

CITY OF TURLOCK
FINANCIAL REPORTS
FOR THE YEAR ENDED JUNE 30, 2018



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, 2018:

City of Turlock
Basic Financial Statements

Turlock Public Financing Authority
Component Unit Basic Financial Statements

City of Turlock
Single Audit

City of Turlock Transportation Development Act (TDA)
Financial Statements



CITY OF TURLOCK, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Prepared by
THE ADMINISTRATIVE SERVICES DEPARTMENT

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CITY OF TURLOCK
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Page

INTRODUCTORY SECTION:

Table of Contents i

FINANCIAL SECTION:

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis..... 3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position 17

Statement of Activities..... 18

Fund Financial Statements:

Governmental Funds:

Balance Sheet 22

Reconciliation of the Governmental Funds Balance Sheet with the Governmental
 Activities Net Position..... 23

Statement of Revenues, Expenditures, and Changes in Fund Balances 24

Reconciliation of the Net Change in Fund Balances Governmental
 Funds with the Change in Net Position Governmental Activities 25

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:

General Fund..... 26

Former LMI Housing Fund 27

Gas Tax/Street Improvement Fund..... 28

Proprietary Funds:

Statement of Net Position 30

Statement of Revenues, Expenses and Changes in Fund Net Position..... 31

Statement of Cash Flows 32

CITY OF TURLOCK
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Page

FINANCIAL SECTION: (Continued)

Fiduciary Funds:

Statements of Fiduciary Net Position	34
Statement of Changes in Fiduciary Net Position.....	35
Notes to Basic Financial Statements.....	37

Required Supplementary Information:

Schedule of Changes in the Net Pension Liability and Related Ratios	89
Schedule of Contributions – Miscellaneous Agent Multiple-Employer Defined Benefit Pension Plan	90
Schedule of the City’s Proportionate Share of the Net Pension Liability Safety Plan.....	91
Schedule of Contributions – Safety Plans, Cost Sharing Multiple-Employer Defined Pension Plan.....	92
Schedule of Changes in the Total OPEB Liability and Related Ratios.....	93

Supplemental Information:

Non-major Governmental Funds:

Combining Balance Sheet.....	96
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	102

Internal Service Funds:

Combining Statement of Net Position	108
Combining Statement of Revenues, Expenses and Changes in Fund Net Position	109
Combining Statement of Cash Flows	110

Agency Funds:

Combining Statement of Changes in Assets and Liabilities – All Agency Funds	112
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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, California, as of and for the year ended June 30, 2018, 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, and the aggregate remaining fund information of the City as of June 30, 2018, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which became effective during the year ended June 30, 2018 and required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Note 8E.

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

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. 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 September 25, 2019 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.



Pleasant Hill, California
September 25, 2019

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 2017-18 financial statements (with comparative information for 2016-17). We encourage our readers to consider this information in conjunction with the information provided in the accompanying basic financial statements and notes thereto.

FISCAL YEAR 2017-18 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The City’s net position (assets and deferred outflows in excess of liabilities and deferred inflows) at June 30, 2018, totaled \$466 million. Governmental activities accounted for \$273 million of the net position, while \$193 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$98 million; while total expenses were \$88 million.
- Governmental program revenues were \$22 million compared to governmental program expenses of \$57 million.
- Program revenues from business-type activities were \$43 million, while expenses for business-type activities were \$31 million.

Fund Highlights

- Net General Fund expenditures exceeded revenues and other financing sources (uses) by \$1.3 million as compared to the prior year when revenues exceeded expenditures and other financing sources (uses) by \$2.2 million. For financial reporting purposes, the “General Fund” includes not only the City’s General Fund, but also the Parks, Arts and Recreation Commission, Special Public Safety, and Tourism (2 funds) funds.
- General Fund fund balance of \$11.5 million at June 30, 2018 compared to a projected \$12.9 million when the 2017-18 budget was originally adopted.

Additional discussion regarding the financial results for fiscal year 2017-18 can be found in the “Financial Activities” section of this document.

OVERVIEW OF THESE FINANCIAL STATEMENTS

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

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

THE BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

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

City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2018

The *Statement of Net Position* 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 deferred outflows of resources and liabilities and deferred inflows of resources 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 user and 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. Since the City’s most significant fiscal activities may change from year to year, the funds designated as “major funds” may also change from year to year.

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

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

The City of Turlock has twenty-nine (29) governmental funds of which three (3) are considered major funds for presentation purposes – the General Fund, Former LMI Housing Fund, and Gas Tax/Street Improvement Fund. 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 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 22 in this report.

City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2018

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis and include all their assets, liabilities and deferred outflows/inflows of resources, 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 30.

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, 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 84 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 37.

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	
	2018	2017	2018	2017	2018	2017
Cash and investments	\$ 71,056	\$ 70,661	\$ 88,936	\$ 93,371	\$ 159,992	\$ 164,032
Other assets	42,131	37,973	9,648	5,781	51,779	43,754
Capital assets, net	229,712	229,602	222,380	212,719	452,092	442,321
Total assets	<u>342,899</u>	<u>338,236</u>	<u>320,964</u>	<u>311,871</u>	<u>663,863</u>	<u>650,107</u>
Deferred outflows of resources	<u>20,055</u>	<u>20,798</u>	<u>3,592</u>	<u>4,046</u>	<u>23,647</u>	<u>24,844</u>
Long-term liabilities	80,268	63,779	119,347	118,827	199,615	182,606
Other liabilities	7,296	5,848	12,192	9,656	19,488	15,504
Total liabilities	<u>87,564</u>	<u>69,627</u>	<u>131,539</u>	<u>128,483</u>	<u>219,103</u>	<u>198,110</u>
Deferred inflows of resources	<u>1,984</u>	<u>5,699</u>	<u>198</u>	<u>1,583</u>	<u>2,182</u>	<u>7,282</u>
Net position:						
Net investment in capital assets	229,693	229,571	121,653	109,350	351,346	338,921
Restricted	80,822	76,610			80,822	76,610
Unrestricted	(37,109)	(22,473)	71,166	76,501	34,057	54,028
Total net position	<u>\$ 273,406</u>	<u>\$ 283,708</u>	<u>\$ 192,819</u>	<u>\$ 185,851</u>	<u>\$ 466,225</u>	<u>\$ 469,559</u>

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2018

As noted above, the City's primary investment is in its *Net investment in capital assets*. Capital assets, which account for approximately 75% 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 assets available to fund future activities.

Approximately \$81 million or 17% of the City's non-capital net position is subject to external restrictions as to their use. The remaining \$34 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, (\$37) million related to governmental activities and \$71 million to business-type activities.

The City's overall net position increased by \$10 million during the 2017-18 fiscal year. Governmental activities experienced a \$564 thousand decrease in net position while the City's business-type activities – those intended to be self-sufficient – experienced a \$10.5 million increase in net position. The current year governmental activities deficit is the result of increased spending in the City's general fund, primarily for public safety services, combined with an increase in pension liabilities and related deferred inflows/outflows associated with the City's employee retirement plans. These increases were partially offset at the entity-wide level with an increase in unallocated revenues from the City's internal service funds, and the recognition of unavailable revenue under the full-accrual method of accounting related to Department of Transportation grants for the intersection improvements at Golden State Boulevard and Fulkerth. More information regarding the results of operations for all the City's funds can be found later in this report.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2018

SUMMARY OF CHANGES IN NET POSITION
(in thousands of dollars)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>For the FYE June 30</u>		<u>For the FYE June 30</u>		<u>For the FYE June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Program Revenues:						
Charges for services	\$ 10,231	\$ 10,211	\$ 32,661	\$ 30,762	\$ 42,892	\$ 40,973
Operating grants and contributions	3,949	5,315	1,743	1,239	5,692	6,554
Capital grants and contributions	8,225	5,175	8,652	2,984	16,877	8,159
Total Program Revenues	<u>22,405</u>	<u>20,701</u>	<u>43,056</u>	<u>34,985</u>	<u>65,461</u>	<u>55,686</u>
General Revenues						
Property taxes	5,893	5,423			5,893	5,423
Sales taxes	13,967	14,265			13,967	14,265
Property tax - VLF In Lieu	6,304	5,972			6,304	5,972
Other taxes	3,969	3,788			3,969	3,788
Interest and investment earnings	487	315	408	110	895	425
Other income	739	263			739	263
Gain (loss) on disposal of capital assets	391	634			391	634
Total General Revenues	<u>31,750</u>	<u>30,660</u>	<u>408</u>	<u>110</u>	<u>32,158</u>	<u>30,770</u>
Total Overall Revenues	<u>54,155</u>	<u>51,361</u>	<u>43,464</u>	<u>35,095</u>	<u>97,619</u>	<u>86,456</u>
Expenses						
General government	5,627	5,468			5,627	5,468
Public safety	34,617	26,917			34,617	26,917
Public ways/facilities/transportation	9,723	9,841			9,723	9,841
Parks and recreation	4,694	3,357			4,694	3,357
Community development	2,426	3,679			2,426	3,679
Interest on long-term debt		1			-	1
Water			8,800	9,108	8,800	9,108
Sewer			17,764	16,549	17,764	16,549
Transportation			3,113	2,262	3,113	2,262
Building & Safety			1,208	1,206	1,208	1,206
Total Expenses	<u>57,087</u>	<u>49,263</u>	<u>30,885</u>	<u>29,125</u>	<u>87,972</u>	<u>78,388</u>
Increase (Decrease) in Net Position before Transfers and Extraordinary Item	(2,932)	2,098	12,579	5,970	9,647	8,068
Transfers	2,063	1,497	(2,063)	(1,497)	-	-
Contribution from private purpose trust	305	12,578			305	12,578
Change in net position	<u>(564)</u>	<u>16,173</u>	<u>10,516</u>	<u>4,473</u>	<u>9,952</u>	<u>20,646</u>
Net Position, beginning of year	283,708	267,535	185,851	181,378	469,559	448,913
Prior year restatements	(9,738)	-	(3,548)		(13,286)	-
Net Position, end of year	<u>\$ 273,406</u>	<u>\$ 283,708</u>	<u>\$ 192,819</u>	<u>\$ 185,851</u>	<u>\$ 466,225</u>	<u>\$ 469,559</u>

As the above table shows, \$65 million of the City's \$98 million in total revenues comes from program revenue sources. Program revenues are 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.

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2018**

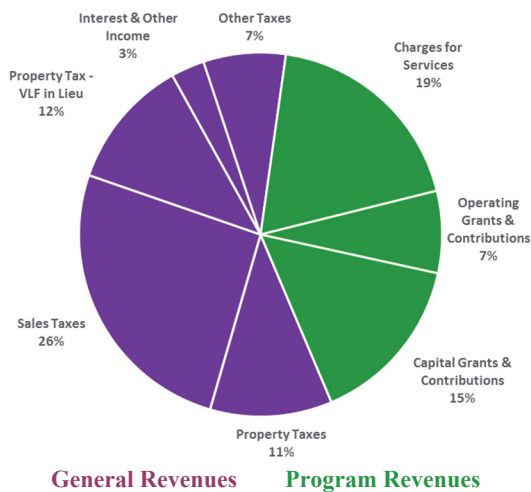
Expenses are presented on a functional basis and represent only current year expenses. As such, they do not include capital outlay expenditures as capital outlay expenditures are included in “capital assets” on the City’s *Statement of Net Position*.

Citywide expenses, which totaled \$88 million, consisted of \$57 million for governmental activities and \$31 million for business-type activities. Of the \$57 million in governmental activity expenses, \$35 million or 61% relate to the provision of public safety (police and fire) services. The next largest component was \$9.7 million or 17% 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 \$54 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 \$10.2 million. Included in this revenue category are the special assessment revenues charged by the City’s Lighting and Landscape maintenance districts as well as charges for specialized services provided by departments throughout the City and fees for participation in City-offered recreation programs.



- Operating Grants & Contributions – Revenues received from other governmental agencies which are primarily used for operational needs – totaled \$3.9 million. 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. 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. New for 2017-18

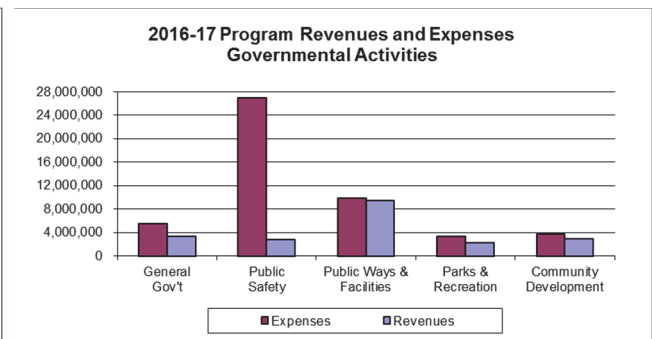
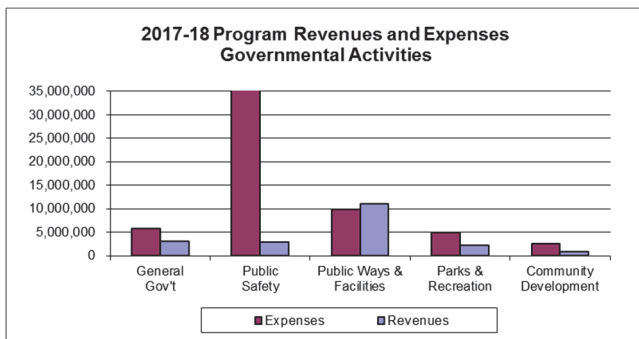
is funding from the State of CA under Senate Bill 81 (SB1) to be used for repairs and maintenance of the City’s streets/roads system.

- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure as well as federal Department of Transportation revenues. Total revenues for 2017-18 were \$8.2 million. The Department of Transportation revenues are used for street/road reconstruction and other maintenance that is more extensive than pothole patching and slurry seals. New for 2017-18 is revenue received under Measure L, a locally approved sales tax measure to be used for transportation needs within Stanislaus County, including street/road maintenance and rehabilitation.

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2018**

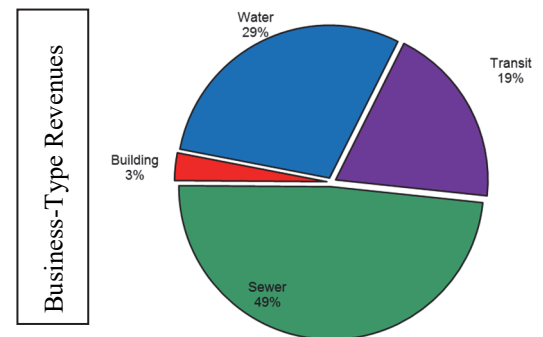
General revenues are all other revenues not classified as program revenues and are generally received for unrestricted uses. General revenues include property taxes, sales tax, property tax – VLF in lieu, franchise fees, business license fees, transient occupancy taxes and investment earnings. The City’s governmental activity general revenues totaled \$31.8 million for fiscal 2017-18, approximately \$1.1 million more than received in 2016-17. The detail within the revenue did have mixed results. Property tax assessed values increased 5.48% or \$330 million between 2016-17 and 2017-18 to a total of over \$6.3 billion in assessed value for parcels within the City of Turlock. The increase in property values and associated property tax revenue is reflective of rebounding real estate market as well as a limited stock of housing units available. This resulted in an \$800,000 increase in assessed value related revenues. After 7 years of consecutive increases, sales and use tax revenue decreased approximately 2% due to the lack of one-time use tax receipts. In prior years, the City’s industrial customers experience expansions and related large equipment purchases for which the related “use tax” receipts were allocated to the City via the State-wide sales tax allocation process. These were one-time dollars which did not recur in 2017-18.

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 below graphically depict the typical relationship between program revenues and expenses for Governmental Activities for the past two years. In total, 2017-18 expenses for Governmental Activities exceeded program revenues by \$34.7 million whereas in 2016-17 expenses exceeded revenues by \$28.6 million.



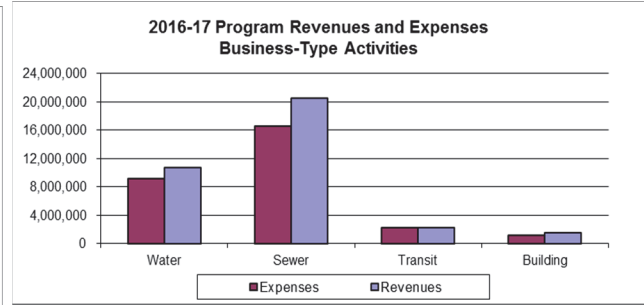
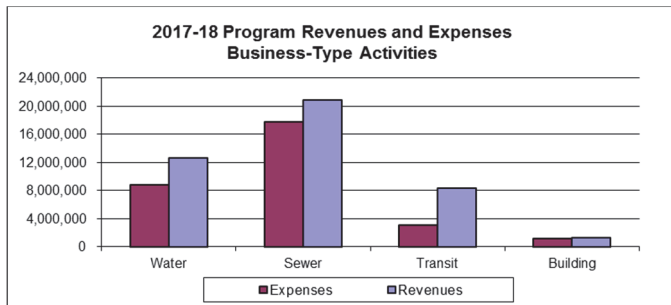
Business-Type Activities

Revenues for business-type activities totaled \$43 million and related expenses totaled \$31 million of which \$17.8 million or 57% 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 \$8.8 million or 28% 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.



The pie chart to the right and the graphs below present the composition of revenue for the City’s Business-Type activities by functional area as well as a comparison for both fiscal years 2017-18 and 2016-17 of the program revenues vs expenses for each of the four functional areas.

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2018**



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 resources (mainly cash), near-term inflows, outflows and spendable balances. This focus does not include capital assets and long-term debt.

At June 30, 2018, the City’s governmental funds reported combined fund balances of \$64.8 million, a \$2.1 million increase over the prior year. The General Fund’s fund balance is \$11.5 million at June 30, 2018. Governmental fund revenues (including transfers in) were \$58.3 million this year, of which General Fund revenues totaled \$38.6 million or 66%. Governmental fund expenditures (including transfers out) totaled \$56.2 million with the General Fund representing 71% of the total or \$39.9 million. The following provides additional information for select governmental funds.

General Fund – As previously mentioned, for financial reporting purposes, the “General Fund” includes not only the City’s General Fund, but also the Parks, Arts and Recreation Commission, Special Public Safety, and Tourism (2 funds) funds. At June 30, 2018, the General Fund had a fund balance of \$11.5 million with \$7 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 by \$1.3 million for 2017-18. On-going General Fund revenues increased 3.2% with increases noted in property tax, VLF property tax in-lieu leading the way. Sales tax revenue was down approximately 2%. This loss was offset by a nearly equal gain in other General Fund revenues.

The City continues to work balancing the economic vs. service demand challenges associated with the activities funded by the General fund. The economic challenges relate to increasing personnel costs without a corresponding increase in General Fund revenues. The service demand challenges relate to maintaining personnel/population ratios for the City’s public safety services which are the primary consumer of General Fund revenues (78% of expenditures for 2017-18). During the 2017-18 fiscal year the City Council approved adding public safety (police and fire) positions to address service demand issues with the acknowledgement that the associated costs would be funded in the short term using General Fund reserves. The City also approved compensation increases during 2017-18 to address employee retention issues. This action when combined with increasing retirement and healthcare costs resulted in the increase in overall General Fund expenses by \$3.6 million while revenues increased by just more than \$1 million.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2018**

The City continues to experience significant interest in the development of vacant parcels at the Turlock Regional Industrial Park as well as other commercial/industrial locations within town and anticipates that this will spur job growth as well as other ancillary economic growth which will be reflected in future property and sales tax growth.

Former LMI Housing Fund – This fund serves 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. For fiscal year 2017-18 the fund's expenditures included \$56,100 in support of a Mobile Home Rental Subsidy program for income eligible senior citizens, and \$87,200 for development costs associated with the second phase of the Avena Bella affordable housing project. Both these programs are enforceable obligations of the Successor Agency to the Turlock Redevelopment Agency, which means they will be funded by future taxes collected by the Successor Agency and transferred to the City.

Gas Tax/Street Improvement – This fund comprises the revenues and related expenditures the City receives from Gas Tax, Local Transportation Fund (LTF), Stanislaus County Measure L, State of CA SB 1 and federal Department of Transportation (DOT) sources. Revenues (including transfers in) for 2017-18 totaled \$7.2 million while expenditures (including transfers out) totaled \$6.4 million. Federally-funded projects typically take 3-4 years from beginning to end. The funding is received on a reimbursement basis meaning that the City spends the money first in accordance with the grant documents and is then reimbursed. The City uses Gas Tax Section 2103 dollars for the local match portion for many federally-funded projects. Major projects for which there were expenditures in 2017-18 include the rehabilitation of the intersection at Golden State Boulevard and Fulkerth and the preliminary engineering work required in advance of future rehabilitation of other City streets. In addition, the City began the preliminary engineering work necessary to repair/rehabilitate various streets in town using newly acquired Measure L and SB1 funding including the rehabilitation of West Main Street, a major corridor between Hwy 99 and the City's downtown.

