

CITY OF TURLOCK
FINANCIAL REPORTS
FOR THE YEAR ENDED JUNE 30, 2013



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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, 2013:

City of Turlock
Basic Financial Statements

Turlock Public Financing Authority
Component Unit Financial Statements

City of Turlock
Single Audit

City of Turlock Transportation Development Act (TDA)
Financial Statements

City of Turlock Abandoned Vehicle Abatement Program (AVA)
Financial Statements

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CITY OF TURLOCK, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Prepared by
THE ADMINISTRATIVE SERVICES DEPARTMENT

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CITY OF TURLOCK
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City as of June 30, 2013, the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended June 30, 2013 that affected the format and nomenclature of the financial statements:

Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. See Note 1F to the financial statements for relevant disclosures.

Management early-implemented the provisions of the following Governmental Accounting Standards Board Statement during the year ended June 30, 2013 that also affected the format and nomenclature of the financial statements and required the restatement of net position:

Statement 65 – Items Previously Report as Assets and Liabilities. See Notes 1F and 7 to the financial statements for relevant disclosures.

As discussed in Note 8E, the City restated the net position of governmental activities and business-type activities related to the recategorization of the Airport Fund from an enterprise fund to a capital projects fund, restated the balance of long-term debt related to the Economic Development Bank Loan that should have been reported as a liability of the Successor Agency to the Redevelopment Agency, and restated the balance of unearned revenue in the Streets Capital Projects Fund and the Transportation Enterprise Fund related to a change in accounting policy. As discussed in Note 10A, the City restated the balance of the OPEB obligation of the Police and Fire Healthcare Plans.

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates 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 Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, 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* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Mary & Associates".

Pleasant Hill, California
March 20, 2014

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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 2012-13 financial statements (with comparative information for 2011-12). We encourage our readers to consider this information in conjunction with the information provided in the accompanying basic financial statements and notes thereto.

IMPACT OF STATE LEGISLATION

Pursuant to Assembly Bill x1 26, (the Bill), the City of Turlock Redevelopment Agency was dissolved effective February 1, 2012. The dissolution of the Redevelopment Agency created an extraordinary gain of \$14.5 million on the Statement of Activities and an \$18.3 million extraordinary loss on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance for fiscal year 2011-12. During 2012-13 City Staff continued to work through the processes outlined the Bill and subsequent clarifying legislation for the wind down of the City's former Redevelopment Agency. Additional information about the dissolution of the Redevelopment Agency can be found in Note 13 on page 75 of the financial statements.

FISCAL YEAR 2012-13 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The City's net position (assets in excess of liabilities) at June 30, 2013, totaled \$482 million. Governmental activities accounted for \$304 million of these net assets, while \$178 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$73 million; while total expenses were \$81 million.
- Governmental program revenues were \$18 million compared to governmental program expenses of \$47 million.
- Program revenues from business-type activities were \$31 million, while expenses for business-type activities were \$33 million.

Fund Highlights

- Net General Fund expenditures exceeded revenues by \$1.4 million as compared to the prior year when expenditures exceeded revenues by \$2.3 million. For financial reporting purposes, the "General Fund" includes not only the City's General Fund, but also the Arts Commission, Special Public Safety, and Tourism (2 funds) funds.
- General Fund fund balance of \$16 million at the June 30, 2013 compared to a projected \$14.4 million when the 2012-13 budget was originally adopted.

Additional discussion regarding the financial results for fiscal year 2012-13 can be found in the "Financial Activities" section of this document.

OVERVIEW OF THESE FINANCIAL STATEMENTS

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

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

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2013

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 Position* and the *Statement of Activities*.

The *Statement of Net Position* (formerly referred to as 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 position". 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* 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 Position* and the *Statement of Activities* 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.
- **Business-type activities**—All the City's enterprise activities are reported here including water, sewer, 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.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2013

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

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

The City of Turlock has twenty-nine (29) governmental funds of which three (3) 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 three major funds are – the General Fund, Former LMI Housing Fund, and Facility Fees Fund. 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 21 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, 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 27.

Fiduciary Fund Financial Statements are used to account for resources held for the benefit of parties outside the government. They are not included in the government-wide financial statements because their resources are not available to support City programs. With the dissolution of the Redevelopment Agency as noted above, the activities of the Successor Agency to the former Turlock Redevelopment Agency are reported as a Private Purpose Trust Fund in the Fiduciary Fund Section. Additional information about the dissolution of the Redevelopment Agency can be found in Note 13 on page 75 of the financial statements.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 35.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2013

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

Over time, the City's net position may serve as an indicator of a governmental entity's financial position. The City's *Statement of Net Position* and *Statement of Activities* presented below and on the next page focus on the City's net position and changes to net position for Governmental and Business-Type Activities.

STATEMENT OF NET POSITION						
(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	
	2013	2012 (*)	2013	2012 (*)	2013	2012 (*)
Cash and investments	\$ 62,016	\$ 68,954	\$ 72,884	\$ 85,700	\$ 134,900	\$ 154,654
Other assets	34,330	35,054	15,182	4,247	49,512	39,301
Capital assets, net	226,388	214,333	205,658	192,393	432,046	406,726
Total assets	<u>322,734</u>	<u>318,341</u>	<u>293,724</u>	<u>282,340</u>	<u>616,458</u>	<u>600,681</u>
Long-term liabilities	7,731	7,941	104,779	88,395	112,510	96,336
Other liabilities	10,780	10,501	11,123	8,209	21,903	18,710
Total liabilities	<u>18,511</u>	<u>18,442</u>	<u>115,902</u>	<u>96,604</u>	<u>134,413</u>	<u>115,046</u>
Net position:						
Net investment in capital assets	225,748	180,839	112,780	117,731	338,528	298,570
Restricted	59,539	100,311		0	59,539	100,311
Unrestricted	18,936	22,447	65,042	63,092	83,978	85,539
Total net position	<u>\$ 304,223</u>	<u>\$ 303,597</u>	<u>\$ 177,822</u>	<u>\$ 180,823</u>	<u>\$ 482,045</u>	<u>\$ 484,420</u>

(*) As restated

As noted above, the City's primary investment is in its *capital assets, net of related debt*. Capital assets, which account for approximately 70.2% of the City's total net position, 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 \$60 million or 12.4% of the City's non-capital net position is subject to external restrictions as to their use. The remaining \$84 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, \$19 million related to governmental activities and \$65 million to business-type activities.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2013

The City's overall net position decreased by \$2.4 million during the 2012-13 fiscal year. The City's water and sewer funds both experienced net decreases due to (1) writing off obsolete capital assets (water fund) and (2) refunding outstanding long-term debt (sewer fund). The refunding resulted in a current year loss on defeasance, but the City will realize future savings in debt service payments achieved through lower interest charges. As previously noted, more information on this situation can be found in the notes to the financial statements. The following table provides additional detail.

SUMMARY OF CHANGES IN NET POSITION

(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	
	2013	2012 (*)	2013	2012 (*)	2013	2012 (*)
Program Revenues:						
Charges for services	\$ 9,372	\$ 11,109	\$ 26,656	\$ 32,555	\$ 36,028	\$ 43,664
Operating grants and contributions	6,219	6,233	924	-	7,143	6,233
Capital grants and contributions	2,756	3,781	3,763	161	6,519	3,942
Total Program Revenues	18,347	21,123	31,343	32,716	49,690	53,839
General Revenues						
Property taxes	3,909	3,823			3,909	3,823
Sales taxes	11,107	10,555			11,107	10,555
Motor vehicle in lieu fees	4,360	4,535			4,360	4,535
Other taxes	2,859	5,767			2,859	5,767
Interest and investment earnings	160	162	215	546	375	708
Other income	329				329	
Gain (loss) on disposal of capital assets		(1)		-	-	(1)
Total General Revenues	22,724	24,841	215	546	22,939	25,387
Total Overall Revenues	41,071	45,964	31,558	33,262	72,629	79,226
Expenses						
General government	4,192	3,773			4,192	3,773
Public safety	26,287	26,951			26,287	26,951
Public ways/facilities/transportation	10,152	9,970			10,152	9,970
Parks and recreation	3,596	3,573			3,596	3,573
Community development	3,255	5,782			3,255	5,782
Interest on long-term debt	15	1,266			15	1,266
Water			10,443	7,509	10,443	7,509
Sewer			20,511	16,530	20,511	16,530
Airport (see Note 8)				82	-	82
Transportation			1,435	1,377	1,435	1,377
Building & Safety			1,076	1,092	1,076	1,092
Total Expenses	47,497	51,315	33,465	26,590	80,962	77,905
Increase (Decrease) in Net Position before Transfers and Extraordinary Item	(6,426)	(5,351)	(1,907)	6,672	(8,333)	1,321
Transfers	1,094	2,377	(1,094)	(2,377)	-	-
Contribution from private purpose trust	6,959	6,126			6,959	6,126
Extraordinary item - RDA dissolution	(1,001)	14,503			(1,001)	14,503
Change in net position	626	17,655	(3,001)	4,295	(2,375)	21,950
Net Position, beginning of year	303,597	282,244	180,823	181,441	484,420	463,685
Prior year restatements		3,698		(4,913)		(1,215)
Net Position, end of year	\$ 304,223	\$ 303,597	\$ 177,822	\$ 180,823	\$ 482,045	\$ 484,420

(*) As restated

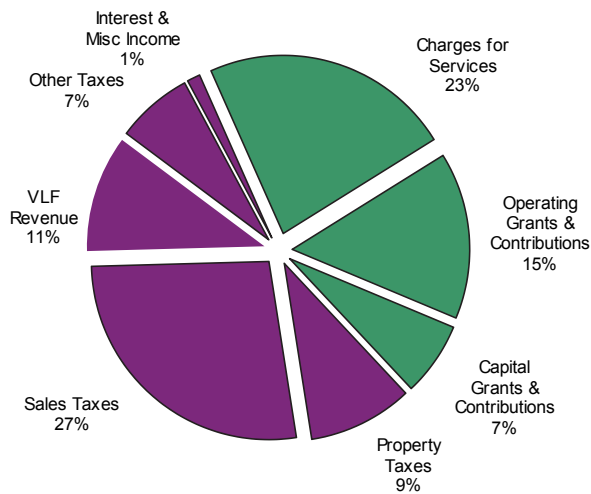
**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2013**

As the above table shows, \$49.7 million of the City’s \$72.6 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 Position*.

Citywide expenses, which totaled \$81 million, consisted of \$47.5 million for governmental activities and \$33.5 million for business-type activities. Of the \$47.5 million in governmental activity expenses, \$26.3 million or 55.3% relate to the provision of public safety (police and fire) services. The next largest component was \$10.2 million or 21.4% for public ways, facilities and transportation. This component accounts for activities involved in the maintenance and construction of City streets and roads as well as City buildings.

Governmental Activities



Governmental activity revenues totaling \$41 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 \$9.4 million as compared to \$11.1 million for 2011-12. 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.

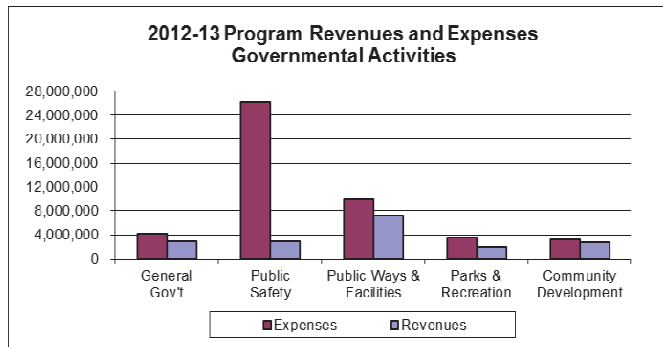
General Revenues **Program Revenues**

- Operating Grants & Contributions – Revenues received from other governmental agencies which are primarily used for operational needs – totaled \$6.2 million, an amount similar to 2011-12. 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 California Office of Traffic Safety supporting various police activities; (3) Gas Tax and Local Transportation Funds used for street/road maintenance; and (4) revenues received by the City’s recreation division to support after school enrichment programs in lower income areas of town. Since these types of revenues are generally received on a reimbursement basis, annual amounts will vary from year-to-year depending on the activities in which the City is engaged.
- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure – totaled \$2.8 million.

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2013**

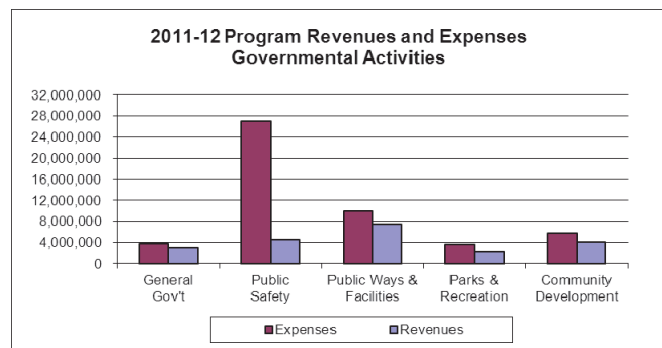
General revenues are all other revenues not classified as program revenues and are generally received for unrestricted uses. General revenues include property taxes, sales tax, motor vehicle in-lieu fees, franchise fees, business license fees, transient occupancy taxes and investment earnings. The City’s governmental activity general revenues totaled \$22.7 million for fiscal 2012-13, \$2.1 million less than received in 2011-12. The detail within the revenue did have mixed results. The primary reason for the decline was the dissolution of redevelopment agencies. Prior to dissolution, the revenue received by the Turlock Redevelopment Agency was included in other taxes. Now, because the Successor Agency is accounted for as a Fiduciary Fund, this revenue is no longer presented as part of Governmental Fund revenues.

Sales tax revenue increased approximately 5.2%. Staff continues to see improvement in sales tax revenues which is one of the indicators that the economy in Turlock is improving. Investment earnings continue to be flat as the interest rate environment has not moved from its record lows. 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, 2012-13 expenses for Governmental Activities exceeded program revenues by \$29 million whereas in 2011-12 expenses exceeded revenues by \$30 million.

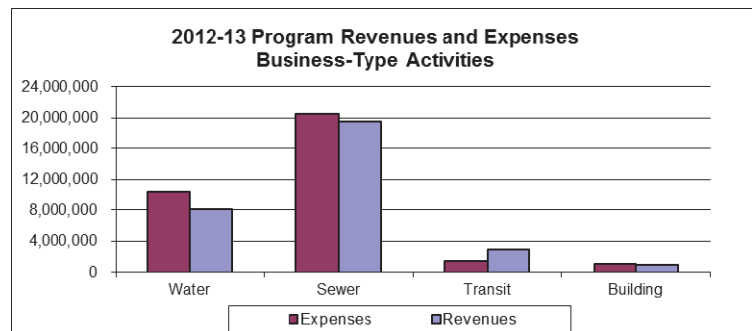
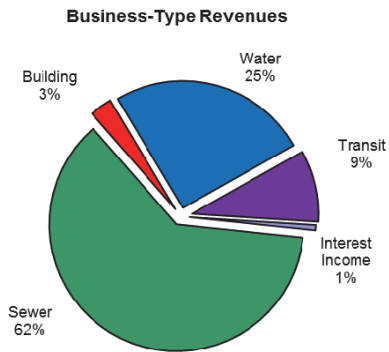
The City continues to work its way through the challenges the current economy presents. Employee concessions, first implemented in fiscal year 2010-11, continued in 2012-13. The concessions consisted of either sharing the cost of benefits and/or the elimination of certain benefits. These negotiated concessions were necessary as the cost of employee benefits – mainly health care and pension costs – continue to increase. The results of operations in other operating funds varied during 2012-13 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, 2013**

Business-Type Activities

Revenues for business-type activities totaled \$31.6 million and related expenses totaled \$33.5 million of which \$20.5 million or 61.3% 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 \$10.4 million or 31.2% of business-type activities expenses. Other business-type activities include the operation of both fixed route and dial-a-ride transit systems which provide service in Turlock as well as connecting those in need with County-wide transportation services. The City’s Building division assists all residents and developers in their pursuits of property development and improvements within the City limits. Finally, the City owns an airport outside the City limits. The airport property was deeded to the City from the federal government in 1947. The property, which is located in Merced County, is operated under a long-term facilities management agreement by the Turlock Regional Aviation Association. The City receives federal grants to assist in the rehabilitation of the airport property under a master airport improvement plan. For the 2012-13 financial statements, the City recategorized the airport activities from Business-Type Activities to a Capital Projects fund within the Governmental Activities.



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, 2013, the City’s governmental funds reported combined fund balances of \$50.6 million, a \$8.0 million decrease over the prior year. When the effect of the extraordinary item related to the dissolution of the Redevelopment Agency is factored out, the decline is \$7.0 million. The General Fund’s fund balance is \$16 million at June 30, 2013. Governmental fund revenues were \$41.3 million this year, of which General Fund revenues totaled \$27.7 million or 67.0%. Governmental fund expenditures totaled \$55.9 million with the General fund representing 53.7% of the total or \$30 million. The following provides additional information for selected governmental funds.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2013

General Fund – As previously mentioned, for financial reporting purposes, the “General Fund” includes not only the City’s General Fund, but also the Arts Commission, Special Public Safety, and Tourism (2 funds) funds. At June 30, 2013, the General Fund had a fund balance of \$16 million with \$9 million in the unassigned category. As noted in footnote 8, fund balances in governmental funds can fall into one of five categories – nonspendable, restricted, committed, assigned or unassigned. Balances falling in the nonspendable through assigned categories are there by virtue of (1) legal restrictions, (2) City Council action to commit resources for specific activities, and/or (3) action taken by management which signals the City’s intended use of resources. All other balances are categorized as unassigned.

General Fund expenditures exceeded revenues (before transfers) by \$2.4 during fiscal year 2012-13 as compared to \$3.4 million in excess expenditures for 2011-12. After net transfers, expenditures exceeded revenues by \$1.4 for 2012-13. The improvement is due to decreased expenditures – mainly in the area of personnel costs through negotiated employee concessions. While overall revenues declined from the prior year, property and sales taxes both increased; signs that the local economy is improving. The City is currently experiencing significant interest in the development of vacant parcels at the Turlock Regional Industrial Park and anticipates that this will spur job growth as well as other ancillary economic growth which will be reflected in future property tax and sales tax growth.

Former LMI Housing Fund – This fund is serving as the successor to the former Housing Set-Aside Fund and was formed after the dissolution of the City’s Redevelopment Agency. The purpose of this fund is to account for housing related activities and assets the City elected to retain from the former Redevelopment Agency.

As part of the dissolution process, the City performed a Due Diligence Review of the former Housing Fund assets and submitted the resulting report to the State of California Department of Finance (DOF). Although the report indicated that there was no unencumbered cash available for distribution, DOF disagreed and ordered the City to turn over \$1,001,062 to the Stanislaus County Auditor-Controller’s Office for distribution to other taxing entities within Stanislaus County. The City did so under protest in December 2012.

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. During 2012-13 construction continued for the off-site and on-site improvements at the site of the new public safety facility.

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 position for the City’s proprietary funds (exclusive of Internal Service funds) decreased \$3.0 million during fiscal year 2012-13, which compares to a \$4.3 million increase for fiscal year 2011-12. Overall operating revenues decreased by 9.9% due to a reclassification of “Capital contributions – connection/impact fees” for 2012-13. When these revenues are added to operating revenues, total revenues declined 3.7%. Revenue for the City’s water operations decreased by 5% while charges for services for the City’s wastewater operations remained relatively unchanged. Overall operating expenses for proprietary funds decreased by 1.5%.

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.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2013**

CAPITAL ASSETS

At June 30, 2013, the City had \$432 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 2012-13 were over \$36.7 million. The majority of these additions related to infrastructure – streets/roads, water, sewer and storm drain pipes, and park – improvements as well as construction of the public safety facility. Additional information regarding the City's capital assets can be found in Note 6 on page 53 of this report.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$107.3 million in debt outstanding as compared to \$90.6 million for the prior year. During 2012-13 the City refunded the outstanding 1999 and 2003A Sewer Revenue Bonds. The current year result of this refunding was a loss on defeasance of \$2.5 million which is reflected in interest expense in the Sewer fund. At the time of issuance, the net present value of future savings due to reduced debt service costs was over \$7 million. The City also finalized two loans through the California State Water Resources Control Board to finance the construction of the Harding Drain Bypass and various WQC Treatment Plant improvements.

The City's total debt service requirements for 2013-14 are approximately \$6.3 million with the bulk of the requirements coming from semi-annual payments for the 2012 Sewer Revenue (\$3.9 million) and the 2008 Water Bonds (\$2 million). Additional information regarding each of the City's debt issues as well as debt service requirements is discussed in greater detail in Note 7 to the financial statements starting on page 56.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Developing the 2013-14 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 2012-13 representing the sixth year of revenue declines. Budgeted 2013-14 revenues are approximately 3.4% higher than final revenue for 2012-13. As previously noted, the City is experiencing increases in property and sales tax revenues and anticipates that this will continue into 2013-14. When combined with the interest being shown in developing at the Turlock Regional Industrial Park, Staff anticipates additional increases in overall General Fund revenues for 2013-14.

The 2013-14 budgeted expenditures again include employee concessions. For this fiscal year, employees are paying 9% of the California Public Employees Retirement System (PERS) costs. The adopted 2013-14 budget projected using \$918,714 in reserves for operational costs and another \$851,000 for capital purchases. 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 2013-14 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.

CITY OF TURLOCK

**STATEMENT OF NET POSITION AND
STATEMENT OF ACTIVITIES**

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position.

The Statement of Net Position reports the difference between the City's total assets and deferred outflows of resources and the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position summarizes the financial position of all of the City's Governmental Activities in a single column, and the financial position of all of the City's Business-type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

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 service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net position. 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, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, followed by the expenses of 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 Position is computed and reconciled with the Statement of Net Position.

Both of these Statements include the financial activities of the City and the Turlock Public Financing Authority, which is legally separate but is a component unit of the City because it is controlled by the City, which is financially accountable for the activities of this entity.

