



FINANCIAL REPORTS

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011:

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 Abandoned Vehicle Abatement Program (AVA)
Financial Statements



CITY OF TURLOCK

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

City of Turlock
For the year ended June 30, 2011
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	64
Supplemental Information	
Non-Major Governmental Funds.....	71
✓ Combining Balance Sheet	
✓ Combining Statement of Revenues, Expenditures and Changes in Fund Balances	
Non-Major Proprietary Funds.....	82
Internal Service Funds.....	87
Fiduciary Funds.....	91

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, on December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation that provides for the dissolution of California redevelopment agencies. The full impact of this most recent development is not known at this time.

As described in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 11 and 64 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 30, 2012

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 2010-11 financial statements (with comparative information for 2009-10). 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 2010-11 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The City's net assets (assets in excess of liabilities) at June 30, 2011, totaled \$464 million. Governmental activities accounted for \$282 million of these net assets, while \$182 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$82.2 million; while total expenses were \$74.6 million.
- Governmental program revenues were \$24 million compared to governmental program expenses of \$50 million.
- Program revenues from business-type activities were \$30 million, while expenses for business-type activities were \$25 million.

Fund Highlights

- Net General Fund revenues exceeded expenditures by \$691,000 as compared to the prior year when revenues exceeded expenditures by \$6.9 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 \$19.7 million at the June 30, 2011 compared to a projected \$16.9 million when the 2010-11 budget was originally adopted.

Additional discussion regarding the financial results for fiscal year 2010-11 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, 2011**

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.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2011

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

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

Fiduciary Fund Financial Statements are used to account for resources held for the benefit of parties outside the government. They are not included in the government-wide financial statements because their resources are not available to support City programs.

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, 2011

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	
	2011	2010	2011	2010	2011	2010
Cash and investments	\$ 98,046	\$ 94,423	\$ 84,311	\$ 80,334	\$ 182,357	\$ 174,757
Other assets	33,904	27,487	5,798	4,628	39,702	32,115
Capital assets, net	212,301	201,192	191,250	190,400	403,551	391,592
Total assets	<u>344,251</u>	<u>323,102</u>	<u>281,359</u>	<u>275,362</u>	<u>625,610</u>	<u>598,464</u>
Long-term liabilities	49,304	34,784	90,814	92,987	140,118	127,771
Other liabilities	12,703	9,154	9,104	5,503	21,807	14,657
Total liabilities	<u>62,007</u>	<u>43,938</u>	<u>99,918</u>	<u>98,490</u>	<u>161,925</u>	<u>142,428</u>
Net assets:						
Invested in capital assets, net of debt	189,275	178,409	114,565	112,720	303,840	291,129
Restricted	70,425	77,636			70,425	77,636
Unrestricted	22,544	23,119	66,876	64,152	89,420	87,271
Total net assets	<u>\$ 282,244</u>	<u>\$ 279,164</u>	<u>\$ 181,441</u>	<u>\$ 176,872</u>	<u>\$ 463,685</u>	<u>\$ 456,036</u>

As noted above, the City's primary investment is in its *capital assets, net of related debt*. Capital assets, which account for approximately 66% 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 \$70 million or 44% of the City's non-capital net assets are subject to external restrictions as to their use. The remaining \$89 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, \$22 million related to governmental activities and \$67 million to business-type activities.

The City's net assets increased by \$7.6 million during the 2010-11 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, 2011

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	
	2011	2010	2011	2010	2011	2010
Program Revenues:						
Charges for services	\$ 9,745	\$ 11,631	\$ 30,364	\$ 29,175	\$ 40,109	\$ 40,806
Operating grants and contributions	9,188	4,514			9,188	4,514
Capital grants and contributions	4,953	5,239			4,953	5,239
Total Program Revenues	23,886	21,384	30,364	29,175	54,250	50,559
General Revenues						
Property taxes	3,804	4,194			3,804	4,194
Sales taxes	10,221	9,082			10,221	9,082
Motor vehicle in lieu fees	5,000	5,076			5,000	5,076
Other taxes	7,787	8,624			7,787	8,624
Interest and investment earnings	337	666	663	838	1,000	1,504
Gain (loss) on disposal of capital assets	214	(232)	(74)		140	(232)
Total General Revenues	27,363	27,410	589	838	27,952	28,248
Total Overall Revenues	51,249	48,794	30,953	30,013	82,202	78,807
Expenses						
General government	3,278	3,655			3,278	3,655
Public safety	25,996	25,981			25,996	25,981
Public ways/facilities/transportation	8,824	9,200			8,824	9,200
Parks and recreation	3,538	3,556			3,538	3,556
Community development	6,474	11,546			6,474	11,546
Interest on long-term debt	1,850	1,472			1,850	1,472
Water			6,782	6,897	6,782	6,897
Sewer			15,424	16,765	15,424	16,765
Airport			78	79	78	79
Transportation			1,286	1,412	1,286	1,412
Building & Safety			1,023	943	1,023	943
Total Expenses	49,960	55,410	24,593	26,096	74,553	81,506
Increase (Decrease) in Net						
Assets before Transfers	1,289	(6,616)	6,360	3,917	7,649	(2,699)
Transfers	1,790	(924)	(1,790)	924	-	-
Change in Net Assets	3,079	(7,540)	4,570	4,841	7,649	(2,699)
Net Assets, beginning of year	279,165	286,705	176,871	172,030	456,036	458,735
Net Assets, end of year	\$ 282,244	\$ 279,165	\$ 181,441	\$ 176,871	\$ 463,685	\$ 456,036

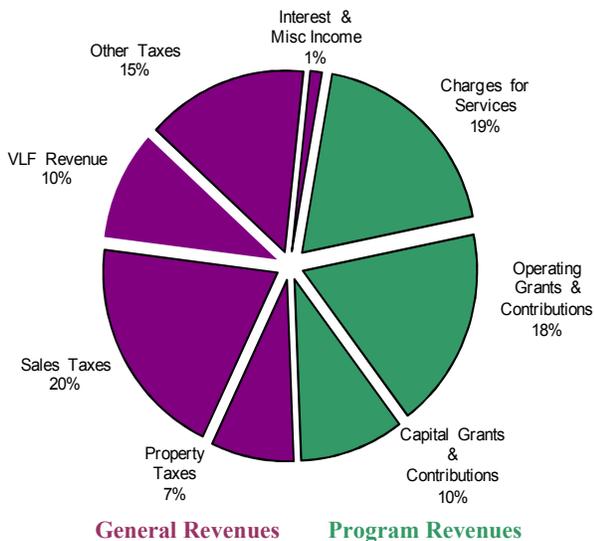
**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2011**

As the above table shows, \$54.3 million of the City’s \$82.2 million in total revenues comes from program revenue sources. GASB 34 defines program revenues as those derived directly from the program itself (user fees) or from parties outside the reporting government’s taxpayers or citizenry. Program revenues reduce the need for the cost of the function to be financed by general government revenues. The largest portion of the City’s program revenues is “Charges for Services” which include user fees from the City’s water and sewer operations, building permit-related fees, developer impact fees and special assessments.

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

Citywide expenses, which totaled \$74.6 million, consisted of \$50 million for governmental activities and \$24.6 million for business-type activities. Of the \$50 million in governmental activity expenses, \$26 million or 52% relate to the provision of public safety (police and fire) services. The next largest component was \$8.8 million or 17.7% for public ways, facilities and transportation. This component accounts for activities involved in the maintenance and construction of City streets and roads as well as City buildings.

Governmental Activities



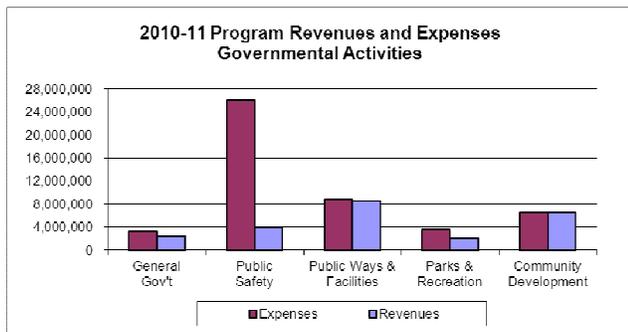
Governmental activity revenues totaling \$51.2 million are comprised of various non-dedicated tax revenues as well as revenues received for specific purposes. Specific purpose or “program” revenues are categorized as follows:

- Charges for Services – Revenues for specialized City services which are typically not demanded by the general population – totaled \$9.7 million representing a 16.2% decrease 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 \$9.1 million, doubling the amount received in 2009-10. Operating grants include revenues received from the (1) U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development supporting the City’s affordable housing activities; (2) U.S. Department of Justice and CA Office of Traffic Safety supporting various police activities; (3) Gas Tax and Local Transportation Funds used for street/road maintenance; and (4) revenues received by the City’s recreation division to support after school enrichment programs in lower income areas of town. Since these types of revenues are generally received on a reimbursement basis, annual amounts will vary from year-to-year depending on the activities in which the City is engaged.

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2011**

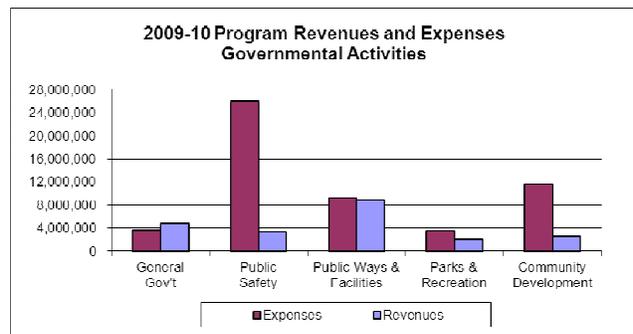
- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure – totaled \$5.0 million representing a slight decrease over the prior year reflecting the stagnant construction environment currently existing in the Central Valley.

General revenues are all other revenues not classified as program revenues and are generally received for unrestricted uses. General revenues include property taxes, sales tax, motor vehicle in-lieu fees, franchise fees, business license fees, transient occupancy taxes and investment earnings. The City’s governmental activity general revenues totaled \$27.4 million for fiscal 2010-11, no overall change over the prior year. The detail within the revenue did have mixed results. Property tax revenue – both for the City and the Redevelopment Agency - was down approximately \$1.4 million. Most of this decline occurred in the Redevelopment Agency which in the years prior to the current housing market decline experienced significant revenue increases as a significant portion of the new development occurred in RDA project areas. Sales tax revenue increased approximately \$1.1 million. Staff continues to see improvement in sales tax revenues for the past few quarters and is hopeful these increases are indicative of an improving economic environment in the Turlock area. Investment earnings were also off from the prior year which is reflective the historic lows in rates of return for the investment vehicles in which the City invests. 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, 2010-11 expenses for Governmental Activities exceeded program revenues by \$26 million whereas in 2009-10 expenses exceeded revenues by \$34 million.

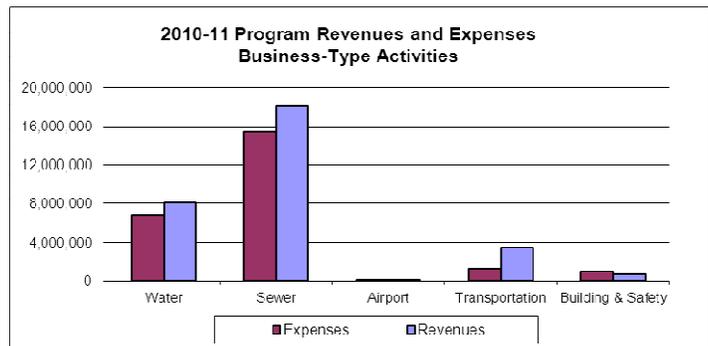
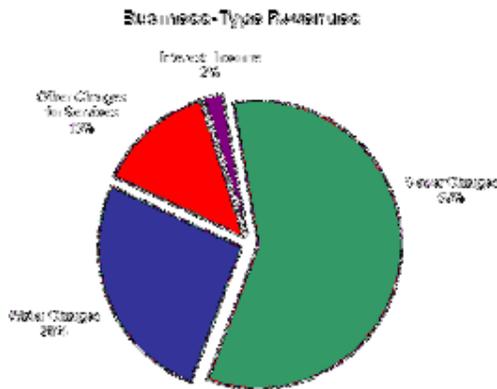
The City continues to work its way through the challenges the current economy presents. Even though the City’s General Fund ended 2010-11 with a slight surplus, all City operating budgets for 2011-12 included employee concessions as employee benefits – mainly health care and pension costs – continue to increase. The results of operations in other operating funds varied during 2010-11 due to available revenue. More information regarding specific funds can be found in the fund section of the document.



**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2011**

Business-Type Activities

Revenues for business-type activities totaled \$31 million and related expenses totaled \$24.6 million of which \$15.4 million or 63% 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 \$6.8 million or 27.6% 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, 2011, the City’s governmental funds reported combined fund balances of \$89.3 million, a \$6 million increase when compared with the prior year. This compares with a \$2.5 million decrease in 2009-10. The General Fund’s fund balance is \$19.7 million at June 30, 2011. Governmental fund revenues were \$51.3 million this year, of which General Fund revenues totaled \$28 million or 55%. Governmental fund expenditures totaled \$62.3 million and the General fund represented 46% of the total or \$29 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, 2011, the General Fund had a fund balance of \$19.7 million of which \$11.5 million was unassigned. As noted in footnote 7, fund balances in governmental funds can fall into one of five categories – nonspendable, restricted, committed, assigned or unassigned. Balances falling in any of the

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2011

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

General Fund expenditures exceeded revenues (before transfers) by \$956,000 during fiscal year 2010-11 as compared to \$2.8 million in excess expenditures for 2009-10. After net transfers, revenues exceeded expenditures by \$691,000 for 2010-11. Overall expenditures decreased by \$2.2 million in 2010-11 primarily due to a conscience effort to decrease personnel expenditures by not filling non-essential General Fund positions vacated by retirement or resignation.

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

Housing Set-Aside Fund and Redevelopment Fund – These funds account for the tax increment revenue the City's Redevelopment Agency receives which is used to protect and improve the affordable housing stock in town (Housing Set-Aside Fund) and to combat blight and promote economic development in Turlock (Redevelopment Fund). The revenue received is allocated 20% to housing efforts and 80% to blight reduction and economic development.

Recent affordable housing activities include rental assistance to low-income seniors and assisting 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.

Blight reduction and economic development activities include funding graffiti abatement, code enforcement, and infrastructure improvements at the Turlock Regional Industrial Park. In February 2011 the Turlock Public Financing Authority issued \$15.3 million in tax increment financing to assist with the funding for a new public safety facility in the City's downtown core. Construction began during fiscal year 2010-11. Tax increment revenue is pledged for the repayment of this debt.

Stanislaus County Housing Consortium – The Consortium is a collaboration of six cities in Stanislaus County and the County using Federal HOME monies to provide assistance for affordable housing within the County and the participating City jurisdictions. Projects funded under the Consortium include first time homebuyer loans; rehabilitation loans and grants to the owners of existing owner-occupied residences including health, safety and/or building code related improvements to their home; and funding for the construction of new multi-family residential units which will be occupied by eligible income qualifying individuals and/or families. Participants in the various Consortium programs are required to meet HUD income eligibility guidelines.

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

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2011**

2010-11 included continued design work and beginning construction of the off-site and on-site improvements for a new public safety facility, building the Carnegie Arts 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 \$4.6 million during fiscal year 2010-11, which compares to a \$4.8 million increase for fiscal year 2009-10. Overall operating revenues increased by 4% while overall operating expenditures declined by 6.6%. Operating revenues for the City's water operations declined by 10.3% while operating revenues for the City's wastewater operations increased by 2.3%. Expenses for the water and wastewater operations declined by 1.6% and 9.4% respectively. Personnel expenses for both operations declined due to the same employee concessions that were implemented within the operating funds in the City's governmental funds.

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

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

CAPITAL ASSETS

At June 30, 2011, the City had \$403.6 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 2010-11 were over \$23.3 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, 2011, the City had \$136.8 million in debt outstanding as compared to \$124.4 million for the prior year. The City's total debt service requirements for the 2011-12 are approximately \$10.7 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 and 2011 Tax Allocation Revenue Bonds (\$1.5 million and \$1.4 million, respectively).

In February 2011, the Turlock Public Financing Authority issued \$15.3 million in Tax Allocation Revenue Bonds to provide partial financing for the construction of a new public safety facility. The City has no general revenue bonds outstanding. Of the total \$10.7 million in debt service requirements for 2011-12, approximately 35.2% or \$3.8 million is related to governmental activities and none is currently repaid with General Fund dollars.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2011**

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.

ECONOMIC FACTORS and NEXT YEAR'S BUDGET AND RATES

Developing the 2011-12 General Fund budget presented the City Council and Staff with many of the same challenges that the City has been dealing with for the past few years. Since General Fund revenue peaked at \$30.4 million in fiscal year 2006-07, the City has experienced annual declines in operating revenues with fiscal year 2010-11 representing the fourth year of revenue declines. Budgeted 2011-12 revenues are at a level similar to final revenue for 2010-11. The City is starting to see increases in sales tax revenue, but it is still too early to say with certainty that the corner has been turned. Property tax revenues continue to be a challenge for 2011-12 and are projected to slightly decline. Other revenue sources are projected to hold steady with the prior year results.

The 2011-12 budgeted expenditures again include employee concessions. For this fiscal year, employees are paying 9% of the California Public Employees Retirement System (PERS) costs. In addition employee groups agreed to other concessions which when combined with overall status quo budgeting results in a budget which projects using \$1.9 million of General Fund reserves during 2011-12. The budget prior to concessions projected a \$3.2 million deficit. The City Council had previously laid out a 3-5 year plan to get General Fund expenditures in line with available revenues while using reserves to bridge the gap. The 2011-12 budget falls within that plan. More information regarding the City's budget can be obtained by going to the Finance division section under Administrative Services on the City website at www.ci.turlock.ca.us.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

City of Turlock
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 76,337,735	\$ 68,279,115	\$ 144,616,850
Cash and investments with fiscal agent	21,708,203	16,031,534	37,739,737
Accounts receivable	10,424,848	5,040,604	15,465,452
Interest receivable	112,881	190,337	303,218
Internal balances	101,454	(101,454)	-
Due from developers	20,041	157,663	177,704
Total current assets	<u>108,705,162</u>	<u>89,597,799</u>	<u>198,302,961</u>
Noncurrent assets:			
Loans receivable	22,542,088		22,542,088
Deferred charges	702,203	511,767	1,213,970
Capital assets:			
Non-depreciable	39,285,371	13,019,344	52,304,715
Depreciable, net	173,016,042	178,230,316	351,246,358
Total capital assets	<u>212,301,413</u>	<u>191,249,660</u>	<u>403,551,073</u>
Total noncurrent assets	<u>235,545,704</u>	<u>191,761,427</u>	<u>427,307,131</u>
Total Assets	<u>344,250,866</u>	<u>281,359,226</u>	<u>625,610,092</u>
LIABILITIES			
Current liabilities:			
Accounts payable	8,674,756	3,515,909	12,190,665
Payroll payable	852,351	200,359	1,052,710
Interest payable	884,477	1,134,989	2,019,466
Deferred revenue	158,994	1,310,290	1,469,284
Deposits payable	402,333	344,265	746,598
Compensated absences, due within one year	491,277	151,636	642,913
Long-term debt, due within one year	1,238,733	2,446,036	3,684,769
Total current liabilities	<u>12,702,921</u>	<u>9,103,484</u>	<u>21,806,405</u>
Noncurrent liabilities:			
Claims liability	2,764,290		2,764,290
Compensated absences, due in more than one year	1,965,111	606,544	2,571,655
Net OPEB obligation	1,063,341	623,095	1,686,436
Long-term debt, due in more than one year	43,511,799	89,584,876	133,096,675
Total noncurrent liabilities	<u>49,304,541</u>	<u>90,814,515</u>	<u>140,119,056</u>
Total Liabilities	<u>62,007,462</u>	<u>99,917,999</u>	<u>161,925,461</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>189,275,472</u>	<u>114,564,728</u>	<u>303,840,200</u>
Restricted for:			
Capital projects	41,371,047		41,371,047
Special projects and programs	29,053,335		29,053,335
Total restricted	<u>70,424,382</u>	<u>-</u>	<u>70,424,382</u>
Unrestricted	<u>22,543,550</u>	<u>66,876,499</u>	<u>89,420,049</u>
Total Net Assets	<u>\$ 282,243,404</u>	<u>\$ 181,441,227</u>	<u>\$ 463,684,631</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, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,277,815	\$ 2,282,814	\$ 89,948	\$ 119,474
Public safety	25,996,173	2,590,734	1,212,094	141,860
Public ways and facilities/transportation	8,824,094	2,775,840	1,291,223	4,530,205
Parks and recreation	3,538,121	1,376,502	581,298	124,470
Community development	6,473,780	719,442	6,013,283	36,416
Interest on long-term debt	1,849,984			
Total governmental activities	49,959,967	9,745,332	9,187,846	4,952,425
Business-type activities:				
Water	6,781,925	8,126,389		
Sewer	15,424,008	18,157,866		
Airport	78,766	20,000		
Transportation	1,285,800	3,416,169		
Building & Safety	1,022,855	643,535		
Total business-type activities	24,593,354	30,363,959	-	-
Total primary government	\$ 74,553,321	\$ 40,109,291	\$ 9,187,846	\$ 4,952,425

General revenues and transfers:

Taxes:
Property
Sales
Motor vehicles tax
Other
Total

Interest and investment earnings
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

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			
Total	Governmental Activities	Business-type Activities	Total
\$ 2,492,236	\$ (785,579)	\$	\$ (785,579)
3,944,688	(22,051,485)		(22,051,485)
8,597,268	(226,826)		(226,826)
2,082,270	(1,455,851)		(1,455,851)
6,769,141	295,361		295,361
-	(1,849,984)		(1,849,984)
<u>23,885,603</u>	<u>(26,074,364)</u>	<u>-</u>	<u>(26,074,364)</u>
8,126,389		1,344,464	1,344,464
18,157,866		2,733,858	2,733,858
20,000		(58,766)	(58,766)
3,416,169		2,130,369	2,130,369
643,535		(379,320)	(379,320)
<u>30,363,959</u>	<u>-</u>	<u>5,770,605</u>	<u>5,770,605</u>
<u>\$ 54,249,562</u>	<u>(26,074,364)</u>	<u>5,770,605</u>	<u>(20,303,759)</u>
	3,804,292		3,804,292
	10,220,484		10,220,484
	5,000,382		5,000,382
	7,787,167		7,787,167
	<u>26,812,325</u>	<u>-</u>	<u>26,812,325</u>
	336,975	662,901	999,876
	214,096	(74,241)	139,855
	1,790,451	(1,790,451)	-
	<u>29,153,847</u>	<u>(1,201,791)</u>	<u>27,952,056</u>
	3,079,483	4,568,814	7,648,297
	<u>279,163,921</u>	<u>176,872,413</u>	<u>456,036,334</u>
<u>\$ 282,243,404</u>	<u>\$ 181,441,227</u>	<u>\$</u>	<u>\$ 463,684,631</u>

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FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

The funds described below were determined to be Major Governmental Funds by the City for fiscal year 2010-11. 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.