The Gas Tax and Local Transportation Fund dollars are used for general street maintenance (pothole repairs, crack sealing, slurry seals and striping) as well as the operational costs of the City's street lights which are not in an assessment district, traffic signals, leaf pick-up, and street tree trimming. Local Transportation Fund dollars are also used for bicycle and pedestrian related-improvements contiguous to the City's street/road system. The Gas Tax and LTF revenues are based on taxes paid when gasoline is purchased which is a revenue source that is not growing due to more fuel efficient vehicles on the road. Expenditures funded by these revenue sources were at a level consistent with the prior year. Measure L was approved by Stanislaus County voters in November 2016 and funds for maintenance projects are just beginning to flow to the City. In addition, SB1 was approved by a statewide vote in November and also provides funds for street/road repair and maintenance projects.

Enterprise Funds

The City's enterprise 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 enterprise funds increased \$10.5 million during fiscal year 2017-18, which compares to a \$4.5 million increase for fiscal year 2016-17. Overall operating revenues were approximately \$1.9 million higher than the prior year while operating expenses increased by approximately \$3.2 million. A water rate increase implemented in 2015-16 with annual increases over 5 years accounted for the increase in operating revenues for the City's Water Enterprise fund. The City is a member of the Stanislaus Regional Water Authority which is a joint powers authority developing a surface water supply project to supply additional drinking water to the customers within the Authority member's service area. More information related to this project can be found at www.stanrwa.org/. Net operating income at the City's wastewater facility remained similar to the previous year. The City continues work on the North Valley Regional Recycled Water project which when completed will provide a beneficial reuse of the City's tertiary treated effluent.

**City of Turlock
 Management’s Discussion and Analysis (continued)
 For the Year Ended June 30, 2018**

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

CAPITAL ASSETS

At June 30, 2018, the City had \$452 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 but excluding current year depreciation) during fiscal year 2017-18 was approximately \$23.2 million. Capital expenditures include construction of a new Regional Transit Center; upgrades at the Regional Water Quality Control Facility; and the purchase of a new CAD/RMS radio system, as well as the purchase of vehicles and equipment by various departments which are used in their daily operations. Additional information regarding the City’s capital assets can be found in Note 6 on page 57 of this report.

DEBT ADMINISTRATION

At June 30, 2018, the City had \$103 million in debt outstanding as compared to \$109 million for the prior year. The City did not take on any additional debt during 2017-18.

The City’s debt service obligations for 2018-19, totaling approximately \$8 million, are made up of the following:

	2017-18
	<u>Debt Service</u>
2012 Sewer Revenue Bonds	\$3,923,000
2017 Water Revenue Bonds	1,634,000
SRF - WQC Upgrade	1,542,400
SRF - Harding Drain By-Pass	937,600
Public Safety Server	12,000
	<u><u>\$8,049,000</u></u>

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 60.

NEXT YEAR’S BUDGET AND THE ECONOMY

In June 2017, the City Council adopted a two-year budget for fiscal year 2017-18 and 2018-19. The 2018-19 General Fund budget projected deficit spending of \$69,000 with revenues of just under \$39.4 million. Property tax revenue was anticipated to grow at approximately 3% and sales tax revenue approximately 5% over prior year amounts. Projected expenditures continued the funding for personnel changes noted in 2017-18. Otherwise the 2018-19 budget continued as a status quo budget which included personnel costs increases budgeted based on existing MOUs and/or Schedules of Benefits as well as projected increases for retirement and healthcare costs.

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.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2018**

REQUESTS FOR INFORMATION

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

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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, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$67,880,195	\$86,291,208	\$154,171,403
Restricted cash and investments and cash and investments with fiscal agent (Note 3)	3,175,074	2,645,062	5,820,136
Accounts receivable, net (Note 5C)	9,771,771	8,493,791	18,265,562
Interest receivable	451,044	137,891	588,935
Prepaid expenses	6,149		6,149
Internal balances	1,406,767	(1,406,767)	
Due from Developers (Note 5A)	287,284	157,663	444,947
Long-term loans receivable (Note 5B)	29,881,016		29,881,016
Investment in affordable housing property (Note 1K)	327,184		327,184
Investment in joint venture (Note 12D)		2,265,500	2,265,500
Capital assets, not being depreciated (Note 6)	28,470,861	24,088,910	52,559,771
Capital assets, being depreciated (net) (Note 6)	201,241,373	198,290,878	399,532,251
Total Assets	342,898,718	320,964,136	663,862,854
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions (Note 9)	20,055,412	3,591,789	23,647,201
LIABILITIES			
Accounts payable	3,987,970	3,975,753	7,963,723
Payroll payable	1,328,976	174,980	1,503,956
Interest payable	27	1,160,329	1,160,356
Unearned revenue	281,747	1,633,438	1,915,185
Deposits payable	1,081,149	481,323	1,562,472
Compensated absences (Note 11):			
Due within one year	604,116	118,960	723,076
Due in more than one year	2,416,464	475,837	2,892,301
Estimated claims liability (Note 11):			
Due in more than one year	2,588,096		2,588,096
Long-term debt (Note 7):			
Due within one year	11,752	4,647,314	4,659,066
Due in more than one year	7,942	98,724,165	98,732,107
Net pension liability (Note 9):			
Due in more than one year	62,324,279	15,673,241	77,997,520
Total OPEB Liability (Note 10):			
Due in more than one year	12,931,855	4,473,962	17,405,817
Total Liabilities	87,564,373	131,539,302	219,103,675
DEFERRED INFLOWS OF RESOURCES			
Related to pensions (Note 9)	1,413,379		1,413,379
Related to OPEB (Note 10)	570,903	197,515	768,418
	1,984,282	197,515	2,181,797
NET POSITION (Note 8):			
Net investment in capital assets	229,692,540	121,653,371	351,345,911
Restricted for:			
Capital projects	18,899,927		18,899,927
Special projects and programs	61,922,180		61,922,180
Total Restricted Net Position	80,822,107		80,822,107
Unrestricted	(37,109,172)	71,165,737	34,056,565
Total Net Position	\$273,405,475	\$192,819,108	\$466,224,583

See accompanying notes to basic financial statements

CITY OF TURLOCK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$5,626,587	\$2,970,268	\$39,447	\$70,044	\$3,079,759
Public safety	34,616,990	1,879,122	934,866	67,802	2,881,790
Public ways and facilities/transportation	9,722,862	2,977,547	2,172,624	8,055,510	13,205,681
Parks and recreation	4,693,820	1,601,660	665,487	31,205	2,298,352
Community development	2,426,259	802,073	136,701		938,774
Interest and fiscal charges	398				
Total Governmental Activities	57,086,916	10,230,670	3,949,125	8,224,561	22,404,356
Business-type Activities:					
Water	8,800,452	12,153,729		496,035	12,649,764
Sewer	17,763,560	18,969,605		1,889,179	20,858,784
Transportation	3,113,436	282,108	1,742,542	6,267,235	8,291,885
Building & safety	1,207,504	1,255,386			1,255,386
Total Business-type Activities	30,884,952	32,660,828	1,742,542	8,652,449	43,055,819
Total	\$87,971,868	\$42,891,498	\$5,691,667	\$16,877,010	\$65,460,175

General revenues:

Taxes:
Property taxes
Sales taxes
Property tax-VLF in Lieu
Other Tax
Total taxes
Other revenue
Interest income
Gain from sale of capital assets
Contributions from private purpose trust
Transfers (Note 4)

Total general revenues and transfers

Change in Net Position

Net Position-Beginning, as Restated (Note 8E)

Net Position-Ending

See accompanying notes to basic financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
(\$2,546,828)		(\$2,546,828)
(31,735,200)		(31,735,200)
3,482,819		3,482,819
(2,395,468)		(2,395,468)
(1,487,485)		(1,487,485)
(398)		(398)
<u>(34,682,560)</u>		<u>(34,682,560)</u>
	\$3,849,312	3,849,312
	3,095,224	3,095,224
	5,178,449	5,178,449
	47,882	47,882
	<u>12,170,867</u>	<u>12,170,867</u>
<u>(34,682,560)</u>	<u>12,170,867</u>	<u>(22,511,693)</u>
5,892,797		5,892,797
13,967,105		13,967,105
6,303,551		6,303,551
3,969,282		3,969,282
<u>30,132,735</u>		<u>30,132,735</u>
738,619		738,619
486,979	408,858	895,837
391,177		391,177
305,367		305,367
<u>2,063,206</u>	<u>(2,063,206)</u>	<u></u>
<u>34,118,083</u>	<u>(1,654,348)</u>	<u>32,463,735</u>
(564,477)	10,516,519	9,952,042
<u>273,969,952</u>	<u>182,302,589</u>	<u>456,272,541</u>
<u>\$273,405,475</u>	<u>\$192,819,108</u>	<u>\$466,224,583</u>

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MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2018. 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 Redevelopment Agency dissolution.

GAS TAX/STREET IMPROVEMENT FUND

The Gas Tax/Street Improvement fund accounts for the City's Gas Tax (Highway User's Tax), Local Transportation Fund and Measure L (Stanislaus County Sales Tax Transportation Measure) 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.

CITY OF TURLOCK
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General	Former LMI Housing Fund	Gas Tax/ Street Improvement	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3)	\$10,416,209	\$131,752	\$2,155,526	\$46,157,374	\$58,860,861
Restricted cash and investments and cash and investments with fiscal agent (Note 3)		3,175,074			3,175,074
Accounts receivable (Note 5C)	4,791,996	451	3,305,974	1,496,503	9,594,924
Interest receivable	368,269		6,965	63,499	438,733
Due from developers (Note 5A)	20,041			267,243	287,284
Due from other funds (Note 4B)	281,460				281,460
Loans receivable (Note 5B)	12,877	12,767,542		17,100,597	29,881,016
Prepaid expenditures	6,149				6,149
Investment in affordable housing property (Note 1K)		327,184			327,184
Total Assets	<u>\$15,897,001</u>	<u>\$16,402,003</u>	<u>\$5,468,465</u>	<u>\$65,085,216</u>	<u>\$102,852,685</u>
LIABILITIES					
Accounts payable	\$1,718,222		\$606,980	\$255,404	\$2,580,606
Payroll payable	1,192,765		20,099	45,147	1,258,011
Due to other funds (Note 4B)			281,460	382,943	664,403
Unearned revenue	193,499		88,248		281,747
Deposits payable	1,077,314			3,835	1,081,149
Total Liabilities	<u>4,181,800</u>		<u>996,787</u>	<u>687,329</u>	<u>5,865,916</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue (Note 1F and 5B)	193,863	\$12,767,542	2,103,422	17,125,372	32,190,199
FUND BALANCES					
Fund balance (Note 8):					
Nonspendable	39,067			267,243	306,310
Restricted		3,634,461	2,368,256	29,107,712	35,110,429
Committed	1,734,275			18,060,560	19,794,835
Assigned	2,765,034				2,765,034
Unassigned	6,982,962			(163,000)	6,819,962
Total Fund Balances	<u>11,521,338</u>	<u>3,634,461</u>	<u>2,368,256</u>	<u>47,272,515</u>	<u>64,796,570</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$15,897,001</u>	<u>\$16,402,003</u>	<u>\$5,468,465</u>	<u>\$65,085,216</u>	<u>\$102,852,685</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, 2018

Total fund balances reported on the Governmental Funds Balance Sheet \$64,796,570

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.

224,939,644

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	9,019,334
Accounts receivable	370,710
Interest receivable	12,311
Due from other funds	4,348,251
Capital assets, not being depreciated	4,465
Capital assets (net of accumulated depreciation)	4,768,125
Accounts payable	(1,407,364)
Payroll payable	(70,965)
Due to other funds	(2,558,541)
Compensated absences	(255,546)
Estimated claims liability	(2,588,096)
Net pension liability and related deferred outflows and inflows of resources	(5,040,872)
Total OPEB liability and related deferred inflows of resources	(2,129,486)

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.

31,996,336

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	(19,694)
Interest payable	(27)
Compensated absences	(2,765,034)
Net pension liability and related deferred outflows and inflows of resources	(38,641,374)
Total OPEB liability and related deferred inflows of resources	(11,373,272)

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$273,405,475

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, 2018

	General	Former LMI Housing Fund	Gas Tax/ Street Improvement	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes and assessments	\$22,511,866			\$3,654,770	\$26,166,636
Licenses and permits	1,781,671			15,220	1,796,891
Fines, forfeitures, and penalties	235,300				235,300
Use of money and property	240,342	\$22,046	\$3,925	191,153	457,466
Intergovernmental	6,817,038		6,877,321	2,387,144	16,081,503
Charges for current services	4,337,946		67,301	2,144,564	6,549,811
Other revenue	168,177	5,221	3,069	1,065,484	1,241,951
Total Revenues	36,092,340	27,267	6,951,616	9,458,335	52,529,558
EXPENDITURES					
Current:					
General government	4,483,859			231,205	4,715,064
Public safety	29,379,969			610,984	29,990,953
Public ways and facilities/transportation	328,125		2,036,375	1,975,288	4,339,788
Parks and recreation	2,227,920			1,452,333	3,680,253
Community development	960,889	143,415		1,441,316	2,545,620
Capital outlay	159,484		4,205,849	2,490,904	6,856,237
Debt service:					
Principal	11,561				11,561
Interest and fiscal charges	429				429
Total Expenditures	37,552,236	143,415	6,242,224	8,202,030	52,139,905
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,459,896)	(116,148)	709,392	1,256,305	389,653
OTHER FINANCING SOURCES (USES)					
Contributions from private purpose trust	245,702	56,077		3,588	305,367
Proceeds from sale of property	10,442			380,735	391,177
Transfers in (Note 4A)	2,252,237		296,370	2,491,459	5,040,066
Transfers (out) (Note 4A)	(2,339,148)		(212,163)	(1,469,682)	(4,020,993)
Total Other Financing Sources (Uses)	169,233	56,077	84,207	1,406,100	1,715,617
NET CHANGE IN FUND BALANCES	(1,290,663)	(60,071)	793,599	2,662,405	2,105,270
BEGINNING FUND BALANCES	12,812,001	3,694,532	1,574,657	44,610,110	62,691,300
ENDING FUND BALANCES	\$11,521,338	\$3,634,461	\$2,368,256	\$47,272,515	\$64,796,570

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, 2018

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 \$2,105,270

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.	6,877,446
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$654,997 which has already been allocated to serviced funds).	(7,214,980)
Transfers to internal service funds are deducted from the fund balance	(2,841)
Retirements are deducted from the fund balance	(19,985)
Capital contributions are added to fund balance	240,468

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	11,561
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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	1,147,891
Interest payable	31
Compensated absences	(168,447)
Net pension liability and related deferred outflows and inflows of resources	(4,166,243)
Total OPEB liability and related deferred outflows and inflows of resources	(1,020,041)

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	1,645,393
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	(\$564,477)
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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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes and assessments	\$22,953,500	\$22,953,500	\$22,511,866	(\$441,634)
Licenses and permits	1,916,000	1,916,000	1,781,671	(134,329)
Fines and forfeitures	249,600	249,600	235,300	(14,300)
Use of money and property	96,200	96,200	240,342	144,142
Intergovernmental	6,297,610	6,297,610	6,817,038	519,428
Charges for current services	4,471,820	4,496,820	4,337,946	(158,874)
Other revenue	191,150	191,150	168,177	(22,973)
Total Revenues	<u>36,175,880</u>	<u>36,200,880</u>	<u>36,092,340</u>	<u>(108,540)</u>
EXPENDITURES:				
Current:				
General government	4,293,545	4,764,087	4,483,859	280,228
Public safety	28,505,660	28,794,789	29,379,969	(585,180)
Public ways and facilities/transportation	417,286	422,323	328,125	94,198
Parks and recreation	2,481,811	2,542,418	2,227,920	314,498
Community development	1,169,044	1,222,758	960,889	261,869
Capital outlay		187,369	159,484	27,885
Debt service:				
Principal	11,560	11,560	11,561	(1)
Interest and fiscal charges	430	430	429	1
Total Expenditures	<u>36,879,336</u>	<u>37,945,734</u>	<u>37,552,236</u>	<u>393,498</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(703,456)</u>	<u>(1,744,854)</u>	<u>(1,459,896)</u>	<u>284,958</u>
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust	246,950	246,950	245,702	(1,248)
Proceeds from sale of property	5,000	5,000	10,442	5,442
Transfers in	2,229,596	2,285,405	2,252,237	(33,168)
Transfers (out)	(1,656,897)	(2,342,518)	(2,339,148)	3,370
Total Other Financing Sources (Uses)	<u>824,649</u>	<u>194,837</u>	<u>169,233</u>	<u>(25,604)</u>
NET CHANGE IN FUND BALANCE	<u>\$121,193</u>	<u>(\$1,550,017)</u>	<u>(1,290,663)</u>	<u>\$259,354</u>
BEGINNING FUND BALANCE			<u>12,812,001</u>	
ENDING FUND BALANCE			<u>\$11,521,338</u>	

See accompanying notes to basic financial statements

CITY OF TURLOCK
 FORMER LMI HOUSING FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property	\$150	\$150	\$22,046	\$21,896
Other revenue	114,000	114,000	5,221	(108,779)
Total Revenues	<u>114,150</u>	<u>114,150</u>	<u>27,267</u>	<u>(86,883)</u>
EXPENDITURES:				
Current:				
Community development	3,311,800	3,311,800	143,415	3,168,385
Total Expenditures	<u>3,311,800</u>	<u>3,311,800</u>	<u>143,415</u>	<u>3,168,385</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,197,650)</u>	<u>(3,197,650)</u>	<u>(116,148)</u>	<u>3,081,502</u>
OTHER FINANCING SOURCES (USES)				
Contributions from private-purpose trust	110,800	110,800	56,077	(54,723)
Total Other Financing Sources (Uses)	<u>110,800</u>	<u>110,800</u>	<u>56,077</u>	<u>(54,723)</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$3,086,850)</u></u>	<u><u>(\$3,086,850)</u></u>	<u>(60,071)</u>	<u><u>\$3,026,779</u></u>
BEGINNING FUND BALANCE			<u>3,694,532</u>	
ENDING FUND BALANCE			<u><u>\$3,634,461</u></u>	

See accompanying notes to basic financial statements

CITY OF TURLOCK
GAS TAX / STREET IMPROVEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	<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	\$200	\$200	\$3,925	\$3,725
Intergovernmental	9,491,237	9,898,326	6,877,321	(3,021,005)
Charges for current services	73,000	73,000	67,301	(5,699)
Other	<u>5,000</u>	<u>5,000</u>	<u>3,069</u>	<u>(1,931)</u>
Total Revenues	<u>9,569,437</u>	<u>9,976,526</u>	<u>6,951,616</u>	<u>(3,024,910)</u>
EXPENDITURES:				
Current:				
Public ways and facilities/transportation	2,630,674	2,211,722	2,036,375	175,347
Capital outlay	<u>8,125,813</u>	<u>9,531,187</u>	<u>4,205,849</u>	<u>5,325,338</u>
Total Expenditures	<u>10,756,487</u>	<u>11,742,909</u>	<u>6,242,224</u>	<u>5,500,685</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,187,050)</u>	<u>(1,766,383)</u>	<u>709,392</u>	<u>2,475,775</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	209,000	521,402	296,370	(225,032)
Transfers out	<u>(363,582)</u>	<u>(1,353,709)</u>	<u>(212,163)</u>	<u>1,141,546</u>
Total Other Financing Sources (Uses)	<u>(154,582)</u>	<u>(832,307)</u>	<u>84,207</u>	<u>916,514</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$1,341,632)</u></u>	<u><u>(\$2,598,690)</u></u>	793,599	<u><u>\$3,392,289</u></u>
BEGINNING FUND BALANCE			<u>1,574,657</u>	
ENDING FUND BALANCE			<u><u>\$2,368,256</u></u>	

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 2018, and the remaining enterprise fund is considered a non-major fund.

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.

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.