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CITY OF TURLOCK
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$62,015,897	\$59,054,365	\$121,070,262
Restricted cash and investments and cash and investments with fiscal agent (Note 3)		13,829,854	13,829,854
Accounts receivables, net (Note 5C)	6,250,677	15,028,215	21,278,892
Interest receivable	43,581	56,199	99,780
Internal balances (Note 4C)	522,356	(522,356)	
Due from Developers (Note 5A)	224,712	157,663	382,375
Long-term loans receivable (Note 5B)	26,796,783		26,796,783
Other assets	5,521		5,521
OPEB asset (Note 10)	437,301	462,440	899,741
Capital assets, not being depreciated (Note 6)	52,332,291	38,124,366	90,456,657
Capital assets, being depreciated (net) (Note 6)	174,055,754	167,533,624	341,589,378
Total Assets	322,684,873	293,724,370	616,409,243
LIABILITIES			
Accounts payable	5,247,576	3,345,113	8,592,689
Payroll payable	3,954,073	155,209	4,109,282
Interest payable	9,029	871,795	880,824
Unearned revenue	461,828	3,537,671	3,999,499
Deposits payable	356,443	432,231	788,674
Compensated absences (Note 11):			
Due within one year	534,334	151,468	685,802
Due in more than one year	2,137,337	605,870	2,743,207
Estimated claims liability (Note 11):			
Due in more than one year	3,911,709		3,911,709
Long-term debt (Note 7):			
Due within one year	216,799	2,629,394	2,846,193
Due in more than one year	423,048	104,077,977	104,501,025
OPEB liability (Note 10):			
Due in more than one year	1,209,846	95,176	1,305,022
Total Liabilities	18,462,022	115,901,904	134,363,926
NET POSITION (Note 8):			
Net investment in capital assets	225,748,198	112,780,473	338,528,671
Restricted for:			
Capital projects	14,664,115		14,664,115
Special projects and programs	44,874,415		44,874,415
Total Restricted Net Position	59,538,530		59,538,530
Unrestricted	18,936,123	65,041,993	83,978,116
Total Net Position	\$304,222,851	\$177,822,466	\$482,045,317

See accompanying notes to basic financial statements

CITY OF TURLOCK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$4,185,678	\$2,786,559	\$74,439	\$191,893	\$3,052,891
Public safety	26,341,068	1,631,303	1,124,227	265,726	3,021,256
Public ways and facilities/transportation	10,011,774	2,675,324	2,500,812	2,247,022	7,423,158
Parks and recreation	3,697,473	1,337,374	529,127	50,914	1,917,415
Community Development	3,245,514	941,161	1,990,524	514	2,932,199
Interest and fiscal charges	15,427				
Total Governmental Activities	47,496,934	9,371,721	6,219,129	2,756,069	18,346,919
Business-type Activities:					
Water	10,443,314	7,806,286		215,320	8,021,606
Sewer	20,510,799	17,742,221		1,795,271	19,537,492
Transportation	1,435,119	212,630	923,904	1,753,270	2,889,804
Building & safety	1,075,425	894,679			894,679
Total Business-type Activities	33,464,657	26,655,816	923,904	3,763,861	31,343,581
Total	\$80,961,591	\$36,027,537	\$7,143,033	\$6,519,930	\$49,690,500

General revenues:

- Taxes:
 - Property taxes
 - Sales taxes
 - Motor vehicle
 - Other Tax
 - Total taxes
- Other revenue
- Interest income
- Contributions from private purpose trust
- Transfers

Extraordinary item (Note 13A):

- Payment to Stanislaus County Auditor-Controller

Total general revenues and extraordinary item

Change in Net Position

Net Position-Beginning, as Restated (Notes 7, 8E and 10A)

Net Position-Ending

See accompanying notes to basic financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
(\$1,132,787)		(\$1,132,787)
(23,319,812)		(23,319,812)
(2,588,616)		(2,588,616)
(1,780,058)		(1,780,058)
(313,315)		(313,315)
(15,427)		(15,427)
(29,150,015)		(29,150,015)
	(\$2,421,708)	(2,421,708)
	(973,307)	(973,307)
	1,454,685	1,454,685
	(180,746)	(180,746)
	(2,121,076)	(2,121,076)
(29,150,015)	(2,121,076)	(31,271,091)
3,909,003		3,909,003
11,107,493		11,107,493
4,360,143		4,360,143
2,859,015		2,859,015
22,235,654		22,235,654
328,795		328,795
159,723	214,720	374,443
6,958,570		6,958,570
1,094,362	(1,094,362)	
(1,001,062)		(1,001,062)
29,776,042	(879,642)	28,896,400
626,027	(3,000,718)	(2,374,691)
303,596,824	180,823,184	484,420,008
\$304,222,851	\$177,822,466	\$482,045,317

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MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2013. Individual non-major funds may be found in the Supplemental Section.

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 Arts Commission, Special Public Safety, Tourism (2 funds) and Parking Citation funds.

FORMER LMI HOUSING FUND

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

FACILITY FEES

The Facility Fees fund accounts for the revenue and related expenditures as outlined in the City's Capital Facilities Fee Improvement Program. These fees, which are charged to new developments, 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
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General	Former LMI Housing Fund	Facility Fees	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3)	\$15,687,830	\$480	\$10,769,388	\$25,992,485	\$52,450,183
Accounts receivable (Note 5C)	4,395,861	474	4,014	1,367,809	5,768,158
Interest receivable	19,858		7,183	12,313	39,354
Due from other funds (Note 4B)	2,107,429				2,107,429
Due from developers (Note 5A)	20,041		204,671		224,712
Loans receivable (Note 5B)	16,477	11,665,007		15,115,299	26,796,783
Other Assets	5,521				5,521
Total Assets	<u>\$22,253,017</u>	<u>\$11,665,961</u>	<u>\$10,985,256</u>	<u>\$42,487,906</u>	<u>\$87,392,140</u>
LIABILITIES					
Accounts payable	\$1,910,799		\$929,720	\$1,187,409	\$4,027,928
Payroll payable	3,847,953			48,615	3,896,568
Due to other funds (Note 4B)		\$11,115		1,253,748	1,264,863
Unearned revenue	149,148			312,680	461,828
Deposits payable	353,992				353,992
Total Liabilities	<u>6,261,892</u>	<u>11,115</u>	<u>929,720</u>	<u>2,802,452</u>	<u>10,005,179</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue (Note 1F and 5B)		11,665,007		15,115,300	26,780,307
FUND BALANCES					
Fund balance (Note 8):					
Nonspendable	42,039		204,671		246,710
Restricted			9,850,865	12,378,549	22,229,414
Committed	4,653,189			13,357,574	18,010,763
Assigned	2,197,225				2,197,225
Unassigned	9,098,672	(10,161)		(1,165,969)	7,922,542
Total Fund Balances	<u>15,991,125</u>	<u>(10,161)</u>	<u>10,055,536</u>	<u>24,570,154</u>	<u>50,606,654</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$22,253,017</u>	<u>\$11,665,961</u>	<u>\$10,985,256</u>	<u>\$42,487,906</u>	<u>\$87,392,140</u>

See accompanying notes to basic financial statements

CITY OF TURLOCK
 Reconciliation of the
 GOVERNMENTAL FUNDS-- BALANCE SHEET
 with the
 GOVERNMENTAL ACTIVITIES NET POSITION
 JUNE 30, 2013

Total fund balances reported on the Governmental Funds Balance Sheet \$50,606,654

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

224,457,488

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Position.

Cash and investments	9,565,714
Accounts receivable	482,519
Interest receivable	4,227
Net OPEB asset	437,301
Capital assets (net of accumulated depreciation)	1,930,557
Accounts payable	(1,219,648)
Payroll payable	(57,505)
Interest payable	(6,302)
Due to other funds	(320,210)
Deposits payable	(2,451)
Compensated absences	(308,710)
Long-term debt	(405,312)
Estimated claims liability	(3,911,709)
Net OPEB liability	(11,120)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are unavailable on the Fund Balance Sheets, because they are not available currently are taken into revenue in the Statement of Activities.

26,780,307

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Long-term debt	(234,535)
Interest payable	(2,727)
Compensated absences	(2,362,961)
Net OPEB liability	(1,198,726)

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$304,222,851

See accompanying notes to basic financial statements

CITY OF TURLOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	General	Former LMI Housing Fund	Facility Fees	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes and assessments	\$16,764,933			\$3,092,075	\$19,857,008
Licenses and permits	1,460,686			11,780	1,472,466
Fines, forfeitures, and penalties	269,316				269,316
Use of money and property	71,232	\$619	\$25,695	45,233	142,779
Intergovernmental	4,778,134			6,371,373	11,149,507
Charges for current services	3,658,376		891,911	2,292,784	6,843,071
Other revenue	676,039	3,007	12,207	875,771	1,567,024
Total Revenues	27,678,716	3,626	929,813	12,689,016	41,301,171
EXPENDITURES					
Current:					
General government	3,092,563		178,110	97,136	3,367,809
Public safety	23,197,319		402	941,399	24,139,120
Public ways and facilities/transportation	325,994		169	5,158,787	5,484,950
Parks and recreation	1,889,497			1,250,019	3,139,516
Community Development	1,091,277	78,461		2,759,019	3,928,757
Capital outlay	456,700		11,395,141	3,879,663	15,731,504
Debt service:					
Principal				116,140	116,140
Interest and fiscal charges				16,685	16,685
Total Expenditures	30,053,350	78,461	11,573,822	14,218,848	55,924,481
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,374,634)	(74,835)	(10,644,009)	(1,529,832)	(14,623,310)
OTHER FINANCING SOURCES (USES)					
Contributions from private purpose trust		65,400	6,893,170		6,958,570
Transfers in (Note 4A)	1,708,118		155,896	1,344,678	3,208,692
Transfers (out) (Note 4A)	(736,458)		(557,463)	(1,215,887)	(2,509,808)
Total Other Financing Sources (Uses)	971,660	65,400	6,491,603	128,791	7,657,454
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM	(1,402,974)	(9,435)	(4,152,406)	(1,401,041)	(6,965,856)
EXTRAORDINARY ITEMS (Note 13A)					
Payment to Stanislaus County Auditor-Controller		(1,001,062)			(1,001,062)
Total Extraordinary Items		(1,001,062)			(1,001,062)
NET CHANGE IN FUND BALANCES	(1,402,974)	(1,010,497)	(4,152,406)	(1,401,041)	(7,966,918)
BEGINNING FUND BALANCES (AS RESTATED) (Note 8E)	17,394,099	1,000,336	14,207,942	25,971,195	58,573,572
ENDING FUND BALANCES	\$15,991,125	(\$10,161)	\$10,055,536	\$24,570,154	\$50,606,654

See accompanying notes to basic financial statements

CITY OF TURLOCK
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
 with the
 CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013

The schedule below reconciles the Net Change in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$7,966,918)

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

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay and other capitalized expenditures are therefore added back to fund balance.	15,932,539
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$310,504 which has already been allocated to serviced funds).	(5,694,836)
Retirements are deducted from the fund balance	(357,757)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	116,140
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide (or require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Unavailable revenue	551,339
Interest payable	1,258
Compensated absences	289,827
Net OPEB liability	(1,413,870)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Position - All Internal Service Funds	<u>(831,695)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$626,027</u></u>
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See accompanying notes to basic financial statements

CITY OF TURLOCK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES:				
Taxes and assessments	\$17,652,750	\$17,427,750	\$16,764,933	(\$662,817)
Licenses and permits	1,456,100	1,456,100	1,460,686	4,586
Fines and forfeitures	544,500	544,500	269,316	(275,184)
Use of money and property	176,000	176,000	71,232	(104,768)
Intergovernmental	4,958,032	4,911,397	4,778,134	(133,263)
Charges for current services	3,265,194	3,265,194	3,658,376	393,182
Other revenue	371,104	371,104	676,039	304,935
Total Revenues	28,423,680	28,152,045	27,678,716	(473,329)
EXPENDITURES:				
Current:				
General government	3,185,955	3,010,771	3,092,563	(81,792)
Public safety	24,791,738	23,787,524	23,197,319	590,205
Public ways and facilities/transportation	342,643	314,771	325,994	(11,223)
Parks and recreation	1,934,496	1,874,138	1,889,497	(15,359)
Community Development	1,281,206	1,256,803	1,091,277	165,526
Capital outlay	1,245,000	1,275,574	456,700	818,874
Total Expenditures	32,781,038	31,519,581	30,053,350	1,466,231
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,357,358)	(3,367,536)	(2,374,634)	992,902
OTHER FINANCING SOURCES (USES)				
Transfers in	2,139,207	1,966,564	1,708,118	(258,446)
Transfers (out)	(809,095)	(789,135)	(736,458)	52,677
Total Other Financing Sources (Uses)	1,330,112	1,177,429	971,660	(205,769)
NET CHANGE IN FUND BALANCE	(\$3,027,246)	(\$2,190,107)	(1,402,974)	\$787,133
BEGINNING FUND BALANCE			17,394,099	
ENDING FUND BALANCE			\$15,991,125	

See accompanying notes to basic financial statements

MAJOR 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. The City has identified the funds below as major proprietary funds in fiscal 2013.

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
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2013

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Water	Sewer	Nonmajor Proprietary Funds		
ASSETS					
Current assets					
Cash and investments (Note 3)	\$28,430,016	\$27,939,071	\$2,685,278	\$59,054,365	\$9,565,714
Restricted cash and investments and cash and investments with fiscal agent (Note 3)	8,883,610	4,946,244		13,829,854	
Accounts receivable (Note 5C)	968,232	13,085,494	974,489	15,028,215	482,519
Interest receivable	34,887	20,098	1,214	56,199	4,227
Due from developers (Note 5A)		157,663		157,663	
Total current assets	38,316,745	46,148,570	3,660,981	88,126,296	10,052,460
Non-current assets					
OPEB asset (Note 10)	391,113	71,327		462,440	437,301
Capital assets not being depreciated (Note 6)	4,536,391	30,207,828	3,380,147	38,124,366	
Capital assets being depreciated (Note 6)	38,936,034	122,916,849	5,680,741	167,533,624	1,930,557
Total non-current assets	43,863,538	153,196,004	9,060,888	206,120,430	2,367,858
Total Assets	82,180,283	199,344,574	12,721,869	294,246,726	12,420,318
LIABILITIES					
Current liabilities					
Accounts payable	228,110	2,985,224	131,779	3,345,113	1,219,648
Payroll payable	38,427	99,179	17,603	155,209	57,505
Interest payable	224,713	647,082		871,795	6,302
Due to other funds (Note 4B)			522,356	522,356	320,210
Compensated absences (Note 11)	28,034	107,829	15,605	151,468	61,742
Capital lease obligations (Note 7)	47,197	47,197		94,394	94,394
Bonds and loans payable (Note 7)	670,000	1,865,000		2,535,000	
Unearned revenue			3,537,671	3,537,671	
Deposits payable	432,231			432,231	2,451
Total current liabilities	1,668,712	5,751,511	4,225,014	11,645,237	1,762,252
Long-term liabilities					
Claims liability (Note 11)					3,911,709
Compensated absences (Note 11)	112,137	431,316	62,417	605,870	246,968
OPEB liability (Note 10)			95,176	95,176	11,120
Capital lease obligations (Note 7)	155,459	155,459		310,918	310,918
Bonds and loans payable (Note 7)	28,639,412	75,127,647		103,767,059	
Total long-term liabilities	28,907,008	75,714,422	157,593	104,779,023	4,480,715
Total Liabilities	30,575,720	81,465,933	4,382,607	116,424,260	6,242,967
NET POSITION (Note 8):					
Net investment in capital assets	22,843,967	80,875,618	9,060,888	112,780,473	1,525,245
Unrestricted	28,760,596	37,003,023	(721,626)	65,041,993	4,652,106
Total Net Position	\$51,604,563	\$117,878,641	\$8,339,262	\$177,822,466	\$6,177,351

See accompanying notes to basic financial statements

CITY OF TURLOCK
 PROPRIETARY FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Water	Sewer	Nonmajor Enterprise Funds		
OPERATING REVENUES					
Charges for services	\$7,780,921	\$17,573,041	\$1,044,136	\$26,398,098	\$10,801,790
Other income	25,365	169,180	63,173	257,718	1,033,287
Total Operating Revenues	7,806,286	17,742,221	1,107,309	26,655,816	11,835,077
OPERATING EXPENSES					
Salaries, benefits and insurance	1,868,308	4,461,203	937,980	7,267,491	11,994,127
Contractual	516,320	1,489,226	1,008,999	3,014,545	507,084
Supplies and maintenance	240,718	1,774,106	33,906	2,048,730	35,303
Utilities	1,179,677	1,595,534	25,904	2,801,115	68,789
Fleet expense	65,705	244,205	187,414	497,324	85,612
Depreciation and amortization	1,811,205	3,708,363	297,096	5,816,664	310,504
Other expenses	126,057	210,789	19,245	356,091	82,835
Total Operating Expenses	5,807,990	13,483,426	2,510,544	21,801,960	13,084,254
Operating Income (Loss)	1,998,296	4,258,795	(1,403,235)	4,853,856	(1,249,177)
NONOPERATING REVENUES (EXPENSES)					
Operating grants			923,904	923,904	
Interest income	129,110	78,566	7,044	214,720	16,944
Interest (expense)	(1,388,348)	(5,383,425)		(6,771,773)	(20,790)
Gain (loss) on disposal of capital assets	(3,246,976)	(1,643,948)		(4,890,924)	25,850
Net Nonoperating Revenues (Expenses)	(4,506,214)	(6,948,807)	930,948	(10,524,073)	22,004
Income (Loss) Before Contributions and Transfers	(2,507,918)	(2,690,012)	(472,287)	(5,670,217)	(1,227,173)
Capital Grants			1,753,270	1,753,270	
Capital contributions - connection/impact fees	215,320	1,795,271		2,010,591	
Transfers in (Note 4A)	18,590	17,105		35,695	455,559
Transfers out (Note 4A)	(322,749)	(775,372)	(31,936)	(1,130,057)	(60,081)
Net Contributions and Transfers	(88,839)	1,037,004	1,721,334	2,669,499	395,478
Change in net position	(2,596,757)	(1,653,008)	1,249,047	(3,000,718)	(831,695)
BEGINNING NET POSITION, (AS RESTATED) (Note 8A)	54,201,320	119,531,649	7,090,215	180,823,184	7,009,046
ENDING NET POSITION	\$51,604,563	\$117,878,641	\$8,339,262	\$177,822,466	\$6,177,351

See accompanying notes to basic financial statements

CITY OF TURLOCK
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds	
	Water	Sewer	Nonmajor Enterprise Funds		Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$7,969,258	\$17,487,571	\$1,041,652	\$26,498,481	\$12,634,336
Payments to suppliers	(2,247,703)	(3,430,533)	(1,388,176)	(7,066,412)	(1,477,392)
Payments to employees	(2,187,054)	(5,240,612)	(1,004,164)	(8,431,830)	(12,596,177)
Other	25,365	169,180	63,173	257,718	1,033,287
Cash Flows from Operating Activities	3,559,866	8,985,606	(1,287,515)	11,257,957	(405,946)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental receipts - operations			499,686	499,686	
Interfund receipts			103,959	103,959	320,210
Transfers in	18,590	17,105		35,695	455,559
Transfers out	(322,749)	(775,372)	(31,936)	(1,130,057)	(60,081)
Cash Flows from Noncapital Financing Activities	(304,159)	(758,267)	571,709	(490,717)	715,688
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Intergovernmental receipts - capital program			1,406,165	1,406,165	
Acquisition of capital assets, net	(1,014,237)	(23,614,960)	(1,752,825)	(26,382,022)	(229,008)
Proceeds from sale of capital assets					26,335
Issuance of loans		10,420,746		10,420,746	
Issuance of bonds		51,915,000		51,915,000	
Premium on bonds		3,846,298		3,846,298	
Cost of issuance		(506,775)		(506,775)	
Payment to bond escrow agent		(63,321,702)		(63,321,702)	
Long-term debt payment - principal	(695,059)	(45,060)		(740,119)	(90,119)
Long-term debt payment - interest	(1,393,138)	(1,081,583)		(2,474,721)	(22,191)
Connection / impact fees	215,320	1,795,271		2,010,591	
Cash Flows from Capital and Related Financing Activities	(2,887,114)	(20,592,765)	(346,660)	(23,826,539)	(314,983)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	151,596	174,371	8,554	334,521	20,160
Cash Flows from Investing Activities	151,596	174,371	8,554	334,521	20,160
Net Cash Flows	520,189	(12,191,055)	(1,053,912)	(12,724,778)	14,919
Cash and investments at beginning of period	36,793,437	45,076,370	3,739,190	85,608,997	9,550,795
Cash and investments at end of period	\$37,313,626	\$32,885,315	\$2,685,278	\$72,884,219	\$9,565,714
Reconciliation of Operating Income (Loss) to Cash Flows					
from Operating Activities:					
Operating income (loss)	\$1,998,296	\$4,258,795	(\$1,403,235)	4,853,856	(\$1,249,177)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation and amortization	1,811,205	3,708,363	297,096	5,816,664	310,504
Change in assets and liabilities:					
Accounts receivable	188,337	(85,470)	(2,484)	100,383	1,832,546
Due from developers					
OPEB asset	(278,765)	(71,327)		(350,092)	(316,382)
Accounts payable	(175,638)	1,883,327	(106,198)	1,601,491	(1,173,652)
Payroll payable	(20,347)	(45,197)	(5,662)	(71,206)	(20,081)
Compensated absences	(19,634)	(43,879)		(63,513)	(45,556)
Claims Liability			(6,510)	(6,510)	478,605
OPEB liability		(619,006)	(60,522)	(679,528)	(220,031)
Unearned revenue					
Deposits payable	56,412			56,412	(2,722)
Cash Flows from Operating Activities	\$3,559,866	\$8,985,606	(\$1,287,515)	\$11,257,957	(\$405,946)
NONCASH TRANSACTIONS:					
Amortization of bond discount	\$380	\$152,631		\$153,011	
Expense previously capitalized construction in progress					
Capital asset cost	(3,246,976)	(1,643,948)		(4,890,924)	(\$485)
Total noncash capital and related financing activities	(\$3,246,596)	(\$1,491,317)		(\$4,737,913)	(\$485)

See accompanying notes to basic financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

These 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 City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

SUCCESSOR AGENCY TRUST FUND

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

AGENCY FUNDS are used to account for assets held by the City as an agent for individuals, private organizations, and other governments.

CITY OF TURLOCK
 FIDUCIARY FUNDS
 STATEMENTS OF FIDUCIARY NET POSITION
 JUNE 30, 2013

	<u>Successor Agency Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments (Note 3)	\$3,522,170	\$696,470
Cash and investments with fiscal agent (Note 3)	3,572,725	418,493
Accounts and interest receivable	1,212	10,855
Capital Assets (Note 13B):		
Nondepreciable	1,882,435	
Depreciable, net	<u>7,084,287</u>	
Total Assets	<u>16,062,829</u>	<u>\$1,125,818</u>
LIABILITIES		
Accounts payable	567	
Interest payable	776,924	
Long-term debt (Note 13C):		
Due within one year	737,044	
Due in more than one year	41,596,461	
Due to others		<u>\$1,125,818</u>
Total Liabilities	<u>43,110,996</u>	<u>\$1,125,818</u>
NET POSITION (DEFICIT)		
Net deficit held in trust for other governments	<u>(\$27,048,167)</u>	

See accompanying notes to basic financial statements

CITY OF TURLOCK
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Successor Agency Trust Fund</u>
ADDITIONS	
Property taxes	\$4,355,154
Net investment income	<u>32,836</u>
Total additions	<u>4,387,990</u>
DEDUCTIONS	
Community development	42,860
Contributions to the City of Turlock	6,958,570
Depreciation	146,262
Interest and fiscal charges	<u>2,597,850</u>
Total deductions	<u>9,745,542</u>
NET CHANGE IN NET POSITION	(5,357,552)
NET POSITION HELD IN TRUST FOR OTHER GOVERNMENTS	
Beginning of year, as restated (Note 8E and 13C)	<u>(21,690,615)</u>
End of year	<u><u>(\$27,048,167)</u></u>

See accompanying notes to basic financial statements

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CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of the Turlock Public Financing Authority which is controlled by and dependent on the City. Although the City and the Authority are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements.

