



**CITY OF TURLOCK**  
**FINANCIAL REPORTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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# **CITY OF TURLOCK**

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This book contains the following financial statements for the  
City of Turlock and related entities for the fiscal year ended June 30, 2014:

City of Turlock  
Basic Financial Statements

Turlock Public Financing Authority  
Component Unit Financial Statements

City of Turlock  
Single Audit

City of Turlock Transportation Development Act (TDA)  
Financial Statements

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**CITY OF TURLOCK, CALIFORNIA**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Prepared by**  
**THE ADMINISTRATIVE SERVICES DEPARTMENT**

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**CITY OF TURLOCK**  
**BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

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

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, 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  
March 23, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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This narrative overview and analysis is provided by the management of the City of Turlock (City) for the fiscal year 2013-14 financial statements (with comparative information for 2012-13). 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 2013-14 FINANCIAL HIGHLIGHTS

### *Government-Wide Highlights*

- The City's net position (assets in excess of liabilities) at June 30, 2014, totaled \$488 million. Governmental activities accounted for \$308 million of the net position, while \$180 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$79 million; while total expenses were \$74 million.
- Governmental program revenues were \$24 million compared to governmental program expenses of \$46 million.
- Program revenues from business-type activities were \$31 million, while expenses for business-type activities were \$27 million.

### *Fund Highlights*

- Net General Fund revenues exceeded expenditures by \$257,000 as compared to the prior year when expenditures exceeded revenues by \$1.4 million. For financial reporting purposes, the "General Fund" includes not only the City's General Fund, but also the Arts Commission, Special Public Safety, and Tourism (2 funds) funds.
- General Fund fund balance of \$16.2 million at June 30, 2014 compared to a projected \$14.4 million when the 2013-14 budget was originally adopted.

Additional discussion regarding the financial results for fiscal year 2013-14 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*.

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

**City of Turlock  
Management's Discussion and Analysis (continued)  
For the Year Ended June 30, 2014**

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

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

- **Governmental activities**—All of the City's basic services are considered to be governmental activities. These services include public safety (police and fire), parks and recreation, streets and highways, public improvements, community development and general administration. General City revenues such as taxes and program-specific revenues such as developer impact fees support and finance these services.
- **Business-type activities**—All the City's enterprise activities are reported here including water, sewer, transit and building department operations. Unlike governmental services, these services are supported by charges paid by the users of these services.

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

Fund Financial Statements

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

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

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

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

The City of Turlock has twenty-nine (29) governmental funds of which three (3) are considered major funds for presentation purposes. Each major fund is presented separately in the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. The City's three major funds are – the General Fund, Former LMI Housing Fund, and Gas Tax/Street Improvement. 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 19 in this report.

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis and include all their assets and liabilities, current and long-term. The City's Enterprise Funds account for the financial activity of the City's water, sewer, transportation (fixed route and dial-a-ride) and building/safety services. The Internal Service funds account for the financial activity of the City's equipment pool, self-insurance, information systems, and engineering services activities. Because these activities primarily benefit the

**City of Turlock  
Management's Discussion and Analysis (continued)  
For the Year Ended June 30, 2014**

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 28.

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 74 of the financial statements.

Notes to the Financial Statements

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

**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.

<b>STATEMENT OF NET POSITION</b>						
(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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cash and investments	\$ 59,906	\$ 62,016	\$ 66,203	\$ 72,884	\$ 126,109	\$ 134,900
Other assets	35,790	34,281	18,840	15,182	54,630	49,463
Capital assets, net	228,459	226,388	223,608	205,658	452,067	432,046
Total assets	<u>324,155</u>	<u>322,685</u>	<u>308,651</u>	<u>293,724</u>	<u>632,806</u>	<u>616,409</u>
Long-term liabilities	8,757	7,682	117,646	104,779	126,403	112,461
Other liabilities	7,583	10,780	10,489	11,123	18,072	21,903
Total liabilities	<u>16,340</u>	<u>18,462</u>	<u>128,135</u>	<u>115,902</u>	<u>144,475</u>	<u>134,364</u>
Net position:						
Net investment in capital assets	228,347	225,748	113,873	112,780	342,220	338,528
Restricted	60,870	59,539			60,870	59,539
Unrestricted	18,598	18,936	66,643	65,042	85,241	83,978
Total net position	<u>\$ 307,815</u>	<u>\$ 304,223</u>	<u>\$ 180,516</u>	<u>\$ 177,822</u>	<u>\$ 488,331</u>	<u>\$ 482,045</u>

As noted above, the City's primary investment is in its *net investment in capital assets*. Capital assets, which account for approximately 70% of the City's total net position, include all infrastructure such as the street/roadway system; sewer, water and storm drain collection systems as well as retention basins; the wastewater treatment plant and water wells and pump stations; streetlights and traffic signals; and parks. Capital assets also include all vehicles, equipment and buildings used by City employees in the course of their daily activities. By their very nature and use, capital assets are not available for future spending and are therefore not available assets to fund future activities.

**City of Turlock**  
**Management's Discussion and Analysis (continued)**  
**For the Year Ended June 30, 2014**

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Approximately \$61 million or 12% of the City's non-capital net position is subject to external restrictions as to their use. The remaining \$85 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, \$18 million is related to governmental activities and \$67 million to business-type activities.

The City's overall net position increased by \$6 million during the 2013-14 fiscal year. The City's Gas Tax/Street Improvement fund increased by nearly \$2 million due to the receipt of grant reimbursements for project costs that had been expended in prior years. The Sewer fund balance grew by \$2.2 million as revenues outpaced expenditures. The City is nearing the completion of two large capital projects which are primarily funded with State Water Resources Control Board Revolving Fund loans. The debt service on these loans will begin in fiscal year 2014-15. The City had previously implemented user fees which were designed to be sufficient to fund debt service at the completion of the projects. More information on these loans can be found in the notes to the financial statements. The following table provides additional detail regarding revenues and expenditures.

**City of Turlock**  
**Management's Discussion and Analysis (continued)**  
**For the Year Ended June 30, 2014**

**SUMMARY OF CHANGES IN NET POSITION**

(in thousands of dollars)

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>For the FYE June 30</b>		<b>For the FYE June 30</b>		<b>For the FYE June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Program Revenues:						
Charges for services	\$ 9,945	\$ 9,372	\$ 26,776	\$ 26,656	\$ 36,721	\$ 36,028
Operating grants and contributions	5,927	6,219	1,065	924	6,992	7,143
Capital grants and contributions	7,870	2,756	2,797	3,763	10,667	6,519
Total Program Revenues	23,742	18,347	30,638	31,343	54,380	49,690
General Revenues						
Property taxes	4,229	3,909			4,229	3,909
Sales taxes	12,241	11,107			12,241	11,107
Property tax - VLF In Lieu	4,522	4,360			4,522	4,360
Other taxes	3,050	2,859			3,050	2,859
Interest and investment earnings	191	160	116	215	307	375
Other income	249	329			249	329
Total General Revenues	24,482	22,724	116	215	24,598	22,939
Total Overall Revenues	48,224	41,071	30,754	31,558	78,978	72,629
Expenses						
General government	3,646	4,186			3,646	4,186
Public safety	25,956	26,341			25,956	26,341
Public ways/facilities/transportation	10,145	10,012			10,145	10,012
Parks and recreation	3,483	3,697			3,483	3,697
Community development	3,109	3,246			3,109	3,246
Interest on long-term debt	9	15			9	15
Water			7,620	10,443	7,620	10,443
Sewer			16,962	20,511	16,962	20,511
Transportation			1,526	1,435	1,526	1,435
Building & Safety			1,115	1,076	1,115	1,076
Total Expenses	46,348	47,497	27,223	33,465	73,571	80,962
Increase (Decrease) in Net Position before Transfers and Extraordinary Item	1,876	(6,426)	3,531	(1,907)	5,407	(8,333)
Transfers	837	1,094	(837)	(1,094)	-	-
Contribution from private purpose trust	879	6,959			879	6,959
Extraordinary item - RDA dissolution		(1,001)			-	(1,001)
Change in net position	3,592	626	2,694	(3,001)	6,286	(2,375)
Net Position, beginning of year	304,223	303,597	177,822	180,823	482,045	484,420
Net Position, end of year	\$ 307,815	\$ 304,223	\$ 180,516	\$ 177,822	\$ 488,331	\$ 482,045

As the above table shows, \$54 million of the City's \$79 million in total revenues comes from program revenue sources. GASB 34 defines program revenues as those derived directly from the program itself (user fees) or from parties outside the reporting government's taxpayers or citizenry. Program revenues reduce the need for the cost of the function to be financed by general government revenues. The largest portion of the City's program revenues is "Charges for Services" which include user fees from the City's water and sewer operations, building permit-related fees, developer impact fees and special assessments.

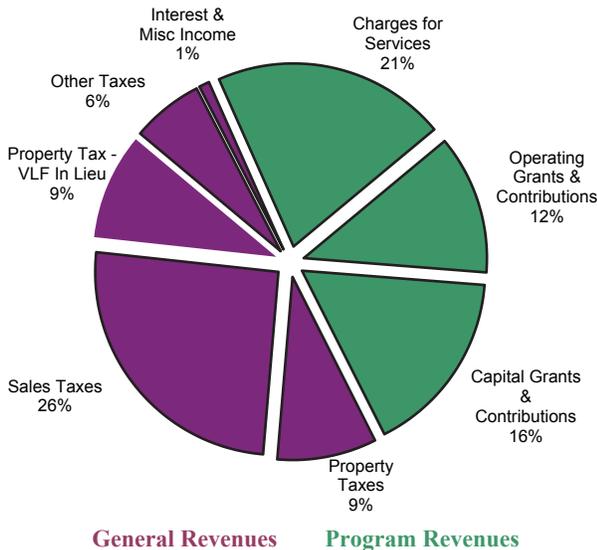
Expenses are presented on a functional basis and represent only current year expenses. As such, they do not include capital outlay expenditures. In accordance with GASB 34, capital outlay expenditures are included in "capital assets" on the City's *Statement of Net Position*.

Citywide expenses, which totaled \$74 million, consisted of \$47 million for governmental activities and \$27 million for business-type activities. Of the \$47 million in governmental activity expenses, \$26 million or 56% relate to the provision of public safety (police and fire) services. The next largest component was \$10 million or

**City of Turlock  
Management’s Discussion and Analysis (continued)  
For the Year Ended June 30, 2014**

22% 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 \$48 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 million as compared to \$9.4 million for 2012-13. Included in this revenue category are the special assessment revenues charged by the City’s Lighting and Landscape maintenance districts as well as charges for specialized services provided by departments throughout the City and fees for participation in City offered recreation programs.

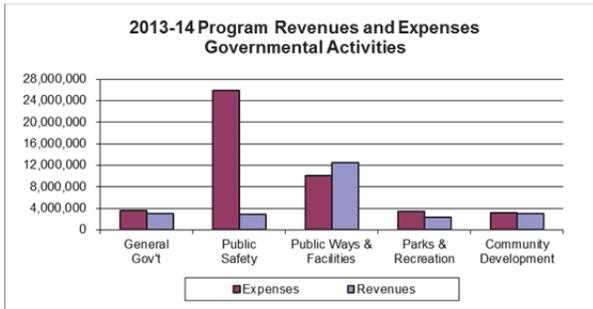
- Operating Grants & Contributions – Revenues received from other governmental agencies which are primarily used for operational needs – totaled \$6 million, compared to \$6.2 million in 2012-13. Operating grants include revenues received from the (1) U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development supporting the City’s affordable housing activities; (2) U.S. Department of Justice and California Office of Traffic Safety supporting various police activities; (3) Gas Tax and Local Transportation Funds used for street/road maintenance; and (4) revenues received by the City’s recreation division to support after school enrichment programs in lower income areas of town. Since these types of revenues are generally received on a reimbursement basis, annual amounts will vary from year-to-year depending on the activities in which the City is engaged.
- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure as well as federal Department of Transportation revenues – totaled \$7.9 million. The Department of Transportation revenues are used for street/road reconstruction and other maintenance that is more extensive than pot hole patching and slurry seals.

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 \$24.5 million for fiscal 2013-14, \$1.8 million more received in 2012-13. The detail within the revenue did have mixed results. The majority of the increase is due to increased sales and property tax receipts.

Sales tax revenue increased approximately 10.2%. Staff continues to see improvements in sales tax revenues which is one of the indicators that the economy in Turlock is improving. The increase in property tax revenue is reflective of growth in real estate assessed values. While overall values are not yet back to pre-recession levels, the City is seeing steady growth in values among all types of property uses.

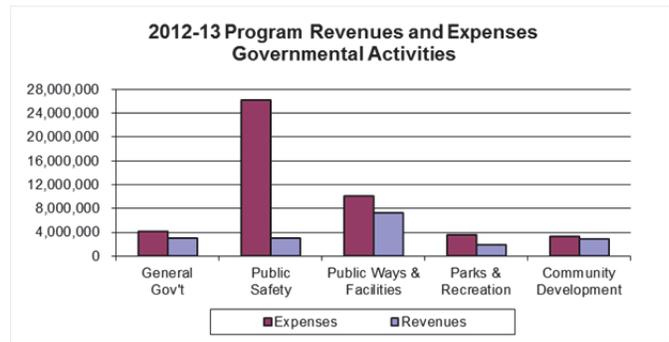
**City of Turlock  
Management’s Discussion and Analysis (continued)  
For the Year Ended June 30, 2014**

Investment earnings declined due to smaller idle cash balances available to invest. The interest rate environment has not moved from its record lows. Governmental activity revenues are primarily used to finance governmental activities such as public safety, park maintenance, culture and recreation programs and general government administration.



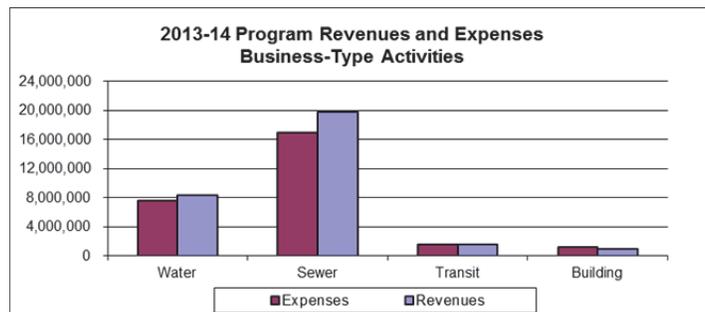
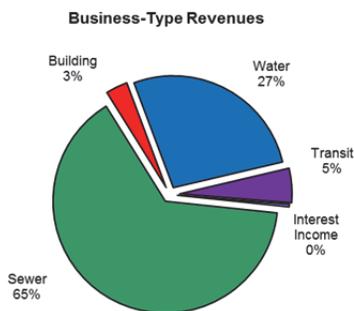
The tables to the left and below graphically depict the typical relationship between program revenues and expenses for Governmental Activities for the past two years. In total, 2013-14 expenses for Governmental Activities exceeded program revenues by \$23 million whereas in 2012-13 expenses exceeded revenues by \$29 million.

The City continues to work its way through the challenges the current economy presents. Employee concessions, first implemented in fiscal year 2010-11, continued in 2013-14. The concessions consisted of either sharing the cost of benefits and/or the elimination of certain benefits. These negotiated concessions were necessary as the cost of employee benefits – mainly health care and pension costs – continue to increase. The results of operations in other operating funds varied during 2013-14 due to available revenue. More information regarding specific funds can be found in the fund section of the document.



**Business-Type Activities**

Revenues for business-type activities totaled \$30.8 million and related expenses totaled \$27.2 million of which \$17 million or 62 % related to the maintenance and operations of the City’s wastewater treatment plant and the City’s storm drain collection system. Potable water maintenance and operations accounted for \$7.6 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.



**City of Turlock  
Management's Discussion and Analysis (continued)  
For the Year Ended June 30, 2014**

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**THE CITY'S FUND FINANCIAL STATEMENTS**

***Governmental Funds***

As noted earlier, the focus of the City's governmental funds (General, Special Revenue and Capital Projects) is to provide information related to resource (mainly cash) near-term inflows, outflows and spendable balances. This focus does not include capital assets and long-term debt.

At June 30, 2014, the City's governmental funds reported combined fund balances of \$52.4 million, a \$1.8 million increase over the prior year. The General Fund's fund balance is \$16.2 million at June 30, 2014. Governmental fund revenues (including transfers in) were \$50.6 million this year, of which General Fund revenues totaled \$31.5 million or 61%. Governmental fund expenditures (including transfers out) totaled \$49.6 million with the General Fund representing 63% of the total or \$31.3 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 Arts Commission, Special Public Safety, and Tourism (2 funds) funds. At June 30, 2014, the General Fund had a fund balance of \$16.2 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 (before transfers) by \$387,400 during fiscal year 2013-14 as compared to \$2.4 million in excess expenditures for 2012-13. After net transfers, revenues exceeded expenditures by \$256,600 for 2013-14. General Fund department directors continued to provide services within their approved budgets which have been status quo for the past few years due to the recession. The bright spot for the General Fund is on the revenue side as sales and property tax revenues exceed projections by a combined \$1.2 million. Together these revenue sources provided 54.9% of total General Fund revenues.

The City is currently experiencing significant interest in the development of vacant parcels at the Turlock Regional Industrial Park and anticipates that this will spur job growth as well as other ancillary economic growth which will be reflected in future property and sales tax growth.

Former LMI Housing Fund – This fund is serving as the successor to the former Housing Set-Aside Fund and was formed after the dissolution of the City's Redevelopment Agency. The purpose of this fund is to account for housing related activities and assets the City elected to retain from the former Redevelopment Agency. For fiscal year 2013-14 the fund's expenditures included \$63,200 in support of a Mobile Home Rental Subsidy program for income eligible senior citizens, and \$100,000 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.

Gas Tax/Street Improvement – This fund comprises the revenues and related expenditures the City receives from Gas Tax, Local Transportation Fund (LTF), and federal Department of Transportation (DOT) sources. The nearly \$2 million increase in fund balance is due to the receipt of grant revenue reimbursements from DOT for street rehabilitation projects and traffic signal projects that are primarily grant funded. These 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. Major projects undertaken in 2013-14 include the installation of a traffic signal at Golden State Boulevard and F Street; intersection improvements and the installation of a traffic signal at Golden State Boulevard and Dels; roadway rehabilitation on Monte Vista Avenue in the vicinity of CSU Stanislaus; and bikepath improvements along the Taylor Road Bike Path.

**City of Turlock  
Management's Discussion and Analysis (continued)  
For the Year Ended June 30, 2014**

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The Gas Tax and Local Transportation fund dollars are used for general street maintenance (pot hole 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.

***Proprietary Funds***

The City's proprietary funds provide the same information found in the government-wide financial statements for business-type activities only in a little more detail. The net position for the City's proprietary funds (exclusive of Internal Service funds) increased \$2.7 million during fiscal year 2013-14, which compares to a \$3.0 million decrease for fiscal year 2012-13. Overall total revenues were down slightly from the prior year while total expenses declined by over \$6 million. The reason for the decline is two-fold. In 2012-13 the City refunded two outstanding bond issuances in order to take advantage of historically low interest rates. This refunding will benefit the City in the long run, but resulted in one-time bond issuance related costs which were expensed in 2012-13. In addition, during 2012-13 nearly \$5 million in capital projects were written off as Staff determined that these projects were no longer viable and therefore did not meet the capitalization requirements for capital assets.

Charges for Services (user fees) for the City's water and wastewater systems remained relatively unchanged during 2013-14 while operating expenses increased by \$450,300 and just over \$1 million, respectively, for the water and wastewater systems. After including transfers and non-operating revenues/expenses, both systems realized increases in net position and met the debt service reserve requirements related to their respective outstanding revenue bond requirements.

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, 2014, 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) during fiscal year 2013-14 were over \$32 million. The majority of these additions related to infrastructure – streets/roads, water, sewer and storm drain pipes, and park – improvements as well as construction of the public safety facility. Additional information regarding the City's capital assets can be found in Note 6 on page 53 of this report.

It should be noted the Successor Agency to the Turlock Redevelopment Agency capital assets – \$8.8 million – are not included in the above numbers.