NONMAJOR ENTERPRISE FUND

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
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds	
	Water	Sewer	Transportation	Nonmajor Fund Building & Safety		Totals
ASSETS						
Current assets						
Cash and investments (Note 3)	\$40,386,783	\$45,717,288		\$187,137	\$86,291,208	\$9,019,334
Restricted cash and investments and cash and investments with fiscal agent (Note 3)	14,840	2,630,222			2,645,062	
Accounts receivable (Note 5C)	1,620,270	2,378,690	\$4,494,831		8,493,791	370,710
Interest receivable	63,228	73,775	489	399	137,891	12,311
Due from developers (Note 5A)		157,663			157,663	
Due from other funds (Note 4B)						4,348,251
Total current assets	42,085,121	50,957,638	4,495,320	187,536	97,725,615	13,750,606
Non-current assets						
Investment in Joint Venture (Note 12D)	2,265,500				2,265,500	
Capital assets not being depreciated (Note 6)	1,043,951	13,628,902	9,416,057		24,088,910	4,465
Capital assets being depreciated (Note 6)	39,840,013	152,845,901	5,604,964		198,290,878	4,768,125
Total non-current assets	43,149,464	166,474,803	15,021,021		224,645,288	4,772,590
Total Assets	85,234,585	217,432,441	19,516,341	187,536	322,370,903	18,523,196
DEFERRED OUTFLOWS OF RESOURCES						
Related to pensions (Note 9)	1,059,241	2,066,637	122,129	343,782	3,591,789	1,498,640
LIABILITIES						
Current liabilities						
Accounts payable	255,137	2,962,867	724,241	33,508	3,975,753	1,407,364
Payroll payable	51,860	100,589	5,682	16,849	174,980	70,965
Interest payable	318,575	841,754			1,160,329	
Due to other funds (Note 4B)			1,406,767		1,406,767	2,558,541
Compensated absences (Note 11)	29,025	70,611	8,540	10,784	118,960	51,109
Bonds and loans payable (Note 7)	665,000	3,982,314			4,647,314	
Unearned revenue			1,633,438		1,633,438	
Deposits payable	481,323				481,323	
Total current liabilities	1,800,920	7,958,135	3,778,668	61,141	13,598,864	4,087,979
Long-term liabilities						
Claims liability (Note 11)						2,588,096
Compensated absences (Note 11)	116,099	282,444	34,158	43,136	475,837	204,437
Total OPEB liability (Note 10)	1,288,502	2,576,148	139,964	469,348	4,473,962	2,039,450
Net pension liability (Note 9)	4,622,138	9,018,040	532,927	1,500,136	15,673,241	6,539,512
Bonds and loans payable (Note 7)	23,878,795	74,845,370			98,724,165	
Total long-term liabilities	29,905,534	86,722,002	707,049	2,012,620	119,347,205	11,371,495
Total Liabilities	31,706,454	94,680,137	4,485,717	2,073,761	132,946,069	15,459,474
DEFERRED INFLOWS OF RESOURCES						
Related to OPEB (Note 10)	56,884	113,733	6,178	20,720	197,515	90,036
NET POSITION (Note 8):						
Net investment in capital assets	16,355,009	90,277,341	15,021,021		121,653,371	4,772,590
Unrestricted	38,175,479	34,427,867	125,554	(1,563,163)	71,165,737	(300,264)
Total Net Position	\$54,530,488	\$124,705,208	\$15,146,575	(\$1,563,163)	\$192,819,108	\$4,472,326

See accompanying notes to basic financial statements

CITY OF TURLOCK
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Water	Sewer	Transportation	Nonmajor Fund Building & Safety		
OPERATING REVENUES						
Charges for services	\$11,871,107	\$18,775,939	\$280,456	\$1,254,370	\$32,181,872	\$14,121,239
Other income	282,622	193,666	1,652	1,016	478,956	733,703
Total Operating Revenues	12,153,729	18,969,605	282,108	1,255,386	32,660,828	14,854,942
OPERATING EXPENSES						
Salaries, benefits and insurance	3,196,150	5,703,508	345,974	922,504	10,168,136	12,834,228
Contractual	1,271,881	1,565,243	1,663,055	237,421	4,737,600	419,803
Supplies and maintenance	93,822	1,000,940	64,168	3,530	1,162,460	62,458
Utilities	1,128,177	1,917,104	20,057	10,978	3,076,316	76,516
Fleet expense	134,339	320,935	243,690	6,079	705,043	61,960
Depreciation and amortization	1,791,377	4,477,827	587,710		6,856,914	654,997
Other expenses	191,721	273,881	21,227	26,992	513,821	196,082
Total Operating Expenses	7,807,467	15,259,438	2,945,881	1,207,504	27,220,290	14,306,044
Operating Income (Loss)	4,346,262	3,710,167	(2,663,773)	47,882	5,440,538	548,898
NONOPERATING REVENUES (EXPENSES)						
Operating grants			1,742,542		1,742,542	
Interest income	164,086	234,667	6,605	3,500	408,858	29,513
Interest (expense)	(992,985)	(2,504,122)			(3,497,107)	
Gain (loss) on disposal of capital assets			(167,555)		(167,555)	20,008
Net Nonoperating Revenues (Expenses)	(828,899)	(2,269,455)	1,581,592	3,500	(1,513,262)	49,521
Income (Loss) Before Contributions and Transfers	3,517,363	1,440,712	(1,082,181)	51,382	3,927,276	598,419
Capital grants			6,009,623		6,009,623	
Capital contributions	74,714	121,878	257,612		454,204	2,841
Capital contributions - connection/impact fees	421,321	1,767,301			2,188,622	
Transfers in (Note 4A)	10,421	64,240	49,531		124,192	1,250,528
Transfers out (Note 4A)	(754,956)	(1,349,409)		(83,033)	(2,187,398)	(206,395)
Net Contributions and Transfers	(248,500)	604,010	6,316,766	(83,033)	6,589,243	1,046,974
Change in net position	3,268,863	2,044,722	5,234,585	(31,651)	10,516,519	1,645,393
NET POSITION-BEGINNING, as Restated (Note 8E)	51,261,625	122,660,486	9,911,990	(1,531,512)	182,302,589	2,826,933
ENDING NET POSITION	\$54,530,488	\$124,705,208	\$15,146,575	(\$1,563,163)	\$192,819,108	\$4,472,326

See accompanying notes to basic financial statements

CITY OF TURLOCK
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Water	Sewer	Transportation	Nonmajor Fund Building & Safety		
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$11,416,526	\$18,393,048	\$262,360	\$1,259,541	\$31,331,475	\$13,898,954
Payments to suppliers	(2,680,600)	(2,397,112)	(1,411,055)	(279,689)	(6,768,456)	(2,594,600)
Payments to employees and benefits	(2,709,245)	(5,260,382)	(204,882)	(891,430)	(9,065,939)	(11,249,200)
Other	282,622	193,666	1,652	1,016	478,956	733,703
Cash Flows from Operating Activities	6,309,303	10,929,220	(1,351,925)	89,438	15,976,036	788,857
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intergovernmental receipts - operations			1,286,571		1,286,571	
Interfund receipts (payments)			1,406,767		1,406,767	(1,345,653)
Transfers in	10,421	64,240	49,531		124,192	1,250,528
Transfers out	(754,956)	(1,349,409)		(83,033)	(2,187,398)	(206,395)
Cash Flows from Noncapital Financing Activities	(744,535)	(1,285,169)	2,742,869	(83,033)	630,132	(301,520)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Intergovernmental receipts - capital program			1,818,401		1,818,401	
Acquisition of capital assets, net	(427,084)	(10,286,528)	(6,064,514)		(16,778,126)	(930,056)
Insurance proceeds related to impairment of capital assets			499,652		499,652	
Proceeds from sale of capital assets			8,300		8,300	67,605
Charges for joint project contributions	(1,090,500)				(1,090,500)	
Long-term debt payment - principal	(960,000)	(3,855,132)			(4,815,132)	
Long-term debt payment - interest	(677,122)	(2,546,073)			(3,223,195)	
Connection / impact fees	421,321	1,767,301			2,188,622	
Cash Flows from Capital and Related Financing Activities	(2,733,385)	(14,920,432)	(3,738,161)		(21,391,978)	(862,451)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest	133,201	205,962	8,836	3,101	351,100	25,687
Cash Flows from Investing Activities	133,201	205,962	8,836	3,101	351,100	25,687
Net Cash Flows	2,964,584	(5,070,419)	(2,338,381)	9,506	(4,434,710)	(349,427)
Cash and investments at beginning of period	37,437,039	53,417,929	2,338,381	177,631	93,370,980	9,368,761
Cash and investments at end of period	<u>\$40,401,623</u>	<u>\$48,347,510</u>	<u></u>	<u>\$187,137</u>	<u>\$88,936,270</u>	<u>\$9,019,334</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:						
Operating income (loss)	\$4,346,262	\$3,710,167	(\$2,663,773)	\$47,882	\$5,440,538	\$548,898
Adjustments to reconcile operating income (loss) to cash flows from operating activities:						
Depreciation and amortization	1,791,377	4,477,827	587,710		6,856,914	654,997
Change in assets and liabilities:						
Accounts receivable	(454,581)	(382,891)	(18,096)	5,171	(850,397)	(222,285)
Accounts payable	120,648	2,680,991	601,142	5,311	3,408,092	777,933
Payroll payable	9,152	(4,451)	1,250	(244)	5,707	3,316
Compensated absences	(18,141)	(38,914)	14,280	2,578	(40,197)	(66,610)
Claims Liability						(1,735,129)
Deferred outflows/inflows and total OPEB liability	120,665	241,249	13,106	43,953	418,973	190,988
Deferred outflows/inflows and net pension liability	375,229	245,242	112,456	(15,213)	717,714	636,749
Deposits payable	18,692				18,692	
Cash Flows from Operating Activities	\$6,309,303	\$10,929,220	(\$1,351,925)	\$89,438	\$15,976,036	\$788,857
NONCASH TRANSACTIONS:						
Contributed capital assets	\$74,714	\$121,878	\$257,612		\$454,204	\$2,841
Amortization of bond premium	156,901	183,157			340,058	
Retirement of capital assets			(374,273)		(374,273)	(47,597)
Total noncash capital and related financing activities	\$231,615	\$305,035	(\$116,661)		\$419,989	(\$44,756)

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

These 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, 2018

	Successor Agency Private-Purpose Trust Fund	Agency Fund
ASSETS		
Cash and investments (Note 3)	\$2,682,518	\$418,846
Cash and investments with fiscal agent (Note 3)	518,140	100,862
Accounts and interest receivable		464,924
	3,200,658	\$984,632
LIABILITIES		
Accounts payable	2,330	\$524,507
Interest payable	482,753	
Long-term debt (Note 13B):		
Due within one year	1,142,044	
Due in more than one year	37,437,235	
Due to stakeholders		460,125
	39,064,362	\$984,632
NET POSITION (DEFICIT)		
Net deficit held in trust for other governments	(\$35,863,704)	

See accompanying notes to basic financial statements

CITY OF TURLOCK
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Successor Agency Private-Purpose Trust Fund</u>
ADDITIONS	
Property taxes	\$2,953,426
Net investment income	<u>(18,753)</u>
Total additions	<u>2,934,673</u>
DEDUCTIONS	
Community development	10,749
Contributions to the City of Turlock	305,367
Interest and fiscal charges	<u>1,331,818</u>
Total deductions	<u>1,647,934</u>
NET CHANGE IN NET POSITION	1,286,739
NET POSITION (DEFICIT) HELD IN TRUST FOR OTHER GOVERNMENTS	
Beginning of year	<u>(37,150,443)</u>
End of year	<u><u>(\$35,863,704)</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, 2018

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, 2018

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 reports 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.

Gas Tax/Street Improvement Fund - The Gas Tax/Street Improvement fund accounts for the City's Gas Tax (Highway User's Tax), Local Transportation Fund and Measure L (Stanislaus County Sales Tax Transportation Measure) 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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports 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.

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.

The City also reports the following fund types:

Internal Service Funds – The funds account for equipment pool, self-insurance, information technology and engineering activities, all of which provide services 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 are 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, Turlock Property and Business Improvement District #2 (PBID) and the Stanislaus Regional Water Authority. 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 (trust and agency funds) 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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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*.

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. The cost of prepaid items is recorded as expenditures/expenses when consumed, rather than when purchased.

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, rather than when purchased.

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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position or balance sheet report a separate section for deferred outflows of resources. The City has deferred outflows of resources related to pensions as discussed in Note 9. 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 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 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. The City also has deferred inflows of resources related to pensions and Other Post Employment Benefits (OPEB) as discussed in Note 9. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 were as follows:

	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
Beginning Balance	\$2,918,743	\$634,994	\$3,553,737
Net Change	101,837	(40,197)	61,640
Ending Balance	<u>\$3,020,580</u>	<u>\$594,797</u>	<u>\$3,615,377</u>
Current Portion	<u>\$604,116</u>	<u>\$118,960</u>	<u>\$723,076</u>

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. *Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. *Investment in Affordable Housing Property*

The former Redevelopment Agency purchased parcels that are to be used for affordable housing purposes. The Successor Agency transferred affordable housing property with a carrying value of \$327,184 to the City as Housing Successor during fiscal year 2017. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

The balance of the investment in affordable housing property in the Former LMI Housing Special Revenue Fund at June 30, 2018 was \$327,184.

L. *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, Capital Projects Funds, Enterprise Funds and Internal Service Funds. 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, 2018

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.

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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	\$154,171,403
Restricted cash and investments and cash and investments with fiscal agent	5,820,136
Total City Cash and Investments	159,991,539
Cash and investments in Fiduciary Funds (Separate Statement):	
Successor Agency to the Redevelopment	
Agency Private Purpose Trust Fund:	
Cash available for operations	2,682,518
Cash and investments with fiscal agent	518,140
Agency Funds:	
Cash and investments available for operations	418,846
Cash and investments with fiscal agent	100,862
Total Cash and Investments	\$163,711,905

Cash and investments as of June 30, 2018 consist of the following:

Cash on hand	\$5,080
Deposits with financial institutions	16,535,430
Investments	147,171,395
Total Cash and Investments	\$163,711,905

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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	A	Unlimited	N/A
U.S. Government Agency Securities	5 years	A	Unlimited	No more than 25%
Negotiable Certificates of Deposit	5 years	N/A	30%	N/A
Certificates of Deposit	5 years	A	Unlimited	N/A
Bankers' Acceptances	180 days	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	N/A	Equal to maximum limit set by LAIF	N/A
Repurchase Agreement	1 year	N/A	Unlimited	N/A
Money Market and Mutual Funds	N/A	A	20%	N/A
Corporate Notes	5 years	AA	5%	N/A

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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
Certificates of Deposit	30 days	A-1	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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

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:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
<i>Held by City:</i>				
U.S. Treasury Notes		\$2,921,016	\$3,883,516	\$6,804,532
U.S. Government Agency Securities	\$12,948,884	28,493,242	7,705,742	49,147,868
Certificates of Deposit	13,495,237	5,911,952	2,153,158	21,560,347
California Local Agency Investment Fund	64,878,247			64,878,247
Corporate Note	971,420			971,420
<i>Held by Trustee:</i>				
Money Market Mutual Funds	3,808,981			3,808,981
Total Investments	<u>\$96,102,769</u>	<u>\$37,326,210</u>	<u>\$13,742,416</u>	<u>\$147,171,395</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, 2018 these investments matured in an average of 193 days.

Money Market Mutual funds are available for withdrawal on demand at June 30, 2018 matured in an average of 19 to 20 days.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

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, 2018 for each investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAm	AA+	Total
Held by City:			
U.S. Government Agency Securities		\$49,147,868	\$49,147,868
Corporate Note	\$971,420		971,420
Held by Trustee:			
Money Market Mutual Funds	3,808,981		3,808,981
Total Rated Investments	<u>\$4,780,401</u>	<u>\$49,147,868</u>	53,928,269
Not rated:			
Certificates of Deposit			21,560,347
California Local Agency Investment Fund			64,878,247
Exempt from credit rate disclosure:			
U.S. Treasury Notes			<u>6,804,532</u>
Total Investments			<u><u>\$147,171,395</u></u>

G. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2018:

	Level 1	Level 2	Total
Investments by Fair Value Level:			
Held by City:			
U.S. Treasury Notes		\$6,804,532	\$6,804,532
U.S. Government Agency Securities		49,147,868	49,147,868
Certificates of Deposit	\$4,473,892	17,086,455	21,560,347
Corporate Note		971,420	971,420
Subtotal	<u>\$4,473,892</u>	<u>\$74,010,275</u>	78,484,167
Investments Measured at Amortized Cost:			
Held by Trustee:			
Money Market Mutual Funds			3,808,981
Investments Exempt from Fair Value Hierarchy:			
California Local Agency Investment Fund			<u>64,878,247</u>
Total Investments			<u><u>\$147,171,395</u></u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (Continued)

Federal Agency Securities classified in Level 2 of the fair value hierarchy are valued using matrix pricing or Interactive Date Pricing and Reference Data (IDC). Certificate of Deposits classified in the Level 2 of the fair value hierarchy are valued using Bloomberg or IDC pricing. These prices are obtained from various pricing sources by our custodian bank.

Fair value is defined as the quoted market value on the last trading day of the period.

H. 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, 2018, the book value of the City’s cash with banks and petty cash was \$16,540,510 and the associated bank balances were \$19,053,513. Of the City’s bank balances of \$19,053,513 as of June 30, 2018, \$1,563 was exposed to custodial credit risk, because it was not FDIC insured or collateralized.

I. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total Government-wide investments are as follows at June 30, 2018:

Issuer	Type of Investments	Amount
Federal National Mortgage Association	U.S. Government Agency Securities	\$18,605,015
Federal Home Loan Bank	U.S. Government Agency Securities	15,786,566

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018 were as follows:

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred	
General Fund	Sewer Enterprise Fund	\$6,296	(A)
	Non-Major Governmental Funds	1,656,803	(A), (B)
	Internal Service Funds	676,049	(C)
Gas Tax/Street Improvement Fund	General Fund	3,248	(B)
	Sewer Enterprise Fund	4,197	(B)
	Non-Major Governmental Funds	25,868	(B)
	Transportation Enterprise Fund	49,531	(D)
	Internal Service Funds	129,319	(C)
Non-Major Governmental Funds	General Fund	691,746	(A), (B)
	Gas Tax/Street Improvement Fund	232,589	(B)
	Non-Major Governmental Funds	374,396	(A), (B)
	Water Enterprise Fund	10,421	(A)
	Sewer Enterprise Fund	21,154	(A)
Water Enterprise Fund	Internal Service Funds	139,376	(C), (E)
	General Fund	458,616	(E)
	Non-Major Governmental Funds	62,963	(A), (B)
	Sewer Enterprise Fund	32,593	(B)
Sewer Enterprise Fund	Internal Service Funds	200,784	(C)
	General Fund	913,259	(A), (E)
	Gas Tax/Street Improvement Fund	63,781	(A)
	Non-Major Governmental Funds	269,369	(A), (B)
Non-Major Enterprise Funds	Internal Service Funds	103,000	(C)
	General Fund	73,033	(E)
Internal Service Funds	Non-Major Governmental Funds	10,000	(A)
	General Fund	112,335	(E)
	Non-Major Governmental Funds	92,060	(A), (B)
	Internal Service Funds	2,000	(C)
		<u>\$6,414,786</u>	

- (A) To fund operations, including computer replacement
- (B) To fund capital improvements
- (C) To fund the Internal Service Equipment Pool for future vehicle purchases
- (D) To fund transportation operations from Measure L
- (E) To fund administrative expenses

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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.

The current amount due to the General Fund from the Gas Tax/Street Improvement Special Revenue Fund was \$281,460 at June 30, 2018. Current amounts due to the Internal Service Funds from the funds listed below at June 30, 2018 were as follows:

	Amount Due to Internal Service Fund
Non-major Special Revenue Funds:	
CDBG	\$118,338
Grant Funds	101,605
Non-major Capital Projects Fund:	
East Tuolumne Master Plan	163,000
Non-major Enterprise Fund:	
Transportation	1,406,767
Internal Service Fund:	
Engineering	2,558,541
Total	\$4,348,251

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, 2018, 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	\$287,284	\$157,663	\$444,947
Loans receivable	29,881,016		29,881,016
Total	\$30,168,300	\$157,663	\$30,325,963

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 Enterprise Fund, the Northeast Master Plan receivable of \$20,041 is recorded in the General Fund and the Morgan Ranch Master Plan receivable of \$267,243 is recorded in the Facility Fees Fund.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

B. Loans Receivable

Loans receivable at June 30, 2018 consist of the following:

Type of Loan/Borrower	Amount
Central Valley Coalition for Affordable Housing	\$9,574,500
First Time Homebuyer Loans	8,868,296
EAH, Inc.	5,500,000
Owner-Occupied Rehabilitation Loans	3,356,193
Cherry Tree Village Loans	1,872,949
Rehabilitation Forgivable Loans for Energy Improvements	54,000
Rental Rehabilitation Loans	15,451
Turlock Gospel Mission Loan	96,000
We Care Program Loan	326,000
Haven Women's Center Loan	204,750
Subtotal	29,868,139
Employee Computer Loans	12,877
Total long-term notes receivable	\$29,881,016

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, 2018 was \$5,793,090.

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, 2018 on these three properties was \$1,606,172.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

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, 2018 on these three properties was \$2,175,238.