Turlock Public Financing Authority

The Turlock Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The Turlock Public Financing Authority was established 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 former Turlock Redevelopment Agency.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government, the City and its blended component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes and franchise fees that are based on gross receipts, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues and expenses, such as charges for services and the related costs, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as subsidies, investment earnings and any related costs, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

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 Arts Commission, Special Public Safety, and Tourism (2 funds).

Former LMI Housing Fund - This fund accounts for the activity of the Housing Set-Aside funds post Redevelopment Agency dissolution.

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reported the following enterprise funds as major funds in the accompanying financial statements:

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 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.

The City also reports the following fund types:

Internal Service Funds – The funds account for equipment pool, self-insurance, information technology and engineering, all of which are provided to other departments on a cost-reimbursement basis.

Trust Fund – Trust funds account for assets held by the City as an agent for various functions. The Successor Agency to the Turlock Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. This fund accounts for winding down the affairs of the former Turlock Redevelopment Agency and makes payments on the Recognized Obligation Payment Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies. The financial activities of this fund is excluded from the City-wide financial statements, but is presented in separate Fiduciary Fund financial statements.

Agency funds are used to account for assets held by the City as an agent for the Northwest Triangle – Mello Roos Assessment District, and Turlock Property and Business Improvement District #2 (PBID). The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within ninety days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual are sales taxes and interest revenue. Forfeitures, licenses, other permits and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Grant funding received in advance of the related expenditure is accounted for as unearned revenue.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary.

E. *Prepays, Materials, Supplies and Deposits*

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

Materials and supplies are valued at cost on a first-in first-out basis. Supplies in the enterprise and internal funds consist principally of materials and supplies for utility and internal operations. Materials and supplies of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expense or expenditure in the funds at the time individual inventory items are consumed.

Prepays, materials, supplies and deposits in governmental funds are equally offset by nonspendable fund balance which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. *Deferred Inflows and Deferred Outflows of Resources*

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *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.

H. *Revenue Recognition for Water and Sewer*

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.

I. *Compensated Absences*

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.

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) and Schedules of Benefits with the City’s various bargaining units. The agreements indicate the methodology for accruing time and the maximum accrual limits.

The changes of the compensated absences during the fiscal year ended June 30, 2013 were as follows:

	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
Beginning Balance	\$3,007,054	\$827,361	\$3,834,415
Net Change	<u>(335,383)</u>	<u>(70,023)</u>	<u>(405,406)</u>
Ending Balance	<u>\$2,671,671</u>	<u>\$757,338</u>	<u>\$3,429,009</u>
Current Portion	<u>\$534,334</u>	<u>\$151,468</u>	<u>\$685,802</u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. 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 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 Fund, Special Revenue Funds, the Facility Fees Capital Projects Fund, Enterprise Funds, and Internal Service Funds, except the Former LMI Housing Special Revenue Fund, the Development Benefit Special Revenue Fund, the Downtown Assessment District Special Revenue Fund and the Housing Stimulus Funds Special Revenue Fund. Capital Projects funds, other than the Facility Fees Capital Projects Fund, 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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the department level. Departments can reallocate spending within an object (e.g. supplies or utilities) with the exception of personnel or capital outlay. The total expenditures for that object cannot be increased without the approval of the City Manager or City Council. Any reallocations between objects must be approved by the City Manager. Only the City Council can approve increases in the total appropriation for a Department within the General Fund or a Fund, other than the General Fund. A “department” for legal appropriation purposes may be a single organization (e.g. City Attorney) or an entire department having multiple divisions (e.g. Parks and Recreation).

B. 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.

C. Expenditures in Excess of Appropriations

The following funds incurred departmental expenditures in excess of appropriations. The funds had sufficient fund balances or revenues to finance these expenditures.

Fund/Department	Excess of Expenditures Over Appropriations
General Fund:	
General government	\$81,792
Public ways and facilities/transportation	11,223
Parks and recreation	15,359
Development Impact Fees Special Revenue Fund:	
Capital outlay	412
NW Triangle Plan Fee Special Revenue Fund:	
Capital outlay	283,694
Lighting & Landscaping Assessment Districts Special Revenue Fund:	
Capital outlay	4,638

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS

The City pools cash resources from all funds, except cash and investments with fiscal agents, 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.

A. Policies

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

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.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City’s cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City’s name and places the City ahead of general creditors of the institution.

The City’s investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or other agreements.

City cash and investments:	
Cash and investments available for operations	\$121,070,262
Restricted cash and investments and cash and investments with fiscal agent	13,829,854
Total City Cash and Investments	134,900,116
Cash and investments in Fiduciary Funds (Separate Statement):	
Successor Agency to the Redevelopment	
Agency Private Purpose Trust Fund:	
Cash available for operations	3,522,170
Cash and investments with fiscal agent	3,572,725
Agency Funds:	
Cash and investments available for operations	696,470
Cash and investments with fiscal agent	418,493
Total Cash and Investments	\$143,109,974

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$5,180
Deposits with financial institutions	28,003,201
Investments	115,101,593
Total Cash and Investments	\$143,109,974

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.

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

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Notes, Bonds and/or Bills	5 years	N/A	Unlimited	N/A
U.S. Government Sponsored Securities	5 years	N/A	Unlimited	No more than 25%
Certificates of Deposit	2 years	N/A	30%	N/A
Bankers' Acceptances	180 days	N/A	40%	No more than 30%
Commercial Paper	270 days	A-1 or Higher	25%	No more than 10%
State of Local Agency Investment Fund (LAIF)	N/A		Equal to maximum limit set by LAIF	N/A
Money Market Funds	N/A	N/A	15%	N/A
Corporate Notes	5 years	AAA	5%	N/A

As of June 30, 2013, the City's investment in money market funds exceeded the 15% limitation. Money market funds represent 16.1% of the total cash and investments available for operations.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio
U.S. Treasury Notes, Bonds and/or Bills	5 years	N/A	No maximum
U.S. Government Sponsored Securities	5 years	N/A	No maximum
State Obligations	N/A	A	No maximum
Pre-refunded Municipal Obligations	N/A	AAA	No maximum
Certificate of Deposits	30 days	N/A	No maximum
Bankers' Acceptances	30 days	A-1	No maximum
Commercial Paper	270 days	A-1+	No maximum
State Local Agency Investment Fund	N/A	N/A	LAIF limits
Repurchase Agreements	270 days	A	No maximum
Guaranteed Investment Contracts	N/A	AA	No maximum
Money Market Funds	N/A	Aam or Aam-G	No maximum
Corporate Notes	N/A	Two highest rating categories	No maximum

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investment Type	12 Months or less	13 to 24 Months	25 to 36 Months	More than 36 Months	Total
<i>Held by City:</i>					
U.S. Government Sponsored Securities	\$2,001,436				\$2,001,436
California Local Agency Investment Fund	60,045,341				60,045,341
Certificates of Deposit	16,552,636	\$2,539,740	\$990,051		20,082,427
Money Market and Mutual Funds (U.S. Securities)	20,216,774				20,216,774
<i>Held by Trustee:</i>					
U.S. Government Sponsored Securities	1,894,291				1,894,291
California Local Agency Investment Fund	6,737,206				6,737,206
Money Market Mutual Funds (U.S. Securities)	3,791,095				3,791,095
Investment Agreement				\$333,023	333,023
Total Investments	<u>\$111,238,779</u>	<u>\$2,539,740</u>	<u>\$990,051</u>	<u>\$333,023</u>	<u>\$115,101,593</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2013 these investments matured in an average of 278 days.

Money Market Mutual funds are available for withdrawal on demand at June 30, 2013 matured in an average of 376 days.

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2013 for each investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAAm	AA+	Total
U.S. Government Sponsored Securities		\$3,895,727	\$3,895,727
Money Market Mutual Funds (U.S. Securities)	\$3,791,095		3,791,095
Total Rated Investments	<u>\$3,791,095</u>	<u>\$3,895,727</u>	7,686,822
<i>Not rated:</i>			
Money Market and Mutual Funds (U.S. Securities)			20,216,774
California Local Agency Investment Fund			66,782,547
Certificates of Deposit			20,082,427
Investment Agreement			333,023
Total Investments			<u>\$115,101,593</u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2013, the book value of the City's cash with banks and petty cash was \$28,008,381, and the associated bank balances were \$29,324,606. As of June 30, 2013, \$15,543 of the City's bank balances of \$29,324,606 was exposed to custodial credit risk, because it was not FDIC insured.

H. Concentration Risk

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total investments are as follows at June 30, 2013:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Rabobank	Certificates of Deposit	\$8,187,409

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. 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.

Transfers between funds during the fiscal year ended June 30, 2013 were as follows:

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred	
General Fund	Non-Major Governmental Funds	\$653,208	(A)
	Internal Service Funds	83,250	(B)
Facility Fees Capital Projects Fund	General Fund	20,000	(A)
	Non-Major Governmental Funds	487,463	(C)
	Internal Service Funds	50,000	(D)
Non-Major Governmental Funds	General Fund	662,005	(A)
	Facility Fees Capital Projects Fund	155,896	(C)
	Non-Major Governmental Funds	41,982	(D)
	Water Fund	18,590	(A)
	Sewer Fund	17,105	(A)
	Internal Service Funds	320,309	(A), (B)
Water Enterprise Fund	General Fund	317,780	(A)
	Non-Major Governmental Funds	4,969	(A)
Sewer Enterprise Fund	General Fund	707,333	(A)
	Non-Major Governmental Funds	68,039	(A)
Non-Major Enterprise Funds	Non-Major Governmental Funds	31,936	(A)
Internal Service Funds	General Fund	1,000	(A)
	Non-Major Governmental Funds	57,081	(A)
	Internal Service Funds	2,000	(A), (B)
		<u>\$3,699,946</u>	

(A) To fund operations including computer replacement

(B) To fund the Internal Service Equipment Pool for future vehicle purchases

(C) To fund capital improvements

(D) To fund administrative expenses

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly, after the end of the fiscal year when revenues are received. Current amounts due to the General Fund from the funds listed below at June 30, 2013 were as follows:

	Amount Due to General Fund
Major Governmental Fund:	
Former LMI Housing Special Revenue Fund	\$11,115
Non-major Special Revenue Funds:	
Gas Tax-Street Improvements	462,273
Housing Stimulus Funds	17,647
Stanislaus County Housng Consortium	399,303
Grant Funds	216,525
Non-major Capital Projects Fund:	
East Tuolumne Master Plan	158,000
Major Enterprise Fund:	
Building and Safety	522,356
Internal Service Fund:	
Engineering	320,210
Total	\$2,107,429

C. Internal Balances

Internal balances are presented in the entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 – DUE FROM DEVELOPERS, LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE

At June 30, 2013, 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	\$224,712	\$157,663	\$382,375
Loans receivable	26,796,783		26,796,783
Total	\$27,021,495	\$157,663	\$27,179,158

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 5 – DUE FROM DEVELOPERS, LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE
(Continued)

A. Due from Developers

These amounts represent funds expended by the City in the preparation of the master plan and related planning documents required for the development of the City’s Northwest Specific Triangle Plan Area, its Northeast Master Plan Area and its Morgan Ranch Master Plan Area. The amounts expended by the City are being recovered as these Plan Areas develop via a specific development impact fee. The Northwest Triangle receivable of \$157,663 is recorded in the Sewer fund, the Northeast Master Plan receivable of \$20,041 is recorded in the General Fund and the Morgan Ranch Master Plan receivable of \$204,671 is recorded in the Facility Fees fund.

B. Loans Receivable

Loans receivable at June 30, 2013 consist of the following:

Type of Loan/Borrower	Amount
Central Valley Coalition for Affordable Housing	\$8,368,356
First Time Homebuyer Loans	8,047,374
EAH, Inc.	5,000,000
Owner-Occupied Rehabilitation Loans	3,646,608
Cherry Tree Village Loans	1,622,867
Rehabilitation Forgivable Loans for Energy Improvements	49,300
Rental Rehabilitation Loans	45,801
Executive MBA Program Loans	201
Employee Computer Loans	16,276
	\$26,796,783
Net long-term notes receivable	\$26,796,783

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 former 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, 2013 was \$5,170,099.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 5 – DUE FROM DEVELOPERS, LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE
(Continued)

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, 2013 on these three properties was \$1,351,650.

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, 2013 on these three properties was \$1,846,607.

First Time Homebuyer Loans

The First Time Homebuyer Loan program, funded using Federal and/or State of California HOME funds, CDBG funds, and former 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, 2013 the City had 148 loans outstanding.

EAH, Inc.

EAH, Inc. is a nonprofit corporation which develops and manages affordable housing projects in the western United States. The former 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 former 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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 5 – DUE FROM DEVELOPERS, LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE
(Continued)

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, 2013 the former Agency had expended all the pre-construction funds and had provided a \$4 million construction loan for total outstanding loans of \$5 million.

Owner-Occupied Rehabilitation Loans

The Owner-Occupied Rehabilitation Loan program, funded with either Federal Community Development Block Grant (CDBG) or State of California HOME funds, provides eligible homeowners with funding for health, safety and/or building code related improvements to their home. Eligibility is established based on the age and income requirements for U.S. Department of Housing and Urban Development (HUD) funded programs. The loans are for a maximum of 20 years and can be either fully amortizing or deferred – depending on the age and income level of the applicant. The fully amortizing loans carry a 5% simple interest rate for the entire term, while the deferred loans accrue simple interest at 5% for the first 10 years and then no interest for the remaining 10 years. All loans are secured by a recorded silent second deed of trust on the property. The loans are due and payable should the homeowner refinance or sell the property. As of June 30, 2013 the City had 67 loans outstanding.

Cherry Tree Village Loans

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

Rehabilitation Forgivable Loans for Energy Improvements

Using CDBG-R funding, the City has been able to provide forgivable loans for energy improvements made as part of the rehabilitation process for a qualified low/moderate income home owner. The forgivable loans can be used for structural (e.g. windows, weather stripping, insulation) and/or appliance (e.g. HVAC, refrigerator) improvements to the property which reduce the energy usage of the home. The forgivable loans are for up to \$10,000, carry no interest, and are forgiven equally over a five-year period provided the home continues to be the primary residence of the qualified home owner. At June 30, 2013 the City had ten loans outstanding.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 5 – DUE FROM DEVELOPERS, LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE
(Continued)

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, 2013 the City had one loan outstanding.

Executive MBA Program Loans

During 2008-09, California State University, Stanislaus in collaboration with the City operated a 15-month Executive MBA program. In exchange for the use of city hall on Saturday for this program, CSUS offered a scholarship to a city employee enrolled in the program who would be responsible for the facility during the term of the program. In order to facilitate this program and encourage qualified city employees to pursue their Master's degree, the City authorized non-interest bearing loans to qualified city employees. The loans are being repaid through payroll deductions. Three city employees qualified for the program and were approved to share the scholarship in return for sharing the facility use responsibilities. The loans were originally for \$18,000 each and at June 30, 2013, the unpaid balance for all three loans was \$201.

Employee Computer Loans

All full-time City employees who have completed their probationary period are eligible to obtain an interest free loan of up to \$2,500 to purchase a computer. All requests for loans are subject to review by the Service Area Director and must be approved by either the City Manager or Assistant City Manager. Repayment of these loans is handled through payroll deductions which are spread out equally over a two year period. Employees must repay the outstanding balance of their loans upon ending their employment with the City. As of June 30, 2013, 19 employees had loans totaling \$16,276 due to the City.

C. Accounts Receivable

The following table provides a detailed listing of the City accounts receivable by type as of June 30, 2013:

	Due from Other Governments	Accounts Receivable	Total
General Fund	\$2,751,847	\$1,644,014	\$4,395,861
Former LMI Housing Fund		474	474
Facility Fees		4,014	4,014
Nonmajor Governmental Funds	1,314,788	53,021	1,367,809
Water	1,662	966,570	968,232
Sewer	10,965,574	2,119,920	13,085,494
Nonmajor Proprietary Funds	971,047	3,442	974,489
Internal Service funds	15,469	467,050	482,519
Total	<u>\$16,020,387</u>	<u>\$5,258,505</u>	<u>\$21,278,892</u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 6 - 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

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
For the Year Ended June 30, 2013

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Assets Additions and Retirements

At June 30, 2013 the City's capital assets for governmental activities consisted of the following:

<i>Governmental activities</i>	Balance at June 30, 2012 (Restated)	Additions	Retirements	Transfers	Balance at June 30, 2013
Capital assets not being depreciated:					
Land	\$13,510,495				\$13,510,495
Construction in progress	27,605,346	\$15,469,164	(\$355,114)	(\$3,897,600)	38,821,796
Total capital assets not being depreciated	<u>41,115,841</u>	<u>15,469,164</u>	<u>(355,114)</u>	<u>(3,897,600)</u>	<u>52,332,291</u>
Capital assets being depreciated:					
Land improvements	26,610,533			1,433,053	28,043,586
Buildings	28,746,125			64,426	28,810,551
Furniture and equipment	9,032,486	358,016	(22,430)	16,619	9,384,691
Vehicles	8,781,084	334,367	(454,532)	159,686	8,820,605
Infrastructure	173,747,512			2,223,816	175,971,328
Total capital assets being depreciated	<u>246,917,740</u>	<u>692,383</u>	<u>(476,962)</u>	<u>3,897,600</u>	<u>251,030,761</u>
Less accumulated depreciation for:					
Land improvements	(7,190,924)	(854,624)			(8,045,548)
Buildings	(7,956,463)	(955,916)			(8,912,379)
Furniture and equipment	(7,443,239)	(316,545)	22,430		(7,737,354)
Vehicles	(7,159,786)	(503,898)	451,404		(7,212,280)
Infrastructure	(41,693,089)	(3,374,357)			(45,067,446)
Total accumulated depreciation	<u>(71,443,501)</u>	<u>(6,005,340)</u>	<u>473,834</u>		<u>(76,975,007)</u>
Net capital assets being depreciated	<u>175,474,239</u>	<u>(5,312,957)</u>	<u>(3,128)</u>	<u>3,897,600</u>	<u>174,055,754</u>
Governmental activity capital assets, net	<u>\$216,590,080</u>	<u>\$10,156,207</u>	<u>(\$358,242)</u>		<u>\$226,388,045</u>

Governmental activities depreciation expense for capital assets for the year ended June 30, 2013 was as follows:

Governmental Activities	
General government	\$426,829
Public safety	804,919
Public works	3,927,670
Parks and recreation	484,721
Community development	50,697
Internal service funds	310,504
Total Governmental Activities	<u><u>\$6,005,340</u></u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 6 - CAPITAL ASSETS (Continued)

At June 30, 2013 the City's capital assets for business-type activities consisted of the following:

<i>Business-type activities</i>	Balance at June 30, 2012 (Restated)	Additions	Retirements	Transfers	Balance at June 30, 2013
Capital assets not being depreciated:					
Land	\$1,036,228			\$1,823,738	\$2,859,966
Construction in progress	17,997,632	\$26,269,151	(\$4,819,276)	(4,183,107)	35,264,400
Total capital assets not being depreciated	<u>19,033,860</u>	<u>26,269,151</u>	<u>(4,819,276)</u>	<u>(2,359,369)</u>	<u>38,124,366</u>
Capital assets being depreciated:					
Land improvements	4,463,236			2,059,486	6,522,722
Buildings and improvements	5,507,916				5,507,916
Furniture and equipment	21,170,823	215,547	(215,188)		21,171,182
Vehicles	2,992,846				2,992,846
Infrastructure	265,883,543			299,883	266,183,426
	<u>300,018,364</u>	<u>215,547</u>	<u>(215,188)</u>	<u>2,359,369</u>	<u>302,378,092</u>
Less accumulated depreciation for:					
Land improvements	(1,395,396)	(139,776)			(1,535,172)
Buildings and improvements	(2,178,831)	(150,455)			(2,329,286)
Furniture and equipment	(13,971,840)	(865,921)	41,244		(14,796,517)
Vehicles	(981,077)	(196,434)			(1,177,511)
Infrastructure	(110,388,893)	(4,617,089)			(115,005,982)
	<u>(128,916,037)</u>	<u>(5,969,675)</u>	<u>41,244</u>		<u>(134,844,468)</u>
Net capital assets being depreciated	<u>171,102,327</u>	<u>(5,754,128)</u>	<u>(173,944)</u>	<u>2,359,369</u>	<u>167,533,624</u>
Total Business-type activity capital assets, net	<u>\$190,136,187</u>	<u>\$20,515,023</u>	<u>(\$4,993,220)</u>		<u>\$205,657,990</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2013 was as follows:

Business-Type Activities	
Water	\$1,811,584
Sewer	3,860,995
Transportation	<u>297,096</u>
Total Business-Type Activities	<u><u>\$5,969,675</u></u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 7 - LONG TERM DEBT

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

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Fund Financial Statements

The Governmental Fund Financial Statements do not include long-term debt, as this liability is not payable in the current period. The face amount of debt issued and any premiums received are reported as other financing sources, while discounts are reported as other financing uses.

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

Bond Issuance Costs, Original Issue Discounts and Premiums and Deferred Charge on Refunding

For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any differences between proprietary refunded debt and the debt issued to refund it is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.)

The deferred charge on refunding was previously reported as a component of the long-term debt balance. With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, the balance of deferred charge on refunding is to be reported as an asset or liability, as applicable. Another provision of GASB Statement No. 65 requires that bond issuance costs, other than prepaid insurance, be expensed in the year incurred. As a result of the implementation, bond issuance costs as of July 1, 2012 in the amounts of \$153,175 and \$336,753 in the Water Enterprise Fund and Sewer Enterprise Fund, respectively, have been removed and net position of the funds have been reduced and restated in those amounts. In addition, during fiscal year 2013, the City determined that bond issuance costs in the amount of \$132,383 had been included in the amount reported as the unamortized bond premium of the 2008 Water Revenue Bonds, and that amount has been removed and net position of the Water Enterprise Fund has also been reduced and restated in that amount.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 7 - LONG TERM DEBT (Continued)

A. Current Year Governmental Activities Transactions and Balances

The City's governmental debt issues and transactions are summarized below and discussed in detail thereafter.

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2012 (as restated)	Retirements	Balance June 30, 2013	Due Within One Year	Due in More Than One Year
Loans Payable:						
California Energy Commission	\$265,454	\$79,663	\$30,934	\$48,729	\$32,167	\$16,562
Capital Leases:						
2000 Regional Sports Complex	1,000,000	271,012	85,206	185,806	90,238	95,568
2002 City Hall Addition	1,200,000	495,431	90,119	405,312	94,394	310,918
Total Capital Leases	2,200,000	766,443	175,325	591,118	184,632	406,486
Total Governmental Activity Debt	\$2,465,454	\$846,106	\$206,259	\$639,847	\$216,799	\$423,048

Loans Payable

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.

Capital Leases

2000 Regional Sports Complex

In January 2000 the City entered into a \$1,000,000 lease – lease buy back agreement with Calcase 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.

At June 30, 2013, the City's capital leases were related to capitalized assets totaling \$5,062,998 with accumulated depreciation of \$1,443,088. 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
For the Year Ended June 30, 2013

NOTE 7 - LONG TERM DEBT (Continued)

2002 City Hall Addition

In March 2002 the City entered into a \$2,400,000 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.