**City of Turlock  
Management's Discussion and Analysis (continued)  
For the Year Ended June 30, 2014**

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**DEBT ADMINISTRATION**

At June 30, 2014, the City had \$120.6 million in debt outstanding as compared to \$107.3 million for the prior year. During 2013-14 the City drew down \$16.9 in funding from its two loans through the California State Water Resources Control Board to finance the construction of the Harding Drain Bypass and various WQC Treatment Plant improvements. The Harding Drain Bypass received its Notice of Completion in April 2014. Work continues on the WQC Treatment Plant improvements with completion anticipated in fiscal year 2014-15.

The City's total debt service requirements for 2014-15 are approximately \$8 million with the bulk of the requirements coming from semi-annual payments for the 2012 Sewer Revenue (\$3.9 million) and the 2008 Water Bonds (\$2 million). Additional information regarding each of the City's debt issues as well as debt service requirements is discussed in greater detail in Note 7 to the financial statements starting on page 56.

It should be noted the Successor Agency to the Turlock Redevelopment Agency debt - \$41.6 million – is not included in the above numbers.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Developing the 2014-15 General Fund budget presented the City Council and Staff with many of the same challenges that the City has been dealing with for the past few years. Since General Fund revenue peaked at \$30.4 million in fiscal year 2006-07, the City has experienced annual declines in operating revenues with fiscal year 2012-13 representing the sixth year of revenue declines. Final 2013-14 General Fund revenues exceeded the 2006-07 mark by just over \$500,000. Sales tax revenue for 2013-14 exceeded the previous 2006-07 high, but property tax revenue had not yet caught up. With an 11% increase in assessed values, Staff anticipates property tax revenue for 2014-15 to top the previous 2006-07 high.

Budgeted 2014-15 revenues are approximately 2% higher than final revenue for 2013-14 while on-going expenditures are budgeted at approximately 10% higher than 2013-14 actuals. With the continuing recovery of sales and property tax revenue, combined with the interest being shown in developing at the Turlock Regional Industrial Park, Staff believes that the decline in the City's General Fund revenues have hit bottom and will continue to recover during 2014-15.

The 2014-15 expenditure budget was prepared as a "status quo" budget, thus included employee concessions like prior years. There were personnel costs increases budgeted based on existing MOUs and/or Schedules of Benefits. Even though revenues are improving, the 2014-15 budget still projects deficit spending for on-going operations at approximately \$1.1 million. Any additional appropriation of \$3.3 million is included for capital expenditures. 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](http://www.ci.turlock.ca.us).

**REQUESTS FOR INFORMATION**

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

**CITY OF TURLOCK**

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

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

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

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue and Capital Projects Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

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

The Statement of Activities presents the City's expenses first, listed by program, followed by the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

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

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CITY OF TURLOCK  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments (Note 3)	\$59,906,043	\$55,485,329	\$115,391,372
Restricted cash and investments and cash and investments with fiscal agent (Note 3)		10,717,832	10,717,832
Accounts receivables, net (Note 5C)	6,743,586	18,707,052	25,450,638
Interest receivable	32,062	43,566	75,628
Internal balances (Note 4C)	358,972	(358,972)	
Due from Developers (Note 5A)	247,820	157,663	405,483
Long-term loans receivable (Note 5B)	27,630,428		27,630,428
Prepaid expenses	5,120		5,120
OPEB asset (Note 10)	771,653	290,741	1,062,394
Capital assets, not being depreciated (Note 6)	55,718,306	37,921,953	93,640,259
Capital assets, being depreciated (net) (Note 6)	172,740,824	185,685,952	358,426,776
<b>Total Assets</b>	<b>324,154,814</b>	<b>308,651,116</b>	<b>632,805,930</b>
<b>LIABILITIES</b>			
Accounts payable	4,437,292	1,325,272	5,762,564
Payroll payable	1,391,341	159,758	1,551,099
Interest payable	1,332	1,275,314	1,276,646
Unearned revenue	710,847	3,583,833	4,294,680
Deposits payable	400,299	424,559	824,858
Compensated absences (Note 11):			
Due within one year	529,971	138,205	668,176
Due in more than one year	2,119,884	552,821	2,672,705
Estimated claims liability (Note 11):			
Due in more than one year	4,713,193		4,713,193
Long-term debt (Note 7):			
Due within one year	112,128	3,581,336	3,693,464
Due in more than one year		116,871,781	116,871,781
OPEB liability (Note 10):			
Due in more than one year	1,923,848	221,849	2,145,697
<b>Total Liabilities</b>	<b>16,340,135</b>	<b>128,134,728</b>	<b>144,474,863</b>
<b>NET POSITION (Note 8):</b>			
Net investment in capital assets	228,347,002	113,872,620	342,219,622
Restricted for:			
Capital projects	13,437,815		13,437,815
Special projects and programs	47,431,894		47,431,894
<b>Total Restricted Net Position</b>	<b>60,869,709</b>		<b>60,869,709</b>
Unrestricted	18,597,968	66,643,768	85,241,736
<b>Total Net Position</b>	<b>\$307,814,679</b>	<b>\$180,516,388</b>	<b>\$488,331,067</b>

See accompanying notes to basic financial statements

CITY OF TURLOCK  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
General government	\$3,645,812	\$2,769,129	\$18,510	\$288,554	\$3,076,193
Public safety	25,956,679	1,655,871	543,845	676,103	2,875,819
Public ways and facilities/transportation	10,144,741	2,652,271	2,962,483	6,813,005	12,427,759
Parks and recreation	3,483,246	1,562,213	645,564	78,985	2,286,762
Community development	3,108,721	1,305,649	1,756,236	13,357	3,075,242
Interest and fiscal charges	9,023				
<b>Total Governmental Activities</b>	<b>46,348,222</b>	<b>9,945,133</b>	<b>5,926,638</b>	<b>7,870,004</b>	<b>23,741,775</b>
<b>Business-type Activities:</b>					
Water	7,619,799	7,830,394	71,943	400,370	8,302,707
Sewer	16,962,467	17,815,708		2,015,399	19,831,107
Transportation	1,526,038	159,671	992,993	381,298	1,533,962
Building & safety	1,114,703	970,418			970,418
<b>Total Business-type Activities</b>	<b>27,223,007</b>	<b>26,776,191</b>	<b>1,064,936</b>	<b>2,797,067</b>	<b>30,638,194</b>
<b>Total</b>	<b>\$73,571,229</b>	<b>\$36,721,324</b>	<b>\$6,991,574</b>	<b>\$10,667,071</b>	<b>\$54,379,969</b>
<b>General revenues:</b>					
Taxes:					
Property taxes					
Sales taxes					
Property tax-VLF in Lieu					
Other Tax					
Total taxes					
Other revenue					
Interest income					
Contributions from private purpose trust					
Transfers					
Total general revenues and transfers					
Change in Net Position					
Net Position-Beginning					
Net Position-Ending					

See accompanying notes to basic financial statements

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
(\$569,619)		(\$569,619)
(23,080,860)		(23,080,860)
2,283,018		2,283,018
(1,196,484)		(1,196,484)
(33,479)		(33,479)
(9,023)		(9,023)
(22,606,447)		(22,606,447)
	\$682,908	682,908
	2,868,640	2,868,640
	7,924	7,924
	(144,285)	(144,285)
	3,415,187	3,415,187
(22,606,447)	3,415,187	(19,191,260)
4,228,864		4,228,864
12,240,764		12,240,764
4,522,430		4,522,430
3,049,642		3,049,642
24,041,700		24,041,700
248,855		248,855
191,386	115,808	307,194
879,261		879,261
837,073	(837,073)	
26,198,275	(721,265)	25,477,010
3,591,828	2,693,922	6,285,750
304,222,851	177,822,466	482,045,317
\$307,814,679	\$180,516,388	\$488,331,067

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<b>MAJOR GOVERNMENTAL FUNDS</b>
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The funds described below were determined to be Major Funds by the City in fiscal 2014. Individual non-major funds may be found in the Supplemental Section.

**GENERAL FUND**

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

**FORMER LMI HOUSING FUND**

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

**GAS TAX/STREET IMPROVEMENT**

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

CITY OF TURLOCK  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014

	General	Former LMI Housing Fund	Gas Tax/ Street Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments (Note 3)	\$14,271,814	\$11,445	\$471,041	\$35,655,282	\$50,409,582
Accounts receivable (Note 5C)	4,394,045	472	1,332,865	957,157	6,684,539
Interest receivable	15,302		395	13,287	28,984
Due from other funds (Note 4B)	1,812,030				1,812,030
Due from developers (Note 5A)	20,041			227,779	247,820
Loans receivable (Note 5B)	18,106	11,912,558		15,699,764	27,630,428
Prepaid expenditures	5,120				5,120
<b>Total Assets</b>	<b>\$20,536,458</b>	<b>\$11,924,475</b>	<b>\$1,804,301</b>	<b>\$52,553,269</b>	<b>\$86,818,503</b>
<b>LIABILITIES</b>					
Accounts payable	\$2,483,545		\$308,985	\$730,580	\$3,523,110
Payroll payable	1,282,929		15,910	33,707	1,332,546
Due to other funds (Note 4B)				792,908	792,908
Unearned revenue	122,449		583,398	5,000	710,847
Deposits payable	399,799				399,799
<b>Total Liabilities</b>	<b>4,288,722</b>		<b>908,293</b>	<b>1,562,195</b>	<b>6,759,210</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue (Note 1F and 5B)		\$11,912,558		15,699,764	27,612,322
<b>FUND BALANCES</b>					
Fund balance (Note 8):					
Nonspendable	43,267			227,779	271,046
Restricted		11,917	896,008	21,200,084	22,108,009
Committed	5,353,894			14,053,039	19,406,933
Assigned	2,167,045				2,167,045
Unassigned	8,683,530			(189,592)	8,493,938
<b>Total Fund Balances</b>	<b>16,247,736</b>	<b>11,917</b>	<b>896,008</b>	<b>35,291,310</b>	<b>52,446,971</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$20,536,458</b>	<b>\$11,924,475</b>	<b>\$1,804,301</b>	<b>\$52,553,269</b>	<b>\$86,818,503</b>

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, 2014

Total fund balances reported on the Governmental Funds Balance Sheet \$52,446,971

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. 226,607,094

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	9,496,461
Accounts receivable	59,047
Interest receivable	3,078
Net OPEB asset	482,178
Capital assets (net of accumulated depreciation)	1,852,036
Accounts payable	(914,182)
Payroll payable	(58,795)
Due to other funds	(660,150)
Deposits payable	(500)
Compensated absences	(325,522)
Estimated claims liability	(4,713,193)
Net OPEB liability	(32,883)

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. 27,612,322

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	(112,128)
Interest payable	(1,332)
Compensated absences	(2,324,333)
Net OPEB liability	(1,601,490)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$307,814,679

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, 2014

	General	Former LMI Housing Fund	Gas Tax/ Street Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes and assessments	\$18,367,387			\$3,142,598	\$21,509,985
Licenses and permits	1,526,585			14,247	1,540,832
Fines, forfeitures, and penalties	238,076				238,076
Use of money and property	89,639		\$1,034	82,649	173,322
Intergovernmental	4,975,978		6,768,944	2,661,304	14,406,226
Charges for current services	3,912,148		36,530	4,458,357	8,407,035
Other revenue	735,030	\$23,830	5,442	693,795	1,458,097
<b>Total Revenues</b>	<b>29,844,843</b>	<b>23,830</b>	<b>6,811,950</b>	<b>11,052,950</b>	<b>47,733,573</b>
<b>EXPENDITURES</b>					
Current:					
General government	2,921,595			221,195	3,142,790
Public safety	23,616,332			350,111	23,966,443
Public ways and facilities/transportation	273,854		1,674,843	3,129,754	5,078,451
Parks and recreation	1,774,901			1,072,972	2,847,873
Community development	1,185,935	164,272		2,310,672	3,660,879
Capital outlay	459,605		3,387,438	4,340,864	8,187,907
Debt service:					
Principal			32,168	90,239	122,407
Interest and fiscal charges			1,611	8,807	10,418
<b>Total Expenditures</b>	<b>30,232,222</b>	<b>164,272</b>	<b>5,096,060</b>	<b>11,524,614</b>	<b>47,017,168</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(387,379)</b>	<b>(140,442)</b>	<b>1,715,890</b>	<b>(471,664)</b>	<b>716,405</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Contributions from private purpose trust	57,479	162,520		659,262	879,261
Transfers in (Note 4A)	1,635,265		231,700	995,207	2,862,172
Transfers (out) (Note 4A)	(1,048,754)		(58,175)	(1,510,592)	(2,617,521)
<b>Total Other Financing Sources (Uses)</b>	<b>643,990</b>	<b>162,520</b>	<b>173,525</b>	<b>143,877</b>	<b>1,123,912</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>256,611</b>	<b>22,078</b>	<b>1,889,415</b>	<b>(327,787)</b>	<b>1,840,317</b>
<b>BEGINNING FUND BALANCES (DEFICIT)</b>	<b>15,991,125</b>	<b>(10,161)</b>	<b>(993,407)</b>	<b>35,619,097</b>	<b>50,606,654</b>
<b>ENDING FUND BALANCES</b>	<b>\$16,247,736</b>	<b>\$11,917</b>	<b>\$896,008</b>	<b>\$35,291,310</b>	<b>\$52,446,971</b>

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, 2014

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 \$1,840,317

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.	7,934,086
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$285,770 which has already been allocated to serviced funds).	(5,853,880)
Retirements are deducted from the fund balance	(288,550)
Capital contributions are added to fund balance	357,950

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	122,407
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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	832,015
Interest payable	1,395
Compensated absences	38,628
Net OPEB liability	(402,764)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

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

Change in Net Position - All Internal Service Funds	<u>(989,776)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$3,591,828</u></u>
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See accompanying notes to basic financial statements

CITY OF TURLOCK  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES:</b>				
Taxes and assessments	\$17,150,000	\$17,150,000	\$18,367,387	\$1,217,387
Licenses and permits	1,516,700	1,516,700	1,526,585	9,885
Fines and forfeitures	269,500	269,500	238,076	(31,424)
Use of money and property	110,000	110,000	89,639	(20,361)
Intergovernmental	4,871,407	4,983,212	4,975,978	(7,234)
Charges for current services	3,755,483	3,773,983	3,912,148	138,165
Other revenue	337,478	337,478	735,030	397,552
<b>Total Revenues</b>	<b>28,010,568</b>	<b>28,140,873</b>	<b>29,844,843</b>	<b>1,703,970</b>
<b>EXPENDITURES:</b>				
Current:				
General government	3,061,608	3,186,155	2,921,595	264,560
Public safety	23,905,642	24,103,702	23,616,332	487,370
Public ways and facilities/transportation	185,062	231,788	273,854	(42,066)
Parks and recreation	1,760,244	1,787,234	1,774,901	12,333
Community development	1,189,365	1,214,731	1,185,935	28,796
Capital outlay	847,000	638,850	459,605	179,245
<b>Total Expenditures</b>	<b>30,948,921</b>	<b>31,162,460</b>	<b>30,232,222</b>	<b>930,238</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(2,938,353)</b>	<b>(3,021,587)</b>	<b>(387,379)</b>	<b>2,634,208</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contributions from private purpose trust	186,328	186,328	57,479	(128,849)
Transfers in	1,774,327	1,678,304	1,635,265	(43,039)
Transfers (out)	(570,571)	(1,123,374)	(1,048,754)	74,620
<b>Total Other Financing Sources (Uses)</b>	<b>1,390,084</b>	<b>741,258</b>	<b>643,990</b>	<b>(97,268)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(\$1,548,269)</b>	<b>(\$2,280,329)</b>	<b>256,611</b>	<b>\$2,536,940</b>
<b>BEGINNING FUND BALANCE</b>			<b>15,991,125</b>	
<b>ENDING FUND BALANCE</b>			<b>\$16,247,736</b>	

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Other revenue	\$750	\$750	\$23,830	\$23,080
Total Revenues	750	750	23,830	23,080
EXPENDITURES:				
Current:				
Community development	196,200	196,200	164,272	31,928
Total Expenditures	196,200	196,200	164,272	31,928
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(195,450)	(195,450)	(140,442)	55,008
OTHER FINANCING SOURCES (USES)				
Contributions from private-purpose trust	196,200	196,200	162,520	(33,680)
Total Other Financing Sources (Uses)	196,200	196,200	162,520	(33,680)
NET CHANGE IN FUND BALANCE	\$750	\$750	22,078	\$21,328
BEGINNING FUND BALANCE			(10,161)	
ENDING FUND BALANCE			\$11,917	

See accompanying notes to basic financial statements

CITY OF TURLOCK  
GAS TAX / STREET IMPROVEMENT  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>REVENUES:</b>				
Use of money and property	\$750	\$750	\$1,034	\$284
Intergovernmental	7,296,456	7,296,456	6,768,944	(527,512)
Charges for current services	5,000	5,000	36,530	31,530
Other	4,100	4,100	5,442	1,342
<b>Total Revenues</b>	<b><u>7,306,306</u></b>	<b><u>7,306,306</u></b>	<b><u>6,811,950</u></b>	<b><u>(494,356)</u></b>
<b>EXPENDITURES:</b>				
Current:				
Public ways and facilities/transportation	1,824,741	2,005,841	1,674,843	330,998
Capital outlay	6,600,929	6,488,394	3,387,438	3,100,956
Debt service:				
Principal	30,000	30,000	32,168	(2,168)
Interest and fiscal charges	4,100	4,100	1,611	2,489
<b>Total Expenditures</b>	<b><u>8,459,770</u></b>	<b><u>8,528,335</u></b>	<b><u>5,096,060</u></b>	<b><u>3,432,275</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b><u>(1,153,464)</u></b>	<b><u>(1,222,029)</u></b>	<b><u>1,715,890</u></b>	<b><u>2,937,919</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	333,241	404,809	231,700	(173,109)
Transfers out	(58,175)	(58,175)	(58,175)	
<b>Total Other Financing Sources (Uses)</b>	<b><u>275,066</u></b>	<b><u>346,634</u></b>	<b><u>173,525</u></b>	<b><u>(173,109)</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b><u>(\$878,398)</u></b>	<b><u>(\$875,395)</u></b>	<b>1,889,415</b>	<b><u>\$2,764,810</u></b>
<b>BEGINNING FUND BALANCE</b>			<b><u>(993,407)</u></b>	
<b>ENDING FUND BALANCE</b>			<b><u>\$896,008</u></b>	

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 2014.