STANISLAUS COUNTY HOUSING CONSORTIUM

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

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, 2011

	Major Governmental Funds						Total
	Stan County				Facility Fees	Nonmajor Governmental Funds	
	General	Housing Consortium	Housing Set-Aside	Redevelopment			
ASSETS							
Cash and investments	\$ 15,161,923	\$ 10,434	\$ 5,906,368	\$ 1,944,991	\$ 17,130,219	\$ 25,931,867	\$ 66,085,802
Cash and investments with fiscal agent				21,708,203			21,708,203
Accounts receivable	4,738,360	\$ 1,759,057	70	222,024	33,907	2,308,810	9,062,228
Interest receivable	33,429		6,341	29,966	11,366	21,955	103,057
Due from other funds	3,089,325						3,089,325
Due from developers	20,041						20,041
Loans receivable	18,400	5,320,207	7,237,718			9,965,763	22,542,088
Other Assets	2,630						2,630
Total assets	\$ 23,064,108	\$ 7,089,698	\$ 13,150,497	\$ 23,905,184	\$ 17,175,492	\$ 38,228,395	\$ 122,613,374
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 2,140,021	\$ 137,494	\$ 101,909	\$ 1,065,469	\$ 2,542,518	\$ 484,596	\$ 6,472,007
Payroll payable	700,307	2,601		4,601		75,622	783,131
Due to other funds		1,611,712				1,376,159	2,987,871
Deferred revenue	144,994	5,320,207	7,237,718			9,979,763	22,682,682
Deposits payable	397,160						397,160
Total liabilities	3,382,482	7,072,014	7,339,627	1,070,070	2,542,518	11,916,140	33,322,851
Fund Balances:							
Non-Spendable	41,071			3,637,205			3,678,276
Restricted		7,250	5,810,870	19,164,225	14,632,974	11,643,085	51,258,404
Committed	5,309,517					14,438,532	19,748,049
Assigned	2,816,306	10,434		33,684		364,193	3,224,617
Unassigned	11,514,732					(133,555)	11,381,177
Total fund balance	19,681,626	17,684	5,810,870	22,835,114	14,632,974	26,312,255	89,290,523
Total liabilities and fund balance	\$ 23,064,108	\$ 7,089,698	\$ 13,150,497	\$ 23,905,184	\$ 17,175,492	\$ 38,228,395	\$ 122,613,374

See accompanying Notes to Basic Financial Statements.

City of Turlock
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds \$ 89,290,523

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	\$ 39,285,371	
Depreciable	233,120,462	
Less accumulated depreciation	<u>(62,375,249)</u>	210,030,584

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	\$ (2,168,990)	
Net OPEB obligation	(868,942)	
Capital lease obligations	(553,972)	
Loans payable	(998,705)	
Bonds payable	(42,616,388)	
Unamortized cost of issuance included in deferred charges	<u>699,573</u>	(46,507,424)

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.

(875,436)

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

22,523,688

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

7,781,469

Net Assets of Governmental Activities \$ 282,243,404

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	Major Governmental Funds						Total
	Stan County				Facility Fees	Nonmajor Governmental Funds	
	General	Housing Consortium	Housing Set-Aside	Redevelopment			
REVENUES:							
Taxes and assessments	\$ 15,717,842		\$ 1,301,880	\$ 3,858,784		\$ 3,069,291	\$ 23,947,797
Licenses and permits	1,201,617					96,087	1,297,704
Fines, forfeitures, and penalties	591,735						591,735
Use of money and property	132,962	\$ 79	23,430	139,236	51,631	104,506	451,844
Intergovernmental	5,378,354	2,375,303				8,688,627	16,442,284
Charges for current services	3,350,145				543,494	1,593,520	5,487,159
Other	1,636,443	6,355	750	23,252	60,856	1,379,256	3,106,912
Total revenues	28,009,098	2,381,737	1,326,060	4,021,272	655,981	14,931,287	51,325,435
EXPENDITURES:							
Current:							
General government	2,569,534				232,470	157,889	2,959,893
Public safety	23,105,347				48	796,579	23,901,974
Public ways and facilities/ transportation	381,442				94	4,187,582	4,569,118
Parks and recreation	1,934,333					970,288	2,904,621
Community development	812,726	2,376,750	984,170	1,622,192		2,798,603	8,594,441
Capital outlay	61,611		327,185		9,347,363	7,163,032	16,899,191
Debt service:							
Principal	90,235			525,000	234,335	104,573	954,143
Interest and fiscal charges	10,119			1,340,064	19,076	28,251	1,397,510
Issuance costs for Tax Allocation Bonds				137,979			137,979
Total expenditures	28,965,347	2,376,750	1,311,355	3,625,235	9,833,386	16,206,797	62,318,870
REVENUES OVER (UNDER) EXPENDITURES	(956,249)	4,987	14,705	396,037	(9,177,405)	(1,275,510)	(10,993,435)
OTHER FINANCING SOURCES (USES):							
Transfers in	1,936,259				7,557,219	2,650,728	12,144,206
Transfers out	(289,327)	(9,146)	(193,772)	(8,532,894)	(70,000)	(1,735,851)	(10,830,990)
Proceeds from long-term debt				15,300,000		702,136	16,002,136
Discount on Tax Allocation Bonds				(270,113)			(270,113)
Total other financing sources (uses)	1,646,932	(9,146)	(193,772)	6,496,993	7,487,219	1,617,013	17,045,239
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	690,683	(4,159)	(179,067)	6,893,030	(1,690,186)	341,503	6,051,804
FUND BALANCES:							
Beginning of year	18,990,943	21,843	5,989,937	15,942,084	16,323,160	25,970,752	83,238,719
End of year	\$ 19,681,626	\$ 17,684	\$ 5,810,870	\$ 22,835,114	\$ 14,632,974	\$ 26,312,255	\$ 89,290,523

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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 6,051,804
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.	16,899,131
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.	(5,382,376)
Net effect of the of the disposal of various capital assets resulting in a decrease in net assets.	(119,526)
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 (net of discounts and cost of issuance)	(15,594,044)
Principal payments on long-term debt	<u>954,143</u>
	(14,639,901)
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.	(423,580)
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.	(1,139)
Governmental funds report deferred revenue related to long-term loans made. These deferred credits are not reported on the Statement of Net Assets.	2,150,820
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.	<u>(1,455,750)</u>
Change in Net Assets of Governmental Activities	<u>\$ 3,079,483</u>

See accompanying Notes to Basic Financial Statements.

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PROPRIETARY FUNDS

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

WATER

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

SEWER

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

City of Turlock
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Major Enterprise Funds		Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
	Water	Sewer			
ASSETS					
Current assets:					
Cash and investments	\$ 28,588,310	\$ 39,035,158	\$ 655,647	\$ 68,279,115	\$ 10,251,933
Cash and investments with fiscal agent	11,253,282	4,778,252		16,031,534	
Accounts receivable	1,228,131	1,810,126	2,002,347	5,040,604	1,362,620
Interest receivable	70,264	119,067	1,006	190,337	9,824
Due from developers		157,663		157,663	
Total current assets	41,139,987	45,900,266	2,659,000	89,699,253	11,624,377
Capital assets					
Non-depreciable	5,910,149	4,767,876	2,341,319	13,019,344	
Depreciable, net of depreciation	41,873,936	130,089,143	6,267,237	178,230,316	2,270,829
Total capital assets	47,784,085	134,857,019	8,608,556	191,249,660	2,270,829
Other assets	159,105	352,662		511,767	
Total assets	89,083,177	181,109,947	11,267,556	281,460,680	13,895,206
LIABILITIES					
Current liabilities:					
Accounts payable	2,837,040	582,667	96,202	3,515,909	2,202,749
Payroll payable	47,214	130,738	22,407	200,359	69,220
Interest payable	233,358	901,631		1,134,989	9,041
Due to other funds			101,454	101,454	-
Compensated absences - due within one year	31,352	104,837	15,447	151,636	57,479
Capital lease obligations - due within one year	43,018	43,018		86,036	86,036
Bonds payable - due within one year	625,000	1,735,000		2,360,000	
Deferred revenue			1,310,290	1,310,290	-
Deposits payable	344,265	-		344,265	5,173
Total current liabilities	4,161,247	3,497,891	1,545,800	9,204,938	2,429,698
Long-term liabilities:					
Claims liability - due in more than one year					2,764,290
Compensated absences - due in more than one year	125,406	419,349	61,789	606,544	229,919
Net OPEB obligation	20,013	486,933	116,149	623,095	194,399
Capital lease obligation-due in more than one year	247,715	247,715		495,430	495,431
Loans and Bonds payable, net of discounts - due in more than one year	29,822,665	59,266,781		89,089,446	
Total long-term liabilities	30,215,799	60,420,778	177,938	90,814,515	3,684,039
Total liabilities	34,377,046	63,918,669	1,723,738	100,019,453	6,113,737
NET ASSETS					
Invested in capital assets, net of related debt	28,171,634	77,784,538	8,608,556	114,564,728	1,689,362
Unrestricted	26,534,497	39,406,740	935,262	66,876,499	6,092,107
Total net assets	\$ 54,706,131	\$ 117,191,278	\$ 9,543,818	\$ 181,441,227	\$ 7,781,469

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2011

	Major Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Sewer	Nonmajor Enterprise Funds		
OPERATING REVENUES:					
Charges for services	\$ 8,092,490	\$ 18,021,001	\$ 778,223	\$ 26,891,714	\$ 10,107,850
Intergovernmental			3,291,770	3,291,770	-
Connection fees	11,049	890		11,939	
Other income	22,850	135,975	9,711	168,536	2,282,325
Total operating revenues	8,126,389	18,157,866	4,079,704	30,363,959	12,390,175
OPERATING EXPENSES:					
Salaries and benefits	1,991,920	4,424,034	959,697	7,375,651	13,206,175
Contractual	318,692	1,058,756	789,641	2,167,089	483,868
Supplies and maintenance	182,593	1,136,520	39,596	1,358,709	39,301
Utilities	980,340	1,443,948	15,948	2,440,236	80,609
Fleet expense	58,075	208,960	257,706	524,741	55,776
Depreciation and amortization	1,774,411	3,960,537	301,632	6,036,580	415,436
Other expenses	37,823	67,351	23,201	128,375	56,191
Total operating expenses	5,343,854	12,300,106	2,387,421	20,031,381	14,337,356
OPERATING INCOME (LOSS)	2,782,535	5,857,760	1,692,283	10,332,578	(1,947,181)
NONOPERATING REVENUES (EXPENSES):					
Interest income	274,624	378,005	10,272	662,901	40,190
Gain (loss) on disposal of capital assets			(74,241)	(74,241)	2,900
Interest expense	(1,438,071)	(3,123,902)		(4,561,973)	(28,894)
Total non-operating revenues (expenses)	(1,163,447)	(2,745,897)	(63,969)	(3,973,313)	14,196
INCOME (LOSS) BEFORE					
OPERATING TRANSFER	1,619,088	3,111,863	1,628,314	6,359,265	(1,932,985)
Transfers in	83,301	34,897	76,897	195,095	494,309
Transfers out	(1,100,533)	(873,057)	(11,956)	(1,985,546)	(17,074)
Total transfers	(1,017,232)	(838,160)	64,941	(1,790,451)	477,235
Net income (loss)	601,856	2,273,703	1,693,255	4,568,814	(1,455,750)
NET ASSETS:					
Beginning of year	54,104,275	114,917,575	7,850,563	176,872,413	9,237,219
End of year	\$ 54,706,131	\$ 117,191,278	\$ 9,543,818	\$ 181,441,227	\$ 7,781,469

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2011

	<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	\$ 8,108,345	\$ 18,060,837	\$ 3,085,194	\$ 29,254,376	\$ 9,268,309
Cash paid to suppliers	1,132,986	(3,409,015)	(1,099,514)	(3,375,543)	670,905
Cash paid to employees	(1,982,434)	(4,214,821)	(816,912)	(7,014,167)	(13,195,035)
Other	(14,973)	68,624		53,651	2,226,134
Net cash provided (used) by operating activities	7,243,924	10,505,625	1,168,768	18,918,317	(1,029,687)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	83,301	34,897	76,897	195,095	494,309
Transfers out	(1,100,533)	(873,057)	(11,956)	(1,985,546)	(17,074)
Net cash provided (used) by noncapital financing activities	(1,017,232)	(838,160)	64,941	(1,790,451)	477,235
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(3,277,840)	(685,356)	(2,958,386)	(6,921,582)	(127,511)
Proceeds from disposal of capital assets			9,025	9,025	2,900
Other assets				-	
Principal payments on long-term debt	(641,070)	(1,691,068)		(2,332,138)	(82,138)
Interest paid	(1,442,623)	(3,134,788)		(4,577,411)	(30,171)
Net cash provided (used) by capital and related financing activities	(5,361,533)	(5,511,212)	(2,949,361)	(13,822,106)	(236,920)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	272,461	386,898	11,992	671,351	55,128
Net cash provided (used) by investing activities	272,461	386,898	11,992	671,351	55,128
Net increase (decrease) in cash and cash equivalents	1,137,620	4,543,151	(1,703,660)	3,977,111	(734,244)
CASH AND CASH EQUIVALENTS:					
Beginning of year	38,703,972	39,270,259	2,359,307	80,333,538	10,986,177
End of year	\$ 39,841,592	\$ 43,813,410	\$ 655,647	\$ 84,310,649	\$ 10,251,933

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds, Continued
For the year ended June 30, 2011

	<u>Major Enterprise Funds</u>		Nonmajor Enterprise Funds	Total	Governmental
	Water	Sewer			Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 2,782,535	\$ 5,857,760	\$ 1,692,283	\$ 10,332,578	\$ (1,947,181)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,774,411	3,960,537	301,632	6,036,580	415,436
Changes in operating assets and liabilities:					
Accounts receivable	(10,009)	53,946	(1,346,289)	(1,302,352)	(839,541)
Accounts payable	2,672,686	439,169	26,578	3,138,433	1,330,459
Payroll payable	3,208	7,156	3,301	13,665	(25,194)
Due to other funds			101,454	101,454	
Compensated absences	101	40,228	3,634	43,963	24,240
Claims Liability					
Net OPEB obligation	6,177	161,829	34,396	202,402	12,094
Deferred revenue			351,779	351,779	
Deposits payable	14,815	(15,000)		(185)	
	<u>\$ 7,243,924</u>	<u>\$ 10,505,625</u>	<u>\$ 1,168,768</u>	<u>\$ 18,918,317</u>	<u>\$ (1,029,687)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET:					
Cash and investments	\$ 28,588,310	\$ 39,035,158	\$ 655,647	\$ 68,279,115	\$ 10,251,933
Cash and investments with fiscal agent	11,253,282	4,778,252		16,031,534	-
Total cash and cash equivalents	<u>\$ 39,841,592</u>	<u>\$ 43,813,410</u>	<u>\$ 655,647</u>	<u>\$ 84,310,649</u>	<u>\$ 10,251,933</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital assets transferred from general fixed assets					
Capital asset cost		\$ 23,007			
Accumulated depreciation		(23,007)			
Total noncash capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2011

	Agency Funds
ASSETS	
Cash and investments	\$ 723,107
Cash and investments with fiscal agent	418,487
Accounts and interest receivable	46,335
Total assets	\$ 1,187,929
LIABILITIES	
Accounts payable	\$ 24,542
Due to others	1,163,387
Total liabilities	\$ 1,187,929

City of Turlock

Notes to Basic Financial Statements

For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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, 2011

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, 2011

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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments

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

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

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

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

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

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

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

E. Receivables

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.”

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets, Continued

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.

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Long-Term Liabilities, Continued

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

K. Property Tax Revenue

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

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

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

L. Use of Estimates

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

M. Implementation of New GASB Pronouncements

In 2010-11, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions – This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB Statement No. 59, Financial Instruments Omnibus – This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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.

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

B. Cash Deposits

At June 30, 2011 the carrying amount of the City's time and demand deposits was \$48,164,190. The difference between the bank balance of \$50,160,563 and the carrying amount resulted from outstanding checks and deposits in transit. Of the time deposits and demand deposits, \$100,000 was covered by federal depository insurance with the balance being collateralized with securities held by the counter party or its agent in accordance with Section 53652 of the Code. FDIC coverage is unlimited for noninterest bearing accounts through December 2012. The Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's total deposits, or by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

The following is a summary of the pooled cash and investments and investment with fiscal agent at June 30, 2011:

	Government-Wide Statement of Net Assets			Fiduciary Funds	
	Governmental Activities	Business-Type Activities	Total	Statement of Net Assets	Grand Total
Cash and investments	\$ 76,337,735	\$ 68,279,115	\$ 144,616,850	\$ 723,107	\$ 145,339,957
Cash and investments with fiscal agent	21,708,203	16,031,534	37,739,737	418,487	38,158,224
Total cash and investments	<u>\$ 98,045,938</u>	<u>\$ 84,310,649</u>	<u>\$ 182,356,587</u>	<u>\$ 1,141,594</u>	<u>\$ 183,498,181</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.