Annual debt service requirements for governmental debt are shown below:

For the Year Ending June 30	Governmental Activities				Total	
	Loans Payable		Capital Leases		Principal	Interest
	Principal	Interest	Principal	Interest		
2014	\$32,167	\$1,612	\$184,632	\$26,723	\$216,799	\$28,335
2015	16,562	325	194,442	16,913	211,004	17,238
2016			103,565	8,745	103,565	8,745
2017			108,479	3,831	108,479	3,831
Total	\$48,729	\$1,937	\$591,118	\$56,212	\$639,847	\$58,149

B. Current Year Business-type Transactions and Balances

The City's business-type debt issues and transactions are summarized below and discussed in detail thereafter:

Business-type Activity Debt:	Original Issue	Balance	Additions	Retirements	Balance	Due	Due in
	Amount	June 30, 2012 (as restated)					
Revenue Bonds:							
1999 Sewer Revenue	\$22,400,000	\$16,470,000		\$16,470,000			
Less: Unamortized bond discount		(306,881)		(306,881)			
2003A Sewer Revenue	51,185,000	43,355,000		43,355,000			
Less: Unamortized bond discount		(220,142)		(220,142)			
2012 Sewer Revenue	51,915,000		\$51,915,000		\$51,915,000	\$1,865,000	\$50,050,000
Add: Unamortized bond premium			3,846,298	(152,631)	3,693,667		3,693,667
2008 Water Revenue	32,365,000	29,950,000		650,000	29,300,000	670,000	28,630,000
Add: Unamortized bond premium		9,792		(380)	9,412		9,412
Loans Payable:							
State Revolving Fund Loan - TRWQCF Upgrade	11,627,506		11,627,506		11,627,506		11,627,506
State Revolving Fund Loan - Harding Drain By-Pass	9,756,424		9,756,474		9,756,474		9,756,474
Total Revenue Bonds and Loans Payable	179,248,930	89,257,769	77,145,278	59,794,966	106,302,059	2,535,000	103,767,059
Capital Lease:							
2002 City Hall Addition	1,200,000	495,432		90,120	405,312	94,394	310,918
Total Business-type Activity Debt	\$180,448,930	\$89,753,201	\$77,145,278	\$59,885,086	\$106,707,371	\$2,629,394	\$104,077,977

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 7 - LONG TERM DEBT (Continued)

Revenue Bonds

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.

2012 Sewer Revenue Bonds

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

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 the 1999, 2003A and 2012 bonds. Based on fiscal year 2012-13 net system revenues of \$8,045,724, annual principal and interest payments (totaling \$1,070,488 in 2012-13) were 13.3% of net system revenues.

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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 7 - LONG TERM DEBT (Continued)

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 2012-13 net system revenues of \$3,938,611, annual principal and interest payments (totaling \$2,031,663) were 51.6% of net system revenues.

Loans Payable

State Revolving Fund Loans

The City entered into two agreements with the California State Water Resources Control Board for State Revolving Fund project financing.

The first agreement was executed in December 2011 in the amount of \$20 million to fund the Harding Drain Bypass project. The agreement was amended in October 2012 to reduce the project funding to \$15,811,425. Under the terms of the amended loan, the City was to start construction no later than May 21, 2012, and construction is expected to be completed by January 1, 2014, with project completion on March 1, 2014. The loan bears annual interest of 2.2%, and annual principal and interest payments are due January 1, 2015 through January 1, 2034. During fiscal year 2013, the City expended \$9,756,474 on the project and drew down loan proceeds in the same amount.

The second agreement was executed in April 2012 in the amount of \$24 million to fund the Turlock Regional Water Quality Control Facility (TRWQCF) upgrade and expansion project. The agreement was amended in January 2013 to increase the project funding to \$26,187,900. Under the terms of the TRWQCF loan, the City was to start construction no later than July 12, 2012, and construction is expected to be completed by December 1, 2014, with project completion on March 1, 2015. The loan bears annual interest of 2.2%, and annual principal and interest payments are due December 1, 2015 through December 1, 2034. During fiscal year 2013, the City expended \$11,627,506 on the project and drew down loan proceeds in the same amount.

Capital Leases

2002 City Hall Addition

In March 2002 the City entered into a \$2,400,000 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
For the Year Ended June 30, 2013

NOTE 7 - LONG TERM DEBT (Continued)

Debt Service Requirements

Annual debt service requirements for business-type debt are shown below:

For the Year Ending June 30	Business-Type Activities				Total	
	Bonds and Loans Payable		Capital Lease		Principal	Interest
	Principal	Interest	Principal	Interest		
2014	\$2,535,000	\$3,379,287	\$94,394	\$17,914	\$2,629,394	\$3,397,201
2015	2,613,313	3,656,524	98,874	13,436	2,712,187	3,669,960
2016	3,105,459	4,221,686	103,566	8,744	3,209,025	4,230,430
2017	3,751,907	3,574,486	108,478	3,830	3,860,385	3,578,316
2018	3,887,190	3,439,105			3,887,190	3,439,105
2019-2023	21,711,248	14,942,220			21,711,248	14,942,220
2024-2028	24,680,009	10,383,435			24,680,009	10,383,435
2029-2033	26,445,679	5,675,912			26,445,679	5,675,912
2034-2038	13,869,175	1,476,211			13,869,175	1,476,211
Total	102,598,980	<u>\$50,748,866</u>	<u>\$405,312</u>	<u>\$43,924</u>	103,004,292	<u>\$50,792,790</u>
Add: Unamortized Bond Premium		<u>3,703,079</u>			<u>3,703,079</u>	
Net long-term debt		<u>\$106,302,059</u>			<u>\$106,707,371</u>	

C. *Defeased Bonds*

As of June 30, 2013, outstanding balance of the defeased 2003A Sewer Revenue Bonds was \$42,205,000.

D. *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 \$3,220,000 at June 30, 2013.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 8 – NET POSITION AND FUND BALANCES

Net Position is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis, as explained in Note 1D.

A. Net Position

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter.

Unrestricted describes the portion of Net Position that does not meet the definition of "net investment in capital assets" or "restricted net position."

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources. Portions of a fund's balance may be restricted, committed or assigned for future expenditure.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee, the City Manager. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue and Capital Projects which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

Fund Balance Classifications	General Fund	<u>Special Revenue</u>	<u>Capital Projects</u>	Other Governmental Funds	Total
		Former LMI Housing Fund	Facility Fees		
Nonspendable:					
Items not in spendable form:					
Prepaid expenditures	\$5,521				\$5,521
Loans receivable	16,477				\$16,477
Due from developers	20,041		\$204,671		224,712
Total Nonspendable Fund Balances	42,039		204,671		246,710
Restricted for:					
Low and moderate income housing				\$722,126	722,126
Capital expenditures			9,850,865		9,850,865
Development impact fees					
Resource conservation				709,861	709,861
Assessment districts				10,701,725	10,701,725
Public safety				165,355	165,355
Development impact fees				79,482	79,482
Total Restricted Fund Balances			9,850,865	12,378,549	22,229,414
Committed to:					
Public Safety	713,503			79,010	792,513
Parks and recreation				42,083	42,083
Resource conservation				185,218	185,218
Tourism	99,246				99,246
Future deficit spending	1,548,269				1,548,269
Capital expenditures	2,292,171			13,051,263	15,343,434
Total Committed Fund Balances	4,653,189			13,357,574	18,010,763
Assigned to:					
Compensated absences	2,197,225				2,197,225
Total Assigned Fund Balances	2,197,225				2,197,225
Unassigned:					
General Fund	9,098,672				9,098,672
Other governmental fund deficits		(\$10,161)		(1,165,969)	(1,176,130)
Total Unassigned Fund Balances	9,098,672	(10,161)		(1,165,969)	7,922,542
Total Fund Balances	\$15,991,125	(\$10,161)	\$10,055,536	\$24,570,154	\$50,606,654

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

C. *Emergency/Contingency Reserve*

The City established a General Fund Emergency/Contingency Reserve with Resolution 2011-123. As of June 30, 2013, the Emergency/Contingency Reserve, which is reported within the unassigned fund balance of the General Fund, had a balance of \$6,500,000.

D. *Fund Balance/Net Position Deficits*

The following funds had deficit fund balances or net position as of June 30, 2013. The deficits will be eliminated by future revenues.

Major Governmental Fund:	
Former LMI Housing Special Revenue Fund	\$10,161
Non Major Governmental Funds:	
Gas Tax/Street Improvement Special Revenue Fund	694,727
Housing Stimulus Special Revenue Fund	14,562
Stanislaus Housing Consortium Special Revenue Fund	6,730
East Tuolumne Master Plan Capital Projects Fund	158,000
Non Major Enterprise Fund:	
Building & Safety Enterprise Fund	721,626
Fiduciary Fund:	
Successor Agency Private Purpose Trust Fund	27,048,167

E. *Fund Balance and Net Position Restatements*

The Airport Fund, which was previously reported as an Enterprise Fund, has been recategorized as a Capital Projects Fund as of July 1, 2012. As a result of the recategorization, capital assets in the amount of \$2,256,839 previously reported in the Airport Enterprise Fund are now included in Governmental Activities capital assets, and net position of Business-Type Activities have been reduced and restated in the amount of \$2,347,874 and net position of Governmental Activities have been increased and restated in the same amount.

During fiscal year 2013, the City determined that the balance of the Economic Development Bank Loan in the amount of \$889,305 should have been recorded in the Successor Agency Private Purpose Trust Fund instead of being recorded as long-term debt of the City. Therefore beginning net position has been restated and increased in the amount of \$889,305 in the Governmental Activities on the Statement of Activities and restated and decreased by the same amount in the Successor Agency Private Purpose Trust Fund.

During fiscal year 2013, the City changed its accounting policy related to unspent funding allocations and analyzed the balances of unearned revenue in the Gas Tax/Street Improvement Special Revenue Fund and the Transit Enterprise Fund and determined that the balances were more appropriately reported as unearned revenue rather than restricted fund balance/net position. Therefore, the balance of unearned revenue in the Gas Tax/Street Improvement Special Revenue Fund as of July 1, 2012 has been increased and fund balance has been reduced and adjusted in the amount of \$218,247, and the balance of unearned revenue in the Transit Enterprise Fund as of July 1, 2012 has been increased and net position has been reduced and adjusted in the amount of \$1,942,524.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 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. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2013, are summarized as follows:

	Miscellaneous	
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of annual salary	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	19.237%	19.237%

	Safety - Fire	
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of annual salary	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	28.904%	11.50%

	Safety - Police	
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of annual salary	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	30.278%	11.50%

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 9 - RETIREMENT PLAN (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Cost Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liabilities. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$4,373,434	100%	-
June 30, 2012	5,208,724	100%	-
June 30, 2013	5,414,920	100%	-

CALPERS uses the market related value method of valuing the Plan's assets. For the most recent actuarial report, as of June 30, 2012, an investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and is amortized annually over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City's Police and Fire Safety Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The estimated balances of the Police Safety Plan Side Fund and the Fire Safety Plan Side Fund were \$3,856,968 and \$1,945,980, respectively, as of June 30, 2013. For the Police Safety Plan, the City will satisfy its Plan's unfunded liability by contributing to the Side Fund through an addition to its normal contribution rates over the next 11 years. For the Fire Safety Plan, the City will satisfy its Plan's unfunded liability by contributing to the Side Fund through an addition to its normal contribution rates over the next 12 years.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available are set forth below at their actuarial valuation date of June 30 for the Miscellaneous Plan and the Safety State-wide pools:

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 9 - RETIREMENT PLAN (Continued)

Miscellaneous Plan:

Actuarial						
Valuation Date June 30	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	\$85,536,258	\$65,593,400	\$19,942,858	76.7%	\$13,747,656	145.1%
2011	92,422,591	70,352,214	22,070,377	76.1%	13,048,348	169.1%
2012	98,144,895	74,608,606	23,536,289	76.0%	12,990,688	181.2%

State-wide 3% at 50 Pool:

Actuarial						
Valuation Date June 30	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	\$10,165,475,166	\$8,470,235,152	\$1,695,240,014	83.3%	\$955,980,815	177.3%
2011	10,951,745,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%
2012	11,724,021,480	9,854,787,710	1,869,233,770	84.1%	947,734,809	197.2%

Actuarial information is not yet available for the State-wide Miscellaneous 2% at 62 Pool or the State-wide Safety 2.7% at 57 Pool. Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709. CALPERS usually reports information for each fiscal year seventeen months after the end of that fiscal year.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS

A. Defined Benefit Plans

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

<u>Plan</u>	<u>Covered Employee Group</u>	<u>Employer</u>
Management/Confidential	Employees covered by the Management and/or Confidential Employees Schedule of Benefits	2.5% of base salary
Miscellaneous	Employees covered by Turlock City Employees Association MOU	2% of base salary
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

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 employment plan. The City currently has 35 retirees who have chosen to remain on the City’s health plan post employment. The health insurance premium assistance described in this paragraph is referred to as the “offset benefit” below.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funding Policy – Funding varies with each plan. For the Management/Confidential and Miscellaneous plans, the City sets aside the contributions as required by the respective MOU or Schedule in a separate general ledger fund for each plan. The City did not initially establish irrevocable trusts for these plans. During 2011-12, the City began transitioning both these plans to defined contribution plans. Periodic contributions for the Management/Confidential plan were deposited into individual accounts beginning in July 2011 and beginning in April 2012 for the Miscellaneous plan. The City also began the process of distributing the plans' existing assets (cash) to individual accounts and that process was completed by June 2013. Therefore, the City no longer administers the offset plan for the Management/Confidential and Miscellaneous plans as they have been converted entirely to defined contribution plans and the plan beneficiaries (current employees and/or retirees) will administer their own individual accounts, as discussed in Note 10B. The transfer of assets and contributions to individual accounts satisfies the City's obligation for benefits and there is no remaining unfunded obligation on the part of the City.

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 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 from the contributions received as well as the general plan administration. The City does not have any responsibility for nor involvement in these activities. Under the terms of the Police and Fire MOUs, the City is obligated to make current year contributions to the respective trusts based on the 3% and 4% of personnel costs for Police and Fire, respectively. Management believes the City has no obligation to make any additional contributions to the trusts beyond the above amounts, and therefore no remaining unfunded actuarial accrued liability the City is obligated to fund. During fiscal year 2013, the City determined that the annual OPEB cost for the Police and Fire plans should have equaled the prior contributions to the respective plans and as a result, the net OPEB obligation (asset) for the Police and Fire plans in the amounts of \$1,204,343 and (\$526,014), respectively, have been restated and Governmental Activities net position has been increased and reduced, respectively, in those amounts.

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. For the Management/Confidential and Miscellaneous offset plans, the current year activity represents the write off of the net OPEB obligation (asset) to reflect the conversion of these two plans to defined contribution plans as discussed in Note 10B. The amounts reported for the Police and Fire offset plans are based on the contributions required under each memorandum of understanding and the amounts contributed for the 2012-13 fiscal year. The amounts reported for the healthcare plans are based on actuarial valuations dated July 1, 2011 and amounts contributed for the 2012-13 fiscal year. The table is broken out between the offset benefit and the City's health care plan.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

OFFSET PLAN	Management/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution			\$283,603	\$184,743	\$468,346
Interest on net OPEB obligation					
Adjustments					
Annual OPEB cost (expense)			283,603	184,743	468,346
Contributions to irrevocable trust			(283,603)	(184,743)	(468,346)
Balances distributed to individual accounts	\$105,858	(\$59,062)			46,796
Increase (decrease) in NOO	105,858	(59,062)			46,796
Net OPEB obligation (asset) - beginning, as restated	(105,858)	59,062			(46,796)
Net OPEB obligation (asset) - ending					
HEALTH CARE PLAN	Management/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$113,156	\$598,067	\$253,380	\$200,696	\$1,165,299
Interest on net OPEB obligation	(26,387)	54,118	8,201	(8,741)	27,191
Adjustments	37,830	(77,588)	(11,757)	12,532	(38,983)
Annual OPEB cost (expense)	124,599	574,597	249,824	204,487	1,153,507
Premiums paid by retirees	(116,069)	(133,799)	(103,179)	(151,885)	(504,932)
Benefits payments	(302,863)	(295,747)	(44,542)	(204,382)	(847,534)
Increase (decrease) in NOO	(294,333)	145,051	102,103	(151,780)	(198,959)
Net OPEB obligation (asset) - beginning	(586,370)	1,202,616	182,238	(194,244)	604,240
Net OPEB obligation (asset) - ending	(\$880,703)	\$1,347,667	\$284,341	(\$346,024)	\$405,281

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 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 2012-13 fiscal year are as follows:

<u>OFFSET PLAN</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation</u>
Management/Confidential			
2010-11	\$59,137	78.40%	\$64,770
2011-12	\$49,158	447.10%	(\$105,858)
2012-13	\$0	n/a	\$0
Miscellaneous			
2010-11	\$141,861	45.19%	\$321,338
2011-12	\$125,090	309.67%	\$59,062
2012-13	\$0	n/a	\$0
Police			
2010-11	\$287,376	100.00%	\$0
2011-12	\$297,550	100.00%	\$0
2012-13	\$283,603	100.00%	\$0
Fire			
2010-11	\$132,989	100.00%	\$0
2011-12	\$193,227	100.00%	\$0
2012-13	\$184,743	100.00%	\$0

<u>HEALTH CARE PLAN</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Management/Confidential			
2010-11	\$106,138	362.30%	(\$386,297)
2011-12	\$120,179	266.48%	(\$586,370)
2012-13	\$124,599	336.22%	(\$880,703)
Miscellaneous			
2010-11	\$580,964	49.87%	\$952,509
2011-12	\$580,752	56.93%	\$1,202,616
2012-13	\$574,597	74.76%	\$1,347,667
Police			
2010-11	\$241,290	84.96%	\$92,301
2011-12	\$251,703	64.27%	\$182,238
2012-13	\$249,824	59.13%	\$284,341
Fire			
2010-11	\$163,715	206.87%	(\$5,022)
2011-12	\$200,787	194.24%	(\$194,244)
2012-13	\$204,487	174.22%	(\$346,024)

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Defined Contribution Plans

During fiscal year 2013, the City completed the conversion of the former Management/Confidential and Miscellaneous defined benefit offset plans discussed in Note 10A to defined contribution plans.

Plan Description – The City has two post-employment health care defined contribution 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 plans and the City’s funding obligation for each plan are as follows:

Plan	Covered Employee Group	Funding Obligation	
		Employer	Employee
Management/Confidential	Employees covered by the Management and/or Confidential Employees Schedule of Benefits	2.5% of base salary	\$0
Miscellaneous	Employees covered by Turlock city Employees Association MOU	2% of base salary	0.5% of gross salary

The administration of benefits for each plan rests with the individual plan administrators. The administrator for each plan is ICMA.

There are no vesting requirements to be eligible to use these funds post-employment. 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, as discussed in Note 10A above.

Contributions to each plan during fiscal year 2012-13 were as follows:

Plan	Contributions	
	Employer	Employee
Management/Confidential	\$138,631	\$0
Miscellaneous	143,567	103,419

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 11 - 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 workers' compensation and employee health care.

The City uses a reinsurance agreement to reduce its exposure to large losses under the workers' compensation program. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the City as direct insurer of the risks reinsured. The City does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums paid to reinsurers during the year ended June 30, 2013 were \$93,251, and the City's deductible under the policy is \$1 million for police or fire claims and \$750,000 for all other claims, with coverage up to the statutory limit.

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 City participates in the following pooled coverages through CSJVRMA:

<u>Type of Coverage (Deductible)</u>	<u>Coverage Limits</u>
Liability (\$100,000)	\$29,000,000
Property (\$25,000 to \$50,000)	Various sublimits to \$50,000,000
Automobile (\$500)	25,000
Auto Physical Damage (\$500)	10,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000

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 \$596,828 and received \$135,191 in refunds during the fiscal year ended June 30, 2013. Settled claims have not exceeded commercial excess liability coverage in any of the past three fiscal years.

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.

<u>For the Year Ended June 30,</u>	<u>Claims Payable July 1</u>	<u>Fiscal Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Claims Payable June 30</u>
2011	\$2,764,290	\$6,835,055	(\$6,835,055)	\$2,764,290
2012	2,764,290	9,032,802	(8,363,988)	3,433,104
2013	3,433,104	6,170,520	(5,691,915)	3,911,709

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. *Litigation*

As of June 30, 2013, 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.

B. *Federal and State Grant Programs*

The City participates in several Federal and State grant programs. These programs are subject to audit by the City's independent accountants in accordance with the provisions of the federal Single Audit Act as amended and applicable State requirements. No cost disallowances have been proposed as a result of audits completed to date; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 13 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. *REDEVELOPMENT DISSOLUTION*

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

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 13 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

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

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

AB1484 required the Successor Agency to complete two due diligence reviews – one for the low and moderate income housing assets of the Successor Agency (Housing DDR), and a second for all other balances of the Successor Agency (Non-housing DDR). The due diligence reviews are to calculate the balance of unencumbered balances as of June 30, 2012 available to be remitted to the County for disbursement to taxing entities. The Successor Agency submitted both due diligence reviews to the State Department of Finance for review and approval. The Department of Finance did not initially approve the Housing DDR, which indicated that the Successor Agency had no funds available for distribution, and the State made adjustments to the Housing DDR and instead made a demand for the return of funds totaling \$1,001,062, which were held by the City's Former LMI Housing Fund. The City remitted that amount to the County in December 2012, which has been reported as an extraordinary item in the accompanying financial statements. The Department of Finance did not initially approve the Non-housing DDR, which indicated that the Successor Agency had no funds available for distribution, and although the State made adjustments to the Non-housing DDR, the adjusted balance still indicated that there were no funds available for distribution. The Successor Agency received its Finding of Completion in April 2013 which means it can now utilize bond proceeds for projects consistent with the original bond covenants, and the Successor Agency reimbursed the City \$6,958,570 for project costs during fiscal year 2013.

Cash and investments of the Successor Agency as of June 30, 2013 are discussed in Note 3. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2013.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 13 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

B. CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Successor Agency’s policy is to capitalize all assets with costs exceeding \$5,000 and with useful lives exceeding five years.

