



FINANCIAL REPORTS

FOR THE YEAR ENDED JUNE 30, 2009

City of Turlock

This book contains the following financial statements for the City of Turlock and related entities for the fiscal year ended June 30, 2009:

City of Turlock
Basic Financial Statements

Redevelopment Agency of the City of Turlock
Component Unit Financial Statements

Turlock Public Financing Authority
Component Unit Financial Statements

City of Turlock
Single Audit Report

City of Turlock Transportation Development Act (TDA)
Financial Statements



CITY OF TURLOCK

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

City of Turlock
For the year ended June 30, 2009
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Turlock, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Subsequent to the basic financial statements date of June 30, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including the City. These actions by the State included as part of the State's 2009-2010 budget package, legislation passed and signed into law authorizing the State to borrow 8% of the amount of property tax revenue that would normally be apportioned to cities, counties, and special districts. Included in the legislation suspending Proposition 1A was a provision allowing local agencies to securitize their receivable from the State. Under this program the California Statewide Communities Development Authority (CSCDA), a joint powers authority sponsored by the CA State Association of Counties and the League of California Cities, purchased the Proposition 1A receivables from participating local agencies and issued bonds. The City participated in this securitization program selling 100% of its Proposition 1A receivable to CSCDA. For more detail information, see Note 12 attached in the Notes to Basic Financial Statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

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To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California
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As described in Note 1 to the basic financial statements, the City adopted Statement of Governmental Accounting Standards Board:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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

Capricci & Carlson

Oakland, California
June 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis is provided by the management of the City of Turlock (City) for the fiscal year 2008-09 financial statements (with comparative information for 2007-08). 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 2008-09 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The City's net assets (assets in excess of liabilities) at June 30, 2009, totaled \$459 million. Governmental activities accounted for \$287 million of these net assets, while \$172 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$84.1 million; while total expenses were \$79.2 million.
- Governmental program revenues were \$22 million compared to governmental program expenses of \$52 million.
- Program revenues from business-type activities were \$30 million, while expenses for business-type activities were \$27 million.

Fund Highlights

- Net General Fund expenditures exceeded revenues by \$5.0 million as compared to the prior year when expenditures exceeded revenues by \$6.2 million. For financial reporting purposes, the "General Fund" includes not only the City's General Fund, but also the Arts Commission, Special Public Safety, Tourism (2 funds) and Parking Citations funds.
- General Fund fund balance of \$12.1 million at the June 30, 2009 compared to a projected \$14.3 million when the 2008-09 budget was originally adopted. The decrease in fund balance is primarily due to revenues coming in less than projected. Sales tax and property tax revenues have been hard hit in the Central Valley area of California. Property taxes came in nearly \$325,000 less than originally projected and sales tax receipts were almost \$2.3 million less than originally projected. Falling residential assessed values and significantly fewer property transactions were behind the decreased property tax revenues. The struggling economy coupled with the closing of automobile, home furnishings and electronics retailers accounted for the reduced sales tax receipts.

Additional discussion regarding the financial results for fiscal year 2008-09 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, and
- 3) Required Supplemental Information.

THE BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

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

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009**

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

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

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

- **Governmental activities**—All of the City's basic services are considered to be governmental activities. These services include public safety (police and fire), parks and recreation, streets and highways, public improvements, community development and general administration. General City revenues such as taxes and program-specific revenues such as developer impact fees support and finance these services.

The City's governmental activities include the activities of a separate legal entity, the City of Turlock Redevelopment Agency, because the City is financially accountable for the Agency.

- **Business-type activities**—All the City's enterprise activities are reported here including water, sewer, airport, transit and building department operations. Unlike governmental services, these services are supported by charges paid by the users of these services.

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

Fund Financial Statements

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

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

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

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

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

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009

and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. The City's four major funds are – the General, Gas Tax/Street Improvement, Redevelopment and Facility Fee funds. The financial information for the remaining twenty-five non-major governmental funds is combined into a single, aggregated presentation. The basic governmental fund financial statements can be found starting on page 12 in this report.

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

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 28.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

Over time, net assets may serve as an indicator of a governmental entity's financial position. The following two tables focus on the net assets and changes in net assets of the City of Turlock's Governmental and Business-Type Activities as presented in the Government-wide *Statement of Net Assets* and *Statement of Activities and Changes in Net Assets*.

SCHEDULE OF NET ASSETS						
(in thousands of dollars)						
	Governmental Activities		Business-Type Activities		Total	
	For the FYE June 30		For the FYE June 30		For the FYE June 30	
	2009	2008	2009	2008	2009	2008
Cash and investments	\$ 104,045	\$ 112,337	\$ 78,016	\$ 82,136	\$ 182,061	\$ 194,473
Other assets	26,025	25,443	3,089	3,318	29,114	28,761
Capital assets, net	201,897	194,518	192,041	185,562	393,938	380,080
Total assets	<u>331,967</u>	<u>332,298</u>	<u>273,146</u>	<u>271,016</u>	<u>605,113</u>	<u>603,314</u>
Long-term liabilities	35,367	35,696	95,062	97,222	130,429	132,918
Other liabilities	9,895	10,408	6,054	7,830	15,949	18,238
Total liabilities	<u>45,262</u>	<u>46,104</u>	<u>101,116</u>	<u>105,052</u>	<u>146,378</u>	<u>151,156</u>
Net assets:						
Invested in capital assets, net of debt	183,012	176,207	116,311	113,034	299,323	289,241
Restricted	81,239	84,742			81,239	84,742
Unrestricted	22,454	25,245	55,719	52,930	78,173	78,175
Total net assets	<u>\$ 286,705</u>	<u>\$ 286,194</u>	<u>\$ 172,030</u>	<u>\$ 165,964</u>	<u>\$ 458,735</u>	<u>\$ 452,158</u>

As noted above, the City's primary investment is in its *capital assets, net of related debt*. Capital assets, which account for approximately 65% of the City's total net assets, include all infrastructure such as the street/roadway system; sewer, water and storm drain collection systems as well as retention basins; the wastewater treatment plant and water wells and pump stations; streetlights and traffic signals; and parks. Capital assets also include all vehicles, equipment and buildings used by City employees in the course of their daily activities. By their very nature and use, capital assets are not available for future spending and are therefore not available assets to fund future activities.

Approximately \$81 million or 18% of the City's non-capital net assets are subject to external restrictions as to their use. The remaining \$78 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, \$22 million related to governmental activities and \$56 million to business-type activities.

The City's net assets increased by \$4.9 million during the 2008-09 fiscal year. The following table provides additional detail for this increase.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009

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

	Governmental Activities		Business-Type Activities		Total	
	For the FYE June 30		For the FYE June 30		For the FYE June 30	
	2009	2008	2009	2008	2009	2008
Program Revenues:						
Charges for services	\$ 10,889	\$ 10,521	\$ 29,393	\$ 32,705	\$ 40,282	\$ 43,226
Operating grants and contributions	5,551	4,557			5,551	4,557
Capital grants and contributions	5,773	17,956	1,018	3,194	6,791	21,150
Total Program Revenues	22,213	33,034	30,411	35,899	52,624	68,933
General Revenues						
Property taxes	4,270	4,730			4,270	4,730
Sales taxes	9,702	10,430			9,702	10,430
Motor vehicle in lieu fees	5,312	5,696			5,312	5,696
Other taxes	9,340	10,304			9,340	10,304
Interest and investment earnings	1,508	2,882	1,773	1,920	3,281	4,802
Gain (loss) on disposal of capital assets	(374)	(42)	(54)	843	(428)	801
Total General Revenues	29,758	34,000	1,719	2,763	31,477	36,763
Total Overall Revenues	51,971	67,034	32,130	38,662	84,101	105,696
Expenses						
General government	3,957	3,504			3,957	3,504
Public safety	26,204	23,929			26,204	23,929
Public ways/facilities/transportation	11,272	9,664			11,272	9,664
Culture and recreation	4,297	4,407			4,297	4,407
Community development	5,163	3,494			5,163	3,494
Interest on long-term debt	1,528	1,587			1,528	1,587
Water			6,586	5,118	6,586	5,118
Sewer			16,838	15,841	16,838	15,841
Airport			91	115	91	115
Transportation			1,529	1,226	1,529	1,226
Building & Safety			1,735	1,671	1,735	1,671
Total Expenses	52,421	46,585	26,779	23,971	79,200	70,556
Increase (Decrease) in Net						
Assets before Transfers	(450)	20,449	5,351	14,691	4,901	35,140
Transfers	(159)	316	159	(316)	-	-
Change in Net Assets	(609)	20,765	5,510	14,375	4,901	35,140
Net Assets, beginning of year, as restated	287,314	265,429	166,520	151,589	453,834	417,018
Net Assets, end of year	\$ 286,705	\$ 286,194	\$ 172,030	\$ 165,964	\$ 458,735	\$ 452,158

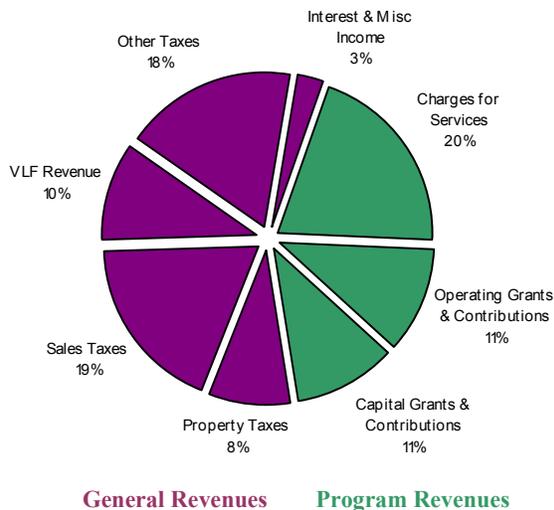
**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2009**

As the above table shows, \$52.6 million of the City’s \$84.1 million in total revenues comes from program revenue sources. GASB 34 defines program revenues as those derived directly from the program itself (user fees) or from parties outside the reporting government’s taxpayers or citizenry. Program revenues reduce the need for the cost of the function to be financed by general government revenues. The largest portion of the City’s program revenues is “Charges for Services” which include user fees from the City’s water and sewer operations, building permit-related fees, developer impact fees and special assessments.

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

Citywide expenses, which totaled \$79.2 million, consisted of \$52.4 million for governmental activities and \$26.8 million for business-type activities. Of the \$52.4 million in governmental activity expenses, \$26.2 million or 50% relate to the provision of public safety (police and fire) services. The next largest component was \$11.3 million or 21.6% for public ways/facilities/transportation. This would include expenditures incurred to maintain the City’s street system as well as City buildings.

Governmental Activities



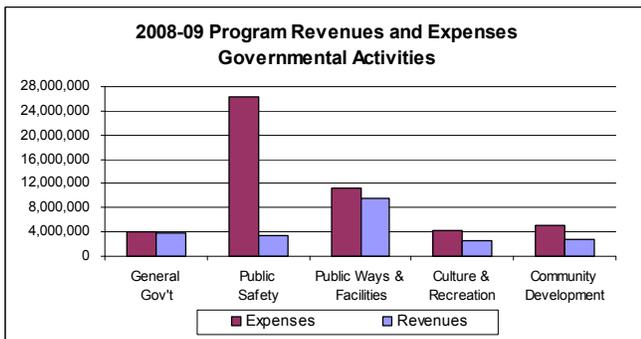
Governmental activity revenues totaling \$52 million are comprised of various non-dedicated tax revenues as well as revenues received for specific purposes. Specific purpose or “program” revenues are categorized as follows:

- Charges for Services – Revenues for specialized City services which are typically not demanded by the general population – totaled \$10,889,077 representing a 3.5% increase over the prior year. Included in this revenue category are the special assessment revenues charged by the City’s Lighting and Landscape maintenance districts. This revenue category also includes repayments from first-time homebuyer loan recipients and reimbursements from the State for costs incurred due to State mandates.

- Operating Grants & Contributions – Revenues received from other governmental agencies which are primarily used for operational needs – totaled \$5,550,743 representing a 22% increase over the prior year. Higher CDBG and HOME (HUD) grant revenues along with revenue from a new Office of Traffic Safety (OTS) police grant accounted for the majority of this increase. In 2007-08 CDBG and HOME grant revenues were down because the programs received one-time non-grant revenue that was used for expenditures during that year. For 2008-09, grant revenues were used to fund program expenditures. Beginning in September 2008, the City’s police department became the administrator for a county-wide 3-year AVOID grant funded through OTS. This grant targets alcohol-related traffic issues through the use of checkpoints and targeted enforcement opportunities throughout the County.
- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure – totaled \$5,772,862 representing a 68% decrease over the prior year reflecting the stagnant construction environment currently existing in the Central Valley.

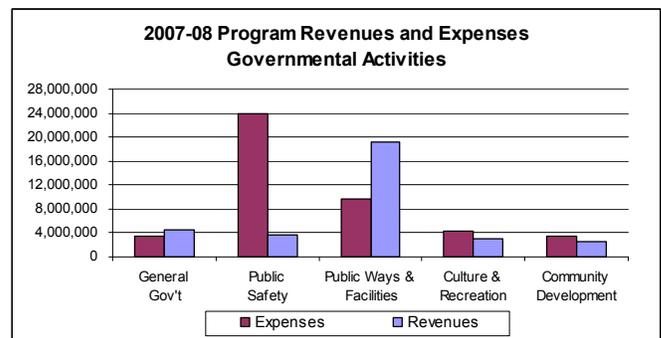
**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2009**

General revenues are all other revenues not classified as program revenues and are generally received for unrestricted uses. General revenues include property taxes, sales tax, motor vehicle in-lieu fees, franchise fees, business license fees, transient occupancy taxes and investment earnings. The City’s governmental activity general revenues totaled \$29.8 million for fiscal 2008-09, representing a 12.5% decrease from the prior year. With the exception of transient occupancy taxes which rose by just 1.8%, all other general revenue sources decreased in 2008-09. Property tax revenues (both City and Redevelopment Agency decreased by 12% reflecting the depressed real estate market. Sales tax and motor vehicle in-lieu revenue both decreased by approximately 7%. General governmental activity revenues are primarily used to finance governmental activities such as public safety, park maintenance, culture and recreation programs and general government administration.

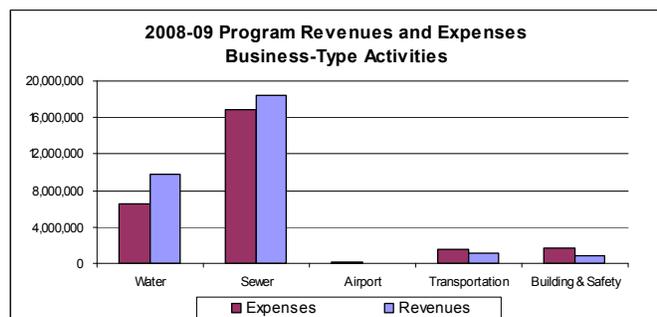
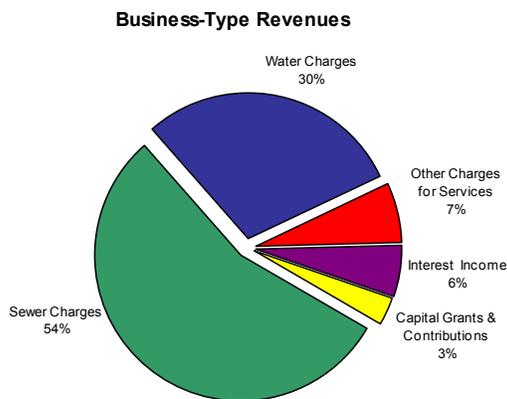


The tables to the left and below graphically depict the typical relationship between program revenues and expenses for Governmental Activities for the past two years. In total, 2008-09 expenses for Governmental Activities exceeded revenues by \$30.2 million whereas in 2007-08 expenses exceeded revenues by \$13.6 million. The majority

of the increase in expenditures between 2007-08 and 2008-09 comes in the public safety and public facilities-infrastructure sectors. The police department continued the implementation of their 3-year strategic plan by funding street crimes and drug enforcement units. In addition, both the police and fire departments were close to fully-staffed during 2008-09, a situation that has not occurred for many years. Increases in expenditures for public ways and facilities reflect reimbursements to developers for infrastructure constructed in the north east portion of Turlock.