C. Risk Disclosures

As of June 30, 2011, 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
Cash on hand and demand deposits	\$ 48,164,190	\$ 48,164,190				
Brokerage Account	1,013,505	1,013,505				
Total Cash	<u>49,177,695</u>	<u>49,177,695</u>				
<u>Investments</u>						
U.S. Federal Agency Securities	\$ 11,994,213		\$ 1,992,233	\$ 1,991,978	\$ 6,003,734	\$ 2,006,268
Certificates of Deposit	22,959,592		14,685,265	8,274,327		
LAIF	60,065,678		60,065,678			
Corporate Notes	1,015,771		1,015,771			
Money Market Account	127,008		127,008			
Total Investments	<u>\$ 96,162,262</u>	<u>\$ -</u>	<u>\$ 77,885,955</u>	<u>\$ 10,266,305</u>	<u>\$ 6,003,734</u>	<u>\$ 2,006,268</u>
Total cash and investments	<u>\$ 145,339,957</u>	<u>\$ 49,177,695</u>	<u>\$ 77,885,955</u>	<u>\$ 10,266,305</u>	<u>\$ 6,003,734</u>	<u>\$ 2,006,268</u>
Investment maturities as a percent of total fair value			<u>80.99%</u>	<u>10.68%</u>	<u>6.24%</u>	<u>2.09%</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

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 173 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, 2011 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	12.47%
CA Local Agency Investment Fund	not rated	62.46%
Certificates of deposit	not rated	23.88%
Corporate Notes	AA+	1.06%
Money Market account	not rated	0.13%
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, 2010 to June 30, 2011 amounted to an unrealized loss of \$186,800.

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
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

D. External Investment Pool, Continued

The City’s investment with LAIF at June 30, 2011 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, 2011, the City had \$60,065,678 invested in LAIF, which had invested 3.19% of the pool’s funds in structured notes and asset-backed securities. LAIF’s fair value factor of 1.001576470 was used to calculate the fair value of investments in LAIF as of June 30, 2011.

3. RECEIVABLES AND DEFERRED REVENUE

A. Government Wide Financial Statements

At June 30, 2011, 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	\$ 20,041	\$ 157,663	\$ 177,704
Loans receivable	22,542,088		22,542,088
Total	\$ 22,562,129	\$ 157,663	\$ 22,719,792

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 \$20,041 is recorded in the General Fund.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable

Loans receivable at June 30, 2011 consist of the following:

<u>Type of Loan/Borrower</u>	<u>Amount</u>
Central Valley Coalition for Affordable Housing	\$ 7,885,503
First Time Homebuyer Loans	8,797,103
Owner-Occupied Rehabilitation Loans	3,403,330
Cherry Tree Village Loans	1,522,785
EAH, Inc.	904,112
Rental Rehabilitation Loans	10,855
Executive MBA Program Loans	18,400
Total Loans	\$ 22,542,088

Central Valley Coalition for Affordable Housing

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

CVCAH is currently participating in three types of projects within the City of Turlock. The first is Crane Terrace, a 44-unit, three-story, low-income senior living apartment complex. Using 20% Set-Aside monies, the Redevelopment Agency loaned \$4 million to this \$10.5 million project under a Development and Disposition Agreement (DDA) dated April 26, 2005. The DDA calls for repayment of the 55-year note to begin in year 31 from residual rental receipts. The note carries 3% simple interest. The total outstanding principal and interest at June 30, 2011 was \$4,920,698.

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, 2011 on these three properties was \$1,249,758.

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, 2011 on these three properties was \$1,715,047.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable, Continued

First Time Homebuyer Loans

The First Time Homebuyer Loan program, funded using Federal and/or State of California HOME funds, CDBG funds, and Redevelopment Agency low-/moderate-income housing funds, provides eligible prospective homebuyers within the City of Turlock with up to \$80,000 in funding assistance through a silent second deed of trust on their home. The loans are interest free for the first five years and accrue interest at 3% - 5% simple interest annually thereafter. The loans are due and payable should the homeowner refinance or sell the property. Proceeds from repaid loans are used to extend new loans. As of June 30, 2011 the City had 158 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, 2011 the City had 53 loans outstanding.

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.

EAH, Inc.

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable, Continued

EAH, Inc. (continued)

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

Each loan will be memorialized with a Promissory Note and will become a recorded deed of trust against the property. The \$1 million pre-construction loan is interest free for the earlier of: (1) two years from the date of execution, or (2) when the construction loan closes. Both the pre-construction and development cost loans will be rolled into a permanent loan at the completion of construction. The combined loans will carry a 3% annual interest rate and be repaid using residual receipts over a 55 year period. As of June 30, 2011 the Agency had expended \$904,112 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, 2011 the City had two loans outstanding.

Executive MBA Program Loans

During 2008-09, California State University, Stanislaus in collaboration with the City operated a 15-month Executive MBA program. In exchange for the use of city hall on Saturday for this program, CSUS offered a scholarship to a city employee enrolled in the program who would be responsible for the facility during the term of the program. In order to facilitate this program and encourage qualified city employees to pursue their Master's degree, the City authorized non-interest bearing loans to qualified city employees. The loans are being repaid through payroll deductions. Three city employees qualified for the program and were approved to share the scholarship in return for sharing the facility use responsibilities. The loans were originally for \$17,667 each and at June 30, 2011, the unpaid balance for all three loans was \$18,400.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Unearned (Deferred) Revenue

Deferred revenue is recorded when the City receives funds in advance of performing the work required to be entitled to retain the funds. Deferred revenue at June 30, 2011 consisted of the following:

Governmental Activities		Business-Type	Total
General Fund	Sports Facilities	Transportation	
\$ 144,994	\$ 14,000	\$ 1,310,290	\$ 1,469,284

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, 2011 consisted of the following:

	Governmental Activities			Business-Type	Total
	General Fund	Stan County Housing Consortium	Housing Set-Aside	Non-Major Funds	
Loans Receivable				Non-Major Funds	
First Time Home Buyer		\$ 2,962,060	\$ 534,287	\$ 5,300,756	\$ 8,797,103
Owner-Occupied Rehabilitation				3,403,330	3,403,330
Rental Rehabilitation				10,855	10,855
Cherry Tree Village			878,621	644,164	1,522,785
Central Valley Coalition for Affordable Housing		2,358,147	4,920,698	606,658	7,885,503
EAH, Inc.			904,112		904,112
Other	\$ 144,994			14,000	\$ 1,310,290
Total	\$ 144,994	\$ 5,320,207	\$ 7,237,718	\$ 1,310,290	\$ 23,992,972

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. INTERFUND TRANSACTIONS

Fund Financial Statements

Due To, Due From

At June 30, 2011 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
		General Fund
Due From	Governmental Activities:	
	Stan County Housing Consortium	\$ 1,611,712
	Nonmajor Funds	1,376,159
	Business-Type Activities:	
	Nonmajor Funds	101,454
	Total	<u>\$ 3,089,325</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. INTERFUND TRANSACTIONS, Continued

Fund Financial Statements, Continued

Transfers

At June 30, 2011 the City had the following transfers:

		Transfers Out						
		Governmental Activities						
		Stan County						
		General	Housing Consortium	Housing Set-Aside	RDA	Facility Fees	Nonmajor Funds	Total
Transfers In	Governmental Activities:							
	General		\$ 8,669	\$ 86,755	\$ 258,395	\$ 20,000	\$ 566,407	\$ 940,226
	Facility Fees				6,909,999		647,220	7,557,219
	Nonmajor	\$ 289,327	477	107,017	1,364,500		47,820	1,809,141
	Business-type Activities:							
	Water						83,301	83,301
	Sewer						34,897	34,897
	Nonmajor						76,897	76,897
	Internal Service Funds					50,000	279,309	329,309
	Total	\$ 289,327	\$ 9,146	\$ 193,772	\$ 8,532,894	\$ 70,000	\$ 1,735,851	\$ 10,830,990

		Transfers Out					
		Governmental Activities	Business-type Activities			Internal Service Funds	Grand Total
			Water	Sewer	Nonmajor Funds		
Transfers In	Governmental Activities:						
	General	\$ 940,226	\$ 312,565	\$ 683,468			\$ 1,936,259
	Facility Fees	7,557,219					7,557,219
	Nonmajor	1,809,141	762,968	49,589	\$ 11,956	\$ 17,074	2,650,728
	Business-type Activities:						
	Water	83,301					83,301
	Sewer	34,897					34,897
	Nonmajor	76,897					76,897
	Internal Service Funds	329,309	25,000	140,000			494,309
	Total	\$ 10,830,990	\$ 1,100,533	\$ 873,057	\$ 11,956	\$ 17,074	\$ 12,833,610

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, 2011

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2011 the City's capital assets for governmental activities consisted of the following:

	Balance July 1, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Governmental Activity Capital Assets:					
Non-depreciable Assets:					
Land	\$ 14,729,811	\$ 327,184		\$ 225,311	\$ 15,282,306
Construction in progress	13,612,522	16,381,691		(5,991,148)	24,003,065
Total nondepreciable assets	28,342,333	16,708,875	-	(5,765,837)	39,285,371
Depreciable Assets:					
Land improvements	30,763,328	-		1,634,615	32,397,943
Buildings	21,963,488	-	(220,880)	42,570	21,785,178
Furniture and equipment	8,648,291	177,119	(90,053)	125,357	8,860,714
Vehicles	8,705,057	140,708	(66,619)	20,288	8,799,434
Infrastructure	164,071,898	-		3,920,002	167,991,900
Total depreciable assets	234,152,062	317,827	(377,552)	5,742,832	239,835,169
Less accumulated depreciation:					
Land improvements	(6,606,715)	(827,013)			(7,433,728)
Buildings	(6,530,783)	(722,373)	102,938		(7,150,218)
Furniture and equipment	(6,810,685)	(394,522)	30,650	59,402	(7,115,155)
Vehicles	(6,026,315)	(776,175)	64,974	23,006	(6,714,510)
Infrastructure	(35,327,788)	(3,077,728)			(38,405,516)
Total accumulated depreciation	(61,302,286)	(5,797,811)	198,562	82,408	(66,819,127)
Net depreciable assets	172,849,776	(5,479,984)	(178,990)	5,825,240	173,016,042
Total governmental activity capital assets	\$ 201,192,109	\$ 11,228,891	\$ (178,990)	\$ 59,403	\$ 212,301,413

Governmental activities depreciation expense for capital assets for the year ended June 30, 2011 was as follows:

General government	\$ 214,513
Public safety	1,117,833
Public ways and facilities/transportation	3,824,068
Parks and recreation	584,256
Community development	57,141
Total depreciation expense	\$ 5,797,811

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

At June 30, 2011 the City's capital assets for business-type activities consisted of the following:

	Balance July 1, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Business-Type Activity Capital Assets:					
Non-depreciable Assets:					
Land	\$ 875,087				\$ 875,087
Construction in progress	18,101,514	\$ 6,898,651	\$ (2,788)	\$ (12,853,120)	12,144,257
Total nondepreciable assets	<u>18,976,601</u>	<u>6,898,651</u>	<u>(2,788)</u>	<u>(12,853,120)</u>	<u>13,019,344</u>
Depreciable Assets:					
Land improvements	6,826,211				6,826,211
Buildings	5,507,916				5,507,916
Furniture and equipment	14,543,135	25,719	(18,092)	6,135,693	20,686,455
Vehicles	2,255,605	-	(216,380)	953,621	2,992,846
Infrastructure	259,643,317	-		5,786,812	265,430,129
Total depreciable assets	<u>288,776,184</u>	<u>25,719</u>	<u>(234,472)</u>	<u>12,876,126</u>	<u>301,443,557</u>
Less accumulated depreciation:					
Land improvements	(1,345,577)	(218,542)			(1,564,119)
Buildings	(1,837,552)	(170,639)			(2,008,191)
Furniture and equipment	(12,236,500)	(866,517)	18,092		(13,084,925)
Vehicles	(758,836)	(135,578)	133,113	(23,006)	(784,307)
Infrastructure	(101,174,471)	(4,597,228)			(105,771,699)
Total accumulated depreciation	<u>(117,352,936)</u>	<u>(5,988,504)</u>	<u>151,205</u>	<u>(23,006)</u>	<u>(123,213,241)</u>
Net depreciable assets	<u>171,423,248</u>	<u>(5,962,785)</u>	<u>(83,267)</u>	<u>12,853,120</u>	<u>178,230,316</u>
Total business-type capital assets	<u>\$ 190,399,849</u>	<u>\$ 935,866</u>	<u>\$ (86,055)</u>	<u>\$ -</u>	<u>\$ 191,249,660</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2011 was as follows:

Water	\$ 1,763,736
Sewer	3,923,136
Airport	78,766
Transportation	<u>222,866</u>
Total depreciation expense	<u>\$ 5,988,504</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. CAPITAL ASSETS, Continued

B. Fund Financial Statements

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

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

6. LONG-TERM DEBT

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

A. Government-Wide Financial Statements

Governmental Activities

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

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year	Due in More than One year
Governmental Activity Debt:						
1999 Revenue Bonds	\$ 3,395,000		\$ (150,000)	\$ 3,245,000	\$ 160,000	\$ 3,085,000
2006 Tax Allocation Revenue Bonds	24,430,000		(375,000)	24,055,000	390,000	23,665,000
Add: Unamortized Bond Premium	293,850		(11,230)	282,620		282,620
2011 Tax Allocation Revenue Bonds		15,300,000		15,300,000	290,000	15,010,000
Less: Unamortized Bond Discount		(270,113)	3,881	(266,232)		(266,232)
California Energy Commission	138,006		(28,606)	109,400	29,737	79,663
Economic Development Bank	187,169	702,136		889,305	-	889,305
Capital Leases:						
1996 City Hall Acquisition	357,078		(234,335)	122,743	122,743	-
2000 Regional Sports Complex	427,435		(75,967)	351,468	80,454	271,014
Various Others	169,996		(90,235)	79,761	79,761	-
Subtotal	<u>29,398,534</u>	<u>15,732,023</u>	<u>(961,492)</u>	<u>44,169,065</u>	<u>1,152,695</u>	<u>43,016,370</u>
Internal Service Long-Term Debt:						
2002 City Hall Addition	663,605		(82,138)	581,467	86,036	495,431
Compensated Absences	2,443,413	\$ 12,975		2,456,388	491,277	1,965,111
Total governmental activity debt	<u>\$ 32,505,552</u>	<u>\$ 15,744,998</u>	<u>\$ (1,043,630)</u>	<u>\$ 47,206,920</u>	<u>\$ 1,730,008</u>	<u>\$ 45,476,912</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. LONG-TERM DEBT, Continued

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.

2011 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2011

In February 2011, the Turlock Public Financing Authority (Authority) authorized the issuance of \$15,300,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to provide financing assistance for the construction of a new public safety facility in the City's downtown area. As with the bond issuances noted above, the Agency's tax increment revenue is pledged for repayment of these bonds (see below). The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039. The outstanding principal for this loan as of June 30, 2011 is \$15,300,000.

Pledged Revenues for 1999 Revenue Bond; and 2006 and 2011 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 2010-11 was 26% of total tax increment revenues. Total tax increment revenues (prior to Housing Set-Aside and pass through payments) for 2010-11 were \$7,292,940; while principal and interest payments on the bonds totaled \$1,865,064.

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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

Economic Development Bank Loan

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

Capital Leases

1996 City Hall Acquisition and Remodel

In September 1996 the City entered into a lease-purchase agreement in the amount of \$2,375,612 with LaSalle National Bank to finance the acquisition and remodel of the new City Hall and the police facilities. The lease has an imputed interest rate of 6.37% and requires semi-annual principal and interest lease payments due on the thirtieth of March and September until 2011, when the lease 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, and vehicles. The annual interest rates range from 4.87% to 5.47% and the leases terminate at various times through September 2011.

At June 30, 2011, the City's capital leases were related to capitalized assets totaling \$14,619,540 with accumulated depreciation of \$5,005,498. 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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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
2012	869,737	2,460,294	368,996	52,661	\$ 1,238,733	\$ 2,512,955
2013	610,933	2,360,041	175,324	36,032	786,257	2,396,073
2014	642,167	2,330,721	184,633	26,723	826,800	2,357,444
2015	1,038,607	2,294,526	194,443	16,913	1,233,050	2,311,439
2016	1,062,044	2,251,588	103,565	8,745	1,165,609	2,260,333
2017-2021	6,010,217	10,532,934	108,478	3,829	6,118,695	10,536,763
2022-2026	6,430,000	8,996,156			6,430,000	8,996,156
2027-2031	7,535,000	7,151,025			7,535,000	7,151,025
2032-2036	10,155,000	4,768,938			10,155,000	4,768,938
2037-2040	9,245,000	1,171,750			9,245,000	1,171,750
Total	\$ 43,598,705	\$ 44,317,973	\$ 1,135,439	\$ 144,903	\$ 44,734,144	\$ 44,462,876

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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, 2010	Additions	Retirements	June 30, 2011	Within	More than
					One Year	One year
Business-Type Activities:						
1999 Sewer Revenue Bonds	\$ 17,705,000		\$ (600,000)	\$ 17,105,000	\$ 635,000	\$ 16,470,000
Less: Unamortized Bond Discount	(348,474)		20,797	(327,677)		(327,677)
2003A Sewer Revenue Bonds	45,505,000		(1,050,000)	44,455,000	1,100,000	43,355,000
Less: Unamortized Bond Discount	(240,943)		10,400	(230,543)		(230,543)
2008 Water Revenue Bonds	31,175,000		(600,000)	30,575,000	625,000	29,950,000
Less: Unamortized Bond Discount	(132,081)		4,745	(127,336)		(127,336)
Capital Leases:						
2002 City Hall Addition	663,606		(82,138)	581,468	86,036	495,432
Compensated Absences	714,217	43,963		758,180	151,636	606,544
Total business-type activity debt	\$ 95,041,325	\$ 43,963	\$ (2,296,196)	\$ 92,789,092	\$ 2,597,672	\$ 90,191,420

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 2010-11 net system revenues of \$9.3 million, annual principal and interest payments (totaling \$4.8 million in 2010-11) were 52% of net system revenues.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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 2010-11 net system revenues of \$3.7 million, annual principal and interest payments (totaling \$2.1 million) were 57% of net system revenues.

Capital Leases

2002 City Hall Addition

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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
2012	\$ 2,360,000	\$ 4,445,553	\$ 86,036	\$ 26,274	\$ 2,446,036	\$ 4,471,827
2013	2,460,000	4,340,802	90,118	22,192	2,550,118	4,362,994
2014	2,570,000	4,230,703	94,394	17,916	2,664,394	4,248,619
2015	2,695,000	4,111,389	98,874	13,436	2,793,874	4,124,825
2016	2,810,000	3,990,544	103,565	8,745	2,913,565	3,999,289
2017-2021	16,160,000	17,843,985	108,481	3,828	16,268,481	17,847,813
2022-2026	20,065,000	13,402,513			20,065,000	13,402,513
2027-2031	22,255,000	8,107,761			22,255,000	8,107,761
2032-2036	16,985,000	2,865,889			16,985,000	2,865,889
2037-2038	3,775,000	285,498			3,775,000	285,498
Total	\$ 92,135,000	\$ 63,624,637	\$ 581,468	\$ 92,391	\$ 92,716,468	\$ 63,717,028

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 \$3,550,000 at June 30, 2011.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. NET ASSETS AND FUND BALANCES

A. Net Assets

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

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

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

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

B. Fund Balances

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

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

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

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

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

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

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. NET ASSETS AND FUND BALANCES, Continued

B. Fund Balances, Continued

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

The following provides detail regarding the categorization of the fund balances in the City's governmental funds as of June 30, 2011:

	Special Revenue			Capital Projects		Other Governmental Funds	Total
	General	Stan County Housing Consortium	Housing Set Aside	Redevelopment	Facility Fees		
Non-spendable							
Fiscal agent cash				\$ 3,637,205			\$ 3,637,205
Prepaid expenditures	\$ 2,630						2,630
Loans receivable	18,400						18,400
Due from developers	20,041						20,041
Total Non-spendable	41,071			3,637,205			3,678,276
Restricted							
Resource conservation						\$ 608,357	608,357
Low-/moderate-income housing		\$ 7,250	\$ 5,810,870			262,611	6,080,731
Capital expenditures				1,093,227	\$ 14,632,974		15,726,201
Street maintenance						1,373,195	1,373,195
Assessment districts						9,233,302	9,233,302
Public safety						108,058	108,058
Parks and recreation						57,562	57,562
Fiscal agent cash				18,070,998			18,070,998
Total Restricted	-	7,250	5,810,870	19,164,225	14,632,974	11,643,085	51,258,404
Committed							
Public safety	317,319					87,840	405,159
Resource conservation						63,096	63,096
Parks and recreation						16,396	16,396
Tourism	101,648						101,648
Future deficit spending	1,500,000						1,500,000
Capital expenditures	3,390,550					14,271,200	17,661,750
Total Committed	5,309,517					14,438,532	19,748,049
Assigned							
Compensated absences	1,978,243			17,188		173,559	2,168,990
Retiree health (OPEB)	838,063	10,434		16,496		190,634	1,055,627
Total Assigned	2,816,306	10,434		33,684		364,193	3,224,617
Unassigned	11,514,732					(133,555)	11,381,177
Total fund balances	\$ 19,681,626	\$ 17,684	\$ 5,810,870	\$ 22,835,114	\$ 14,632,974	\$ 26,312,255	\$ 89,290,523

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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 \$546,911 and received \$234,872 in refunds during the fiscal year ended June 30, 2011. Settled claims have not exceeded commercial excess liability coverage in any of the past three fiscal years.