Capital assets at June 30, 2013 were comprised of:

	Balance at June 30, 2012	Additions	Balance at June 30, 2013
Capital assets not being depreciated:			
Land	\$1,882,435		\$1,882,435
Total capital assets not being depreciated	<u>1,882,435</u>		<u>1,882,435</u>
Capital assets being depreciated:			
Land improvements	8,647,404		8,647,404
Furniture and equipment	40,361		40,361
Infrastructure	<u>62,624</u>		<u>62,624</u>
Total capital assets being depreciated	<u>8,750,389</u>		<u>8,750,389</u>
Less accumulated depreciation for:			
Land improvements	(1,453,549)	(\$144,174)	(1,597,723)
Furniture and equipment	(40,361)		(40,361)
Infrastructure	<u>(25,930)</u>	<u>(2,088)</u>	<u>(28,018)</u>
Total accumulated depreciation	<u>(1,519,840)</u>	<u>(146,262)</u>	<u>(1,666,102)</u>
Net capital assets being depreciated	<u>7,230,549</u>	<u>(146,262)</u>	<u>7,084,287</u>
Governmental activity capital assets, net	<u>\$9,112,984</u>	<u>(\$146,262)</u>	<u>\$8,966,722</u>

C. LONG-TERM OBLIGATIONS

1. Current Year Transactions and Balances

The following bonds are obligations of the Authority payable from and secured by loan payments made by the former Turlock Redevelopment Agency. The bonds are secured by the tax increment revenues of the former RDA and have been transferred to the Successor Agency for the former Turlock Redevelopment Agency. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County’s Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. In addition, under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations. The outstanding balances as of June 30, 2013 are as follows:

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 13 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

	Original Issue Amount	Balance June 30, 2012 (as restated)	Retirements	Balance June 30, 2013	Due Within One Year	Due in More Than One Year
Revenue Bonds:						
1999 Revenue Bonds	\$4,970,000	\$3,085,000	\$170,000	\$2,915,000	\$180,000	\$2,735,000
2006 Tax Allocation Revenue Bonds	25,440,000	23,665,000	410,000	23,255,000	430,000	22,825,000
Add: Unamortized bond premium		373,447	(15,453)	357,994		357,994
2011 Tax Allocation Revenue Bonds	15,300,000	15,010,000		15,010,000		15,010,000
Less: Unamortized bond discount		(97,322)	3,528	(93,794)		(93,794)
Loan Payable:						
Economic Development Bank	889,305	889,305		889,305	127,044	762,261
Total Successor Agency Debt	<u>\$46,599,305</u>	<u>\$42,925,430</u>	<u>\$568,075</u>	<u>\$42,333,505</u>	<u>\$737,044</u>	<u>\$41,596,461</u>

2. 1999 Revenue Bonds

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 former 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.

3. 2006 Tax Revenue Allocation Bonds

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 former City of Turlock Redevelopment Agency (Agency) to be used to finance various infrastructure projects to be constructed within the Agency's project area boundaries. Agency tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 4.0% - 5.0%, have semi-annual principal and interest payments on the first of March and September through September 2036.

4. 2011 Tax Revenue Allocation Bonds

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 former Agency to be used to provide financing assistance for the construction of a new public safety facility in the City's downtown area. As with the bond issuances noted above, the Agency's tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 13 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

5. *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 West 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. The project was completed in September 2011 and repayment will begin in January 2014.

6. *Bond Issuance Costs, Original Issue Discounts and Premiums and Deferred Charge on Refunding*

For private-purpose trust fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any differences between proprietary refunded debt and the debt issued to refund it is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.

The deferred charge on refunding was previously reported as a component of the long-term debt balance. With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, the balance of deferred charge on refunding is to be reported as an asset or liability, as applicable. Another provision of GASB Statement No. 65 requires that bond issuance costs, other than prepaid insurance, be expensed in the year incurred. As a result of the implementation, bond issuance costs as of July 1, 2012 in the amount of \$672,421 in the Successor Agency Trust Fund, have been removed and net position of the fund has been reduced and restated in that amount.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 13 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

7. Debt Service Requirements

Debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Successor Agency								
	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		2011 Tax Allocation Revenue Bonds		Economic Development Bank Loan Payable	Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2014	\$180,000	\$153,023	\$430,000	\$1,106,941		\$1,069,144	\$127,044	\$737,044	\$2,329,108
2015	185,000	143,441	450,000	1,087,141	\$260,000	1,063,619	127,044	1,022,044	2,294,201
2016	195,000	133,466	470,000	1,066,441	270,000	1,051,681	127,044	1,062,044	2,251,588
2017	210,000	122,624	490,000	1,046,066	280,000	1,038,269	127,044	1,107,044	2,206,959
2018	220,000	110,907	510,000	1,026,066	295,000	1,023,340	127,044	1,152,044	2,160,313
2019-2023	1,300,000	355,614	2,875,000	4,789,937	1,740,000	4,824,969	254,085	6,169,085	9,970,520
2024-2028	625,000	34,471	4,635,000	3,992,575	1,400,000	4,268,049		6,660,000	8,295,095
2029-2033			6,710,000	2,542,500	1,665,000	3,740,038		8,375,000	6,282,538
2034-2038			6,685,000	688,875	5,265,000	2,808,938		11,950,000	3,497,813
2039-2040					3,835,000	207,562		3,835,000	207,562
Total	\$2,915,000	\$1,053,546	23,255,000	\$17,346,542	15,010,000	\$21,095,609	\$889,305	42,069,305	\$39,495,697
Add: Unamortized Bond Premium								357,994	
Less: Unamortized Bond (Discount)								(93,794)	
Net long-term debt								<u>\$42,333,505</u>	

D. COMMITMENTS AND CONTINGENCIES

1. State Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

2. State Asset Transfer Review

The activities of the former Redevelopment Agency and the Successor Agency are subject to further examination by the State of California and the amount, if any, of expenditures which may be disallowed by the State cannot be determined at this time. In addition, the State Controller's Office will be conducting a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011 and the amount, if any, of assets that may be required to be returned to the Successor Agency cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**MAJOR GOVERNMENTAL FUND, OTHER THAN
GENERAL FUND AND SPECIAL REVENUE FUNDS**

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 developments, 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
FACILITY FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES:				
Use of money and property	\$58,000	\$58,000	\$25,695	(\$32,305)
Charges for current services	655,800	655,800	891,911	236,111
Other			12,207	12,207
	<u>713,800</u>	<u>713,800</u>	<u>929,813</u>	<u>216,013</u>
EXPENDITURES:				
Current:				
General government	357,371	375,705	178,110	197,595
Public safety	600	600	402	198
Public ways and facilities/transportation	200	200	169	31
Capital outlay	<u>12,822,706</u>	<u>12,971,006</u>	<u>11,395,141</u>	<u>1,575,865</u>
Total Expenditures	<u>13,180,877</u>	<u>13,347,511</u>	<u>11,573,822</u>	<u>1,773,689</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(12,467,077)</u>	<u>(12,633,711)</u>	<u>(10,644,009)</u>	<u>1,989,702</u>
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust			6,893,170	6,893,170
Transfers in		170,000	155,896	(14,104)
Transfers (out)	<u>(351,805)</u>	<u>(633,505)</u>	<u>(557,463)</u>	<u>76,042</u>
Total Other Financing Sources (Uses)	<u>(351,805)</u>	<u>(463,505)</u>	<u>6,491,603</u>	<u>6,955,108</u>
NET CHANGE IN FUND BALANCE	<u>(\$12,818,882)</u>	<u>(\$13,097,216)</u>	(4,152,406)	<u>\$8,944,810</u>
BEGINNING FUND BALANCE			<u>14,207,942</u>	
ENDING FUND BALANCE			<u>\$10,055,536</u>	

NON-MAJOR GOVERNMENTAL FUNDS

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

Gas Tax/Street Improvement

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

Integrated Waste Management (AB939)

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

Development Impact Fees

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

Equipment Replacement

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

Lighting & Landscaping Assessment Districts

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

CDBG, State HOME Program, and Housing Stimulus Funds

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

Stanislaus County Housing Consortium

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

North Turlock Master Plan

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

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

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.

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CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

SPECIAL REVENUE FUNDS

	Asset Forfeitures	Gas Tax/ Street Improvement	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
ASSETS					
Cash and investments	\$22,050	\$12,204	\$876,838	\$61,960	\$68,019
Accounts receivables		669,954	18,817		6,180
Interest receivable			521		
Loans receivable					
Total Assets	<u>\$22,050</u>	<u>\$682,158</u>	<u>\$896,176</u>	<u>\$61,960</u>	<u>\$74,199</u>
LIABILITIES					
Accounts payable	\$5,000	\$900,852	\$596		\$11,552
Payroll payable		13,760	501		6,564
Due to other funds		462,273			
Unearned revenue		298,680			14,000
Total Liabilities	<u>5,000</u>	<u>1,675,565</u>	<u>1,097</u>		<u>32,116</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue					
FUND BALANCE					
Fund balance:					
Nonspendable					
Restricted			709,861		
Committed	17,050		185,218	\$61,960	42,083
Assigned					
Unassigned		(993,407)			
Total Fund Balances (Deficit)	<u>17,050</u>	<u>(993,407)</u>	<u>895,079</u>	<u>61,960</u>	<u>42,083</u>
Total Liabilities and Fund Balances	<u>\$22,050</u>	<u>\$682,158</u>	<u>\$896,176</u>	<u>\$61,960</u>	<u>\$74,199</u>

SPECIAL REVENUE FUNDS

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$14,909 137	\$4,199,037 2,415	\$3,085,701 27,958	\$612,806 365	\$625,022 373	\$10,638,387 68,424 6,336	\$55,088
<u>\$15,046</u>	<u>\$4,201,452</u>	<u>\$3,113,659</u>	<u>\$613,171</u>	<u>\$625,395</u>	<u>\$10,713,147</u>	<u>\$55,088</u>
\$982	\$6,047	\$104,946			\$50,354 16,156	
<u>982</u>	<u>6,047</u>	<u>104,946</u>			<u>66,510</u>	
14,064	4,195,405	3,008,713	\$613,171	\$625,395	10,646,637	\$55,088
<u>14,064</u>	<u>4,195,405</u>	<u>3,008,713</u>	<u>613,171</u>	<u>625,395</u>	<u>10,646,637</u>	<u>55,088</u>
<u>\$15,046</u>	<u>\$4,201,452</u>	<u>\$3,113,659</u>	<u>\$613,171</u>	<u>\$625,395</u>	<u>\$10,713,147</u>	<u>\$55,088</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

SPECIAL REVENUE FUNDS

	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus County Housing Consortium
ASSETS					
Cash and investments	\$77,348	\$52,262	\$696,667		\$9,180
Accounts receivables	2,134	1,882		\$3,085	\$415,795
Interest receivable					
Loans receivable		5,945,155	3,818,770	212,799	5,138,575
Total Assets	<u>\$79,482</u>	<u>\$5,999,299</u>	<u>\$4,515,437</u>	<u>\$215,884</u>	<u>\$5,563,550</u>
LIABILITIES					
Accounts payable		\$20,223	\$1,203		\$21,296
Payroll payable		9,708			1,926
Due to other funds				\$17,647	399,303
Unearned revenue					
Total Liabilities		<u>29,931</u>	<u>1,203</u>	<u>17,647</u>	<u>422,525</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue		5,945,156	3,818,770	212,799	5,138,575
FUND BALANCE					
Fund balance:					
Nonspendable					
Restricted	\$79,482	24,212	695,464		2,450
Committed					
Assigned					
Unassigned				(14,562)	
Total Fund Balances (Deficit)	<u>79,482</u>	<u>24,212</u>	<u>695,464</u>	<u>(14,562)</u>	<u>2,450</u>
Total Liabilities and Fund Balances	<u>\$79,482</u>	<u>\$5,999,299</u>	<u>\$4,515,437</u>	<u>\$215,884</u>	<u>\$5,563,550</u>

SPECIAL REVENUE FUND	CAPITAL PROJECTS					
Grant Funds	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan	Turlock Regional Industrial Park
\$258,021 153,443	\$525,479 315	\$154,895 113	\$250,744	\$2,341,579 1,402	\$870,909 473	\$397,534
<u>\$411,464</u>	<u>\$525,794</u>	<u>\$155,008</u>	<u>\$250,744</u>	<u>\$2,342,981</u>	<u>\$871,382</u>	<u>\$397,534</u>
\$43,648 216,525	\$15,265		\$12			\$5,433
<u>260,173</u>	<u>15,265</u>		<u>12</u>			<u>5,433</u>
151,291	510,529	\$155,008	250,732	\$2,342,981	\$871,382	392,101
<u>151,291</u>	<u>510,529</u>	<u>155,008</u>	<u>250,732</u>	<u>2,342,981</u>	<u>871,382</u>	<u>392,101</u>
<u>\$411,464</u>	<u>\$525,794</u>	<u>\$155,008</u>	<u>\$250,744</u>	<u>\$2,342,981</u>	<u>\$871,382</u>	<u>\$397,534</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	CAPITAL PROJECTS		
	East Tuolumne Master Plan	Airport	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments		\$85,846	\$25,992,485
Accounts receivables			1,367,809
Interest receivable			12,313
Loans receivable			15,115,299
Total Assets	158,000	85,846	42,487,906
LIABILITIES			
Accounts payable			\$1,187,409
Payroll payable			48,615
Due to other funds	\$158,000		1,253,748
Unearned revenue			312,680
Total Liabilities	158,000		2,802,452
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue			15,115,300
Fund Balance			
Fund balance:			
Nonspendable			
Restricted			12,378,549
Committed		\$85,846	13,357,574
Assigned			
Unassigned	(158,000)		(1,165,969)
	(158,000)	85,846	24,570,154
Total Fund Balances (Deficit)	(158,000)	85,846	24,570,154
Total Liabilities and Fund Balances	158,000	85,846	42,487,906

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CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>SPECIAL REVENUE FUNDS</u>				
	<u>Asset Forfeitures</u>	<u>Gas Tax/ Street Improvement</u>	<u>Integrated Waste Mgmt (AB939)</u>	<u>Bicycle Safety</u>	<u>Sports Facilities</u>
REVENUES					
Taxes and assessments					
Licenses and permits				\$9,990	
Use of money and property		\$458	\$2,454		
Intergovernmental	\$14,447	2,882,223	74,439		
Charges for current services		106,895	72,563		\$271,063
Other		9,205	2,692		
	<u>14,447</u>	<u>2,998,781</u>	<u>152,148</u>	<u>9,990</u>	<u>271,063</u>
EXPENDITURES					
Current:					
General government			52,554		
Public safety	10,000			819	
Public ways and facilities/transportation		1,708,776			
Parks and recreation					556,314
Community development					
Capital outlay		3,516,909			
Debt service:					
Principal		30,934			
Interest and fiscal charges		2,845			
	<u>10,000</u>	<u>5,259,464</u>	<u>52,554</u>	<u>819</u>	<u>556,314</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>4,447</u>	<u>(2,260,683)</u>	<u>99,594</u>	<u>9,171</u>	<u>(285,251)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		538,022			277,847
Transfers (out)	(10,000)	(187,180)			(5,516)
	<u>(10,000)</u>	<u>350,842</u>			<u>272,331</u>
NET CHANGE IN FUND BALANCES					
	(5,553)	(1,909,841)	99,594	9,171	(12,920)
BEGINNING FUND BALANCES (DEFICITS)					
	<u>22,603</u>	<u>916,434</u>	<u>795,485</u>	<u>52,789</u>	<u>55,003</u>
ENDING FUND BALANCES (DEFICITS)					
	<u>\$17,050</u>	<u>(\$993,407)</u>	<u>\$895,079</u>	<u>\$61,960</u>	<u>\$42,083</u>

SPECIAL REVENUE FUNDS

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
		\$101,139			\$2,522,780	
	\$9,183		\$1,999	\$1,805	18,144	
\$18,366	57,835	290,910	14,835		12,455	
108		11,332			2,026	
18,474	67,018	403,381	16,834	1,805	2,555,405	
		30,401				
23,069	1,317	79,406				
	433,410	35,305	288,746		2,103,636	
		4,260				
		182,937				
	412	69,436			4,638	
	85,206					
	13,840					
23,069	534,185	401,745	288,746		2,108,274	
(4,595)	(467,167)	1,636	(271,912)	1,805	447,131	
		241,958				
		(115,309)	(32,500)		(61,901)	
		126,649	(32,500)		(61,901)	
(4,595)	(467,167)	128,285	(304,412)	1,805	385,230	
18,659	4,662,572	2,880,428	917,583	623,590	10,261,407	\$55,088
\$14,064	\$4,195,405	\$3,008,713	\$613,171	\$625,395	\$10,646,637	\$55,088

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	SPECIAL REVENUE FUNDS				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus Housing Consortium
REVENUES					
Taxes and assessments	\$468,156				
Licenses and permits	1,278				
Use of money and property					
Intergovernmental		\$765,415	\$236,089		\$852,042
Charges for current services			22,924	\$37,202	7,292
Other		347,558		493,754	
Total Revenues	469,434	1,112,973	259,013	530,956	859,334
EXPENDITURES					
Current:					
General government	14,181				
Public safety					
Public ways and facilities/transportation					
Parks and recreation					
Community development		1,175,655	239,015	267,522	893,867
Capital outlay					
Debt service:					
Principal					
Interest and fiscal charges					
Total Expenditures	14,181	1,175,655	239,015	267,522	893,867
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	455,253	(62,682)	19,998	263,434	(34,533)
OTHER FINANCING SOURCES (USES)					
Transfers in		148,628	4,926	7,367	35,541
Transfers (out)	(455,100)	(62,466)	(32,000)		(8,160)
Total Other Financing Sources (Uses)	(455,100)	86,162	(27,074)	7,367	27,381
NET CHANGE IN FUND BALANCES	153	23,480	(7,076)	270,801	(7,152)
BEGINNING FUND BALANCES (DEFICITS)	79,329	732	702,540	(285,363)	9,602
ENDING FUND BALANCES (DEFICITS)	\$79,482	\$24,212	\$695,464	(\$14,562)	\$2,450

SPECIAL REVENUE FUND	CAPITAL PROJECTS					
Grant Funds	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan	Turlock Regional Industrial Park
\$1,192	\$1,790					
1,468,448	1,637	\$491		\$4,701	\$1,891	
62,989		68,270				
9,096	6,751			344	994,065	\$316,295
<u>1,541,725</u>	<u>10,178</u>	<u>68,761</u>		<u>5,045</u>	<u>995,956</u>	<u>316,295</u>
826,788						
689,445	148,742			173	434,052	
78,220	33,964	32,364	\$23	134,457		21
<u>1,594,453</u>	<u>182,706</u>	<u>32,364</u>	<u>23</u>	<u>134,630</u>	<u>434,052</u>	<u>21</u>
(52,728)	(172,528)	36,397	(23)	(129,585)	561,904	316,274
65,389	25,000					
(103,255)				(35,000)	(60,000)	(42,500)
(37,866)	25,000			(35,000)	(60,000)	(42,500)
(90,594)	(147,528)	36,397	(23)	(164,585)	501,904	273,774
241,885	658,057	118,611	250,755	2,507,566	369,478	118,327
<u>\$151,291</u>	<u>\$510,529</u>	<u>\$155,008</u>	<u>\$250,732</u>	<u>\$2,342,981</u>	<u>\$871,382</u>	<u>\$392,101</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>CAPITAL PROJECTS</u>		<u>Total Nonmajor Funds</u>
	<u>East Tuolumne Master Plan</u>	<u>Airport</u>	
REVENUES			
Taxes and assessments			\$3,092,075
Licenses and permits			11,780
Use of money and property			45,233
Intergovernmental		\$10,000	6,371,373
Charges for current services			2,292,784
Other			875,771
			<u>875,771</u>
Total Revenues		<u>10,000</u>	<u>12,689,016</u>
Current:			
General government			97,136
Public safety			941,399
Public ways and facilities/transportation		5,947	5,158,787
Parks and recreation			1,250,019
Community development			2,759,019
Capital outlay		9,242	3,879,663
Debt service:			
Principal			116,140
Interest and fiscal charges			16,685
			<u>16,685</u>
Total Expenditures		<u>15,189</u>	<u>14,218,848</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		<u>(5,189)</u>	<u>(1,529,832)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in			1,344,678
Transfers (out)	(\$5,000)		(1,215,887)
			<u>1,344,678</u>
Total Other Financing Sources (Uses)	<u>(5,000)</u>		<u>128,791</u>
NET CHANGE IN FUND BALANCES	(5,000)	(5,189)	(1,401,041)
BEGINNING FUND BALANCES (DEFICITS)	<u>(153,000)</u>	<u>91,035</u>	<u>25,971,195</u>
ENDING FUND BALANCES (DEFICITS)	<u>(\$158,000)</u>	<u>\$85,846</u>	<u>\$24,570,154</u>

(Concluded)

NONMAJOR PROPRIETARY FUNDS

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 NONMAJOR PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2013

	<u>Transportation</u>	<u>Building & Safety</u>	<u>Total Nonmajor Proprietary Funds</u>
ASSETS			
Current assets			
Cash and investments	\$2,671,648	\$13,630	\$2,685,278
Accounts receivables	972,005	2,484	\$974,489
Interest receivable	1,214		\$1,214
	<u>3,644,867</u>	<u>16,114</u>	<u>3,660,981</u>
Total current assets			
Non-current assets			
Capital assets not being depreciated	3,380,147		3,380,147
Capital assets being depreciated	5,680,741		5,680,741
	<u>9,060,888</u>		<u>9,060,888</u>
Total non-current assets			
Total Assets	<u>12,705,755</u>	<u>16,114</u>	<u>12,721,869</u>
LIABILITIES			
Current liabilities			
Accounts payable	71,522	60,257	131,779
Payroll payable	2,024	15,579	17,603
Due to other funds		522,356	522,356
Compensated absences	3,493	12,112	15,605
Unearned revenue	3,537,671		3,537,671
	<u>3,614,710</u>	<u>610,304</u>	<u>4,225,014</u>
Total current liabilities			
Long-term liabilities			
Compensated absences	13,971	48,446	62,417
OPEB liability	16,186	78,990	95,176
	<u>30,157</u>	<u>127,436</u>	<u>157,593</u>
Total long-term liabilities			
Total Liabilities	<u>3,644,867</u>	<u>737,740</u>	<u>4,382,607</u>
NET POSITION			
Net investment in capital assets	9,060,888		9,060,888
Unrestricted		(721,626)	(721,626)
	<u>\$9,060,888</u>	<u>(\$721,626)</u>	<u>\$8,339,262</u>
Total Net Position			

CITY OF TURLOCK
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Transportation</u>	<u>Building & Safety</u>	<u>Total Nonmajor Proprietary Funds</u>
OPERATING REVENUES			
Charges for services	\$151,293	\$892,843	\$1,044,136
Other income	61,337	1,836	63,173
	<u>212,630</u>	<u>894,679</u>	<u>1,107,309</u>
OPERATING EXPENSES			
Salaries, benefits and insurance	129,205	808,775	937,980
Contractual	764,593	244,406	1,008,999
Supplies and maintenance	30,696	3,210	33,906
Utilities	15,729	10,175	25,904
Fleet expense	181,425	5,989	187,414
Depreciation and amortization	297,096		297,096
Other expenses	16,375	2,870	19,245
	<u>1,435,119</u>	<u>1,075,425</u>	<u>2,510,544</u>
Operating Income (Loss)	<u>(1,222,489)</u>	<u>(180,746)</u>	<u>(1,403,235)</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grants	923,904		923,904
Interest income	7,044		7,044
	<u>930,948</u>		<u>930,948</u>
Income (Loss) Before Capital Grants and Transfers	<u>(291,541)</u>	<u>(180,746)</u>	<u>(472,287)</u>
Capital Grants	1,753,270		1,753,270
Transfers out	(6,000)	(25,936)	(31,936)
	<u>1,747,270</u>	<u>(25,936)</u>	<u>1,721,334</u>
Change in net position	1,455,729	(206,682)	1,249,047
BEGINNING NET POSITION	<u>7,605,159</u>	<u>(514,944)</u>	<u>7,090,215</u>
ENDING NET POSITION	<u>\$9,060,888</u>	<u>(\$721,626)</u>	<u>\$8,339,262</u>