Business-Type Activities



Revenues for business-type activities totaled \$32.1 million and related expenses totaled \$26.8 million of which \$16.8 million or 63% related to the maintenance and operations of the City’s wastewater treatment plant and the City’s storm drain collection system. Potable water maintenance and operations accounted for \$6.6 million or

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009**

24.6 % of business-type activities expenses. The potable water system issued Revenue Bonds in 2008 to provide funding for various infrastructure projects including putting in meters for all the City's water customers and constructing two water storage tanks. The first full year of debt service on these bonds was in 2008-09 and accounted for the majority of the increase in expenses over the prior year.

THE CITY'S FUND FINANCIAL STATEMENTS

Governmental Funds

As noted earlier, the focus of the City's governmental funds (General, Special Revenue and Capital Projects) is to provide information related to resource (mainly cash) near-term inflows, outflows and spendable balances. This focus does not include capital assets and long-term debt. For each fund, the "unreserved fund balance" may serve as a useful measure of the fund's net spendable resources for the upcoming year.

At June 30, 2009, the City's governmental funds reported combined fund balances of \$85.7 million, which is a decrease of \$10.6 million when compared with the prior year. This compares with a \$5.3 million increase in 2007-08. The General Fund's fund balance is \$12.1 million at June 30, 2009. Governmental fund revenues were \$52 million this year, of which General Fund revenues totaled \$29.3 million or 56.4% Governmental fund expenditures totaled \$61.9 million and the General fund represented 53.6% of the total or \$33.1 million.

The following provides additional information for selected governmental funds.

General Fund – As previously mentioned, for financial reporting purposes, the "General Fund" includes not only the City's General Fund, but also the Arts Commission, Special Public Safety, Tourism (2 funds) and Parking Citations funds. At June 30, 2009, the General Fund had a fund balance of \$12.1 million of which \$5.8 million was unreserved and undesignated. As noted in footnote 1(K), for financial statement purposes, amounts can only be reserved or restricted if the reservation or restriction is to satisfy a legal covenant or obligation. General Fund expenditures and transfers out exceeded revenues and transfers in by \$5 million during the 2008-09 fiscal year as compared to \$6.2 million in the 2007-08 fiscal year. The deficit in 2007-08 included a \$4.6 million transfer (loan) to the Capital Facilities Fund to provide financing for the design work on a new public safety facility. This loan is budgeted to be repaid in fiscal year 2009-10.

Total revenues for 2008-09 came in approximately \$978,000 lower than projected when the general fund budget was adjusted at mid year. At that time the City noted that both property and sales tax revenues were coming in slower than originally projected. These revenue sources were projected downward at that time, but not sufficiently so as to more closely reflect actual revenues for 2008-09. Property tax revenues did come in approximately \$100,000 higher than the amended budget, but sales tax revenues ended 2008-09 \$988,900 less than projected. Actual property and sales tax receipts for 2008-09 are \$460,000 and \$728,000, respectively, lower than actual receipts for 2007-08. These results are reflective of the continuing soft residential real estate market along with the recession's effect on consumer spending. Fines and forfeitures revenue increased due to expanded traffic enforcement and parking details. Investment income decreased by approximately \$595,000 due to both declining invested balances and ever decreasing rates of return in 2008-09.

Actual expenditures for 2008-09 were \$1.7 million less than originally budgeted, but \$250,000 more than the amended budget due to the implementation of GASB 45 as explained in the next paragraph. When revenues projections were adjusted downward at the mid-year budget review, expenditures were also adjusted downward. When compared to 2007-08, general fund expenditures grew 3.6% or \$1.1 million. The net growth reflects a \$2.2 million increase in public safety spending offset by a \$1.3 million decrease in capital outlay expenditures. The increase in public safety spending reflects the City Council's commitment to implementing the police department's 3-year strategic plan along with increased funding for new firefighter positions.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009

As noted in footnotes 1 and 10 to the financial statements, beginning with the 2008-09 fiscal year the City implemented the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement requires the City to report on post employment benefits other than pensions in a fashion similar to how it accounts for pensions. The City has negotiated a retiree health benefit contribution with each of its labor groups. Even though the City's negotiated labor agreements only require a contribution to the retiree health fund, GASB 45 requires the City to recognize revenue and expenditures for these plans as if the City was legally responsible for the benefit to be paid by these contributions. In addition, the funding the City has been setting aside for two of the four retiree health plans is not in an irrevocable trust. In the past, these funds have been presented as Agency Funds on the City's financial statements. In accordance with GASB 45, for financial reporting purposes, the current year activity and prior year fund balance in the Agency Funds has been transferred to back to the original funding sources. (i.e. the amounts the General Fund departments contributed to the Agency Funds have been returned to the General Fund). See the prior period adjustment footnote included in the financial statements for more information.

Gas Tax/Street Improvement Fund – This fund accounts for the Gas Tax, Local Transportation Fund (LTF) and Federal/State grant monies the City receives for street maintenance and repair. Gas Tax revenues are received monthly throughout the year and support a majority of the City's street maintenance efforts. The City receives its LTF funds from the County's regional transportation planning agency after the dollars allocated for transit purposes have been satisfied. In addition to being used for street maintenance purposes, the City also leverages LTF funds to obtain federal and state grants for street and road improvement projects. With the exception of Proposition 1B and Proposition 42 monies, federal and state grant monies allocated for street/road improvement projects are received on a reimbursement basis, typically at the end of a project.

The fund balance for the Gas Tax/Street Improvement Fund decreased by \$151,000 to a balance of just over \$2 million at June 30, 2009. Approximately \$1.2 million of the fund balance is made up of either Proposition 1B or Proposition 42 money that the City receives for street maintenance. These funding sources must be expended within three years of receipt. The City is using these monies as local matches for federally-funded projects or in areas of town which do not have assessment districts to provide a funding source for road improvements.

Redevelopment Fund – This fund accounts for activities funded by 80% of the tax increment the Agency receives as well as projects funded with bond proceeds. During 2008-09 the Agency targeted most of its efforts in spending the proceeds of the Tax Allocation Revenue Bonds which were issued in August 2006. Assistance provided funding (in conjunction with Capital Facility Fees) for the construction of a replacement Fire Station #1 (the old station had out lived its useful life) as well as other infrastructure projects in town including Westside Industrial Specific Plan area water and sewer lines, improvements at Columbia Park, design costs associated with rebuilding the Carnegie Arts facility and design costs for a new public safety facility.

Facility Fees – The City charges a Capital Facilities Fee (CFF) to new development to fund Citywide improvements for roadways, general government capital facilities, police service facilities and equipment, and fire service facilities and equipment. The program specifically identifies new capital improvement projects which are development driven and development's proportionate cost of the project. Major projects funded in 2008-09 included completion of interchange improvements at Tuolumne Road and Golden State Boulevard, interchange acquisition and design at Fulkerth and Highway 99, work on interim offices for the police department as well as design work for a new public safety facility, and completion of the parking lot and antenna associated with the new Fire Station No. 1.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements for business-type activities only in a little more detail. The net assets for the City's proprietary funds increased \$5.5 million during fiscal year 2008-09, which compares to a \$14 million increase for fiscal year 2007-08. Overall operating revenues decreased by 10.1%. Total revenues for the City's water and wastewater operations decreased by 2% and 4%, respectively. These decreases were in part due to lower collections for impact fees

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009**

related new connections to the City's water and wastewater systems. Expenses for the water and wastewater systems rose by 4% and 8.3% respectively. Personnel, utility, regulatory fees and administrative expenses accounted for the majority of the cost increases for these utility systems.

The water system implemented the 5th year of a 5-year rate adjustment plan. Rates were in part increased to provide funding for the Water Revenue Bonds issued in May 2008. The proceeds of the issuance are providing funding for the installation of remotely read water meters at all City water user locations as well as for various infrastructure improvements such as two water storage towers, a new well and improvements to an existing well, and various water-line improvements. The installation of water meters is a requirement of State law which requires water usage charges to be billed on a metered basis by 2010.

The wastewater system is in the 2nd year of a 6 year rate adjustment plan. Rates are being adjusted to provide funding for the system's operational expenses as well as for capital improvements necessary to maintain the system's functionality.

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

CAPITAL ASSETS

At June 30, 2009, the City had \$393.9 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 2008-09 were over \$23.6 million. The majority of these additions related to infrastructure – streets/roads, water, sewer and storm drain pipes, and park - improvements. Additional information regarding the City's capital assets can be found in Note 5 on page 45 of this report.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$130.9 million in debt outstanding as compared to \$134.3 million for the prior year. The City's total debt service requirements for the 2009-10 are approximately \$9.6 million with the bulk of the requirements coming from semi-annual payments for the 1999 and 2003A Sewer Revenue (\$1.5 million and \$3.2 million, respectively), the 2008 Water Bonds (\$2 million) and the 2006 Tax Allocation Revenue Bonds (\$1.5 million).

The City has no general revenue bonds outstanding. Of the total \$9.6 million in debt service requirements for 2009-10, approximately 26% or \$2.5 million is related to governmental activities and none is currently repaid with General Fund dollars.

Additional information regarding each of the City's debt issues as well as debt service requirements is discussed in greater detail in Note 6 to the financial statements starting on page 47.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2009**

ECONOMIC FACTORS and NEXT YEAR'S BUDGET AND RATES

In March 2009, the City Council approved mid-year budget amendments for the 2008-09 fiscal year which included reducing estimated revenues for 2008-09 as well as freezing vacant positions. In addition, they approved using up to \$3.37 million in reserves from General Fund – (fund 110) to offset revenue deficits for the 2008-09 fiscal year as well as allocating up to \$2.5 million in Fund 110 reserves to be used in each of the next two fiscal years. A budget sub-committee consisting of the Mayor and Vice-Mayor was also formed with the focus of working with Staff to develop the 2009-10 budget. The sub-committee was tasked with reviewing all operational costs – including personnel staffing – with the goal of identifying expenditure reductions.

Projected General Fund revenue for 2009-10 totals \$27.7 million which is \$2.5 million less than the 2008-09 budget and \$1.6 million less than actual receipts for 2008-09. Property and sales tax receipts continue to decline from their peak in 2006-07 reflecting the impact of a depressed housing market and the recession.

Projected General Fund expenditures for 2009-10 totals \$30.2 million or \$3.3 million less than the mid-year adjusted 2008-09 budget. The following measures were implemented to reduce expenditures:

- ✓ Negotiated with employees to secure a 5% contribution from employees toward the cost of benefits.
- ✓ Identified an additional 10% decrease in operating expenditures (exclusive of personnel costs).
- ✓ Eliminated fifteen (15) full-time General Fund positions either through the elimination of vacant positions or through layoffs.
- ✓ Eliminated twenty-two (22) full-time non-General Fund full-time positions either through the elimination of vacant positions or through layoffs.. Some of these positions were partially funded by the General Fund.
- ✓ Eliminated all non-essential transfers out of the General Fund such as for equipment, computer and/or vehicle replacement, and facility maintenance.
- ✓ Eliminated many appropriations for professional services such as pest control and advocacy/lobbyist services.

The above strategies reduced the General Fund deficit from \$5 million to \$2.5 million for 2009-10. As the 2009-10 fiscal year proceeds, Staff will continue to monitor General Fund revenues and expenditures to determine if additional adjustments are necessary. In addition, the budget committee and Staff will continue to meet to find opportunities to increase revenues or decrease expenditures to minimize the necessity of using General Fund reserves.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

City of Turlock
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 92,225,381	\$ 56,249,322	\$ 148,474,703
Cash and investments with fiscal agent	11,819,659	21,766,679	33,586,338
Accounts receivable	5,528,504	2,033,249	7,561,753
Interest receivable	383,762	342,974	726,736
Due from developers	20,040	157,663	177,703
Total current assets	<u>109,977,346</u>	<u>80,549,887</u>	<u>190,527,233</u>
Noncurrent assets:			
Loans receivable	19,470,802		19,470,802
Internal balances	-	-	-
Deferred charges	621,920	555,419	1,177,339
Capital assets:			
Non-depreciable	32,224,787	24,681,677	56,906,464
Depreciable, net	169,671,734	167,359,542	337,031,276
Total capital assets	<u>201,896,521</u>	<u>192,041,219</u>	<u>393,937,740</u>
Total noncurrent assets	<u>221,989,243</u>	<u>192,596,638</u>	<u>414,585,881</u>
Total Assets	<u>331,966,589</u>	<u>273,146,525</u>	<u>605,113,114</u>
LIABILITIES			
Current liabilities:			
Accounts payable	3,951,561	994,931	4,946,492
Payroll payable	2,106,811	214,317	2,321,128
Interest payable	498,431	1,183,405	1,681,836
Unearned revenue	241,084	742,955	984,039
Deposits payable	1,569,211	335,140	1,904,351
Compensated absences, due within one year	497,837	135,066	632,903
Long-term debt, due within one year	1,030,058	2,448,418	3,478,476
Total current liabilities	<u>9,894,993</u>	<u>6,054,232</u>	<u>15,949,225</u>
Noncurrent liabilities:			
Claims liability	2,764,290		2,764,290
Compensated absences, due in more than one year	1,991,346	540,266	2,531,612
Net OPEB Obligation	632,671	230,173	862,844
Long-term debt, due in more than one year	29,978,999	94,291,163	124,270,162
Total noncurrent liabilities	<u>35,367,306</u>	<u>95,061,602</u>	<u>130,428,908</u>
Total Liabilities	<u>45,262,299</u>	<u>101,115,834</u>	<u>146,378,133</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>183,012,203</u>	<u>116,310,876</u>	<u>299,323,079</u>
Restricted for:			
Capital projects	55,660,506		55,660,506
Special projects and programs	25,578,449		25,578,449
Total restricted	<u>81,238,955</u>	<u>-</u>	<u>81,238,955</u>
Unrestricted	<u>22,453,132</u>	<u>55,719,815</u>	<u>78,172,947</u>
Total Net Assets	<u>\$ 286,704,290</u>	<u>\$ 172,030,691</u>	<u>\$ 458,734,981</u>

City of Turlock
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,956,620	\$ 3,557,335	\$ 87,465	\$ 238,584
Public safety	26,204,325	2,110,880	1,018,661	284,373
Public ways and facilities/transportation	11,272,363	3,094,804	1,727,201	4,797,325
Culture and recreation	4,296,813	1,579,969	509,104	398,779
Community development	5,162,734	546,089	2,208,312	53,801
Interest on long-term debt	1,528,080			
Total governmental activities	52,420,935	10,889,077	5,550,743	5,772,862
Business-type activities:				
Water	6,586,006	9,514,371		339,422
Sewer	16,838,010	17,770,118		678,988
Airport	90,770	10,000		
Transportation	1,529,490	1,182,055		
Building & Safety	1,734,943	917,031		
Total business-type activities	26,779,219	29,393,575	-	1,018,410
Total primary government	\$ 79,200,154	\$ 40,282,652	\$ 5,550,743	\$ 6,791,272

General revenues and transfers:

Taxes:
Property
Sales
Motor vehicles tax
Other
Total

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

Total general revenues and transfers

Changes in net assets

Net Assets:

Beginning of year, as restated

End of year

Net (Expense) Revenue and Changes in Net Assets			
Total	Governmental Activities	Business-type Activities	Total
\$ 3,883,384	\$ (73,236)	\$	\$ (73,236)
3,413,914	(22,790,411)		(22,790,411)
9,619,330	(1,653,033)		(1,653,033)
2,487,852	(1,808,961)		(1,808,961)
2,808,202	(2,354,532)		(2,354,532)
-	(1,528,080)		(1,528,080)
<u>22,212,682</u>	<u>(30,208,253)</u>	<u>-</u>	<u>(30,208,253)</u>
9,853,793		3,267,787	3,267,787
18,449,106		1,611,096	1,611,096
10,000		(80,770)	(80,770)
1,182,055		(347,435)	(347,435)
917,031		(817,912)	(817,912)
<u>30,411,985</u>	<u>-</u>	<u>3,632,766</u>	<u>3,632,766</u>
<u>\$ 52,624,667</u>	<u>(30,208,253)</u>	<u>3,632,766</u>	<u>(26,575,487)</u>
	4,270,210		4,270,210
	9,702,157		9,702,157
	5,311,881		5,311,881
	9,339,757		9,339,757
	<u>28,624,005</u>	<u>-</u>	<u>28,624,005</u>
	1,508,015	1,772,794	3,280,809
	(373,979)	(53,960)	(427,939)
	<u>(159,150)</u>	<u>159,150</u>	<u>-</u>
	<u>29,598,891</u>	<u>1,877,984</u>	<u>31,476,875</u>
	(609,362)	5,510,750	4,901,388
	<u>287,313,652</u>	<u>166,519,941</u>	<u>453,833,593</u>
<u>\$ 286,704,290</u>	<u>\$ 172,030,691</u>	<u>\$ 458,734,981</u>	

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FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

The funds described below were determined to be Major Governmental Funds by the City for fiscal year 2008-09. Individual non-major funds may be found in the Supplemental section. This section also contains a reconciliation between the Fund Balance and the Net Assets for Governmental Funds as well as a reconciliation between the Changes in Fund Balance and Changes in Net Assets for Governmental Funds.