### ***WATER***

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

### ***SEWER***

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

CITY OF TURLOCK  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds	
	Water	Sewer	Nonmajor Proprietary Funds		Totals
<b>ASSETS</b>					
Current assets					
Cash and investments (Note 3)	\$27,219,675	\$24,984,577	\$3,281,077	\$55,485,329	\$9,496,461
Restricted cash and investments and cash and investments with fiscal agent (Note 3)	7,448,754	3,269,078		10,717,832	
Accounts receivable (Note 5C)	832,824	17,468,152	406,076	18,707,052	59,047
Interest receivable	29,703	12,310	1,553	43,566	3,078
Due from developers (Note 5A)		157,663		157,663	
<b>Total current assets</b>	<b>35,530,956</b>	<b>45,891,780</b>	<b>3,688,706</b>	<b>85,111,442</b>	<b>9,558,586</b>
Non-current assets					
OPEB asset (Note 10)	290,741			290,741	482,178
Capital assets not being depreciated (Note 6)	5,047,816	29,119,406	3,754,731	37,921,953	
Capital assets being depreciated (Note 6)	40,964,269	139,406,687	5,314,996	185,685,952	1,852,036
<b>Total non-current assets</b>	<b>46,302,826</b>	<b>168,526,093</b>	<b>9,069,727</b>	<b>223,898,646</b>	<b>2,334,214</b>
<b>Total Assets</b>	<b>81,833,782</b>	<b>214,417,873</b>	<b>12,758,433</b>	<b>309,010,088</b>	<b>11,892,800</b>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	418,724	803,398	103,150	1,325,272	914,182
Payroll payable	43,811	98,327	17,620	159,758	58,795
Interest payable	217,192	1,058,122		1,275,314	
Due to other funds (Note 4B)			358,972	358,972	660,150
Compensated absences (Note 11)	29,723	95,277	13,205	138,205	65,104
Bonds and loans payable (Note 7)	700,000	2,881,336		3,581,336	
Unearned revenue			3,583,833	3,583,833	
Deposits payable	424,559			424,559	500
<b>Total current liabilities</b>	<b>1,834,009</b>	<b>4,936,460</b>	<b>4,076,780</b>	<b>10,847,249</b>	<b>1,698,731</b>
Long-term liabilities					
Claims liability (Note 11)					4,713,193
Compensated absences (Note 11)	118,892	381,110	52,819	552,821	260,418
OPEB liability (Note 10)		90,115	131,734	221,849	32,883
Bonds and loans payable (Note 7)	27,939,033	88,932,748		116,871,781	
<b>Total long-term liabilities</b>	<b>28,057,925</b>	<b>89,403,973</b>	<b>184,553</b>	<b>117,646,451</b>	<b>5,006,494</b>
<b>Total Liabilities</b>	<b>29,891,934</b>	<b>94,340,433</b>	<b>4,261,333</b>	<b>128,493,700</b>	<b>6,705,225</b>
NET POSITION (Note 8):					
Net investment in capital assets	24,821,806	79,981,087	9,069,727	113,872,620	1,852,036
Unrestricted	27,120,042	40,096,353	(572,627)	66,643,768	3,335,539
<b>Total Net Position</b>	<b>\$51,941,848</b>	<b>\$120,077,440</b>	<b>\$8,497,100</b>	<b>\$180,516,388</b>	<b>\$5,187,575</b>

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, 2014

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Water	Sewer	Nonmajor Enterprise Funds		
<b>OPERATING REVENUES</b>					
Charges for services	\$7,783,316	\$17,680,116	\$1,117,435	\$26,580,867	\$10,476,087
Other income	47,078	135,592	12,654	195,324	1,186,095
<b>Total Operating Revenues</b>	<b>7,830,394</b>	<b>17,815,708</b>	<b>1,130,089</b>	<b>26,776,191</b>	<b>11,662,182</b>
<b>OPERATING EXPENSES</b>					
Salaries, benefits and insurance	2,228,175	4,901,800	942,229	8,072,204	12,228,654
Contractual	548,049	2,020,938	1,049,430	3,618,417	486,553
Supplies and maintenance	291,645	1,744,731	26,880	2,063,256	54,276
Utilities	1,164,131	1,712,795	26,458	2,903,384	73,600
Fleet expense	69,176	249,983	203,215	522,374	110,163
Depreciation and amortization	1,849,896	3,731,808	365,745	5,947,449	285,770
Other expenses	107,224	158,884	26,784	292,892	25,474
<b>Total Operating Expenses</b>	<b>6,258,296</b>	<b>14,520,939</b>	<b>2,640,741</b>	<b>23,419,976</b>	<b>13,264,490</b>
<b>Operating Income (Loss)</b>	<b>1,572,098</b>	<b>3,294,769</b>	<b>(1,510,652)</b>	<b>3,356,215</b>	<b>(1,602,308)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Operating grants	71,943		992,993	1,064,936	
Interest income	(5,175)	114,068	6,915	115,808	18,064
Interest (expense)	(1,361,503)	(2,441,528)		(3,803,031)	(13,920)
Gain (loss) on disposal of capital assets					15,966
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(1,294,735)</b>	<b>(2,327,460)</b>	<b>999,908</b>	<b>(2,622,287)</b>	<b>20,110</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>277,363</b>	<b>967,309</b>	<b>(510,744)</b>	<b>733,928</b>	<b>(1,582,198)</b>
Capital Grants			381,298	381,298	
Capital contributions - connection/impact fees	400,370	2,015,399		2,415,769	
Transfers in (Note 4A)	20,358	28,498	319,813	368,669	814,684
Transfers out (Note 4A)	(360,806)	(812,407)	(32,529)	(1,205,742)	(222,262)
<b>Net Contributions and Transfers</b>	<b>59,922</b>	<b>1,231,490</b>	<b>668,582</b>	<b>1,959,994</b>	<b>592,422</b>
<b>Change in net position</b>	<b>337,285</b>	<b>2,198,799</b>	<b>157,838</b>	<b>2,693,922</b>	<b>(989,776)</b>
<b>BEGINNING NET POSITION</b>	<b>51,604,563</b>	<b>117,878,641</b>	<b>8,339,262</b>	<b>177,822,466</b>	<b>6,177,351</b>
<b>ENDING NET POSITION</b>	<b>\$51,941,848</b>	<b>\$120,077,440</b>	<b>\$8,497,100</b>	<b>\$180,516,388</b>	<b>\$5,187,575</b>

See accompanying notes to basic financial statements

CITY OF TURLOCK  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds	
	Water	Sewer	Nonmajor Enterprise Funds		Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$7,918,724	\$17,863,466	\$1,144,099	\$26,926,289	\$10,899,559
Payments to suppliers	(1,997,283)	(8,069,157)	(1,372,894)	(11,439,334)	(255,999)
Payments to employees	(2,113,975)	(4,803,968)	(906,154)	(7,824,097)	(12,233,666)
Other	47,078	135,592	12,654	195,324	1,186,095
<b>Cash Flows from Operating Activities</b>	<b>3,854,544</b>	<b>5,125,933</b>	<b>(1,122,295)</b>	<b>7,858,182</b>	<b>(404,011)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Intergovernmental receipts - operations	71,943		543,544	615,487	
Interfund receipts (payments)			(163,384)	(163,384)	339,940
Transfers in	20,358	28,498	319,813	368,669	814,684
Transfers out	(360,806)	(812,407)	(32,529)	(1,205,742)	(222,262)
<b>Cash Flows from Noncapital Financing Activities</b>	<b>(268,505)</b>	<b>(783,909)</b>	<b>667,444</b>	<b>(384,970)</b>	<b>932,362</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Intergovernmental receipts - capital program			1,418,658	1,418,658	
Acquisition of capital assets, net	(4,389,934)	(19,316,381)	(374,584)	(24,080,899)	(208,149)
Proceeds from sale of capital assets					16,866
Issuance of loans		12,303,586		12,303,586	
Long-term debt payment - principal	(872,656)	(2,067,656)		(2,940,312)	(405,312)
Long-term debt payment - interest	(1,369,024)	(2,030,488)		(3,399,512)	(20,222)
Connection / impact fees	400,370	2,015,399		2,415,769	
<b>Cash Flows from Capital and Related Financing Activities</b>	<b>(6,231,244)</b>	<b>(9,095,540)</b>	<b>1,044,074</b>	<b>(14,282,710)</b>	<b>(616,817)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest	8	121,856	6,576	128,440	19,213
<b>Cash Flows from Investing Activities</b>	<b>8</b>	<b>121,856</b>	<b>6,576</b>	<b>128,440</b>	<b>19,213</b>
<b>Net Cash Flows</b>	<b>(2,645,197)</b>	<b>(4,631,660)</b>	<b>595,799</b>	<b>(6,681,058)</b>	<b>(69,253)</b>
Cash and investments at beginning of period	37,313,626	32,885,315	2,685,278	72,884,219	9,565,714
Cash and investments at end of period	<u>\$34,668,429</u>	<u>\$28,253,655</u>	<u>\$3,281,077</u>	<u>\$66,203,161</u>	<u>\$9,496,461</u>
<b>Reconciliation of Operating Income (Loss) to Cash Flows</b>					
from Operating Activities:					
Operating income (loss)	\$1,572,098	\$3,294,769	(\$1,510,652)	3,356,215	(\$1,602,308)
Adjustments to reconcile operating income (loss) to cash flows					
from operating activities:					
Depreciation and amortization	1,849,896	3,731,808	365,745	5,947,449	285,770
Change in assets and liabilities:					
Accounts receivable	135,408	183,350	26,664	345,422	423,472
OPEB asset	100,372	71,327		171,699	(44,877)
Accounts payable	190,614	(2,181,826)	(28,629)	(2,019,841)	(305,466)
Payroll payable	5,384	(852)	17	4,549	1,290
Compensated absences	8,444	(62,758)		(54,314)	16,812
Claims Liability			(11,998)	(11,998)	801,484
OPEB liability		90,115	36,558	126,673	21,763
Deposits payable	(7,672)			(7,672)	(1,951)
<b>Cash Flows from Operating Activities</b>	<b>\$3,854,544</b>	<b>\$5,125,933</b>	<b>(\$1,122,295)</b>	<b>\$7,858,182</b>	<b>(\$404,011)</b>
<b>NONCASH TRANSACTIONS:</b>					
Amortization of bond discount	\$379	\$183,157		\$183,536	
Retirement of capital assets					(\$900)
<b>Total noncash capital and related financing activities</b>	<b>\$379</b>	<b>\$183,157</b>		<b>\$183,536</b>	<b>(\$900)</b>

See accompanying notes to basic financial statements

<b>FIDUCIARY FUNDS</b>
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***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, 2014

	<u>Successor Agency Trust Fund</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and investments (Note 3)	\$2,240,776	\$714,831
Cash and investments with fiscal agent (Note 3)	3,569,714	406,619
Accounts and interest receivable		1,474
Capital Assets (Note 13B):		
Nondepreciable	1,882,435	
Depreciable, net	<u>6,938,026</u>	
Total Assets	<u>14,630,951</u>	<u>\$1,122,924</u>
<b>LIABILITIES</b>		
Accounts payable	8,178	
Interest payable	767,376	
Long-term debt (Note 13C):		
Due within one year	1,022,044	
Due in more than one year	40,562,492	
Due to stakeholders		<u>\$1,122,924</u>
Total Liabilities	<u>42,360,090</u>	<u>\$1,122,924</u>
<b>NET POSITION (DEFICIT)</b>		
Net deficit held in trust for other governments	<u>(\$27,729,139)</u>	

See accompanying notes to basic financial statements

CITY OF TURLOCK  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Successor Agency Trust Fund</u>
ADDITIONS	
Property taxes	\$2,668,754
Net investment income	<u>22,936</u>
Total additions	<u>2,691,690</u>
DEDUCTIONS	
Community development	39,505
Contributions to the City of Turlock	879,261
Depreciation	146,261
Interest and fiscal charges	<u>2,307,635</u>
Total deductions	<u>3,372,662</u>
NET CHANGE IN NET POSITION	(680,972)
NET POSITION (DEFICIT) HELD IN TRUST FOR OTHER GOVERNMENTS	
Beginning of year	<u>(27,048,167)</u>
End of year	<u><u>(\$27,729,139)</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, 2014**

**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, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**C. Major Funds**

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

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

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

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

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

The City also reports the following fund types:

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

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

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

**D. Basis of Accounting**

The government-wide, proprietary, and fiduciary (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.

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**E. *Prepays, Materials, Supplies and Deposits***

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

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

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

**F. *Deferred Inflows and Deferred Outflows of Resources***

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

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. *Property Tax Revenue***

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

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

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

**H. *Revenue Recognition for Water and Sewer***

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

**I. *Compensated Absences***

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

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

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

The changes of the compensated absences during the fiscal year ended June 30, 2014 were as follows:

	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
Beginning Balance	\$2,671,671	\$757,338	\$3,429,009
Net Change	<u>(21,816)</u>	<u>(66,312)</u>	<u>(88,128)</u>
Ending Balance	<u>\$2,649,855</u>	<u>\$691,026</u>	<u>\$3,340,881</u>
Current Portion	<u>\$529,971</u>	<u>\$138,205</u>	<u>\$668,176</u>

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**J. Use of Estimates**

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

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

**A. Budgetary Control and Accounting**

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

1. The City Manager submits to the City Council a proposed budget for the fiscal year beginning July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at meetings which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested citizens.
3. Prior to July 1, the budget is legally adopted through a passage of a resolution.
4. The City Manager is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The City Council must authorize transfers between funds, between departments, and from the fund balances reserved for specific purposes.
5. Formal budgetary accounting is employed as a management tool for all funds, except the Agency funds, which do not have revenues or expenditures. Annual budgets are legally adopted and amended as required for the General Fund, Special Revenue Funds, the Facility Fees Capital Projects Fund, Enterprise Funds, and Internal Service Funds, except the Former LMI Housing Special Revenue Fund, the Development Benefit Special Revenue Fund, the Downtown Assessment District Special Revenue Fund and the Housing Stimulus Funds Special Revenue Fund. Capital Projects funds, other than the Facility Fees Capital Projects Fund, are budgeted by project, which usually span more than one fiscal year. All budgets are prepared on a basis consistent with generally accepted accounting principles in the United States.
6. Budgeted amounts are reflected after all applicable amendments are revisions.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

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

**B. *Encumbrances***

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

**C. *Expenditures in Excess of Appropriations***

The public ways and facilities/transportation department of the General Fund incurred departmental expenditures in excess of appropriations in the amount of \$42,066. The fund had sufficient fund balance or revenues to finance these expenditures.

**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.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

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

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

**B. Classification**

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

City cash and investments:	
Cash and investments available for operations	\$115,391,372
Restricted cash and investments and cash and investments with fiscal agent	10,717,832
Total City Cash and Investments	126,109,204
Cash and investments in Fiduciary Funds (Separate Statement):	
Successor Agency to the Redevelopment	
Agency Private Purpose Trust Fund:	
Cash available for operations	2,240,776
Cash and investments with fiscal agent	3,569,714
Agency Funds:	
Cash and investments available for operations	714,831
Cash and investments with fiscal agent	406,619
Total Cash and Investments	\$133,041,144

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$5,180
Deposits with financial institutions	58,128,903
Investments	74,907,061
Total Cash and Investments	\$133,041,144

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, 2014**

**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	N/A	Unlimited	N/A
U.S. Government Sponsored Securities	5 years	N/A	Unlimited	No more than 25%
Certificates of Deposit	2 years	N/A	30%	N/A
Bankers' Acceptances	180 days	N/A	40%	No more than 30%
Commercial Paper	270 days	A-1 or Higher	25%	No more than 10%
State of Local Agency Investment Fund (LAIF)	N/A	N/A	Equal to maximum limit set by LAIF	N/A
Money Market Funds	N/A	N/A	15%	N/A
Corporate Notes	5 years	AAA	5%	N/A

During fiscal year 2013, the City purchased four certificates of deposit that had maturity dates of more than two years at the time of purchase, which is not in compliance with the City's Investment Policy. As of June 30, 2014, those certificates of deposit had maturity dates that were less than two years.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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	N/A	No maximum
Bankers' Acceptances	30 days	A-1	No maximum
Commercial Paper	270 days	A-1+	No maximum
State Local Agency Investment Fund	N/A	N/A	LAIF limits
Repurchase Agreements	270 days	A	No maximum
Guaranteed Investment Contracts	N/A	AA	No maximum
Money Market Funds	N/A	Aam or Aam-G	No maximum
Corporate Notes	N/A	Two highest rating categories	No maximum

**E. Interest Rate Risk**

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

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Investment Type	12 Months or less	13 to 24 Months	More than 36 Months	Total
<b><i>Held by City:</i></b>				
California Local Agency Investment Fund	\$50,014,938			\$50,014,938
Certificates of Deposit	11,309,997	\$2,155,424		13,465,421
<b><i>Held by Trustee:</i></b>				
California Local Agency Investment Fund	5,408,405			5,408,405
Money Market Mutual Funds (U.S. Securities)	5,685,274			5,685,274
Investment Agreement			\$333,023	333,023
Total Investments	<u>\$72,418,614</u>	<u>\$2,155,424</u>	<u>\$333,023</u>	<u>\$74,907,061</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, 2014 these investments matured in an average of 232 days.

Money Market Mutual funds are available for withdrawal on demand at June 30, 2014 matured in an average of 40 to 46 days.

**F. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2014 for each investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAAm	Total
Money Market Mutual Funds (U.S. Securities)	<u>\$5,685,274</u>	<u>\$5,685,274</u>
Total Rated Investments	<u>\$5,685,274</u>	5,685,274
<i>Not rated:</i>		
California Local Agency Investment Fund		55,423,343
Certificates of Deposit		13,465,421
Investment Agreement		<u>333,023</u>
Total Investments		<u>\$74,907,061</u>

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**G. Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2014, the book value of the City's cash with banks and petty cash was \$58,134,083 and the associated bank balances were \$57,863,616. Of the City's bank balances of \$57,863,616 as of June 30, 2014, \$15,549 was exposed to custodial credit risk, because it was not FDIC insured.

**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.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 4 - INTERFUND TRANSACTIONS (Continued)**

Transfers between funds during the fiscal year ended June 30, 2014 were as follows:

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred	
General Fund	Non-Major Governmental Funds	\$594,791	(A), (B)
	Non-Major Enterprise Funds	319,813	(C)
	Internal Service Funds	134,150	(D)
Gas Tax/Street Improvement Fund	Non-Major Governmental Funds	28,175	(B)
	Internal Service Funds	30,000	(D)
Non-Major Governmental Funds	General Fund	551,982	(A)
	Gas Tax/Street Improvement Fund	34,095	(B)
	Non-Major Governmental Funds	227,125	(A), (B)
	Water Enterprise Fund	20,358	(B)
	Sewer Enterprise Fund	28,498	(B)
	Internal Service Funds	648,534	(A), (D), (E), (F)
Water Enterprise Fund	General Fund	352,595	(A), (E)
	Non-Major Governmental Funds	8,211	(A)
Sewer Enterprise Fund	General Fund	729,688	(A), (E)
	Gas Tax/Street Improvement Fund	47,855	(A)
	Non-Major Governmental Funds	34,864	(A), (B)
Non-Major Enterprise Funds	Gas Tax/Street Improvement Fund	3,000	(A)
	Non-Major Governmental Funds	29,529	(A), (B)
Internal Service Funds	General Fund	1,000	(A)
	Gas Tax/Street Improvement Fund	146,750	(B)
	Non-Major Governmental Funds	72,512	(A)
	Internal Service Funds	2,000	(D)
		<u>\$4,045,525</u>	

- (A) To fund operations including computer replacement
- (B) To fund capital improvements
- (C) 25% Fee reduction subsidy
- (D) To fund the Internal Service Equipment Pool for future vehicle purchases
- (E) To fund administrative expenses
- (F) To fund debt service

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 4 - INTERFUND TRANSACTIONS (Continued)**

**B. Current Interfund Balances**

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly, after the end of the fiscal year when revenues are received. Current amounts due to the General Fund from the funds listed below at June 30, 2014 were as follows:

	Amount Due to General Fund
<b>Non-major Special Revenue Funds:</b>	
CDBG	\$100,113
Housing Stimulus Funds	8,990
Stanislaus County Housing Consortium	478,576
Grant Funds	42,229
<b>Non-major Capital Projects Fund:</b>	
East Tuolumne Master Plan	163,000
<b>Non-major Enterprise Fund:</b>	
Building and Safety	358,972
<b>Internal Service Fund:</b>	
Engineering	660,150
Total	\$1,812,030

**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, 2014, 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	\$247,820	\$157,663	\$405,483
Loans receivable	27,630,428		27,630,428
Total	\$27,878,248	\$157,663	\$28,035,911

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**A. Due from Developers**

These amounts represent funds expended by the City in the preparation of the master plan and related planning documents required for the development of the City’s Northwest Specific Triangle Plan Area, its Northeast Master Plan Area and its Morgan Ranch Master Plan Area. The amounts expended by the City are being recovered as these Plan Areas develop via a specific development impact fee. The Northwest Triangle receivable of \$157,663 is recorded in the Sewer fund, the Northeast Master Plan receivable of \$20,041 is recorded in the General Fund and the Morgan Ranch Master Plan receivable of \$227,779 is recorded in the Facility Fees Fund.

**B. Loans Receivable**

Loans receivable at June 30, 2014 consist of the following:

<b>Type of Loan/Borrower</b>	<b>Amount</b>
Central Valley Coalition for Affordable Housing	\$8,609,453
First Time Homebuyer Loans	8,530,460
EAH, Inc.	5,099,977
Owner-Occupied Rehabilitation Loans	3,621,786
Cherry Tree Village Loans	1,672,867
Rehabilitation Forgivable Loans for Energy Improvements	36,200
Rental Rehabilitation Loans	41,579
Employee Computer Loans	18,106
Net long-term notes receivable	\$27,630,428

**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, 2014 was \$5,294,629.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

The second type of project is the acquisition and rehabilitation of single-family residential units which will be rented out to HUD qualifying low/moderate income families. CVCAH currently has three of these properties for which the City holds promissory notes totaling \$1,017,529. The notes each carry a 5% annual interest rate and are due and payable, along with all accrued, unpaid interest at maturity, unless the underlying property is sold; at which time the note and all accrued, unpaid interest is due and payable. Total outstanding principal and interest at June 30, 2014 on these three properties was \$1,402,527.

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, 2014 on these three properties was \$1,912,297.