The following provides condensed financial information for CSJVRMA:

Central San Joaquin Valley Risk Management Authority	
Condensed Financial Information	
As of and for the Year Ended June 30, 2011	
Total Assets	\$ 69,444,059
Total Liabilities	55,945,081
Net Assets	<u>\$ 13,498,978</u>
Operating Revenues	\$ 26,278,146
Operating Expenses	(26,326,659)
Net Non-Operating Revenues (Expenses)	<u>1,663,567</u>
Change in Net Assets	<u>\$ 1,615,054</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, 2011 claims were \$2,764,290.

For the Year Ended June 30,	Claims Payable July 1	Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
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
2011	\$ 2,764,290	\$ 6,835,055	\$ (6,835,055)	\$ 2,764,290

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. RETIREMENT PLAN

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

Funding Policy – Eligible employees are required by State statute to contribute a stated percentage of their annual covered salary to the retirement plan. The rate was 8% for miscellaneous employees and 9% for public safety employees for 2010-11. The City's actuarially determined employer contributions as a percentage of covered payroll were as follows:

	<u>2010-11</u>
Miscellaneous employees	14.971%
Public Safety - Fire employees	23.478%
Public Safety - Police employees	25.414%

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

Annual Pension Cost – For fiscal year 2010-11, the City's annual pension cost of \$4,373,434 for PERS was equal to the City's required and actual contributions as determined by the June 30, 2008 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, 2008
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 and annual production growth of 0.25%

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

	<u>Miscellaneous</u>	<u>Safety - Police</u>	<u>Safety - Fire</u>
Amortization periods (as of valuation date):	15-30 years	16-30 years	17-30 years

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. RETIREMENT PLAN, Continued

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

	Plan Assets	Accrued Liability	Unfunded Liability
Miscellaneous employees	\$ 65,593,400	\$ 85,536,258	\$ 19,942,858

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

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

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$ 4,692,274	100%	-
6/30/2010	\$ 4,521,164	100%	-
6/30/2011	\$ 4,373,434	100%	-

10. POST-EMPLOYMENT HEALTH CARE BENEFITS

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

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Plan Description (continued)

As part of budget concessions for fiscal year 2010-11, the funding obligations above were amended as follows:

<u>Plan</u>	<u>Concession</u>
Management/Confidential	Suspended 100% of contribution for 1 year
Miscellaneous	Reduced contribution from 2% to .5% for 1 year
Police	No adjustment
Fire	Reduced contribution from 4% to 3% for 1 year

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

In general, employees are required to retire from the City and be members of their respective covered group for 10-15 years to be eligible to receive a benefit from their respective plan. The benefit can only be used to purchase post-employment health insurance. The retiree has the option to continue on the City’s self-insured health plan (and pay the 100% of the premium for continued participation), to become a member of a non-City group plan, or to purchase an individual health insurance policy. The benefit can then be used to provide assistance with paying the monthly premium. In no case does the retiree receive a benefit greater than the monthly health insurance premium. For retirees who choose to remain on the City’s health plan, this eligibility terminates when the retiree becomes eligible for Medicare benefits, reaches age 65, is deceased, or chooses to voluntarily leave the plan, whichever comes first. Spousal eligibility requirements vary with each plan. The City currently has 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, 2011 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	\$ 779,507
Miscellaneous	\$1,322,166

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Funding Policy, Continued

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

<u>Plan</u>	<u>Trust Fund Assets</u>
Police	\$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 2010-11 fiscal year. The table is broken out between the offset benefit and the City's health insurance plan.

OFFSET PLAN	Mangement/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$ 60,017	\$ 145,983	\$ 613,948	\$ 75,137	\$ 895,085
Interest on net OPEB obligation	2,340	10,961	33,294	(15,986)	30,609
Adjustments	(3,220)	(15,083)	(45,812)	21,996	(42,119)
Annual OPEB cost (expense)	59,137	141,861	601,430	81,147	883,575
Contributions to irrevocable trust			(287,376)	(132,989)	(420,365)
Benefits payments	(46,365)	(64,107)			(110,472)
Increase (decrease) in NOO	12,772	77,754	314,054	(51,842)	352,738
Net OPEB obligation - beginning	51,998	243,584	739,861	(355,236)	680,207
Net OPEB obligation - ending	<u>\$ 64,770</u>	<u>\$ 321,338</u>	<u>\$ 1,053,915</u>	<u>\$ (407,078)</u>	<u>\$ 1,032,945</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	(4,855)	29,757	2,521	7,647	35,070
Adjustments	6,681	(40,945)	(3,469)	(10,523)	(48,256)
Annual OPEB cost (expense)	106,138	580,964	241,290	163,715	1,092,107
Premiums paid by retirees	(84,456)	(150,912)	(107,614)	(86,962)	(429,944)
Benefits payments	(300,082)	(138,809)	(97,396)	(251,714)	(788,001)
Increase (decrease) in NOO	(278,400)	291,243	36,280	(174,961)	(125,838)
Net OPEB obligation - beginning	(107,897)	661,266	56,021	169,939	779,329
Net OPEB obligation - ending	<u>\$ (386,297)</u>	<u>\$ 952,509</u>	<u>\$ 92,301</u>	<u>\$ (5,022)</u>	<u>\$ 653,491</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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 2010-11 fiscal year are as follows:

OFFSET PLAN	Annual OPEB Cost	Percent Contributed	Net OPEB Obligation
Mangement/Confidential			
2008-09	\$58,696	35.97%	\$37,585
2009-10	\$59,423	75.75%	\$51,998
2010-11	\$59,137	78.40%	\$64,770
Miscellaneous			
2008-09	\$147,954	3.17%	\$143,263
2009-10	\$143,722	30.20%	\$243,584
2010-11	\$141,861	45.19%	\$321,338
Police			
2008-09	\$566,560	31.65%	\$387,229
2009-10	\$607,835	41.99%	\$739,861
2010-11	\$601,430	47.78%	\$1,053,915
Fire			
2008-09	\$55,776	549.46%	(\$250,691)
2009-10	\$79,094	232.18%	(\$355,236)
2010-11	\$81,147	163.89%	(\$407,078)
HEALTH CARE PLAN			
Mangement/Confidential			
2008-09	\$83,623	143.42%	(\$36,311)
2009-10	\$104,885	168.25%	(\$107,897)
2010-11	\$106,138	362.30%	(\$386,297)
Miscellaneous			
2008-09	\$483,822	19.55%	\$389,226
2009-10	\$586,008	53.58%	\$661,266
2010-11	\$580,964	49.87%	\$952,509
Police			
2008-09	\$183,910	49.99%	\$91,972
2009-10	\$240,786	114.93%	\$56,021
2010-11	\$241,290	84.96%	\$92,301
Fire			
2008-09	\$119,934	16.14%	\$100,571
2009-10	\$165,004	57.96%	\$169,939
2010-11	\$163,715	206.87%	(\$5,022)

11. COMMITMENTS AND CONTINGENCIES

Litigation

As of June 30, 2011, 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.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

11. COMMITMENTS AND CONTINGENCIES, Continued

Grants

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

Proposition 1A Securitization

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

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

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

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

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

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 30, 2012 and except as described below, no other events requiring recognition in, or disclosure of, within the financial statements were identified.

On December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation (Assembly Bill X1 26) that provides for the dissolutions of California redevelopment agencies, but struck down the Assembly Bill X1 27 which would have provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

12. SUBSEQUENT EVENTS, Continued

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

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

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

The full impacts of this most recent development and its impact on other funds of the City are not known at this time. The financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

REQUIRED SUPPLEMENTARY INFORMATION

City of Turlock
Required Supplementary Information
For the year ended June 30, 2011

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, 2011, 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, 2011

Budgetary Comparison Schedule -
General Fund

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 14,386,000	\$ 14,386,000	\$ 15,717,842	\$ 1,331,842
Licenses and permits	1,168,880	1,168,880	1,201,617	32,737
Fines, forfeitures, and penalties	340,800	340,800	591,735	250,935
Use of money and property	317,000	317,000	132,962	(184,038)
Intergovernmental	5,428,408	5,428,408	5,378,354	(50,054)
Charges for current services	3,538,043	3,535,043	3,350,145	(184,898)
Other	429,928	754,928	1,636,443	881,515
Total revenues	<u>25,609,059</u>	<u>25,931,059</u>	<u>28,009,098</u>	<u>2,078,039</u>
EXPENDITURES:				
Current:				
General government	2,881,497	2,615,181	2,569,534	45,647
Public safety	23,183,813	23,218,290	23,105,347	112,943
Public ways and facilities/transportation	1,000,301	471,613	381,442	90,171
Parks and recreation	1,104,118	1,995,788	1,934,333	61,455
Community development	862,113	880,541	812,726	67,815
Capital outlay	61,625	61,625	61,611	14
Debt service:				
Principal	90,235	90,235	90,235	-
Interest and fiscal charges	10,118	10,118	10,119	(1)
Total expenditures	<u>29,193,820</u>	<u>29,343,391</u>	<u>28,965,347</u>	<u>378,044</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(3,584,761)</u>	<u>(3,412,332)</u>	<u>(956,249)</u>	<u>2,456,083</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,756,506	1,909,951	1,936,259	26,308
Transfers out	<u>(282,505)</u>	<u>(288,505)</u>	<u>(289,327)</u>	<u>(822)</u>
Total other financing sources (uses)	<u>1,474,001</u>	<u>1,621,446</u>	<u>1,646,932</u>	<u>25,486</u>
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	<u>\$ (2,110,760)</u>	<u>\$ (1,790,886)</u>	690,683	<u>\$ 2,481,569</u>
FUND BALANCES:				
Beginning of year			<u>18,990,943</u>	
End of year			<u>\$ 19,681,626</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2011

*Budgetary Comparison Schedule -
Stan County Housing Consortium*

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Use of money and property			\$ 79	\$ 79
Intergovernmental	\$ 3,976,888	\$ 3,976,888	2,375,303	(1,601,585)
Other	53,500	53,500	6,355	(47,145)
Total revenues	4,030,388	4,030,388	2,381,737	(1,648,651)
EXPENDITURES:				
Current:				
Community development	4,042,400	4,042,400	2,376,750	1,665,650
Total expenditures	4,042,400	4,042,400	2,376,750	1,665,650
REVENUES OVER (UNDER) EXPENDITURES	(12,012)	(12,012)	4,987	16,999
OTHER FINANCING SOURCES (USES):				
Transfers in	54,095	54,095	-	(54,095)
Transfers out	(55,145)	(55,145)	(9,146)	45,999
Total other financing sources (uses)	(1,050)	(1,050)	(9,146)	(8,096)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (13,062)	\$ (13,062)	(4,159)	\$ 8,903
FUND BALANCES:				
Beginning of year, as restated			21,843	
End of year			\$ 17,684	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2011

Budgetary Comparison Schedule -
Housing Set-Aside Fund

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 1,265,000	\$ 1,265,000	\$ 1,301,880	\$ 36,880
Use of money and property	5,000	5,000	23,430	18,430
Other			750	750
Total revenues	<u>1,270,000</u>	<u>1,270,000</u>	<u>1,326,060</u>	<u>56,060</u>
EXPENDITURES:				
Current:				
Community development	2,922,860	4,103,350	984,170	3,119,180
Capital outlay		350,000	327,185	22,815
Total expenditures	<u>2,922,860</u>	<u>4,453,350</u>	<u>1,311,355</u>	<u>3,141,995</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(1,652,860)</u>	<u>(3,183,350)</u>	<u>14,705</u>	<u>3,198,055</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(165,714)</u>	<u>(165,714)</u>	<u>(193,772)</u>	<u>(28,058)</u>
Total other financing sources (uses)	<u>(165,714)</u>	<u>(165,714)</u>	<u>(193,772)</u>	<u>(28,058)</u>
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES				
	<u>\$ (1,818,574)</u>	<u>\$ (3,349,064)</u>	<u>(179,067)</u>	<u>\$ 3,169,997</u>
FUND BALANCES:				
Beginning of year			<u>5,989,937</u>	
End of year			<u>\$ 5,810,870</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2011

Budgetary Comparison Schedule -
Redevelopment

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 3,764,800	\$ 3,760,000	\$ 3,858,784	\$ 98,784
Use of money and property	165,000	165,000	139,236	(25,764)
Other		4,800	23,252	18,452
Total revenues	3,929,800	3,929,800	4,021,272	91,472
EXPENDITURES:				
Current:				
Community development	1,669,857	1,683,857	1,622,192	61,665
Debt service:				
Principal	525,000	525,000	525,000	-
Interest and fiscal charges	1,790,200	1,790,200	1,340,064	450,136
Issuance costs for Tax Allocation Bonds			137,979	(137,979)
Total expenditures	3,985,057	3,999,057	3,625,235	373,822
REVENUES OVER (UNDER)				
EXPENDITURES	(55,257)	(69,257)	396,037	465,294
OTHER FINANCING SOURCES (USES):				
Transfers out	(6,078,219)	(23,491,441)	(8,532,894)	14,958,547
Proceeds from long-term debt			15,300,000	15,300,000
			(270,113)	(270,113)
Total other financing sources (uses)	(6,078,219)	(23,491,441)	6,496,993	29,988,434
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES				
	\$ (6,133,476)	\$ (23,560,698)	6,893,030	\$ 30,453,728
FUND BALANCES:				
Beginning of year			<u>15,942,084</u>	
End of year			<u>\$ 22,835,114</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2011

*Budgetary Comparison Schedule -
Facility Fees*

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Use of money and property	\$ 75,000	\$ 75,000	\$ 51,631	\$ (23,369)
Charges for current services	521,000	521,000	543,494	22,494
Other	15,800	15,800	60,856	45,056
Total revenues	611,800	611,800	655,981	44,181
EXPENDITURES:				
Current:				
General government	830,000	1,046,343	232,470	813,873
Public safety	1,000	1,000	48	952
Public ways and facilities/ transportation	200	200	94	106
Capital outlay	11,368,890	37,804,882	9,347,363	28,457,519
Debt service:				
Principal	234,334	234,335	234,335	-
Interest and fiscal charges	19,076	19,076	19,076	-
Total expenditures	12,453,500	39,105,836	9,833,386	29,272,450
REVENUES OVER (UNDER) EXPENDITURES	(11,841,700)	(38,494,036)	(9,177,405)	29,316,631
OTHER FINANCING SOURCES (USES):				
Transfers in	3,867,476	22,380,698	7,557,219	(14,823,479)
Transfers out	(318,700)	(388,700)	(70,000)	318,700
Loan Proceeds	779,305	779,305		(779,305)
Total other financing sources (uses)	4,328,081	22,771,303	7,487,219	(15,284,084)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (7,513,619)	\$ (15,722,733)	(1,690,186)	\$ 14,032,547
FUND BALANCES:				
Beginning of year			16,323,160	
End of year			<u>\$ 14,632,974</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2011

PUBLIC EMPLOYEE RETIREMENT SYSTEMS (PERS)
SCHEDULE OF FUNDING PROGRESS

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

Safety (Police and Fire) Employees

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

SUPPLEMENTAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

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

Gas Tax/Street Improvement

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

Integrated Waste Management (AB939)

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

Development Impact Fees

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

Equipment Replacement

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

Lighting & Landscaping Assessment Districts

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

CDBG, State HOME Program, and Housing Stimulus Funds

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

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, 2011

	Special Revenue				
	Asset Forfeitures	Gas Tax/ Street Improvement	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
ASSETS					
Cash and investments	\$ 8,465	\$ 1,437,021	\$ 639,902	\$ 47,629	\$ 95,040
Accounts receivable	10,317	282,134	32,190		7,081
Interest receivable			707		
Loans receivable					
Other assets					
Total assets	\$ 18,782	\$ 1,719,155	\$ 672,799	\$ 47,629	\$ 102,121
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 141,286	\$ 1,346	\$ 195	\$ 23,646
Payroll payable		20,606			8,703
Due to other funds					
Deferred revenue					14,000
Total liabilities		161,892	1,346	195	46,349
Fund Balances:					
Non-Spendable					
Restricted		1,373,195	608,357		
Committed	18,782		63,096	47,434	16,396
Assigned		184,068			39,376
Unassigned					
Total fund balances	18,782	1,557,263	671,453	47,434	55,772
Total liabilities and fund balances	\$ 18,782	\$ 1,719,155	\$ 672,799	\$ 47,629	\$ 102,121

Special Revenue

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$ 25,615	\$ 4,685,691	\$ 2,849,890 24,984	\$ 878,433	\$ 606,649	\$ 9,116,721 97,520	\$ 55,088
	4,751		953	637	9,554	
<u>\$ 25,615</u>	<u>\$ 4,690,442</u>	<u>\$ 2,874,874</u>	<u>\$ 879,386</u>	<u>\$ 607,286</u>	<u>\$ 9,223,795</u>	<u>\$ 55,088</u>
\$ 3,991	\$ 1,086	\$ 17,996			\$ 25,702 19,205	
<u>3,991</u>	<u>1,086</u>	<u>17,996</u>			<u>44,907</u>	
21,624	4,689,356	2,856,878	879,386	607,286	9,099,033 79,855	55,088
<u>21,624</u>	<u>4,689,356</u>	<u>2,856,878</u>	<u>879,386</u>	<u>607,286</u>	<u>9,178,888</u>	<u>55,088</u>
<u>\$ 25,615</u>	<u>\$ 4,690,442</u>	<u>\$ 2,874,874</u>	<u>\$ 879,386</u>	<u>\$ 607,286</u>	<u>\$ 9,223,795</u>	<u>\$ 55,088</u>

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2011

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Grant Funds
ASSETS					
Cash and investments	\$ 77,208	\$ 22,156			\$ 28,362
Accounts receivable	1,973	96,880	687,330	199,272	306,238
Interest receivable					
Loans receivable		5,382,454	4,456,054	127,255	
Other assets					
Total assets	\$ 79,181	\$ 5,501,490	\$ 5,143,384	\$ 326,527	\$ 334,600
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 15,947		\$ 997	\$ 40,949
Payroll payable		9,803			17,305
Due to other funds		20,681	\$ 436,430	331,830	110,726
Deferred revenue		5,382,454	4,456,054	\$ 127,255	
Total liabilities		5,428,885	4,892,484	460,082	168,980
Fund Balances:					
Non-Spendable					
Restricted	79,181	11,711	250,900		165,620
Committed					
Assigned		60,894			
Unassigned				(133,555)	
Total fund balances	79,181	72,605	250,900	(133,555)	165,620
Total liabilities and fund balances	\$ 79,181	\$ 5,501,490	\$ 5,143,384	\$ 326,527	\$ 334,600

Special Revenue	Capital Projects				
Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
\$ 20,573,870	\$ 663,531	\$ 161,177	\$ 251,699	\$ 3,082,767	\$ 1,198,823
1,745,919					
16,602	698	170		3,246	1,239
9,965,763					
<u>\$ 32,302,154</u>	<u>\$ 664,229</u>	<u>\$ 161,347</u>	<u>\$ 251,699</u>	<u>\$ 3,086,013</u>	<u>\$ 1,200,062</u>
\$ 273,141	\$ 704	\$ 83			
75,622					
899,667					
9,979,763					
<u>11,228,193</u>	<u>704</u>	<u>83</u>			
11,643,085					
9,200,238	663,525	161,264	251,699	3,086,013	1,200,062
364,193					
(133,555)					
<u>21,073,961</u>	<u>663,525</u>	<u>161,264</u>	<u>251,699</u>	<u>3,086,013</u>	<u>1,200,062</u>
<u>\$ 32,302,154</u>	<u>\$ 664,229</u>	<u>\$ 161,347</u>	<u>\$ 251,699</u>	<u>\$ 3,086,013</u>	<u>\$ 1,200,062</u>