GENERAL FUND

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

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.

REDEVELOPMENT

This Redevelopment Agency fund accounts for 80% of the tax increment generated within the Agency boundaries (see Housing Set-Aside in major funds for the remaining 20%). This fund accounts for the repayment of Agency debt, the tax sharing obligations with various taxing agencies within the Agency boundaries, and the expenditure of funds to eliminate blight and encourage economic development consistent with the Agency's implementation plan.

FACILITY FEES

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

City of Turlock
Balance Sheet
Governmental Funds
June 30, 2009

	Major Governmental Funds					Total
	General	Gas Tax/ Street Improvement	Redevelopment	Facility Fees	Nonmajor Governmental Funds	
ASSETS						
Cash and investments	\$ 12,650,907	\$ 1,349,405	14,445,944	\$ 18,257,912	\$ 28,203,096	\$ 74,907,264
Cash and investments with fiscal agent			\$ 11,819,659		-	11,819,659
Accounts receivable	2,415,056	\$ 836,004	284,922	45,679	1,577,403	5,159,064
Interest receivable	112,320		67,956	63,386	83,821	327,483
Due from other funds	899,032					899,032
Due from developers	20,040					20,040
Loans receivable	44,000		31,522		19,395,280	19,470,802
Other Assets	13,556				-	13,556
Total assets	\$ 16,154,911	\$ 2,185,409	\$ 26,650,003	\$ 18,366,977	\$ 49,259,600	\$ 112,616,900
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,360,557	\$ 89,415	\$ 24,913	\$ 441,208	\$ 815,527	\$ 2,731,620
Payroll payable	1,937,073	29,406	3,872		38,092	2,008,443
Due to other funds					899,032	899,032
Deferred revenue	222,084		24,281		19,414,280	19,660,645
Deposits payable	526,301		1,042,910		-	1,569,211
Total liabilities	4,046,015	118,821	1,095,976	441,208	21,166,931	26,868,951
Fund Balances:						
Reserved:						
For loans receivable/due from developers	64,040		31,522		-	95,562
Unreserved - designated:						
General Fund	6,264,609					6,264,609
Special Revenue Funds					121,954	121,954
Capital Project Funds		161,609	21,830		-	183,439
Unreserved - undesignated:						
General Fund	5,780,247					5,780,247
Special Revenue Funds		1,904,979			23,040,471	24,945,450
Capital Project Funds			25,500,675	17,925,769	4,930,244	48,356,688
Total fund balance	12,108,896	2,066,588	25,554,027	17,925,769	28,092,669	85,747,949
Total liabilities and fund balance	\$ 16,154,911	\$ 2,185,409	\$ 26,650,003	\$ 18,366,977	\$ 49,259,600	\$ 112,616,900

City of Turlock
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2009

Total Fund Balances - Total Governmental Funds \$ 85,747,949

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in Governmental Funds Balance Sheet.

Non-depreciable	\$ 32,224,276	
Depreciable	219,182,906	
Less accumulated depreciation	<u>(52,467,649)</u>	198,939,533

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

Compensated absences	\$ (2,204,988)	
Net OPEB obligation	\$ (516,360)	
Capital lease obligations	(1,373,641)	
Loans payable	(258,313)	
Bonds payable	(28,635,080)	
Unamortized cost of issuance included in deferred charges	<u>608,364</u>	(32,380,018)

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.

(486,894)

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

19,419,561

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

15,464,159

Net Assets of Governmental Activities \$ 286,704,290

City of Turlock
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2009

	Major Governmental Funds					Total
	General	Gas Tax/ Street Improvement	Redevelopment	Facility Fees	Nonmajor Governmental Funds	
REVENUES:						
Taxes and assessments	\$ 15,419,813		\$ 5,053,131		\$ 4,291,128	\$ 24,764,072
Licenses and permits	1,188,695			\$ 1,143,488	952,273	3,284,456
Fines, forfeitures, and penalties	412,918					412,918
Use of money and property	623,816	\$ 14,655	476,468	393,781	474,797	1,983,517
Intergovernmental	6,250,410	2,890,750			3,453,180	12,594,340
Charges for current services	3,096,478				717,167	3,813,645
Developer contributions		2,111,591				2,111,591
Other	2,356,358	378,313	2,637	70,800	267,257	3,075,365
Total revenues	29,348,488	5,395,309	5,532,236	1,608,069	10,155,802	52,039,904
EXPENDITURES:						
Current:						
General government	3,253,816			388,545	156,137	3,798,498
Public safety	25,519,080			743	609,130	26,128,953
Public ways and facilities/ transportation	264,581	2,119,247		620,516	4,273,286	7,277,630
Culture and recreation	2,948,923				1,007,893	3,956,816
Community development	960,596		651,157		3,836,300	5,448,053
Capital outlay	95,682	3,338,151	140,000	7,186,842	2,004,910	12,765,585
Debt service:						
Principal	121,100	82,326	480,000	319,833	67,730	1,070,989
Interest and fiscal charges	21,102	9,689	1,387,254	49,662	31,316	1,499,023
Total expenditures	33,184,880	5,549,413	2,658,411	8,566,141	11,986,702	61,945,547
REVENUES OVER (UNDER) EXPENDITURES	(3,836,392)	(154,104)	2,873,825	(6,958,072)	(1,830,900)	(9,905,643)
OTHER FINANCING SOURCES (USES):						
Transfers in	582,597	20,857	11,460	3,125,032	1,644,959	5,384,905
Transfers out	(1,725,298)	(17,857)	(2,690,677)		(1,776,159)	(6,209,991)
Loan Proceeds					92,798	92,798
Total other financing sources (uses)	(1,142,701)	3,000	(2,679,217)	3,125,032	(38,402)	(732,288)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(4,979,093)	(151,104)	194,608	(3,833,040)	(1,869,302)	(10,637,931)
FUND BALANCES:						
Beginning of year, as restated	17,087,989	2,217,692	25,359,419	21,758,809	29,961,971	96,385,880
End of year	\$ 12,108,896	\$ 2,066,588	\$ 25,554,027	\$ 17,925,769	\$ 28,092,669	\$ 85,747,949

See accompanying Notes to Basic Financial Statements.

City of Turlock
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
Changes in Fund Balance to the Government-Wide Statement of Activities
and Changes in Net Assets
For the year ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (10,637,931)

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

Governmental funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	12,765,585
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	(5,180,804)
Net effect of the of the disposal of various capital assets resulting in a decrease in net assets.	(362,546)
Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.	
Loan Proceeds	(92,798)
Principal payments on long-term debt	1,070,989
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in governmental funds. In addition, governmental funds report the effect of debt issuance costs when the debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the Statement of Activities.	7,223
Changes in the accrual of compensated absences are reported in the Government-Wide Statement of Net Activities and Changes in Net Assets, but they do not require the use of (or provide) current financial resources. Therefore, changes compensated absences are not reported as expenditures (or revenues) in governmental funds.	(502,832)
Governmental funds report expenditures pertaining to the establishment of certain deferred revenue related to long-term loans made. These deferred credits are not reported on the Statement of Net Assets and, therefore, the corresponding expense is not reported on the Statement of Activities.	349,436
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities. These expenditures are reported as Loans Receivable and Deferred Revenue on the fund financial statements.	1,974,316

Change in Net Assets of Governmental Activities \$ (609,362)

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PROPRIETARY FUNDS

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

WATER

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

SEWER

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

City of Turlock
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Major Enterprise Funds		Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
	Water	Sewer			
ASSETS					
Current assets:					
Cash and investments	\$ 21,730,079	\$ 32,235,745	\$ 2,283,498	\$ 56,249,322	\$ 17,318,117
Cash and investments with fiscal agent	16,989,375	4,777,304		21,766,679	
Accounts receivable	388,735	938,684	705,830	2,033,249	369,440
Interest receivable	161,477	173,258	8,239	342,974	56,279
Due from developers		157,663		157,663	
Total current assets	39,269,666	38,282,654	2,997,567	80,549,887	17,743,836
Capital assets					
Non-depreciable	20,485,990	4,108,026	87,661	24,681,677	
Depreciable, net of depreciation	24,883,567	136,869,317	5,606,658	167,359,542	2,956,988
Total capital assets	45,369,557	140,977,343	5,694,319	192,041,219	2,956,988
Other assets	170,937	384,482		555,419	
Total assets	84,810,160	179,644,479	8,691,886	273,146,525	20,700,824
LIABILITIES					
Current liabilities:					
Accounts payable	451,625	450,440	92,866	994,931	1,219,941
Payroll payable	47,091	116,786	50,440	214,317	98,368
Interest payable	242,302	941,103		1,183,405	11,537
Compensated absences - due within one year	33,511	87,490	14,065	135,066	56,839
Capital lease obligations - due within one year	39,209	239,209		278,418	78,418
Bonds payable - due within one year	580,000	1,590,000		2,170,000	
Claims liability - due within one year					2,764,290
Deferred revenue			742,955	742,955	-
Deposits payable	335,140			335,140	-
Total current liabilities	1,728,878	3,425,028	900,326	6,054,232	4,229,393
Long-term liabilities:					
Compensated absences - due in more than one year	134,044	349,963	56,259	540,266	227,356
Net OPEB obligation	39,529	143,517	47,127	230,173	116,311
Capital lease obligation-due in more than one year	331,802	331,802		663,604	663,605
Loans and Bonds payable, net of discounts - due in more than one year	31,038,174	62,589,385		93,627,559	
Total long-term liabilities	31,543,549	63,414,667	103,386	95,061,602	1,007,272
Total liabilities	33,272,427	66,839,695	1,003,712	101,115,834	5,236,665
NET ASSETS					
Invested in capital assets, net of related debt	30,232,921	80,383,636	5,694,319	116,310,876	2,214,965
Unrestricted	21,304,812	32,421,148	1,993,855	55,719,815	13,249,194
Total net assets	\$ 51,537,733	\$ 112,804,784	\$ 7,688,174	\$ 172,030,691	\$ 15,464,159

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2009

	Major Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Sewer	Nonmajor Enterprise Funds		
OPERATING REVENUES:					
Charges for services	\$ 9,246,014	\$ 17,740,972	\$ 996,465	\$ 27,983,451	\$ 13,652,281
Intergovernmental	141,041		1,000,894	1,141,935	-
Connection fees	83,109	2,946		86,055	
Other income	44,207	26,200	111,727	182,134	987,335
Total operating revenues	9,514,371	17,770,118	2,109,086	29,393,575	14,639,616
OPERATING EXPENSES:					
Salaries	1,455,520	2,947,773	1,005,513	5,408,806	2,405,372
Benefits and insurance	829,186	1,764,799	492,248	3,086,233	8,892,113
Contractual	523,333	1,684,715	1,305,799	3,513,847	878,946
Supplies and maintenance	370,489	1,489,039	162,696	2,022,224	751,078
Utilities	873,982	1,306,882	18,723	2,199,587	96,310
Fleet expense	96,228	386,318	7,993	490,539	105,859
Depreciation and amortization	886,375	3,912,970	223,161	5,022,506	418,043
Other expenses	62,433	89,341	139,070	290,844	40,600
Total operating expenses	5,097,546	13,581,837	3,355,203	22,034,586	13,588,321
OPERATING INCOME (LOSS)	4,416,825	4,188,281	(1,246,117)	7,358,989	1,051,295
NONOPERATING REVENUES (EXPENSES):					
Interest income	931,603	779,767	61,424	1,772,794	309,513
Capital contributions	339,422	678,988		1,018,410	-
Gain (loss) on disposal of capital assets		(6,385)	(47,575)	(53,960)	(16,148)
Interest expense	(1,488,460)	(3,256,173)		(4,744,633)	(36,280)
Total non-operating revenues (expenses)	(217,435)	(1,803,803)	13,849	(2,007,389)	257,085
INCOME (LOSS) BEFORE OPERATING TRANSFER	4,199,390	2,384,478	(1,232,268)	5,351,600	1,308,380
Transfers in	106,698	78,916	623,719	809,333	757,909
Transfers out	(251,154)	(286,246)	(112,783)	(650,183)	(91,973)
Total transfers	(144,456)	(207,330)	510,936	159,150	665,936
Net income (loss)	4,054,934	2,177,148	(721,332)	5,510,750	1,974,316
NET ASSETS:					
Beginning of year, as restated	47,482,799	110,627,636	8,409,506	166,519,941	13,489,843
End of year	\$ 51,537,733	\$ 112,804,784	\$ 7,688,174	\$ 172,030,691	\$ 15,464,159

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2009

	<u>Major Enterprise Funds</u>		Nonmajor Enterprise Funds	Total	Governmental
	Water	Sewer			Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 9,484,897	\$ 17,831,543	\$ 2,219,198	\$ 29,535,638	\$ 13,401,827
Cash paid to suppliers	(3,181,877)	(5,347,234)	(1,852,395)	(10,381,506)	(1,517,768)
Cash paid to employees	(2,231,724)	(4,538,881)	(1,449,189)	(8,219,794)	(11,172,594)
Other	(18,226)	(63,141)		(81,367)	939,868
Net cash provided (used) by operating activities	4,053,070	7,882,287	(1,082,386)	10,852,971	1,651,333
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	106,698	78,916	623,719	809,333	757,909
Transfers out	(251,154)	(286,246)	(112,783)	(650,183)	(91,973)
Net cash provided (used) by noncapital financing activities	(144,456)	(207,330)	510,936	159,150	665,936
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(8,699,169)	(1,149,909)	(653,977)	(10,503,055)	(606,451)
Proceeds from disposal of capital assets		12,379	1,244	13,623	16,026
Other assets	26			26	
Principal payments on long-term debt	(647,433)	(1,767,433)		(2,414,866)	(74,865)
Proceeds from issuance of long-term debt				-	
Cost of Issuance				-	
Interest paid	(1,440,591)	(3,262,994)		(4,703,585)	(37,444)
Net cash provided (used) by capital and related financing activities	(10,787,167)	(6,167,957)	(652,733)	(17,607,857)	(702,734)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	992,438	859,409	67,629	1,919,476	335,522
Net cash provided (used) by investing activities	992,438	859,409	67,629	1,919,476	335,522
Net increase (decrease) in cash and cash equivalents	(5,886,115)	2,366,409	(1,156,554)	(4,676,260)	1,950,057
CASH AND CASH EQUIVALENTS:					
Beginning of year, as restated	44,605,569	34,646,640	3,440,052	82,692,261	15,368,060
End of year	\$ 38,719,454	\$ 37,013,049	\$ 2,283,498	\$ 78,016,001	\$ 17,318,117

See accompanying Notes to Basic Financial Statements.