CITY OF TURLOCK
 COMBINING NONMAJOR PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Transportation</u>	<u>Building & Safety</u>	<u>Total Nonmajor Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$151,293	\$890,359	\$1,041,652
Payments to suppliers	(1,172,331)	(215,845)	(1,388,176)
Payments to employees	(131,941)	(872,223)	(1,004,164)
Other	61,337	1,836	63,173
	<u>(1,091,642)</u>	<u>(195,873)</u>	<u>(1,287,515)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental receipts - operations	499,686		499,686
Interfund receipts		103,959	103,959
Transfers out	(6,000)	(25,936)	(31,936)
	<u>493,686</u>	<u>78,023</u>	<u>571,709</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Intergovernmental receipts - capital program	1,406,165		1,406,165
Acquisition of capital assets, net	(1,752,825)		(1,752,825)
	<u>(346,660)</u>		<u>(346,660)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	8,554		8,554
	<u>8,554</u>		<u>8,554</u>
Net Cash Flows	(936,062)	(117,850)	(1,053,912)
Cash and investments at beginning of period	<u>3,607,710</u>	<u>131,480</u>	<u>3,739,190</u>
Cash and investments at end of period	<u>\$2,671,648</u>	<u>\$13,630</u>	<u>\$2,685,278</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:			
Operating income (loss)	(\$1,222,489)	(\$180,746)	(\$1,403,235)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation	297,096		297,096
Change in assets and liabilities:			
Accounts receivables		(2,484)	(2,484)
Accounts payable and other accrued expenses	(159,952)	53,754	(106,198)
Payroll payable	(1,427)	(4,235)	(5,662)
Claims Liability	(3,561)	(2,949)	(6,510)
OPEB liability	(1,309)	(59,213)	(60,522)
Cash Flows from Operating Activities	<u>(\$1,091,642)</u>	<u>(\$195,873)</u>	<u>(\$1,287,515)</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
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Equipment Pool</u>	<u>Self Insurance</u>	<u>Information Technology</u>	<u>Engineering</u>	<u>Total</u>
ASSETS					
Current Assets:					
Cash and investments	\$2,401,531	\$6,929,501	\$218,046	\$16,636	\$9,565,714
Accounts receivable	39,905	440,841		1,773	482,519
Interest receivable	198	4,029			4,227
Total Current Assets	<u>2,441,634</u>	<u>7,374,371</u>	<u>218,046</u>	<u>18,409</u>	<u>10,052,460</u>
Noncurrent Assets:					
OPEB asset	194,852			242,449	437,301
Capital assets (net of accumulated depreciation)	<u>770,666</u>			<u>1,159,891</u>	<u>1,930,557</u>
Total Non-Current Assets	<u>965,518</u>			<u>1,402,340</u>	<u>2,367,858</u>
Total Assets	<u>3,407,152</u>	<u>7,374,371</u>	<u>218,046</u>	<u>1,420,749</u>	<u>12,420,318</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	1,907	1,182,509	12,471	22,761	1,219,648
Payroll payable	8,823		13,705	34,977	57,505
Interest payable				6,302	6,302
Due to other funds				320,210	320,210
Compensated absences	8,473		14,337	38,932	61,742
Capital lease obligations				94,394	94,394
Deposits payable				2,451	2,451
Total Current Liabilities	<u>19,203</u>	<u>1,182,509</u>	<u>40,513</u>	<u>520,027</u>	<u>1,762,252</u>
Long-term Liabilities:					
Estimated claims liability		3,911,709			3,911,709
Compensated absences	33,893		57,346	155,729	246,968
Capital lease obligations				310,918	310,918
OPEB liability			11,120		11,120
Total Long-Term Liabilities	<u>33,893</u>	<u>3,911,709</u>	<u>68,466</u>	<u>466,647</u>	<u>4,480,715</u>
Total Liabilities	<u>53,096</u>	<u>5,094,218</u>	<u>108,979</u>	<u>986,674</u>	<u>6,242,967</u>
NET POSITION					
Net investment in capital assets Unrestricted	770,666 <u>2,583,390</u>	<u>2,280,153</u>	<u>109,067</u>	754,579 <u>(320,504)</u>	1,525,245 <u>4,652,106</u>
Total Net Position	<u>\$3,354,056</u>	<u>\$2,280,153</u>	<u>\$109,067</u>	<u>\$434,075</u>	<u>\$6,177,351</u>

CITY OF TURLOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
OPERATING REVENUES					
Charges for services	\$647,385	\$7,984,188	\$701,439	\$1,468,778	\$10,801,790
Refunds & other income	12,160	939,283	6,522	75,322	1,033,287
Total Operating Revenues	659,545	8,923,471	707,961	1,544,100	11,835,077
OPERATING EXPENSES					
Salaries, benefits and insurance	323,126	9,678,073	573,624	1,419,304	11,994,127
Contractual	22,517	19,362	92,930	372,275	507,084
Supplies and maintenance	7,933		2,058	25,312	35,303
Utilities	26,266		19,726	22,797	68,789
Fleet expense	71,350		407	13,855	85,612
Depreciation and amortization	245,502			65,002	310,504
Other expenses	4,138	46,095	12,340	20,262	82,835
Total Operating Expenses	700,832	9,743,530	701,085	1,938,807	13,084,254
Total Operating Income (Loss)	(41,287)	(820,059)	6,876	(394,707)	(1,249,177)
NONOPERATING REVENUES (EXPENSES)					
Interest income	931	16,013			16,944
Gain (loss) on disposal of capital assets	25,825			25	25,850
Interest (expense)				(20,790)	(20,790)
Total Nonoperating Revenues (Expenses)	26,756	16,013		(20,765)	22,004
Income (Loss) Before Transfers	(14,531)	(804,046)	6,876	(415,472)	(1,227,173)
Transfers in	145,250			310,309	455,559
Transfers (out)	(1,626)		(8,959)	(49,496)	(60,081)
Change in Net Position	129,093	(804,046)	(2,083)	(154,659)	(831,695)
BEGINNING NET POSITION	3,224,963	3,084,199	111,150	588,734	7,009,046
ENDING NET POSITION	\$3,354,056	\$2,280,153	\$109,067	\$434,075	\$6,177,351

CITY OF TURLOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$627,238	\$9,838,654	\$701,439	\$1,467,005	\$12,634,336
Payments to suppliers	(132,067)	(790,848)	(118,876)	(435,601)	(1,477,392)
Payments to employees	(411,518)	(9,678,073)	(660,095)	(1,846,491)	(12,596,177)
Other	12,160	939,283	6,522	75,322	1,033,287
Cash Flows from (used by) Operating Activities	95,813	309,016	(71,010)	(739,765)	(405,946)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund receipts				320,210	320,210
Operating transfers in	145,250			310,309	455,559
Operating transfers (out)	(1,626)		(8,959)	(49,496)	(60,081)
Cash Flows from Noncapital Financing Activities	143,624		(8,959)	581,023	715,688
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(229,008)				(229,008)
Proceeds from sale of capital assets	26,310			25	26,335
Payments on capital leases				(90,119)	(90,119)
Interest paid on capital lease obligations				(22,191)	(22,191)
Cash Flows from (used by) Capital and Related Financing Activities	(202,698)			(112,285)	(314,983)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earnings	2,685	17,475			20,160
Cash Flows from Investing Activities	2,685	17,475			20,160
Net Cash Flows	39,424	326,491	(79,969)	(271,027)	14,919
Cash and investments at beginning of period	2,362,107	6,603,010	298,015	287,663	9,550,795
Cash and investments at end of period	<u>\$2,401,531</u>	<u>\$6,929,501</u>	<u>\$218,046</u>	<u>\$16,636</u>	<u>\$9,565,714</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income (loss)	(\$41,287)	(\$820,059)	\$6,876	(\$394,707)	(\$1,249,177)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	245,502			65,002	310,504
Change in assets and liabilities:					
Accounts receivable	(20,147)	1,854,466		(1,773)	1,832,546
OPEB asset	(73,933)			(242,449)	(316,382)
Accounts payable	137	(1,203,996)	8,585	21,622	(1,173,652)
Payroll payable	(861)		(209)	(19,011)	(20,081)
Deposits payable				(2,722)	(2,722)
Compensated absences	(13,598)		(15,194)	(16,764)	(45,556)
Claims liability		478,605			478,605
OPEB liability			(71,068)	(148,963)	(220,031)
Cash Flows from (used by) Operating Activities	\$95,813	\$309,016	(\$71,010)	(\$739,765)	(\$405,946)
NONCASH TRANSACTIONS					
Retirement of capital assets, net	(\$485)				(\$485)

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
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2013

<u>Northwest Triangle - Mello Roos Assessments</u>	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Assets				
Cash and investments	\$660,748	\$467,957	\$432,318	\$696,387
Cash and investments with fiscal agents	418,487	6		418,493
Accounts and interest receivable	40,248	7,559	40,248	7,559
Total Assets	<u>\$1,119,483</u>	<u>\$475,522</u>	<u>\$472,566</u>	<u>\$1,122,439</u>
Liabilities				
Due to others	\$1,119,483	\$475,522	\$472,566	\$1,122,439
Total Liabilities	<u>\$1,119,483</u>	<u>\$475,522</u>	<u>\$472,566</u>	<u>\$1,122,439</u>
<u>Property & Business Improvement District #2</u>				
Assets				
Cash and investments	\$208,000	\$201,850	\$409,767	\$83
Accounts and interest receivable	13,571	3,296	13,571	3,296
Total Assets	<u>\$221,571</u>	<u>\$205,146</u>	<u>\$423,338</u>	<u>\$3,379</u>
Liabilities				
Accounts payable	\$37,163		\$37,163	
Due to others	184,408	\$205,146	386,175	\$3,379
Total Liabilities	<u>\$221,571</u>	<u>\$205,146</u>	<u>\$423,338</u>	<u>\$3,379</u>
<u>Total - All Agency Funds</u>				
Assets				
Cash and investments	\$868,748	\$669,807	\$842,085	\$696,470
Cash and investments with fiscal agents	418,487	6		418,493
Accounts and interest receivable	53,819	10,855	53,819	10,855
Total Assets	<u>\$1,341,054</u>	<u>\$680,668</u>	<u>\$895,904</u>	<u>\$1,125,818</u>
Liabilities				
Accounts payable	\$37,163		\$37,163	
Due to stakeholders	1,303,891	\$680,668	858,741	\$1,125,818
Total Liabilities	<u>\$1,341,054</u>	<u>\$680,668</u>	<u>\$895,904</u>	<u>\$1,125,818</u>



**TURLOCK PUBLIC FINANCING AUTHORITY
COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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TURLOCK PUBLIC FINANCING AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors of the
Turlock Public Financing Authority, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Turlock Public Financing Authority (Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic component unit financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Authority as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2013 that affected the format and nomenclature of the financial statements:

Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. See Note 1C to the financial statements for relevant disclosures.

Management early-implemented the provisions of the following Governmental Accounting Standards Board Statement during the year ended June 30, 2013 that also affected the format and nomenclature of the financial statements and required the restatement of net position:

Statement 65 – Items Previously Reported as Assets and Liabilities. See Note 4I to the financial statements for relevant disclosures.

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

As discussed in Note 1, the component unit financial statements present only the Authority and are not intended to present fairly the financial position and the results of operations of the City of Turlock in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented the Management's Discussion and Analysis that governmental 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 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 statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Mane & Associates

Pleasant Hill, California
March 20, 2014

TURLOCK PUBLIC FINANCING AUTHORITY

**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**

The Statement of Net Position and the Statement of Activities purpose are to summarize the Authority's entire financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Authority's assets, all its deferred inflows/outflows of resources and all its liabilities, as well as all its revenues and expenses.

The Statement of Net Position reports the difference between the Authority's total assets and deferred outflows of resources and the Authority's total liabilities and deferred inflows of resources, including all the Authority's long-term debt. The Statement of Net Position summarizes the financial position of all the Authority's activities in a single column.

The Statement of Activities reports increases and decreases in the Authority's net position. It is also prepared on the full accrual basis, which means it includes all the Authority's revenues and all its expenses, regardless of when cash changes hands.

TURLOCK PUBLIC FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments with fiscal agent (Note 2)	\$3,572,727	\$2,148,243	\$5,720,970
Interest receivable	776,924	814,431	1,591,355
Leases receivable (Note 3)	37,871,565	82,769,836	120,641,401
Total Assets	42,221,216	85,732,510	127,953,726
LIABILITIES			
Interest payable	776,924	814,431	1,591,355
Long-term debt (Note 4):			
Due within one year	610,000	2,535,000	3,145,000
Due in more than one year	40,834,200	82,383,079	123,217,279
Total Liabilities	42,221,124	85,732,510	127,953,634
NET POSITION (Note 5):			
Restricted for:			
Capital projects	92		92
Total Net Position	\$92		\$92

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues	Net (Expense) Revenue and Changes in Net Position		<u>Total</u>
		Charges for Services	Governmental Activities	Business-type Activities	
Governmental Activities:					
Interest and fiscal charges	\$2,348,120	\$2,311,722	(\$36,398)		(\$36,398)
Total Governmental Activities	2,348,120	2,311,722	(36,398)		(36,398)
Business-type Activities:					
Sewer	4,820,045	4,683,132		(\$136,913)	(136,913)
Water	1,377,574	1,313,292		(64,282)	(64,282)
Total Business-type Activities	6,197,619	5,996,424		(201,195)	(201,195)
Total	\$8,545,739	\$8,308,146	(36,398)	(201,195)	(237,593)
General revenues:					
Interest income			37,806	201,195	239,001
Transfers to Turlock Successor Agency (Note 4D)			(7,530,116)		(7,530,116)
Total general revenues and transfers			(7,492,310)	201,195	(7,291,115)
Change in Net Position			(7,528,708)		(7,528,708)
Net Position-Beginning, as Restated (Notes 3 and 4I)			7,528,800		7,528,800
Net Position-Ending			\$92		\$92

See accompanying notes to basic financial statements

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TURLOCK PUBLIC FINANCING AUTHORITY

FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. All of the Authority's funds are major funds.

TURLOCK PUBLIC FINANCING AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	1999 Revenue Bonds	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	Total
ASSETS				
Cash and investments (Note 2)	\$374,760	\$1,868,587	\$1,329,380	\$3,572,727
Leases receivable (Note 3)	<u>2,540,240</u>	<u>21,744,484</u>	<u>13,586,841</u>	<u>37,871,565</u>
Total Assets	<u><u>\$2,915,000</u></u>	<u><u>\$23,613,071</u></u>	<u><u>\$14,916,221</u></u>	<u><u>\$41,444,292</u></u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue (Notes 3 and 1C)	<u>\$2,540,240</u>	<u>\$21,744,484</u>	<u>\$13,586,841</u>	<u>\$37,871,565</u>
FUND BALANCES				
Fund balance (Note 5):				
Restricted:				
Debt service	374,760	1,868,510	1,329,365	3,572,635
Capital projects	<u> </u>	<u> 77</u>	<u> 15</u>	<u> 92</u>
Total Fund Balances	<u>374,760</u>	<u>1,868,587</u>	<u>1,329,380</u>	<u>3,572,727</u>
Total Deferred Inflows of Resources and Fund Balances	<u><u>\$2,915,000</u></u>	<u><u>\$23,613,071</u></u>	<u><u>\$14,916,221</u></u>	<u><u>\$41,444,292</u></u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 Reconciliation of the
 GOVERNMENTAL FUNDS-- BALANCE SHEET
 with the
 GOVERNMENTAL ACTIVITIES NET POSITION
 JUNE 30, 2013

Total fund balances reported on the Governmental Funds Balance Sheet \$3,572,727

Amounts reported for Governmental Activities in the Statement of Net Position
 are different from those reported in the Governmental Funds above because of the following:

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are unavailable on the Fund Balance Sheets, because they are not available currently
 are taken into revenue in the Statement of Activities. 37,871,565

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not
 reported in the Funds:

Interest receivable	776,924
Long-term debt	(41,444,200)
Interest payable	(776,924)
	(776,924)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$92

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	1999 <u>Revenue Bonds</u>	2006 <u>Tax Allocation Revenue Bonds</u>	2011 <u>Tax Allocation Revenue Bonds</u>	<u>Total</u>
REVENUES				
Lease revenue	\$314,925	\$1,526,931	\$1,068,653	\$2,910,509
Use of money and property	<u>17,238</u>	<u>18,703</u>	<u>1,865</u>	<u>37,806</u>
Total Revenues	<u>332,163</u>	<u>1,545,634</u>	<u>1,070,518</u>	<u>2,948,315</u>
EXPENDITURES				
Debt service:				
Principal	170,000	410,000		580,000
Interest and fiscal charges	<u>162,210</u>	<u>1,125,841</u>	<u>1,069,144</u>	<u>2,357,195</u>
Total Expenditures	<u>332,210</u>	<u>1,535,841</u>	<u>1,069,144</u>	<u>2,937,195</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(47)</u>	<u>9,793</u>	<u>1,374</u>	<u>11,120</u>
OTHER FINANCING SOURCES (USES)				
Transfers to Turlock Successor Agency (Note 4D)			<u>(7,530,116)</u>	<u>(7,530,116)</u>
NET CHANGE IN FUND BALANCES	(47)	9,793	(7,528,742)	(7,518,996)
BEGINNING FUND BALANCES	<u>374,807</u>	<u>1,858,794</u>	<u>8,858,122</u>	<u>11,091,723</u>
ENDING FUND BALANCES	<u><u>\$374,760</u></u>	<u><u>\$1,868,587</u></u>	<u><u>\$1,329,380</u></u>	<u><u>\$3,572,727</u></u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
 with the
 CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013

The schedule below reconciles the Net Change in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$7,518,996)

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

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance 591,925

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide (or require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest receivable	(9,075)
Unavailable revenue	(601,637)
Interest payable	9,075
	9,075

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (\$7,528,708)

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2013

	1999 <u>Sewer Bonds</u>	2003A <u>Sewer Bonds</u>	2012 <u>Sewer Bonds</u>	2008 <u>Water Bonds</u>	<u>Total</u>
ASSETS					
Cash and investments with fiscal agent (Note 2)				\$2,148,243	2,148,243
Interest receivable			\$592,869	221,562	814,431
Leases receivable (Note 3)			55,608,667	27,161,169	82,769,836
Total Assets			<u>56,201,536</u>	<u>29,530,974</u>	<u>85,732,510</u>
LIABILITIES					
Current liabilities:					
Interest payable			592,869	221,562	814,431
Bonds payable (Note 4)			1,865,000	670,000	2,535,000
Total current liabilities			<u>2,457,869</u>	<u>891,562</u>	<u>3,349,431</u>
Long-term liabilities :					
Bonds payable (Note 4)			53,743,667	28,639,412	82,383,079
Total Liabilities			<u>56,201,536</u>	<u>29,530,974</u>	<u>85,732,510</u>
NET POSITION (Note 5):					
Restricted					
Total Net Position			<u><u>56,201,536</u></u>	<u><u>29,530,974</u></u>	<u><u>85,732,510</u></u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013

	1999 <u>Sewer Bonds</u>	2003A <u>Sewer Bonds</u>	2012 <u>Sewer Bonds</u>	2008 <u>Water Bonds</u>	<u>Total</u>
OPERATING REVENUES					
Lease revenue	\$1,051,782	\$2,120,624	\$1,510,726	\$1,313,292	\$5,996,424
Total Operating Revenues	<u>1,051,782</u>	<u>2,120,624</u>	<u>1,510,726</u>	<u>1,313,292</u>	<u>5,996,424</u>
Operating Income (Loss)	<u>1,051,782</u>	<u>2,120,624</u>	<u>1,510,726</u>	<u>1,313,292</u>	<u>5,996,424</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	52,817	84,096		64,282	201,195
Interest (expense)	<u>(1,104,599)</u>	<u>(2,204,720)</u>	<u>(1,510,726)</u>	<u>(1,377,574)</u>	<u>(6,197,619)</u>
Net Nonoperating Revenues (Expenses)	<u>(1,051,782)</u>	<u>(2,120,624)</u>	<u>(1,510,726)</u>	<u>(1,313,292)</u>	<u>(5,996,424)</u>
Change in net position					
BEGINNING NET POSITION	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ENDING NET POSITION	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2013

	1999 <u>Sewer Bonds</u>	2003A <u>Sewer Bonds</u>	2012 <u>Sewer Bonds</u>	2008 <u>Water Bonds</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$1,051,782	\$2,120,624	\$1,051,079	\$1,992,028	\$6,215,513
Cash Flows from Operating Activities	<u>1,051,782</u>	<u>2,120,624</u>	<u>1,051,079</u>	<u>1,992,028</u>	<u>6,215,513</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES					
Issuance of bonds			51,915,000		51,915,000
Premium on bonds			3,846,298		3,846,298
Cost of issuance			(506,775)		(506,775)
Payment to bond escrow agent	(2,645,218)	(5,441,370)	(55,235,114)		(63,321,702)
Long-term debt payment - principal				(650,000)	(650,000)
Long-term debt payment - interest			(1,070,488)	(1,381,663)	(2,452,151)
Cash Flows from Noncapital and Related Financing Activities	<u>(2,645,218)</u>	<u>(5,441,370)</u>	<u>(1,051,079)</u>	<u>(2,031,663)</u>	<u>(11,169,330)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	52,817	84,096		67,990	204,903
Cash Flows from Investing Activities	<u>52,817</u>	<u>84,096</u>		<u>67,990</u>	<u>204,903</u>
Net Cash Flows	(1,540,619)	(3,236,650)		28,355	(4,748,914)
Cash and investments at beginning of period	<u>1,540,619</u>	<u>3,236,650</u>		<u>2,119,888</u>	<u>6,897,157</u>
Cash and investments at end of period				<u>\$2,148,243</u>	<u>\$2,148,243</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:					
Operating income	\$1,051,782	\$2,120,624	\$1,510,726	\$1,313,292	\$5,996,424
Issuance of long-term debt			55,741,889		55,741,889
Change in assets and liabilities:					
Interest receivable			(592,869)		(592,869)
Leases receivable			(55,608,667)	678,736	(54,929,931)
Cash Flows from Operating Activities	<u>\$1,051,782</u>	<u>\$2,120,624</u>	<u>\$1,051,079</u>	<u>\$1,992,028</u>	<u>\$6,215,513</u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Purpose*

The Turlock Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The Turlock Public Financing Authority 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 former Turlock Redevelopment Agency.

The Turlock Redevelopment Agency was dissolved and its assets turned over to and liabilities assumed by Successor Agencies effective January 31, 2012, including the liabilities payable to the Authority.

