the City's major federal award programs for the year ended June 30, 2009.



**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
For the year ended June 30, 2010

Table of Contents

	<u>Page</u>
Independent Auditors' Report	
Financial Statements	
✓ Balance Sheet - Governmental Fund - Streets Special Revenue Fund	1
✓ Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund - Streets Special Revenue Fund	2
✓ Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund - Streets Special Revenue Fund	3
✓ Statement of Net Assets - Proprietary Fund - Transportation Enterprise Fund	4
✓ Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund - Transportation Enterprise Fund	5
✓ Statement of Cash Flows - Proprietary Fund - Transportation Enterprise Fund	6
Notes to Financial Statements	7
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	15
Independent Accountants' Report	17

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, 2010, as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 our audit provides a reasonable basis for our opinion.

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, 2010, 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 in the first paragraph present fairly, in all material respects, the financial position of the TDA Program Funds as of June 30, 2010, and the respective changes in financial position thereof 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 a report dated March 29, 2011, on our consideration of the TDA Program Funds' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The 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.

The TDA Program Funds has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statement.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2011

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Balance Sheet
Governmental Fund - Streets Special Revenue Fund
June 30, 2010

		Special Revenue Fund <u>Streets</u>
<u>Assets</u>		
Cash and investments		\$ 2,404,768
Accounts receivable		<u>179,496</u>
Total Assets		<u>\$ 2,584,264</u>
<u>Liabilities and Fund Equity</u>		
Liabilities		
Accounts and salaries payable		<u>\$ 29,916</u>
Total Liabilities		<u>29,916</u>
Fund Balance:		
Unreserved		<u>2,554,348</u>
Total Fund Balance		<u>2,554,348</u>
Total Liabilities and Fund Balance		<u>\$ 2,584,264</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, 2010

Revenues	
Intergovernmental revenues	\$ 1,807,979
Interest income and other revenues	41,497
	<u> </u>
Total Revenues	<u>1,849,476</u>
Expenditures	
Public ways and facilities/transportation	792,807
Capital outlay	137,569
	<u> </u>
Total Expenditures	<u>930,376</u>
Excess (Deficit) of Revenues over Expenditures	919,100
Other Financing Sources (Uses)	
Transfers in from other City funds	43,706
Transfers out to other City funds	(524,041)
	<u> </u>
Total Other Financing Sources (Uses)	<u>(480,335)</u>
Net Change in Fund Balance	438,765
Fund Balance, July 1, 2009	<u>2,115,583</u>
Fund Balance, June 30, 2010	<u><u>\$ 2,554,348</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, 2010

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental revenues	\$ 1,832,517	\$ 1,807,979	\$ (24,538)
Interest income and other revenues	5,000	41,497	36,497
Total Revenues	1,837,517	1,849,476	11,959
Expenditures			
Public ways and facilities/transportation	960,300	792,807	167,493
Capital outlay	3,127,686	137,569	2,990,117
Total Expenditures	4,087,986	930,376	3,157,610
Excess (Deficit) of Revenues over Expenditures	(2,250,469)	919,100	3,169,569
Other Financing Sources (Uses)			
Transfers in from other City funds	43,706	43,706	-
Transfers out to other City funds	(756,563)	(524,041)	232,522
Total Other Financing Sources (Uses)	(712,857)	(480,335)	232,522
Net Change in Fund Balance	<u>\$ (2,963,326)</u>	438,765	<u>\$ 3,402,091</u>
Fund Balance, July 1, 2009		<u>2,115,583</u>	
Fund Balance, June 30, 2010		<u>\$ 2,554,348</u>	

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Net Assets
Proprietary Fund - Transportation Enterprise Fund
June 30, 2010

	<u>Enterprise Fund Transportation</u>
<u>Assets</u>	
Current assets:	
Cash and investments	\$ 2,017,273
Accounts receivable	656,003
Interest receivable	2,726
Total current assets	<u>2,676,002</u>
Capital assets - net	<u>3,635,563</u>
 Total Assets	 <u>6,311,565</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	68,974
Salaries payable	2,439
Deferred revenue	958,511
Compensated absences - due in one year	3,611
Total current liabilities	<u>1,033,535</u>
Compensated absences - due in more than one year	14,442
Net OPEB obligation	7,979
Total liabilities	<u>1,055,956</u>
Net Assets:	
Invested in capital assets, net of related debt	3,635,563
Restricted for transportation activities	<u>1,620,046</u>
 Total Net Assets	 <u>\$ 5,255,609</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, 2010