City of Turlock
Statement of Cash Flows
Proprietary Funds, Continued
For the year ended June 30, 2009

	<u>Major Enterprise Funds</u>		Nonmajor Enterprise Funds	Total	Governmental
	Water	Sewer			Activities Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 4,416,825	\$ 4,188,281	\$ (1,246,117)	\$ 7,358,989	\$ 1,051,295
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	886,375	3,912,970	223,161	5,022,506	418,043
Changes in operating assets and liabilities:					
Accounts receivable	(4,628)	87,625	(23,175)	59,822	(250,454)
Accounts payable	(1,317,845)	(480,280)	(218,114)	(2,016,239)	314,515
Payroll payable	2,002	(1,391)	17,324	17,935	10,700
Due to other funds				-	
Compensated absences	11,451	31,565	(15,879)	27,137	(2,120)
Claims Liability					(90)
Net OPEB obligation	39,529	143,517	47,127	230,173	116,311
Deferred revenue			133,287	133,287	
Deposits payable	19,361			19,361	(6,867)
	<u>\$ 4,053,070</u>	<u>\$ 7,882,287</u>	<u>\$ (1,082,386)</u>	<u>\$ 10,852,971</u>	<u>\$ 1,651,333</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET:					
Cash and investments	\$ 21,730,079	\$ 32,235,745	\$ 2,283,498	\$ 56,249,322	\$ 17,318,117
Cash and investments with fiscal agent	16,989,375	4,777,304		21,766,679	-
Total cash and cash equivalents	<u>\$ 38,719,454</u>	<u>\$ 37,013,049</u>	<u>\$ 2,283,498</u>	<u>\$ 78,016,001</u>	<u>\$ 17,318,117</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital assets contributed by developers	\$ 339,422	\$ 678,988		\$ 1,018,410	
Total noncash capital and related financing activities	<u>\$ 339,422</u>	<u>\$ 678,988</u>	<u>\$ -</u>	<u>\$ 1,018,410</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUNDS

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the Government-wide Financial Statements, but are presented in a separate Fiduciary Fund Financial Statement. For the City of Turlock, the following agent activities are accounted for within the Agency Funds:

- ✓ Turlock Community Facilities District (CFD) #1 – Mello Roos Assessment District
- ✓ Turlock Downtown Property and Business Improvement District (PBID) #2

Additional information related to the above Agency Funds can be found in the “Supplemental Information” section of this report.

City of Turlock
Statement of Net Assets
Fiduciary Funds
June 30, 2009

ASSETS	Agency Funds
Cash and investments	\$ 588,947
Cash and investments with fiscal agent	418,585
Accounts and interest receivable	62,213
Total assets	\$ 1,069,745
LIABILITIES	
Accounts payable	\$ 20,171
Due to others	1,049,574
Total liabilities	\$ 1,069,745

City of Turlock

Notes to Basic Financial Statements

For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

The Redevelopment Agency of the City of Turlock (Agency) was established by the City in October 1977, pursuant to the State of California Health and Safety Code, Section 33000, entitled Community Redevelopment Law. The purpose is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.

The Turlock Public Financing Authority (Authority) was established on December 15, 1998, pursuant to Article 1, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California. The City of Turlock authorized the formation of a Joint Powers Authority with the Agency. The Authority provides pooled debt financing for the City and the Agency.

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

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental-Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These Statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

The government-wide financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

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

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, taxpayer-assessed tax revenues (transient occupancy taxes, franchise taxes, etc.) and earnings on investments. Due to State legislative changes in the methodology for remitting sales taxes and motor vehicle in-lieu fees to local agencies, beginning with fiscal year 2004-05 the accrual period for these revenue sources is 7-12 months. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and nonmajor funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets.

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

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City's Fiduciary funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for using the accrual basis of accounting.

C. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments

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

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

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

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

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

E. Receivables

All receivables are shown net of an allowance for doubtful accounts. Service charge revenues (water, sewer and refuse collection) are recorded as billed to customers on a cyclical basis. All utility customers are billed monthly. Amounts unbilled at June 30 are not considered material and are not recognized as revenue.

F. Interfund Balances/Internal Balances

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation or by deferred revenue in the applicable governmental funds to indicate that they are not expendable available financial resources. Any unpaid interest due to lack of funds in the borrowing fund increases the principal owed and is reported in the lending fund as deferred revenue.

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as “internal balances.”

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. City policy has set the capitalization thresholds for reporting capital assets at the following:

General capital assets	\$ 5,000
Infrastructure capital assets	\$ 5,000

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

	<u>Years</u>
Land improvements and infrastructure	25-60
Buildings	30-50
Furniture and equipment	5-15
Vehicles	5-10

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included all infrastructure into the current basic financial statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, parklands, and buildings. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during the construction of capital assets, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

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

H. Compensated Absences

Government-Wide Financial Statements

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Compensated Absences (continued)

Fund Financial Statements

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

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

I. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are prepaid charges for services.

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, long-term assessments, and loans receivable.

J. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as other assets and amortized on a straight-line basis over the life of the related bonds.

Fund Financial Statements

The Governmental Fund Financial Statements do not include long-term debt, as this liability is not payable in the current period. In addition, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, as a revenue or expenditure of the current period rather than amortizing them over the life of the bonds. The face amount of debt issued and any premiums received are reported as other financing sources, while discounts and issuance costs are reported as other financing uses.

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Net Assets and Fund Equity

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

L. Property Tax Revenue

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

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

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

M. Use of Estimates

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Implementation of New GASB Pronouncements

In 2008-09 the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions – This Statement establishes standards for the measurement, recognition, and display of Other Post-Employment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplemental information (RSI) in the financial reports.

GASB Statement No. 49, Accounting and Financial Reporting for Pollution remediation Obligations – This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GSAB) authoritative literature.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards – The objective of this Statement is to incorporate into Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presents in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events.

2. CASH AND INVESTMENTS

The City maintains an internal cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled and are reported as cash and investments with fiscal agents.

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

A. Authorized Investments

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

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

Under provisions of the City's Investment Policy, the City may invest in the following types of investments:

- ✓ U.S. Treasury notes, bonds, and/or bills;
- ✓ U.S. Government Federal Agency Securities;
- ✓ Certificate of Deposits;
- ✓ Bankers Acceptances, investment in any one commercial bank is limited to no more than 30% of the total investment in BA's and the maximum maturity for any security at acquisition is 180 days;
- ✓ Commercial Paper, investment in any single issuer is limited to no more than 10% of total investment in Commercial Paper and the maximum maturity for any security at acquisition is 270 days;
- ✓ State of California Local Agency Investment Fund (LAIF);
- ✓ Money Market and Mutual Funds; and
- ✓ Corporate Notes, AAA rated.

Unless otherwise noted, the above investments are authorized within the limitations delineated in Code Sections 53600 et seq. A five-year maximum maturity (at acquisition) for each investment is allowed unless a longer term approved in advance by the City Council.

B. Cash Deposits

At June 30, 2009 the carrying amount of the City's time and demand deposits was \$61,362,274. The difference between the bank balance of \$63,033,981 and the carrying amount resulted from outstanding checks and deposits in transit. Of the time deposits and demand deposits, \$100,000 was covered by federal depository insurance with the balance being collateralized with securities held by the counter party or its agent in accordance with Section 53652 of the Code. The Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's total deposits, or by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures

The following is a summary of the pooled cash and investments and investment with fiscal agent at June 30, 2009:

	Government-Wide Statement of Net Assets			Fiduciary Funds Statement of Net Assets	Grand Total
	Governmental Activities	Business-Type Activities	Total		
Cash and investments	\$ 92,225,381	\$ 56,249,322	\$ 148,474,703	\$ 588,947	\$ 149,063,650
Cash and investments with fiscal agent	11,819,659	21,766,679	33,586,338	418,585	34,004,923
Total cash and investments	<u>\$ 104,045,040</u>	<u>\$ 78,016,001</u>	<u>\$ 182,061,041</u>	<u>\$ 1,007,532</u>	<u>\$ 183,068,573</u>

Cash and investments held with fiscal agent are restricted for payment of principal and interest for the City's various bond issues (see footnote # 6) or for construction costs financed by the proceeds of the City's bond issuances.

As of June 30, 2009, the City's cash and investments matured as follows:

	Fair Value	Due on Demand	Maturities (in years)			
			1 year or less	1-2 years	2-3 years	3-4 years
Cash on hand and demand deposits	\$ 61,362,275	\$ 61,362,275				
<u>Investments</u>						
U.S. Treasury Notes	\$ 2,007,180		\$ 2,007,180			
U.S. Federal Agency Securities	\$ 12,095,120		\$ 2,015,000	\$ 4,013,760	\$ 2,003,240	\$ 4,063,120
Certificates of Deposit	23,713,635		21,713,635	2,000,000		
LAIF	49,885,440		49,885,440			
Total Investments	<u>\$ 87,701,375</u>	<u>\$ -</u>	<u>\$ 75,621,255</u>	<u>\$ 6,013,760</u>	<u>\$ 2,003,240</u>	<u>\$ 4,063,120</u>
Total cash and investments	<u>\$ 149,063,650</u>	<u>\$ 61,362,275</u>	<u>\$ 75,621,255</u>	<u>\$ 6,013,760</u>	<u>\$ 2,003,240</u>	<u>\$ 4,063,120</u>
Investment maturities as a percent of total fair value			86.23%	6.86%	2.28%	4.63%

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. Maturities as a percentage of the total fair value of the investment portfolio are noted in the table above. The average life of the portfolio is 171 days.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

Credit Risk – It is the City’s policy that federal agency securities must have the highest rating issued by the nationally recognized statistical rating organizations. The Local Agency Investment Fund (LAIF), administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments.

At June 30, 2009 the City’s credit risks, expressed on a percentage basis were as follows:

	<u>S&P Credit Rating</u>	<u>% of Investments</u>
US Treasuries	AAA	2.29%
US Governments Agencies	AAA	13.79%
CA Local Agency Investment Fund	not rated	56.88%
Certificates of deposit	not rated	27.04%
Total		<u>100.00%</u>

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of LAIF and Certificates of Deposit, are held by a third-party custodian (Wells Fargo Bank). Wells Fargo Bank is a registered member of the Federal Reserve Bank. The securities held by Wells Fargo are in street name and a customer number is assigned to the City identifying ownership.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the City’s investments be carried at fair market value instead of cost. Accordingly, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. The change in value of the City’s investments from June 30, 2008 to June 30, 2009 amounted to an unrealized loss of \$114,000.

D. External Investment Pool

The City invests in the California Local Agency Investment Fund (LAIF), a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available. The City values its investment in LAIF at amortized cost, which approximates the fair market value.

The City’s investment with LAIF at June 30, 2009 includes a portion of pool funds invested in structured notes and asset-backed securities. These investments may include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises such as the Federal National Mortgage Association and the Federal Home Loan Bank System or an international agency such as the World Bank.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

D. External Investment Pool, Continued

Asset-Backed Securities entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest payments from a pool of mortgages (e.g., CMOs) or small business loans or credit card receivables (such as ABCP).

As of June 30, 2009, the City had \$49,885,440 invested in LAIF, which had invested 14.71% of the pool's funds in structured notes and asset-backed securities. LAIF's fair value factor of 1.001364207 was used to calculate the fair value of investments in LAIF as of June 30, 2009.

3. RECEIVABLES AND DEFERRED REVENUE

A. Government Wide Financial Statements

At June 30, 2009, the City had the following amounts due from developers and loans receivable. These amounts are further described below the table.

	Governmental Activities	Business-Type Activities	Total
Due from developers	\$ 20,040	\$ 157,663	\$ 177,703
Loans receivable	19,470,802		19,470,802
Total	\$ 19,490,842	\$ 157,663	\$ 19,648,505

Due from Developers

These amounts represent funds expended by the City in the preparation of the master plan and related planning documents required for the development of the City's Northwest Specific Triangle Plan Area and its Northeast Master Plan Area. The amounts expended by the City are being recovered as these Plan Areas develop via a specific development impact fee. The Northwest Triangle receivable of \$157,663 is recorded in the Sewer fund and the Northeast Master Plan receivable of \$20,040 is recorded in the General Fund.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable

Loans receivable at June 30, 2009 consist of the following:

<u>Type of Loan/Borrower</u>	<u>Amount</u>
Central Valley Coalition for Affordable Housing	\$ 7,271,337
First Time Homebuyer Loans	7,706,603
Owner-Occupied Rehabilitation Loans	2,972,115
Cherry Tree Village Loans	1,422,785
Commercial Building Improvement Program	31,522
Rental Rehabilitation Loans	22,440
Executive MBA Program Loans	44,000
Total Loans	\$ 19,470,802

Central Valley Coalition for Affordable Housing

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

CVCAH is currently participating in three types of projects within the City of Turlock. The first is Crane Terrace, a 44-unit, three-story, low-income senior living apartment complex. Using 20% Set-Aside monies, the Redevelopment Agency loaned \$4 million to this \$10.5 million project under a Development and Disposition Agreement (DDA) dated April 26, 2005. The DDA calls for repayment of the 55-year note to begin in year 31 from residual rental receipts. The note carries 3% simple interest. The total outstanding principal and interest at June 30, 2009 was \$4,671,638.

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 \$1,017,539. 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, 2009 on these three properties was \$1,148,005.

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 \$1,259,160. 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, 2009 on these three properties was \$1,451,694.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statements, Continued

Loans Receivable, Continued

First Time Homebuyer Loans

The First Time Homebuyer Loan program, funded using Federal and/or State of California HOME funds along with Redevelopment Agency low/moderate income housing funds, provides eligible prospective homebuyers within the City of Turlock with up to \$80,000 in funding assistance through a silent second deed of trust on their home. The loans are interest free for the first five years and accrue interest at 5% simple interest annually thereafter. The loans are due and payable should the homeowner refinance or sell the property. Proceeds from repaid loans are used to extend new loans. As of June 30, 2009 the City had 129 loans outstanding.

Owner-Occupied Rehabilitation Loans

The Owner-Occupied Rehabilitation Loan program, funded with either Federal Community Development Block Grant (CDBG) or State of California HOME funds, provides eligible homeowners with funding for health, safety and/or building code related improvements to their home. Eligibility is established based on the age and income requirements for U.S. Department of Housing and Urban Development (HUD) funded programs. The loans are for a maximum of 20 years and can be either fully amortizing or deferred – depending on the age and income level of the applicant. The fully amortizing loans carry a 5% simple interest rate for the entire term, while the deferred loans accrue simple interest at 5% for the first 10 years and then no interest for the remaining 10 years. All loans are secured by a 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, 2009 the City had 42 loans outstanding.