**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, 2014 the City had 176 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.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

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.

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, 2014, EAH had drawn down all the funds associated with the DDA for Phase I of the project and had drawn down \$99,977 in funding associated with the DDA for Phase II. Outstanding loans for this project total \$5,099,977.

**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, 2014 the City had 54 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.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**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, 2014 the City had eight loans outstanding.

**Rental Rehabilitation Loans**

The Rental Rehabilitation Loan program, funded with CDBG funds, is similar to the owner-occupied program except it is for rental properties. To be eligible, the property must be occupied by a qualified low/moderate income tenant based on HUD requirements. These fully amortizing loans are for a maximum of 20 years and carry a 6.5% simple interest rate. The loans are due and payable should the homeowner refinance or sell the property or have a non-qualifying tenant. As of June 30, 2014 the City had one loan outstanding.

**Executive MBA Program Loans**

During 2008-09, California State University, Stanislaus in collaboration with the City operated a 15-month Executive MBA program. In exchange for the use of city hall on Saturday for this program, CSUS offered a scholarship to a city employee enrolled in the program who would be responsible for the facility during the term of the program. In order to facilitate this program and encourage qualified city employees to pursue their Master's degree, the City authorized non-interest bearing loans to qualified city employees. The loans are being repaid through payroll deductions. Three city employees qualified for the program and were approved to share the scholarship in return for sharing the facility use responsibilities. The loans were originally for \$18,000 each and as of June 30, 2014, the loans had been repaid.

**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, 2014, 18 employees had loans totaling \$18,106 due to the City.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**C. Accounts Receivable**

The following table provides a detailed listing of the City’s accounts receivable by type as of June 30, 2014:

	Due from Other Governments	Accounts Receivable	Total
General Fund	\$2,858,933	\$1,535,112	\$4,394,045
Former LMI Housing Fund		472	472
Gas Tax / Street Improvement	1,328,554	4,311	1,332,865
Nonmajor Governmental Funds	920,365	36,792	957,157
Water Enterprise Fund	61,502	771,322	832,824
Sewer Enterprise Fund	15,531,633	1,936,519	17,468,152
Nonmajor Enterprise Funds	405,925	151	406,076
Internal Service funds	10	59,037	59,047
Total	<u>\$21,106,922</u>	<u>\$4,343,716</u>	<u>\$25,450,638</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

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

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 6 - CAPITAL ASSETS (Continued)**

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, 2014 the City's capital assets for governmental activities consisted of the following:

*Governmental activities*

	Balance at June 30, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
<i>Capital assets not being depreciated:</i>					
Land	\$13,510,495				\$13,510,495
Construction in progress	38,821,796	\$7,701,316	(\$285,576)	(\$4,029,725)	42,207,811
Total capital assets not being depreciated	<u>52,332,291</u>	<u>7,701,316</u>	<u>(285,576)</u>	<u>(4,029,725)</u>	<u>55,718,306</u>
<i>Capital assets being depreciated:</i>					
Land improvements	28,043,586			247,970	28,291,556
Buildings	28,810,551				28,810,551
Furniture and equipment	9,384,691	501,874	(61,243)	8,025	9,833,347
Vehicles	8,820,605	296,995	(608,569)	822,649	9,331,680
Infrastructure	175,971,328			2,951,081	178,922,409
Total capital assets being depreciated	<u>251,030,761</u>	<u>798,869</u>	<u>(669,812)</u>	<u>4,029,725</u>	<u>255,189,543</u>
<i>Less accumulated depreciation for:</i>					
Land improvements	(8,045,548)	(874,978)			(8,920,526)
Buildings	(8,912,379)	(956,838)			(9,869,217)
Furniture and equipment	(7,737,354)	(337,641)	61,243		(8,013,752)
Vehicles	(7,212,280)	(498,343)	604,695		(7,105,928)
Infrastructure	(45,067,446)	(3,471,850)			(48,539,296)
Total accumulated depreciation	<u>(76,975,007)</u>	<u>(6,139,650)</u>	<u>665,938</u>		<u>(82,448,719)</u>
Net capital assets being depreciated	<u>174,055,754</u>	<u>(5,340,781)</u>	<u>(3,874)</u>	<u>4,029,725</u>	<u>172,740,824</u>
Governmental activity capital assets, net	<u>\$226,388,045</u>	<u>\$2,360,535</u>	<u>(\$289,450)</u>		<u>\$228,459,130</u>

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 6 - CAPITAL ASSETS (Continued)**

Governmental activities depreciation expense for capital assets for the year ended June 30, 2014 was as follows:

<b>Governmental Activities</b>	
General government	\$403,409
Public safety	853,590
Public works	4,059,537
Parks and recreation	479,488
Community development	57,856
Internal service funds	285,770
<b>Total Governmental Activities</b>	<b>\$6,139,650</b>

At June 30, 2014 the City's capital assets for business-type activities consisted of the following:

***Business-type activities***

	Balance at June 30, 2013	Additions	Transfers	Balance at June 30, 2014
Capital assets not being depreciated:				
Land	\$2,859,966		\$852,154	\$3,712,120
Construction in progress	35,264,400	\$23,886,818	(24,941,385)	34,209,833
Total capital assets not being depreciated	38,124,366	23,886,818	(24,089,231)	37,921,953
Capital assets being depreciated:				
Land improvements	6,522,722			6,522,722
Buildings and improvements	5,507,916			5,507,916
Furniture and equipment	21,171,182	194,081	917,460	22,282,723
Vehicles	2,992,846			2,992,846
Infrastructure	266,183,426		23,171,771	289,355,197
	302,378,092	194,081	24,089,231	326,661,404
Less accumulated depreciation for:				
Land improvements	(1,535,172)	(208,425)		(1,743,597)
Buildings and improvements	(2,329,286)	(150,455)		(2,479,741)
Furniture and equipment	(14,796,517)	(899,581)		(15,696,098)
Vehicles	(1,177,511)	(196,332)		(1,373,843)
Infrastructure	(115,005,982)	(4,676,191)		(119,682,173)
	(134,844,468)	(6,130,984)		(140,975,452)
Net capital assets being depreciated	167,533,624	(5,936,903)	24,089,231	185,685,952
Total Business-type activity capital assets, net	\$205,657,990	\$17,949,915		\$223,607,905

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 6 - CAPITAL ASSETS (Continued)**

Business-type activities depreciation expense for capital assets for the year ended June 30, 2014 was as follows:

<b>Business-Type Activities</b>	
Water	\$1,850,275
Sewer	3,914,964
Transportation	<u>365,745</u>
<b>Total Business-Type Activities</b>	<u><u>\$6,130,984</u></u>

**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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 7 - LONG TERM DEBT (Continued)**

**A. Current Year Governmental Activities Transactions and Balances**

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

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2013	Retirements	Balance June 30, 2014	Due Within One Year
<b>Loans Payable:</b>					
California Energy Commission	\$265,454	\$48,729	\$32,168	\$16,561	\$16,561
<b>Capital Leases:</b>					
2000 Regional Sports Complex	1,000,000	185,806	90,239	95,567	95,567
2002 City Hall Addition	1,200,000	405,312	405,312		
Total Capital Leases	2,200,000	591,118	495,551	95,567	95,567
<b>Total Governmental Activity Debt</b>	<b>\$2,465,454</b>	<b>\$639,847</b>	<b>\$527,719</b>	<b>\$112,128</b>	<b>\$112,128</b>

**Loans Payable**

***California Energy Commission***

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

**Capital Leases**

***2000 Regional Sports Complex***

In January 2000 the City entered into a \$1,000,000 lease – lease buy back agreement with Calease Public Funding Corporation to finance the acquisition and development of a Regional Sports Complex. The lease carries an annual interest rate of 5.78% and requires quarterly principal and interest lease payments due on the first of January, April, July and October until April 2015 when the lease terminates. At June 30, 2014, the City's capital leases were related to capitalized assets totaling \$1,300,128.

***2002 City Hall Addition***

In March 2002 the City entered into a \$2,400,000 capital lease agreement with Municipal Services Group, Inc. to finance an addition to the current City Hall which houses the Engineering Department as well as the administrative personnel for the City's water and sewer operations. The lease payments are funded 50% by the Engineering Internal Service Fund (governmental activities) and 25% each by the Water and Sewer Enterprise Funds (business-type activities). The lease carried an annual interest rate of 4.69% and required semi-annual principal and interest lease payments due on the first of March and September until March 2017 when the lease was scheduled to terminate. The lease was fully repaid during the fiscal year ended June 30, 2014.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 7 - LONG TERM DEBT (Continued)**

***Debt Service Requirements***

Annual debt service requirements for governmental debt are shown below:

For the Year Ending June 30	Governmental Activities				Total	
	Loans Payable		Capital Leases		Principal	Interest
	Principal	Interest	Principal	Interest		
2015	\$16,561	\$325	\$95,567	\$3,477	\$112,128	\$3,802

**B. *Current Year Business-type Transactions and Balances***

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

Business-type Activity Debt:	Original Issue	Balance	Additions	Retirements	Balance	Due	Due in
	Amount	June 30, 2013			June 30, 2014	Within	More Than
						One Year	One Year
<b>Revenue Bonds:</b>							
2012 Sewer Revenue	\$51,915,000	\$51,915,000		\$1,865,000	\$50,050,000	\$1,955,000	\$48,095,000
Add: Unamortized bond premium		3,693,667		183,157	3,510,510		3,510,510
2008 Water Revenue	32,365,000	29,300,000		670,000	28,630,000	700,000	27,930,000
Add: Unamortized bond premium		9,412		379	9,033		9,033
<b>Loans Payable:</b>							
State Revolving Fund Loan - Harding Drain By-Pass	14,932,232	9,756,474	\$5,175,758		14,932,232	926,336	14,005,896
State Revolving Fund Loan - TRWQCF Upgrade	23,321,342	11,627,506	11,693,836		23,321,342		23,321,342
Total Revenue Bonds and Loans Payable	122,533,574	106,302,059	16,869,594	2,718,536	120,453,117	3,581,336	116,871,781
<b>Capital Lease:</b>							
2002 City Hall Addition	1,200,000	405,312		405,312			
<b>Total Business-type Activity Debt</b>	<b>\$123,733,574</b>	<b>\$106,707,371</b>	<b>\$16,869,594</b>	<b>\$3,123,848</b>	<b>\$120,453,117</b>	<b>\$3,581,336</b>	<b>\$116,871,781</b>

**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 2013-14 net system revenues of \$8,372,135, annual principal and interest payments (totaling \$3,885,375 in 2013-14) were 215% of net system revenues.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 7 - LONG TERM DEBT (Continued)**

***2008 Water Revenue Bonds***

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

Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged the net water system revenues (defined as total system revenues excluding certain revenues related to deposits, construction/developer revenues, and proceeds from borrowings less maintenance and operating costs) from the Water Enterprise Fund operations for repayment of the bonds. Based on fiscal year 2013-14 net system revenues of \$3,163,321, annual principal and interest payments (totaling \$2,085,068) were 152% of net system revenues.

**Loans Payable**

***State Revolving Fund Loans***

The City entered into two agreements with the California State Water Resources Control Board for State Revolving Fund project financing. 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. Under the terms of the amended loan, the City was to start construction no later than May 21, 2012, and construction is expected to be completed by January 1, 2014, with project completion on March 1, 2014. The notice of completion for the project was issued on April 22, 2014. The loan bears annual interest of 2.2%, and annual principal and interest payments are due January 1, 2015 through January 1, 2034. During fiscal year 2014, the City expended \$5,611,179 on the project and drew down loan proceeds of \$5,175,758.

The second agreement was executed in April 2012 in the amount of \$24 million to fund the Turlock Regional Water Quality Control Facility (TRWQCF) upgrade and expansion project. The agreement was amended in January 2013 to increase the project funding to \$26,187,900. Under the terms of the TRWQCF loan, the City was to start construction no later than July 12, 2012, and construction is expected to be completed by December 1, 2014, with project completion on March 1, 2015. The loan bears annual interest of 2.2%, and annual principal and interest payments are due December 1, 2015 through December 1, 2034. During fiscal year 2014, the City expended \$12,216,961 on the project and drew down loan proceeds of \$11,693,836.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 7 - LONG TERM DEBT (Continued)**

**Capital Leases**

***2002 City Hall Addition***

In March 2002 the City entered into a \$2,400,000 capital lease agreement with Municipal Services Group, Inc. to finance an addition to the current City Hall which houses the Engineering Department as well as the administrative personnel for the City's water and sewer operations. The lease payments are funded 50% by the Engineering Internal Service Fund (governmental activities) and 25% each by the Water and Sewer Enterprise Funds (business-type activities). The lease carried an annual interest rate of 4.69% and required semi-annual principal and interest lease payments due on the first of March and September until March 2017 when the lease was scheduled to terminate. The lease was fully repaid during the fiscal year ended June 30, 2014.

***Debt Service Requirements***

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

For the Year Ending June 30	Business-Type Activities Bonds and Loans Payable	
	Principal	Interest
2015	\$3,581,336	\$4,279,638
2016	4,571,904	4,761,730
2017	5,171,028	4,161,852
2018	5,367,935	3,964,847
2019	5,573,001	3,759,980
2020-2024	31,305,976	15,369,679
2025-2029	25,542,207	9,556,082
2030-2034	27,171,917	4,807,455
2035-2038	8,648,270	953,862
Total	116,933,574	\$51,615,125
Add: Unamortized Bond Premium	3,519,543	
Net long-term debt		\$120,453,117

***C. Debt With No City Commitment***

The City of Turlock has no legal liability with respect to the payment of any indebtedness of the Community Financing District No. 1 Monte Vista Crossings. The City acts solely as an agent for the bondholders in collecting and forwarding the special assessment. Accordingly, no liability for these bonds has been recorded in the City's basic financial statements. The principal amount of outstanding debt of the above District was \$3,040,000 at June 30, 2014.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 8 – NET POSITION AND FUND BALANCES**

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

**A. Net Position**

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

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

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

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

**B. Fund Balances**

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

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

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

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

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 8 – NET POSITION AND FUND BALANCES (Continued)**

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

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

Fund Balance Classifications	Special Revenue			Other Governmental Funds	Total
	General Fund	Former LMI Housing Fund	Gas Tax/ Street Improvement		
<b>Nonspendable:</b>					
Items not in spendable form:					
Prepaid expenditures	\$5,120				\$5,120
Loans receivable	18,106			\$227,779	245,885
Due from developers	20,041				20,041
<b>Total Nonspendable Fund Balances</b>	<b>43,267</b>			<b>227,779</b>	<b>271,046</b>
<b>Restricted for:</b>					
Low and moderate income housing		\$11,917		745,942	757,859
Capital expenditures			\$896,008	8,109,904	9,005,912
Resource conservation				643,643	643,643
Assessment districts				11,308,313	11,308,313
Public safety				312,793	312,793
Development impact fees				79,489	79,489
<b>Total Restricted Fund Balances</b>		<b>11,917</b>	<b>896,008</b>	<b>21,200,084</b>	<b>22,108,009</b>
<b>Committed to:</b>					
Public safety	911,313			85,935	997,248
Parks and recreation				23,399	23,399
Resource conservation				251,594	251,594
Tourism	85,184				85,184
Future deficit spending	1,030,256				1,030,256
Capital expenditures	3,327,141			13,692,111	17,019,252
<b>Total Committed Fund Balances</b>	<b>5,353,894</b>			<b>14,053,039</b>	<b>19,406,933</b>
<b>Assigned to:</b>					
Compensated absences	2,167,045				2,167,045
<b>Total Assigned Fund Balances</b>	<b>2,167,045</b>				<b>2,167,045</b>
<b>Unassigned:</b>					
General Fund	8,683,530				8,683,530
Other governmental fund deficits				(189,592)	(189,592)
<b>Total Unassigned Fund Balances</b>	<b>8,683,530</b>			<b>(189,592)</b>	<b>8,493,938</b>
<b>Total Fund Balances</b>	<b>\$16,247,736</b>	<b>\$11,917</b>	<b>\$896,008</b>	<b>\$35,291,310</b>	<b>\$52,446,971</b>

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 8 – NET POSITION AND FUND BALANCES (Continued)**

**C. *Emergency/Contingency Reserve***

The City established a General Fund Emergency/Contingency Reserve with Resolution 2011-123. As of June 30, 2014, the Emergency/Contingency Reserve, which is reported within the unassigned fund balance of the General Fund, had a balance of \$6,500,000.

**D. *Fund Balance/Net Position Deficits***

The following funds had deficit fund balances or net position as of June 30, 2014. The deficits will be eliminated by future revenues.

**Non-major Governmental Funds:**

Housing Stimulus Funds Special Revenue Fund	\$26,592
East Tuolumne Master Plan Capital Projects Fund	163,000

**Non-major Enterprise Fund:**

Building and Safety	572,627
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**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 9 - RETIREMENT PLAN**

*Plan Description* - The City contributes to the California Public Employees Retirement System (PERS). The miscellaneous employees of the City are part of an agent multiple-employer defined benefit pension plan. The safety employees are part of a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2014, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to</u>	<u>On or after</u>
	<u>January 1, 2013</u>	<u>January 1, 2013</u>
Hire date		
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%	6.25%
Required employer contribution rates	20.939%	20.939%

	<u>Safety - Fire</u>	
	<u>Prior to</u>	<u>On or after</u>
	<u>January 1, 2013</u>	<u>January 1, 2013</u>
Hire date		
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%	11.50%
Required employer contribution rates	30.802%	11.50%

	<u>Safety - Police</u>	
	<u>Prior to</u>	<u>On or after</u>
	<u>January 1, 2013</u>	<u>January 1, 2013</u>
Hire date		
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%	11.50%
Required employer contribution rates	32.148%	11.50%

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 9 - RETIREMENT PLAN (Continued)**

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$5,208,724	100%	-
June 30, 2013	5,414,920	100%	-
June 30, 2014	5,704,967	100%	-

CALPERS uses the market related value method of valuing the Plan's assets. For the most recent actuarial report, as of June 30, 2013, an investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and is amortized annually over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City's Police and Fire Safety Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The estimated balances of the Police Safety Plan Side Fund and the Fire Safety Plan Side Fund were \$3,739,241 and \$1,897,527, respectively, as of June 30, 2014. For the Police Safety Plan, the City will satisfy its Plan's unfunded liability by contributing to the Side Fund through an addition to its normal contribution rates over the next 10 years. For the Fire Safety Plan, the City will satisfy its Plan's unfunded liability by contributing to the Side Fund through an addition to its normal contribution rates over the next 11 years.

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 9 - RETIREMENT PLAN (Continued)**

*Miscellaneous Plan:*

Actuarial						
Valuation Date June 30	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011	\$92,422,591	\$70,352,214	\$22,070,377	76.1%	\$13,048,348	169.1%
2012	98,144,895	74,608,606	23,536,289	76.0%	12,990,688	181.2%
2013	103,740,020	71,036,049	32,703,971	68.5%	12,664,356	258.2%

*State-wide 3% at 50 Pool and Safety Pool:*

Actuarial						
Valuation Date June 30	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011 (A)	\$10,951,745,049	\$9,135,654,246	\$1,816,090,803	83.4%	\$949,833,090	191.2%
2012 (A)	11,724,021,480	9,854,787,710	1,869,233,770	84.1%	947,734,809	197.2%
2013 (B)	16,086,316,273	12,092,373,658	3,993,942,615	75.2%	1,263,625,356	316.1%

(A) Actuarial valuation information is for the 3% @ 50 Cost Sharing Risk Pool.

(B) Effective with the 2013 actuarial valuations, CalPERS combined all Safety Plans into one Safety Risk Pool.

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709. CALPERS usually reports information for each fiscal year seventeen months after the end of that fiscal year.

**NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS**

**A. Defined Benefit Plans**

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

<u>Plan</u>	<u>Covered Employee Group</u>	<u>Employer</u>
	Employees covered by the Management and/or Confidential Employees Schedule of Benefits	
Management/Confidential	Employees covered by Turlock City	2.5% of base salary
Miscellaneous	Employees Association MOU	2% of base salary
	Employees covered by Turlock Associated Police Officers MOU and Turlock Management Association - Public Safety MOU	
Police	Employees covered by Turlock Management Association - Public Safety MOU	3% of salary plus 3% of benefits
Police Management	Safety MOU	3% of base salary
	Employees covered by Turlock Firefighters Local #2434 MOU	
Fire		4% of salary plus 4% of benefits

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

In general, employees are required to retire from the City and be members of their respective covered group for 10-15 years to be eligible to receive a benefit from their respective plan. The benefit can only be used to purchase post-employment health insurance. The retiree has the option to continue on the City's self-insured health plan (and pay the 100% of the premium for continued participation), to become a member of a non-City group plan, or to purchase an individual health insurance policy. The benefit can then be used to provide assistance with paying the monthly premium. In no case does the retiree receive a benefit greater than the monthly health insurance premium. For retirees who choose to remain on the City's health plan, this eligibility terminates when the retiree becomes eligible for Medicare benefits, reaches age 65, is deceased, or chooses to voluntarily leave the plan, whichever comes first. Spousal eligibility requirements vary with each employment plan. The City currently has 33 retirees who have chosen to remain on the City's health plan post employment. The health insurance premium assistance described in this paragraph is referred to as the "offset benefit" below.

*Funding Policy* – Funding varies with each Plan. For Management/Confidential and Miscellaneous plans the City pays the expenses for the plans on a pay-as-you-go basis and the retirees that participate in the plans pay the premiums on a monthly basis.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

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 personnel costs for Police and Fire, respectively. Management believes the City has no obligation to make any additional contributions to the trusts beyond the above amounts, and therefore there is no unfunded actuarial accrued liability the City is obligated to fund.

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

The ARC for the Police and Fire offset plans are based on the contributions required under each MOU and the amounts contributed for the 2013-14 fiscal year.

The ARC amounts reported for the healthcare plans are based on actuarial valuations dated July 1, 2013 using the attained age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4.50% investment rate of return and (b) a healthcare trend of declining annual increases ranging from 8.0% in 2014 to 4.5% for years starting 2019. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll, on a closed basis, using a 30 year amortization period with 24 years remaining.

The following table presents the components of the City's annual OPEB cost, amounts actually contributed for the 2013-14 fiscal year and changes in the City's Net OPEB Obligation for the year. The table is broken out between the offset benefit and the City's health care plan.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

<b>OFFSET PLAN</b>	Police	Fire	Total
Annual required contribution	\$266,198	\$168,557	\$434,755
Interest on net OPEB obligation			
Adjustments			
Annual OPEB cost (expense)	266,198	168,557	434,755
Contributions to irrevocable trust	(266,198)	(168,557)	(434,755)
Increase (decrease) in NOO			
Net OPEB obligation (asset) - beginning			
Net OPEB obligation (asset) - ending			

<b>HEALTH CARE PLAN</b>	Management/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$67,558	\$566,864	\$234,290	\$181,358	\$1,050,070
Interest on net OPEB obligation	(39,632)	60,645	12,795	(15,571)	18,237
Adjustments	58,141	(88,968)	(18,771)	22,843	(26,755)
Annual OPEB cost (expense)	86,067	538,541	228,314	188,630	1,041,552
Benefits payments (net of recoveries)	(156,596)	(284,061)	(203,980)	(205,347)	(849,984)
Retiree contributions	70,546	120,150	114,725	181,033	486,454
Increase (decrease) in NOO	17	374,630	139,059	164,316	678,022
Net OPEB obligation (asset) - beginning	(880,703)	1,347,667	284,341	(346,024)	405,281
Net OPEB obligation (asset) - ending	(\$880,686)	\$1,722,297	\$423,400	(\$181,708)	\$1,083,303

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the last three fiscal years are as follows:

<u>OFFSET PLAN</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Police			
2011-12	\$297,550	100.00%	\$0
2012-13	283,603	100.00%	0
2013-14	266,198	100.00%	0
Fire			
2011-12	\$193,227	100.00%	\$0
2012-13	184,743	100.00%	0
2013-14	168,557	100.00%	0
<u>HEALTH CARE PLAN</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Management/Confidential			
2011-12	\$120,179	266.48%	(\$586,370)
2012-13	124,599	336.22%	(880,703)
2013-14	86,067	99.98%	(880,686)
Miscellaneous			
2011-12	\$580,752	56.93%	\$1,202,616
2012-13	574,597	74.76%	1,347,667
2013-14	538,541	30.44%	1,722,297
Police			
2011-12	\$251,703	64.27%	\$182,238
2012-13	249,824	59.13%	284,341
2013-14	228,314	39.09%	423,400
Fire			
2011-12	\$200,787	194.24%	(\$194,244)
2012-13	204,478	174.22%	(346,024)
2013-14	188,630	12.89%	(181,708)

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**B. Defined Contribution Plans**

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

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

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

There are no vesting requirements to be eligible to use these funds post-employment. The benefit can only be used to purchase post-employment health insurance. The retiree has the option to continue on the City’s self-insured health plan (and pay the 100% of the premium for continued participation), to become a member of a non-City group plan, or to purchase an individual health insurance policy. The benefit can then be used to provide assistance with paying the monthly premium, as discussed in Note 10A above.

Contributions to each plan during fiscal year 2013-14 were as follows:

Plan	Contributions	
	Employer	Employee
Management/Confidential	\$97,441	\$0
Miscellaneous	159,806	39,958

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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, 2014 were \$98,052, and the City's deductible under the policy is \$1 million for police or fire claims and for all other claims, with coverage up to the statutory limit.

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

<u>Type of Coverage (Deductible)</u>	<u>Coverage Limits</u>
Liability (\$100,000)	\$29,000,000
Property (\$2,500 to \$50,000)	Various sublimits to \$50,000,000
Automobile - for vehicles with values more than \$25,000 (\$500)	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 \$610,782 and paid \$159,484 in fiscal year 2013 retrospective adjustments during the fiscal year ended June 30, 2014. 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 following commercial policy coverage for vehicles and equipment up to the value of the vehicles and equipment as provided to the insurance company:

<u>Type of Coverage (Deductible)</u>
Vehicles with values of \$25,000 to \$100,000 (\$10,000)
Vehicles with values of \$100,000 to \$200,000 (\$25,000)
Vehicles with values over \$200,000 (\$50,000)
Equipment with values of less than \$25,000 (\$2,500)
Equipment with values over \$25,000 (\$10,000)

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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
2012	\$2,764,290	\$9,032,802	(\$8,363,988)	\$3,433,104
2013	3,433,104	6,170,520	(5,691,915)	3,911,709
2014	3,911,709	5,946,352	(5,144,868)	4,713,193

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

**A. *Litigation***

As of June 30, 2014, 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. *Construction and Other Commitments***

The City had the following outstanding significant commitments at June 30, 2014:

<b>Projects</b>	<b>Amount</b>
Regional Water Quality Control Facility Improvements	\$1,110,759
Monte Vista Rehabilitation	130,918
Traffic Signal at Monte Vista and Colorado	502,954
PCE Remediation and Groundwater Monitoring	140,372
Other contracts	259,651

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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, 2014**

**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. During 2013/14 the Successor Agency funded \$879,261 for project costs deemed enforceable obligations.

Cash and investments of the Successor Agency as of June 30, 2014 are discussed in Note 3. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2014.

**B. CAPITAL ASSETS**

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

Capital assets at June 30, 2014 were comprised of:

	Balance at June 30, 2013	Additions	Balance at June 30, 2014
Capital assets not being depreciated:			
Land	\$1,882,435		\$1,882,435
Total capital assets not being depreciated	<u>1,882,435</u>		<u>1,882,435</u>
Capital assets being depreciated:			
Land improvements	8,647,404		8,647,404
Furniture and equipment	40,361		40,361
Infrastructure	62,624		62,624
Total capital assets being depreciated	<u>8,750,389</u>		<u>8,750,389</u>
Less accumulated depreciation for:			
Land improvements	(1,597,723)	(\$144,174)	(1,741,897)
Furniture and equipment	(40,361)		(40,361)
Infrastructure	(28,018)	(2,087)	(30,105)
Total accumulated depreciation	<u>(1,666,102)</u>	<u>(146,261)</u>	<u>(1,812,363)</u>
Net capital assets being depreciated	<u>7,084,287</u>	<u>(146,261)</u>	<u>6,938,026</u>
Governmental activity capital assets, net	<u>\$8,966,722</u>	<u>(\$146,261)</u>	<u>\$8,820,461</u>

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**C. LONG-TERM OBLIGATIONS**

**1. Current Year Transactions and Balances**

The following bonds are obligations of the Authority payable from and secured by loan payments made by the former Turlock Redevelopment Agency. The bonds are secured by the tax increment revenues of the former RDA and have been transferred to the Successor Agency for the former Turlock Redevelopment Agency. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County’s Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. In addition, under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved enforceable obligations. The outstanding balances as of June 30, 2014 are as follows:

	Original Issue Amount	Balance June 30, 2013	Retirements	Balance June 30, 2014	Due Within One Year	Due in More Than One Year
<b>Revenue Bonds:</b>						
1999 Revenue Bonds	\$4,970,000	\$2,915,000	\$180,000	\$2,735,000	\$185,000	\$2,550,000
2006 Tax Allocation Revenue Bonds	25,440,000	23,255,000	430,000	22,825,000	450,000	22,375,000
Add: Unamortized bond premium		357,994	15,453	342,541		342,541
2011 Tax Allocation Revenue Bonds	15,300,000	15,010,000		15,010,000	260,000	14,750,000
Less: Unamortized bond discount		(93,794)	(3,528)	(90,266)		(90,266)
<b>Loan Payable:</b>						
Economic Development Bank	889,305	889,305	127,044	762,261	127,044	635,217
Total Successor Agency Debt	<u>\$46,599,305</u>	<u>\$42,333,505</u>	<u>\$748,969</u>	<u>\$41,584,536</u>	<u>\$1,022,044</u>	<u>\$40,562,492</u>

**2. 1999 Revenue Bonds**

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

**3. 2006 Tax Revenue Allocation Bonds**

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**4.      *2011 Tax Revenue Allocation Bonds***

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

**5.      *Economic Development Bank Loan***

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

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

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

The deferred charge on refunding was previously reported as a component of the long-term debt balance. Governmental Accounting Standards Board (GASB) Statement No. 65 requires that the balance of the deferred charge on refunding be reported as an asset or liability, as applicable. Another provision of GASB Statement No. 65 requires that bond issuance costs, other than prepaid insurance, be expensed in the year incurred.

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**7. Debt Service Requirements**

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

For the Year Ending June 30	Successor Agency								
	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		2011 Tax Allocation Revenue Bonds		Economic Development Bank Loan Payable	Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2015	\$185,000	\$143,441	\$450,000	\$1,087,141	\$260,000	\$1,063,619	\$127,044	\$1,022,044	\$2,294,201
2016	195,000	133,466	470,000	1,066,441	270,000	1,051,681	127,044	1,062,044	2,251,588
2017	210,000	122,624	490,000	1,046,066	280,000	1,038,269	127,044	1,107,044	2,206,959
2018	220,000	110,907	510,000	1,026,066	295,000	1,023,340	127,044	1,152,044	2,160,313
2019	230,000	98,645	530,000	1,005,266	310,000	1,006,500	127,044	1,197,044	2,110,411
2020-2024	1,375,000	282,720	2,995,000	4,664,571	1,740,000	4,712,795	127,041	6,237,041	9,660,086
2025-2029	320,000	8,720	5,200,000	3,752,050	1,380,000	4,169,086		6,900,000	7,929,856
2030-2034			7,045,000	2,198,625	1,785,000	3,611,800		8,830,000	5,810,425
2035-2039			5,135,000	393,375	7,840,000	2,317,500		12,975,000	2,710,875
2040					850,000	31,875		850,000	31,875
Total	<u>\$2,735,000</u>	<u>\$900,523</u>	<u>\$22,825,000</u>	<u>\$16,239,601</u>	<u>\$15,010,000</u>	<u>\$20,026,465</u>	<u>\$762,261</u>	41,332,261	<u>\$37,166,589</u>
Add: Unamortized Bond Premium								342,541	
Less: Unamortized Bond (Discount)								(90,266)	
Net long-term debt								<u>\$41,584,536</u>	

**D. COMMITMENTS AND CONTINGENCIES**

**1. State Approval of Enforceable Obligations**

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

**CITY OF TURLOCK**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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

**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.

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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.

**NON-MAJOR GOVERNMENTAL FUNDS (Continued)**

**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.

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CITY OF TURLOCK  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014

	SPECIAL REVENUE FUNDS			
	Asset Forfeitures	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
<b>ASSETS</b>				
Cash and investments	\$15,985	\$895,903	\$72,304	\$48,757
Accounts receivables		18,510	\$152	3,135
Interest receivable		402		
Due from developers				
Loans receivable				
Total Assets	\$15,985	\$914,815	\$72,456	\$51,892
<b>LIABILITIES</b>				
Accounts payable	\$2,500	\$18,970	\$6	\$14,454
Payroll payable		608		9,039
Due to other funds				
Unearned revenue				5,000
Total Liabilities	2,500	19,578	6	28,493
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue				
<b>FUND BALANCE</b>				
Fund balance:				
Nonspendable				
Restricted		643,643		
Committed	13,485	251,594	72,450	23,399
Unassigned				
Total Fund Balances (Deficit)	13,485	895,237	72,450	23,399
Total Liabilities and Fund Balances	\$15,985	\$914,815	\$72,456	\$51,892

SPECIAL REVENUE FUNDS

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$5,650	\$3,954,064 1,704	\$3,138,993 29,150	\$912,745 385	\$626,366 278	\$11,262,368 28,609 4,878	\$55,088
<u>\$5,650</u>	<u>\$3,955,768</u>	<u>\$3,168,143</u>	<u>\$913,130</u>	<u>\$626,644</u>	<u>\$11,295,855</u>	<u>\$55,088</u>
\$2,475	\$8,411	\$63,295			\$25,657 16,973	
<u>2,475</u>	<u>8,411</u>	<u>63,295</u>			<u>42,630</u>	
3,175	3,947,357	3,104,848	\$913,130	\$626,644	11,253,225	\$55,088
<u>3,175</u>	<u>3,947,357</u>	<u>3,104,848</u>	<u>913,130</u>	<u>626,644</u>	<u>11,253,225</u>	<u>55,088</u>
<u>\$5,650</u>	<u>\$3,955,768</u>	<u>\$3,168,143</u>	<u>\$913,130</u>	<u>\$626,644</u>	<u>\$11,295,855</u>	<u>\$55,088</u>

(Continued)

CITY OF TURLOCK  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus County Housing Consortium
<b>ASSETS</b>					
Cash and investments	\$75,521		\$635,143		
Accounts receivables	3,968	\$125,266	94,880	\$583	\$534,960
Interest receivable					
Due from developers					
Loans receivable		6,152,705	3,948,717	174,581	5,423,761
Total Assets	\$79,489	\$6,277,971	\$4,678,740	\$175,164	\$5,958,721
<b>LIABILITIES</b>					
Accounts payable		\$17,406		\$18,185	\$41,125
Payroll payable		5,160			1,927
Due to other funds		100,113		8,990	478,576
Unearned revenue					
Total Liabilities		122,679		27,175	521,628
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue		6,152,705	\$3,948,717	174,581	5,423,761
<b>FUND BALANCE</b>					
Fund balance:					
Nonspendable					
Restricted	\$79,489	2,587	730,023		13,332
Committed					
Unassigned				(26,592)	
Total Fund Balances (Deficit)	79,489	2,587	730,023	(26,592)	13,332
Total Liabilities and Fund Balances	\$79,489	\$6,277,971	\$4,678,740	\$175,164	\$5,958,721

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
\$289,175	\$431,746	\$152,457	\$246,285	\$2,313,180	\$1,509,020	\$369,614
117,944	193	68		1,027	635	
<u>\$407,119</u>	<u>\$431,939</u>	<u>\$152,525</u>	<u>\$246,285</u>	<u>\$2,314,207</u>	<u>\$1,509,655</u>	<u>\$369,614</u>
\$55,272	\$676					
42,229						
<u>97,501</u>	<u>676</u>					
309,618	431,263	\$152,525	\$246,285	\$2,314,207	\$1,509,655	\$369,614
<u>309,618</u>	<u>431,263</u>	<u>152,525</u>	<u>246,285</u>	<u>2,314,207</u>	<u>1,509,655</u>	<u>369,614</u>
<u>\$407,119</u>	<u>\$431,939</u>	<u>\$152,525</u>	<u>\$246,285</u>	<u>\$2,314,207</u>	<u>\$1,509,655</u>	<u>\$369,614</u>

(Continued)

CITY OF TURLOCK  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014

CAPITAL PROJECTS FUNDS				
	East Tuolumne Master Plan	Airport	Facility Fees	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and investments		\$76,583	\$8,568,335	\$35,655,282
Accounts receivables				957,157
Interest receivable			3,717	13,287
Due from developers			227,779	227,779
Loans receivable				15,699,764
Total Assets	163,000	\$76,583	\$8,799,831	\$52,553,269
<b>LIABILITIES</b>				
Accounts payable			\$462,148	\$730,580
Payroll payable				33,707
Due to other funds	\$163,000			792,908
Unearned revenue				5,000
Total Liabilities	163,000		462,148	1,562,195
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue				15,699,764
<b>Fund Balance</b>				
Fund balance:				
Nonspendable			227,779	227,779
Restricted			8,109,904	21,200,084
Committed		\$76,583		14,053,039
Unassigned	(163,000)			(189,592)
Total Fund Balances (Deficit)	(163,000)	76,583	8,337,683	35,291,310
Total Liabilities and Fund Balances	(163,000)	\$76,583	\$8,799,831	\$52,553,269

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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, 2014

	<u>SPECIAL REVENUE FUNDS</u>			
	<u>Asset Forfeitures</u>	<u>Integrated Waste Mgmt (AB939)</u>	<u>Bicycle Safety</u>	<u>Sports Facilities</u>
<b>REVENUES</b>				
Taxes and assessments				
Licenses and permits			\$10,810	
Use of money and property		\$1,813		
Intergovernmental	\$11,719	18,510		
Charges for current services		75,401		\$273,608
Other		548		2,131
	<u>11,719</u>	<u>96,272</u>	<u>10,810</u>	<u>275,739</u>
<b>EXPENDITURES</b>				
Current:				
General government		96,114		
Public safety	5,284		320	
Public ways and facilities/transportation				
Parks and recreation				564,768
Community development				
Capital outlay				
Debt service:				
Principal				
Interest and fiscal charges				
	<u>5,284</u>	<u>96,114</u>	<u>320</u>	<u>564,768</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>6,435</u>	<u>158</u>	<u>10,490</u>	<u>(289,029)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in				280,923
Transfers (out)	(10,000)			(10,578)
	<u>(10,000)</u>			<u>270,345</u>
<b>NET CHANGE IN FUND BALANCES</b>	(3,565)	158	10,490	(18,684)
<b>BEGINNING FUND BALANCES (DEFICITS)</b>	<u>17,050</u>	<u>895,079</u>	<u>61,960</u>	<u>42,083</u>
<b>ENDING FUND BALANCES (DEFICITS)</b>	<u>\$13,485</u>	<u>\$895,237</u>	<u>\$72,450</u>	<u>\$23,399</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
		\$103,359			\$2,552,777	
	\$11,083		\$1,619	\$1,249	29,980	
\$18,800 126	104,732	328,340 5,889	328,459		4,260 647	
18,926	115,815	437,588	330,078	1,249	2,587,664	
		95,750 43,082 9,189 2,180 199,318		119		1,905,871
29,815	194,476					
	259,683					
	90,239 8,807					
29,815	553,205	349,519	119		1,905,871	
(10,889)	(437,390)	88,069	329,959	1,249	681,793	
	201,868 (12,526)	436,600 (428,534)	(30,000)		(75,205)	
	189,342	8,066	(30,000)		(75,205)	
(10,889)	(248,048)	96,135	299,959	1,249	606,588	
14,064	4,195,405	3,008,713	613,171	625,395	10,646,637	\$55,088
\$3,175	\$3,947,357	\$3,104,848	\$913,130	\$626,644	\$11,253,225	\$55,088

(Continued)