Operating Revenues	
Charges for services	\$ 129,357
Other income	27,020
	<hr/>
Total Operating Revenues	156,377
	<hr/>
Operating Expenses	
Salaries, benefits and insurance	103,443
Contractual	882,991
Supplies and maintenance	70,084
Utilities	7,654
Fleet expense	114,632
Depreciation	211,164
Other expenses	16,764
	<hr/>
Total Operating Expenses	1,406,732
	<hr/>
Operating Loss	(1,250,355)
	<hr/>
Non-Operating Revenues (Expenses)	
Intergovernmental revenues	1,293,769
Interest income	13,789
	<hr/>
Total Non-Operating Revenues	1,307,558
	<hr/>
Income before operating transfers	57,203
	<hr/>
Net Transfers out	(4,613)
	<hr/>
Net income	52,590
	<hr/>
Net Assets, July 1, 2009	5,203,019
	<hr/>
Net Assets, June 30, 2010	\$ 5,255,609
	<hr/> <hr/>

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 206,204
Cash paid to suppliers	(1,091,392)
Cash paid to employees	(94,107)
Net cash provided (used) by operating activities	<u>(979,295)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(364,415)
Proceeds from sale of capital assets	-
Net cash provided (used) by capital and related financing activities	<u>(364,415)</u>

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers out	(4,613)
Intergovernmental revenues	1,509,325
Net cash provided (used) by capital and related financing activities	<u>1,504,712</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	18,412
Net cash provided (used) by investing activities	<u>18,412</u>

Net increase (decrease) in cash and cash equivalents 179,414

CASH AND CASH EQUIVALENTS:

Beginning of year	1,837,859
End of year	<u>\$ 2,017,273</u>

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

Operating income (loss)	\$ (1,250,355)
Noncash items included in operating income (loss)	
Depreciation and amortization	211,164
Changes in assets and liabilities	
Accounts receivable	49,827
Accounts payable	733
Salaries payable	(73)
Compensated absences	1,430
Net OPEB obligation	7,979
Net cash provided (used) by operating activities	<u>\$ (979,295)</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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Turlock Transportation Development Act (City) 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) and the American Institute of Certified Public Accountants (AICPA). 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 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 60 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, 2010

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB and the AICPA 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.

F. Proprietary Fund Accounting

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.

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 \$4,422,041 at June 30, 2010, participates 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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2010

2. CASH AND INVESTMENTS (continued)

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.

B. Cash Deposits

At June 30, 2010 the carrying amount of the City's time and demand deposits was \$50,529,351. The difference between the bank balance of \$51,667,341 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. 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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2010

2. CASH AND INVESTMENTS (continued)

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 221 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, 2010 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	15.41%
CA Local Agency Investment Fund	not rated	61.14%
Certificates of deposit	not rated	23.45%
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, 2009 to June 30, 2010 amounted to an unrealized gain of \$228,900.

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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2010

2. CASH AND INVESTMENTS (continued)

D. External Investment Pool (continued)

The City's investment with LAIF at June 30, 2010 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, 2010, the City had \$60,028,818 invested in LAIF, which had invested 5.42% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001643776 was used to calculate the fair value of investments in LAIF as of June 30, 2010.

3. CAPITAL ASSETS

Capital assets of the Transportation Enterprise Fund at June 30, 2010, consist of the following:

	Balance July 1, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Buildings & improvements	\$ 1,915,344				\$ 1,915,344
Buses & equipment	2,097,179			121,607	2,218,786
Construction in process	87,660	364,415		(121,607)	330,468
Total asset cost	<u>4,100,183</u>	<u>364,415</u>	<u>-</u>	<u>-</u>	<u>4,464,598</u>
Less: Accumulated depreciation					
Buildings & improvements	(51,982)	(63,845)			(115,827)
Buses & equipment	(565,889)	(147,319)			(713,208)
Total accumulated depreciation	<u>(617,871)</u>	<u>(211,164)</u>	<u>-</u>	<u>-</u>	<u>(829,035)</u>
Net capital assets	<u>\$ 3,482,312</u>	<u>\$ 153,251</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,635,563</u>

4. 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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2010

**5. 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.

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. 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. The following delineates the expenditure of these funds along with the interest earned on the unexpended funds. The amounts were verified by our auditors in the course of our annual external audit.

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><u>\$ 1,045,776</u></u>

6. 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, 2010

7. 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.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**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 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, 2010, as listed in the foregoing table of contents and have issued our report thereon dated March 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the TDA Program Funds' 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 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 TDA Program Funds' 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 statements. 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 result 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 for the information of the Mayor, City Council Members, management, and the Stanislaus Council of Governments (StanCOG), and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2011

INDEPENDENT ACCOUNTANTS' REPORT

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

We have examined compliance by 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 compliance requirements described in Section 6666 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) during the year ended June 30, 2010. The City's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the TDA Program Funds. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about TDA Program Funds' compliance with the aforementioned requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the TDA Program Funds' compliance with specified requirements.

In our opinion the TDA Program Funds complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010.

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

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.

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

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. The following delineates the expenditure of these funds along with the interest earned on the unexpended funds.

Unexpended proceeds at June 30, 2009	\$ 749,005
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>

This report is intended for the information of the Mayor, City Council Members, management, and the Stanislaus Council of Governments (StanCOG), and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2011