Cherry Tree Village Loans

The City and the City's Redevelopment Agency assisted in the development of Cherry Tree Village, a low-income senior housing project. Pursuant to a Loan Agreement dated September 23, 1998, the City using \$400,000 in CDBG funds and the Redevelopment Agency using \$600,000 in low/moderate-income housing funds loaned the project \$1,000,000. Loan proceeds were disbursed in increments as the project performed in accordance with the terms of the Agreement. The loan proceeds have been fully disbursed. Interest accrues on the loan at an annual rate of 5% and is calculated based on the disbursement date of loan installments. The loan is to be repaid from residual rental income generated by the project. Any unpaid principal and accrued interest is due and payable at the end of forty years. The total outstanding principal and interest at June 30, 2009 was \$1,422,785.

Commercial Building Improvement Program

Through its Commercial Building Improvement Program (CBIP), the Agency assists commercial building owners within the Agency's project areas with the cost of facade, seismic retrofit, and building restoration/improvement expenditures in an effort to eliminate blight and maintain the commercial viability of properties. The program contains both grant and loan features, depending on the type of improvements, and has a matching element required of the applicant. The interest rates on the loan element of the program vary from 3% - 5%, again depending on the type of improvements, and loans are fully amortized over a five year period. As of June 30, 2009 there were two CBIP loans outstanding.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. RECEIVABLES AND DEFERRED REVENUE, Continued

A. Government Wide Financial Statement, Continued

Loans Receivable, Continued

Rental Rehabilitation Loans

The Rental Rehabilitation Loan program, funded with CDBG funds, is similar to the owner-occupied program except it is for rental properties. To be eligible, the property must be occupied by a qualified low/moderate income tenant based on HUD requirements. These fully amortizing loans are for a maximum of 20 years and carry a 6.5% simple interest rate. The loans are due and payable should the homeowner refinance or sell the property or have a non-qualifying tenant. As of June 30, 2009 the City had two loans outstanding.

Executive MBA Program Loans

During 2008-09, California State University, Stanislaus in collaboration with the City operated a 15-month Executive MBA program. In exchange for the use of city hall on Saturday for this program, CSUS offered a scholarship to a city employee enrolled in the program who would be responsible for the facility during the term of the program. In order to facilitate this program and encourage qualified city employees to pursue their Master's degree, the City authorized non-interest bearing loans to qualified city employees. The loans are being repaid through payroll deductions. Three city employees qualified for the program and were approved to share the scholarship in return for sharing the facility use responsibilities. The loans were originally for \$17,667 each and at June 30, 2009, the unpaid balance for all three loans was \$44,000.

Unearned (Deferred) Revenue

Deferred revenue is recorded when the City receives funds in advance of performing the work required to be entitled to retain the funds. Deferred revenue at June 30, 2009 consisted of the following:

Governmental Activities		Business-Type	
General	Sports	Activities	
Fund	Facilities	Transportation	Total
\$ 222,084	\$ 19,000	\$ 742,955	\$ 984,039

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. RECEIVABLES AND DEFERRED REVENUE, Continued

B. Fund Financial Statements

Deferred Revenue

Deferred revenue is recorded for loans receivable when the timing of the repayment of these loans is uncertain and therefore not currently available, or when the City receives funds in advance of performing the work required to be entitled to retain the funds. Deferred revenue at June 30, 2009 consisted of the following:

	Governmental Activities		Business-Type	Total
	General Fund	Redevelopment	Non-Major Funds	
Loans Receivable			Non-Major Funds	
First Time Home Buyer			\$ 7,706,603	\$ 7,706,603
Owner-Occupied Rehabilitation			2,972,115	2,972,115
Rental Rehabilitation			22,440	22,440
Cherry Tree Village			1,422,785	1,422,785
Central Valley Coalition for Affordable Housing			7,271,337	7,271,337
Commercial Building Improvement Program		\$ 24,281		24,281
Other	\$ 222,084		19,000	\$ 742,955
Total	\$ 222,084	\$ 24,281	\$ 19,414,280	\$ 742,955

4. INTERFUND TRANSACTIONS

Fund Financial Statements

Due To, Due From

At June 30, 2009 the City's General Fund provided short-term funding to those funds with negative cash positions at year end. In all cases, the negative cash position will be covered by future receipts from the effected funds revenue sources.

		Due To	
		Governmental Activities	
		Nonmajor Funds	Total
Due From	Governmental Activities:		
	General Fund	\$ 899,032	\$ 899,032
	Total	\$ 899,032	\$ 899,032

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

4. INTERFUND TRANSACTIONS, Continued

Fund Financial Statements, Continued

Transfers

At June 30, 2009 the City had the following transfers:

		Transfers In					
		Governmental Activities					
		Gas Tax/Street		Redevelopment	Facility	Nonmajor	Total
		General	Improvements			Fees	Funds
Transfers Out	Governmental Activities:						
	General		\$ 7,350		\$ 494,729	\$ 812,234	\$ 1,314,313
	Gas Tax/Street Imp	\$ 5,833				6,020	11,853
	Redevelopment	24,750			2,279,011	386,916	2,690,677
	Nonmajor	511,911	\$ 5,477	\$ 11,460	143,520	142,962	815,330
	Business-type Activities:						
	Water	5,528			106,263	102,177	213,968
	Sewer	23,202	5,030		99,188	90,783	218,203
	Nonmajor	6,150	\$ 3,000		2,321	35,344	46,815
	Internal Service Funds	5,223				68,523	73,746
Total	\$ 582,597	\$ 20,857	\$ 11,460	\$ 3,125,032	\$ 1,644,959	\$ 5,384,905	

		Transfers In					
		Governmental	Business-type Activities			Internal Service	Grand
		Activities	Water	Sewer	Nonmajor	Funds	Total
				Funds			
Transfers Out	Governmental Activities:						
	General	\$ 1,314,313				\$ 410,985	\$ 1,725,298
	Gas Tax/Street Imp	11,853				6,004	17,857
	Redevelopment	2,690,677					2,690,677
	Nonmajor	815,330	106,698	\$ 48,122	\$ 623,719	182,290	1,776,159
	Business-type Activities:						
	Water	213,968		\$ 20,000		17,186	251,154
	Sewer	\$ 218,203				68,043	286,246
	Nonmajor	\$ 46,815				65,968	112,783
	Internal Service Funds	73,746		10,794		7,433	91,973
Total	\$ 5,384,905	\$ 106,698	\$ 78,916	\$ 623,719	\$ 757,909	\$ 6,952,147	

The City uses Interfund Transfers for two main purposes. First to apportion costs initially accounted for in one fund to other funds that benefit from the goods and/or services acquired. Secondly to account for shared funding of capital improvement projects. The City accounts for capital improvement projects in one fund and the funds that are providing funding assistance transfer monies representing their contribution to the project fund.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2009 the City's capital assets for governmental activities consisted of the following:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Governmental Activity Capital Assets:					
Non-depreciable Assets:					
Land	\$ 14,779,996	\$ 140,000	\$ (352,340)	\$ 162,155	\$ 14,729,811
Construction in progress	10,288,308	10,224,546		\$ (3,017,878)	17,494,976
Total nondepreciable assets	<u>25,068,304</u>	<u>10,364,546</u>	<u>(352,340)</u>	<u>(2,855,723)</u>	<u>32,224,787</u>
Depreciable Assets:					
Land improvements	30,123,628	277,392		305,270	30,706,290
Buildings	17,136,251	21,811			17,158,062
Furniture and equipment	8,352,003	121,673	(97,956)	180,687	8,556,407
Vehicles	8,834,474	650,263	(661,409)	310	8,823,638
Infrastructure	156,361,132	1,936,351		2,369,456	160,666,939
Total depreciable assets	<u>220,807,488</u>	<u>3,007,490</u>	<u>(759,365)</u>	<u>2,855,723</u>	<u>225,911,336</u>
Less accumulated depreciation:					
Land improvements	(5,075,387)	(762,739)			(5,838,126)
Buildings	(5,657,631)	(576,104)			(6,233,735)
Furniture and equipment	(6,234,516)	(485,113)			(6,719,629)
Vehicles	(5,052,068)	(864,212)	97,956		(5,818,324)
Infrastructure	(29,338,138)	(2,910,678)	619,028		(31,629,788)
Total accumulated depreciation	<u>(51,357,740)</u>	<u>(5,598,846)</u>	<u>716,984</u>	<u>-</u>	<u>(56,239,602)</u>
Net depreciable assets	<u>169,449,748</u>	<u>(2,591,356)</u>	<u>(42,381)</u>	<u>2,855,723</u>	<u>169,671,734</u>
Total governmental activity capital assets	<u>\$ 194,518,052</u>	<u>\$ 7,773,190</u>	<u>\$ (394,721)</u>	<u>\$ -</u>	<u>\$ 201,896,521</u>

Governmental activities depreciation expense for capital assets for the year ended June 30, 2009 was as follows:

General government	\$ 185,428
Public safety	1,153,487
Public ways and facilities/transportation	3,712,688
Culture and recreation	500,468
Community development	46,775
Total depreciation expense	<u>\$ 5,598,846</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

At June 30, 2009 the City's capital assets for business-type activities consisted of the following:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Business-Type Activity Capital Assets:					
Non-depreciable Assets:					
Land	\$ 523,844				\$ 523,844
Construction in progress	18,920,281	\$ 10,034,897		\$ (4,797,345)	24,157,833
Total nondepreciable assets	19,444,125	10,034,897	-	(4,797,345)	24,681,677
Depreciable Assets:					
Land improvements	6,826,211				6,826,211
Buildings	3,788,684			1,719,232	5,507,916
Furniture and equipment	14,036,689	208,880	(14,455)	43,294	14,274,408
Vehicles	2,129,711	259,277	(121,577)	(43,294)	2,224,117
Infrastructure	246,645,259	1,018,411	(19,327)	3,078,113	250,722,456
Total depreciable assets	273,426,554	1,486,568	(155,359)	4,797,345	279,555,108
Less accumulated depreciation:					
Land improvements	(908,494)	(218,542)			(1,127,036)
Buildings	(1,574,929)	(119,356)			(1,694,285)
Furniture and equipment	(11,560,694)	(344,270)	15,019		(11,889,945)
Vehicles	(544,853)	(144,443)	72,757		(616,539)
Infrastructure	(92,719,942)	(4,147,819)			(96,867,761)
Total accumulated depreciation	(107,308,912)	(4,974,430)	87,776	-	(112,195,566)
Net depreciable assets	166,117,642	(3,487,862)	(67,583)	4,797,345	167,359,542
Total business-type capital assets	\$ 185,561,767	\$ 6,547,035	\$ (67,583)	\$ -	\$ 192,041,219

Business-type activities depreciation expense for capital assets for the year ended June 30, 2009 was as follows:

Water	\$ 875,701
Sewer	3,875,568
Airport	78,766
Transportation	144,395
Total depreciation expense	\$ 4,974,430

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. CAPITAL ASSETS, Continued

B. Fund Financial Statements

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

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

6. LONG-TERM DEBT

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

A. Government-Wide Financial Statements

Governmental Activities

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

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Due Within One Year	Due in More than One year
Governmental Activity Debt:						
1999 Revenue Bonds	\$ 3,675,000		\$ (135,000)	\$ 3,540,000	\$ 145,000	\$ 3,395,000
2006 Tax Allocation Revenue Bonds	25,135,000		(345,000)	24,790,000	360,000	24,430,000
Add: Unamortized Bond Premium	316,310		(11,230)	305,080		305,080
California Energy Commission	191,969		(26,454)	165,515	27,509	138,006
Economic Development Bank	-	92,798		92,798		92,798
Capital Leases:						
1996 City Hall Acquisition	783,884		(206,714)	577,170	220,091	357,079
2000 Regional Sports Complex	566,895		(67,730)	499,165	71,730	427,435
Various Others	587,397		(290,091)	297,306	127,310	169,996
Subtotal	31,256,455	92,798	(1,082,219)	30,267,034	951,640	29,315,394
Internal Service Long-Term Debt:						
2002 City Hall Addition	816,888		(74,865)	742,023	78,418	663,605
Compensated Absences	2,504,831		(15,648)	2,489,183	497,837	1,991,346
Total governmental activity debt	\$ 34,578,174	\$ 92,798	\$ (1,172,732)	\$ 33,498,240	\$ 1,527,895	\$ 31,970,345

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

1999 Revenue Bonds

Turlock Public Financing Authority Revenue Bonds, Series 1999

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

2006 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2006

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

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

Pursuant to a Loan Agreement between the Agency, the Authority and the Bond Trustee, the Agency has pledged its tax increment revenue (reduced by the amount allocable to the Housing Set-Aside fund, unsubordinated pass through payments, and amounts payable to other taxing agencies under Redevelopment Law) for repayment of the Bonds. Pledged revenues are further limited to the current fiscal year's debt service requirements. Debt service for 2008-09 was 20.5% of total tax increment revenues. Total tax increment revenues (prior to Housing Set-Aside and pass through payments) for 2008-09 were \$9,088,584; while principal and interest payments on the bonds totaled \$1,867,254.

California Energy Commission

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

Economic Development Bank Loan

In an effort to spur economic development through infrastructure assistance, the Stanislaus County Economic Development Bank provides County cities funding assistance for qualifying projects. The City entered into a loan agreement with the County for the construction of a new traffic signal at W Main Street and Fransil Lane. The agreement is for \$889,305 and as of June 30, 2009 the City had drawn down \$92,798. In accordance with loan agreement, repayment of equal installments will begin 3 years after the project is complete and continue for seven years.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

Capital Leases

1996 City Hall Acquisition and Remodel

In September 1996 the City entered into a lease-purchase agreement in the amount of \$2,375,612 with LaSalle National Bank to finance the acquisition and remodel of the new City Hall and the police facilities. The lease has an imputed interest rate of 6.37% and requires semi-annual principal and interest lease payments due on the thirtieth of March and September until 2011, when the lease will terminate and the City will obtain title to the property.

2000 Regional Sports Complex

In January 2000 the City entered into a \$1,000,000 lease – lease buy back agreement with Calcase Public Funding Corporation to finance the acquisition and development of a Regional Sports Complex. The lease carries an annual interest rate of 5.78% and requires quarterly principal and interest lease payments due on the first of January, April, July and October until April 2015 when the lease terminates.

2002 City Hall Addition

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

Various

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Governmental Activities, Continued

Debt Service Requirements

Annual debt service requirements are shown below for all governmental activities long-term debt (excluding compensated absences):

For the Year Ending June 30,	Governmental Activities					
	Loans & Revenue Bonds		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	532,509	1,370,614	497,549	109,421	\$ 1,030,058	\$ 1,480,035
2011	553,606	1,345,235	482,674	80,692	1,036,280	1,425,927
2012	579,737	1,318,755	368,995	52,663	948,732	1,371,418
2013	610,933	1,290,896	175,324	36,033	786,257	1,326,929
2014	642,167	1,260,575	184,633	26,724	826,800	1,287,299
2015-2019	3,506,563	5,840,393	499,287	29,479	4,005,850	5,869,872
2020-2024	4,370,000	4,947,292			4,370,000	4,947,292
2025-2029	5,520,000	3,760,771			5,520,000	3,760,771
2030-2034	7,045,000	2,198,625			7,045,000	2,198,625
2035-2039	5,135,000	393,376			5,135,000	393,376
Total	\$ 28,495,515	\$ 23,726,532	\$ 2,208,462	\$ 335,012	\$ 30,703,977	\$ 24,061,544

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities

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

	Balance			Balance	Due	Due in
	July 1, 2008	Additions	Retirements	June 30, 2009	Within	More than
					One Year	One year
Business-Type Activities:						
1999 Sewer Revenue Bonds	\$ 18,830,000		\$ (550,000)	\$ 18,280,000	\$ 575,000	\$ 17,705,000
Less: Unamortized Bond Discount	(390,068)		20,797	(369,271)		(369,271)
2003A Sewer Revenue Bonds	47,500,000		(980,000)	46,520,000	1,015,000	45,505,000
Less: Unamortized Bond Discount	(261,744)		10,400	(251,344)		(251,344)
2008 Water Revenue Bonds	32,365,000		(610,000)	31,755,000	580,000	31,175,000
Less: Unamortized Bond Discount	(141,572)		4,745	(136,827)		(136,827)
Economic Development Bank	400,000		(200,000)	200,000	200,000	-
Capital Leases:						
2002 City Hall Addition	816,888		(74,865)	742,023	78,418	663,605
Compensated Absences	648,195	27,137		675,332	135,066	540,266
Total business-type activity debt	\$ 99,766,699	\$ 27,137	\$ (2,378,923)	\$ 97,414,913	\$ 2,583,484	\$ 94,831,429

Revenue Bonds Payable

1999 Sewer Revenue Bonds

In August 1999 the Turlock Public Financing Authority issued \$22,000,000 in Sewer Revenue Bonds Series 1999 to (1) finance improvements to the City's wastewater treatment facility, and (2) advance refund (defease) the Series 1994A Sewer Revenue Bonds. The bonds, which carry coupon interest rates ranging from 4.25% - 6.25%, have semi-annual principal and interest payments on the fifteenth of March and September through September 2029.