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, 2018, the City had 158 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 a multi-family housing project on 6.7 acres of property in the area of Linwood Avenue and Hwy 99. The site was initially 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, 140 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 on 4.3 acres 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-development 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 for Phase II, which is projected to construct an additional 60 units on the remaining 2.4 acres, provides for up to \$500,000 in advanced pre-development costs in the form of a loan. The balance of the \$4 million loan is for construction and final development of the project, excluding development fees, management fees or other similar fees. Currently EAH has secured \$800,000 in Affordable Housing Program (AHP) funds through the Federal Home Loan Bank for Phase II. The California Department of Finance has concluded that the DDA for Phase II is an enforceable obligation and has issued a Letter of Final and Conclusive Determination related to this DDA.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

Both DDAs contain conditions which must be achieved in order for the developer to be eligible to receive funding as well as conditions related to the development of the project, additional funding sources which must be obtained, and conditions for the transfer of ownership of the property.

Each loan will be memorialized with a Promissory Note and will become a recorded deed of trust against the property. Each pre-development loan (Phase I and Phase II) 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-development and development cost loans for each phase will be rolled into a permanent loan at the completion of construction of the phase. 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, 2018, EAH had drawn down all the funds associated with the DDA for Phase I of the project and had drawn down \$500,000 funding associated with the DDA for Phase II. Outstanding loans for this project total \$5,500,000.

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, 2018, the City had 48 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. Total outstanding loans for this project at June 30, 2018 was \$1,872,949.

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, 2018 the City had one loan outstanding totaling to \$54,000.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018, the City had one loan outstanding totaling to \$15,451.

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, 2018, 21 employees had loans totaling due to the City in the amount of \$12,877.

Turlock Gospel Mission Loan

In March 2016, the City, using CDBG funds, executed a loan agreement and promissory note secured by a deed of trust with the Turlock Gospel Mission (a California non-profit public benefit corporation) (TGM) to assist TGM with the purchase of property to be used as the home for TGM's Homeless Assistance Ministry Center (HAM Center). Since 2012 the HAM Center serves as a homeless day center as well as provides case management services to obtain identification, connection to mental health services and benefits, substance abuse programs, and other social service assistance. Their mission is to provide hope and assistance to those currently homeless in an effort to help them obtain jobs, essential services and secure permanent housing opportunities. The loan agreement provides for the note to be forgiven equally over a 10 year period provided TGM continues to use the property for its intended purpose. No interest accrues on the note as long as the borrower is not in default per terms of the loan agreement. As of June 30, 2018, the amount outstanding was \$96,000.

We Care Program Loan

In September 2015 the City, using both CDBG and HOME funds, executed a loan agreement and two promissory notes each secured by a deed of trust with the We Care Program Turlock (a California non-profit public benefit corporation) to assist We Care with the purchase a fourplex to be used as transitional housing for persons at or below sixty percent (60%) of the median income in Stanislaus County as defined by HUD. The CDBG portion of the loan is for \$240,000 and the HOME portion is \$110,000. No interest accrues and no periodic payments are due on either note as long as the borrower is not in default and the property continues to be used for its intended purpose. The HOME loan is equally forgivable over a 20 year period provided We Care continues to use the property for its intended purpose and is not otherwise in default as defined by the loan agreement. The CDBG loan is not forgivable and is repayable at the time the borrower ceases to use the property for its intended purpose. The CDBG loan also contains an equity sharing provision which means that if the borrower sells the property for more than the repayment amount required under the CDBG and HOME loan notes, 50% of the excess proceeds will be paid to the City. As of June 30, 2018, the amount outstanding on the CDBG and HOME notes is \$216,000 and \$110,000 respectively.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

Haven Women’s Center

In August 2016, using both CDBG and HOME funds, the City executed a loan agreement and two promissory notes each secured by a deed of trust with Haven Women’s Center of Stanislaus (a California non-profit public benefit corporation) to assist the Haven Women’s Center with the purchase of a single family residence to be rented to families or persons at or below sixty percent (60%) of the median income in Stanislaus County, as defined by HUD. The CDBG portion of the loan is for \$105,000 and the HOME portion is \$105,000. No interest accrues and no periodic payments are due on either loan as long as the borrower is not in default and the property continues to be used for its intended purpose. The CDBG loan is equally forgivable over a 20 year period provided Haven Women’s Center is not otherwise in default as defined by the loan agreement. The HOME loan is not forgivable and is repayable at the time the borrower ceases to use the property for its intended purpose. The HOME loan also contains an equity sharing provision which means that if the borrower sells the property for more than the repayment amount required under the CDBG and HOME loan notes, 50% of the excess proceeds will be paid to the City. As of June 30, 2018, the amount outstanding on the CDBG and HOME loans is \$99,750 and \$105,000, respectively.

C. Accounts Receivable

The following table provides a detailed listing of the City’s accounts receivable by type as of June 30, 2018:

	Due from Other Governments	Accounts Receivable	Total
General Fund	\$2,770,843	\$2,021,153	\$4,791,996
Former LMI Housing Fund		451	451
Gas Tax / Street Improvement	3,305,954	20	3,305,974
Nonmajor Governmental Funds	848,172	648,331	1,496,503
Water Enterprise Fund	94	1,620,176	1,620,270
Sewer Enterprise Fund	303	2,378,387	2,378,690
Transportation Enterprise Fund	4,416,208	78,623	4,494,831
Internal Service funds	20,063	350,647	370,710
Total	<u>11,361,637</u>	<u>7,097,788</u>	<u>18,459,425</u>
Less allowance for collectability	<u>(193,863)</u>		<u>(193,863)</u>
Total, Net	<u><u>\$11,167,774</u></u>	<u><u>\$7,097,788</u></u>	<u><u>\$18,265,562</u></u>

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 6 - CAPITAL ASSETS (Continued)

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

	Years
Land Improvements and Infrastructure	25 - 60
Buildings	30 - 50
Furniture and Equipment	5 - 10
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.

A. Capital Assets Additions and Retirements

At June 30, 2018 the City's capital assets for governmental activities consisted of the following:

Governmental activities

	Balance at June 30, 2017	Additions	Retirements/ Adjustments	Transfers	Balance at June 30, 2018
Capital assets not being depreciated:					
Land	\$17,998,669				\$17,998,669
Construction in progress	7,955,663	\$6,456,662	(\$19,985)	(\$3,920,148)	10,472,192
Total capital assets not being depreciated	25,954,332	6,456,662	(19,985)	(3,920,148)	28,470,861
Capital assets being depreciated:					
Land improvements	36,403,114			1,160,498	37,563,612
Buildings	53,355,609			307,290	53,662,899
Furniture and equipment	13,453,896	585,065	(16,102)	646,552	14,669,411
Vehicles	11,588,362	617,503	(696,449)	39,038	11,548,454
Infrastructure	189,690,880	388,740		1,749,747	191,829,367
Total capital assets being depreciated	304,491,861	1,591,308	(712,551)	3,903,125	309,273,743
Less accumulated depreciation for:					
Land improvements	(13,659,014)	(1,041,380)			(14,700,394)
Buildings	(10,165,575)	(1,409,411)			(11,574,986)
Furniture and equipment	(9,597,769)	(762,883)	13,261		(10,347,391)
Vehicles	(7,721,434)	(708,170)	651,693	17,023	(7,760,888)
Infrastructure	(59,700,578)	(3,948,133)			(63,648,711)
Total accumulated depreciation	(100,844,370)	(7,869,977)	664,954	17,023	(108,032,370)
Net capital assets being depreciated	203,647,491	(6,278,669)	(47,597)	3,920,148	201,241,373
Governmental activity capital assets, net	\$229,601,823	\$177,993	(\$67,582)		\$229,712,234

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 6 - CAPITAL ASSETS (Continued)

Governmental activities depreciation expense for capital assets for the year ended June 30, 2018 was as follows:

Governmental Activities	
General government	\$920,329
Public safety	1,326,811
Public ways and facilities/transportation	4,413,926
Parks and recreation	484,345
Community development	69,569
Internal service funds	654,997
Total Governmental Activities	<u><u>\$7,869,977</u></u>

At June 30, 2018 the City's capital assets for business-type activities consisted of the following:

Business-type activities

	Balance at June 30, 2017	Additions	Retirements/ Adjustments	Transfers	Balance at June 30, 2018
Capital assets not being depreciated:					
Land	\$3,712,120				\$3,712,120
Construction in progress	5,961,088	\$16,392,130		(\$1,976,428)	20,376,790
Total capital assets not being depreciated	<u>9,673,208</u>	<u>16,392,130</u>		<u>(1,976,428)</u>	<u>24,088,910</u>
Capital assets being depreciated:					
Land improvements	6,567,117				6,567,117
Buildings and improvements	5,507,916	28,627		50,032	5,586,575
Furniture and equipment	22,993,758	234,179	(\$42,649)	76,973	23,262,261
Vehicles	3,537,199	380,802	(1,319,094)	545,669	3,144,576
Infrastructure	325,409,850	196,592		1,320,777	326,927,219
	<u>364,015,840</u>	<u>840,200</u>	<u>(1,361,743)</u>	<u>1,993,451</u>	<u>365,487,748</u>
Less accumulated depreciation for:					
Land improvements	(2,373,622)	(211,644)			(2,585,266)
Buildings and improvements	(2,931,106)	(153,001)			(3,084,107)
Furniture and equipment	(18,334,544)	(976,871)	42,649		(19,268,766)
Vehicles	(1,778,935)	(391,203)	944,821	(17,023)	(1,242,340)
Infrastructure	(135,552,138)	(5,464,253)			(141,016,391)
	<u>(160,970,345)</u>	<u>(7,196,972)</u>	<u>987,470</u>	<u>(17,023)</u>	<u>(167,196,870)</u>
Net capital assets being depreciated	<u>203,045,495</u>	<u>(6,356,772)</u>	<u>(374,273)</u>	<u>1,976,428</u>	<u>198,290,878</u>
Total Business-type activity capital assets, net	<u><u>\$212,718,703</u></u>	<u><u>\$10,035,358</u></u>	<u><u>(\$374,273)</u></u>		<u><u>\$222,379,788</u></u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 6 - CAPITAL ASSETS (Continued)

Business-type activities depreciation expense for capital assets for the year ended June 30, 2018 was as follows:

Business-Type Activities	
Water	\$1,948,278
Sewer	4,660,984
Transportation	587,710
Total Business-Type Activities	\$7,196,972

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.

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, 2017	Retirements	Balance June 30, 2018	Due Within One Year	Due in More Than One Year
Capital Lease:						
Public Safety Server	\$57,500	\$31,255	\$11,561	\$19,694	\$11,752	\$7,942
Total Governmental Activity Debt	\$57,500	\$31,255	\$11,561	\$19,694	\$11,752	\$7,942

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - LONG TERM DEBT (Continued)

Capital Leases

Public Safety Server

On December 9, 2014 the City Council approved the lease/purchase of an IBM Power S814 replacement server for Public Safety. The lease, totaling \$57,500, carries an annual interest rate of 1.65% and requires monthly principal and interest payments due on the first of each month until February 2020 when the lease terminates.

Authorized but Unissued Debt — Motorola Equipment Lease Purchase Agreement

On March 22, 2018, the City Council approved the lease/purchase and installation of the Turlock Radio System with a \$1 million down payment and the purchase of a Public Safety Computer Aided Dispatch/Records Management System (CAD/RMS) and associated components, systems and programs in a total amount not to exceed \$5,727,690 for the project plus interest from the lease of the Radio System. The lease, totaling \$2,727,690, carries an annual interest rate of 4.12% and requires monthly principal and interest payments due on the first of each month until April 2028 when the lease terminates.

As of June 30, 2018, the lease remains authorized but unissued.

Debt Service Requirements

Annual debt service requirements for governmental activities debt are shown below:

For the Year Ending June 30	Governmental Activities Capital Lease Payable	
	Principal	Interest
2019	\$11,752	\$236
2020	7,942	50
Total	\$19,694	\$286

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - LONG TERM DEBT (Continued)

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 Amount	Balance June 30, 2017	Retirements	Balance June 30, 2018	Due Within One Year	Due in More Than One Year
Revenue Bonds:						
2012 Sewer Revenue	\$51,915,000	\$44,005,000	\$2,165,000	\$41,840,000	\$2,255,000	\$39,585,000
Add: Unamortized bond premium		2,961,039	183,157	2,777,882		2,777,882
2017 Water Revenue	22,405,000	22,405,000	960,000	21,445,000	665,000	20,780,000
Add: Unamortized bond premium		3,255,696	156,901	3,098,795		3,098,795
Loans Payable:						
State Revolving Fund Loan - Harding Drain By-Pass	15,090,416	13,178,020	647,633	12,530,387	661,880	11,868,507
State Revolving Fund Loan - TRWQCF Upgrade	24,752,169	22,721,914	1,042,499	21,679,415	1,065,434	20,613,981
Total Business-type Activity Debt	\$114,162,585	\$108,526,669	\$5,155,190	\$103,371,479	\$4,647,314	\$98,724,165

Revenue Bonds

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 Sewer Revenue 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.

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 2012 bonds and the State Revolving Fund Loans. Based on fiscal year 2017-18 net system revenues of \$9,146,042 annual principal and interest payments (totaling \$6,401,205 in 2017-18) were 143% of net system revenues.

2017 Water Revenue Refunding Bonds

In June 2017 the Turlock Public Financing Authority issued \$22,405,000 in Water Revenue Bonds Series 2017 to advance refund the series 2008 Water Revenue Bonds and to pay costs of issuance of the 2017 Bonds. The bonds, which carry coupon interest rates ranging from 4.00% - 5.250%, have semi-annual principal and interest payments on the first of March through March 2038.

Pursuant to a Master Installment Purchase Agreement (MIPA) between the Authority and the City, the City has pledged the net water system revenues (as defined in the MIPA) from the Water Enterprise Fund operations for repayment of the 2017 bonds. Based on fiscal year 2017-18 net system revenues of \$6,543,176, annual principal and interest payments (totaling \$1,637,121 in 2017-18) were 400% of net water system revenues.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - LONG TERM DEBT (Continued)

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. These loans are on parity with the Sewer Revenue Bonds above. This means that the loans have equal rights to pledged revenues as the sewer bonds.

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. The notice of completion for the project was issued on April 22, 2014. The City drew down all the funds on this loan, including capitalized interest, totaling to \$15,090,416. The loan bears annual interest of 2.2%, and annual principal and interest payments are due January 1, 2015 through January 1, 2034.

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. The notice of completion for the project was issued May 26, 2015. The City drew down all the funds on this loan, including capitalized interest, totaling to \$24,752,169. The loan bears annual interest of 2.2%, and annual principal and interest payments are due December 1, 2015 through December 1, 2034.

Debt Service Requirements

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

For the Year Ending June 30	<u>Business-Type Activities</u> <u>Bonds and Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$4,647,314	\$3,389,379
2020	4,805,315	3,232,678
2021	4,974,153	3,070,240
2022	5,143,844	2,894,649
2023	5,334,408	2,712,335
2024-2028	28,272,440	10,354,071
2029-2033	30,429,095	5,254,268
2034-2038	13,888,233	1,070,073
Total	97,494,802	<u>\$31,977,693</u>
Add: Unamortized Bond Premium	<u>5,876,677</u>	
Net long-term debt	<u>\$103,371,479</u>	

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 7 - LONG TERM DEBT (Continued)

C. *Debt With No City Commitment*

The City of Turlock has no legal liability with respect to the payment of any indebtedness of the Community Financing District No. 1 Monte Vista Crossings. The City acts solely as an agent for the bondholders in collecting and forwarding the special assessment. Accordingly, no liability for these bonds has been recorded in the City's basic financial statements. In fiscal year 2015-2016 the City refunded the 1999 Community Financing District No. 1 Monte Vista Crossings bonds with the 2015 Community Financing District No. 1 Monte Vista Crossings bonds. The principal amount of outstanding debt of the above District was \$1,650,000 at June 30, 2018.

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:

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - 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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - NET POSITION AND FUND BALANCES (Continued)

Fund Balance Classifications	General Fund	Special Revenue			Total
		Former LMI Housing Fund	Gas Tax/ Street Improvement	Other Governmental Funds	
Nonspendable:					
Items not in spendable form:					
Prepaid expenditures	\$6,149				\$6,149
Loans receivable	12,877				12,877
Due from developers	20,041			\$267,243	287,284
Total Nonspendable Fund Balances	39,067			267,243	306,310
Restricted for:					
Low and moderate income housing		\$3,634,461		3,097,389	6,731,850
Capital expenditures			\$2,368,256	11,175,394	13,543,650
Resource conservation				80,903	80,903
Assessment districts				14,200,383	14,200,383
Public safety				478,091	478,091
Development impact fees				75,552	75,552
Total Restricted Fund Balances		3,634,461	2,368,256	29,107,712	35,110,429
Committed to:					
Public safety	467,899			125,059	592,958
Parks and recreation				9,202	9,202
Resource conservation				888,036	888,036
Tourism	1,197,521				1,197,521
Future deficit spending	68,855				68,855
Capital expenditures				17,038,263	17,038,263
Total Committed Fund Balances	1,734,275			18,060,560	19,794,835
Assigned to:					
Compensated absences	2,765,034				2,765,034
Total Assigned Fund Balances	2,765,034				2,765,034
Unassigned:					
General Fund	6,982,962				6,982,962
Other governmental fund deficits				(163,000)	(163,000)
Total Unassigned Fund Balances	6,982,962			(163,000)	6,819,962
Total Fund Balances	\$11,521,338	\$3,634,461	\$2,368,256	\$47,272,515	\$64,796,570

C. Emergency/Contingency Reserve

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 8 - NET POSITION AND FUND BALANCES (Continued)

D. Fund Balance/Net Position Deficits

The following funds had deficit fund balances or net position as of June 30, 2018.

Non-major Governmental Funds:	
East Tuolumne Master Plan Capital Projects Fund	\$163,000
Non-major Enterprise Fund:	
Building & Safety	1,563,163
Internal Service Funds:	
Information Technology	1,890,375
Engineering	5,957,290

The deficits in the Stanislaus County Housing Consortium Special Revenue Funds and the East Tuolumne Master Plan Capital Projects Fund will be eliminated by future revenues.

The deficits in the Building & Safety Enterprise Fund and the Information Technology and Engineering Internal Service Funds were primarily due to the recognition of the net pension obligation and related deferred outflows/inflows of resources. The City will fund the liability over time through annual contributions with a 29 year amortization period to cure the deficits.

E. Restatement of Net Position

Management adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), which became effective during the year ended June 30, 2018. In June 2015, GASB issued Statement No. 75 and the intention of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees – both active employees and inactive employees – are provided with postemployment benefits other than pensions by requiring recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense. See Note 10 for additional information.

The implementation of the Statement required the City to make prior period adjustments. As a result, the beginning net position was restated as follows:

	As Originally Reported	Restatement	Balance at July 1, 2017 as Restated
Governmental activities	\$283,707,793	(\$9,737,841)	\$273,969,952
Business-type activities	185,850,887	(3,548,298)	182,302,589
Enterprise Funds:			
Water	52,562,135	(1,300,510)	51,261,625
Sewer	124,589,430	(1,928,944)	122,660,486
Transportation	10,010,115	(98,125)	9,911,990
Building & Safety	(1,310,793)	(220,719)	(1,531,512)
Internal Service Funds:			
Equipment	8,121,323	(446,950)	7,674,373
Information Technology	(1,108,510)	(444,791)	(1,553,301)
Engineering	(4,009,484)	(1,167,035)	(5,176,519)

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS

A. Plan Descriptions and Summary of Balances by Plan

The City has two defined benefit pension plans, one Miscellaneous Plan and one Safety Plan (Fire and Police). The Miscellaneous Plan is an Agent-Multiple Employer Plan and the Safety Plan is a Cost Sharing Multiple Employer Plan. Benefit provisions under the Plans are established by State statute and City Ordinance. All qualified permanent and probationary employees are eligible to participate in the Plan for which they are an eligible member based on their employment position with the City.

Both Plans are administered by the California Public Employees' Retirement System (CalPERS) which acts as a common investment and administrative agent for its participating member employers. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous and Safety Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Below is a summary of the deferred outflows of resources, net pension liabilities and deferred inflows of resources by Plan:

	Deferred Outflows of Resources	Net Pension Liability/ Proportionate Share of Net Pension Liability	Deferred Inflows of Resources
Miscellaneous	\$10,366,245	\$45,234,461	
Safety (Fire and Police)	13,280,956	32,763,059	\$1,413,379
Total	<u>\$23,647,201</u>	<u>\$77,997,520</u>	<u>\$1,413,379</u>

Each Plan is discussed in detail below.