CITY OF TURLOCK  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus Housing Consortium
REVENUES					
Taxes and assessments	\$486,462				
Licenses and permits					
Use of money and property	1,823				
Intergovernmental		\$615,693	\$94,880		\$991,462
Charges for current services					
Other		239,249	34,559	\$197,756	137,315
Total Revenues	<u>488,285</u>	<u>854,942</u>	<u>129,439</u>	<u>197,756</u>	<u>1,128,777</u>
EXPENDITURES					
Current:					
General government	14,843				
Public safety					
Public ways and facilities/transportation					
Parks and recreation					
Community development		666,228	94,880	206,239	1,143,737
Capital outlay					
Debt service:					
Principal					
Interest and fiscal charges					
Total Expenditures	<u>14,843</u>	<u>666,228</u>	<u>94,880</u>	<u>206,239</u>	<u>1,143,737</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>473,442</u>	<u>188,714</u>	<u>34,559</u>	<u>(8,483)</u>	<u>(14,960)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in					28,175
Transfers (out)	(473,435)	(210,339)		(3,547)	(2,333)
Total Other Financing Sources (Uses)	<u>(473,435)</u>	<u>(210,339)</u>		<u>(3,547)</u>	<u>25,842</u>
NET CHANGE IN FUND BALANCES	7	(21,625)	34,559	(12,030)	10,882
BEGINNING FUND BALANCES (DEFICITS)	<u>79,482</u>	<u>24,212</u>	<u>695,464</u>	<u>(14,562)</u>	<u>2,450</u>
ENDING FUND BALANCES (DEFICITS)	<u><u>\$79,489</u></u>	<u><u>\$2,587</u></u>	<u><u>\$730,023</u></u>	<u><u>(\$26,592)</u></u>	<u><u>\$13,332</u></u>

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
\$75	\$3,437					
919,040	904	\$294		\$6,585	\$2,235	
9,855	6,901				1,580,526	\$12,513
74,326						
<u>1,003,296</u>	<u>11,242</u>	<u>294</u>		<u>6,585</u>	<u>1,582,761</u>	<u>12,513</u>
271,373						
506,024	117,007	2,777	\$4,177	359	884,488	
80,098	8,616		270			
<u>857,495</u>	<u>125,623</u>	<u>2,777</u>	<u>4,447</u>	<u>359</u>	<u>884,488</u>	
145,801	(114,381)	(2,483)	(4,447)	6,226	698,273	12,513
12,526	35,115			(35,000)	(60,000)	(35,000)
<u>12,526</u>	<u>35,115</u>			<u>(35,000)</u>	<u>(60,000)</u>	<u>(35,000)</u>
158,327	(79,266)	(2,483)	(4,447)	(28,774)	638,273	(22,487)
<u>151,291</u>	<u>510,529</u>	<u>155,008</u>	<u>250,732</u>	<u>2,342,981</u>	<u>871,382</u>	<u>392,101</u>
<u>\$309,618</u>	<u>\$431,263</u>	<u>\$152,525</u>	<u>\$246,285</u>	<u>\$2,314,207</u>	<u>\$1,509,655</u>	<u>\$369,614</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, 2014

	CAPITAL PROJECTS FUNDS			
	East Tuolumne Master Plan	Airport	Facility Fees	Total Nonmajor Funds
REVENUES				
Taxes and assessments				\$3,142,598
Licenses and permits				14,247
Use of money and property			\$24,989	82,649
Intergovernmental		\$10,000		2,661,304
Charges for current services			1,714,962	4,458,357
Other			1,249	693,795
Total Revenues		10,000	1,741,200	11,052,950
Current:				
General government			14,488	221,195
Public safety			237	350,111
Public ways and facilities/transportation		4,263	7,028	3,129,754
Parks and recreation				1,072,972
Community development				2,310,672
Capital outlay			3,992,467	4,340,864
Debt service:				
Principal				90,239
Interest and fiscal charges				8,807
Total Expenditures		4,263	4,014,220	11,524,614
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		5,737	(2,273,020)	(471,664)
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust			659,262	659,262
Transfers in				995,207
Transfers (out)	(\$5,000)	(15,000)	(104,095)	(1,510,592)
Total Other Financing Sources (Uses)	(5,000)	(15,000)	555,167	143,877
NET CHANGE IN FUND BALANCES	(5,000)	(9,263)	(1,717,853)	(327,787)
BEGINNING FUND BALANCES (DEFICITS)	(158,000)	85,846	10,055,536	35,619,097
ENDING FUND BALANCES (DEFICITS)	(\$163,000)	\$76,583	\$8,337,683	\$35,291,310

(Concluded)

## NONMAJOR ENTERPRISE FUNDS

### **Transportation**

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

### **Building & Safety**

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

CITY OF TURLOCK  
 COMBINING NONMAJOR ENTERPRISE FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2014

	Transportation	Building & Safety	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current assets			
Cash and investments	\$3,281,077		\$3,281,077
Accounts receivable	406,076		406,076
Interest receivable	1,553		1,553
Total current assets	3,688,706		3,688,706
Non-current assets			
Capital assets not being depreciated	3,754,731		3,754,731
Capital assets being depreciated	5,314,996		5,314,996
Total non-current assets	9,069,727		9,069,727
Total Assets	12,758,433		12,758,433
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	65,921	\$37,229	103,150
Payroll payable	2,020	15,600	17,620
Due to other funds		358,972	358,972
Compensated absences	3,393	9,812	13,205
Unearned revenue	3,583,833		3,583,833
Total current liabilities	3,655,167	421,613	4,076,780
Long-term liabilities			
Compensated absences	13,571	39,248	52,819
OPEB liability	19,968	111,766	131,734
Total long-term liabilities	33,539	151,014	184,553
Total Liabilities	3,688,706	572,627	4,261,333
<b>NET POSITION</b>			
Net investment in capital assets	9,069,727		9,069,727
Unrestricted	(572,627)	(572,627)	(572,627)
Total Net Position	\$9,069,727	(\$572,627)	\$8,497,100

CITY OF TURLOCK  
NONMAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Transportation</u>	<u>Building &amp; Safety</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$150,150	\$967,285	\$1,117,435
Other income	9,521	3,133	12,654
<b>Total Operating Revenues</b>	<u>159,671</u>	<u>970,418</u>	<u>1,130,089</u>
<b>OPERATING EXPENSES</b>			
Salaries, benefits and insurance	113,283	828,946	942,229
Contractual	802,296	247,134	1,049,430
Supplies and maintenance	23,156	3,724	26,880
Utilities	15,273	11,185	26,458
Fleet expense	196,681	6,534	203,215
Depreciation and amortization	365,745		365,745
Other expenses	9,604	17,180	26,784
<b>Total Operating Expenses</b>	<u>1,526,038</u>	<u>1,114,703</u>	<u>2,640,741</u>
<b>Operating Income (Loss)</b>	<u>(1,366,367)</u>	<u>(144,285)</u>	<u>(1,510,652)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grants	992,993		992,993
Interest income	6,915		6,915
<b>Net Nonoperating Revenues (Expenses)</b>	<u>999,908</u>		<u>999,908</u>
<b>Income (Loss) Before Capital Grants and Transfers</b>	<u>(366,459)</u>	<u>(144,285)</u>	<u>(510,744)</u>
Capital grants	381,298		381,298
Transfers in		319,813	319,813
Transfers out	(6,000)	(26,529)	(32,529)
<b>Net Capital Grants and Transfers</b>	<u>375,298</u>	<u>293,284</u>	<u>668,582</u>
<b>Change in net position</b>	8,839	148,999	157,838
<b>BEGINNING NET POSITION (DEFICIT)</b>	<u>9,060,888</u>	<u>(721,626)</u>	<u>8,339,262</u>
<b>ENDING NET POSITION (DEFICIT)</b>	<u>\$9,069,727</u>	<u>(\$572,627)</u>	<u>\$8,497,100</u>

CITY OF TURLOCK  
 COMBINING NONMAJOR ENTERPRISE FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2014

	Transportation	Building & Safety	Total Nonmajor Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$174,330	\$969,769	\$1,144,099
Payments to suppliers	(1,052,611)	(320,283)	(1,372,894)
Payments to employees	(110,005)	(796,149)	(906,154)
Other	9,521	3,133	12,654
	<u>(978,765)</u>	<u>(143,530)</u>	<u>(1,122,295)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental receipts - operations	543,544		543,544
Interfund receipts (payments)		(163,384)	(163,384)
Transfers in		319,813	319,813
Transfers out	(6,000)	(26,529)	(32,529)
	<u>537,544</u>	<u>129,900</u>	<u>667,444</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Intergovernmental receipts - capital program	1,418,658		1,418,658
Acquisition of capital assets, net	(374,584)		(374,584)
	<u>1,044,074</u>		<u>1,044,074</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	6,576		6,576
	<u>6,576</u>		<u>6,576</u>
	<u>6,576</u>		<u>6,576</u>
Net Cash Flows	609,429	(13,630)	595,799
Cash and investments at beginning of period	<u>2,671,648</u>	<u>13,630</u>	<u>2,685,278</u>
Cash and investments at end of period	<u>\$3,281,077</u>	<u>\$3,281,077</u>	<u>\$3,281,077</u>
<b>Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:</b>			
Operating income (loss)	(\$1,366,367)	(\$144,285)	(\$1,510,652)
<b>Adjustments to reconcile operating income (loss) to cash flows from operating activities:</b>			
Depreciation	365,745		365,745
<b>Change in assets and liabilities:</b>			
Accounts receivables	24,180	2,484	26,664
Accounts payable and other accrued expenses	(5,601)	(23,028)	(28,629)
Payroll payable	(4)	21	17
Claims Liability	(500)	(11,498)	(11,998)
OPEB liability	3,782	32,776	36,558
	<u>(978,765)</u>	<u>(143,530)</u>	<u>(1,122,295)</u>
Cash Flows from Operating Activities	<u>(978,765)</u>	<u>(143,530)</u>	<u>(1,122,295)</u>

## INTERNAL SERVICE FUNDS

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

The concept of major funds introduced by GASB 34 does not apply to Internal Service Funds because, in general, they do not do business with outside parties. GASB 34 requires that for the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the City department(s) which benefit(s) from the services the internal service fund provides. The balance sheet items are consolidated with the Governmental Funds in the Statement of Net 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, 2014

	<u>Equipment Pool</u>	<u>Self Insurance</u>	<u>Information Technology</u>	<u>Engineering</u>	<u>Total</u>
ASSETS					
Current Assets:					
Cash and investments	\$2,547,643	\$6,806,072	\$142,746		\$9,496,461
Accounts receivable	13,398	45,649			59,047
Interest receivable	224	2,854			3,078
Total Current Assets	<u>2,561,265</u>	<u>6,854,575</u>	<u>142,746</u>		<u>9,558,586</u>
Noncurrent Assets:					
OPEB asset	182,001			\$300,177	482,178
Capital assets (net of accumulated depreciation)	<u>756,315</u>			<u>1,095,721</u>	<u>1,852,036</u>
Total Non-Current Assets	<u>938,316</u>			<u>1,395,898</u>	<u>2,334,214</u>
Total Assets	<u>3,499,581</u>	<u>6,854,575</u>	<u>142,746</u>	<u>1,395,898</u>	<u>11,892,800</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	23,826	880,225	6,186	3,945	914,182
Payroll payable	8,741		13,671	36,383	58,795
Due to other funds				660,150	660,150
Compensated absences	8,042		15,418	41,644	65,104
Deposits payable				500	500
Total Current Liabilities	<u>40,609</u>	<u>880,225</u>	<u>35,275</u>	<u>742,622</u>	<u>1,698,731</u>
Long-term Liabilities:					
Estimated claims liability		4,713,193			4,713,193
Compensated absences	32,168		61,673	166,577	260,418
OPEB liability			32,883		32,883
Total Long-Term Liabilities	<u>32,168</u>	<u>4,713,193</u>	<u>94,556</u>	<u>166,577</u>	<u>5,006,494</u>
Total Liabilities	<u>72,777</u>	<u>5,593,418</u>	<u>129,831</u>	<u>909,199</u>	<u>6,705,225</u>
NET POSITION					
Net investment in capital assets	756,315			1,095,721	1,852,036
Unrestricted	<u>2,670,489</u>	<u>1,261,157</u>	<u>12,915</u>	<u>(609,022)</u>	<u>3,335,539</u>
Total Net Position	<u>\$3,426,804</u>	<u>\$1,261,157</u>	<u>\$12,915</u>	<u>\$486,699</u>	<u>\$5,187,575</u>

CITY OF TURLOCK  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
<b>OPERATING REVENUES</b>					
Charges for services	\$708,227	\$7,556,926	\$620,900	\$1,590,034	\$10,476,087
Refunds & other income	103,889	950,133	9,905	122,168	1,186,095
<b>Total Operating Revenues</b>	<b>812,116</b>	<b>8,507,059</b>	<b>630,805</b>	<b>1,712,202</b>	<b>11,662,182</b>
<b>OPERATING EXPENSES</b>					
Salaries, benefits and insurance	409,417	9,512,475	623,697	1,683,065	12,228,654
Contractual	23,684	29,242	64,272	369,355	486,553
Supplies and maintenance	25,743		1,488	27,045	54,276
Utilities	28,008		20,684	24,908	73,600
Fleet expense	93,060		389	16,714	110,163
Depreciation and amortization	221,600			64,170	285,770
Other expenses	6,248	1,457	6,636	11,133	25,474
<b>Total Operating Expenses</b>	<b>807,760</b>	<b>9,543,174</b>	<b>717,166</b>	<b>2,196,390</b>	<b>13,264,490</b>
<b>Total Operating Income (Loss)</b>	<b>4,356</b>	<b>(1,036,115)</b>	<b>(86,361)</b>	<b>(484,188)</b>	<b>(1,602,308)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	945	17,119			18,064
Gain (loss) on disposal of capital assets	15,950			16	15,966
Interest (expense)				(13,920)	(13,920)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>16,895</b>	<b>17,119</b>		<b>(13,904)</b>	<b>20,110</b>
<b>Income (Loss) Before Transfers</b>	<b>21,251</b>	<b>(1,018,996)</b>	<b>(86,361)</b>	<b>(498,092)</b>	<b>(1,582,198)</b>
Transfers in	201,150			613,534	814,684
Transfers (out)	(149,653)		(9,791)	(62,818)	(222,262)
<b>Change in Net Position</b>	<b>72,748</b>	<b>(1,018,996)</b>	<b>(96,152)</b>	<b>52,624</b>	<b>(989,776)</b>
<b>BEGINNING NET POSITION</b>	<b>3,354,056</b>	<b>2,280,153</b>	<b>109,067</b>	<b>434,075</b>	<b>6,177,351</b>
<b>ENDING NET POSITION</b>	<b>\$3,426,804</b>	<b>\$1,261,157</b>	<b>\$12,915</b>	<b>\$486,699</b>	<b>\$5,187,575</b>

CITY OF TURLOCK  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$734,734	\$7,952,118	\$620,900	\$1,591,807	\$10,899,559
Payments to suppliers	(154,824)	468,501	(99,754)	(469,922)	(255,999)
Payments to employees	(398,804)	(9,512,475)	(596,560)	(1,725,827)	(12,233,666)
Other	103,889	950,133	9,905	122,168	1,186,095
Cash Flows from (used by) Operating Activities	<u>284,995</u>	<u>(141,723)</u>	<u>(65,509)</u>	<u>(481,774)</u>	<u>(404,011)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Interfund receipts				339,940	339,940
Operating transfers in	201,150			613,534	814,684
Operating transfers (out)	<u>(149,653)</u>		<u>(9,791)</u>	<u>(62,818)</u>	<u>(222,262)</u>
Cash Flows from Noncapital Financing Activities	<u>51,497</u>		<u>(9,791)</u>	<u>890,656</u>	<u>932,362</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition of capital assets	(208,149)				(208,149)
Proceeds from sale of capital assets	16,850			16	16,866
Payments on capital leases				(405,312)	(405,312)
Interest paid on capital lease obligations				<u>(20,222)</u>	<u>(20,222)</u>
Cash Flows from (used by) Capital and Related Financing Activities	<u>(191,299)</u>			<u>(425,518)</u>	<u>(616,817)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earnings	919	18,294			19,213
Cash Flows from Investing Activities	<u>919</u>	<u>18,294</u>			<u>19,213</u>
Net Cash Flows	146,112	(123,429)	(75,300)	(16,636)	(69,253)
Cash and investments at beginning of period	<u>2,401,531</u>	<u>6,929,501</u>	<u>218,046</u>	<u>16,636</u>	<u>9,565,714</u>
Cash and investments at end of period	<u>\$2,547,643</u>	<u>\$6,806,072</u>	<u>\$142,746</u>		<u>\$9,496,461</u>
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>					
Operating income (loss)	\$4,356	(\$1,036,115)	(\$86,361)	(\$484,188)	(\$1,602,308)
<b>Adjustments to reconcile operating income to net cash flows from operating activities:</b>					
Depreciation	221,600			64,170	285,770
<b>Change in assets and liabilities:</b>					
Accounts receivable	26,507	395,192		1,773	423,472
OPEB asset	12,851			(57,728)	(44,877)
Accounts payable	21,919	(302,284)	(6,285)	(18,816)	(305,466)
Payroll payable	(82)		(34)	1,406	1,290
Deposits payable				(1,951)	(1,951)
Compensated absences	(2,156)		5,408	13,560	16,812
Claims liability		801,484			801,484
OPEB liability			21,763		21,763
Cash Flows from (used by) Operating Activities	<u>\$284,995</u>	<u>(\$141,723)</u>	<u>(\$65,509)</u>	<u>(\$481,774)</u>	<u>(\$404,011)</u>
<b>NONCASH TRANSACTIONS</b>					
Retirement of capital assets	<u>(\$900)</u>				<u>(\$900)</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.

CITY OF TURLOCK  
 AGENCY FUNDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED JUNE 30, 2014

<u>Northwest Triangle - Mello Roos Assessments</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>
<b>Assets</b>				
Cash and investments	\$696,387	\$437,448	\$419,004	\$714,831
Cash and investments with fiscal agents	418,493		11,874	406,619
Accounts and interest receivable	7,559	1,474	7,559	1,474
<b>Total Assets</b>	<u>\$1,122,439</u>	<u>\$438,922</u>	<u>\$438,437</u>	<u>\$1,122,924</u>
<b>Liabilities</b>				
Due to others	\$1,122,439	\$438,922	\$438,437	\$1,122,924
<b>Total Liabilities</b>	<u>\$1,122,439</u>	<u>\$438,922</u>	<u>\$438,437</u>	<u>\$1,122,924</u>
<b><u>Property &amp; Business Improvement District #2</u></b>				
<b>Assets</b>				
Cash and investments	\$83	\$151,152	\$151,235	
Accounts and interest receivable	3,296		3,296	
<b>Total Assets</b>	<u>\$3,379</u>	<u>\$151,152</u>	<u>\$154,531</u>	
<b>Liabilities</b>				
Due to others	\$3,379	\$151,152	\$154,531	
<b>Total Liabilities</b>	<u>\$3,379</u>	<u>\$151,152</u>	<u>\$154,531</u>	
<b><u>Total - All Agency Funds</u></b>				
<b>Assets</b>				
Cash and investments	\$696,470	\$588,600	\$570,239	\$714,831
Cash and investments with fiscal agents	418,493		11,874	406,619
Accounts and interest receivable	10,855	1,474	10,855	1,474
<b>Total Assets</b>	<u>\$1,125,818</u>	<u>\$590,074</u>	<u>\$592,968</u>	<u>\$1,122,924</u>
<b>Liabilities</b>				
Due to stakeholders	\$1,125,818	\$590,074	\$592,968	\$1,122,924
<b>Total Liabilities</b>	<u>\$1,125,818</u>	<u>\$590,074</u>	<u>\$592,968</u>	<u>\$1,122,924</u>



**TURLOCK PUBLIC FINANCING AUTHORITY  
COMPONENT UNIT FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**TURLOCK PUBLIC FINANCING AUTHORITY**  
**BASIC FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Turlock Public Financing Authority (Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic component unit financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Authority as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

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

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, 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.