2003A Sewer Revenue Bonds

In August 2003 the Turlock Public Financing Authority issued \$51,185,000 in Sewer Revenue Bonds Series 2003A to finance capital improvements to the City's tertiary wastewater treatment facility. The improvements are designed to meet wastewater discharge requirements imposed by the Water Quality Control Board. The bonds, which carry coupon interest rates ranging from 2.00% - 5.00%, have semi-annual principal and interest payments on the fifteenth of March and September through September 2033 and are on parity with the bonds issued in 1999.

Pledged Revenues for Sewer Revenue Bonds

Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged the net sewer system revenues (defined as total system revenues excluding certain revenues related to deposits, and proceeds from borrowings less maintenance and operating costs) from the Sewer Enterprise Fund operations for repayment of both the 1999 and 2003A bonds. Based on fiscal year 2008-09 net system revenues of \$9.4 million, annual principal and interest payments (totaling \$4.8 million in 2008-09) were 51% of net system revenues.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities, Continued

Revenue Bonds Payable, Continued

2008 Water Revenue Bonds

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

Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged the net water system revenues (defined as total system revenues excluding certain revenues related to deposits, construction/developer revenues, and proceeds from borrowings less maintenance and operating costs) from the Water Enterprise Fund operations for repayment of the bonds. Based on fiscal year 2008-09 net system revenues of \$4.5 million, annual principal and interest payments (totaling \$2 million) were 44% of net system revenues.

Economic Development Bank Loan

In an effort to spur economic development through infrastructure assistance, the Stanislaus County Economic Development Bank provides County cities funding assistance for qualifying projects. The City entered into a loan agreement with the County for infrastructure assistance for the City's West Industrial Area. The City qualified for \$600,000 in interest-free assistance to be repaid in annual installments of \$200,000 beginning in July 2007.

Capital Leases

2002 City Hall Addition

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities, Continued

Debt Service Requirements

Annual debt service requirements are shown below for all business-type activities long-term debt (excluding compensated absences):

For the Year Ending June 30,	Business-Type Activities					
	Revenue Bonds & Loans		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 2,370,000	\$ 4,636,171	\$ 78,418	\$ 33,893	\$ 2,448,418	\$ 4,670,064
2011	2,250,000	4,547,241	82,137	30,173	2,332,137	4,577,414
2012	2,360,000	4,445,552	86,036	26,275	2,446,036	4,471,827
2013	2,460,000	4,340,803	90,118	22,191	2,550,118	4,362,994
2014	2,570,000	4,230,703	94,394	17,916	2,664,394	4,248,619
2015-2019	14,740,000	19,274,606	310,920	26,007	15,050,920	19,300,613
2020-2024	18,665,000	15,326,586			18,665,000	15,326,586
2025-2029	21,600,000	10,297,225			21,600,000	10,297,225
2030-2034	22,540,000	4,787,159			22,540,000	4,787,159
2035-2039	7,200,000	922,001			7,200,000	922,001
Total	\$ 96,755,000	\$ 72,808,047	\$ 742,023	\$ 156,455	\$ 97,497,023	\$ 72,964,502

Compensated Absences

The City's liability for compensated absences consists of accrued and vested vacation, sick and compensatory pay which is unpaid at year end.

B. Fund Financial Statements

The governmental fund financial statements do not present general government long-term debt but is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

C. Debt with no City Commitment

The City of Turlock has no legal liability with respect to the payment of any indebtedness of the Community Financing District No. 1 Monte Vista Crossings. The City acts solely as an agent for the bondholders in collecting and forwarding the special assessment. Accordingly, no liability for these bonds has been recorded in the City's basic financial statements. The principal amount of outstanding debt of the above District was \$3,840,000 at June 30, 2009.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. CLASSIFICATION OF FUND BALANCE

Fund Financial Statements

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

	Major Funds					Total
	General	Gas Tax/ Street Improvement	Redevelopment	Facility Fees	Non-Major Funds	
Reserved for:						
Loans receivable/ due from developers	\$ 64,040		31,522			95,562
Unreserved - designated for:						
Compensated absences	1,060,840	70,475	3,681		22,623	1,157,619
OPEB	794,450	91,134	18,149		99,311	1,003,044
Contingencies	4,409,319					4,409,319
Unreserved	5,780,247	1,904,979	\$ 25,500,675	\$ 17,925,769	27,970,715	79,082,385
Total fund balances	<u>\$ 12,108,896</u>	<u>\$ 2,066,588</u>	<u>\$ 25,554,027</u>	<u>\$ 17,925,769</u>	<u>\$ 28,092,649</u>	<u>\$ 85,747,929</u>

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

8. RISK MANAGEMENT

The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for general liability, workers' compensation and employee health care.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Central San Joaquin Valley Risk Management Authority (CSJVRMA), a public entity risk pool currently operating as a common risk management and insurance program for 58 cities. The purpose of CSJVRMA is to spread the adverse effect of losses among the members and to purchase excess insurance as a group, thereby reducing its expense. The pool covers City general liability claims between \$1,000,000 and \$29,000,000.

The City contributes its pro rata share of anticipated losses to a pool administered by CSJVRMA. Should actual losses among participants be greater than the anticipated losses, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. The City paid CSJVRMA premiums of \$547,361 and received \$206,254 in refunds during the fiscal year ended June 30, 2009. Settled claims have not exceeded commercial excess liability coverage in any of the past three fiscal years. Also, CSJVRMA is unable to provide incurred but not reported liability balances.

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

8. 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. As of June 30, 2009 claims were \$2,764,290.

		Fiscal Year		
For the Year	Claims	Claims and	Claims	Claims
Ended June 30,	Payable	Changes in	Payments	Payable
	July 1	Estimates		June 30
2007	\$ 2,764,380	\$ 4,795,877	\$ (4,795,877)	\$ 2,764,380
2008	\$ 2,764,380	\$ 4,506,190	\$ (4,506,190)	\$ 2,764,380
2008	\$ 2,764,380	\$ 4,802,128	\$ (4,802,218)	\$ 2,764,290

9. RETIREMENT PLAN

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

Funding Policy - Eligible employees are required by State statute to contribute a stated percentage of their annual covered salary to the retirement plan. The rate was 8% for miscellaneous employees and 9% for public safety employees for 2008-09. The City's actuarially determined employer contributions as a percentage of covered payroll were as follows:

	2008-09
Miscellaneous employees	15.143%
Public Safety - Fire employees	22.696%
Public Safety - Police employees	26.159%

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. RETIREMENT PLAN, Continued

Annual Pension Cost – For fiscal year 2008-09, the City’s annual pension cost of \$4,692,274 for PERS was equal to the City’s required and actual contributions as determined by the June 30, 2006 actuarial valuation. The following are the actuarial assumptions used for that valuation:

The following assumptions and valuation methodologies apply to all three of the City's employee groups (miscellaneous, safety - police and safety - fire):

Valuation date:	June 30, 2006
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level percent of payroll
Asset valuation method:	15 year smoothed market
Investment rate of return:	7.75% (net of administrative expenses)
Inflation:	3.00%
Payroll growth:	3.25%
Projected salary increases:	3.25% to 14.45% (depending on age, length of service and type of employment)
Individual salary growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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

	<u>Miscellaneous</u>	<u>Safety - Police</u>	<u>Safety - Fire</u>
Average amortization period (as of valuation date):	22 years	17 years	17 years

Funding Status – The following is the funding status of the City’s retirement plans as of June 30, 2008 (the most recent actuarial date):

	<u>Plan Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Liability</u>
Miscellaneous employees	\$ 55,401,703	\$ 68,808,705	\$ 13,407,002

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

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

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2007	\$ 2,841,309	100%	-
6/30/2008	\$ 3,831,256	100%	-
6/30/2009	\$ 4,692,274	100%	-

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. POST-EMPLOYMENT HEALTH CARE BENEFITS

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

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

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

In general, employees are required to retire from the City and be members of their respective covered group for 10-15 years to be eligible to receive a benefit from their respective plan. The benefit can only be used to purchase post employment health insurance. The retiree has the option to continue on the City’s health insurance 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 insurance plan, this eligibility terminates when the retiree becomes eligible for Medicare benefits, reaches age 65, is deceased, or chooses to voluntarily leave the plan, whichever comes first. Spousal eligibility requirements vary with each plan. The City currently has 42 retirees and/or spouses who have chosen to remain on the City’s health insurance plan post retirement. The health insurance premium assistance described in this paragraph is referred to as the “offset benefit” below.

Funding Policy – Funding varies with each plan. For the Management/Confidential and Miscellaneous plans, the City sets aside the contributions as required by the respective MOU or Schedule in a separate general ledger fund for each plan. The City has not established irrevocable trusts for these plans nor are the contributions placed in individual accounts for the employees. Therefore, under the requirements of GASB 45, the City is not able to include the funds set aside as monies available to reduce its net OPEB obligation for these plans. The following provides the balance of funds as of June 30, 2009 set aside by the City to fund benefits under these plans. For financial statement purposes these monies have been included in the fund activity from which the employee’s regular payroll expenditures occur (see footnote #7 for the designated portion for governmental funds).

<u>Plan</u>	<u>Amount Set Aside</u>
Management/Confidential	\$ 752,078
Miscellaneous	\$1,199,408

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

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 on a quarterly basis. These plans have each established irrevocable trusts for their respective plan assets. As noted above, the plans' trustees are responsible for the development of benefit levels that can be sustained by the contributions to be received as well as the general plan administration. The City does not have any responsibility for nor involvement in these activities. The following provide the assets available for plan benefits as of July 1, 2007, the date of the latest actuarial valuation.

<u>Plan</u>	<u>Trust Fund Assets</u>
Police	\$925,000
Fire	\$407,063

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

The following table presents the components of the City's annual OPEB cost, amounts actually contributed and changes in the City's Net OPEB Obligation for the year. The amounts are based on actuarial valuations dated July 1, 2007 and amounts contributed for the 2008-09 fiscal year. The table is broken out between the offset benefit and the City's health insurance plan.

<u>OFFSET PLAN</u>	Mangement/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$ 58,696	\$ 147,954	\$ 566,560	\$ 55,776	\$ 828,986
Interest on net OPEB obligation					-
Adjustments					-
Annual OPEB cost (expense)	58,696	147,954	566,560	55,776	828,986
Contributions to irrevocable trust			(179,331)	(306,467)	(485,798)
Benefits payments	(21,111)	(4,691)			(25,802)
Increase (decrease) in NOO	37,585	143,263	387,229	(250,691)	317,386
Net OPEB obligation - beginning	-	-	-	-	-
Net OPEB obligation - ending	<u>\$ 37,585</u>	<u>\$ 143,263</u>	<u>\$ 387,229</u>	<u>\$ (250,691)</u>	<u>\$ 317,386</u>

It should be noted that \$131,500 of the total \$306,467 contributed to the irrevocable trust for the fire plan relates to the settlement of a claim filed by the plan asserting that prior year contributions had not been determined in accordance with the language in the MOU.

<u>HEALTH CARE PLAN</u>	Mangement/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$ 83,623	\$ 483,822	\$ 183,910	\$ 119,934	\$ 871,289
Interest on net OPEB obligation					-
Adjustments					-
Annual OPEB cost (expense)	83,623	483,822	183,910	119,934	871,289
Contributions to irrevocable trust					-
Benefits payments	(119,934)	(94,596)	(91,938)	(19,363)	(325,831)
Increase (decrease) in NOO	(36,311)	389,226	91,972	100,571	545,458
Net OPEB obligation - beginning	-	-	-	-	-
Net OPEB obligation - ending	<u>\$ (36,311)</u>	<u>\$ 389,226</u>	<u>\$ 91,972</u>	<u>\$ 100,571</u>	<u>\$ 545,458</u>

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

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 2008-09 fiscal year are as follows:

OFFSET PLAN	Mangement/ Confidential	Miscellaneous	Police	Fire
Annual OPEB Cost	\$ 58,696	\$ 147,954	\$ 566,560	\$ 55,776
Percent Contributed	35.97%	3.17%	31.65%	549.46%
Net OPEB Obligation	\$ 37,585	\$ 143,263	\$ 387,229	\$ (250,691)

HEALTH CARE PLAN	Mangement/ Confidential	Miscellaneous	Police	Fire
Annual OPEB Cost	\$ 83,623	\$ 483,822	\$ 183,910	\$ 119,934
Percent Contributed	143.42%	19.55%	49.99%	16.14%
Net OPEB Obligation	\$ (36,311)	\$ 389,226	\$ 91,972	\$ 100,571

11. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

As of June 30, 2009, the City is a party to various lawsuits. There are certain personal injury lawsuits which have been denied by the City Council. The outcome and eventual liability to the City, if any, in these cases is not known at this time. After reviewing these lawsuits with legal counsel, management estimates that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

Grants

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

12. SUBSEQUENT EVENTS

Proposition 1A Securitization

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

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

City of Turlock
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

12. SUBSEQUENT EVENTS, Continued

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

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

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

13. PRIOR PERIOD ADJUSTMENT

As noted above in footnote 10, with the implementation of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the City will no longer be presenting the amounts that it has been setting aside outside of an irrevocable trust for OPEB as Agency Funds. For financial statement purposes, these amounts have been transferred back to the original funding sources. (i.e. the amounts the General Fund departments contributed to the Agency Funds have been returned to the General Fund). The following table shows the effect on the various governmental and business-type funds.

<u>Governmental funds</u>	
General	\$ 681,939
Gas Tax/Street Improvement	78,228
Redevelopment	15,579
Non-major funds	85,264
Total governmental funds	<u>861,010</u>
<u>Business-type funds</u>	
Water	126,304
Sewer	327,821
Non-major funds	102,015
Internal service funds	257,968
Total business-type funds	<u>814,108</u>
Total prior period adjustments	<u>\$ 1,675,118</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Turlock
Required Supplementary Information
For the year ended June 30, 2009

BUDGETARY CONTROL AND ACCOUNTING

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

1. The City Manager submits to the City Council a proposed budget for the fiscal year beginning July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled meetings which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested citizens.
3. Prior to July 1, the budget is legally adopted through a passage of a resolution.
4. The City Manager is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The City Council must authorize transfers between funds, between departments, and from the fund balances reserved for specific purposes.
5. Formal budgetary accounting is employed as a management tool for all funds, except the Agency funds, which do not have revenues or expenditures. Annual budgets are legally adopted and amended as required for the General, Special Revenue, Enterprise, and Internal Service funds. Capital Projects funds are budgeted by project, which usually span more than one fiscal year. All budgets are prepared on a basis consistent with generally accepted accounting principles in the United States.
6. Budgeted amounts are reflected after all applicable amendments are revisions.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g. City Attorney) or an entire department having multiple organizations (e.g. Parks and Recreation) or an entire fund (e.g. Downtown Support).