The Authority is an integral part of the City and the accompanying financial statements are included as a component of the basic financial statements prepared by the City and the Successor Agency for the Turlock Redevelopment Agency. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

B. *Basis of Presentation*

The Authority's Basic Component Unit Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

Authority-wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall Authority government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental and business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including interest income, are presented as general revenues.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. Separate Statements for each fund category-governmental and proprietary are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. The Authority considers all its funds to be major funds.

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. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Authority-Wide financial statements.

All governmental funds are accounted for on the "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, current deferred outflows/inflows of resources and current liabilities are included on the Balance Sheets. 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.

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 ninety days after the fiscal year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the Authority are leases and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred also generally ninety days after the fiscal year end.

Reconciliations of the Fund Financial Statements to the Authority-Wide Financial Statements are provided to explain the differences between the two approaches.

Proprietary Fund Financial Statements - Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, 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 Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position.

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.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: leases receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

D. *Estimates and Assumptions*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS HELD BY FISCAL AGENT

The Authority invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

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

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 2 - INVESTMENTS HELD BY FISCAL AGENT (Continued)

A. Investments Authorized by Debt Agreements

In accordance with the Lease Revenue Bond Indentures of Trust, a Trustee holds the portion of Bond proceeds established as reserves for debt service on these Bonds. The California Government Code requires these funds to be invested in accordance with bond indentures or State statutes. The table below identifies the investment types and their minimum credit ratings that are authorized for investments held by trustee and certain provisions of these debt agreements. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio
U.S. Treasury Notes, Bonds and/or Bills	5 years	N/A	No maximum
U.S. Government Sponsored Securities	5 years	N/A	No maximum
State Obligations	N/A	A	No maximum
Pre-refunded Municipal Obligations	N/A	AAA	No maximum
Certificate of Deposits	30 days	N/A	No maximum
Bankers' Acceptances	30 days	A-1	No maximum
Commercial Paper	270 days	A-1+	No maximum
State Local Agency Investment Fund	N/A	N/A	LAIF limits
Repurchase Agreements	270 days	A	No maximum
Guaranteed Investment Contracts	N/A	AA	No maximum
Money Market Funds	N/A	Aam or Aam-G	No maximum
Corporate Notes	N/A	Two highest rating categories	No maximum

B. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	12 Months or less	More than 36 Months	Total
Held by Fiscal Agent:			
U.S. Government Sponsored Security	\$2,015,344		\$2,015,344
Money Market Mutual Funds (U.S. Securities)	3,372,603		3,372,603
Investment Agreement		\$333,023	333,023
	<u>\$5,387,947</u>	<u>\$333,023</u>	<u>\$5,720,970</u>

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 2 - INVESTMENTS HELD BY FISCAL AGENT (Continued)

C. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual rating as of June 30, 2013 for the Money Market Mutual Funds was AAAM and the rating for the U.S. Government Sponsored Security was AA+ as provided by Standard & Poor's investment rating system. Money market mutual funds are available for withdrawal on demand and at June 30, 2013, have an average maturity of 376 days.

Significant investments in the securities of any individual issuers, other than U.S. Treasury Securities and Mutual Funds, are set forth below:

Issuer	Investment Type	Amount
NationsBank	Investment Agreement	\$333,023
Federal Home Loan Bank	U.S. Government Sponsored Security	2,015,344

NOTE 3 – LEASES RECEIVABLE FROM THE CITY OF TURLOCK

The Authority has recorded leases receivable in the amount of \$120,641,401 pursuant to the lease agreements between the Authority and the City and Successor Agency 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 unavailable revenue since the assets are not current financial resources. In the Authority-wide Financial Statements the assets are offset by long-term debt with any remaining amounts being reflected in net position.

During fiscal year 2013, the Authority determined that the lease receivable related to the 2006 Tax Allocation Revenue Bonds had been understated in the amount of \$373,447 and the lease receivable related to the 2011 Tax Allocation Revenue Bonds had been overstated in the amount of \$97,322, because the leases did not include the unamortized bond premium and bond discount, respectively. The governmental activities net position as of July 1, 2012 has been restated in those amounts.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 4 – LONG TERM DEBT

A. Current Year Activity

Following is a summary of the Authority's long-term debt transactions during the fiscal year ended June 30, 2013:

	Original Issue Amount	Balance June 30, 2012 (as restated)	Additions	Retirements & Refundings	Balance June 30, 2013	Current Portion	Due in More Than One Year
Governmental Activity Debt:							
1999 Revenue Bonds	\$4,970,000	\$3,085,000		(\$170,000)	\$2,915,000	\$180,000	\$2,735,000
2006 Tax Allocation Revenue Bonds	25,440,000	23,665,000		(410,000)	23,255,000	430,000	22,825,000
Add: Unamortized bond premium		373,447		(15,453)	357,994		357,994
2011 Tax Allocation Revenue Bonds	15,300,000	15,010,000			15,010,000		15,010,000
Less: Unamortized bond discount		(97,322)		3,528	(93,794)		(93,794)
Total Governmental Activities	45,710,000	42,036,125		(591,925)	41,444,200	610,000	40,834,200
Business-type Activities Debt:							
Revenue Bonds:							
1999 Sewer	22,400,000	16,470,000		(16,470,000)			
Less: Unamortized bond discount		(306,880)		306,880			
2003A Sewer	51,185,000	43,355,000		(43,355,000)			
Less: Unamortized bond discount		(220,142)		220,142			
2012 Sewer	51,915,000		\$51,915,000		51,915,000	1,865,000	\$50,050,000
Add: Unamortized bond premium			3,846,298	(152,631)	3,693,667		3,693,667
2008 Water	32,365,000	29,950,000		(650,000)	29,300,000	670,000	28,630,000
Less: Unamortized bond premium		9,792		(380)	9,412		9,412
Total Business Type Activities	157,865,000	89,257,770	55,761,298	(60,100,989)	84,918,079	2,535,000	82,383,079
Total Long-Term Debt	\$203,575,000	\$131,293,895	\$55,761,298	(\$60,692,914)	\$126,362,279	\$3,145,000	\$123,217,279

B. 1999 Revenue Bonds

In March 1999 the Authority authorized the issuance of \$4,970,000 in revenue bonds the proceeds of which were loaned to the former 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 Year Ending June 30	Principal	Interest	Total
2014	\$180,000	\$153,023	\$333,023
2015	185,000	143,441	328,441
2016	195,000	133,466	328,466
2017	210,000	122,624	332,624
2018	220,000	110,907	330,907
2019-2023	1,300,000	355,614	1,655,614
2024-2025	625,000	34,471	659,471
Total	\$2,915,000	\$1,053,546	\$3,968,546

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 4 – LONG TERM DEBT (Continued)

C. 2006 Tax Allocation Revenue Bonds

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 former 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 Year Ending June 30	Principal	Interest	Total
2014	\$430,000	\$1,106,941	\$1,536,941
2015	450,000	1,087,141	1,537,141
2016	470,000	1,066,441	1,536,441
2017	490,000	1,046,066	1,536,066
2018	510,000	1,026,066	1,536,066
2019-2023	2,875,000	4,789,937	7,664,937
2024-2028	4,635,000	3,992,575	8,627,575
2029-2033	6,710,000	2,542,500	9,252,500
2034-2037	6,685,000	688,875	7,373,875
Total	<u>\$23,255,000</u>	<u>\$17,346,542</u>	<u>\$40,601,542</u>

D. 2011 Tax Allocation Revenue Bonds

In February 2011, the Authority authorized the issuance of \$15,300,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the former Agency to be used to provide financing assistance for the construction of a new public safety facility in the City’s downtown area. The Authority transferred proceeds of \$7,530,116 to the Successor Agency to the Redevelopment Agency during fiscal year 2013. As with the bond issuances noted above, the Agency’s tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039. The annual debt service requirements are as follows:

For the Year Ending June 30	Principal	Interest	Total
2014		\$1,069,144	\$1,069,144
2015	\$260,000	1,063,619	1,323,619
2016	270,000	1,051,681	1,321,681
2017	280,000	1,038,269	1,318,269
2018	295,000	1,023,340	1,318,340
2019-2023	1,740,000	4,824,969	6,564,969
2024-2028	1,400,000	4,268,049	5,668,049
2029-2033	1,665,000	3,740,038	5,405,038
2034-2038	5,265,000	2,808,938	8,073,938
2039-2040	3,835,000	207,562	4,042,562
Total	<u>\$15,010,000</u>	<u>\$21,095,609</u>	<u>\$36,105,609</u>

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 4 – LONG TERM DEBT (Continued)

E. 1999 Sewer Revenue Bonds

In August 1999 the 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%, had semi-annual principal and interest payments on the fifteenth of March and September through September 2029. The bonds were defeased and repaid with the issuance of the 2012 Sewer Revenue Bonds as discussed below.

F. 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. The bonds, which carry coupon interest rates ranging from 2.00% - 5.00%, had 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 bonds were defeased with the issuance of the 2012 Sewer Revenue Bonds as discussed below. The 2003A Bonds were called on September 15, 2013.

G. 2012 Sewer Revenue Bonds

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

For the Year Ending June 30	Principal	Interest	Total
2014	\$1,865,000	\$2,020,375	\$3,885,375
2015	1,955,000	1,972,400	3,927,400
2016	2,010,000	1,912,925	3,922,925
2017	2,080,000	1,841,175	3,921,175
2018	2,165,000	1,756,275	3,921,275
2019-2023	12,255,000	7,379,175	19,634,175
2024-2028	13,590,000	4,450,426	18,040,426
2029-2033	13,295,000	1,798,363	15,093,363
2034	2,700,000	54,000	2,754,000
Total	<u>\$51,915,000</u>	<u>\$23,185,114</u>	<u>\$75,100,114</u>

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 4 – LONG TERM DEBT (Continued)

H. 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. 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 Year Ending June 30	Principal	Interest	Total
2014	\$670,000	\$1,358,912	\$2,028,912
2015	700,000	1,332,112	2,032,112
2016	725,000	1,304,113	2,029,113
2017	755,000	1,275,112	2,030,112
2018	785,000	1,244,913	2,029,913
2019-2023	4,450,000	5,693,762	10,143,762
2024-2028	5,505,000	4,642,488	10,147,488
2029-2033	6,920,000	3,232,700	10,152,700
2034-2038	8,790,000	1,361,500	10,151,500
Total	<u>\$29,300,000</u>	<u>\$21,445,612</u>	<u>\$50,745,612</u>

I. Bond Issuance Costs, Original Issue Discounts and Premiums and Deferred Charge on Refunding

For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any differences between proprietary refunded debt and the debt issued to refund it is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.)

The deferred charge on refunding was previously reported as a component of the long-term debt balance. With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, the balance of deferred charge on refunding is to be reported as an asset or liability, as applicable. Another provision of GASB Statement No. 65 requires that bond issuance costs, other than prepaid insurance, be expensed in the year incurred. As a result of the implementation, bond issuance costs as of July 1, 2012 in the amount of \$671,921 in the Authority-wide Statement of Net Position and \$153,175 in the 2008 Water Bonds Proprietary Fund have been removed and the net position has been reduced and restated in those amounts. In addition, during fiscal year 2013, the City determined that bond issuance costs in the amount of \$132,383 and \$102,057 had been included in the amount reported as the unamortized bond premium of the 2008 Water Revenue Bonds and the 2006 Tax Allocation Revenue Bonds, respectively, and those amounts have been removed and leases receivable and net position of the Authority-wide Statement of Net Position have also been reduced and restated in those amounts. During fiscal year 2013, the City determined that bond issuance costs in the amount of \$159,596 had been included in the amount reported as the unamortized bond discount of the 2011 Tax Allocation Revenue Bonds, therefore that amount has been removed and the leases receivable and net position of the Authority-wide Statement of Net Position have been reduced and restated in that amount.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 5 – NET POSITION AND FUND BALANCES

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources. Portions of a fund's balance may be restricted, committed or assigned for future expenditure.

Net Position is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis.

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into two captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Authority-wide level, and are described below:

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.

A. Fund Balances

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

The Authority's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Authority prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category. As of June 30, 2013 the Authority did not have any nonspendable fund balances.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the Board of Directors which may be altered only by formal action of the Board of Directors. Encumbrances and nonspendable amounts subject to Board of Director commitments are included along with spendable resources. As of June 30, 2013 the Authority did not have any committed fund balances.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 5 – NET POSITION AND FUND BALANCES (Continued)

Assigned fund balances are amounts constrained by the Authority's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board of Directors or its designee and may be changed at the discretion of the Board of Directors or its designee, the City Manager. This category includes: encumbrances; nonspendables, when it is the Board of Director's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue and Capital Projects which have not been restricted or committed. As of June 30, 2013 the Authority did not have any assigned fund balances.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. As of June 30, 2013 the Authority did not have any unassigned fund balances.

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CITY OF TURLOCK
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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CITY OF TURLOCK
SINGLE AUDIT REPORT
For The Year Ended June 30, 2013

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CITY OF TURLOCK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor’s report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

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

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
14.257	ARRA- Department of Housing and Urban Development – Homelessness Prevention and Rapid Re-Housing
14.239	Department of Housing and Urban Development – Home Investment Partnerships Program
16.710	ARRA – Department of Justice – Public Safety Partnership and Community Policing Grants
66.458	Environmental Protection Agency – Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$842,262

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose material weaknesses, significant deficiencies, but no instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated March 20, 2014 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

Finding: SA2013-01

Timely Report Submission

CFDA Number: 66.458
CFDA Title: Capitalization Grants for Clean Water State Revolving Funds
Name of Federal Agency: Environmental Protection Agency
Name of Pass-through Entity: California State Water Resources Control Board

Criteria: Reporting requirements of the grant agreement require the City to submit Federal Disadvantaged Business Enterprise (DBE) reports semiannually within ten calendar days following April 1 and October 1.

Condition: The DBE report for the period April 1, 2013 through September 30, 2013 was due within 10 calendar days following October 1st. The City did not submit the report until October 18, 2013. Additionally, the report for period ending March 30, 2013 was not submitted as of March 5, 2014.

Effect: The City is not in compliance with the reporting requirements of the loan agreement.

Cause: The Grant Manager stated that the City only files the report when asked by the State to file the report.

Recommendation: The City should either develop procedures to comply with the reporting requirements of the loan agreement or obtain documentation from the State that indicates the late filing is acceptable.

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Stephen Fremming, Associate Civil Engineer, (209) 668-5599 ext. 4417

Corrective action: The City has put procedures into place to be sure that required reports are filed on a timely basis.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding: SA2013-02 **Timely Report Submission**

CFDA Number: 14.239
CFDA Title: Home Investment Partnerships Program
Name of Federal Agency: Department of Housing and Urban Development

Criteria: Agency Program Requirements stipulate that the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons (OMB No. 2529-0043) should state that for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

Condition: The City has not completed the annual Section 3 Summary Report for the HOME program for fiscal year 2012-13 as of March 5, 2014.

Effect: The City is not in compliance with the reporting requirements of the Agency Program Requirements.

Cause: Due to the fact that the rehabilitation projects were relatively new and run through the City’s sub-recipient, Stanislaus County, the City was under the impression that the County was performing the required reporting.

Recommendation: The City should submit all required reports and look to reconcile with the grantor to see if any further actions are required for failure to report for, the prior periods.

View of Responsible Officials and Planned Corrective Actions:

Name of contact person: Maryn Pitt, Assistant to the City Manager for Housing and Economic Development (209) 668- 5540 ext. 2227

Corrective action: The City has put procedures into place to better identify activities which trigger the required filing of the referenced report to be sure that required report is filed on a timely basis.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –

Prepared by Management

Financial Statement Prior Year Findings

There were financial statement findings in the prior year, the current status of which we have communicated in a separate Memorandum on Internal Control dated March 20, 2014, which is an integral part of our audits and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

Finding #SA 2012-01: Timely Submission of Federal Financial Report

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

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

Cause: There was a significant delay in financial reporting. The annual required audit was not completed until July 19, 2013.

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

View of Responsible Officials and Planned Corrective Actions:

Contact person: Marie Lorenzi, Senior Accountant, (209) 668-5542 Ext. 1318

Current status: The City did not agree with the auditor's assertion that our financial reporting process was deficient. The City had little ability to exercise control over the situation (described in the prior year report) which led to the late filing. Absent that situation the financial statements and federal single audit reporting would have been completed and filed on a timely basis. City staff have since worked through the situation with the parties involved and believe it to be resolved and will not cause late filing in subsequent years.

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CITY OF TURLOCK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development Direct Programs:			
ARRA - Community Development Block Grant (CDBG-R)	14.253	B-09-MY-06-0039	<u>\$19,359</u>
Community Development Block Grant (CDBG) Program			
Program expenditures	14.228	B-10-MC-06-0039	340,171
Program expenditures	14.228	B-11-MC-06-0039	425,244
Program income	14.228		<u>325,930</u>
Program Subtotal			<u>1,091,345</u>
HOME Investment Partnerships Program			
Program expenditures	14.239	M-10-DC-06-0240	329,531
Program expenditures	14.239	M-11-DC-06-0240	149,132
Subgrants	14.239	M-11-DC-06-0240	373,379
Program income	14.239		<u>12,021</u>
Program Subtotal			<u>864,063</u>
Department of Housing and Urban Development Pass-Through from:			
California Department of Housing and Community Development Neighborhood Stabilization Program (NSP)	14.264	09-NSP1-6268	<u>248,162</u>
ARRA - Homelessness Prevention and Rapid Re-Housing			
Program expenditures	14.257	09-HPRP-6140	23,551
Subgrants	14.257	09-HPRP-6140	<u>161,288</u>
Program Subtotal			<u>184,839</u>
California State University, Fresno Foundation Smart Valley Places Grant	14.703	SC360080-11-05	<u>85,331</u>
Total Department of Housing and Urban Development			<u>2,493,099</u>
U.S. Department of Justice Direct Programs:			
JAG Program Cluster			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2010-DJ-BX-1232	10,452
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2011-DJ-BX-2678	41,317
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.804	2009-SB-B9-0171	<u>45,334</u>
JAG Cluster Program Subtotal			<u>97,103</u>
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009-RK-WX-0167	<u>326,459</u>
Asset Forfeiture Program	16.922	CA0500700	<u>5,000</u>
Total U.S. Department of Justice			<u>428,562</u>

(Continued)

CITY OF TURLOCK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal or Pass-Through Identifying Number	Federal Expenditures
Department of Transportation Direct Programs:			
Federal Transit Formula Grants	20.507	69080138	947,674
ARRA - Federal Transit Formula Grants	20.507	Not Available	<u>148,454</u>
Program Total			<u>1,096,128</u>
Department of Transportation Pass-Through from:			
California Department of Transportation			
Congestion Mitigation and Air Quality Improvement Program (CMAQ)	20.205	CML-5165	325,341
Surface Transportation Program (STP)	20.205	RSTP-5165	1,248,642
Transportation Enhancement Act (TEA)	20.205	RPSTPLE-5165	<u>746,303</u>
Program Subtotal			<u>2,320,286</u>
Highway Safety Cluster			
Distracted Driver	20.600	2013-DD1320	5,665
Sustained Traffic Enforcement Program (STEP)	20.605	20617	2,164
AVOID Anti-DUI Program	20.605	20793	<u>57,482</u>
Highway Safety Cluster Subtotal			<u>65,311</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Sobriety Checkpoint Grant	20.608	SC13438	<u>2,038</u>
Total Department of Transportation			<u>3,483,763</u>
Department of Energy Direct Program:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-SC0002257	<u>33,652</u>
Department of Homeland Security Direct Program:			
Assistance to Firefighters Grants	97.044	EMW-2010-FH-00358	<u>252,337</u>
Environmental Protection Agency Pass-Through from:			
California State Water Resources Control Board			
Capitalization Grants for Clean Water State Revolving Fund	66.458	11-833-550	9,756,474
Capitalization Grants for Clean Water State Revolving Fund	66.458	11-836-550	<u>11,627,506</u>
Total Environmental Protection Agency			<u>21,383,980</u>
Total Expenditures of Federal Awards			<u>\$28,075,393</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF TURLOCK

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For The Year Ended June 30, 2013

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Turlock, California and its component unit as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

OMB Circular A-133 requires that certain adjustments be made to expenditures recognized when incurred. The adjustments applicable to the City are summarized below:

Expenditures of Long-Term Debt Proceeds – In this fiscal year, the City received proceeds from long-term debt funded by the federal government passed through the California State Water Resources Control Board. In accordance with OMB Circular A-122, section .20(d) the City included current year expenditures of such proceeds on the Schedule of Expenditures of Federal Awards for program 66.458.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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

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

We have audited, in accordance with the 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, the basic financial statements of the City of Turlock as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles, this restatement of net position and fund balance for the recategorization of a fund from proprietary to a capital projects fund, the restatement of long term debt, the restatement of unearned revenue due to a change in accounting policy and the restatement of the OPEB obligation for the Police and Fire Healthcare Plans.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control, we consider to be material weaknesses as listed on the Schedule of Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated March 20, 2014 which is an integral part of our audits and should be read in conjunction with this report.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated March 20, 2014 which is an integral part of our audits and should be read in conjunction with this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City's Response to Findings

The City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated March 20, 2014 which is an integral part of our audits and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Mary & Associates".

Pleasant Hill, California
March 20, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Turlock'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, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA2013-01 and SA2013-02. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the City as of and for the year ended June 30, 2013, and have issued our report thereon dated March 20, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Mane & Associates

Pleasant Hill, California
March 28, 2014

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CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012

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**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012**

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act Funds (TDA Funds) which are included in the Streets Special Revenue Fund and the Transportation Enterprise Fund of the City of Turlock (City), California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the TDA Funds' basic financial statements as listed in the Table of Contents. The financial statements of the TDA Funds as of June 30, 2012 were audited by other auditors whose report dated June 17, 2013 was unqualified.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended June 30, 2013 that affected the format and nomenclature of the financial statements:

Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. See Note 1 to the financial statements for relevant disclosures.

Management early-implemented the provisions of the following Governmental Accounting Standards Board Statement during the year ended June 30, 2013 that also affected the format and nomenclature of the financial statements:

Statement 65 – Items Previously Report as Assets and Liabilities. See Note 1D to the financial statements for relevant disclosures.

As discussed in Note 5C, the City restated the balances of unearned revenue in the Streets Special Revenue Fund and the Transit Enterprise Fund.

Other Matters

As discussed in Note 1, the financial statements present only the TDA Funds and are not intended to present fairly the financial positions and results of operation of the City of Turlock in conformity with generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the TDA 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* in considering the TDA Funds' internal control over financial reporting and compliance.