B. Miscellaneous Plan

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Pension Reform Act of 2013 (PEPRA), Assembly Bill 340, is applicable to employees new to CalPERS and hired after December 31, 2012.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
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 eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8.000%	5.500%
Required employer contribution rates	9.016%	9.016%
Required UAL contribution	\$2,566,911	

Beginning in fiscal year 2017, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability. The City's required contribution for the unfunded liability was \$2,566,911 in fiscal year 2018.

Employees Covered – As of the June 30, 2016 actuarial valuation date and the June 30, 2017 measurement date, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous	
	June 30, 2016	June 30, 2017
Inactive employees or beneficiaries currently receiving benefits	218	227
Inactive employees entitled to but not yet receiving benefits	283	301
Active employees	222	215
Total	723	743

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability – The City's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown in Note 9D below.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

Changes in the Net Pension Liability - The changes in the Net Pension Liability for the Miscellaneous Plan follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016	\$123,438,465	\$83,946,486	\$39,491,979
Changes in the year:			
Service cost	2,535,894		2,535,894
Interest on the total pension liability	9,300,013		9,300,013
Differences between actual and expected experience	188,828		188,828
Changes in assumptions	7,890,713		7,890,713
Changes in benefit terms			
Plan to Plan resource movement		(25)	25
Contribution - employer		3,684,085	(3,684,085)
Contribution - employee		1,109,929	(1,109,929)
Net investment income		9,502,918	(9,502,918)
Administrative expenses		(123,941)	123,941
Benefit payments, including refunds of employee contributions	(5,431,662)	(5,431,662)	
Net changes	<u>14,483,786</u>	<u>8,741,304</u>	<u>5,742,482</u>
Balance at June 30, 2017	<u>\$137,922,251</u>	<u>\$92,687,790</u>	<u>\$45,234,461</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.15%
Net Pension Liability	\$64,517,790
Current Discount Rate	7.15%
Net Pension Liability	\$45,234,461
1% Increase	8.15%
Net Pension Liability	\$29,376,756

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - For the year ended June 30, 2018, the City recognized pension expense of \$6,198,548. At June 30, 2018, the City reported deferred outflows of resources related to pensions for the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$3,786,340	
Differences between actual and expected experience	342,430	
Changes in assumptions	5,169,777	
Net differences between projected and actual earnings on plan investments	1,067,698	
Total	\$10,366,245	

\$3,786,340 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2019	\$2,927,725
2020	3,871,878
2021	487,588
2022	(707,286)
2023	-
Thereafter	-

Actuarial assumptions and information regarding the discount rate are discussed in Note 9D below.

C. Safety Plan

The City's Safety Plan is part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by CalPERS. PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The City sponsors four rate plans (two fire and two police) within the safety risk pool.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. The Pension Reform Act of 2013 (PEPRA), Assembly Bill 340, is applicable to employees new to CalPERS and hired after December 31, 2012.

The Safety Plan’s provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Safety - Fire	
	Tier 1	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
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 eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	19.723%	11.990%
Required UAL contribution	\$533,796	\$83

	Safety - Police	
	Tier 1	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
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 eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	19.723%	11.990%
Required UAL contribution	\$763,774	\$87

Beginning in fiscal year 2017, CalPERS collects employer contributions for the cost-sharing plan as a percentage of payroll for the normal cost portion and as a dollar amount for contributions toward the unfunded liability as noted in the table above.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the employer contributions to the Safety Plan were \$3,335,223.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

As of June 30, 2018, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$32,763,059.

The City’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	Safety (Fire and Police)
Proportion - June 30, 2016	0.55%
Proportion - June 30, 2017	0.59%
Change - Increase (Decrease)	0.04%

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

For the year ended June 30, 2018, the City recognized pension expense of \$6,443,721 for the Safety Plan. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the Safety Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$3,335,223	
Differences between actual and expected experience	1,722,996	(\$406,240)
Changes in assumptions	5,270,119	(404,338)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	1,803,526	(602,801)
Net differences between projected and actual earnings on plan investments	1,149,092	
Total	\$13,280,956	(\$1,413,379)

\$3,335,223 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2019	\$3,166,149
2020	3,996,194
2021	2,042,386
2022	(672,375)
2023	-
Thereafter	-

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate for the Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Safety
1% Decrease	6.15%
Net Pension Liability	\$50,173,348
Current Discount Rate	7.15%
Net Pension Liability	\$32,763,059
1% Increase	8.15%
Net Pension Liability	\$18,531,015

Actuarial assumptions and information regarding the discount rate are discussed in Note 9D below.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

D. Information Common to the Miscellaneous and Safety Plans

Actuarial Assumptions – For the measurement period ended June 30, 2017, the total pension liabilities were determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous and Safety (Fire and Police)</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increases	(1)
Investment Rate of Return	7.15% (2)
Mortality	Derived using CalPERS Membership Data for all Funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Change of Assumptions - For the measurement date of June 30, 2017, the accounting discount rate was reduced from 7.65% to 7.15%.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be found on the CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 9 - PENSION PLANS (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 10 - POST-EMPLOYMENT HEALTH CARE BENEFITS

A. Defined Benefit Other Post Employment Benefit (OPEB) Plan

Plan Description – The City administers single employer defined benefit (implicit subsidy) post-employment health care plan pursuant to negotiated Memoranda of Understanding (MOU) and Schedules of Benefit (Schedule) with its employee bargaining units. No assets have been accumulated in a trust for the payment of benefits that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

The City offers medical, dental and vision benefits to its employees, retirees and their dependents. However, the City does not pay for the cost of retiree health premiums. The MOUs and Schedule are as follows:

Plan	Covered Employee Group
Management/Confidential	Employees covered by the Management and/or Confidential Employees Schedule of Benefits and Employees covered by Turlock Management Association - Public Safety MOU
Miscellaneous	Employees covered by Turlock City Employees Association MOU
Police	Employees covered by Turlock Associated Police Officers MOU
Fire	Employees covered by Turlock Firefighters Local #2434 MOU

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 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. 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 17 retirees who have chosen to remain on the City’s health plan post employment.

Funding Policy – The City pays the expenses for the plan on a pay-as-you-go basis and the retirees that participate in the plan pay the premiums on a monthly basis.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the valuation date of June 30, 2017:

Active employees	332
Inactive employees or beneficiaries currently receiving benefit payments	17
Inactive employees entitled to but not yet receiving benefit payments	0
Total	349

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

Total OPEB Liability Actuarial Methods and Assumptions – The City’s total OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation dated July 1, 2017 that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2018, based on the following actuarial methods and assumptions:

	Actuarial Assumptions		
Valuation Date		July 01, 2017	
Measurement Date		June 30, 2018	
Actuarial Cost Method		Entry Age	
Actuarial Assumptions:			
Discount Rate		3.85%	
Inflation		1.85%	
Payroll Growth		3.00%	
Mortality Rate	P 2014 Mortality Table projected to 2024 with Scale BB		
Healthcare Trend Rate	8% in 2019 and will decline to 4.0% in 2022 and later years		

The underlying mortality assumptions were based on the RP 2014 Mortality Table Projected to 2024 with Scale BB and all other actuarial assumptions used in the July 1, 2017 valuation were based on the results of a July 1, 2017 actuarial valuation.

Changes in Assumptions – The discount rate increased from 3.60% to 3.85% and the inflation rate increased from 1.60% to 1.85% from June 30, 2017 to June 30, 2018.

Discount Rate – The discount rate used to measure the total OPEB liability was 3.85%, the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present value of projected benefit payments calculated using a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/ Aa or higher (Bond Buyer 20-Bond General Obligation Index).

Changes in Total OPEB Liability - The changes in the total OPEB liability follows:

	Total OPEB Liability
Balance at July 1, 2017	\$16,544,233
Changes Recognized for the Measurement Period:	
Service Cost	1,155,061
Interest on the total OPEB liability	637,175
Changes in benefit terms	
Differences between expected and actual experience	(222,909)
Changes of assumptions	(600,396)
Contributions from the employer	
Net investment income	
Administrative expenses	
Benefit payments	(107,347)
Net changes	861,584
Balance at June 30, 2018	\$17,405,817

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates
- The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Total OPEB Liability/(Asset)		
Discount Rate -1%	Discount Rate	Discount Rate +1%
2.85%	3.85%	4.85%
\$20,270,814	\$17,405,817	\$15,061,253

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0% decreasing to 3.0%) or 1-percentage-point higher (9.0% decreasing to 5.0%) than the current healthcare cost trend rates:

Total OPEB Liability/(Asset)		
Healthcare Cost		
1% Decrease	Trend Rates	1% Increase
7.00% decreasing to 3.00%	8.00% decreasing to 4.00%	9.00% decreasing to 5.00%
\$14,923,747	\$17,405,817	\$20,396,136

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - For the year ended June 30, 2018, the City recognized OPEB expense of \$1,737,349. At June 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience		\$208,048
Changes of assumptions		560,370
Net differences between projected and actual earnings on plan investments		
Total		\$768,418

Deferred inflows of resources related to OPEB will be recognized as part of OPEB expense as follows:

Year Ended June 30	Annual Amortization
2019	\$54,887
2020	54,887
2021	54,887
2022	54,887
2023	54,887
Thereafter	493,983

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

B. Defined Contribution OPEB Plans

Plan Description – The City has post-employment health care defined contribution plans in place pursuant to negotiated Memoranda of Understanding (MOU) and Schedules of Benefits (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	Employer Funding Obligation
Management/Confidential	Employees covered by the Management and/or Confidential Employees Schedule of Benefits and Employees covered by Turlock Management Association - Public Safety MOU	3% of base salary
Miscellaneous	Employees covered by Turlock City Employees Association MOU	2.5% 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 administrator for the Management/Confidential, Police Management and Miscellaneous plans is ICMA. The respective bargaining unit representatives administer the benefits for the Police and Fire plans.

For the Police and Fire plans, the City remits the contributions as required by the respective MOU to each plan following each pay period. 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 salary and benefit 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 there is no unfunded actuarial accrued liability the City is obligated to fund.

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 2017-18 were as follows:

Plan	Contributions
Management/Confidential	\$161,874
Miscellaneous	183,973
Police	283,597
Fire	198,145

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018 were \$193,722 and the City's deductible under the policy is \$1.250 million, 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 54 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
Automobile - for vehicles with values of \$250,000 or more (\$2,000)	50,000
Automobile - for vehicles with values less than \$250,000 (\$2,000)	10,000
Automobile - for vehicles with values less than \$25,000 (\$500)	25,000

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 \$920,116 during the fiscal year ended June 30, 2018. Settled claims have not exceeded commercial excess liability coverage in any of the past three fiscal years.

In addition to the coverage through CSJVRMA, the City has purchased the commercial policy coverage for property, vehicles and contractors equipment with various sublimits up to \$100,000,000:

<u>Type of Coverage (Deductible)</u>
Property, including flood (\$25,000 to \$100,000)
Vehicles with value under \$100,000 (\$10,000)
Vehicles with values of \$100,000 to \$200,000 (\$25,000)
Vehicles with values over \$200,000 (\$50,000)
Contractors equipment with values of less than \$25,000 (\$2,500)
Equipment with values of \$25,000 or more (\$10,000)

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 11 - RISK MANAGEMENT (Continued)

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.

For the Year Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2016	\$4,713,193	\$6,142,294	(\$6,797,703)	\$4,057,784
2017	4,057,784	6,098,245	(5,832,804)	4,323,225
2018	4,323,225	5,840,479	(7,575,608)	2,588,096

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. *Litigation*

As of June 30, 2018, 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.

C. *North Valley Regional Recycled Water Program*

On January 26, 2016, the City entered into a Cost-Sharing Agreement to defray expenses associated with the proposed North Valley Regional Recycled Water Program between the City of Modesto and the Del Puerto Water District for expenses associated with the Phase 4 Implementation Support for the North Valley Regional Recycled Water Project. The purpose of the Project is to provide recycled water from the Turlock and Modesto wastewater treatment facilities to the Del Puerto Water District (DPWD) for agricultural irrigation. The cost sharing under this Agreement will provide up to \$932,121 toward implementation support of the Project and the City of Turlock's share is \$396,151. The City expended \$66,783 under the agreement for fiscal year ended June 30, 2018 and has expended \$345,470 to date.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

D. Stanislaus Regional Water Authority

The Stanislaus Regional Water Authority (SRWA) was established by the Cities of Ceres, Modesto, and Turlock in September 2011. In November 2015, the City of Modesto formally withdrew from membership in the SRWA, leaving the Cities of Ceres and Turlock as the participating members of the SRWA (Participants). In December 2015, the SRWA’s Bylaws as well as the Joint Powers Authority Agreement were amended to reflect this change as well as to update the administrative functional assignments of the Participants.

The Participants are interested in finding and evaluating surface water supply options and facilities to supplement the ground-water potable water sources currently serving the municipal and industrial water customers within their respective service areas. Each Participant is authorized to develop, obtain, and serve a municipal and industrial water supply, pursuant to California law. The Participants are working with the Turlock Irrigation District (TID) to develop a Regional Surface Water Supply Project (RSWSP) that will provide a safe and reliable high-quality surface water supply for the long-term drinking water needs of each Participant. The Participants have formed this Joint Powers Authority (JPA) for the purpose of making responsible decisions related to the development and operation of the future RSWSP.

In 2015, the SRWA and TID approved a “Water Sales Agreement” which provides the basis for the sale and delivery of raw water to the SRWA for the RSWSP and the allocation of certain costs associated with the RSWSP. In February 2018, the SRWA and TID entered into a “Raw Water Pump Station Phase 1 Project Construction Funding Agreement” (Pump Station Agreement). In March 2018, the SRWA awarded a contract for the construction of a wet well. The wet well will be constructed adjacent to the site on which TID previously constructed an infiltration gallery in the Tuolumne River. The Pump Station Agreement includes provisions for the allocation of costs associated with the construction of the wet well to the Participants and TID. The wet well project is anticipated to provide the source of raw water to eventually be treated by the RSWSP and provided to the Participant’s potable water customers. The City contributed \$1,160,500 during the fiscal year ended June 30, 2018 representing its pro-rata share of the SRWA’s costs based on the various cost sharing agreements.

Additional information regarding this project can be found at www.stanrwa.org. Financial statements for the SRWA can be obtained from the City of Turlock at 156 South Broadway, Suite 270, Turlock, CA 95380.

E. Construction and Other Commitments

The City had the following outstanding significant commitments at June 30, 2018:

Projects	Amount
Turlock Regional Water Quality Control Facility (TRWQCF)	\$6,626,567
Intersection Improvements - West Main	5,224,023
Various bus and equipment purchases	2,504,161
Improvements - Monte Vista Avenue	267,960
North Valley Regional Recycled Water Program (NVRWP)	119,973
Transit Center	93,596
Other contracts	29,469

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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.

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.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

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. 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.

Cash and investments of the Successor Agency as of June 30, 2018 are discussed in Note 3. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2018.

B. 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 enforceable obligations. The outstanding balances as of June 30, 2018 are as follows:

	Original Issue Amount	Balance June 30, 2017	Retirements	Balance June 30, 2018	Due Within One Year	Due in More Than One Year
Revenue Bonds:						
2016 Tax Allocation Revenue Bonds	\$35,740,000	\$35,740,000	\$350,000	\$35,390,000	\$1,015,000	\$34,375,000
Less: Unamortized bond discount		3,072,779	137,587	2,935,192		2,935,192
Loan Payable:						
Economic Development Bank	889,305	381,131	127,044	254,087	127,044	127,043
Total Successor Agency Debt	<u>\$36,629,305</u>	<u>\$39,193,910</u>	<u>\$614,631</u>	<u>\$38,579,279</u>	<u>\$1,142,044</u>	<u>\$37,437,235</u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

2.*2016 Successor Agency Tax Allocation Refunding Bonds*

In November 2016, the Successor Agency issued Tax Allocation Refunding Bonds, Series 2016, in the amount of \$35,740,000. The proceeds from the Bonds were to be used to refund the outstanding balance of the 1999 Revenue Bonds, 2006 Tax Allocation Revenue Bonds, and 2011 Tax Allocation Revenue Bonds. The Bonds bear interest rates of 2.0 – 5.0%. Interest on the Bonds is payable semi-annually March 1 and September 1 and principal is due annually on each September 1 through 2039.

3.*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 began in January 2014.

4.*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, called a gain or loss on refunding, is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter. The gain or loss is reported as a deferred inflow or outflow of resources, as applicable. Bond issuance costs, other than prepaid insurance, are expensed in the year incurred.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

5. Debt Service Requirements

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

For the Year Ending June 30	Successor Agency		Economic Development Bank Loan Payable	Total		
	2016 Tax Allocation Refunding Bonds			Principal	Total	
	Principal	Interest			Principal	Interest
2019	\$1,015,000	\$1,452,981	\$127,044	\$1,142,044	\$1,452,981	
2020	1,045,000	1,411,631	127,043	1,172,043	1,411,631	
2021	1,100,000	1,358,006		1,100,000	1,358,006	
2022	1,150,000	1,301,756		1,150,000	1,301,756	
2023	1,210,000	1,242,757		1,210,000	1,242,757	
2024-2028	7,020,000	5,219,283		7,020,000	5,219,283	
2029-2033	8,955,000	3,251,355		8,955,000	3,251,355	
2034-2038	10,815,000	1,428,147		10,815,000	1,428,147	
2039-2040	3,080,000	75,601		3,080,000	75,601	
Total	<u>\$35,390,000</u>	<u>\$16,741,517</u>	<u>\$254,087</u>	35,644,087	<u>\$16,741,517</u>	
	Add: Unamortized Bond Premium			2,935,192		
	Net long-term debt			<u>\$38,579,279</u>		

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

C. COMMITMENTS AND CONTINGENCIES

1. State Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) annually that contains all proposed expenditures for the subsequent twelve-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 conducted 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. The City received the results of the review in February 2015 which indicate assets of \$402,582, comprised of salaries for two City employees paid with the former Redevelopment Agency's cash of \$75,327 and the purchase of 301 Star Avenue from the City in the amount of \$327,255, should be returned to the Successor Agency. However, the City disputes the finding and management is determining how to respond to the matter, 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.

3. Stanislaus Countywide Consolidated Oversight Board

On July 1, 2018, the duties of the Turlock Oversight Board transferred to a new Stanislaus Countywide Consolidated Oversight Board, which will now be responsible for overseeing the winddown affairs of all Successor Agencies in Stanislaus County, including the Successor Agency to the Turlock Redevelopment Agency.

NOTE 14 - SUBSEQUENT EVENTS

State Revolving Fund Loan

The City entered into a construction installment sale agreement with the California State Water Resources Control Board (CSWRCB) for State Revolving Fund project financing. This loan is on parity with the Sewer Revenue Bonds and State Revolving Fund Loans discussed in Note 7 above. This means that the loan has equal rights to pledged revenues as the sewer bonds and loans.

The loan and grant agreement was executed in August 2018 in the amount of \$39,461,000 to fund the North Valley Regional Recycled Water Program project. \$2.5 million of the project funding is anticipated to be forgiven and the balance will be in the form of a loan payable to the CSWRCB. The loan bears annual interest of 1.8% beginning with each disbursement and repayment of principal and interest will begin one year after the completion of construction on the project. The loan will be amortized with equal annual payments over a period from that date to July 31, 2049.

REQUIRED SUPPLEMENTARY INFORMATION

Miscellaneous Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Years*

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Measurement Date	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Total Pension Liability				
Service Cost	\$2,252,227	\$2,145,944	\$2,113,775	\$2,535,894
Interest	8,152,132	8,394,010	8,879,576	9,300,013
Differences between expected and actual experience		(2,796,579)	704,751	188,828
Changes in assumptions		(2,114,962)		7,890,713
Changes in benefits				
Benefit payments, including refunds of employee contributions	(4,197,372)	(4,620,913)	(5,141,794)	(5,431,662)
Net change in total pension liability	6,206,987	1,007,500	6,556,308	14,483,786
Total pension liability - beginning	109,667,670	115,874,657	116,882,157	123,438,465
Total pension liability - ending (a)	\$115,874,657	\$116,882,157	\$123,438,465	\$137,922,251
Plan fiduciary net position				
Contributions - employer	\$2,650,159	\$2,832,416	\$3,259,415	\$3,684,085
Contributions - employee	1,031,498	1,042,224	1,027,004	1,109,929
Net investment income	12,514,268	1,937,886	438,577	9,502,918
Benefit payments, including refunds of employee contributions	(4,197,372)	(4,620,913)	(5,141,794)	(5,431,662)
Plan to Plan Resource Movement		78,472	622	(25)
Administrative Expense		(94,994)	(51,446)	(123,941)
Net change in plan fiduciary net position	11,998,553	1,175,091	(467,622)	8,741,304
Plan fiduciary net position - beginning	71,240,464	83,239,017	84,414,108	83,946,486
Plan fiduciary net position - ending (b)	\$83,239,017	\$84,414,108	\$83,946,486	\$92,687,790
Net pension liability - ending (a)-(b)	\$32,635,640	\$32,468,049	\$39,491,979	\$45,234,461
Plan fiduciary net position as a percentage of the total pension liability	71.84%	72.22%	68.01%	67.20%
Covered payroll	\$13,044,287	\$12,730,821	\$13,052,557	\$13,771,230
Net pension liability as percentage of covered payroll	250.19%	255.03%	302.56%	328.47%

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

* - Fiscal year 2015 was the 1st year of implementation.