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations, and if certain proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or refunded to the taxpayers through revised tax rates or revised fee schedules. For the fiscal year ended June 30, 2009, proceeds of taxes did not exceed allowable appropriations.

The accompanying Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual present comparisons of the legally-adopted budget with actual data on a basis consistent with generally accepted accounting principles.

Encumbrances

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

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2009

Budgetary Comparison Schedule -
General Fund

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 18,173,776	\$ 16,441,776	\$ 15,419,813	\$ (1,021,963)
Licenses and permits	1,423,000	1,424,000	1,188,695	(235,305)
Fines, forfeitures, and penalties	273,500	273,500	412,918	139,418
Use of money and property	874,000	874,000	623,816	(250,184)
Intergovernmental	6,947,398	6,157,398	6,250,410	93,012
Charges for current services	3,143,330	3,107,872	3,096,478	(11,394)
Other	2,088,726	2,048,045	2,356,358	308,313
Total revenues	32,923,730	30,326,591	29,348,488	(978,103)
EXPENDITURES:				
Current:				
General government	3,417,864	3,550,544	3,253,816	296,728
Public safety	26,835,964	25,370,196	25,519,080	(148,884)
Public ways and facilities/transportation	378,337	393,490	264,581	128,909
Culture and recreation	3,022,965	2,863,429	2,948,923	(85,494)
Community development	1,085,172	1,007,993	960,596	47,397
Capital outlay	41,500	106,740	95,682	11,058
Debt service:				
Principal	121,101	121,101	121,100	1
Interest and fiscal charges	21,101	21,101	21,102	(1)
Total expenditures	34,924,004	33,434,594	33,184,880	249,714
REVENUES OVER (UNDER)				
EXPENDITURES	(2,000,274)	(3,108,003)	(3,836,392)	(728,389)
OTHER FINANCING SOURCES (USES):				
Transfers in	423,943	586,625	582,597	(4,028)
Transfers out	(552,208)	(2,050,540)	(1,725,298)	325,242
Total other financing sources (uses)	(128,265)	(1,463,915)	(1,142,701)	321,214
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (2,128,539)	\$ (4,571,918)	(4,979,093)	\$ (407,175)
FUND BALANCES:				
Beginning of year, as restated			17,087,989	
End of year			<u>\$ 12,108,896</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2009

Budgetary Comparison Schedule -
Gas Tax/Street Improvement

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Use of money and property	\$ 4,000	\$ 4,000	\$ 14,655	\$ 10,655
Intergovernmental	6,953,414	7,049,878	2,890,750	(4,159,128)
Developer contributions			2,111,591	2,111,591
Other	148,500	219,500	378,313	158,813
Total revenues	<u>7,105,914</u>	<u>7,273,378</u>	<u>5,395,309</u>	<u>(1,878,069)</u>
EXPENDITURES:				
Current:				
Public ways and facilities/transportation	2,507,325	2,640,080	2,119,247	520,833
Capital outlay	6,175,615	5,729,946	3,338,151	2,391,795
Debt service:				
Principal	82,327	82,327	82,326	1
Interest and fiscal charges	9,727	9,727	9,689	38
Total expenditures	<u>8,774,994</u>	<u>8,462,080</u>	<u>5,549,413</u>	<u>2,912,667</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(1,669,080)</u>	<u>(1,188,702)</u>	<u>(154,104)</u>	<u>1,034,598</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	457,705	470,757	20,857	(449,900)
Transfers out	(13,127)	(24,492)	(17,857)	6,635
Total other financing sources (uses)	<u>444,578</u>	<u>446,265</u>	<u>3,000</u>	<u>(443,265)</u>
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	<u>\$ (1,224,502)</u>	<u>\$ (742,437)</u>	<u>(151,104)</u>	<u>\$ 591,333</u>
FUND BALANCES:				
Beginning of year, as restated			<u>2,217,692</u>	
End of year			<u>\$ 2,066,588</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2009

Budgetary Comparison Schedule -
Redevelopment

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Taxes and assessments	\$ 5,799,800	\$ 5,799,800	\$ 5,053,131	\$ (746,669)
Use of money and property	620,000	620,000	476,468	(143,532)
Other	15,000	15,000	2,637	(12,363)
Total revenues	6,434,800	6,434,800	5,532,236	(902,564)
EXPENDITURES:				
Current:				
Community development	1,297,048	1,374,365	651,157	723,208
Capital outlay		140,000	140,000	-
Debt service:				
Principal	480,000	480,000	480,000	-
Interest and fiscal charges	1,387,300	1,387,300	1,387,254	46
Total expenditures	3,164,348	3,381,665	2,658,411	723,254
REVENUES OVER (UNDER)	3,270,452	3,053,135	2,873,825	(179,310)
EXPENDITURES				
OTHER FINANCING SOURCES (USES):				
Transfers in	11,460	11,460	11,460	-
Transfers out	(10,031,076)	(11,321,424)	(2,690,677)	8,630,747
Total other financing sources (uses)	(10,019,616)	(11,309,964)	(2,679,217)	8,630,747
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (6,749,164)	\$ (8,256,829)	194,608	\$ 8,451,437
FUND BALANCES:				
Beginning of year, as restated			25,359,419	
End of year			<u>\$ 25,554,027</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2009

Budgetary Comparison Schedule -
Facility Fees

	Budget		Actual	Variance
	Original	Amended		
REVENUES:				
Licenses and permits	\$ 3,260,000	\$ 3,260,000	\$ 1,143,488	\$ (2,116,512)
Use of money and property	23,000	23,000	393,781	370,781
Other	2,235,800	2,235,800	70,800	(2,165,000)
Total revenues	5,518,800	5,518,800	1,608,069	(3,910,731)
EXPENDITURES:				
Current:				
General government	123,500	1,365,970	388,545	977,425
Public safety	3,500	78,500	743	77,757
Public ways and facilities/ transportation	1,500	1,500	620,516	(619,016)
Capital outlay	14,949,305	21,504,930	7,186,842	14,318,088
Debt service:				
Principal	319,833	319,833	319,833	-
Interest and fiscal charges	49,663	49,663	49,662	1
Total expenditures	15,447,301	23,320,396	8,566,141	14,754,255
REVENUES OVER (UNDER)				
EXPENDITURES	(9,928,501)	(17,801,596)	(6,958,072)	10,843,524
OTHER FINANCING SOURCES (USES):				
Transfers in	6,887,723	8,707,693	3,125,032	(5,582,661)
Transfers out	(429,900)	(679,900)	-	679,900
Total other financing sources (uses)	6,457,823	8,027,793	3,125,032	(4,902,761)
REVENUES AND OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES AND OTHER				
FINANCING USES	\$ (3,470,678)	\$ (9,773,803)	(3,833,040)	\$ 5,940,763
FUND BALANCES:				
Beginning of year			21,758,809	
End of year			<u>\$ 17,925,769</u>	

City of Turlock
Required Supplementary Information, Continued
For the year ended June 30, 2009

PUBLIC EMPLOYEE RETIREMENT SYSTEMS (PERS)
SCHEDULE OF FUNDING PROGRESS

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

Safety (Police and Fire) Employees

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

SUPPLEMENTAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

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

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.

Housing Set-Aside

This Redevelopment Agency fund accounts for 20% of the tax increment generated within the Agency boundaries which is required under California law to be set aside for low- and moderate-income housing programs. The remaining 80% of tax increment is accounted for in a Capital Projects fund titled "Redevelopment". Revenue and expenditure detail for this fund can be found in the Supplemental Information section.

Development Impact Fees

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

Equipment Replacement

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

Lighting & Landscaping Assessment Districts

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

CDBG, State HOME Program, Rental Rehabilitation and Stanislaus County Housing Consortium

This group of funds accounts for the various federal funding sources the City receives on an annual basis to assist in the preservation and production of affordable housing within the City.

North Turlock Master Plan

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

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009

	Special Revenue				
	Police Crime Prevention	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities	Housing Set-Aside
ASSETS					
Cash and investments	\$ 11,664	\$ 479,058	\$ 26,658	\$ 55,507	\$ 5,197,393
Accounts receivable		20,054		12,775	
Interest receivable		1,755			16,777
Loans receivable					5,796,758
Other assets					
Total assets	\$ 11,664	\$ 500,867	\$ 26,658	\$ 68,282	\$ 11,010,928
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 762		\$ 3,791	\$ 8,216
Payroll payable				8,267	
Due to other funds				19,000	
Deferred revenue					5,796,758
Total liabilities	-	762	-	31,058	5,804,974
Fund Balances:					
Unreserved:					
Designated for compensated absences				17,563	
Designated for OPEB				19,661	
Undesignated	11,664	500,105	26,658	19,661	5,205,954
Total fund balances	11,664	500,105	26,658	37,224	5,205,954
Total liabilities and fund balances	\$ 11,664	\$ 500,867	\$ 26,658	\$ 68,282	\$ 11,010,928

Special Revenue						
Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$ 23,641	\$ 5,251,539 - 17,112	\$ 3,012,794 23,765	\$ 972,989 3,326	\$ 597,202 2,053	\$ 7,125,840 56,673 24,606	\$ 55,088
<u>\$ 23,641</u>	<u>\$ 5,268,651</u>	<u>\$ 3,036,559</u>	<u>\$ 976,315</u>	<u>\$ 599,255</u>	<u>\$ 7,207,119</u>	<u>\$ 55,088</u>
\$ 1,763	\$ 93,111	\$ 37,713			\$ 3,609 16,848	
<u>1,763</u>	<u>93,111</u>	<u>37,713</u>	<u>-</u>	<u>-</u>	<u>20,457</u>	<u>-</u>
21,878	5,175,540	2,998,846	976,315	599,255	10,789 34,346 7,141,527	55,088
<u>21,878</u>	<u>5,175,540</u>	<u>2,998,846</u>	<u>976,315</u>	<u>599,255</u>	<u>7,186,662</u>	<u>55,088</u>
<u>\$ 23,641</u>	<u>\$ 5,268,651</u>	<u>\$ 3,036,559</u>	<u>\$ 976,315</u>	<u>\$ 599,255</u>	<u>\$ 7,207,119</u>	<u>\$ 55,088</u>

(Continued)

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2009

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Program	Rental Rehabilitation	Stanislaus County Housing Consortium
ASSETS					
Cash and investments	\$ 41,385	\$ 38,835	\$ 143,987	\$ 4,036	\$ 8,587
Accounts receivable	7,905	266,303		510	\$840,183
Interest receivable	822				
Loans receivable		4,780,295	3,753,308	22,440	5,042,479
Other assets					
Total assets	\$ 50,112	\$ 5,085,433	\$ 3,897,295	\$ 26,986	\$ 5,891,249
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		\$ 29,407			\$ 513,801
Payroll payable		6,698			2,302
Due to other funds		230,198			324,080
Deferred revenue		4,780,295	3,753,308	\$ 22,440	5,042,479
Total liabilities	-	5,046,598	3,753,308	22,440	5,882,662
Fund Balances:					
Unreserved:					
Designated for compensated absences		11,834			
Designated for OPEB		38,835			8,587
Undesignated	50,112	(11,834)	143,987	4,546	-
Total fund balances	50,112	38,835	143,987	4,546	8,587
Total liabilities and fund balances	\$ 50,112	\$ 5,085,433	\$ 3,897,295	\$ 26,986	\$ 5,891,249

Special Revenue		Capital Projects				
Grant Funds	Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
\$ 136,019	\$ 23,182,222	\$ 616,612	\$ 159,222	\$ 251,699	\$ 3,132,742	\$ 700,202
349,235	1,577,403					
-	66,451	2,095	547		10,789	3,939
	19,395,280					
	-					
<u>\$ 485,254</u>	<u>\$ 44,221,356</u>	<u>\$ 618,707</u>	<u>\$ 159,769</u>	<u>\$ 251,699</u>	<u>\$ 3,143,531</u>	<u>\$ 704,141</u>
\$ 123,354	\$ 815,527					
3,977	38,092					
236,754	791,032					
	19,414,280					
<u>364,085</u>	<u>21,058,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-					
	22,623					
	99,331					
121,169	23,040,471	618,707	159,769	251,699	3,143,531	704,141
121,169	23,162,425	618,707	159,769	251,699	3,143,531	704,141
<u>\$ 485,254</u>	<u>\$ 44,221,356</u>	<u>\$ 618,707</u>	<u>\$ 159,769</u>	<u>\$ 251,699</u>	<u>\$ 3,143,531</u>	<u>\$ 704,141</u>

(Continued)

City of Turlock
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2009

	Capital Projects			Total Nonmajor Funds
	Westside	East	Total	
	Industrial Specific Plan	Tuolumne Master Plan		
ASSETS				
Cash and investments	\$ 160,397		\$ 5,020,874	\$ 28,203,096
Accounts receivable			-	1,577,403
Interest receivable			17,370	83,821
Loans receivable			-	19,395,280
Other assets			-	-
Total assets	\$ 160,397	\$ -	\$ 5,038,244	\$ 49,259,600
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable			\$	\$ 815,527
Payroll payable			-	38,092
Due to other funds		108,000	108,000	899,032
Deferred revenue			-	19,414,280
Total liabilities	-	108,000	108,000	21,166,931
Fund Balances:				
Unreserved:				
Designated for compensated absences			-	22,623
Designated for OPEB			-	99,331
Undesignated	160,397	(108,000)	4,930,244	27,970,715
Total fund balances	160,397	(108,000)	4,930,244	28,092,669
Total liabilities and fund balances	\$ 160,397	\$ -	\$ 5,038,244	\$ 49,259,600

(Concluded)

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City of Turlock
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2009

	Special Revenue					
	Police Crime Prevention	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities	Housing Set-Aside	Animal Fees Forfeiture
REVENUES:						
Taxes and assessments					\$ 1,667,252	
Licenses and permits						
Use of money and property		\$ 9,867			98,218	
Intergovernmental		84,164				
Charges for current services		61,672	1,613	\$ 281,673		\$ 27,184
Other	2,871	3,301		100		
Total revenues	2,871	159,004	1,613	281,773	1,765,470	27,184
EXPENDITURES:						
Current:						
General government		64,465				
Public safety			557			26,280
Public ways and facilities/transportation						
Culture and recreation				476,215		
Community development					1,506,549	
Capital outlay						
Debt service:						
Principal						
Interest and fiscal charges						
Total expenditures	-	64,465	557	476,215	1,506,549	26,280
REVENUES OVER (UNDER) EXPENDITURES	2,871	94,539	1,056	(194,442)	258,921	904
OTHER FINANCING SOURCES (USES):						
Transfers in				202,813		
Transfers out				(4,148)	(94,150)	
Loan Proceeds						
Total other financing sources (uses)	-	-	-	198,665	(94,150)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	2,871	94,539	1,056	4,223	164,771	904
FUND BALANCES:						
Beginning of year, as restated	8,793	405,566	25,602	33,001	5,041,183	20,974
End of year	\$ 11,664	\$ 500,105	\$ 26,658	\$ 37,224	\$ 5,205,954	\$ 21,878

Special Revenue					
Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$ 181,665	\$ 132,511			2,207,699	
98,044	-	18,545	12,164	131,269	
	227,153	116,877		267	
-	21,300				
279,709	380,964	135,422	12,164	2,339,235	-
-	81,424				
-	49,648				
226,319	23,489	25,094		1,508,048	361
-	2,824				
-	91,978				
792,342	489,419			20,759	
-	-				
67,730	-				
31,316	-				
1,117,707	738,782	25,094	-	1,528,807	361
(837,998)	(357,818)	110,328	12,164	810,428	(361)
291,160	888,691				
(147,020)	(1,103,499)	(50,000)		(17,280)	
144,140	(214,808)	(50,000)	-	(17,280)	-
(693,858)	(572,626)	60,328	12,164	793,148	(361)
5,869,398	3,571,472	915,987	587,091	6,393,514	55,449
\$ 5,175,540	\$ 2,998,846	\$ 976,315	\$ 599,255	\$ 7,186,662	\$ 55,088