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2011

	Capital Projects			Total Nonmajor Funds
	Turlock Regional Industrial Park	East Tuolumne Master Plan	Total	
ASSETS				
Cash and investments			\$ 5,357,997	\$ 25,931,867
Accounts receivable	\$ 562,891		562,891	2,308,810
Interest receivable			5,353	21,955
Loans receivable				9,965,763
Other assets				
Total assets	\$ 562,891	\$ -	\$ 5,926,241	\$ 38,228,395
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 210,668		\$ 211,455	\$ 484,596
Payroll payable				75,622
Due to other funds	328,492	\$ 148,000	476,492	1,376,159
Deferred revenue				9,979,763
Total liabilities	539,160	148,000	687,947	11,916,140
Fund Balances:				
Non-Spendable				
Restricted				11,643,085
Committed	23,731	(148,000)	5,238,294	14,438,532
Assigned				364,193
Unassigned				(133,555)
Total fund balances	23,731	(148,000)	5,238,294	26,312,255
Total liabilities and fund balances	\$ 562,891	\$ -	\$ 5,926,241	\$ 38,228,395

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City of Turlock

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

Nonmajor Governmental Funds

For the year ended June 30, 2011

	Special Revenue					Animal Fees Forfeiture
	Asset Forfeitures	Gas Tax/ Street Improvement	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities	
REVENUES:						
Taxes and assessments						
Licenses and permits				\$ 14,301		
Use of money and property		\$ 4,850	\$ 3,828		165	
Intergovernmental	\$ 10,323	4,120,191	89,948			
Charges for current services		27,833	63,096		\$ 245,240	\$ 21,694
Other		32,775	4,125			
Total revenues	10,323	4,185,649	160,997	14,301	245,405	21,694
EXPENDITURES:						
Current:						
General government			60,948			
Public safety	5,000			8,752		24,536
Public ways and facilities/transportation		1,664,878				
Parks and recreation					453,962	
Community development						
Capital outlay		3,563,937			38,495	
Debt service:						
Principal		28,606				
Interest and fiscal charges		5,172				
Total expenditures	5,000	5,262,593	60,948	8,752	492,457	24,536
REVENUES OVER (UNDER) EXPENDITURES	5,323	(1,076,944)	100,049	5,549	(247,052)	(2,842)
OTHER FINANCING SOURCES (USES):						
Transfers in		78,688			257,335	
Transfers out		(647,717)			(149)	
Loan Proceeds						
Total other financing sources (uses)	-	(569,029)	-	-	257,186	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	5,323	(1,645,973)	100,049	5,549	10,134	(2,842)
FUND BALANCES:						
Beginning of year	13,459	3,203,236	571,404	41,885	45,638	24,466
End of year	\$ 18,782	\$ 1,557,263	\$ 671,453	\$ 47,434	\$ 55,772	\$ 21,624

Special Revenue

Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
	\$ 97,018			\$ 2,607,629	
\$ 81,786					
19,955	-	\$ 5,340	\$ 3,594	38,689	
	231,931	5,757		12,102	
-	21,231			2,263	
101,741	350,180	11,097	3,594	2,660,683	-
-	81,518				
-	38,651				
44,003	7,141	25		1,439,718	
-	2,210				
-	21,925				
104,055	70,534			22,319	
-	-				
75,967	-				
23,079	-				
247,104	221,979	25	-	1,462,037	-
(145,363)	128,201	11,072	3,594	1,198,646	-
-	55,250				
(13,315)	(214,419)	(116,048)		(81,183)	
(13,315)	(159,169)	(116,048)	-	(81,183)	-
(158,678)	(30,968)	(104,976)	3,594	1,117,463	-
4,848,034	2,887,846	984,362	603,692	8,061,425	55,088
\$ 4,689,356	\$ 2,856,878	\$ 879,386	\$ 607,286	\$ 9,178,888	\$ 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, 2011

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Grant Funds
REVENUES:					
Taxes and assessments	\$ 364,644				
Licenses and permits					
Use of money and property	4,541				\$ 30
Intergovernmental		\$ 748,125	\$ 687,330	\$ 1,161,791	1,437,163
Charges for current services					2,494
Other		171,155	75,530	1,022,531	49,646
Total revenues	369,185	919,280	762,860	2,184,322	1,489,333
EXPENDITURES:					
Current:					
General government	11,179				-
Public safety					719,640
Public ways and facilities/transportation					-
Parks and recreation					499,602
Community development		981,787	684,750	1,110,141	-
Capital outlay					87,137
Debt service:					
Principal					-
Interest and fiscal charges					-
Total expenditures	11,179	981,787	684,750	1,110,141	1,306,379
REVENUES OVER (UNDER) EXPENDITURES	358,006	(62,507)	78,110	1,074,181	182,954
OTHER FINANCING SOURCES (USES):					
Transfers in		102,873		2,713	2,537
Transfers out	(356,200)	(68,566)		(4,550)	(83,704)
Loan Proceeds					
Total other financing sources (uses)	(356,200)	34,307	-	(1,837)	(81,167)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,806	(28,200)	78,110	1,072,344	101,787
FUND BALANCES:					
Beginning of year	77,375	100,805	172,790	(1,205,899)	63,833
End of year	\$ 79,181	\$ 72,605	\$ 250,900	\$ (133,555)	\$ 165,620

Special Revenue		Capital Projects			
Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
\$ 3,069,291					
96,087					
80,992	\$ 3,989	\$ 864		\$ 13,610	\$ 5,051
8,254,871		433,756			
610,147	7,034				976,339
1,379,256					
<u>13,490,644</u>	<u>11,023</u>	<u>434,620</u>	<u>-</u>	<u>13,610</u>	<u>981,390</u>
153,645	4,244				
796,579					
3,155,765				88	1,008,766
955,774	14,514				
2,798,603					
3,886,477		433,901		23,386	
104,573					
28,251					
<u>11,879,667</u>	<u>18,758</u>	<u>433,901</u>	<u>-</u>	<u>23,474</u>	<u>1,008,766</u>
1,610,977	(7,735)	719	-	(9,864)	(27,376)
499,396	40,175				
(1,585,851)				(35,000)	(60,000)
-					
<u>(1,086,455)</u>	<u>40,175</u>	<u>-</u>	<u>-</u>	<u>(35,000)</u>	<u>(60,000)</u>
524,522	32,440	719	-	(44,864)	(87,376)
20,549,439	631,085	160,545	251,699	3,130,877	1,287,438
<u>\$ 21,073,961</u>	<u>\$ 663,525</u>	<u>\$ 161,264</u>	<u>\$ 251,699</u>	<u>\$ 3,086,013</u>	<u>\$ 1,200,062</u>

City of Turlock

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds, Continued For the year ended June 30, 2011

	Capital Projects			Total Nonmajor Funds
	Turlock Regional Industrial Park	East Tuolumne Master Plan	Total	
REVENUES:				
Taxes and assessments			\$	\$ 3,069,291
Licenses and permits			-	96,087
Use of money and property			23,514	104,506
Intergovernmental			433,756	8,688,627
Charges for current services			983,373	1,593,520
Other			-	1,379,256
Total revenues	-	-	1,440,643	14,931,287
EXPENDITURES:				
Current:				
General government			4,244	157,889
Public safety			-	796,579
Public ways and facilities/transportation	22,963		1,031,817	4,187,582
Parks and recreation			14,514	970,288
Community development			-	2,798,603
Capital outlay	2,819,268		3,276,555	7,163,032
Debt service:				
Principal			-	104,573
Interest and fiscal charges			-	28,251
Total expenditures	2,842,231	-	4,327,130	16,206,797
REVENUES OVER (UNDER) EXPENDITURES	(2,842,231)	-	(2,886,487)	(1,275,510)
OTHER FINANCING SOURCES (USES):				
Transfers in	2,111,157		2,151,332	2,650,728
Transfers out	(35,000)	(20,000)	(150,000)	(1,735,851)
Loan Proceeds	702,136		702,136	702,136
Total other financing sources (uses)	2,778,293	(20,000)	2,703,468	1,617,013
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(63,938)	(20,000)	(183,019)	341,503
FUND BALANCES:				
Beginning of year	87,669	(128,000)	5,421,313	25,970,752
End of year	\$ 23,731	\$ (148,000)	\$ 5,238,294	\$ 26,312,255

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, 2011

	Airport	Transportation	Building & Safety	Total Nonmajor Funds
ASSETS				
Current assets:				
Cash and investments	\$ 80,729	\$ 451,850	\$ 123,068	\$ 655,647
Accounts receivable		2,002,347		2,002,347
Interest receivable		1,006		1,006
Due from other funds				-
Total current assets	80,729	2,455,203	123,068	2,659,000
Capital assets				
Non-depreciable	266,263	2,075,056		2,341,319
Depreciable, net of depreciation	2,054,476	4,212,761		6,267,237
Total capital assets	2,320,739	6,287,817	-	8,608,556
Total Assets	2,401,468	8,743,020	123,068	11,267,556
LIABILITIES				
Current liabilities:				
Accounts payable		82,934	13,268	96,202
Salaries payable		3,401	19,006	22,407
Due to other funds			101,454	101,454
Deferred revenue		1,310,290		1,310,290
Compensated absences - due in one year		3,712	11,735	15,447
Total current liabilities	-	1,400,337	145,463	1,545,800
Compensated absences - due in more than one year		14,849	46,940	61,789
Net OPEB Obligation		12,384	103,765	116,149
Total liabilities	-	1,427,570	296,168	1,723,738
NET ASSETS				
Invested in capital assets, net of related debt	2,320,739	6,287,817	-	8,608,556
Unrestricted	80,729	1,027,633	(173,100)	935,262
Total net assets	\$ 2,401,468	\$ 7,315,450	\$ (173,100)	\$ 9,543,818

City of Turlock
Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds
For the year ended June 30, 2011

	Airport	Transportation	Building & Safety	Total
OPERATING REVENUES:				
Charges for services		\$ 135,079	\$ 643,144	\$ 778,223
Intergovernmental	\$ 20,000	3,271,770		3,291,770
Other income		9,320	391	9,711
Total operating revenues	20,000	3,416,169	643,535	4,079,704
OPERATING EXPENSES:				
Salaries, benefits and insurance		112,891	846,806	959,697
Contractual		643,983	145,658	789,641
Supplies and maintenance		36,138	3,458	39,596
Utilities		6,602	9,346	15,948
Fleet expense		250,306	7,400	257,706
Depreciation and amortization	78,766	222,866		301,632
Other expenses		13,014	10,187	23,201
Total operating expenses	78,766	1,285,800	1,022,855	2,387,421
Operating income (loss)	(58,766)	2,130,369	(379,320)	1,692,283
NONOPERATING REVENUES (EXPENSES):				
Interest income		9,713	559	10,272
Loss on disposal of capital assets		(74,241)		(74,241)
Total nonoperating revenues (expenses)	-	(64,528)	559	(63,969)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(58,766)	2,065,841	(378,761)	1,628,314
Transfers in			76,897	76,897
Transfers out		(6,000)	(5,956)	(11,956)
Total transfers	-	(6,000)	70,941	64,941
Net income (loss)	(58,766)	2,059,841	(307,820)	1,693,255
NET ASSETS:				
Beginning of year	2,460,234	5,255,609	134,720	7,850,563
End of year	\$ 2,401,468	\$ 7,315,450	\$ (173,100)	\$ 9,543,818

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2011

	Airport	Transportation	Building & Safety	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 20,000	\$ 2,421,604	\$ 643,590	\$ 3,085,194
Cash paid to suppliers	-	(936,083)	(163,431)	(1,099,514)
Cash paid to employees		(107,016)	(709,896)	(816,912)
Net cash provided (used) by operating activities	20,000	1,378,505	(229,737)	1,168,768
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in			76,897	76,897
Transfer out		(6,000)	(5,956)	(11,956)
Net cash provided (used) by noncapital financing activities	-	(6,000)	70,941	64,941
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets		(2,958,386)		(2,958,386)
Proceeds from sale of capital assets		9,025		9,025
Net cash provided (used) by capital and related financing activities	-	(2,949,361)	-	(2,949,361)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received		11,433	559	11,992
Net cash provided (used) by investing activities	-	11,433	559	11,992
Net increase (decrease) in cash and cash equivalents	20,000	(1,565,423)	(158,237)	(1,703,660)
CASH AND CASH EQUIVALENTS:				
Beginning of year	60,729	2,017,273	281,305	2,359,307
End of year	\$ 80,729	\$ 451,850	\$ 123,068	\$ 655,647

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2011

	<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)	\$ (58,766)	\$ 2,130,369	\$ (379,320)	\$ 1,692,283
Noncash items included in operating income (loss)				
Depreciation and amortization	78,766	222,866		301,632
Changes in assets and liabilities				
Accounts receivable		(1,346,344)	55	(1,346,289)
Accounts payable		13,960	12,618	26,578
Salaries payable		962	2,339	3,301
Deferred revenue		351,779		351,779
Due to other funds			101,454	101,454
Compensated absences		508	3,126	3,634
Net OPEB obligation		4,405	29,991	34,396
Net cash provided (used) by operating activities	<u>\$ 20,000</u>	<u>\$ 1,378,505</u>	<u>\$ (229,737)</u>	<u>\$ 1,168,768</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, 2011

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
ASSETS					
Current assets:					
Cash and investments	\$ 2,152,981	\$ 7,200,031	\$ 269,239	\$ 629,682	\$ 10,251,933
Accounts receivable	3,113	1,359,507			1,362,620
Interest receivable	2,178	7,646			9,824
Total current assets	2,158,272	8,567,184	269,239	629,682	11,624,377
Capital assets - net	980,933			1,289,896	2,270,829
Total assets	3,139,205	8,567,184	269,239	1,919,578	13,895,206
LIABILITIES					
Current liabilities:					
Accounts payable	26,007	2,167,623	191	8,928	2,202,749
Payroll payable	9,903		11,803	47,514	69,220
Interest payable				9,041	9,041
Compensated absences - due within one year	9,131		14,180	34,168	57,479
Capital lease obligations - due within one year				86,036	86,036
Deposits payable				5,173	5,173
Total current liabilities	45,041	2,167,623	26,174	190,860	2,429,698
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	36,526		56,719	136,674	229,919
Net OPEB obligation	(82,072)		59,713	216,758	194,399
Capital lease obligation - due in more than one year				495,431	495,431
Total long-term liabilities	(45,546)	2,764,290	116,432	848,863	3,684,039
Total liabilities	(505)	4,931,913	142,606	1,039,723	6,113,737
NET ASSETS					
Invested in capital assets, net of related debt	980,933		-	708,429	1,689,362
Unrestricted	2,158,777	3,635,271	126,633	171,426	6,092,107
Total net assets	\$ 3,139,710	\$ 3,635,271	\$ 126,633	\$ 879,855	\$ 7,781,469

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Internal Service Funds
For the year ended June 30, 2011

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
OPERATING REVENUES:					
Charges for services	\$ 534,478	\$ 7,387,272	\$ 651,459	\$ 1,534,641	\$ 10,107,850
Refunds & Other Income	70,087	2,157,700		54,538	2,282,325
Total operating revenues	604,565	9,544,972	651,459	1,589,179	12,390,175
OPERATING EXPENSES:					
Salaries, benefits and insurance	399,654	10,669,414	551,377	1,585,730	13,206,175
Contractual	18,873	15,000	49,444	400,551	483,868
Supplies and maintenance	5,126		1,301	32,874	39,301
Utilities	36,431		19,534	24,644	80,609
Fleet expense	43,442		169	12,165	55,776
Depreciation and amortization	350,434			65,002	415,436
Other expenses	2,282	42,630	8,455	2,824	56,191
Total operating expenses	856,242	10,727,044	630,280	2,123,790	14,337,356
Operating income (loss)	(251,677)	(1,182,072)	21,179	(534,611)	(1,947,181)
NONOPERATING REVENUES (EXPENSES):					
Interest income	9,414	28,188	361	2,227	40,190
Gain (loss) on disposal of capital assets	2,900				2,900
Interest expense				(28,894)	(28,894)
Total nonoperating revenues (expenses)	12,314	28,188	361	(26,667)	14,196
Income (loss) before operating transfers	(239,363)	(1,153,884)	21,540	(561,278)	(1,932,985)
Transfers in	190,000			304,309	494,309
Transfers out	(2,699)		(762)	(13,613)	(17,074)
Total transfers	187,301	-	(762)	290,696	477,235
Net income (loss)	(52,062)	(1,153,884)	20,778	(270,582)	(1,455,750)
NET ASSETS:					
Beginning of year	3,191,772	4,789,155	105,855	1,150,437	9,237,219
End of year	\$ 3,139,710	\$ 3,635,271	\$ 126,633	\$ 879,855	\$ 7,781,469

City of Turlock
Combining Statement of Cash Flows
Internal Service Funds
For the year ended June 30, 2011

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 545,059	\$ 6,533,336	\$ 651,459	\$ 1,538,455	\$ 9,268,309
Cash paid to suppliers	(98,503)	1,311,044	(76,979)	(464,657)	670,905
Cash paid to employees	(458,733)	(10,669,414)	(528,938)	(1,537,950)	(13,195,035)
Other	67,805	2,115,070	(8,455)	51,714	2,226,134
Net cash provided (used) by operating activities	55,628	(709,964)	37,087	(412,438)	(1,029,687)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in	190,000			304,309	494,309
Operating transfers out	(2,699)		(762)	(13,613)	(17,074)
Net cash provided (used) by noncapital capital financing activities	187,301	-	(762)	290,696	477,235
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(127,511)				(127,511)
Proceeds from disposal of capital assets	2,900				2,900
Principal payments on long-term debt				(82,138)	(82,138)
Interest paid				(30,171)	(30,171)
Net cash provided (used) by capital and related financing activities	(124,611)	-	-	(112,309)	(236,920)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	10,010	42,239	361	2,518	55,128
Net cash provided (used) by investing activities	10,010	42,239	361	2,518	55,128
Net increase (decrease) in cash and cash equivalents	128,328	(667,725)	36,686	(231,533)	(734,244)
CASH AND CASH EQUIVALENTS:					
Beginning of year	2,024,653	7,867,756	232,553	861,215	10,986,177
End of year	\$ 2,152,981	\$ 7,200,031	\$ 269,239	\$ 629,682	\$ 10,251,933

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

Operating income (loss)	\$ (251,677)	\$ (1,182,072)	\$ 21,179	\$ (534,611)	\$ (1,947,181)
Noncash items included in operating income (loss)					
Depreciation	350,434			65,002	415,436
Changes in assets and liabilities					
Accounts receivable	10,581	(853,936)		3,814	(839,541)
Accounts payable	5,369	1,326,044	(6,531)	5,577	1,330,459
Payroll payable	(13,573)		(1,104)	(10,517)	(25,194)
Compensated absences	4,090		4,182	15,968	24,240
Deposits					-
Claims liability					-
Net OPEB obligation	(49,596)		19,361	42,329	12,094
Net cash provided (used) by operating activities	\$ 55,628	\$ (709,964)	\$ 37,087	\$ (412,438)	\$ (1,029,687)

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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Northwest Triangle - Mello Roos Assessments				
Assets				
Cash and investments	\$ 440,885	\$ 683,108	\$ (432,132)	\$ 691,861
Cash and investments with fiscal agents	418,490	45	(48)	418,487
Accounts and interest receivable	129,624	4,527	(129,624)	4,527
Total assets	\$ 988,999	\$ 687,680	\$ (561,804)	\$ 1,114,875
Liabilities				
Due to others	\$ 988,999	\$ 687,680	\$ (561,804)	\$ 1,114,875
Total liabilities	\$ 988,999	\$ 687,680	\$ (561,804)	\$ 1,114,875
Property & Business Improvement District #2				
Assets				
Cash and investments	\$ 18,616	\$ 184,197	\$ (171,567)	\$ 31,246
Accounts and interest receivable	3,915	41,808	(3,915)	41,808
Total assets	\$ 22,531	\$ 226,005	\$ (175,482)	\$ 73,054
Liabilities				
Accounts payable	\$ -	\$ 24,542		\$ 24,542
Due to others	22,531	201,463	(175,482)	48,512
Total liabilities	\$ 22,531	\$ 226,005	\$ (175,482)	\$ 73,054
Total - All Agency Funds				
Assets				
Cash and investments	\$ 459,501	\$ 867,305	\$ (603,699)	\$ 723,107
Cash and investments with fiscal agents	418,490	45	(48)	418,487
Accounts and interest receivable	133,539	46,335	(133,539)	46,335
Total assets	\$ 1,011,530	\$ 913,685	\$ (737,286)	\$ 1,187,929
Liabilities				
Accounts payable	\$ -	\$ 24,542	\$ -	\$ 24,542
Due to others	1,011,530	889,143	(737,286)	1,163,387
Total liabilities	\$ 1,011,530	\$ 913,685	\$ (737,286)	\$ 1,187,929

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**REDEVELOPMENT AGENCY OF
THE CITY OF TURLOCK**

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

Redevelopment Agency of the City of Turlock
For the year ended June 30, 2011

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	22
Supplemental Information	25
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.....	26
Independent Auditors' Report on Compliance	28

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, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2010 financial statements and, in our reported dated December 29, 2010, we expressed an unqualified opinion on those financial statements.