REQUIRED SUPPLEMENTARY INFORMATION

Miscellaneous Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Years*

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	\$3,847,884	\$3,256,514	\$3,684,324	\$3,786,340
Contributions in relation to the actuarially determined contributions	(3,847,884)	(3,256,514)	(3,684,324)	(3,786,340)
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	<u>\$12,730,821</u>	<u>\$13,052,557</u>	<u>\$13,771,230</u>	<u>\$13,489,574</u>
Contributions as a percentage of covered payroll	30.22%	24.95%	26.75%	28.07%

Notes to Schedule

Valuation date:	6/30/2012	6/30/2013	6/30/2014	6/30/2015
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Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Average remaining amortization period	26 years as of valuation date
Asset valuation method	15 year Smoothed Market value
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, includes inflation
Retirement age	The probability of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality Rate Table	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the 1st year of implementation.

REQUIRED SUPPLEMENTARY INFORMATION

Safety Plan, Cost Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Years*

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

Measurement Date	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Plan's Proportion of the Net Pension Liability (Asset)	0.39%	0.53%	0.55%	0.55%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	<u>\$24,494,695</u>	<u>\$21,992,658</u>	<u>\$28,313,359</u>	<u>\$32,763,059</u>
Plan's Covered Payroll	<u>\$10,003,385</u>	<u>\$9,440,848</u>	<u>\$9,870,904</u>	<u>\$9,994,012</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	244.86%	232.95%	286.84%	327.83%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	79.82%	78.40%	74.06%	73.31%

* - Fiscal year 2015 was the 1st year of implementation.

REQUIRED SUPPLEMENTARY INFORMATION

Safety Plan, Cost Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Years*

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	\$3,951,824	\$2,633,557	\$2,919,564	\$3,335,223
Contributions in relation to the actuarially determined contributions	(3,951,824)	(2,633,557)	(2,919,564)	(3,335,223)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
 Covered payroll	 \$9,440,848	 \$9,870,904	 \$9,994,012	 \$10,781,820
 Contributions as a percentage of covered payroll	 41.86%	 26.68%	 29.21%	 30.93%

* - Fiscal year 2015 was the 1st year of implementation.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE
TOTAL OPEB LIABILITY AND RELATED RATIOS**

Last 10 fiscal years*

Measurement Date	<u>6/30/18</u>
Total OPEB Liability	
Service Cost	\$1,155,061
Interest	637,175
Changes in benefit terms	
Differences between expected and actual experience	(222,909)
Changes of assumptions	(600,396)
Benefit payments	(107,347)
Net change in total OPEB liability	<u>861,584</u>
Total OPEB liability - beginning	<u>16,544,233</u>
Total OPEB liability - ending (a)	<u><u>\$17,405,817</u></u>
Covered-employee payroll	<u><u>\$24,603,348</u></u>
Total OPEB liability as a percentage of covered payroll	<u><u>70.75%</u></u>

Notes to schedule:

Benefit changes: None

Changes in assumptions: None

* Fiscal year 2018 was the first year of implementation.

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NON-MAJOR GOVERNMENTAL FUNDS

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

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.

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.

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
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	SPECIAL REVENUE FUNDS			
	Asset Forfeitures	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
ASSETS				
Cash and investments	\$46,454	\$967,970	\$78,715	\$17,534
Accounts receivable		2,192		12,767
Interest receivable		1,516		
Due from developers				
Loans receivable				
Total Assets	\$46,454	\$971,678	\$78,715	\$30,301
LIABILITIES				
Accounts payable		\$1,113	\$110	\$9,012
Payroll payable		1,626		12,087
Deposits payable				
Due to other funds				
Total Liabilities		2,739	110	21,099
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
FUND BALANCE				
Fund balance:				
Nonspendable				
Restricted		80,903		
Committed	\$46,454	888,036	78,605	9,202
Unassigned				
Total Fund Balances (Deficit)	46,454	968,939	78,605	9,202
Total Liabilities and Fund Balances	\$46,454	\$971,678	\$78,715	\$30,301

SPECIAL REVENUE FUNDS

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$17,428	\$3,996,836 6,123	\$4,551,325 105,440	\$324,669 503	\$643,497 995	\$14,132,255 45,721 21,913	\$55,081
<u>\$17,428</u>	<u>\$4,002,959</u>	<u>\$4,656,765</u>	<u>\$325,172</u>	<u>\$644,492</u>	<u>\$14,199,889</u>	<u>\$55,081</u>
\$2,585	\$4,111	\$44,304			\$31,721 22,866	
<u>2,585</u>	<u>4,111</u>	<u>44,304</u>			<u>54,587</u>	
14,843	3,998,848	4,612,461	\$325,172	\$644,492	14,145,302	\$55,081
<u>14,843</u>	<u>3,998,848</u>	<u>4,612,461</u>	<u>325,172</u>	<u>644,492</u>	<u>14,145,302</u>	<u>55,081</u>
<u>\$17,428</u>	<u>\$4,002,959</u>	<u>\$4,656,765</u>	<u>\$325,172</u>	<u>\$644,492</u>	<u>\$14,199,889</u>	<u>\$55,081</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	SPECIAL REVENUE FUNDS				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus County Housing Consortium
ASSETS					
Cash and investments	\$67,679		\$2,383,056	\$30,907	\$170,903
Accounts receivables	7,873	\$227,796			477,231
Interest receivable			3,893		
Due from developers					
Loans receivable		6,351,665	4,571,354	55,959	6,121,619
Total Assets	\$75,552	\$6,579,461	\$6,958,303	\$86,866	\$6,769,753
LIABILITIES					
Accounts payable		\$31,915			\$8,966
Payroll payable		6,275			2,293
Deposits payable					3,835
Due to other funds		118,338			
Total Liabilities		156,528			15,094
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue		6,351,665	\$4,571,354	\$55,959	6,146,394
FUND BALANCE					
Fund balance:					
Nonspendable					
Restricted	\$75,552	71,268	2,386,949	30,907	608,265
Committed					
Unassigned					
Total Fund Balances (Deficit)	75,552	71,268	2,386,949	30,907	608,265
Total Liabilities and Fund Balances	\$75,552	\$6,579,461	\$6,958,303	\$86,866	\$6,769,753

SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS					
Grant Funds	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan	Turlock Regional Industrial Park
\$610,452	\$438,589	\$131,836	\$241,527	\$2,177,789	\$4,109,118	\$305,008
	730	203		3,451	6,231	
<u>\$610,452</u>	<u>\$439,319</u>	<u>\$132,039</u>	<u>\$241,527</u>	<u>\$2,181,240</u>	<u>\$4,115,349</u>	<u>\$305,008</u>
\$45,599	\$165		\$10		\$4,899	
101,605						
<u>147,204</u>	<u>165</u>		<u>10</u>		<u>4,899</u>	
463,248	439,154	\$132,039	241,517	\$2,181,240	4,110,450	\$305,008
<u>463,248</u>	<u>439,154</u>	<u>132,039</u>	<u>241,517</u>	<u>2,181,240</u>	<u>4,110,450</u>	<u>305,008</u>
<u>\$610,452</u>	<u>\$439,319</u>	<u>\$132,039</u>	<u>\$241,527</u>	<u>\$2,181,240</u>	<u>\$4,115,349</u>	<u>\$305,008</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

CAPITAL PROJECTS FUNDS				
	East Tuolumne Master Plan	Airport	Facility Fees	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments		\$40,894	\$11,228,304	\$46,157,374
Accounts receivables		6,988	43	1,496,503
Interest receivable			17,941	63,499
Due from developers			267,243	267,243
Loans receivable				17,100,597
		\$47,882	\$11,513,531	\$65,085,216
Total Assets		\$47,882	\$11,513,531	\$65,085,216
LIABILITIES				
Accounts payable			\$70,894	\$255,404
Payroll payable				45,147
Deposits payable				3,835
Due to other funds	\$163,000			382,943
	163,000		70,894	687,329
Total Liabilities			70,894	687,329
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				17,125,372
Fund Balance				
Fund balance:				
Nonspendable			267,243	267,243
Restricted			11,175,394	29,107,712
Committed		\$47,882		18,060,560
Unassigned	(163,000)			(163,000)
	(163,000)	47,882	11,442,637	47,272,515
Total Fund Balances (Deficit)		47,882	11,442,637	47,272,515
Total Liabilities and Fund Balances		\$47,882	\$11,513,531	\$65,085,216

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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, 2018

	SPECIAL REVENUE FUNDS			
	Asset Forfeitures	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
REVENUES				
Taxes and assessments				
Licenses and permits			\$1,955	
Use of money and property		\$10,250		
Intergovernmental	\$25,956	2,397		
Charges for current services		162,940		\$235,260
Other				2,190
Total Revenues	<u>25,956</u>	<u>175,587</u>	<u>1,955</u>	<u>237,450</u>
EXPENDITURES				
Current:				
General government		156,761		
Public safety	4,887		7,386	
Public ways and facilities/transportation				
Parks and recreation				759,664
Community development				
Capital outlay				
Total Expenditures	<u>4,887</u>	<u>156,761</u>	<u>7,386</u>	<u>759,664</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>21,069</u>	<u>18,826</u>	<u>(5,431)</u>	<u>(522,214)</u>
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust				
Proceeds from sale of property				
Transfers in				544,439
Transfers (out)				(23,202)
Total Other Financing Sources (Uses)				<u>521,237</u>
NET CHANGE IN FUND BALANCES	21,069	18,826	(5,431)	(977)
BEGINNING FUND BALANCES (DEFICITS)	<u>25,385</u>	<u>950,113</u>	<u>84,036</u>	<u>10,179</u>
ENDING FUND BALANCES (DEFICITS)	<u><u>\$46,454</u></u>	<u><u>\$968,939</u></u>	<u><u>\$78,605</u></u>	<u><u>\$9,202</u></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
		\$109,723			\$2,870,528	
	\$18,419		\$3,369	\$6,706	46,654	
\$15,948	35,549	94,105	3,960			
3,772		276,050			2,789	
18,583						
19,720	53,968	498,461	7,329	6,706	2,919,971	
21,729		52,907				
	21,135	153,229	63		1,812,764	
		12,564				
		2,168				
		178,403				
	282,420	1,181,144				
21,729	303,555	1,580,415	63		1,812,764	
(2,009)	(249,587)	(1,081,954)	7,266	6,706	1,107,207	
		1,445,077				
		(31,199)	(1,000)		(70,320)	
		1,413,878	(1,000)		(70,320)	
(2,009)	(249,587)	331,924	6,266	6,706	1,036,887	
16,852	4,248,435	4,280,537	318,906	637,786	13,108,415	\$55,081
\$14,843	\$3,998,848	\$4,612,461	\$325,172	\$644,492	\$14,145,302	\$55,081

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	SPECIAL REVENUE FUNDS				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus County Housing Consortium
REVENUES					
Taxes and assessments	\$674,519				
Licenses and permits					
Use of money and property	2,044		\$24,326		
Intergovernmental		\$49,780			\$906,912
Charges for current services					65,995
Other		293,870	424,510	\$6,888	287,166
Total Revenues	676,563	343,650	448,836	6,888	1,260,073
EXPENDITURES					
Current:					
General government	20,542				
Public safety					
Public ways and facilities/transportation					
Parks and recreation					
Community development		674,748	51,962	1,150	534,638
Capital outlay					
Total Expenditures	20,542	674,748	51,962	1,150	534,638
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	656,021	(331,098)	396,874	5,738	725,435
OTHER FINANCING SOURCES (USES)					
Contributions from private purpose trust		3,466			122
Proceeds from sale of property		380,735			
Transfers in					
Transfers (out)	(656,021)	(649)			(325)
Total Other Financing Sources (Uses)	(656,021)	383,552			(203)
NET CHANGE IN FUND BALANCES		52,454	396,874	5,738	725,232
BEGINNING FUND BALANCES (DEFICITS)	75,552	18,814	1,990,075	25,169	(116,967)
ENDING FUND BALANCES (DEFICITS)	\$75,552	\$71,268	\$2,386,949	\$30,907	\$608,265

SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS					
Grant Funds	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan	Turlock Regional Industrial Park
	\$13,265 5,569	\$1,373		\$9,234	\$13,269	
\$1,235,028 12,765 25,716	3,348	9,964			551,911	\$38,213
<u>1,273,509</u>	<u>22,182</u>	<u>11,337</u>		<u>9,234</u>	<u>565,180</u>	<u>38,213</u>
423,473						
690,501	70,259		\$274	436	3,132	
			415			
	<u>145,029</u>	<u>30,192</u>			<u>70,364</u>	
<u>1,113,974</u>	<u>215,288</u>	<u>30,192</u>	<u>689</u>	<u>436</u>	<u>73,496</u>	
<u>159,535</u>	<u>(193,106)</u>	<u>(18,855)</u>	<u>(689)</u>	<u>8,798</u>	<u>491,684</u>	<u>38,213</u>
332,465 (343,199)	139,736			(50,000)	(30,000)	29,742
<u>(10,734)</u>	<u>139,736</u>			<u>(50,000)</u>	<u>(30,000)</u>	<u>29,742</u>
148,801	(53,370)	(18,855)	(689)	(41,202)	461,684	67,955
<u>314,447</u>	<u>492,524</u>	<u>150,894</u>	<u>242,206</u>	<u>2,222,442</u>	<u>3,648,766</u>	<u>237,053</u>
<u>\$463,248</u>	<u>\$439,154</u>	<u>\$132,039</u>	<u>\$241,517</u>	<u>\$2,181,240</u>	<u>\$4,110,450</u>	<u>\$305,008</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, 2018

	CAPITAL PROJECTS FUNDS			
	East Tuolumne Master Plan	Airport	Facility Fees	Total Nonmajor Funds
REVENUES				
Taxes and assessments				\$3,654,770
Licenses and permits				15,220
Use of money and property			\$49,940	191,153
Intergovernmental		\$72,966		2,387,144
Charges for current services			732,661	2,144,564
Other				1,065,484
Total Revenues		72,966	782,601	9,458,335
Current:				
General government			995	231,205
Public safety			280	610,984
Public ways and facilities/transportation		53,660	1,001	1,975,288
Parks and recreation				1,452,333
Community development				1,441,316
Capital outlay			781,755	2,490,904
Total Expenditures		53,660	784,031	8,202,030
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		19,306	(1,430)	1,256,305
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust				3,588
Proceeds from sale of property				380,735
Transfers in				2,491,459
Transfers (out)		(11,178)	(252,589)	(1,469,682)
Total Other Financing Sources (Uses)		(11,178)	(252,589)	1,406,100
NET CHANGE IN FUND BALANCES		8,128	(254,019)	2,662,405
BEGINNING FUND BALANCES (DEFICITS)	(\$163,000)	39,754	11,696,656	44,610,110
ENDING FUND BALANCES (DEFICITS)	(\$163,000)	\$47,882	\$11,442,637	\$47,272,515

(Concluded)

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 Position.

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, 2018

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
ASSETS					
Current Assets:					
Cash and investments	\$1,045,160	\$7,773,225	\$200,949		\$9,019,334
Accounts receivable	35,133	335,577			370,710
Interest receivable	1,606	10,705			12,311
Due from other funds	4,348,251				4,348,251
Total Current Assets	<u>5,430,150</u>	<u>8,119,507</u>	<u>200,949</u>		<u>13,750,606</u>
Noncurrent Assets:					
Capital assets not being depreciated	4,465				4,465
Capital assets being depreciated	3,892,465			\$875,660	4,768,125
Total Non-Current Assets	<u>3,896,930</u>			<u>875,660</u>	<u>4,772,590</u>
Total Assets	<u>9,327,080</u>	<u>8,119,507</u>	<u>200,949</u>	<u>875,660</u>	<u>18,523,196</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	230,363		411,462	856,815	1,498,640
LIABILITIES					
Current Liabilities:					
Accounts payable	3,395	1,382,289	11,788	9,892	1,407,364
Payroll payable	11,728		19,946	39,291	70,965
Due to other funds				2,558,541	2,558,541
Compensated absences	8,389		16,677	26,043	51,109
Total Current Liabilities	<u>23,512</u>	<u>1,382,289</u>	<u>48,411</u>	<u>2,633,767</u>	<u>4,087,979</u>
Long-term Liabilities:					
Estimated claims liability		2,588,096			2,588,096
Compensated absences	33,555		66,708	104,174	204,437
Total OPEB liability	310,578		567,159	1,161,713	2,039,450
Net pension liabilities	1,005,218		1,795,470	3,738,824	6,539,512
Total Long-Term Liabilities	<u>1,349,351</u>	<u>2,588,096</u>	<u>2,429,337</u>	<u>5,004,711</u>	<u>11,371,495</u>
Total Liabilities	<u>1,372,863</u>	<u>3,970,385</u>	<u>2,477,748</u>	<u>7,638,478</u>	<u>15,459,474</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to OPEB	13,711		25,038	51,287	90,036
NET POSITION (DEFICIT)					
Net investment in capital assets	3,896,930			875,660	4,772,590
Unrestricted	4,273,939	4,149,122	(1,890,375)	(6,832,950)	(300,264)
Total Net Position (Deficit)	<u>\$8,170,869</u>	<u>\$4,149,122</u>	<u>(\$1,890,375)</u>	<u>(\$5,957,290)</u>	<u>\$4,472,326</u>

CITY OF TURLOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Equipment Pool</u>	<u>Self Insurance</u>	<u>Information Technology</u>	<u>Engineering</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$848,281	\$10,240,009	\$1,143,879	\$1,889,070	\$14,121,239
Refunds & other income	<u>27,976</u>	<u>704,267</u>		<u>1,460</u>	<u>733,703</u>
Total Operating Revenues	<u>876,257</u>	<u>10,944,276</u>	<u>1,143,879</u>	<u>1,890,530</u>	<u>14,854,942</u>
OPERATING EXPENSES					
Salaries, benefits and insurance	782,492	8,530,055	1,238,951	2,282,730	12,834,228
Contractual	33,709	40,497	175,299	170,298	419,803
Supplies and maintenance	19,926		3,567	38,965	62,458
Utilities	28,016		22,459	26,041	76,516
Fleet expense	40,531		794	20,635	61,960
Depreciation and amortization	599,982			55,015	654,997
Other expenses	<u>6,032</u>	<u>125,348</u>	<u>34,856</u>	<u>29,846</u>	<u>196,082</u>
Total Operating Expenses	<u>1,510,688</u>	<u>8,695,900</u>	<u>1,475,926</u>	<u>2,623,530</u>	<u>14,306,044</u>
Total Operating Income (Loss)	<u>(634,431)</u>	<u>2,248,376</u>	<u>(332,047)</u>	<u>(733,000)</u>	<u>548,898</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	11,147	18,366			29,513
Gain (loss) on disposal of capital assets	<u>18,068</u>			<u>1,940</u>	<u>20,008</u>
Total Nonoperating Revenues (Expenses)	<u>29,215</u>	<u>18,366</u>		<u>1,940</u>	<u>49,521</u>
Income (Loss) Before Contributions and Transfers	(605,216)	2,266,742	(332,047)	(731,060)	598,419
Capital contributions	2,841				2,841
Transfers in	1,169,528			81,000	1,250,528
Transfers (out)	<u>(70,657)</u>		<u>(5,027)</u>	<u>(130,711)</u>	<u>(206,395)</u>
Change in Net Position	496,496	2,266,742	(337,074)	(780,771)	1,645,393
NET POSITION-BEGINNING (DEFICIT), as Restated	<u>7,674,373</u>	<u>1,882,380</u>	<u>(1,553,301)</u>	<u>(5,176,519)</u>	<u>2,826,933</u>
ENDING NET POSITION (DEFICIT)	<u>\$8,170,869</u>	<u>\$4,149,122</u>	<u>(\$1,890,375)</u>	<u>(\$5,957,290)</u>	<u>\$4,472,326</u>

CITY OF TURLOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$861,897	\$10,003,282	\$1,143,879	\$1,889,896	\$13,898,954
Payments to suppliers	(169,897)	(1,900,974)	(242,180)	(281,549)	(2,594,600)
Payments to employees	(577,057)	(7,709,470)	(900,628)	(2,062,045)	(11,249,200)
Other	27,976	704,267		1,460	733,703
Cash Flows from (used by) Operating Activities	<u>142,919</u>	<u>1,097,105</u>	<u>1,071</u>	<u>(452,238)</u>	<u>788,857</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund receipts (payments)	(1,845,662)			500,009	(1,345,653)
Transfers in	1,169,528			81,000	1,250,528
Transfers (out)	(70,657)		(5,027)	(130,711)	(206,395)
Cash Flows from Noncapital Financing Activities	<u>(746,791)</u>		<u>(5,027)</u>	<u>450,298</u>	<u>(301,520)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(930,056)				(930,056)
Proceeds from sale of capital assets	65,665			1,940	67,605
Cash Flows from (used by) Capital and Related Financing Activities	<u>(864,391)</u>			<u>1,940</u>	<u>(862,451)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earnings	10,609	15,078			25,687
Cash Flows from Investing Activities	<u>10,609</u>	<u>15,078</u>			<u>25,687</u>
Net Cash Flows	(1,457,654)	1,112,183	(3,956)		(349,427)
Cash and investments at beginning of period	<u>2,502,814</u>	<u>6,661,042</u>	<u>204,905</u>		<u>9,368,761</u>
Cash and investments at end of period	<u>\$1,045,160</u>	<u>\$7,773,225</u>	<u>\$200,949</u>		<u>\$9,019,334</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income (loss)	(\$634,431)	\$2,248,376	(\$332,047)	(\$733,000)	\$548,898
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	599,982			55,015	654,997
Change in assets and liabilities:					
Accounts receivable	13,616	(236,727)		826	(222,285)
Accounts payable	(41,683)	820,585	(5,205)	4,236	777,933
Payroll payable	532		3,839	(1,055)	3,316
Compensated absences	2,540		2,727	(71,877)	(66,610)
Claims liability		(1,735,129)			(1,735,129)
Deferred outflows/inflows and total OPEB liability	29,085		53,112	108,791	190,988
Deferred outflows/inflows and net pension liability	173,278		278,645	184,826	636,749
Cash Flows from (used by) Operating Activities	<u>\$142,919</u>	<u>\$1,097,105</u>	<u>\$1,071</u>	<u>(\$452,238)</u>	<u>\$788,857</u>
NONCASH TRANSACTIONS:					
Contributed capital assets	\$2,841				\$2,841
Retirement of capital assets	(47,597)				(47,597)
Total noncash capital and related financing activities	<u>(\$44,756)</u>				<u>(\$44,756)</u>

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.