*Maye & Associates*

Pleasant Hill, California  
March 23, 2015

**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, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments with fiscal agent (Note 2)	\$3,569,714	\$2,041,965	\$5,611,679
Interest receivable	767,377	799,215	1,566,592
Leases receivable (Note 3)	<u>37,252,561</u>	<u>80,157,578</u>	<u>117,410,139</u>
Total Assets	<u>41,589,652</u>	<u>82,998,758</u>	<u>124,588,410</u>
<b>LIABILITIES</b>			
Interest payable	767,377	799,215	1,566,592
Long-term debt (Note 4):			
Due within one year	895,000	2,655,000	3,550,000
Due in more than one year	<u>39,927,275</u>	<u>79,544,543</u>	<u>119,471,818</u>
Total Liabilities	<u>41,589,652</u>	<u>82,998,758</u>	<u>124,588,410</u>
<b>NET POSITION (Note 5):</b>			
Restricted for:			
Capital projects	<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  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Governmental Activities	Business-type Activities	Total
Governmental Activities:					
Interest and fiscal charges	\$2,307,636	\$2,299,339	(\$8,297)		(\$8,297)
Total Governmental Activities	2,307,636	2,299,339	(8,297)		(8,297)
Business-type Activities:					
Sewer	1,826,372	1,826,372			
Water	1,354,163	1,464,809		110,646	110,646
Total Business-type Activities	3,180,535	3,291,181		110,646	110,646
Total	\$5,488,171	\$5,590,520	(8,297)	110,646	102,349
General revenues:					
Interest income			8,297	(110,646)	(102,349)
Transfers to Turlock Successor Agency (Note 4D)			(92)		(92)
Total general revenues and transfers			8,205	(110,646)	(102,441)
Change in Net Position			(92)		(92)
Net Position-Beginning			92		92
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, 2014

	1999 Revenue Bonds	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	Total
<b>ASSETS</b>				
Cash and investments with fiscal agent (Note 2)	\$381,605	\$1,858,797	\$1,329,312	\$3,569,714
Leases receivable (Note 3)	<u>2,353,395</u>	<u>21,308,744</u>	<u>13,590,422</u>	<u>37,252,561</u>
Total Assets	<u><u>\$2,735,000</u></u>	<u><u>\$23,167,541</u></u>	<u><u>\$14,919,734</u></u>	<u><u>\$40,822,275</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue (Notes 3 and 1C)	<u>\$2,353,395</u>	<u>\$21,308,744</u>	<u>\$13,590,422</u>	<u>\$37,252,561</u>
<b>FUND BALANCES</b>				
Fund balance (Note 5):				
Restricted:				
Debt service	<u>381,605</u>	<u>1,858,797</u>	<u>1,329,312</u>	<u>3,569,714</u>
Total Fund Balances	<u>381,605</u>	<u>1,858,797</u>	<u>1,329,312</u>	<u>3,569,714</u>
Total Deferred Inflows of Resources and Fund Balances	<u><u>\$2,735,000</u></u>	<u><u>\$23,167,541</u></u>	<u><u>\$14,919,734</u></u>	<u><u>\$40,822,275</u></u>

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, 2014

	1999 <u>Revenue Bonds</u>	2006 <u>Tax Allocation Revenue Bonds</u>	2011 <u>Tax Allocation Revenue Bonds</u>	<u>Total</u>
REVENUES				
Lease revenue	\$322,628	\$1,527,066	\$1,068,649	\$2,918,343
Use of money and property	<u>17,240</u>	<u>162</u>	<u>442</u>	<u>17,844</u>
Total Revenues	<u>339,868</u>	<u>1,527,228</u>	<u>1,069,091</u>	<u>2,936,187</u>
EXPENDITURES				
Debt service:				
Principal	180,000	430,000		610,000
Interest and fiscal charges	<u>153,023</u>	<u>1,106,941</u>	<u>1,069,144</u>	<u>2,329,108</u>
Total Expenditures	<u>333,023</u>	<u>1,536,941</u>	<u>1,069,144</u>	<u>2,939,108</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>6,845</u>	<u>(9,713)</u>	<u>(53)</u>	<u>(2,921)</u>
OTHER FINANCING SOURCES (USES)				
Transfers to Turlock Successor Agency (Note 4D)		<u>(77)</u>	<u>(15)</u>	<u>(92)</u>
NET CHANGE IN FUND BALANCES	6,845	(9,790)	(68)	(3,013)
BEGINNING FUND BALANCES	<u>374,760</u>	<u>1,868,587</u>	<u>1,329,380</u>	<u>3,572,727</u>
ENDING FUND BALANCES	<u>\$381,605</u>	<u>\$1,858,797</u>	<u>\$1,329,312</u>	<u>\$3,569,714</u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY  
Reconciliation of the  
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS  
with the  
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

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 (\$3,013)

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

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal is added back to fund balance	610,000
Amortization of bond premium/discount is added back to fund balance	11,925

ACCRUAL OF NON-CURRENT ITEMS

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

Interest receivable	(9,547)
Unavailable revenue	(619,004)
Interest payable	9,547
	9,547

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	(\$92)
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See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2014

	<u>2012</u> Sewer Bonds	<u>2008</u> Water Bonds	<u>Total</u>
<b>ASSETS</b>			
Cash and investments with fiscal agent (Note 2)	\$1	\$2,041,964	\$2,041,965
Interest receivable	582,023	217,192	799,215
Leases receivable (Note 3)	<u>53,560,509</u>	<u>26,597,069</u>	<u>80,157,578</u>
Total Assets	<u>54,142,533</u>	<u>28,856,225</u>	<u>82,998,758</u>
<b>LIABILITIES</b>			
Current liabilities:			
Interest payable	582,023	217,192	799,215
Bonds payable (Note 4)	<u>1,955,000</u>	<u>700,000</u>	<u>2,655,000</u>
Total current liabilities	<u>2,537,023</u>	<u>917,192</u>	<u>3,454,215</u>
Long-term liabilities :			
Bonds payable (Note 4)	<u>51,605,510</u>	<u>27,939,033</u>	<u>79,544,543</u>
Total Liabilities	<u>54,142,533</u>	<u>28,856,225</u>	<u>82,998,758</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, 2014

	2012	2008	
	<u>Sewer Bonds</u>	<u>Water Bonds</u>	<u>Total</u>
OPERATING REVENUES			
Lease revenue	<u>\$1,826,372</u>	<u>\$1,464,809</u>	<u>\$3,291,181</u>
Total Operating Revenues	<u>1,826,372</u>	<u>1,464,809</u>	<u>3,291,181</u>
Operating Income (Loss)	<u>1,826,372</u>	<u>1,464,809</u>	<u>3,291,181</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income		(110,646)	(110,646)
Interest (expense)	<u>(1,826,372)</u>	<u>(1,354,163)</u>	<u>(3,180,535)</u>
Net Nonoperating Revenues (Expenses)	<u>(1,826,372)</u>	<u>(1,464,809)</u>	<u>(3,291,181)</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, 2014

	2012 <u>Sewer Bonds</u>	2008 <u>Water Bonds</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	<u>\$3,885,376</u>	<u>\$2,033,279</u>	<u>\$5,918,655</u>
Cash Flows from Operating Activities	<u>3,885,376</u>	<u>2,033,279</u>	<u>5,918,655</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Long-term debt payment - principal	(1,865,000)	(670,000)	(2,535,000)
Long-term debt payment - interest	<u>(2,020,375)</u>	<u>(1,358,912)</u>	<u>(3,379,287)</u>
Cash Flows from Noncapital and Related Financing Activities	<u>(3,885,375)</u>	<u>(2,028,912)</u>	<u>(5,914,287)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest		<u>(110,646)</u>	<u>(110,646)</u>
Cash Flows from Investing Activities		<u>(110,646)</u>	<u>(110,646)</u>
Net Cash Flows	1	(106,279)	(106,278)
Cash and investments at beginning of period		<u>2,148,243</u>	<u>2,148,243</u>
Cash and investments at end of period	<u>\$1</u>	<u>\$2,041,964</u>	<u>\$2,041,965</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:			
Operating income	\$1,826,372	\$1,464,809	\$3,291,181
Change in assets and liabilities:			
Interest receivable	10,846	4,370	15,216
Leases receivable	<u>2,048,158</u>	<u>564,100</u>	<u>2,612,258</u>
Cash Flows from Operating Activities	<u>\$3,885,376</u>	<u>\$2,033,279</u>	<u>\$5,918,655</u>

See accompanying notes to basic financial statements

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *Organization and Purpose***

The Turlock Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The Turlock Public Financing Authority was created on December 15, 1998, pursuant to Article 1, Chapter 5, of Division 7 of Title 1 of the Government Code of the State of California as a Joint Powers Authority between the City and the former Turlock Redevelopment Agency.

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

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

**B. *Basis of Presentation***

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

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

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

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

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Governmental Fund Financial Statements - Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Authority-Wide financial statements.

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

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally ninety days after the fiscal year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the Authority are leases and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred also generally ninety days after the fiscal year end.

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

Proprietary Fund Financial Statements - Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position.

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

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. *Deferred Outflows/Inflows of Resources***

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

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

**D. *Estimates and Assumptions***

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

**NOTE 2 - INVESTMENTS HELD BY FISCAL AGENT**

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

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

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

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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	N/A	No maximum
Bankers' Acceptances	30 days	A-1	No maximum
Commercial Paper	270 days	A-1+	No maximum
State Local Agency Investment Fund	N/A	N/A	LAIF limits
Repurchase Agreements	270 days	A	No maximum
Guaranteed Investment Contracts	N/A	AA	No maximum
Money Market Funds	N/A	Aam or Aam-G	No maximum
Corporate Notes	N/A	Two highest rating categories	No maximum

**B. Interest Rate Risk**

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

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

Investment Type	12 Months or less	More than 36 Months	Total
<b>Held by Fiscal Agent:</b>			
Money Market Mutual Funds (U.S. Securities)	\$5,278,656		\$5,278,656
Investment Agreement		\$333,023	333,023
	<u>\$5,278,656</u>	<u>\$333,023</u>	<u>\$5,611,679</u>

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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, 2014 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, 2014, have an average maturity of 40 to 46 days.

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

Issuer	Investment Type	Amount
NationsBank	Investment Agreement	\$333,023

**NOTE 3 – LEASES RECEIVABLE FROM THE CITY OF TURLOCK**

The Authority has recorded leases receivable in the amount of \$117,410,139 pursuant to the lease agreements between the Authority and the City and Successor Agency in relation to the bonded indebtedness. The leases receivable along with investments held by fiscal agents secure the repayment of the different debt issues. The lease revenue is equal to the Authority's debt service requirements and is used for that purpose.

In the Fund Financial Statements a corresponding amount is recorded as unavailable revenue since the assets are not current financial resources. In the Authority-wide Financial Statements the assets are offset by long-term debt with any remaining amounts being reflected in net position.

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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, 2014:

	Original Issue Amount	Balance June 30, 2013	Retirements	Balance June 30, 2014	Current Portion	Due in More Than One Year
<b>Governmental Activity Debt:</b>						
1999 Revenue Bonds	\$4,970,000	\$2,915,000	(\$180,000)	\$2,735,000	\$185,000	\$2,550,000
2006 Tax Allocation Revenue Bonds	25,440,000	23,255,000	(430,000)	22,825,000	450,000	22,375,000
Add: Unamortized bond premium		357,994	(15,453)	342,541		342,541
2011 Tax Allocation Revenue Bonds	15,300,000	15,010,000		15,010,000	260,000	14,750,000
Less: Unamortized bond discount		(93,794)	3,528	(90,266)		(90,266)
<b>Total Governmental Activities</b>	<b>45,710,000</b>	<b>41,444,200</b>	<b>(621,925)</b>	<b>40,822,275</b>	<b>895,000</b>	<b>39,927,275</b>
<b>Business-type Activities Debt:</b>						
<b>Revenue Bonds:</b>						
2012 Sewer	51,915,000	51,915,000	(1,865,000)	50,050,000	1,955,000	48,095,000
Add: Unamortized bond premium		3,693,667	(183,157)	3,510,510		3,510,510
2008 Water	32,365,000	29,300,000	(670,000)	28,630,000	700,000	27,930,000
Less: Unamortized bond premium		9,412	(379)	9,033		9,033
<b>Total Business Type Activities</b>	<b>84,280,000</b>	<b>84,918,079</b>	<b>(2,718,536)</b>	<b>82,199,543</b>	<b>2,655,000</b>	<b>79,544,543</b>
<b>Total Long-Term Debt</b>	<b>\$129,990,000</b>	<b>\$126,362,279</b>	<b>(\$3,340,461)</b>	<b>\$123,021,818</b>	<b>\$3,550,000</b>	<b>\$119,471,818</b>

**B. 1999 Revenue Bonds**

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

For the Year Ending June 30	Principal	Interest	Total
2015	\$185,000	\$143,441	\$328,441
2016	195,000	133,466	328,466
2017	210,000	122,624	332,624
2018	220,000	110,907	330,907
2019	230,000	98,645	328,645
2020-2024	1,375,000	282,720	1,657,720
2025	320,000	8,720	328,720
<b>Total</b>	<b>\$2,735,000</b>	<b>\$900,523</b>	<b>\$3,635,523</b>

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 4 – LONG TERM DEBT (Continued)**

**C. 2006 Tax Allocation Revenue Bonds**

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

For the Year Ending June 30	Principal	Interest	Total
2015	\$450,000	\$1,087,141	\$1,537,141
2016	470,000	1,066,441	1,536,441
2017	490,000	1,046,066	1,536,066
2018	510,000	1,026,066	1,536,066
2019	530,000	1,005,266	1,535,266
2020-2024	2,995,000	4,664,571	7,659,571
2025-2029	5,200,000	3,752,050	8,952,050
2030-2034	7,045,000	2,198,625	9,243,625
2035-2037	5,135,000	393,375	5,528,375
Total	<u>\$22,825,000</u>	<u>\$16,239,601</u>	<u>\$39,064,601</u>

**D. 2011 Tax Allocation Revenue Bonds**

In February 2011, the Authority authorized the issuance of \$15,300,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the former Agency to be used to provide financing assistance for the construction of a new public safety facility in the City’s downtown area. The Authority transferred proceeds of \$92 to the Successor Agency to the Redevelopment Agency during fiscal year 2014. As with the bond issuances noted above, the Agency’s tax increment revenue is pledged for repayment of these bonds. The bonds, which carry coupon interest rates ranging from 2.5% - 7.55%, have semi-annual principal and interest payments on the first of March and September through September 2039. The annual debt service requirements are as follows:

For the Year Ending June 30	Principal	Interest	Total
2015	\$260,000	\$1,063,619	\$1,323,619
2016	270,000	1,051,681	1,321,681
2017	280,000	1,038,269	1,318,269
2018	295,000	1,023,340	1,318,340
2019	310,000	1,006,500	1,316,500
2020-2024	1,740,000	4,712,795	6,452,795
2025-2029	1,380,000	4,169,086	5,549,086
2030-2034	1,785,000	3,611,800	5,396,800
2035-2039	7,840,000	2,317,500	10,157,500
2040	850,000	31,875	881,875
Total	<u>\$15,010,000</u>	<u>\$20,026,465</u>	<u>\$35,036,465</u>

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 4 – LONG TERM DEBT (Continued)**

***E. 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
2015	\$1,955,000	\$1,972,400	\$3,927,400
2016	2,010,000	1,912,925	3,922,925
2017	2,080,000	1,841,175	3,921,175
2018	2,165,000	1,756,275	3,921,275
2019	2,255,000	1,667,875	3,922,875
2020-2024	12,760,000	6,865,075	19,625,075
2025-2029	13,690,000	3,855,514	17,545,514
2030-2034	13,135,000	1,293,500	14,428,500
Total	<u>\$50,050,000</u>	<u>\$21,164,739</u>	<u>\$71,214,739</u>

***F. 2008 Water Revenue Bonds***

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

For the Year Ending June 30	Principal	Interest	Total
2015	\$700,000	\$1,332,112	\$2,032,112
2016	725,000	1,304,113	2,029,113
2017	755,000	1,275,112	2,030,112
2018	785,000	1,244,913	2,029,913
2019	815,000	1,213,512	2,028,512
2020-2024	4,635,000	5,507,612	10,142,612
2025-2029	5,765,000	4,387,114	10,152,114
2030-2034	7,250,000	2,900,212	10,150,212
2035-2038	7,200,000	922,000	8,122,000
Total	<u>\$28,630,000</u>	<u>\$20,086,700</u>	<u>\$48,716,700</u>

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 4 – LONG TERM DEBT (Continued)**

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

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

The deferred charge on refunding was previously reported as a component of the long-term debt balance. With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, the balance of deferred charge on refunding is to be reported as an asset or liability, as applicable. Another provision of GASB Statement No. 65 requires that bond issuance costs, other than prepaid insurance, be expensed in the year incurred.

**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:

**TURLOCK PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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. As of June 30, 2014 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, 2014 the Authority did not have any committed fund balances.

*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, 2014 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, 2014 the Authority did not have any unassigned fund balances.



**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2014 AND 2013**

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**CITY OF TURLOCK  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2014 and 2013**

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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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the TDA Funds' basic financial statements as listed in the Table of Contents.

### *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, 2014 and 2013, 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.

### ***Other Matters***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, 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.

A handwritten signature in black ink that reads "Mary & Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California  
March 23, 2015

**CITY OF TURLOCK  
TRANSPORTATION DEVELOPMENT ACT PROGRAM  
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND  
BALANCE SHEET  
JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and investments (Note 2)	\$387,386	\$58,516
Accounts receivable	319,134	307,078
Total Assets	\$706,520	\$365,594
 <b>LIABILITIES</b>		
Accounts and salaries payable	\$123,122	\$66,914
Unearned revenue (Note 4)	583,398	298,680
Total Liabilities	706,520	365,594
 <b>FUND BALANCES (Note 5)</b>		
Unassigned	_____	_____
Total Liabilities and Fund Balance	\$706,520	\$365,594

See accompanying notes to financial statements

**CITY OF TURLOCK  
TRANSPORTATION DEVELOPMENT ACT PROGRAM  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>REVENUES:</b>		
Intergovernmental revenues	\$611,851	\$894,841
Charges for services	26,232	28,998
Interest income and other revenues	235	417
	<b>638,318</b>	<b>924,256</b>
<b>EXPENDITURES:</b>		
Public ways and facilities / transportation	607,539	509,754
Capital outlay	53,685	65,164
	<b>661,224</b>	<b>574,918</b>
Excess of Revenues over Expenditures	<b>(22,906)</b>	<b>349,338</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers in from Transportation Enterprise Fund	3,000	3,000
Transfers in from other City funds	53,685	
Transfers out to other City funds	(33,779)	(189,675)
	<b>22,906</b>	<b>(186,675)</b>
Net Change in Fund Balance		162,663
Fund Balance (Deficit), Beginning of Year		(162,663)
Fund Balance, End of Year		

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, 2014**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
<b>REVENUES:</b>				
Intergovernmental revenues	\$630,000	\$630,000	\$611,851	(\$18,149)
Charges for services			26,232	26,232
Interest income and other revenues	750	750	235	(515)
	<u>630,750</u>	<u>630,750</u>	<u>638,318</u>	<u>7,568</u>
<b>EXPENDITURES:</b>				
Public ways and facilities / transportation	626,050	771,544	607,539	164,005
Capital outlay	80,000	80,000	53,685	26,315
	<u>706,050</u>	<u>851,544</u>	<u>661,224</u>	<u>190,320</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(75,300)</u>	<u>(220,794)</u>	<u>(22,906)</u>	<u>197,888</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in from Transportation Enterprise Fund	3,000	3,000	3,000	
Transfers in from other City funds		53,700	53,685	(15)
Transfers out to other City funds	(34,100)	(34,100)	(33,779)	321
	<u>(31,100)</u>	<u>22,600</u>	<u>22,906</u>	<u>306</u>
Net Change in Fund Balance	<u>(\$106,400)</u>	<u>(\$198,194)</u>		<u>\$198,194</u>
Fund Balance, Beginning of Year			<u>                    </u>	
Fund Balance, End of Year			<u>                    </u>	

See accompanying notes to financial statements

CITY OF TURLOCK  
TRANSPORTATION ENTERPRISE FUND  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$3,281,077	\$2,671,648
Accounts receivable, grants	406,076	972,005
Interest receivable	<u>1,553</u>	<u>1,214</u>
Total current assets	<u>3,688,706</u>	<u>3,644,867</u>
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	3,754,731	3,380,147
Depreciable, net	<u>5,314,996</u>	<u>5,680,741</u>
Total noncurrent assets	<u>9,069,727</u>	<u>9,060,888</u>
Total Assets	<u>12,758,433</u>	<u>12,705,755</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accruals	65,921	71,522
Salaries payable	2,020	2,024
Unearned revenue (Note 4)	3,583,833	3,537,671
Compensated absences - due in one year	<u>3,393</u>	<u>3,493</u>
Total current liabilities	<u>3,655,167</u>	<u>3,614,710</u>
Long-term liabilities		
Compensated absences	13,571	13,971
Net OPEB obligation	<u>19,968</u>	<u>16,186</u>
Total long-term liabilities	<u>33,539</u>	<u>30,157</u>
Total Liabilities	<u>3,688,706</u>	<u>3,644,867</u>
<b>NET POSITION (Note 5)</b>		
Net investment in capital assets	<u>9,069,727</u>	<u>9,060,888</u>
Total Net Position	<u>\$9,069,727</u>	<u>\$9,060,888</u>