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

As described in Note 1 to the basic financial statements, these basic financial statements present only the Agency's and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2011 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.

As explained further in Note 8 of the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

As described in Note 1 to the financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 22 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The Excess Surplus Computation as of July 1, 2010 is not a required part of the basic financial statements, but is supplementary information required by the California State Controller's office. The Excess Surplus Computation as of July 1, 2010 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
December 28, 2011

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Redevelopment Agency of the City of Turlock

Statement of Net Assets

June 30, 2011

(With comparative totals for June 30, 2010)

ASSETS	Governmental Activities	
	2011	2010
Current assets:		
Cash and investments	\$ 8,105,368	\$ 16,709,375
Cash and investments with fiscal agent	21,708,203	6,984,766
Accounts receivable	222,094	204,479
Interest receivable	36,307	47,940
Total current assets	<u>30,071,972</u>	<u>23,946,560</u>
Noncurrent assets:		
Loans receivable	7,237,718	6,398,354
Deferred charges	699,573	585,969
Capital assets:		
Nondepreciable	1,884,936	1,557,751
Depreciable, net	7,376,809	7,523,070
Total capital assets	<u>9,261,745</u>	<u>9,080,821</u>
Total noncurrent assets	<u>17,199,036</u>	<u>16,065,144</u>
Total Assets	<u>47,271,008</u>	<u>40,011,704</u>
LIABILITIES		
Current liabilities:		
Accounts payable	109,324	489,677
Payroll payable	4,601	4,065
Interest payable	864,445	448,363
Deposits payable	1,058,053	1,269,755
Long-term debt, due within one year	840,000	525,000
Total current liabilities	<u>2,876,423</u>	<u>2,736,860</u>
Noncurrent liabilities:		
Loan payable to City of Turlock		
Long-term debt, due in more than one year	41,776,388	27,593,850
Total noncurrent liabilities	<u>41,776,388</u>	<u>27,593,850</u>
Total Liabilities	<u>44,652,811</u>	<u>30,330,710</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,391,504	6,060,485
Restricted for:		
Special projects and programs	13,581,136	12,594,096
Total restricted	<u>13,581,136</u>	<u>12,594,096</u>
Unrestricted	<u>(17,354,443)</u>	<u>(8,973,587)</u>
Total Net Assets	<u>\$ 2,618,197</u>	<u>\$ 9,680,994</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, 2011

(With comparative totals for the fiscal year ended June 30, 2010)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue And Changes in Net Assets	
			Charges for Services	Governmental Activities
			2011	2010
Primary government:				
Governmental activities:				
Community development	\$ 1,910,309	\$ -	\$ (1,910,309)	\$ (7,765,974)
Interest on long-term debt	1,773,172		(1,773,172)	(1,367,615)
Total governmental activities	<u>3,683,481</u>	<u>-</u>	<u>(3,683,481)</u>	<u>(9,133,589)</u>
General revenues and transfers:				
Taxes:				
Property			5,160,664	6,142,918
Interest and investment earnings			162,683	267,958
Miscellaneous			24,003	
Transfers to other City funds			(8,726,666)	(5,173,120)
Total general revenues and transfers			<u>(3,379,316)</u>	<u>1,237,756</u>
Changes in net assets			(7,062,797)	(7,895,833)
Net Assets:				
Beginning of year			<u>9,680,994</u>	<u>17,576,827</u>
End of year			<u>\$ 2,618,197</u>	<u>\$ 9,680,994</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, 2011
(With comparative totals for June 30, 2010)

	Major Funds				Total
	Special Revenue	Capital Projects		Total	
	Housing Set Aside	Redevelopment	Downtown Improvement Project		
<u>Assets</u>					
Cash and investments	\$ 5,906,368	\$ 1,947,301	\$ 251,699	\$ 8,105,368	\$ 16,709,375
Cash and investments with fiscal agent		21,708,203		21,708,203	6,984,766
Accounts Receivable	70	222,024		222,094	204,479
Interest receivable	6,341	29,966		36,307	47,940
Loans receivable	7,237,718			7,237,718	6,398,354
Total Assets	\$ 13,150,497	\$ 23,907,494	\$ 251,699	\$ 37,309,690	\$ 30,344,914
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 101,908	\$ 7,416		\$ 109,324	\$ 489,677
Payroll payable		4,601		4,601	4,065
Deferred revenue	7,237,718			7,237,718	6,398,354
Deposits payable		1,058,053		1,058,053	1,269,755
Total Liabilities	7,339,626	1,070,070		8,409,696	8,161,851
Fund Balances					
Non-Spendable					
Fiscal Agent Cash		3,637,205		3,637,205	2,296,624
Restricted					
Low- and Moderate-Income Housing	5,810,871			5,810,871	5,989,937
Capital Projects		1,129,221	251,699	1,380,920	9,208,360
Fiscal Agent Cash		18,070,998		18,070,998	4,688,142
Total Fund Balances	5,810,871	22,837,424	251,699	28,899,994	22,183,063
Total Liabilities and Fund Balances	\$ 13,150,497	\$ 23,907,494	\$ 251,699	\$ 37,309,690	\$ 30,344,914

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, 2011**

Total Fund Balances - Total Governmental Funds \$ 28,899,994

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	\$ 1,884,936
Depreciable capital assets	8,750,389
Accumulated depreciation	<u>(1,373,580)</u>

Total capital assets 9,261,745

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. (864,445)

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	\$ (840,000)
Long-term liabilities - due in more than one year	(41,776,388)
Unamortized cost of issuance included in deferred charges	<u>699,573</u>

Total long-term liabilities, net of deferred charges (41,916,815)

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

7,237,718

Net Assets of Governmental Activities \$ 2,618,197

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, 2011
(With comparative totals for the fiscal year ended June 30, 2010)

	Major Funds				Total	
	Special Revenue	Capital Projects		2011	2010	
	Housing Set Aside	Redevelopment	Downtown Improvement Project			
Revenues						
Taxes and assessments	\$ 1,301,880	\$ 3,858,784		\$ 5,160,664	\$ 6,142,918	
Use of money and property	23,430	139,253		162,683	267,958	
Miscellaneous	750	23,253		24,003	16,588	
Total Revenues	1,326,060	4,021,290		5,347,350	6,427,464	
Expenditures						
Current:						
Public ways/facilities						
Community development	984,169	1,619,243		2,603,412	8,213,616	
Capital outlay	327,185			327,185		
Debt service						
Principal		525,000		525,000	505,000	
Interest and fiscal charges		1,340,064		1,340,064	1,364,345	
Issuance costs for Tax Allocation Bonds		137,979		137,979		
Total Expenditures	1,311,354	3,622,286		4,933,640	10,082,961	
Excess (Deficit) of Revenues over Expenditures	14,706	399,004		413,710	(3,655,497)	
Other Financing Sources (Uses)						
Transfers in from other City funds					148,099	
Transfers out to other City funds	(193,772)	(8,532,894)		(8,726,666)	(5,321,219)	
Issuance of Tax Allocation Bonds		15,300,000		15,300,000		
Premium on Tax Allocation Bonds		(270,113)		(270,113)		
Total Other Financing Sources (Uses)	(193,772)	6,496,993		6,303,221	(5,173,120)	
Net change in fund balances	(179,066)	6,895,997		6,716,931	(8,828,617)	
Fund Balances, July 1	5,989,937	15,941,427	251,699	22,183,063	31,011,680	
Fund Balances, June 30	<u>\$ 5,810,871</u>	<u>\$ 22,837,424</u>	<u>\$ 251,699</u>	<u>\$ 28,899,994</u>	<u>\$ 22,183,063</u>	

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, 2011

Net change in fund balances - Total Governmental Funds \$ 6,716,931

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. 327,185

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.

Issuance of Tax Allocation Bonds	\$ (15,300,000)	
Discount on issuance of Tax Allocation Bonds, net of current year	102,320	
Bond discount, net of current year amortization	167,793	
Issuance costs, net of current year amortization	137,979	
	(14,891,908)	
Principal payments on long-term debt	525,000	(14,366,908)

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. (433,108)

Current year disbursement of loan amounts under Agency programs are recorded as expenditures in the Fund Financial Statements and will be recorded as revenue upon repayment. In the Government-Wide financial statements these disbursements are recorded as Loans Receivable and future repayments will reduce the receivable. 839,364

Change in Net Assets of Governmental Activities \$ (7,062,797)

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, 2011

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, 2011

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, 2011

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, 2011

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

The Agency has adopted the provisions of *GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions*. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification. The Fund Financial Statements consist of Nonspendable, Restricted, Committed, Assigned and Unassigned amounts as described below:

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

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

Committed Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. As of June 30, 2011, the Agency did not have any committed fund balances.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Net Assets and Fund Equity (continued)

Fund Financial Statements (continued)

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

Unassigned This category is for any balances that have no restrictions placed upon them. As of June 30, 2011, the Agency did not have any unassigned fund balances.

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

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.

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 revenues and expenses. Actual results could differ from these estimates and assumptions.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Implementation of New GASB Pronouncements

In 2010-11, the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions – This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB Statement No. 59, Financial Instruments Omnibus – This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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, 2011, was \$8,105,368. 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, 2011

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, 2011 the carrying amount of the City's time and demand deposits was \$48,164,694. The difference between the bank balance of \$50,166,493 and the carrying amount resulted from outstanding checks and deposits in transit. Of the time deposits and demand deposits, \$100,000 was covered by federal depository insurance with the balance being collateralized with securities held by the counter party or its agent in accordance with Section 53652 of the Code. FDIC coverage is unlimited for noninterest bearing accounts through December 2012. The Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's total deposits, or by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

C. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. Maturities as a percentage of the total fair value of the investment portfolio are noted in the table above. The average life of the portfolio is 395 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, 2011

2. CASH AND INVESTMENTS (continued)

C. Risk Disclosures (continued)

At June 30, 2011 the City's credit risks, expressed on a percentage basis were as follows:

	<u>Rating</u>	<u>Investments</u>
US Governments Agencies	AAA	12.38%
CA Local Agency Investment Fund	not rated	61.78%
Certificates of deposit	not rated	23.62%
Corporate Notes	AA+	1.05%
Money Market/Mututal Funds	not rated	1.17%
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, 2010 to June 30, 2011 amounted to an unrealized loss of \$186,800.

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, 2011 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, 2011

2. CASH AND INVESTMENTS (continued)

D. External Investment Pool (continued)

As of June 30, 2011, the City had \$60,050,213 invested in LAIF, which had invested 5.01% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001576470 was used to calculate the fair value of investments in LAIF as of June 30, 2011.

3. LOANS RECEIVABLE

Government Wide Financial Statements

At June 30, 2011, the Agency's loans receivable consisted of the following:

	<u>Governmental Activities</u>
Cherry Tree Village	\$ 878,621
Central Valley Coalition for Affordable Housing	4,920,698
First Time Homebuyer Loans	534,287
EAH, Inc.	904,112
Total	<u><u>\$ 7,237,718</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, 2011, the Agency's receivable consists of the full \$600,000 in principal plus accrued interest of \$278,621

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, 2011 was \$4,920,698.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2011

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, 2011, the Agency funded or assisted in funding 18 outstanding FTHB loans. The total outstanding principal and interest at June 30, 2011 was \$534,287.

EAH, Inc.

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

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

Each loan will be memorialized with a Promissory Note and will become a recorded deed of trust against the property. The \$1 million pre-construction loan is interest free for the earlier of: (1) two years from the date of execution, or (2) when the construction loan closes. Both the pre-construction and development cost loans will be rolled into a permanent loan at the completion of construction. The combined loans will carry a 3% annual interest rate and be repaid using residual receipts over a 55 year period. As of June 30, 2011 the Agency had expended \$904,112 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, 2011

4. CAPITAL ASSETS

Government-Wide Financial Statements

At June 30, 2011, the Agency's capital assets consisted of the following:

<u>Governmental Activities</u>	Balance			Balance
	July 1, 2010	Additions	Deletions	June 30, 2011
Non-depreciable Assets:				
Land	\$ 1,555,251			\$ 1,555,251
Construction in progress	2,500	327,185		329,685
Total nondepreciable assets	1,557,751	327,185	-	1,884,936
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	(40,361)			(40,361)
Land Improvements	(1,186,958)	(146,261)		(1,333,219)
Total accumulated depreciation	(1,227,319)	(146,261)	-	(1,373,580)
Net depreciable assets	7,523,070	(146,261)	-	7,376,809
Total governmental activities	\$ 9,080,821	\$ 180,924	\$ -	\$ 9,261,745

Governmental activities depreciation expense for capital assets for the year ended June 30, 2011 as \$146,261 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, 2011:

<u>Governmental Activities</u>	Balance			Balance June 30, 2011	Due within one year	Due in more than one year
	July 1, 2010	Additions	Retirements			
Loans payable to City of Turlock						
Public Financing Authority	\$ 27,825,000	15,300,000	\$ (525,000)	\$ 42,600,000	\$ 840,000	\$ 41,760,000
Add: Unamortized Bond Premium	293,850		(11,230)	282,620		282,620
Less: Unamortized Bond Discount		(270,113)	3,881	(266,232)		(266,232)
Total	\$ 28,118,850	\$ 15,029,887	\$ (532,349)	\$ 42,616,388	\$ 840,000	\$ 41,776,388

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2011

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 three bond issues consummated by the Authority, the proceeds of which were loaned to the Agency. The following provides additional information related to these three 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, 2011 is \$3,245,000. The annual debt service requirements are as follows:

For the Years Ending June 30,	1999 Revenue Bonds	
	Principal	Interest
2012	\$ 160,000	\$ 170,873
2013	170,000	162,210
2014	180,000	153,023
2015	185,000	143,441
2016	195,000	133,466
2017-2021	1,165,000	489,818
2022-2026	1,190,000	133,798
	<u>\$ 3,245,000</u>	<u>\$ 1,386,629</u>

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, 2011 is \$24,055,000. The annual debt service requirements are as follows:

For the Years Ending June 30,	2006 Tax Allocation Revenue Bonds	
	Principal	Interest
2012	\$ 390,000	\$ 841
2013	410,000	1,125,841
2014	430,000	1,106,942
2015	450,000	1,087,141
2016	470,000	1,066,441
2017-2021	2,655,000	5,019,862
2022-2026	3,600,000	4,381,158
2027-2031	6,085,000	3,181,875
2032-2036	7,770,000	1,458,250
2037	1,795,000	44,876
	<u>\$ 24,055,000</u>	<u>\$ 18,473,227</u>

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2011

5. LONG-TERM DEBT (Continued)

Government-Wide Financial Statements (continued)

Loans Payable to City of Turlock Public Financing Authority (continued)

In February 2011, the Authority issued \$15,300,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to provide financing assistance for the construction of a new public safety facility in the City’s downtown area. As with the bond issuances noted above, the Agency’s tax increment revenue is pledged for repayment of these bonds (see below). The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039. The outstanding principal for this loan as of June 30, 2011 is \$15,300,000. The annual debt service requirements are as follows:

For the Years Ending June 30,	2011 Tax Allocation Revenue Bonds	
	Principal	Interest
2012	\$ 290,000	\$ 1,141,538
2013	-	1,069,144
2014	-	1,069,144
2015	260,000	1,063,619
2016	270,000	1,051,681
2017-2021	1,555,000	5,023,254
2022-2026	1,640,000	4,481,200
2027-2031	1,450,000	3,969,150
2032-2036	2,385,000	3,310,688
2037-2040	7,450,000	1,126,874
	<u>\$ 15,300,000</u>	<u>\$ 23,306,292</u>

Pledged Revenues for 1999 Revenue Bond; and 2006 and 2011 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 2010-11 was 26% of total tax increment revenues. Total tax increment revenues (prior to Housing Set-Aside and pass through payments) for 2010-11 were \$7,292,940; while principal and interest payments on the bonds totaled \$1,865,064.

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.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2011

7. COMMITMENT – SUPPLEMENTAL EDUCATIONAL 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 and 2010-11 payments were made in a timely fashion using excess increment funds.

8. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills (AB) X1 26 and 27 as part of the State’s 2011-12 budget package. AB X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. AB X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program (VARP). Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller beginning in fiscal year 2011-12 and each fiscal year thereafter. AB X1 27 indicates that the city “may use any available funds not otherwise obligated for other uses” to make this payment. The City of Turlock intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective.

AB X1 26 directs the California State Controller’s Office to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by AB X1 26.

In the event that AB X1 26 is upheld (see below), any interagency receivable/payable between a city and an agency may become uncollectible by the city resulting in a loss recognized by such funds. Additionally, cities may be impacted if reimbursements previously paid by the redevelopment agency to the city for shared administrative services are reduced or eliminated. The City of Turlock and Turlock Redevelopment Agency did not have any receivable/payable obligations as of June 30, 2011, but the entities do share administrative personnel and the payment of these costs may be effected if AB X1 26 is upheld.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2011

8. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES
(continued)

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn AB X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of AB X1 27 and most of AB X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." The Court received briefs and responses regarding the lawsuit in September and October 2011 and heard oral arguments in November. A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of AB X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by AB X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule within 60 days of the effective date of the law and draft a Recognized Obligation Payment Schedule by September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On November 8, 2011, City Ordinance No. 1160 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event AB X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$2.5 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$600,000 will be due annually. The specific amounts to be paid after fiscal year 2011-12 have yet to be determined. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. AB X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its 2011-12 payments. Failure to make these payments would require agencies to be terminated under the provisions of AB X1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the State. In the event that AB X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Turlock
Required Supplementary Information
For the year ended June 30, 2011

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, 2011**

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 1,265,000	\$ 1,265,000	\$ 1,301,880	\$ 36,880
Use of money and property	5,000	5,000	23,430	18,430
Other			750	750
Total Revenues	<u>1,270,000</u>	<u>1,270,000</u>	<u>1,326,060</u>	<u>56,060</u>
Expenditures				
Current				
Community development	2,922,860	4,121,350	984,169	3,137,181
Capital Outlay	-	332,000	327,185	4,815
Total Expenditures	<u>2,922,860</u>	<u>4,453,350</u>	<u>1,311,354</u>	<u>3,141,996</u>
Excess (Deficit) of Revenues over Expenditures	<u>(1,652,860)</u>	<u>(3,183,350)</u>	<u>14,706</u>	<u>3,198,056</u>
Other Financing Sources (Uses)				
Transfers out to other City funds	<u>(165,714)</u>	<u>(165,714)</u>	<u>(193,772)</u>	<u>28,058</u>
Total Other Financing Sources (Uses)	<u>(165,714)</u>	<u>(165,714)</u>	<u>(193,772)</u>	<u>28,058</u>
Net change in fund balance	<u>\$ (1,818,574)</u>	<u>\$ (3,349,064)</u>	<u>(179,066)</u>	<u>\$ 3,226,114</u>
Fund Balance, July 1			<u>5,989,937</u>	
Fund Balance, June 30			<u>\$ 5,810,871</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, 2011**

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 3,760,000	\$ 3,760,000	\$ 3,858,784	\$ 98,784
Use of money and property	165,000	165,000	139,253	(25,747)
Other	4,800	4,800	23,253	18,453
Total Revenues	<u>3,929,800</u>	<u>3,929,800</u>	<u>4,021,290</u>	<u>91,490</u>
Expenditures				
Current				
Community development	1,669,857	1,683,857	1,619,243	64,614
Debt service				
Principal	525,000	525,000	525,000	-
Interest and fiscal charges	1,790,200	1,790,200	1,340,064	450,136
Issuance costs for Tax Allocation Bonds			137,979	(137,979)
Total Expenditures	<u>3,985,057</u>	<u>3,999,057</u>	<u>3,622,286</u>	<u>376,771</u>
Excess (Deficit) of Revenues over Expenditures	<u>(55,257)</u>	<u>(69,257)</u>	<u>399,004</u>	<u>468,261</u>
Other Financing Sources (Uses)				
Transfers out to other City funds	(6,078,219)	(23,491,441)	(8,532,894)	14,958,547
Issuance of Tax Allocation Bonds			15,300,000	15,300,000
Premium on Tax Allocation bonds			(270,113)	(270,113)
Total Other Financing Sources (Uses)	<u>(6,078,219)</u>	<u>(23,491,441)</u>	<u>6,496,993</u>	<u>29,988,434</u>
Net change in fund balance	<u>\$ (6,133,476)</u>	<u>\$ (23,560,698)</u>	<u>6,895,997</u>	<u>\$ 30,456,695</u>
Fund Balance, July 1			<u>15,941,427</u>	
Fund Balance, June 30			<u>\$ 22,837,424</u>	

SUPPLEMENTAL INFORMATION

**Redevelopment Agency of the City of Turlock
 Supplementary Information
 For the fiscal year ended June 30, 2011**

EXCESS SURPLUS CALCULATION

Opening Fund Balance - July 1, 2010	\$ 5,989,937
Less Unavailable Amounts:	
Land held for resale	\$ -
Encumbrances (Section 33334.12 (g)(2))	-
Unspent debt proceeds (Section 33334.12 (g)(3)(B))	<u>-</u>
Available Low and Moderate Income Housing Funds	<u>\$ 5,989,937</u> (a)
Limitation (greater of \$1,000,000 or four years LMI set-aside)	
LMI Set-Aside for prior four (4) years:	
Prior Year 4 - 2006-07	1,738,322
Prior Year 3 - 2007-08	1,872,337
Prior Year 2 - 2008-09	1,667,252
Prior Year 1 - 2009-10	<u>1,540,855</u>
Total Set-Aside for prior four (4) years	<u>\$ 6,818,766</u> (b)
Base limitation	<u>\$ 1,000,000</u> (c)
Greater of (b) or(c)	\$ 6,818,766 (d)
Computed Excess Surplus [(a) minus (d) but not less than zero]	<u>\$ -</u>



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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 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, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 28, 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 Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the 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 *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 the 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 the Agency's internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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. 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*.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
December 28, 2011



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

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

Compliance

We have audited the Redevelopment Agency of the City of Turlock (Agency), a component unit of the City of Turlock, California (City)'s compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency'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 Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 Agency's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

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

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

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Certified Public Accountants
San Francisco, California
December 28, 2011



TURLOCK PUBLIC FINANCING AUTHORITY

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

Turlock Public Financing Authority
For the year ended June 30, 2011

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
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	19

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Turlock Public Financing Authority (Authority), a component unit of the City of Turlock, California (City), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, the financial statements of the Authority are intended to present the financial position, and changes in financial position of only that portion of the City of Turlock, California that is attributable to the Authority. They do not purport to, and do not present the financial position of the City as of June 30, 2011, and changes in its financial position and changes in its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, on December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation that provides for the dissolution of California redevelopment agencies. The full impact of this ruling is not known at this time.