Stanislaus Regional Water Authority – This fund accounts for assets belonging to the Stanislaus Regional Water Authority held as an agent by the City, which maintains the Authority’s books and accounts.

CITY OF TURLOCK
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2018

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Northwest Triangle - Mello Roos Assessments				
Assets				
Cash and investments	\$292,458	\$238,254	\$282,316	\$248,396
Cash and investments with fiscal agents	100,174	688		100,862
Accounts and interest receivable	1,989	60,733	1,989	60,733
Total Assets	\$394,621	\$299,675	\$284,305	\$409,991
Liabilities				
Accounts payable				
Due to others	\$394,621	\$299,675	\$284,305	\$409,991
Total Liabilities	\$394,621	\$299,675	\$284,305	\$409,991
Property & Business Improvement District #2				
Assets				
Cash and investments	\$68,120	\$150,896	\$190,272	\$28,744
Accounts and interest receivable	2,251	191	2,251	191
Total Assets	\$70,371	\$151,087	\$192,523	\$28,935
Liabilities				
Accounts payable	\$47,653	\$191	\$47,653	\$191
Due to others	22,718	150,896	144,870	28,744
Total Liabilities	\$70,371	\$151,087	\$192,523	\$28,935
Stanislaus Regional Water Authority				
Assets				
Cash and investments	\$719,224	\$2,034,469	\$2,611,987	\$141,706
Accounts and interest receivable	107,589	404,000	107,589	404,000
Total Assets	\$826,813	\$2,438,469	\$2,719,576	\$545,706
Liabilities				
Accounts payable	\$336,821	\$524,316	\$336,821	\$524,316
Due to others	489,992	1,914,153	2,382,755	21,390
Total Liabilities	\$826,813	\$2,438,469	\$2,719,576	\$545,706
Total - All Agency Funds				
Assets				
Cash and investments	\$1,079,802	\$2,423,619	\$3,084,575	\$418,846
Cash and investments with fiscal agents	100,174	688		100,862
Accounts and interest receivable	111,829	464,924	111,829	464,924
Total Assets	\$1,291,805	\$2,889,231	\$3,196,404	\$984,632
Liabilities				
Accounts payable	\$384,474	\$524,507	\$384,474	\$524,507
Due to others	907,331	2,364,724	2,811,930	460,125
Total Liabilities	\$1,291,805	\$2,889,231	\$3,196,404	\$984,632



TURLOCK PUBLIC FINANCING AUTHORITY
COMPONENT UNIT BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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TURLOCK PUBLIC FINANCING AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

Table of Contents

	<u>Page</u>
<i>Independent Auditor's Report</i>	1
<i>Component Unit Financial Statements:</i>	
Authority-wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Governmental Fund Financial Statements:	
Balance Sheet	8
Statement of Revenues, Expenditures and Changes in Fund Balances	9
Proprietary Fund Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to Component Unit Basic Financial Statements	13

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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), a component unit of the City of Turlock, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's component unit 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 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

The Authority has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 September 25, 2019 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.



Pleasant Hill, California
September 25, 2019

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, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Investments with fiscal agent (Note 2)		\$14,904	\$14,904
Interest receivable		816,640	816,640
Leases receivable (Note 3)		69,146,773	69,146,773
Total Assets		69,978,317	69,978,317
LIABILITIES			
Interest payable		816,640	816,640
Long-term debt (Note 4):			
Due within one year		2,920,000	2,920,000
Due in more than one year		66,241,677	66,241,677
Total Liabilities		69,978,317	69,978,317
NET POSITION (Note 5):			
Restricted for:			
Debt service			
Total Net Position			

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Governmental Activities	Business-type Activities	
Governmental Activities:					
Interest and fiscal charges					
Total Governmental Activities					
Business-type Activities:					
Sewer	\$1,547,938	\$1,547,876		(\$62)	(62)
Water	836,084	835,968		(116)	(116)
Total Business-type Activities	2,384,022	2,383,844		(178)	(178)
Total	<u>\$2,384,022</u>	<u>\$2,383,844</u>		(178)	(178)
General revenues and transfers:					
General Revenues:					
Interest income				178	178
Transfers to Successor Agency for the Turlock Redevelopment Agency			(\$181)		(181)
Total general revenues			(181)	178	(3)
Change in Net Position			(181)		(181)
Net Position-Beginning			181		181
Net Position-Ending					

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, 2018

	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	Total
ASSETS			
Investments with fiscal agent (Note 2)			
Total Assets			
FUND BALANCES			
Fund balance (Note 5):			
Restricted:			
Debt service			
Total Fund Balances			

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, 2018

	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	Total
OTHER FINANCING SOURCES (USES)			
Transfers to Successor Agency for the Turlock Redevelopment Agency	(\$14)	(\$167)	(\$181)
NET CHANGE IN FUND BALANCES	(14)	(167)	(181)
BEGINNING FUND BALANCES	14	167	181
ENDING FUND BALANCES			

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	<u>2012</u>	<u>2017</u>	<u>Total</u>
	<u>Sewer Bonds</u>	<u>Water Bonds</u>	
ASSETS			
Investments with fiscal agent (Note 2)	\$64	\$14,840	\$14,904
Interest receivable	498,066	318,574	816,640
Leases receivable (Note 3)	<u>44,617,818</u>	<u>24,528,955</u>	<u>69,146,773</u>
Total Assets	<u>45,115,948</u>	<u>24,862,369</u>	<u>69,978,317</u>
LIABILITIES			
Current liabilities:			
Interest payable	498,066	318,574	816,640
Bonds payable (Note 4)	<u>2,255,000</u>	<u>665,000</u>	<u>2,920,000</u>
Total current liabilities	<u>2,753,066</u>	<u>983,574</u>	<u>3,736,640</u>
Long-term liabilities:			
Bonds payable (Note 4)	<u>42,362,882</u>	<u>23,878,795</u>	<u>66,241,677</u>
Total Liabilities	<u>45,115,948</u>	<u>24,862,369</u>	<u>69,978,317</u>
NET POSITION (Note 5):			
Restricted	<u> </u>	<u> </u>	<u> </u>
Total Net Position	<u> </u>	<u> </u>	<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, 2018

	2012 <u>Sewer Bonds</u>	2017 <u>Water Bonds</u>	<u>Total</u>
OPERATING REVENUES			
Lease revenue	<u>\$1,547,876</u>	<u>\$835,968</u>	<u>\$2,383,844</u>
Total Operating Revenues	<u>1,547,876</u>	<u>835,968</u>	<u>2,383,844</u>
OPERATING EXPENSES			
Interest expense	<u>1,547,938</u>	<u>836,084</u>	<u>2,384,022</u>
Bond issuance costs			
Total Operating Expenses	<u>1,547,938</u>	<u>836,084</u>	<u>2,384,022</u>
Operating Income (Loss)	<u>(62)</u>	<u>(116)</u>	<u>(178)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	<u>62</u>	<u>116</u>	<u>178</u>
Net Nonoperating Revenues (Expenses)	<u>62</u>	<u>116</u>	<u>178</u>
Change in net position			
BEGINNING NET POSITION	<u> </u>	<u> </u>	<u> </u>
ENDING NET POSITION	<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, 2018

	2012 <u>Sewer Bonds</u>	2017 <u>Water Bonds</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$3,921,275	\$1,637,121	\$5,558,396
Long-term debt payment - interest	<u>(1,756,275)</u>	<u>(677,122)</u>	<u>(2,433,397)</u>
Cash Flows from Operating Activities	<u>2,165,000</u>	<u>959,999</u>	<u>3,124,999</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Long-term debt payment - principal	<u>(2,165,000)</u>	<u>(960,000)</u>	<u>(3,125,000)</u>
Cash Flows from Noncapital and Related Financing Activities	<u>(2,165,000)</u>	<u>(960,000)</u>	<u>(3,125,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>62</u>	<u>116</u>	<u>178</u>
Cash Flows from Investing Activities	<u>62</u>	<u>116</u>	<u>178</u>
Net Cash Flows	62	115	177
Cash and investments at beginning of period	<u>2</u>	<u>14,725</u>	<u>14,727</u>
Cash and investments at end of period	<u><u>\$64</u></u>	<u><u>\$14,840</u></u>	<u><u>\$14,904</u></u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:			
Operating income	(\$62)	(\$116)	(\$178)
Amortization of bond premium	(183,157)	(\$156,901)	(340,058)
Issuance of long-term debt			
Change in assets and liabilities:			
Interest receivable	25,180	(315,863)	(290,683)
Interest payable	(25,180)	315,863	290,683
Leases receivable	<u>2,348,219</u>	<u>1,117,016</u>	<u>3,465,235</u>
Cash Flows from Operating Activities	<u><u>\$2,165,000</u></u>	<u><u>\$959,999</u></u>	<u><u>\$3,124,999</u></u>
NONCASH TRANSACTIONS:			
Amortization of bond premium	<u><u>(\$183,157)</u></u>	<u><u>(\$156,901)</u></u>	<u><u>(\$340,058)</u></u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 United States of America.

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.

The Authority-wide 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.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 full 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 COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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 generally accepted accounting principles, 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 COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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
Certificates of Deposit	30 days	A-1	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
Held by Fiscal Agent:	
Money Market Mutual Funds (U.S. Securities)	\$14,904
	<u>\$14,904</u>

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018 for the Money Market Mutual Funds was AAAM as provided by Standard & Poor's investment rating system. Money market mutual funds are available for withdrawal on demand and at June 30, 2018, have an average maturity of 20 days.

D. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Authority's investment in money market funds is measured at amortized cost as of June 30, 2018.

E. Concentration Risk

There were no significant investments in the securities of any individual issuers other than U.S. Treasury Securities and Mutual Funds.

NOTE 3 – LEASES RECEIVABLE FROM THE CITY OF TURLOCK

The Authority has recorded leases receivable in the amount of \$69,146,773 pursuant to the lease agreements between the Authority and the City in relation to the bonded indebtedness. The leases receivable along with investments held by fiscal agents secure the repayment of the different debt issues. The lease revenue is equal to the Authority's debt service requirements and is used for that purpose.

In the Governmental 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.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018:

	Original Issue Amount	Balance June 30, 2017	Retirements	Balance June 30, 2018	Current Portion	Due in More Than One Year
Business-type Activities Debt:						
Revenue Bonds:						
2012 Sewer	\$51,915,000	\$44,005,000	(\$2,165,000)	\$41,840,000	\$2,255,000	\$39,585,000
Add: Unamortized bond premium		2,961,039	(183,157)	2,777,882		2,777,882
2017 Water	22,405,000	22,405,000	(960,000)	21,445,000	665,000	20,780,000
Add: Unamortized bond premium		3,255,696	(156,901)	3,098,795		3,098,795
Total Business Type Activities	<u>\$74,320,000</u>	<u>\$72,626,735</u>	<u>(\$3,465,058)</u>	<u>\$69,161,677</u>	<u>\$2,920,000</u>	<u>\$66,241,677</u>

B. 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
2019	\$2,255,000	\$1,667,875	\$3,922,875
2020	2,350,000	1,575,775	3,925,775
2021	2,450,000	1,479,775	3,929,775
2022	2,545,000	1,379,875	3,924,875
2023	2,655,000	1,275,875	3,930,875
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>\$41,840,000</u>	<u>\$13,681,964</u>	<u>\$55,521,964</u>

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 4 – LONG TERM DEBT (Continued)

C. 2017 Water Revenue Refunding Bonds

In June 2017 the Turlock Public Financing Authority issued \$22,405,000 in Water Revenue Bonds Series 2017 to finance improvements to the Water System, to advance refund the series 2008 Water Revenue Bonds and to pay costs of issuance of the 2017 Bonds. The defeased 2008 Bonds were called on April 30, 2018. The 2017 Bonds, which carry coupon interest rates ranging from 4.00% - 5.25%, have semi-annual principal and interest payments on the first of March through March 2038.

For the Year Ending June 30	Principal	Interest	Total
2019	\$665,000	\$968,888	\$1,633,888
2020	690,000	942,288	1,632,288
2021	720,000	914,688	1,634,688
2022	755,000	878,688	1,633,688
2023	795,000	840,938	1,635,938
2024-2028	4,620,000	3,566,435	8,186,435
2029-2033	5,915,000	2,275,350	8,190,350
2034-2038	7,285,000	897,000	8,182,000
Total	<u>\$21,445,000</u>	<u>\$11,284,275</u>	<u>\$32,729,275</u>

D. 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, called a gain or loss on refunding, is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter. The gain or loss on refunding is reported as a deferred inflow or outflow of resources, as applicable. Bond issuance costs, other than prepaid insurance, are expensed in the year incurred.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 5 – NET POSITION AND FUND BALANCES

A. Net Position

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.

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 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, 2018 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, 2018 the Authority did not have any committed fund balances.

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018 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, 2018 the Authority did not have any unassigned fund balances.

NOTE 6 – SUBSEQUENT EVENT

State Revolving Fund Loan

The City entered into a construction installment sale agreement with the California State Water Resources Control Board (CSWRCB) for State Revolving Fund project financing. Although the Authority is not a party to the agreement, this loan is on parity with the 2012 Sewer Revenue Bonds and the City's prior two State Revolving Fund Loans. This means that the loan has equal rights to pledged revenues as the sewer bonds and loans.

The loan and grant agreement was executed in August 2018 in the amount of \$39,461,000 to fund the North Valley Regional Recycled Water Program project. \$2.5 million of the project funding is anticipated to be forgiven and the balance will be in the form of a loan payable to the CSWRCB. The loan bears annual interest of 1.8% beginning with each disbursement and repayment of principal and interest will begin one year after the completion of construction on the project. The loan will be amortized with equal annual payments over a period from that date to July 31, 2049.

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CITY OF TURLOCK
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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CITY OF TURLOCK
SINGLE AUDIT REPORT
For the Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs.....	1
Section I – Summary of Auditor’s Results	1
Section II – Financial Statement Findings	2
Section III – Federal Award Findings and Questioned Costs.....	2
Schedule of Expenditures of Federal Awards.....	5
Notes to Schedule of Expenditures of Federal Awards	7
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 <i>Government Auditing Standards</i>	9
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 the Uniform Guidance	11

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CITY OF TURLOCK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended June 30, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP 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

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Identification of major program(s):

CFDA#(s)	Name of Federal Program or Cluster
<u>20.205</u>	<u>Highway Safety Improvement Program</u>
<u>20.507</u>	<u>Federal Transit – Formula Grants (Urbanized Area Formula Program)</u>
<u>97.044</u>	<u>Assistance to Firefighters Program</u>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose significant deficiencies and material weaknesses, but no instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated September 25, 2019 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 and questioned costs required to be reported in accordance with Uniform Guidance.

Finding reference number: 2018-001 – Incorrect Reimbursement Rate

CFDA number: 20.507

CFDA Title: Federal Transit – Formula Grants (Urbanized Area Formula Program)

Name of Federal Agency: Department of Transportation

Federal Award Identification number and year: CA-2017-140-01-00

Criteria: Part 1d of Section G of the Agency Program Requirements for Matching states that under the Section 5339 program, the maximum federal share allowable is 80% of the net project costs.

Condition: The City received \$898,271 of Section 5339 funds for construction of the Turlock Regional Transit Center. Of this amount, \$587,171 were In-Kind funds that the City received from overmatching in previous years. The City used a 100% reimbursement rate for the In-Kind funds which appears allowable based on a letter from the Federal Transit Authority. For the remaining \$311,100, the City used an 85% reimbursement rate instead of the maximum allowable rate of 80%. We noted that there were four vendor invoices on which the City used the incorrect reimbursement rate with expenditures totaling \$366,000. It appears that \$292,800 or 80% of these project costs were allowable, but the City drew down \$311,100 from the grant, a difference of \$18,300.

Questioned Costs: Questioned costs amount to \$18,300.

Effect: The City is not in compliance with the Agency Program requirements and therefore has asked for reimbursement of costs in excess of what is allowable.

Cause: City staff made an error in determining the allowable reimbursement rate.

Recommendation: The City should work with the Federal Transit Administration to determine what plan of action can be enacted to correct the questioned costs. In addition, the City should review all grant and Agency Program Requirements prior to submitting reimbursement requests to the grantor to ensure the correct reimbursement rates are used.

View of Responsible Officials and Planned Corrective Actions: Please see Corrective Action Plan separately prepared by the City.

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

Finding reference number: 2018-002 – Compliance with Frequency of Grant Award Invoice Submissions

CFDA number: 20.205
CFDA Title: Highway Planning and Construction (Federal-Aid Highway Program)
Name of Federal Agency: Department of Transportation
Pass-Through Entity: State of California Department of Transportation (CalTrans)
Federal Award Identification number and year: CML-5165(080) and STPL-5165(082)

Criteria: “Special Covenants or Remarks” #E of the Golden State and Fulkerth Road Intersection Improvements and the East Monte Vista Avenue from Geer Road to Eastern City Limits grant Program Supplement Agreements (CML-5165(080) and STPL-5165(082), respectively) require that the City submit invoices to the State of California Department of Transportation for project expenditures as least once every six months. If no costs have been invoiced for a six-month period, the City is required to submit for each phase, a written explanation of the absence of project activity along with target billing date and a target billing amount. If no project costs have been invoiced for a six-month period, the State reserves the right to suspend future authorizations/obligations for Federal aid projects, or encumbrances for State funded projects, as well as to suspend invoice payments for any on-going or future project.

Condition: During our review of invoices for project expenditures for the projects above, we noted that invoice #5 for the Golden State project was dated November 15, 2017 and invoice #6A was not filed until September 29, 2018, and invoice #1 for the Monte Vista project was dated May 31, 2018, although work on the project had started in July 2017. Upon follow up with City staff, we noted that there was no written explanation for the lapse in invoices provided to State of California Department of Transportation, as required by the Program Supplement Agreement.

Effect: The City is not in compliance with the terms of the Program Supplement Agreements. As a result, future authorization/obligations for Federal aid projects, or encumbrances for State funded projects could be subject to suspension.

Cause: We understand City program staff misinterpreted the requirement in the Program Supplement Agreements, as CalTrans requests invoicing every six months, but requires invoicing every twelve months and the projects noted above were invoiced within twelve months.

Recommendation: The City should develop procedures to ensure invoices are submitted to CalTrans at least once every six months for the duration of the project. In addition, should there be circumstances that prevent the City from submitting invoices at least once every six months, the City should ensure that a written explanation of the absence of project activity is submitted to CalTrans in a timely manner.