Maye & Associates

Pleasant Hill, California
March 20, 2014

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and investments	\$58,516	\$83,124
Accounts receivable	<u>307,078</u>	
Total Assets	<u>\$365,594</u>	<u>\$83,124</u>
LIABILITIES		
Accounts and salaries payable	\$66,914	\$27,540
Unearned revenue	<u>298,680</u>	<u>218,247</u>
Total Liabilities	<u>365,594</u>	<u>245,787</u>
FUND BALANCES		
Unassigned		<u>(162,663)</u>
Total Liabilities and Fund Balance	<u>\$365,594</u>	<u>\$83,124</u>

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES:		
Intergovernmental revenues	\$894,841	\$1,015,882
Charges for services	28,998	18,075
Interest income and other revenues	417	1,074
	<u>924,256</u>	<u>1,035,031</u>
Total Revenues		
EXPENDITURES:		
Public ways and facilities / transportation	509,754	509,043
Capital outlay	65,164	44,096
	<u>574,918</u>	<u>553,139</u>
Total Expenditures		
Excess of Revenues over Expenditures	<u>349,338</u>	<u>481,892</u>
OTHER FINANCING SOURCES (USES)		
Transfers in from Local Transportation Enterprise Fund	3,000	4,071
Transfers in from other City funds		595
Transfers out to other City funds	<u>(189,675)</u>	<u>(486,558)</u>
	<u>(186,675)</u>	<u>(481,892)</u>
Total Other Financing Sources (Uses)		
Net Change in Fund Balance	162,663	
Fund Balance (Deficit), Beginning of Year, as Restated (Note 5C)	<u>(162,663)</u>	<u>(162,663)</u>
Fund Balance (Deficit), End of Year	<u><u> </u></u>	<u><u>(\$162,663)</u></u>

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenues	\$560,513	\$560,513	\$894,841	\$334,328
Charges for services			28,998	28,998
Interest income and other revenues			417	417
	<hr/>		<hr/>	
Total Revenues	<u>560,513</u>	<u>560,513</u>	<u>924,256</u>	<u>363,743</u>
EXPENDITURES:				
Public ways and facilities / transportation	720,600	720,700	509,754	210,946
Capital outlay	<u>240,000</u>	<u>327,100</u>	<u>65,164</u>	<u>261,936</u>
	<hr/>		<hr/>	
Total Expenditures	<u>960,600</u>	<u>1,047,800</u>	<u>574,918</u>	<u>472,882</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(400,087)</u>	<u>(487,287)</u>	<u>349,338</u>	<u>836,625</u>
OTHER FINANCING SOURCES (USES):				
Transfers in from Local Transportation Enterprise Fund	3,000	3,000	3,000	
Transfers out to other City funds	<u>(33,779)</u>	<u>(203,779)</u>	<u>(189,675)</u>	<u>14,104</u>
	<hr/>		<hr/>	
Total Other Financing Sources (Uses)	<u>(30,779)</u>	<u>(200,779)</u>	<u>(186,675)</u>	<u>14,104</u>
Net Change in Fund Balance	<u>(\$430,866)</u>	<u>(\$688,066)</u>	162,663	<u>\$850,729</u>
Fund Balance (Deficit), Beginning of Year, As Restated (Note 5C)			<u>(162,663)</u>	
Fund Balance (Deficit), End of Year			<hr/> <hr/>	

See accompanying notes to financial statements

CITY OF TURLOCK
LOCAL TRANSPORTATION FUND
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Current assets:		
Cash and investments	\$2,671,648	\$3,607,710
Accounts receivable, grants	972,005	648,097
Interest receivable	1,214	2,724
Total current assets	3,644,867	4,258,531
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	3,380,147	3,686,807
Depreciable, net	5,680,741	3,918,352
Total noncurrent assets	9,060,888	7,605,159
Total Assets	12,705,755	11,863,690
LIABILITIES		
Current liabilities:		
Accounts payable and accruals	71,522	231,474
Salaries payable	2,024	3,451
Unearned revenue	3,537,671	3,985,086
Compensated absences - due in one year	3,493	4,205
Total current liabilities	3,614,710	4,224,216
Long-term liabilities		
Compensated absences	13,971	16,820
Net OPEB obligation	16,186	17,495
Total long-term liabilities	30,157	34,315
Total Liabilities	3,644,867	4,258,531
NET POSITION		
Net Investment in Capital Assets	9,060,888	7,605,159
Total Net Position	\$9,060,888	\$7,605,159

See accompanying notes to basic financial statements

CITY OF TURLOCK
LOCAL TRANSPORTATION FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Charges for services	\$151,293	\$145,827
Other income	61,337	3,453
Total operating revenues	212,630	149,280
OPERATING EXPENSES		
Salaries, benefits and insurance	129,205	134,470
Contractual	764,593	729,754
Supplies and maintenance	30,696	25,433
Utilities	15,729	13,081
Fleet expense	181,425	153,606
Depreciation	297,096	296,909
Other expenses	16,375	23,526
Total operating expenses	1,435,119	1,376,779
Operating loss	(1,222,489)	(1,227,499)
NON-OPERATING REVENUES (EXPENSES)		
Operating Grants	923,904	878,848
Investment income	7,044	10,647
Total nonoperating revenues (expenses)	930,948	889,495
LOSS BEFORE CAPITAL GRANTS AND TRANSFERS	(291,541)	(338,004)
Capital Grants	1,753,270	1,662,417
Transfers out to the Streets Special Revenue Fund	(3,000)	(4,071)
Transfers out to other City funds	(3,000)	(3,000)
Change in net position	1,455,729	1,317,342
BEGINNING NET POSITION, AS RESTATED (NOTE 5C)	7,605,159	6,287,817
ENDING NET POSITION	\$9,060,888	\$7,605,159

See accompanying notes to financial statements

CITY OF TURLOCK
LOCAL TRANSPORTATION FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$212,630	\$149,280
Payments to suppliers	(1,168,770)	(796,860)
Payments to employees	(135,502)	(126,845)
	(1,091,642)	(774,425)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(6,000)	(7,071)
Intergovernmental receipts - operations	499,686	878,848
	493,686	871,777
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental receipts - capital program	1,406,165	4,663,830
Purchases of capital assets	(1,752,825)	(1,614,251)
	(346,660)	3,049,579
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	8,554	8,929
	8,554	8,929
Net Cash Flows	(936,062)	3,155,860
CASH AND CASH EQUIVALENTS		
Cash and investments at beginning of period	3,607,710	451,850
Cash and investments at end of period	\$2,671,648	\$3,607,710
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	(\$1,222,489)	(\$1,227,499)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	297,096	296,909
Change in assets and liabilities:		
Accounts payable	(159,952)	148,540
Salaries payable	(1,427)	50
Compensated absences	(3,561)	2,464
Net OPEB obligation	(1,309)	5,111
	(1,091,642)	(774,425)

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *The Reporting Entity*

The financial statements of the Transportation Development Act Funds (TDA Funds) are intended to present the financial position and changes in financial position and cash flows for only those transactions attributable to the Streets Special Revenue Fund and the Transportation Enterprise Fund (TDA Funds) administered and disbursed by the City of Turlock, California (City).

The accounting policies of the TDA Funds of the City are in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting principles. The following is a summary of the more significant accounting policies.

B. *Fund Accounting*

The operations of the TDA Funds are accounted for in separate sets of self-balancing accounts that comprise their assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance or net position, revenues and expenditures or expenses. Governmental resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The TDA Funds are presented in the accompanying financial statements as follows:

Governmental Fund Type

Streets Special Revenue Fund - 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 1B funds whose use is generally restricted to pavement maintenance, rehabilitation and/or reconstruction.

Proprietary Fund Type

Transportation Enterprise Fund - 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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Basis of Accounting and Measurement Focus*

Streets Special Revenue Fund

The Streets Special Revenue Fund's financial statements include a Balance Sheet and a Statement of Revenue, Expenditures and Changes in Fund Balance. The Special Revenue Fund is accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources, are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. 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. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City's accrual period is generally 90 days after fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

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, the fund accounts for the Proposition 1B funds whose use is generally restricted to pavement maintenance, rehabilitation and/or reconstruction.

Transportation Enterprise Fund

The Transportation Enterprise Fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Transportation Enterprise Fund is accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Change in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. 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 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 and capital projects are accounted for in this fund, along with Proposition 1B funds designated for transit programs.

Operating revenues in the Transportation Enterprise Fund include fare revenues and other revenues generated from the primary operations of the fund, excluding grants. All other revenues, including operating grants, are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

E. Classification Changes

For the year ended June 30, 2013, certain account classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the 2012-13 presentation.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

The TDA Funds participate in the City's cash and investment pool. The City pools surplus cash from all sources and all funds, except cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity. Investment income is allocated among funds on the basis of the average month-end cash and investment balances in these funds. As of June 30, 2013 and June 30, 2012, the TDA Funds had cash and investment balances of \$2,613,132 and \$3,524,586, respectively.

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

The City's Investment Policy and the California Government Code permit the following investments, provided the credit ratings of the issuers are acceptable and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Investment Policy if more restrictive, that address interest rate risk, credit risk and concentration of credit risk.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
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For the Years Ended June 30, 2013 and 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

The City’s investment policy authorizes the following investments:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Notes, Bonds and/or Bills	5 years	N/A	Unlimited	N/A
U.S. Government Sponsored Securities	5 years	N/A	Unlimited	No more than 25%
Certificates of Deposit	2 years	N/A	30%	N/A
Bankers' Acceptances	180 days	N/A	40%	No more than 30%
Commercial Paper	270 days	A-1 or Higher	25%	No more than 10%
State of Local Agency Investment Fund (LAIF)	N/A		Equal to maximum limit set by LAIF	N/A
Money Market Funds	N/A	N/A	15%	N/A
Corporate Notes	5 years	AAA	5%	N/A

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.

NOTE 3 – 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 Position 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 Position 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 Enterprise Fund are recorded at cost in the Transportation Enterprise Fund and are depreciated using the straight-line method over estimated useful lives. Operating expenses include depreciation on all depreciable capital assets. Repairs and maintenance are charged to expense when the services are rendered.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

NOTE 3 – CAPITAL ASSETS (Continued)

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

Transportation Enterprise Fund

The following is a summary of capital assets for the Transportation Enterprise fund:

	Balance at <u>June 30, 2012</u>	Additions	Transfers	Balance at <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land			\$1,823,738	\$1,823,738
Construction in progress	\$3,686,807	\$1,752,825	(3,883,223)	1,556,409
Total capital assets not being depreciated	<u>3,686,807</u>	<u>1,752,825</u>	<u>(2,059,485)</u>	<u>3,380,147</u>
Capital assets being depreciated:				
Land improvements	10,729		2,059,485	2,070,214
Buildings	1,904,615			1,904,615
Furniture and equipment	446,687			446,687
Vehicles	2,772,017			2,772,017
Total capital assets being depreciated	<u>5,134,048</u>		<u>2,059,485</u>	<u>7,193,533</u>
Less accumulated depreciation for:				
Land improvements	(2,891)	(358)		(3,249)
Buildings	(240,626)	(63,487)		(304,113)
Furniture and equipment	(134,056)	(48,450)		(182,506)
Vehicles	(838,123)	(184,801)		(1,022,924)
Total accumulated depreciation	<u>(1,215,696)</u>	<u>(297,096)</u>		<u>(1,512,792)</u>
Net capital assets being depreciated	<u>3,918,352</u>	<u>(297,096)</u>	<u>2,059,485</u>	<u>5,680,741</u>
Capital assets, net	<u>\$7,605,159</u>	<u>\$1,455,729</u>		<u>\$9,060,888</u>

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
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NOTE 4 - UNEARNED REVENUE – CAPITAL PROGRAMS

The TDA Funds received grants from the State of California Department of Transportation for projects financed with Public Transportation Modernization, Improvement, and Service Enhancement Account (Proposition 1B), and had received Local Transportation Fund and State Transit Assistance funds in advance of costs being incurred. As of June 30, 2013 and 2012, unearned revenue related to those programs is as follows:

	2013	2012
<i>Streets Special Revenue Fund:</i>		
Proposition 1B		\$218,247
State Transit Assistance and Local Transportation Fund	\$298,680	
Total Streets Special Revenue Fund	\$298,680	\$218,247
<i>Transit Enterprise Fund:</i>		
Proposition 1B	\$1,353,065	\$1,372,961
State Transit Assistance and Local Transportation Fund	2,184,606	2,612,125
Total Transit Enterprise Fund	\$3,537,671	\$3,985,086

NOTE 5 – NET POSITION AND FUND BALANCES

A. Net Position

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter.

B. Fund Balances

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

The City's fund balances are classified based on spending constraints imposed on the use of resources. The use of the funds accounted for in these Statements is restricted by law; therefore these funds will never have committed or assigned balances. Each category in the following hierarchy is ranked according to the degree of spending constraint:

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

NOTE 5 – NET POSITION AND FUND BALANCES (Continued)

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee, the City Manager. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue and Capital Projects which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

C. *Adjustment of Fund Balance and Net Position*

During fiscal year 2013, the City changed its accounting policy related to unspent funding allocations and analyzed the balances of unearned revenue in the Streets Special Revenue Fund and the Transit Enterprise Fund and determined that the balances were more appropriately reported as unearned revenue rather than restricted fund balance/net position. Therefore, the balance of unearned revenue in the Streets Special Revenue Fund as of July 1, 2012 has been increased and fund balance has been reduced and adjusted in the amount of \$218,247, and the balance of unearned revenue in the Transit Enterprise Fund as of July 1, 2012 has been increased and net position has been reduced and adjusted in the amount of \$1,942,524.

NOTE 6 – TRANSPORTATION DEVELOPMENT ACT

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
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For the Years Ended June 30, 2013 and 2012

**NOTE 7 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE
ENHANCEMENT ACCOUNT (PTMISEA)**

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; (4) the acquisition of property for the development of a transit transfer hub, (5) the transit transfer center phase II, (6) a CNG slow fill compressor, and (7) an electronic farebox system.

In fiscal years 2008 through 2013, the Program received a total of \$3,679,716 from Proposition 1B funds and expended \$2,353,915, including the expenditure of interest on the unspent funds. For fiscal year 2013, the Program receive Proposition 1B funds totaling \$1,082,437 and expended \$1,103,897, including the expenditure of interest on unspent funds. Unspent grant receipts have been reported as unearned revenue in the accompanying financial statements and the schedule below delineates the funds received and the expenditure of these funds along with the interest earned on the unexpended funds.

Project Name	Grant Amount	Interest	Expended through June 30, 2013	Transfers to Other Projects	Unearned Revenue
Bus LED Designation Signs and Brochure Holders	\$12,975	\$163	(\$13,138)		
Construction of Timed Fill Compressed Natural Gas (CNG) Bus Fueling Station	315,495	6,889	(279,853)	(\$42,531)	
Compressed Natural Gas Transit Bus (35-foot)	495,495	14,112	(507,333)	(2,274)	
Transit Transfer Center	1,265,574	5,539	(1,549,015)	553,050	\$275,148
Transit Transfer Center Phase II	532,437	28			532,465
CNG Slow Fill Compressor	350,000	17	(4,576)		345,441
Electronic Farebox System	200,000	11			200,011
Dispatch Office	130,000	183		(130,183)	
Operations and Bus Storage	377,740	322		(378,062)	
Total	<u>\$3,679,716</u>	<u>\$27,264</u>	<u>(\$2,353,915)</u>		<u>\$1,353,065</u>

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2013 and 2012

NOTE 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 TDA 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. More information regarding the City's risk management program can be found in the basic financial statements of the City of Turlock.

NOTE 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 basic financial statements for the City of Turlock.

NOTE 10 - MAJOR CONTRACTOR

On October 25, 2011, the City renewed its contract agreement with First Transit Inc. to operate and maintain the DART and BLAST programs. The term is from December 1, 2011, to November 30, 2014, with an option to extend for an additional three years. First Transit Inc. is paid monthly based on a fixed fee plus a fee calculated at a fixed rate per vehicle multiplied by the number of service hours. Expenses incurred under this contract amounted to \$536,592 for the fiscal year ended June 30, 2013.

NOTE 11 - 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.

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

Honorable Members of the City Council
of the City of Turlock
Turlock, California

We have audited, in accordance with the 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, the basic financial statements of the Transportation Development Act Funds (TDA Funds) of the City of Turlock (City), California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2014. Our report included emphasis of a matter paragraphs disclosing the implementation of new accounting principles and the restatement of unearned revenue.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TDA Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of TDA Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the TDA Funds' financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TDA Funds' financial statements are free from 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. Our procedures included the applicable audit procedures contained in §6666 and §6667 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Stanislaus Council of Governments. 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 that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated March 20, 2014, which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the TDA Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TDA Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Mary & Associates".

Pleasant Hill, California
March 20, 2014

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

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

Report on Compliance for TDA Funds

We have audited the City of Turlock, California's (City) Streets Special Revenue Fund and the Transportation Enterprise Fund (TDA Funds) compliance 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) that could have a direct and material effect on the TDA Funds for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its TDA Funds.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the TDA Funds based on our audit of the types of compliance requirements referred to above. 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 the Act and the allocation instructions and resolutions of the StanCOG. Those standards, the Act, and the allocation instructions and resolutions of the StanCOG 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 Funds 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 on compliance for the TDA Fund. However, our audit does not provide a legal determination of the City's compliance.

Opinion on TDA Funds

In our opinion, the TDA Funds complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the TDA Funds for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the TDA Funds' internal control over compliance with the types of requirements that could have a direct and material effect on the TDA Funds to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the TDA Funds and to test and report on internal control over compliance in accordance with the Act and the allocation instructions and resolutions of the StanCOG, 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 TDA Funds' internal control over compliance.

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 the TDA Funds 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 the TDA Funds will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the TDA Funds that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We have also issued a separate Memorandum on Internal Control dated March 20, 2014, which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Act and the allocation instructions and resolutions of the StanCOG. Accordingly, this report is not suitable for any other purpose.



Pleasant Hill, California
March 20, 2014

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON TDA FUNDS AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH RULES AND REGULATIONS OF THE
PUBLIC TRANSPORTATION MODERNIZATION,
IMPROVEMENT AND SERVICE ENHANCEMENT
ACCOUNT (PTMISEA)**

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

Report on Compliance for PTMISEA Projects

We have audited the revenues and expenses of the City of Turlock, California's (City) Public Transportation Modernization, Improvement and Service Enhancement Account Projects, as disclosed in Note 7 to the accompanying financial statements, a program of the Transportation Enterprise Fund, (the Projects) compliance with the rules and regulations of the *Public Transportation Modernization, Improvement and Service Enhancement Account* (PTMISEA) that could have a direct and material effect on the Projects for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Projects based on our audit of the types of compliance requirements referred to above. 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 the PTMISEA. Those standards and the PTMISEA 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 Projects 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 on compliance for the Projects. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the PTMISEA Projects

In our opinion, the Projects complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Projects for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Projects' internal control over compliance with the types of requirements that could have a direct and material effect on the Projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Projects and to test and report on internal control over compliance in accordance with the PTMISEA, 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 Projects' internal control over compliance.

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 the Projects 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 the Projects will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the Projects that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We have also issued a separate Memorandum on Internal Control dated March 20, 2014, which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the PTMISEA and. Accordingly, this report is not suitable for any other purpose.



Pleasant Hill, California
March 20, 2014

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**CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM**

FINANCIAL STATEMENTS

For the Years Ended June 30, 2013 and 2012

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**CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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 as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Program's financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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, and 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 StanCOG. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the 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, 2013 and 2012 in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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, 2013 and 2012, and changes in fund balances for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Pleasant Hill, California
March 20, 2014

CITY OF TURLOCK
 ABANDONED VEHICLE ABATEMENT PROGRAM
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 FOR YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Revenues:		
Registration Fees	\$54,668	\$47,024
Contribution from City of Turlock	50,256	63,726
Total Revenues	104,924	110,750
Expenditures:		
Personnel	94,156	97,726
Services and Supplies	10,768	13,024
Total Expenditures	104,924	110,750
Excess of revenues over expenditures		
Fund balance at beginning of year	_____	_____
Fund balance at end of year	_____	_____

See accompanying notes to the financial statement

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CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
NOTES TO THE FINANCIAL STATEMENT
For the Years Ended June 30, 2013 and 2012

NOTE 1 – SUMMARY SIGNIFICANT ACCOUNTING POLICIES

A. *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.

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 Program's accounting policies are described below.

B. *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.

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 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 Program's accrual period is generally 90 days after fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
NOTES TO THE FINANCIAL STATEMENT
For the Years Ended June 30, 2013 and 2012

NOTE 1 – SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 expenses during the reporting period. Actual results could differ from those estimates.

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

Honorable Members of the City Council
of the City of Turlock
Turlock, California

We have audited, in accordance with the 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, the Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule) of the Abandoned Vehicle Abatement Program (Program) of the City of Turlock (City), California, as of and for the years ended June 30, 2013 and 2012, and the related notes to the Schedule, and have issued our report thereon dated March 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Program’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of Program’s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's Schedule is free from 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 the Schedule amounts. Our procedures included tests of compliance with the provisions of the AVA Program Handbook. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings.

We have also issued a separate Memorandum on Internal Control dated March 20, 2014, which is an integral part of our audit and should be read in conjunction with this report.

Program's Response to Findings

The Program's responses to the findings are identified in the Schedule of Findings and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pleasant Hill, California
March 20, 2014

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

Report on Compliance for Abandoned Vehicle Abatement Program

We have audited, in accordance with the 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, the financial statements of the Abandoned Vehicle Abatement Program (Program) of the City of Turlock (City) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon date March 20, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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).

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Program based on our audit of the types of compliance requirements referred to above. 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 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 StanCOG. Those standards and requirements 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 Program'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 on compliance for the Program. However, our audit does not provide a legal determination of the Program's compliance.

Opinion on Abandoned Vehicle Abatement Program

In our opinion, the Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Program for the years ended June 30, 2013 and 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying Schedule of Findings as item AVA2013-01. Our opinion on the Abandoned Vehicle Abatement Program is not modified with respect to these matters.

Program's Response to Findings

The Program's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings. The Program's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Program's internal control over compliance with the types of requirements that could have a direct and material effect on the Program determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Program and to test and report on internal control over 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.

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 the 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 the Program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the Program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements, specified 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 StanCOG between the Program and StanCOG. Accordingly, this report is not suitable for any other purpose.



Pleasant Hill, California
March 20, 2014

SCHEDULE OF FINDINGS

AVA2013-01 Accurate Preparation of Quarterly Status Reports

Criteria: The Program is required to file Quarterly Status Reports (QSR) with Stanislaus County that include the financial operations (revenues and costs) and vehicles abated (by type and public vs. private).

Condition: We selected four QSRs from the period July 1, 2011 to June 30, 2013 for testing of supporting documentation to determine if the reporting of abatements was accurate. We noted that the abatements reported on the September 30, 2011 and June 30, 2013 QSRs did not agree to the supporting documentation. The September 30, 2011 QSR understated private abatements by one, and the June 30, 2013 QSR overstated private abatements by two.

Effect: QSRs filed with Stanislaus County did not accurately reflect the abatement activity for the period.

Cause: QSRs are not reviewed for accuracy prior to submission to the County. In addition, when multiple abatements take place at one location and time, we understand it is sometimes the practice to prepare one report that includes all the abatements and therefore made it confusing for City staff to count. We understand the City has since moved to using one report per vehicle.

Recommendation: Although it appears the City has started recording one individual report per vehicle, which should facilitate the preparation of the QSRs, the QSRs should still be reviewed and approved by someone other than the preparer to ensure they are accurate prior to submission to Stanislaus County.

Management's Response: As noted above the City has already changed its method of recording and tracking individual reports. In addition, Staff will be sure to double check the totals for each quarter before submitting the statistical data to StanCOG.

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