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

As described in Note 5 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2012

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Turlock Public Financing Authority
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Interest receivable	\$ 864,445	\$ 1,125,948	\$ 1,990,393
Total current assets	864,445	1,125,948	1,990,393
Noncurrent assets:			
Cash and investments with fiscal agent	21,708,203	6,868,903	28,577,106
Leases receivable	38,962,795	84,068,776	123,031,571
Deferred charges	699,073	511,767	1,210,840
Total noncurrent assets	61,370,071	91,449,446	152,819,517
Total assets	62,234,516	92,575,394	154,809,910
LIABILITIES			
Current liabilities:			
Accrued interest	864,445	1,125,948	1,990,393
Bonds payable, due within one year	840,000	2,360,000	3,200,000
Total current liabilities	1,704,445	3,485,948	5,190,393
Noncurrent liabilities:			
Bonds payable, due in more than one year	41,776,388	89,089,446	130,865,834
Total noncurrent liabilities	41,776,388	89,089,446	130,865,834
Total liabilities	43,480,833	92,575,394	136,056,227
NET ASSETS			
Restricted for:			
Debt service	3,637,205		3,637,205
Capital projects	15,116,478		15,116,478
Total net assets	\$ 18,753,683	\$ -	\$ 18,753,683

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, 2011

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	\$ 1,773,173	\$ -	\$ (1,773,173)	\$ -	\$ (1,773,173)
Total governmental activities	<u>1,773,173</u>	<u>-</u>	<u>(1,773,173)</u>	<u>-</u>	<u>(1,773,173)</u>
Business-type activities:					
Sewer	3,146,856	2,887,100	-	(259,756)	(259,756)
Water	1,434,299	1,370,243	-	(64,056)	(64,056)
Total business-type activities	<u>4,581,155</u>	<u>4,257,343</u>	<u>-</u>	<u>(323,812)</u>	<u>(323,812)</u>
Total	<u>\$ 6,354,328</u>	<u>\$ 4,257,343</u>	<u>(1,773,173)</u>	<u>(323,812)</u>	<u>(2,096,985)</u>
General revenues:					
Lease revenues			13,986,436		13,986,436
Interest and investment earnings			1,756,146	323,812	2,079,958
Total general revenues			<u>15,742,582</u>	<u>323,812</u>	<u>16,066,394</u>
Transfers to City of Turlock			(195,488)		(195,488)
Total general revenues and transfers			<u>15,547,094</u>	<u>323,812</u>	<u>15,870,906</u>
Changes in net assets			13,773,921	-	13,773,921
Net Assets:					
Beginning of year			4,979,762	-	4,979,762
End of year			<u>\$ 18,753,683</u>	<u>\$ -</u>	<u>\$ 18,753,683</u>

See accompanying Notes to Basic Financial Statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Turlock Public Financing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds \$ 21,708,203

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. (864,445)

Interest receivable on long-term loans. 864,445

Deferred revenue on the governmental funds statement is an offset against leases receivable but on the government-wide statement long-term debt is the offset against leases receivable less any restricted cash and the deferred revenue has been eliminated. 38,962,795

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

Long-term liabilities - Bonds payable due within one year (840,000)

Long-term liabilities - Bonds payable due in more than one year (41,776,388)

Unamortized cost of issuance included in deferred charges 699,073

Total long-term liabilities, net of deferred charges (41,917,315)

Net Assets of Governmental Activities \$ 18,753,683

Turlock Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	1999 Revenue Bonds	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	Total
Revenues				
Lease revenue	\$ 150,095	\$ 398,352	\$ 3,570	\$ 552,017
Use of money and property	179,010	1,161,054		1,340,064
Total Revenues	<u>329,105</u>	<u>1,559,406</u>	<u>3,570</u>	<u>1,892,081</u>
Expenditures				
Debt service				
Principal	150,000	375,000		525,000
Interest and fiscal charges	179,010	1,161,054		1,340,064
Issuance costs for Tax Allocation Bonds			137,979	137,979
Total Expenditures	<u>329,010</u>	<u>1,536,054</u>	<u>137,979</u>	<u>2,003,043</u>
Excess (Deficit) of Revenues over Expenditures	<u>95</u>	<u>23,352</u>	<u>(134,409)</u>	<u>(110,962)</u>
Other Financing Sources (Uses)				
Transfer to Turlock Redevelopment Agency		(195,488)		(195,488)
Tax Allocation bond proceeds			15,300,000	15,300,000
Discount on Tax Allocation bonds			(270,113)	(270,113)
Total Other Financing Sources	<u>-</u>	<u>(195,488)</u>	<u>15,029,887</u>	<u>14,834,399</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	95	(172,136)	14,895,478	14,723,437
Fund Balances, July 1, 2010	<u>374,664</u>	<u>6,610,102</u>	<u>-</u>	<u>6,984,766</u>
Fund Balances, June 30, 2011	<u>\$ 374,759</u>	<u>\$ 6,437,966</u>	<u>\$ 14,895,478</u>	<u>\$ 21,708,203</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, 2011

Net change in fund balances - Total Governmental Funds \$ 14,723,437

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

Lease revenue is recognized as revenue on the fund financial statements, (525,095)

New lease revenues which are deferred on the fund statements because they are not available to cover current obligations are recognized as revenues on the government-wide Statement of Activities. 13,959,514

Bond 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.

Issuance of Tax Allocation Bonds	\$ (15,300,000)	
Discount on issuance of Tax Allocation Bonds, net of current year amortization	100,850	
Bond discount, net of current year amortization	165,382	
Issuance costs, net of current year amortization	135,997	
	(14,897,771)	
Principal payments on long-term debt	525,000	(14,372,771)

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	(416,082)	
Amortization of issuance costs	(11,164)	
	(427,246)	(427,246)

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. 416,082

Change in Net Assets of Governmental Activities \$ 13,773,921

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Statement of Net Assets
Proprietary Funds
June 30, 2011

<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	\$ 3,237,634	\$ 2,090,650	\$ 6,868,903
Interest receivable	267,776	629,334	228,838	1,125,948
Deferred charges		352,662	159,105	511,767
Leases receivable	15,236,705	40,634,161	28,197,910	84,068,776
Total Assets	<u>17,045,100</u>	<u>44,853,791</u>	<u>30,676,503</u>	<u>92,575,394</u>
 <u>Liabilities</u> 				
Current liabilities:				
Interest payable	267,776	629,334	228,838	1,125,948
Current portion - bonds payable	635,000	1,100,000	625,000	2,360,000
Total current liabilities	<u>902,776</u>	<u>1,729,334</u>	<u>853,838</u>	<u>3,485,948</u>
Long-term liabilities:				
Bonds payable	<u>16,142,324</u>	<u>43,124,457</u>	<u>29,822,665</u>	<u>89,089,446</u>
Total Liabilities	<u>17,045,100</u>	<u>44,853,791</u>	<u>30,676,503</u>	<u>92,575,394</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, 2011

	1999	2003A	2008	
	<u>Sewer Bonds</u>	<u>Sewer Bonds</u>	<u>Water Bonds</u>	<u>Total</u>
Operating Revenue				
Lease Revenue	\$ 854,691	\$ 2,032,409	\$ 1,370,243	\$ 4,257,343
Total Operating Revenue	<u>854,691</u>	<u>2,032,409</u>	<u>1,370,243</u>	<u>4,257,343</u>
Operating Income (Loss)	<u>854,691</u>	<u>2,032,409</u>	<u>1,370,243</u>	<u>4,257,343</u>
Non-Operating Revenues (Expenses)				
Interest income	93,176	166,580	64,056	323,812
Interest expense	<u>(947,867)</u>	<u>(2,198,989)</u>	<u>(1,434,299)</u>	<u>(4,581,155)</u>
Total Non-Operating Revenues (Expenses)	<u>(854,691)</u>	<u>(2,032,409)</u>	<u>(1,370,243)</u>	<u>(4,257,343)</u>
Net Income (Loss)	-	-	-	-
Net assets, July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, June 30, 2011	<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, 2011

	1999	2003A	2008	Total
	Sewer Bonds	Sewer Bonds	Water Bonds	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 1,433,894	\$ 3,057,083	\$ 2,024,112	\$ 6,515,089
Net Cash Provided (Used) by Operating Activities	1,433,894	3,057,083	2,024,112	6,515,089
Cash Flows from Capital and Related Financing Activities:				
Principal payments on long-term debt	(600,000)	(1,050,000)	(600,000)	(2,250,000)
Interest paid	(935,575)	(2,184,127)	(1,427,537)	(4,547,239)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,535,575)	(3,234,127)	(2,027,537)	(6,797,239)
Cash Flows from Investing Activities:				
Interest received	101,681	178,028	67,969	347,678
Net Cash Provided (Used) by Investing Activities	101,681	178,028	67,969	347,678
Net Increase (Decrease) in Cash and Cash Equivalents	-	984	64,544	65,528
Cash and Cash Equivalents, July 1, 2010	1,540,619	3,236,650	2,026,106	6,803,375
Cash and Cash Equivalents, June 30, 2011	\$ 1,540,619	\$ 3,237,634	\$ 2,090,650	\$ 6,868,903
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Cash Flows from Operating Activities:				
Operating income (loss)	\$ 854,691	\$ 2,032,409	\$ 1,370,243	\$ 4,257,343
Changes in assets and liabilities				
Leases Receivable	579,203	1,024,674	653,869	2,257,746
Net Cash Provided (Used) by Operating Activities	\$ 1,433,894	\$ 3,057,083	\$ 2,024,112	\$ 6,515,089

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2011

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, 2011

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. Note 4, Long-term Debt, provides descriptions for each of the Authority's outstanding bonds. Each fund within these financial statements accounts for the activity associated with its delineated bond issuance.

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, 2011

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. Use of Estimates

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

2. CASH AND INVESTMENTS

All of the Authority's cash at June 30, 2011 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, 2011 was \$28,577,106. 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 \$123,031,571 pursuant to the lease agreements between the Authority and the City in relation to the bonded indebtedness. The leases receivable along with investments held by fiscal agents secure the repayment of the different debt issues. The lease revenue is equal to the Authority's debt service requirements and is used for that purpose.

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

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2011

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, 2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due within one year	Due in more than one year
Governmental Activities						
1999 Revenue Bonds	\$ 3,395,000		\$ (150,000)	\$ 3,245,000	\$ 160,000	\$ 3,085,000
2006 Tax Allocation Revenue Bonds	24,430,000		(375,000)	24,055,000	390,000	23,665,000
Add: Unamortized Bond Premium	293,850		(11,230)	282,620		282,620
2011 Tax Allocation Revenue Bonds		\$ 15,300,000		15,300,000	290,000	15,010,000
Less: Unamortized Bond Discount		(270,113)	3,881	(266,232)		(266,232)
Total Governmental Activities	28,118,850	15,029,887	(532,349)	42,616,388	840,000	41,776,388
Business-Type Activities						
1999 Sewer Revenue Bonds	17,705,000		(600,000)	17,105,000	635,000	16,470,000
Less: Unamortized Bond Discount	(348,474)		20,798	(327,676)		(327,676)
2003A Sewer Revenue Bonds	45,505,000		(1,050,000)	44,455,000	1,100,000	43,355,000
Less: Unamortized Bond Discount	(240,941)		10,398	(230,543)		(230,543)
2008 Water Revenue Bonds	31,175,000		(600,000)	30,575,000	625,000	29,950,000
Less: Unamortized Bond Discount	(132,082)		4,747	(127,335)		(127,335)
Total Business-Type Activities	93,663,503	-	(595,253)	91,449,446	2,360,000	89,089,446
Total Long-Term Debt	\$ 121,782,353	\$ 15,029,887	\$ (1,127,602)	\$ 134,065,834	\$ 3,200,000	\$ 130,865,834

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, continued

Government-Wide Financial Statements, continued

1999 Revenue Bonds

Turlock Public Financing Authority Revenue Bonds, Series 1999

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

For the Years Ending June 30,	1999 Revenue Bonds	
	Principal	Interest
2012	\$ 160,000	\$ 170,873
2013	170,000	162,210
2014	180,000	153,023
2015	185,000	143,441
2016	195,000	133,466
2017-2021	1,165,000	489,818
2022-2026	1,190,000	133,798
	<u>\$ 3,245,000</u>	<u>\$ 1,386,629</u>

2006 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2006

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

For the Years Ending June 30,	2006 Tax Allocation Revenue Bonds	
	Principal	Interest
2012	\$ 390,000	\$ 1,143,841
2013	410,000	1,125,841
2014	430,000	1,106,942
2015	450,000	1,087,141
2016	470,000	1,066,441
2017-2021	2,655,000	5,019,862
2022-2026	3,600,000	4,381,158
2027-2031	6,085,000	3,181,875
2032-2036	7,770,000	1,458,250
2037	1,795,000	44,876
	<u>\$ 24,055,000</u>	<u>\$ 19,616,227</u>

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, continued

Government-Wide Financial Statements, continued

2011 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2011

In February 2011, the Authority issued \$15,300,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to provide financing assistance for the construction of a new public safety facility in the City's downtown area. As with the bond issuances noted above, the Agency's tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039. The outstanding principal for this loan as of June 30, 2011 is \$15,300,000. The annual debt service requirements are as follows:

For the Years Ending June 30,	2011 Tax Allocation Revenue Bonds	
	Principal	Interest
2012	\$ 290,000	\$ 1,141,538
2013	-	1,069,144
2014	-	1,069,144
2015	260,000	1,063,619
2016	270,000	1,051,681
2017-2021	1,555,000	5,023,254
2022-2026	1,640,000	4,481,200
2027-2031	1,450,000	3,969,150
2032-2036	2,385,000	3,310,688
2037-2040	7,450,000	1,126,874
	<u>\$ 15,300,000</u>	<u>\$ 23,306,292</u>

1999 Sewer Revenue Bonds

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

For the Years Ending June 30,	1999 Sewer Revenue Bonds	
	Principal	Interest
2012	\$ 635,000	\$ 905,075
2013	660,000	872,700
2014	700,000	838,350
2015	735,000	801,666
2016	775,000	762,488
2017-2021	4,550,000	3,130,725
2022-2026	5,430,000	1,718,476
2027-2031	3,620,000	411,948
	<u>\$ 17,105,000</u>	<u>\$ 9,441,428</u>

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, continued

Government-Wide Financial Statements, continued

2003A Sewer Revenue Bonds

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

For the Years Ending June 30,	2003A Sewer Revenue Bonds	
	Principal	Interest
2012	\$ 1,100,000	\$ 2,136,940
2013	1,150,000	2,086,440
2014	1,200,000	2,033,440
2015	1,260,000	1,977,610
2016	1,310,000	1,923,943
2017-2021	7,510,000	8,668,397
2022-2026	9,590,000	6,580,500
2027-2031	12,325,000	3,854,375
2032-2036	9,010,000	690,751
	<u>\$ 44,455,000</u>	<u>\$ 29,952,396</u>

2008 Water Revenue Bonds

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

For the Years Ending June 30,	2008 Water Revenue Bonds	
	Principal	Interest
2012	\$ 625,000	\$ 1,403,538
2013	650,000	1,381,662
2014	670,000	1,358,913
2015	700,000	1,332,113
2016	725,000	1,304,113
2017-2021	4,100,000	6,044,863
2022-2026	5,045,000	5,103,537
2027-2031	6,310,000	3,841,438
2032-2036	7,975,000	2,175,138
2037-2040	3,775,000	285,498
	<u>\$ 30,575,000</u>	<u>\$ 24,230,813</u>

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2011

5. NET ASSETS AND FUND EQUITY

A. Net Assets

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

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

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

B. Fund Balances

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

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

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

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

Committed Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. As of June 30, 2011, the Authority did not have any committed fund balances.

Assigned Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. As of June 30, 2011, the Authority did not have any assigned fund balances.

Unassigned This category is for any balances that have no restrictions placed upon them. As of June 30, 2011, the Authority did not have any unassigned fund balances.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2011

6. SUBSEQUENT EVENT

Management has evaluated subsequent events through March 29, 2012 and except as described below, no other events requiring recognition in, or disclosure of, within the financial statements were identified.

On December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation (Assembly Bill X1 26) that provides for the dissolutions of California redevelopment agencies, but struck down the Assembly Bill X1 27 which would have provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

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

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

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

The full impacts of this most recent development and its impact on other funds of the City are not known at this time. The financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

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**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, 2011, as listed in the table of contents and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Board of Directors of the Authority, others within the City, and the State controller and is not intended to be and should not be used by anyone other than these specified parties. 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, 2012



CITY OF TURLOCK

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

City of Turlock
Single Audit Report
For the year ended June 30, 2011

Table of Contents

	<u>Page</u>
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 on 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



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**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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the 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.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
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Certified Public Accountants
San Francisco, California
March 30, 2012



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

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

Compliance

We have audited the City of Turlock (the City)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. 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, 2011.

Internal Control over Compliance

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

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

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, 2011, and have issued our report thereon dated March 30, 2012. 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.