View of Responsible Officials and Planned Corrective Actions: Please see Corrective Action Plan separately prepared by the City.

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CITY OF TURLOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants/State's Program				
Loan expenditures	14.228			\$143,000
Program Expenditures	14.228			49,780
Program Income	14.228		\$48,787	479,150
Program subtotal			<u>48,787</u>	<u>671,930</u>
HOME Investment Partnerships Program				
Loan expenditures	14.239			125,000
Program Expenditures	14.239			86,921
Program Income	14.239			322,921
Program subtotal				<u>534,842</u>
Total U.S. Department of Housing and Development			<u>48,787</u>	<u>1,206,772</u>
U.S. Department of Justice Direct Program:				
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738			<u>6,854</u>
U.S. Department of Transportation				
Direct Programs:				
Federal Transit - Formula Grants (Urbanized Area Formula Program)				
Operating Assistance	20.507			923,523
Operating and Capital Assistance	20.507			4,461,789
Program subtotal				<u>5,385,312</u>
Federal Aviation Administration - Airport Improvement Program	20.106			<u>64,843</u>
Pass-through programs from:				
California Department of Transportation				
Highway Planning and Construction (Federal-Aid Highway Program)				
Congestion Mitigation and Air Quality Improvement Program (CMAQ)	20.205	CML-5165		2,328,000
Surface Transportation Program (STP)	20.205	STPL-5165		247,047
Highway Safety Improvement Program (HSIP)	20.205	HSIPL-5165		7,143
Program subtotal				<u>2,582,190</u>
State of California Office of Traffic Safety				
State and Community Highway Safety				
Selective Traffic Enforcement Program (STEP)	20.600	PT17132		932
Selective Traffic Enforcement Program (STEP)	20.600	PT18143		9,201
Program subtotal				<u>10,133</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated				
Selective Traffic Enforcement Program (STEP)	20.608	PT17132		1,294
Selective Traffic Enforcement Program (STEP)	20.608	PT18143		3,483
Program subtotal				<u>4,777</u>
Total U.S. Department of Transportation				<u>8,047,255</u>
U.S. Department of Homeland Security Direct Program				
Assistance to Firefighters Grant	97.044			<u>312,000</u>
Total Expenditures of Federal Awards			<u>\$48,787</u>	<u>\$9,572,881</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, 2018

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 units as disclosed in the notes to the Basic Financial Statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

NOTE 3 – INDIRECT COST ELECTION

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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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 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Turlock, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Turlock's basic financial statements, and have issued our report thereon dated September 25, 2019. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been identified. However, we identified certain deficiencies in internal control 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 as item 2016-001 on the Status of Prior Year Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated September 25, 2019, 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 as well as items 2017-003, 2016-003, 2015-005 and 2014-003 on the Status of Prior Year Significant Deficiencies included as part of our separately issued Memorandum on Internal Control date September 25, 2019, 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 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 September 25, 2019, 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.



Pleasant Hill, California
September 25, 2019

**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 THE UNIFORM GUIDANCE**

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 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

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 of the City 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 the Uniform Guidance, 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance 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.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated September 25, 2019, which contained an unmodified opinion on those basic financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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.

Maye & Associates

Pleasant Hill, California
September 25, 2019

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CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

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**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	1
 Basic Financial Statements	
 Streets Special Revenue Fund	
Comparative Balance Sheets	3
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance	4
Statement of Revenues Expenditures and Changes in Fund Balance – Budget and Actual	5
 Transportation Enterprise Fund	
Comparative Statements of Net Position.....	6
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position	7
Comparative Statements of Cash Flows.....	8
Notes to Financial Statements.....	9
 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	 21
 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	 23
 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)	 27
 Schedule of Current Year Findings and Responses	 29

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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 years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the TDA Funds' 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 audits. We conducted our audits 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 audits 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, 2018 and 2017, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the TDA Funds and do not purport to, and do not present fairly the financial position of the City as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which became effective during the year ended June 30, 2018 and required a prior period adjustment to the financial statements and the restatement of net position as discussed in Note 5D.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2019 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.



Pleasant Hill, California
June 3, 2019

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and investments (Note 2)	\$154,831	\$94,483
Accounts receivable		267,060
	\$154,831	\$361,543
LIABILITIES		
Accounts and salaries payable	\$12,139	\$15,225
Due to the City (Note 5C)	281,460	
Unearned revenue (Note 4)	88,248	308,091
	381,847	323,316
FUND BALANCES (Note 5)		
Restricted		38,227
Unassigned	(227,016)	
	(227,016)	38,227
Total Liabilities and Fund Balance	\$154,831	\$361,543

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
REVENUES		
Intergovernmental revenues	\$219,843	\$588,197
Charges for services	64,826	34,843
Interest income and other revenues	700	1,031
Total Revenues	285,369	624,071
EXPENDITURES		
Public ways and facilities / transportation	550,612	612,146
Total Expenditures	550,612	612,146
Excess (Deficiency) of Revenues Over Expenditures	(265,243)	11,925
OTHER FINANCING SOURCES (USES)		
Transfers in from Transportation Enterprise Fund		3,000
Total Other Financing Sources (Uses)		3,000
Net Change in Fund Balance	(265,243)	14,925
Fund Balance, Beginning of Year	38,227	23,302
Fund Balance (Deficit), End of Year	(\$227,016)	\$38,227

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental revenues	\$250,000	\$250,000	\$219,843	(\$30,157)
Charges for services	15,000	15,000	64,826	49,826
Interest income and other revenues	200	200	700	500
	<u>265,200</u>	<u>265,200</u>	<u>285,369</u>	<u>20,169</u>
EXPENDITURES:				
Public ways and facilities / transportation	684,370	684,370	550,612	133,758
	<u>684,370</u>	<u>684,370</u>	<u>550,612</u>	<u>133,758</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(419,170)</u>	<u>(419,170)</u>	<u>(265,243)</u>	<u>153,927</u>
OTHER FINANCING SOURCES (USES):				
Transfers in from Transportation Enterprise Fund	3,000			
	<u>3,000</u>			
Total Other Financing Sources (Uses)	<u>3,000</u>			
Net Change in Fund Balance	<u><u>(\$416,170)</u></u>	<u><u>(\$419,170)</u></u>	<u><u>(265,243)</u></u>	<u><u>\$153,927</u></u>
Fund Balance, Beginning of Year			<u>38,227</u>	
Fund Balance (Deficit), End of Year			<u><u>(\$227,016)</u></u>	

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash and investments (Note 2)		\$2,338,381
Accounts receivable, grants	\$4,473,013	820,646
Accounts receivable, other	21,818	304,956
Interest receivable	489	2,720
Total current assets	4,495,320	3,466,703
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	9,416,057	4,097,809
Depreciable, net	5,604,964	5,563,069
Total noncurrent assets	15,021,021	9,660,878
Total Assets	19,516,341	13,127,581
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 9)	122,129	106,226
LIABILITIES		
Current liabilities:		
Accounts payable and accruals	724,241	123,099
Salaries payable	5,682	4,432
Unearned revenue (Note 4)	1,633,438	2,628,264
Due to the City	1,406,767	
Compensated absences - due in one year	8,540	5,683
Total current liabilities	3,778,668	2,761,478
Long-term liabilities		
Compensated absences	34,158	22,735
Net OPEB obligation		34,911
Total OPEB liability (Note 10)	139,964	
Net pension liability (Note 9)	532,927	363,018
Total long-term liabilities	707,049	420,664
Total Liabilities	4,485,717	3,182,142
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 9)		41,550
Deferred inflows related to OPEB (Note 10)	6,178	
Total Deferred Inflows of Resources	6,178	41,550
NET POSITION (Note 5)		
Net investment in capital assets	15,021,021	9,660,878
Restricted	125,554	349,237
Total Net Position	\$15,146,575	\$10,010,115

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Charges for services	\$280,456	\$196,765
Other income	1,652	
	282,108	196,765
OPERATING EXPENSES		
Salaries, benefits and insurance	345,974	207,651
Contractual	1,663,055	1,036,793
Supplies and maintenance	64,168	73,178
Utilities	20,057	18,285
Fleet expense	243,690	168,922
Depreciation (Note 3)	587,710	587,990
Other expenses	21,227	7,632
	2,945,881	2,100,451
Total operating expenses	2,945,881	2,100,451
Operating loss	(2,663,773)	(1,903,686)
NON-OPERATING REVENUES (EXPENSES)		
Operating grants	1,742,542	1,215,004
Loss from retirement of capital assets	(167,555)	(161,249)
Investment income	6,605	19,299
	1,581,592	1,073,054
Total nonoperating revenues (expenses)	1,581,592	1,073,054
INCOME (LOSS) BEFORE CAPITAL GRANTS AND TRANSFERS	(1,082,181)	(830,632)
Capital grants	6,009,623	874,520
Capital contributions	257,612	
Transfers in from other City funds	49,531	
Transfers out to the Streets Special Revenue Fund		(3,000)
Transfers out to other City funds		(3,000)
	6,316,766	868,520
Net Capital Grants and Transfers	6,316,766	868,520
Change in Net Position	5,234,585	37,888
Net Position - Beginning, as Restated (Note 5D)	9,911,990	9,972,227
Net Position - Ending	\$15,146,575	\$10,010,115

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$264,012	\$197,573
Payments to suppliers	(1,411,055)	(1,306,774)
Payments to employees	(204,882)	(170,197)
Cash Flows from Operating Activities	(1,351,925)	(1,279,398)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	49,531	
Transfers out		(6,000)
Interfund receipts	1,406,767	
Intergovernmental receipts - operations	1,286,571	1,271,993
Cash Flows from Noncapital Financing Activities	2,742,869	1,265,993
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental receipts - capital program	1,818,401	651,279
Insurance proceeds related to impairment of capital assets	499,652	48,000
Purchases of capital assets	(6,064,514)	(787,124)
Proceeds from sale of capital assets	8,300	
Cash Flows from Capital and Related Financing Activities	(3,738,161)	(87,845)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	8,836	18,215
Cash Flows from Investing Activities	8,836	18,215
Net Cash Flows	(2,338,381)	(83,035)
CASH AND CASH EQUIVALENTS		
Cash and investments at beginning of period	2,338,381	2,421,416
Cash and investments at end of period	2,338,381	\$2,338,381
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	(\$2,663,773)	(\$1,903,686)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	587,710	587,990
Change in assets and liabilities:		
Accounts receivable	(18,096)	808
Accounts payable	601,142	(1,964)
Salaries payable	1,250	(645)
Compensated absences	14,280	(7,458)
Net OPEB obligation		6,498
Deferred outflows/inflows and total OPEB liability	13,106	
Deferred outflows/inflows and net pension liability	112,456	39,059
Cash Flows from Operating Activities	(\$1,351,925)	(\$1,279,398)
NONCASH TRANSACTIONS		
Contributions of capital assets	\$257,612	
Retirement of capital assets	(\$374,273)	(\$510,483)

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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, 2018 and 2017

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.

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, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position or balance sheet reports 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 net position or balance sheet reports 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. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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, 2018 and June 30, 2017, the TDA Funds had cash and investment balances of \$154,831 and \$2,432,864, 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.

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	A	Unlimited	N/A
U.S. Government Agency Securities	5 years	A	Unlimited	No more than 25%
Negotiable Certificates of Deposit	5 years	N/A	30%	N/A
Certificates of Deposit	5 years	A	Unlimited	N/A
Bankers' Acceptances	180 days	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	N/A	Equal to maximum limit set by LAIF	N/A
Repurchase Agreement	1 year	N/A	Unlimited	N/A
Money Market and Mutual Funds	N/A	A	20%	N/A
Corporate Notes	5 years	AA	5%	N/A

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

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.

Fair Value Hierarchy

The TDA Funds categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The TDA Funds' investment in the City's investment pool is not subject to the fair value hierarchy.

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.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 3 – CAPITAL ASSETS (Continued)

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 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:

	Years
Land Improvements and Infrastructure	25 - 60
Buildings	30 - 50
Furniture and Equipment	5 - 10
Vehicles	5 - 10

Transportation Enterprise Fund

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

	Balance at June 30, 2017	Additions	Retirements	Transfers	Balance at June 30, 2018
Capital assets not being depreciated:					
Land	\$1,823,738				\$1,823,738
Construction in progress	2,274,071	\$5,923,867		(\$605,619)	7,592,319
Total capital assets not being depreciated	4,097,809	5,923,867		(605,619)	9,416,057
Capital assets being depreciated:					
Land improvements	2,106,887				2,106,887
Buildings	1,904,615				1,904,615
Furniture and equipment	847,543	24,277		76,973	948,793
Vehicles	3,195,522	373,982	(\$1,319,095)	528,646	2,779,055
Infrastructure	231,051				231,051
Total capital assets being depreciated	8,285,618	398,259	(1,319,095)	605,619	7,970,401
Less accumulated depreciation for:					
Land improvements	(283,964)	(71,452)			(355,416)
Buildings	(558,061)	(63,487)			(621,548)
Furniture and equipment	(335,013)	(80,315)			(415,328)
Vehicles	(1,538,130)	(368,605)	944,822		(961,913)
Infrastructure	(7,381)	(3,851)			(11,232)
Total accumulated depreciation	(2,722,549)	(587,710)	944,822		(2,365,437)
Net capital assets being depreciated	5,563,069	(189,451)	(374,273)	605,619	5,604,964
Capital assets, net	\$9,660,878	\$5,734,416	(\$374,273)		\$15,021,021

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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, 2018 and 2017, unearned revenue related to those programs is as follows:

	2018	2017
<i>Streets Special Revenue Fund:</i>		
State Transit Assistance and Local Transportation Fund	\$88,248	\$308,091
<i>Transportation Enterprise Fund:</i>		
Proposition 1B	\$606,834	\$1,102,659
State Transit Assistance and Local Transportation Fund	483,987	1,525,605
Insurance Proceeds Restricted to Bus Replacement	542,617	
Total Transit Enterprise Fund	\$1,633,438	\$2,628,264

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 Streets Special Revenue Fund'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, 2018 and 2017

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. *Fund Balance Deficit*

The Streets Special Revenue Fund reported a fund balance deficit of \$227,016 as of June 30, 2018 as street and road maintenance costs exceeded available Local Transportation Fund (LTF) funding, and the Fund owed the City's General Fund \$281,460 at that date. The deficit is expected to be eliminated by a transfer from the City's General Fund in fiscal year 2019 and future street and road maintenance costs are expected to be funded with State Road Maintenance and Rehabilitation Account (SB1) funding.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 5 – NET POSITION AND FUND BALANCES (Continued)

D. Net Position Restatement

Management adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), which became effective during the year ended June 30, 2018. In June 2015, GASB issued Statement No. 75 and the intention of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees – both active employees and inactive employees – are provided with postemployment benefits other than pensions by requiring recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense.

The implementation of the Statement required the City to make prior period adjustments. As a result, the beginning net position of the Transportation Enterprise Fund was restated and reduced by \$98,125. See Note 10.

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.

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) Bus LED Designation Signs and Brochure Holders; (2) Construction of Timed Fill Compressed Natural Gas (CNG) Bus Fueling Station; (3) Compressed Natural Gas Transit Bus (35-foot); (4) Transit Transfer Center; (5) Transit Transfer Center Phase II; (6) CNG Slow Fill Compressor; (7) Electronic Farebox System; (8) Dispatch Office; (9) Operations and Bus Storage; (10) Paratransit Bus Purchase; (11) Bus Parking Expansion; (12) Bus Stop Improvements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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

In fiscal years 2008 through 2018, the Program received a total of \$4,997,243 from Proposition 1B funds and expended \$4,438,815 including the expense of interest on the unspent funds. The Program did not receive additional Proposition 1B funding in fiscal years 2017 or 2018 and during the year ended June 30, 2018 expended \$502,328 including the expense 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 spending of these funds along with the interest earned on the unexpended funds.

Project Name	Grant Amount	Interest	Expended through June 30, 2018	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)	277,902	
Transit Transfer Center Phase II	532,437	11,281	(501,025)	275,148	\$317,841
CNG Slow Fill Compressor	350,000	392	(350,392)		
Electronic Farebox System	200,000	1,016	(201,016)		
Dispatch Office	130,000	183		(130,183)	
Operations and Bus Storage	377,740	322		(378,062)	
Paratransit Bus Purchase	900,000	3,231	(872,586)		30,645
Bus Parking Expansion	267,527	4,019	(13,198)		258,348
Bus Stop Improvements	150,000	1,259	(151,259)		
Total	<u>\$4,997,243</u>	<u>\$48,406</u>	<u>(\$4,438,815)</u>		<u>\$606,834</u>

NOTE 8 – RISK MANAGEMENT

The TDA 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 – PENSION PLAN

Personnel costs accounted for under TDA and FTA funding include costs associated with the City's pension benefit plan. The costs attributed to TDA and FTA funding are part of the City's Miscellaneous Plan, an Agent-Multiple Employer Plan administered by the California Public Employees' Retirement System (CalPERS), 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 the Plan can be found in the basic financial statements for the City of Turlock.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 10 – 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 11 – 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. In October 2014, the City exercised the option and extended the contract to November 30, 2017. The City terminated the contract with First Transit Inc. on November 25, 2017. First Transit Inc. was 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 \$360,120 for the fiscal year ended June 30, 2018.

On November 25, 2017, the City entered into a contract agreement with Storer Transit Systems to operate and maintain the DART and BLAST programs. The term is from November 25, 2017, to June 30, 2021, with an option to extend for an additional two years. Storer Transit Systems 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 \$916,821 for the fiscal year ended June 30, 2018.

NOTE 12 – 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated June 3, 2019. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

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 (StanCOG). 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 or other matters that are required to be reported under *Government Auditing Standards* and are listed in the Schedule of Current Year Findings and Responses.

We have also issued a separate Memorandum on Internal Control for the year ended June 30, 2018, which is an integral part of our audit and should be read in conjunction with this report.

TDA Funds' Response to Findings

The TDA Funds' response to the findings identified in our audit is described in the accompanying Schedule of Current Year Findings and Responses. The TDA Funds' 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 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.

This report is intended solely for the information and use of the StanCOG, management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.



Pleasant Hill, California
June 3, 2019

**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, 2018.

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 TDA Funds' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the TDA Funds. However, our audit does not provide a legal determination of the TDA Funds' 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are described in the accompanying Schedule of Current Year Findings and Responses as item 2018-001. Our opinion on the TDA Funds is not modified with respect to these matters.

The TDA Funds' response to the noncompliance finding identified in our audit are described in the accompanying Schedule of Current Year Findings and Responses. The TDA Funds' 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 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 for the year ended June 30, 2018, 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.

This report is intended solely for the information and use of the StanCOG, management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Mane & Associates

Pleasant Hill, California

June 3, 2019

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**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, 2018.

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 Projects' 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 Projects' 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are described in the accompanying Schedule of Current Year Findings and Responses as item 2018-001. Our opinion on the Projects is not modified with respect to these matters.

The Projects' response to the noncompliance finding identified in our audit are described in the accompanying Schedule of Current Year Findings and Responses. The Projects' 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 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 for the year ended June 30, 2018, 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.

This report is intended solely for the information and use of the State of California Department of Transportation, management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.



Pleasant Hill, California
June 3, 2019

SCHEDULE OF CURRENT YEAR FINDING AND RESPONSES

TDA2018-001 – Timely Submission of the Annual Financial Audit to StanCOG and CalTrans

Criteria: The City is required to file the annual audit of the Transportation Development Act Funds (TDA Funds) with the Stanislaus Council of Governments (StanCOG) within 180 days of the end of the fiscal year or December 31st. And, since the City receives Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) funding that is included in the TDA Funds' annual audit, the TDA Funds report is also required to be filed with the California Department of Transportation (CalTrans) within 180 days of the end of the fiscal year. The City may request a 90-day extension from both StanCOG and CalTrans from the December 31 deadline to March 31.

Condition: Although the City had obtained an extension for filing the June 30, 2017 financial statements with StanCOG and CalTrans, the financial statements were not filed prior to March 31, 2018. And the City did not request an extension for the filing of the June 30, 2018 financial statements, and they were not filed with StanCOG or CalTrans prior to December 31, 2018.

Cause: Staffing changes and delays in preparing the general ledger for audit resulted in the TDA Funds' records not being available for audit until the first quarter of the subsequent fiscal year.

Effect: The City is not in compliance with the annual financial audit filing requirements of StanCOG and PTMISEA, which may affect future TDA funding.

Recommendation: The City should develop procedures to ensure the TDA Funds' information is available for audit in time to file the annual financial audit by December 31 of each year, or request an extension and ensure it is filed prior to the extension deadline of March 31.

Management's Response: The City is currently developing procedures to ensure that all deadlines are met in regards to the TDA Funds.

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