See accompanying notes to basic financial statements

CITY OF TURLOCK  
TRANSPORTATION ENTERPRISE FUND  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>OPERATING REVENUES</b>		
Charges for services	\$150,150	\$151,293
Other income	9,521	61,337
	<u>159,671</u>	<u>212,630</u>
<b>OPERATING EXPENSES</b>		
Salaries, benefits and insurance	113,283	129,205
Contractual	802,296	764,593
Supplies and maintenance	23,156	30,696
Utilities	15,273	15,729
Fleet expense	196,681	181,425
Depreciation	365,745	297,096
Other expenses	9,604	16,375
	<u>1,526,038</u>	<u>1,435,119</u>
Total operating expenses	<u>1,526,038</u>	<u>1,435,119</u>
Operating loss	<u>(1,366,367)</u>	<u>(1,222,489)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Operating grants	992,993	923,904
Investment income	6,915	7,044
	<u>999,908</u>	<u>930,948</u>
Total nonoperating revenues (expenses)	<u>999,908</u>	<u>930,948</u>
<b>LOSS BEFORE CAPITAL GRANTS AND TRANSFERS</b>	<b>(366,459)</b>	<b>(291,541)</b>
Capital grants	381,298	1,753,270
Transfers out to the Streets Special Revenue Fund	(3,000)	(3,000)
Transfers out to other City funds	(3,000)	(3,000)
	<u>8,839</u>	<u>1,455,729</u>
Change in net position	<u>8,839</u>	<u>1,455,729</u>
<b>BEGINNING NET POSITION</b>	<b><u>9,060,888</u></b>	<b><u>7,605,159</u></b>
<b>ENDING NET POSITION</b>	<b><u><u>\$9,069,727</u></u></b>	<b><u><u>\$9,060,888</u></u></b>

See accompanying notes to financial statements

CITY OF TURLOCK  
TRANSPORTATION ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$183,851	\$212,630
Payments to suppliers	(1,052,611)	(1,168,770)
Payments to employees	(110,005)	(135,502)
	(978,765)	(1,091,642)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(6,000)	(6,000)
Intergovernmental receipts - operations	543,543	499,686
	537,543	493,686
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental receipts - capital program	1,418,659	1,406,165
Purchases of capital assets	(374,584)	(1,752,825)
	1,044,075	(346,660)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	6,576	8,554
	6,576	8,554
Net Cash Flows	609,429	(936,062)
CASH AND CASH EQUIVALENTS		
Cash and investments at beginning of period	2,671,648	3,607,710
Cash and investments at end of period	\$3,281,077	\$2,671,648
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	(\$1,366,367)	(\$1,222,489)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	365,745	297,096
Change in assets and liabilities:		
Accounts receivable for operations	24,180	
Accounts payable	(5,601)	(159,952)
Salaries payable	(4)	(1,427)
Compensated absences	(500)	(3,561)
Net OPEB obligation	3,782	(1,309)
Cash Flows from Operating Activities	(\$978,765)	(\$1,091,642)

See accompanying notes to financial statements

**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2014 and 2013**

**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, 2014 and 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. *Basis of Accounting and Measurement Focus***

*Streets Special Revenue Fund*

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

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

*Transportation Enterprise Fund*

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

The Transportation Enterprise Fund is accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Change in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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

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

**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2014 and 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***D. Deferred Inflows and Deferred Outflows of Resources***

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

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

***E. Use of Estimates***

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

**NOTE 2 – CASH AND INVESTMENTS**

The TDA Funds participate in the City's cash and investment pool. The City pools surplus cash from all sources and all funds, except cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity. Investment income is allocated among funds on the basis of the average month-end cash and investment balances in these funds. As of June 30, 2014 and June 30, 2013, the TDA Funds had cash and investment balances of \$3,668,463 and \$2,730,164, respectively.

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

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

**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**BASIC FINANCIAL STATEMENTS**  
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**NOTE 2 – CASH AND INVESTMENTS (Continued)**

The City's investment policy authorizes the following investments:

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

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

**NOTE 3 – CAPITAL ASSETS**

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

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

**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2014 and 2013**

**NOTE 3 – CAPITAL ASSETS (Continued)**

City policy has set the capitalization thresholds for reporting capital assets at the following:

General Capital Assets	\$5,000
Infrastructure Capital Assets	\$5,000

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

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

Transportation Enterprise Fund

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

	Balance at <u>June 30, 2013</u>	<u>Additions</u>	Balance at <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$1,823,738		\$1,823,738
Construction in progress	1,556,409	\$374,584	1,930,993
Total capital assets not being depreciated	<u>3,380,147</u>	<u>374,584</u>	<u>3,754,731</u>
Capital assets being depreciated:			
Land improvements	2,070,214		2,070,214
Buildings	1,904,615		1,904,615
Furniture and equipment	446,687		446,687
Vehicles	2,772,017		2,772,017
Total capital assets being depreciated	<u>7,193,533</u>		<u>7,193,533</u>
Less accumulated depreciation for:			
Land improvements	(3,249)	(69,008)	(72,257)
Buildings	(304,113)	(63,487)	(367,600)
Furniture and equipment	(182,506)	(48,450)	(230,956)
Vehicles	(1,022,924)	(184,800)	(1,207,724)
Total accumulated depreciation	<u>(1,512,792)</u>	<u>(365,745)</u>	<u>(1,878,537)</u>
Net capital assets being depreciated	<u>5,680,741</u>	<u>(365,745)</u>	<u>5,314,996</u>
Capital assets, net	<u>\$9,060,888</u>	<u>\$8,839</u>	<u>\$9,069,727</u>

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

The TDA Funds received grants from the State of California Department of Transportation for projects financed with Public Transportation Modernization, Improvement, and Service Enhancement Account (Proposition 1B), and had received Local Transportation Fund and State Transit Assistance funds in advance of costs being incurred. As of June 30, 2014 and 2013, unearned revenue related to those programs is as follows:

	2014	2013
<i>Streets Special Revenue Fund:</i>		
State Transit Assistance and Local Transportation Fund	\$583,398	\$298,680
<i>Transportation Enterprise Fund:</i>		
Proposition 1B	\$1,899,784	\$1,353,065
State Transit Assistance and Local Transportation Fund	1,684,049	2,184,606
Total Transit Enterprise Fund	\$3,583,833	\$3,537,671

**NOTE 5 – NET POSITION AND FUND BALANCES**

**A. Net Position**

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

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

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

**B. Fund Balances**

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

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

**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
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**For the Years Ended June 30, 2014 and 2013**

**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.

**NOTE 6 – TRANSPORTATION DEVELOPMENT ACT**

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

**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2014 and 2013**

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

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

Since fiscal year 2007-08, the City has received funding for the following projects: (1) the construction of a Compressed Natural Gas (CNG) fueling station; (2) the purchase of a new CNG bus for the City’s fixed route transit system; (3) the purchase of bus LED designation signs and brochure holders; (4) the acquisition of property for the development of a transit transfer hub, (5) the transit transfer center phase II, (6) a CNG slow fill compressor, (7) an electronic farebox system and (8) a paratransit bus purchase.

In fiscal years 2008 through 2014, the Program received a total of \$4,579,716 from Proposition 1B funds and expended \$2,709,692, including the expenditure of interest on the unspent funds. For fiscal year 2014, the Program received Proposition 1B funds totaling \$900,000 and expended \$355,777, including the expenditure of interest on unspent funds. Unspent grant receipts have been reported as unearned revenue in the accompanying financial statements and the schedule below delineates the funds received and the expenditure of these funds along with the interest earned on the unexpended funds.

Project Name	Grant Amount	Interest	Expended through June 30, 2014	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	1,312	(22,104)	275,148	\$786,793
CNG Slow Fill Compressor	350,000	382	(338,249)		12,133
Electronic Farebox System	200,000	333			200,333
Dispatch Office	130,000	183		(130,183)	
Operations and Bus Storage	377,740	322		(378,062)	
Paratransit Bus Purchase	900,000	525			900,525
Total	<u>\$4,579,716</u>	<u>\$29,760</u>	<u>(\$2,709,692)</u>		<u>\$1,899,784</u>

**CITY OF TURLOCK**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**BASIC FINANCIAL STATEMENTS**  
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**NOTE 8 - RISK MANAGEMENT**

The funds are exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets, and natural disaster. The TDA Funds participate in the Central San Joaquin Valley Risk Management Authority (CSJVRMA), as a part of the City. The purpose of CSJVRMA is to spread the adverse effect of losses among the members and to purchase excess insurance as a group, thereby reducing its expense. The funds, through cost allocation from the City, contribute their pro rata share of anticipated losses to pools administered by CSJVRMA. More information regarding the City's risk management program can be found in the basic financial statements of the City of Turlock.

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

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

**NOTE 10 - MAJOR CONTRACTOR**

On October 25, 2011, the City renewed its contract agreement with First Transit Inc. to operate and maintain the DART and BLAST programs. The term is from December 1, 2011, to November 30, 2014, with an option to extend for an additional three years. First Transit Inc. is paid monthly based on a fixed fee plus a fee calculated at a fixed rate per vehicle multiplied by the number of service hours. Expenses incurred under this contract amounted to \$546,420 for the fiscal year ended June 30, 2014.

**NOTE 11 - CONTINGENT LIABILITIES**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Transportation Development Act Funds (TDA Funds) of the City of Turlock (City), California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2015.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the TDA Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our procedures included the applicable audit procedures contained in §6666 and §6667 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Stanislaus Council of Governments. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated March 23, 2015, which is an integral part of our audit and should be read in conjunction with this report.

### ***Purpose of this Report***

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

*Mane & Associates*

Pleasant Hill, California  
March 23, 2015

**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, 2014.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the TDA Funds based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Act and the allocation instructions and resolutions of the StanCOG. Those standards, the Act, and the allocation instructions and resolutions of the StanCOG require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the TDA Funds occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on TDA Funds***

In our opinion, the TDA Funds complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the TDA Funds for the year ended June 30, 2014.

## ***Report on Internal Control Over Compliance***

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the TDA Funds' internal control over compliance with the types of requirements that could have a direct and material effect on the TDA Funds to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the TDA Funds and to test and report on internal control over compliance in accordance with the Act and the allocation instructions and resolutions of the StanCOG, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the TDA Funds' internal control over compliance.

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

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

We have also issued a separate Memorandum on Internal Control dated March 23, 2015, which is an integral part of our audit and should be read in conjunction with this report.

### ***Purpose of this Report***

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



Pleasant Hill, California  
March 23, 2015

**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, 2014.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the PTMISEA. Those standards and the PTMISEA require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Projects occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on the PTMISEA Projects***

In our opinion, the Projects complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Projects for the year ended June 30, 2014.

## ***Report on Internal Control Over Compliance***

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Projects' internal control over compliance with the types of requirements that could have a direct and material effect on the Projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Projects and to test and report on internal control over compliance in accordance with the PTMISEA, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Projects' internal control over compliance.

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

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

We have also issued a separate Memorandum on Internal Control dated March 23, 2015, which is an integral part of our audit and should be read in conjunction with this report.

### ***Purpose of this Report***

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



Pleasant Hill, California  
March 23, 2015



**CITY OF TURLOCK**

**SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2014**

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**CITY OF TURLOCK**  
**SINGLE AUDIT REPORT**  
**For The Year End June 30, 2014**

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**CITY OF TURLOCK**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2014**

**SECTION I—SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

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

Internal control over major programs:

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

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

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Department of Housing and Urban Development — Community Development Block Grants
66.458	Environmental Protection Agency — Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$334,549

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 March 23, 2015 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 section 510(a) of OMB Circular A-133.

**Finding: SA2014-001**

**Reporting Review Process**

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

**Criteria:** Sections 2.9 of the Headworks Treatment Plant and Harding Drain Bypass Project Loan Agreements require the City to file quarterly project status reports. The quarterly reports should be reviewed for accuracy and approved by a second person prior to submission to the State Water Resources Control Board.

**Condition:** We selected two quarterly progress reports for each project for testing to ensure they were filed timely and agree with the supporting documentation and noted that the financial information included in the fourth quarter 2013 progress report for the Headworks Treatment Plant project (11-836-550) did not agree to the supporting documentation. The total accepted pay requests in the amount of \$15,498,785 included on the report, while the referenced progress payment number 13 was \$15,673,713, a difference of \$174,928.

**Cause:** City Staff indicated there was an input error on the progress report.

**Effect:** Progress reports submitted to the State Water Resources Control Board do not appear to be reviewed for accuracy and approved by a person other than the preparer.

**Recommendation:** Although the quarterly progress reports are not used for grant funding purposes, they do provide the grantor with the status of the project and should be accurate. The City should develop procedures that include the review and approval of the reports to ensure that they are complete and accurate.

**View of Responsible Officials and Planned Corrective Actions:**

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

**Corrective action:** The referenced report is prepared with the assistance of the City's consulting engineering firm and reviewed by a City Staff Engineer. City Staff will be more diligent in their review of documents prepared by consultants to ensure any errors are caught and corrected before the report is sent to the State.

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

**Finding:** SA2014-002

**Subrecipient Monitoring and Audit Finding Compliance**

**CFDA Number:** 14.228  
**CFDA Title:** Community Development Block Grant Program  
**Name of Federal Agency:** Department of Housing and Urban Development

**Criteria:** 24 CFR 570.501 (b) states "the recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated agencies, subrecipients, or contractors does not relieve the recipient of this responsibility." In addition, regulations at 24 CFR 85.40(a) provide that grantees are responsible for managing the day-to-day operations of subrecipient activities. Grantees must monitor these activities to ensure compliance with applicable Federal requirements and achievement of program goals.

Implicit in these regulations is the requirement for recipients to establish the necessary controls to ensure performance, including adequate policies and procedures for monitoring of subrecipients.

**Condition:** We selected three subrecipient files for testing of the City's monitoring of its subrecipients and noted the City had performed a site visit for only one. Monitoring of the other two did not extend beyond a review of the drawdown requests. In addition, we noted that the City received a Monitoring Visitation Letter on September 25, 2014 from the grantor noting findings for the lack of monitoring subrecipients and the failure to establish written administrative procedures that ensure sufficient oversight of subrecipient performance. In the City's response to the findings they stated that a sub-recipient monitoring plan would go before City Council by January 27, 2015. However, per conversation with City Housing staff, a plan will not be ready until June 30, 2015.

**Effect:** The City is not in compliance with the subrecipient monitoring requirements of 24 CFR 570.501 (b) and 24 CFR 85.40 (a) and has not established written administrative procedures for subrecipient monitoring as required by the grantor.

**Cause:** The City was not aware of the requirements of 24 CFR 570.501 (b) and 24 CFR 85.40 (a).

**Recommendation:** The City should develop written policies and procedures for monitoring subrecipients, and should implement monitoring of subrecipients as soon as possible.

**View of Responsible Officials and Planned Corrective Actions:**

**Name of contact person:** Maria Ramos, Community Housing Program Supervisor, (209) 668-5599, ext. 2236

**Corrective action:** The monitoring policies and procedures are expected to be completed prior to the June 2015. City staff anticipates that this item will go to the City Council for approval by the first meeting in May 2015.

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

Prepared by Management

### Financial Statement Prior Year Findings

There were financial statement findings in the prior year, the current status of which we have communicated in a separate Memorandum on Internal Control dated March 23, 2015, which is an integral part of our audits and should be read in conjunction with this report.

### Federal Award Prior Year Findings and Questioned Costs

#### **Finding: SA2013-01**

#### **Timely Report Submission**

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

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

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

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

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

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

#### **View of Responsible Officials and Planned Corrective Actions:**

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

**Current status:** Implemented - The engineer in charge of these projects now calendars the due dates for the reports, allowing him sufficient time to prepare and submit the report to meet the reporting requirements.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued) –**  
Prepared by Management

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

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

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

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

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

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

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

**View of Responsible Officials and Planned Corrective Actions:**

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

**Current status:**                      The 2013-14 report was prepared on a timely basis, but it has not been uploaded to HUD because the HUD site which accepts the report is currently disabled due to technical issues. The report is available in the City's Housing Program Services office for review awaiting uploading to HUD.

**CITY OF TURLOCK**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<b>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal or Pass-Through Identifying Number</b>	<b>Federal Expenditures</b>
Department of Housing and Urban Development <b>Direct</b> Programs:			
Community Development Block Grant (CDBG) Program		B-11-MC-06-0039 B-12-MC-06-0039	
Program expenditures	14.228		\$539,860
Subgrants	14.228		75,833
Program income	14.228		<u>260,873</u>
Program Subtotal			<u>876,566</u>
HOME Investment Partnerships Program		M-11-DC-06-0240 M-12-DC-06-0240	
Program expenditures	14.239		450,984
Subgrants	14.239		540,479
Program income	14.239		<u>126,432</u>
Program Subtotal			<u>1,117,895</u>
Department of Housing and Urban Development <b>Pass-Through</b> from:			
California State University, Fresno Foundation			
Smart Valley Places Grant	14.703	SC360080-11-05	<u>41,863</u>
<b>Total Department of Housing and Urban Development</b>			<u>2,036,324</u>
U.S. Department of Justice <b>Direct</b> Programs:			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2012-DJ-BX-110	<u>23,097</u>
Department of Transportation <b>Direct</b> Programs:			
Federal Transit Formula Grants	20.507	69080138	<u>405,925</u>
Department of Transportation <b>Pass-Through</b> 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	1,740,165
Surface Transportation Program (STP)	20.205	RSTP-5165	<u>1,004,767</u>
Program Subtotal			<u>2,744,932</u>
State and Community Highway Safety			
Distracted Driver	20.600	2013-DD1320	<u>4,120</u>
<b>Total Department of Transportation</b>			<u>3,154,977</u>
Environmental Protection Agency <b>Pass-Through</b> from:			
California State Water Resources Control Board			
Capitalization Grants for Clean Water State Revolving Funds			
Harding Drain Bypass Project Loan	66.458	11-833-550	5,175,758
Headworks Treatment Plant Loan	66.458	11-836-550	<u>761,489</u>
<b>Total Environmental Protection Agency</b>			<u>5,937,247</u>
Total Expenditures of Federal Awards			<u><u>\$11,151,645</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

**CITY OF TURLOCK**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2014**

**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-BASIS OF ACCOUNTING**

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

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

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

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

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

**NOTE 4 – PRIOR YEAR ADJUSTMENTS**

The prior year Schedule of Expenditures of Federal Awards included expenditures in excess of eligible costs for the following projects:

<u>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development Pass-Through from: California Department of Housing and Community Development Neighborhood Stabilization Program (NSP)	14.264	09-NSP1-6268	\$4,829
Department of Transportation Pass-Through from: California Department of Transportation Transportation Enhancement Act (TEA)	20.205	RPSTPLE-5165	24,273

This adjustment does not affect the current year Schedule of Expenditures of Federal Awards, and is being included only as an informational item.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Turlock as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2015.

***Internal Control Over Financial Reporting***

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control, we consider to be material weaknesses as listed on the Schedule of Material Weaknesses and Current Year Status of Prior Year Schedule of Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated March 23, 2015 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 and Current Year Status of Prior Year Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated March 23, 2015 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are listed as findings 2014-04 and 2014-05 in our separately issued Memorandum on Internal Control dated March 23, 2015 which is an integral part of our audits and should be read in conjunction with this report.

### ***City's Response to Findings***

City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated March 23, 2015 which is an integral part of our audits and should be read in conjunction with this report. 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  
March 23, 2015

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

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

***Report on Compliance for Each Major Federal Program***

We have audited City of Turlock's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA2014-001 and SA2014-002. Our opinion on each major federal program is not modified with respect to these matters.

### ***City's Response to Findings***

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

### ***Report on Internal Control Over Compliance***

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 SA2014-002, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the basic financial statements of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated March 23, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Maize & Associates*

Pleasant Hill, California  
March 23, 2015

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