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San Francisco, California
March 30, 2012

City of Turlock
Single Audit Report
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2011

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-08-MC-06-0039	\$ 330,920
Community Development Block Grant (CDBG) Program	14.228	B-09-MC-06-0039	417,205
Program Income - CDBG	14.228	N/A	51,562
<i>Passed through the California Department of Housing and Community Development</i>			
Neighborhood Stabilization Program (NSP)	14.228	09-NSP1-6268	1,008,485
<i>Cluster total</i>			<u>1,808,172</u>
<i>Direct Programs:</i>			
HOME Investment Partnerships (HOME) Program	14.239	M-08-DC-06-0240	610,108
HOME Investment Partnerships (HOME) Program	14.239	M-09-DC-06-0240	1,541,531
HOME Investment Partnerships (HOME) Program	14.239	M-10-DC-06-0240	223,664
Program Income - HOME	14.239	N/A	10,922
<i>Cluster total</i>			<u>2,386,225</u>
Community Development Block Grant (CDBG) Program (ARRA)	14.253	B-09-MY-06-0039	101,657
Total U.S. Department of Housing and Urban Development			<u>4,296,054</u>
U. S. Department of Justice			
<i>Direct Programs:</i>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2009-DJ-BX-0632	13,140
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2010-DJ-BX-1232	25,824
Edward Byrne Memorial Justice Assistance Grant (JAG) Program (ARRA)	16.804	2009-SB-B9-0171	94,653
<i>Cluster total</i>			<u>133,617</u>
Bulletproof Vest Partnership Program	16.607	N/A	3,531
Community Oriented Policing Services (COPS) Program (ARRA)	16.710	2009-RK-WX-0167	349,852
Total U. S. Department of Justice			<u>487,000</u>
U. S. Department of Transportation			
<i>Direct Programs:</i>			
Federal Transit Cluster	20.507	69080138	2,338,654
<i>Passed through the California Department of Transportation:</i>			
Congestion Mitigation And Air Quality Improvement Program (CMAQ)	20.205	CML-5165(025,029 - 031)	14,053
Surface Transportation Program (STP)	20.205	N/A	114,914
Highway Planning and Construction (ARRA)	20.205	N/A	1,989,337
<i>Cluster total</i>			<u>2,118,304</u>
Sustained Traffic Enforcement Program (STEP)	20.605	PT0823	37,337
AVOID Anti-DUI Program	20.605	AL0967	198,721
<i>Cluster total</i>			<u>236,058</u>
<i>Passed through the University of California, Berkeley:</i>			
Click It or Ticket	20.600	CT 10-438	2,618
Total U. S. Department of Transportation			<u>4,695,634</u>
U. S. Department of Energy			
<i>Direct Programs:</i>			
Energy Efficiency and Conservation Block Grant (ARRA)	81.128	DE-SC0002257	433,860
Total U. S. Department of Energy			<u>433,860</u>
Total Federal Awards Expenditures			<u>\$ 9,912,548</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Turlock
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2011

1. REPORTING ENTITY

The City was incorporated in 1908. The City operates under a Council-Manager form of government and provides the following services: police and fire, streets and highways, sanitation, water, sewer, parks and recreation, public improvements, planning and zoning, and general administrative services. The financial reporting entity consists of the City, the primary government, and its component 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 the related liability for the goods or services incurred.

B. *Schedule of Expenditures of Federal Awards*

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

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs
For the year ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Types of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in Accordance with section 510(a) of OMB Circular A-133 No

Identification of major programs:

Major Program	Federal CFDA Number	Federal Expenditures
Community Development Block Grants Cluster	14.228	\$ 1,808,172
Justice Assistance Grant Program Cluster (Partial ARRA)	16.738/16.804	133,617
Public Safety Partnership and Community Policing Grant (ARRA)	16.710	349,852
Federal Transit Grant Cluster	20.507	2,338,654
Highway Planning and Construction Cluster (Partial ARRA)	20.205	2,118,304
Energy Efficiency and Conservation Block Grant (ARRA)	81.128	433,860
Total Major Program Expenditures		\$ 7,182,459
Total Federal Expenditures		\$ 9,912,548
Percent of Total Federal Award Expenditures		72%

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

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

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2011

Section II - Financial Statement Findings

No financial statements findings were reported.

Section III- Federal Awards Findings

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

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

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

No findings or questioned costs were reported for federal award programs for the year ended June 30, 2010.



**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
For the year ended June 30, 2011

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
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	17
Independent Auditors' Compliance Report	19

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Streets Special Revenue Fund and the Transportation Enterprise Fund (collectively the Transportation Development Act Article III Funds or TDA Program Funds) of the City of Turlock, California (City), as of and for the year ended June 30, 2011, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TDA Program Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of the TDA Program Funds are intended to present the financial position, and changes in financial position of only that portion of the City of Turlock, California that is attributable to the TDA Program Funds. They do not purport to, and do not present fairly the financial position of the City as of June 30, 2011, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TDA Program Funds as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the Streets Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

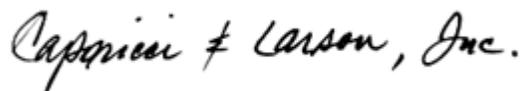
As described in Note 4 to the financial statements, the TDA Program Funds adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012 on our consideration of the TDA Program Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TDA Program Funds basic financial statements as a whole. The budget to actual statement of revenues, expenditures and changes in fund balance for the Streets Special Revenue Fund is presented for purposes of additional analysis and are not a required part of the financial statements. The budget to actual statement of revenues, expenditures and changes in fund balance for the Streets Special Revenue Fund is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2012

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Balance Sheet
Governmental Fund - Streets Special Revenue Fund
June 30, 2011

		Special Revenue Fund <u>Streets</u>
<u>Assets</u>		
Cash and investments		<u>\$ 501,160</u>
Total Assets		<u><u>\$ 501,160</u></u>
<u>Liabilities and Fund Balance</u>		
Liabilities		
Accounts and salaries payable		<u>\$ 79,138</u>
Total Liabilities		<u>79,138</u>
Fund Balance:		
Restricted for:		
Street maintenance and capital expenditures		<u>422,022</u>
Total Fund Balance		<u>422,022</u>
Total Liabilities and Fund Balance		<u><u>\$ 501,160</u></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, 2011

Revenues	
Intergovernmental revenues	\$ 206,967
Interest income and other revenues	26,111
	<u>233,078</u>
Total Revenues	<u>233,078</u>
Expenditures	
Public ways and facilities/transportation	679,215
Capital outlay	772,202
	<u>1,451,417</u>
Total Expenditures	<u>1,451,417</u>
Excess (Deficit) of Revenues over Expenditures	<u>(1,218,339)</u>
Other Financing Sources (Uses)	
Transfers in from other City funds	3,000
Transfers out to other City funds	(916,987)
	<u>(913,987)</u>
Total Other Financing Sources (Uses)	<u>(913,987)</u>
Net Change in Fund Balance	(2,132,326)
Fund Balance, July 1, 2010	<u>2,554,348</u>
Fund Balance, June 30, 2011	<u><u>\$ 422,022</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, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental revenues	\$ 1,762,434	\$ 1,898,765	\$ 206,967	\$ (1,691,798)
Interest income and other revenues	14,500	14,500	26,111	11,611
Total Revenues	1,776,934	1,913,265	233,078	(1,680,187)
Expenditures				
Public ways and facilities/transportation	816,950	816,950	679,215	137,735
Capital outlay	1,989,079	2,104,372	772,202	1,332,170
Total Expenditures	2,806,029	2,921,322	1,451,417	1,469,905
Excess (Deficit) of Revenues over Expenditure	(1,029,095)	(1,008,057)	(1,218,339)	(210,282)
Other Financing Sources (Uses)				
Transfers in from other City funds	3,000	3,000	3,000	-
Transfers out to other City funds	(379,113)	(1,547,970)	(916,987)	630,983
Total Other Financing Sources (Uses)	(376,113)	(1,544,970)	(913,987)	630,983
Net Change in Fund Balance	\$ (1,405,208)	\$ (2,553,027)	(2,132,326)	\$ 420,701
Fund Balance, July 1, 2010			2,554,348	
Fund Balance, June 30, 2011			\$ 422,022	

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Net Assets
Proprietary Fund - Transportation Enterprise Fund
June 30, 2011

	<u>Enterprise Fund Transportation</u>
<u>Assets</u>	
Current assets:	
Cash and investments	\$ 451,850
Accounts receivable	2,002,347
Interest receivable	1,006
Total current assets	<u>2,455,203</u>
Capital assets - net	<u>6,287,817</u>
 Total Assets	 <u>8,743,020</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	82,934
Salaries payable	3,401
Deferred revenue	1,310,290
Compensated absences - due in one year	3,712
Total current liabilities	<u>1,400,337</u>
Compensated absences - due in more than one year	14,849
Net OPEB obligation	12,384
Total liabilities	<u>1,427,570</u>
Net Assets:	
Invested in capital assets, net of related debt	6,287,817
Restricted for transportation activities	<u>1,027,633</u>
 Total Net Assets	 <u>\$ 7,315,450</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, 2011

Operating Revenues	
Charges for services	\$ 135,079
Other income	9,320
	<u>144,399</u>
Total Operating Revenues	<u>144,399</u>
Operating Expenses	
Salaries, benefits and insurance	112,891
Contractual	643,983
Supplies and maintenance	36,138
Utilities	6,602
Fleet expense	250,306
Depreciation	222,866
Other expenses	13,014
	<u>1,285,800</u>
Total Operating Expenses	<u>1,285,800</u>
Operating Loss	<u>(1,141,401)</u>
Non-Operating Revenues (Expenses)	
Intergovernmental revenues	3,271,770
Interest income	9,713
Loss on disposal of capital assets	(74,241)
	<u>3,207,242</u>
Total Non-Operating Revenues	<u>3,207,242</u>
Income Before Operating Transfers	2,065,841
Net Transfers Out	<u>(6,000)</u>
Net Income	2,059,841
Net Assets, July 1, 2010	<u>5,255,609</u>
Net Assets, June 30, 2011	<u><u>\$ 7,315,450</u></u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Cash Flows
Proprietary Fund - Transportation Enterprise Fund
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ (1,201,945)
Cash paid to suppliers	(936,083)
Cash paid to employees	(107,016)
Net cash provided (used) by operating activities	<u>(2,245,044)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(2,958,386)
Proceeds from sale of capital assets	9,025
Net cash provided (used) by capital and related financing activities	<u>(2,949,361)</u>

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers out	(6,000)
Intergovernmental revenues	3,623,549
Net cash provided (used) by capital and related financing activities	<u>3,617,549</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	11,433
Net cash provided (used) by investing activities	<u>11,433</u>

Net increase (decrease) in cash and cash equivalents (1,565,423)

CASH AND CASH EQUIVALENTS:

Beginning of year	2,017,273
End of year	<u>\$ 451,850</u>

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

Operating income (loss)	\$ (1,141,401)
Noncash items included in operating income (loss)	
Depreciation and amortization	222,866
Changes in assets and liabilities	
Accounts receivable	(1,346,344)
Accounts payable	13,960
Salaries payable	962
Compensated absences	508
Net OPEB obligation	4,405
Net cash provided (used) by operating activities	<u>\$ (2,245,044)</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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

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

B. Fund Accounting

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

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

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

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

Governmental Fund Type

Governmental funds are accounted for using the modified accrual basis of accounting and "*current financial resources*" measurement focus. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized in the accounting period in which they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City's accrual period is generally 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, 2011

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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

E. Deferred Revenue

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

F. Use of Estimates

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

G. Proprietary Fund Accounting

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Implementation of New GASB Pronouncements

In 2010-11, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions – This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB Statement No. 59, Financial Instruments Omnibus – This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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 \$953,010 at June 30, 2011, participate in the pool. The following information pertains to the City's cash and investment activity.

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

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

A. Authorized Investments

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

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2011

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, 2011 the carrying amount of the City's time and demand deposits was \$48,164,190. The difference between the bank balance of \$50,160,563 and the carrying amount resulted from outstanding checks and deposits in transit. Of the time deposits and demand deposits, \$100,000 was covered by federal depository insurance with the balance being collateralized with securities held by the counter party or its agent in accordance with Section 53652 of the Code. FDIC coverage is unlimited for noninterest bearing accounts through December 2012. The Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's total deposits, or by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

C. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. Maturities as a percentage of the total fair value of the investment portfolio are noted in the table above. The average life of the portfolio is 173 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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2011

2. CASH AND INVESTMENTS (continued)

C. Risk Disclosures (continued)

At June 30, 2011 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	12.47%
CA Local Agency Investment Fund	not rated	62.46%
Certificates of deposit	not rated	23.88%
Corporate Notes	AA+	1.06%
Money Market account	not rated	0.13%
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, 2010 to June 30, 2011 amounted to an unrealized loss of \$186,800.

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, 2011 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, 2011, the City had \$60,065,678 invested in LAIF, which had invested 3.19% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001576470 was used to calculate the fair value of investments in LAIF as of June 30, 2011

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2011

3. CAPITAL ASSETS

Capital assets of the Transportation Enterprise Fund at June 30, 2011 consist of the following:

	Balance July 1, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Non-depreciable Assets:					
Construction in process	\$ 330,468	\$ 2,958,386		\$(1,213,798)	\$ 2,075,056
Total non-depreciable assets	<u>330,468</u>	<u>2,958,386</u>	<u>-</u>	<u>(1,213,798)</u>	<u>2,075,056</u>
Depreciable Assets:					
Buildings & improvements	1,915,344				1,915,344
Buses & equipment	2,218,786		\$ (216,380)	1,213,798	3,216,204
Total asset cost	<u>4,134,130</u>	<u>-</u>	<u>(216,380)</u>	<u>1,213,798</u>	<u>5,131,548</u>
Less: Accumulated depreciation					
Buildings & improvements	(115,827)	(63,487)	133,114		(46,200)
Buses & equipment	(713,208)	(159,379)			(872,587)
Total accumulated depreciation	<u>(829,035)</u>	<u>(222,866)</u>	<u>133,114</u>	<u>-</u>	<u>(918,787)</u>
Total depreciable assets	<u>3,305,095</u>	<u>(222,866)</u>	<u>(83,266)</u>	<u>1,213,798</u>	<u>4,212,761</u>
Net capital assets	<u>\$ 3,635,563</u>	<u>\$ 2,735,520</u>	<u>\$ (83,266)</u>	<u>\$ -</u>	<u>\$ 6,287,817</u>

4. NET ASSETS AND FUND BALANCES

A. Net Assets

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

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

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

B. Fund Balances

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

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2011

4. NET ASSETS AND FUND BALANCES (continued)

B. Fund Balances (continued)

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

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

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

Assigned Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. As of June 30, 2011, the Authority did not have any assigned fund balances.

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

5. TRANSPORTATION DEVELOPMENT ACT (TDA)

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

6. PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT

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

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2011

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

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

7. CONTINGENT LIABILITIES

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

8. RISK MANAGEMENT

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2011

9. OTHER EMPLOYEE BENEFITS

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

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 29, 2012, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
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**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, 2011, and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2012



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

INDEPENDENT AUDITORS' COMPLIANCE REPORT

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

Compliance

We have audited the compliance of the City of Turlock, California's (City) Streets Special Revenue Fund and the Transportation Enterprise Fund (collectively the Transportation Development Act Article III Funds or TDA Program Funds) with the types of compliance requirements described in Section 6666 and 6667 of the *Rules and Regulations of the California Administrative Code in the Transportation Development Act Statutes and Administrative Code for 1987* (the Act) and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG) for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the TDA Program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion the TDA Program Funds allocated to and received by the City pursuant to the Act were expended in conformance with the applicable statutes, rules and regulations of the Act and the allocation instructions and resolutions of the Stanislaus Council of Governments for the year ended June 30, 2011.

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

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

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

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

Unexpended proceeds at June 30, 2010	\$ 1,045,776
Revenue received during 2010-11:	
PTMISEA funds received in March 2011	411,038
Interest	2,399
Expenditures incurred:	
Construction and installation of fueling station equipment	(84,743)
Purchase of a CNG bus	(474,852)
Design and property purchase for a transit transfer hub	(403,398)
	<hr/>
Unexpended proceeds at June 30, 2011	<u>\$ 496,220</u>

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City’s internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California
Page 3

A deficiency in internal control over compliance 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, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

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

Caporicci & Larson, Inc.

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San Francisco, California
March 29, 2012

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**CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 and 2011

CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
For the years ended June 30, 2010 and 2011

Table of Contents

	<u>Page</u>
Independent Auditors' Report	
Financial Statements	
✓ Schedule of Revenues, Expenditures and Changed in Fund Balance	1
Notes to Financial Statements	2
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	4
Independent Auditors' Compliance Report on the Abandoned Vehicle Abatement Program.....	6

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balance (Schedule) of the Abandoned Vehicle Abatement Program (Program) of the City of Turlock, California (City), for the years ended June 30, 2011 and 2010, as listed in the table of contents. The Schedule is the responsibility of the management of the Program. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting of the Program. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Schedule is intended to present only the results of operations of the Program of the City. It does not purport to, and does not, present fairly the financial position of the City as of June 30, 2011 and 2010, and changes in fund balances for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the revenues, expenditures, and changes in fund balance of the Program for the years ended June 30, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012, on our consideration of the City's internal control over financial reporting of the Program and 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 read in conjunction with this report and considered in assessing the results of our audit.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
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San Francisco, California
March 29, 2012

CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
Schedule of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2010 and 2011

	<u>2011</u>	<u>2010</u>
REVENUES:		
Grant revenue	\$ 55,540	\$ 57,610
Contribution from City of Turlock	28,887	3,456
Total revenues	<u>84,427</u>	<u>61,066</u>
EXPENDITURES:		
Personnel	75,737	55,226
Supplies	8,690	5,840
Total expenditures	<u>84,427</u>	<u>61,066</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-
Fund Balance - Beginning	<u>-</u>	<u>-</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balance
For fiscal years ended June 30, 2010 and 2011

1. ABANDONED VEHICLE ABATEMENT PROGRAM

The Abandoned Vehicle Abatement Program (Program) is a statewide program administered by the California Highway Patrol (CHP). The City of Turlock (City) administers and operates the local vehicle abatement program pursuant to Section 22710 of the Vehicle Code, Turlock Municipal City Code Section 4-8.108 et seq., and the Stanislaus Council of Governments (StanCOG) Abandoned Vehicle Program and Plan. Section 9250.7 of the Vehicle code establishes the funding source for the abatement of abandoned vehicles by a county-based Service Authority (Authority), pursuant to the provisions of Section 22710 of the Vehicle Code. The Vehicle Code imposes a service fee of one dollar (\$1) on vehicles registered to an owner with an address in the county that establishes the Authority. This fee is paid to the Department of Motor Vehicles (DMV) at the time of registration or renewal of registration. The DMV, after deducting its administrative costs, at least quarterly transmits the net amount collected to the State Controller's Office (SCO) for deposit in the Abandoned Vehicle Trust Fund. All money in the fund is continuously appropriated to the SCO for allocation to an Authority that has an approved Program, and for payment of the administrative costs of the SCO. StanCOG, the Authority, distributes Program funds to participating entities based on the allocation determined in the Vehicle Abatement Services Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule) of the City of Turlock Abandoned Vehicle Abatement Program (Program) have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. The Reporting Entity

The Schedule is intended to present the results of operations, and only those revenues and expenditures of the Program that are accounted for in the General Fund of the City of Turlock (City). They are not intended to present the financial position or results of operations of the City as a whole.

B. 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.

CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balance, continued
For fiscal years ended June 30, 2010 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Use of Estimates

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

3. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 29, 2012, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

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**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 Schedule of Revenues, Expenditures, and Changes in Fund Balance of the Abandoned Vehicle Abatement Program (Program) of the City of Turlock, California (City), for the year ended June 30, 2011, as listed in the table of contents and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 Program's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program'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 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 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 the Stanislaus Council of Governments (StanCOG) and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2012



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

INDEPENDENT AUDITORS' COMPLIANCE REPORT ON THE ABANDONED VEHICLE ABATEMENT PROGRAM

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

Compliance

We have audited the compliance of the City of Turlock's (City) Abandoned Vehicle Abatement Program (Program) with the types of compliance requirements described in Section 9250.7, Chapter 6, Article 2, and Section 22710, Chapter 10, Article 1 of the California Vehicle Code and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG) for the years ended June 30, 2011 and 2010. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States and Section 9250.7, Chapter 6, Article 2, and Section 22710, Chapter 10, Article 1 of the *California Vehicle Code*. Those standards and Sections 9250.7 and 22710 of the *California Vehicle Code* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance, with the types of compliance requirements referred to above, that could have a direct and material effect on the 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 Program funds allocated to and received by the City pursuant to Sections 9250.7 and 22710 of the *California Vehicle Code* were expended in conformity with the applicable statutes, rules and regulations and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG) for the years ended June 30, 2011 and 2010.

Internal Control Over Compliance

Management of the Program is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Program's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 Program's internal control over compliance.

To the Honorable Mayor and Members of 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 this 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 this 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 was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, the Members of the City Council, management, others within the City, 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.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 29, 2012