City of Turlock
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds, Continued
For the year ended June 30, 2009

	Special Revenue				
	Northeast Turlock CFD #2	CDBG	State HOME Program	Rental Rehabilitation	Stanislaus Housing Consortium
REVENUES:					
Taxes and assessments	\$ 283,666				
Licenses and permits					
Use of money and property	\$ 7,208				
Intergovernmental		\$ 993,090			\$ 1,215,222
Charges for current services					
Other		99,421	628	\$ 6,129	6,049
Total revenues	290,874	1,092,511	628	6,129	1,221,271
EXPENDITURES:					
Current:					
General government	10,248				
Public safety					
Public ways and facilities/transportation					
Culture and recreation					
Community development		1,012,517		6,031	1,219,225
Capital outlay		193,648	225,000		
Debt service:					
Principal					
Interest and fiscal charges					
Total expenditures	10,248	1,206,165	225,000	6,031	1,219,225
REVENUES OVER (UNDER) EXPENDITURES	280,626	(113,654)	(224,372)	98	2,046
OTHER FINANCING SOURCES (USES):					
Transfers in		123,160			
Transfers out	(235,000)	(4,006)		(20,000)	(830)
Loan Proceeds					
Total other financing sources (uses)	(235,000)	119,154	-	(20,000)	(830)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	45,626	5,500	(224,372)	(19,902)	1,216
FUND BALANCES:					
Beginning of year, as restated	4,486	33,335	368,359	24,448	7,371
End of year	\$ 50,112	\$ 38,835	\$ 143,987	\$ 4,546	\$ 8,587

Special Revenue		Capital Projects				
Grant Funds	Total	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan
	\$ 4,291,128					
	181,665					\$ 770,608
\$ 226	375,541	\$ 12,635	3,235		62,118	21,268
1,160,704	3,453,180					
	716,439		728			
127,458	267,257					
1,288,388	9,285,210	12,635	3,963	-	62,118	791,876
-	156,137					
532,645	609,130					
-	1,783,311	20,483			35,324	2,379,168
528,854	1,007,893					
-	3,836,300					
13,811	1,734,979	6,871				
-	67,730					
-	31,316					
1,075,310	9,226,796	27,354	-	-	35,324	2,379,168
213,078	58,414	(14,719)	3,963	-	26,794	(1,587,292)
5,334	1,511,158	57,445				
(100,226)	(1,776,159)					
	-					
(94,892)	(265,001)	57,445	-	-	-	-
118,186	(206,587)	42,726	3,963	-	26,794	(1,587,292)
2,983	23,369,012	575,981	155,806	251,699	3,116,737	2,291,433
\$ 121,169	\$ 23,162,425	\$ 618,707	\$ 159,769	\$ 251,699	\$ 3,143,531	\$ 704,141

City of Turlock

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds, Continued For the year ended June 30, 2009

	Capital Projects			Total Nonmajor Funds
	Westside Industrial Specific Plan	East Tuolumne Master Plan	Total	
REVENUES:				
Taxes and assessments			\$	\$ 4,291,128
Licenses and permits			770,608	952,273
Use of money and property			99,256	474,797
Intergovernmental			-	3,453,180
Charges for current services			728	717,167
Other			-	267,257
Total revenues	-	-	870,592	10,155,802
EXPENDITURES:				
Current:				
General government			-	156,137
Public safety			-	609,130
Public ways and facilities/transportation	35,000	20,000	2,489,975	4,273,286
Culture and recreation			-	1,007,893
Community development			-	3,836,300
Capital outlay	263,060		269,931	2,004,910
Debt service:				
Principal			-	67,730
Interest and fiscal charges			-	31,316
Total expenditures	298,060	20,000	2,759,906	11,986,702
REVENUES OVER (UNDER) EXPENDITURES	(298,060)	(20,000)	(1,889,314)	(1,830,900)
OTHER FINANCING SOURCES (USES):				
Transfers in	76,356		133,801	1,644,959
Transfers out			-	(1,776,159)
Loan Proceeds	92,798		92,798	92,798
Total other financing sources (uses)	169,154	-	226,599	(38,402)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(128,906)	(20,000)	(1,662,715)	(1,869,302)
FUND BALANCES:				
Beginning of year, as restated	289,303	(88,000)	6,592,959	29,961,971
End of year	\$ 160,397	\$ (108,000)	\$ 4,930,244	\$ 28,092,669

NON-MAJOR PROPRIETARY FUNDS

Airport

This fund accounts for grant revenues received from the State and Federal governments which are being expended to fund capital improvements at the Turlock Municipal Airport. The day-to-day operations of the airport and the capital improvement projects are under the control of the Turlock Regional Aviation Association under a Facilities Management Agreement with the City of Turlock.

Transportation

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

Building & Safety

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

City of Turlock
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2009

	Airport	Transportation	Building & Safety	Total Nonmajor Funds
ASSETS				
Current assets:				
Cash and investments	\$ 76,151	\$ 1,846,836	\$ 360,511	\$ 2,283,498
Accounts receivable		705,830		705,830
Interest receivable		7,349	890	8,239
Total current assets	76,151	2,560,015	361,401	2,997,567
Capital assets - net	2,212,007	3,482,312		5,694,319
Total Assets	2,288,158	6,042,327	361,401	8,691,886
LIABILITIES				
Current liabilities:				
Accounts payable		68,241	24,625	92,866
Salaries payable		2,512	47,928	50,440
Deferred revenue		742,955		742,955
Compensated absences - due in one year		3,325	10,740	14,065
Total current liabilities	-	817,033	83,293	900,326
Compensated absences - due in more than one year		13,298	42,961	56,259
Net OPEB Obligation		3,545	43,582	47,127
Total liabilities	-	833,876	169,836	1,003,712
NET ASSETS				
Invested in capital assets, net of related debt	2,212,007	3,482,312	-	5,694,319
Unrestricted	76,151	1,726,139	191,565	1,993,855
Total net assets	\$ 2,288,158	\$ 5,208,451	\$ 191,565	\$ 7,688,174

City of Turlock
Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds
For the year ended June 30, 2009

	Airport	Transportation	Building & Safety	Total
OPERATING REVENUES:				
Charges for services		\$ 148,639	\$ 847,826	\$ 996,465
Intergovernmental	\$ 10,000	990,894		1,000,894
Other income		42,522	69,205	111,727
Total operating revenues	10,000	1,182,055	917,031	2,109,086
OPERATING EXPENSES:				
Salaries		72,076	933,437	1,005,513
Benefits and insurance		55,397	436,851	492,248
Contractual	12,004	964,909	328,886	1,305,799
Supplies and maintenance		154,900	7,796	162,696
Utilities		7,009	11,714	18,723
Fleet expense			7,993	7,993
Depreciation and amortization	78,766	144,395		223,161
Other expenses		130,804	8,266	139,070
Total operating expenses	90,770	1,529,490	1,734,943	3,355,203
Operating income (loss)	(80,770)	(347,435)	(817,912)	(1,246,117)
NONOPERATING REVENUES (EXPENSES):				
Interest income		53,159	8,265	61,424
Loss on disposal of capital assets		(47,575)		(47,575)
Total nonoperating revenues (expenses)	-	5,584	8,265	13,849
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(80,770)	(341,851)	(809,647)	(1,232,268)
Transfers in			623,719	623,719
Transfers out		(79,101)	(33,682)	(112,783)
Total transfers	-	(79,101)	590,037	510,936
Net income (loss)	(80,770)	(420,952)	(219,610)	(721,332)
NET ASSETS:				
Beginning of year, as restated	2,368,928	5,629,403	411,175	8,409,506
End of year	\$ 2,288,158	\$ 5,208,451	\$ 191,565	\$ 7,688,174

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2009

	Airport	Transportation	Building & Safety	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 127,996	\$ 1,173,819	\$ 917,383	\$ 2,219,198
Cash paid to suppliers	(53,704)	(1,371,953)	(426,738)	(1,852,395)
Cash paid to employees		(107,110)	(1,342,079)	(1,449,189)
Net cash provided (used) by operating activities	74,292	(305,244)	(851,434)	(1,082,386)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in			623,719	623,719
Transfer out		(79,101)	(33,682)	(112,783)
Net cash provided (used) by noncapital financing activities	-	(79,101)	590,037	510,936
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets		(653,977)		(653,977)
Proceeds from sale of capital assets		1,244		1,244
Net cash provided (used) by capital and related financing activities	-	(652,733)	-	(652,733)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received		57,359	10,270	67,629
Net cash provided (used) by investing activities	-	57,359	10,270	67,629
Net increase (decrease) in cash and cash equivalents	74,292	(979,719)	(251,127)	(1,156,554)
CASH AND CASH EQUIVALENTS:				
Beginning of year, as restated	1,859	2,826,555	611,638	3,440,052
End of year	\$ 76,151	\$ 1,846,836	\$ 360,511	\$ 2,283,498

City of Turlock
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the year Ended June 30, 2009

	<u>Airport</u>	<u>Transportation</u>	<u>Building & Safety</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (80,770)	\$ (347,435)	\$ (817,912)	\$ (1,246,117)
Noncash items included in operating income (loss)				
Depreciation and amortization	78,766	144,395		223,161
Changes in assets and liabilities				
Accounts receivable	117,996	(141,523)	352	(23,175)
Accounts payable	(41,700)	(114,331)	(62,083)	(218,114)
Salaries payable		195	17,129	17,324
Deferred revenue		133,287		133,287
Compensated absences		16,623	(32,502)	(15,879)
Net OPEB obligation		3,545	43,582	47,127
Net cash provided (used) by operating activities	<u>\$ 74,292</u>	<u>\$ (305,244)</u>	<u>\$ (851,434)</u>	<u>\$ (1,082,386)</u>

INTERNAL SERVICE FUNDS

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

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

The activities of Internal Service funds continue to be presented separately in the Fund Financial Statements.

Equipment Pool

This fund accounts for repair and maintenance activities for all City vehicles and large equipment as well as monies set aside for the replacement of vehicles used by City departments.

Self Insurance

The Self Insurance fund accounts for the activities of the City's risk management and workers' compensation, property/liability and health (medical, dental and vision) insurance programs.

Information Technology

This fund accounts for the costs incurred to maintain and enhance the City's information technology systems.

Engineering

The Engineering fund accounts for the cost of in-house Engineering services provided both to City departments involved in capital projects as well as to the development community external to City operations. The cost of services to the development community is recovered through various permitting processes.

City of Turlock
Combining Statement of Net Assets
Internal Service Funds
June 30, 2009

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
ASSETS					
Current assets:					
Cash and investments	\$ 1,847,719	\$ 14,039,980	\$ 200,892	\$ 1,229,526	\$ 17,318,117
Accounts receivable	5,597	363,843			369,440
Interest receivable	5,524	47,595		3,160	56,279
Total current assets	1,858,840	14,451,418	200,892	1,232,686	17,743,836
Capital assets - net	1,528,138		2,268	1,426,582	2,956,988
Total assets	3,386,978	14,451,418	203,160	2,659,268	20,700,824
LIABILITIES					
Current liabilities:					
Accounts payable	242,763	973,011	47	4,120	1,219,941
Payroll payable	12,244		20,197	65,927	98,368
Interest payable				11,537	11,537
Compensated absences - due within one year	10,335		12,776	33,728	56,839
Capital lease obligations - due within one year				78,418	78,418
Claims liability		2,764,290			2,764,290
Deposits payable					-
Total current liabilities	265,342	3,737,301	33,020	193,730	4,229,393
Long-term liabilities:					
Compensated absences - due in more than one year	41,340		51,104	134,912	227,356
Net OPEB obligation	14,910		20,862	80,539	116,311
Capital lease obligation - due in more than one year				663,605	663,605
Total long-term liabilities	56,250	-	71,966	879,056	1,007,272
Total liabilities	321,592	3,737,301	104,986	1,072,786	5,236,665
NET ASSETS					
Invested in capital assets, net of related debt	1,528,138		2,268	684,559	2,214,965
Unrestricted	1,537,248	10,714,117	95,906	901,923	13,249,194
Total net assets	\$ 3,065,386	\$ 10,714,117	\$ 98,174	\$ 1,586,482	\$ 15,464,159

City of Turlock
Statement of Revenues, Expenses, and Changes in Net Assets
Internal Service Funds
For the year ended June 30, 2009

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
OPERATING REVENUES:					
Charges for services	\$ 1,835,253	\$ 8,721,938	\$ 942,299	\$ 2,152,791	\$ 13,652,281
Refunds & Other Income	15,840	807,160		164,335	987,335
Total operating revenues	1,851,093	9,529,098	942,299	2,317,126	14,639,616
OPERATING EXPENSES:					
Salaries	367,844		431,216	1,606,312	2,405,372
Benefits and insurance	197,681	7,605,267	223,064	866,101	8,892,113
Contractual	48,936		291,160	538,850	878,946
Supplies and maintenance	699,265		6,876	44,937	751,078
Utilities	39,731		26,121	30,458	96,310
Fleet expense	77,173		3,500	25,186	105,859
Depreciation and amortization	323,503		3,013	91,527	418,043
Other expenses	2,993	5,523	8,113	23,971	40,600
Total operating expenses	1,757,126	7,610,790	993,063	3,227,342	13,588,321
Operating income (loss)	93,967	1,918,308	(50,764)	(910,216)	1,051,295
NONOPERATING REVENUES (EXPENSES):					
Interest income	27,613	261,305		20,595	309,513
(Loss) on disposal of capital assets	(16,148)				(16,148)
Interest expense				(36,280)	(36,280)
Total nonoperating revenues (expenses)	11,465	261,305	-	(15,685)	257,085
Income (loss) before operating transfers	105,432	2,179,613	(50,764)	(925,901)	1,308,380
Transfers in	557,544		36,625	163,740	757,909
Transfers out	(35,932)		(8,358)	(47,683)	(91,973)
Total transfers	521,612	-	28,267	116,057	665,936
Net income (loss)	627,044	2,179,613	(22,497)	(809,844)	1,974,316
NET ASSETS:					
Beginning of year, as restated	2,438,342	8,534,504	120,671	2,396,326	13,489,843
End of year	<u>\$ 3,065,386</u>	<u>\$ 10,714,117</u>	<u>\$ 98,174</u>	<u>\$ 1,586,482</u>	<u>\$ 15,464,159</u>

City of Turlock
Combining Statement of Cash Flows
Internal Service Funds
For the year ended June 30, 2009

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 1,830,147	\$ 8,476,142	\$ 942,299	\$ 2,153,239	\$ 13,401,827
Cash paid to suppliers	(766,080)	274,463	(344,403)	(681,748)	(1,517,768)
Cash paid to employees	(562,778)	(7,605,267)	(626,349)	(2,378,200)	(11,172,594)
Other	12,847	801,637	(8,113)	133,497	939,868
Net cash provided (used) by operating activities	514,136	1,946,975	(36,566)	(773,212)	1,651,333
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in	557,544		36,625	163,740	757,909
Operating transfers out	(35,932)		(8,358)	(47,683)	(91,973)
Net cash provided (used) by noncapital capital financing activities	521,612	-	28,267	116,057	665,936
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(606,451)				(606,451)
Proceeds from disposal of capital assets	16,026				16,026
Principal payments on long-term debt				(74,865)	(74,865)
Interest paid				(37,444)	(37,444)
Net cash provided (used) by capital and related financing activities	(590,425)	-	-	(112,309)	(702,734)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	29,382	278,903		27,237	335,522
Net cash provided (used) by investing activities	29,382	278,903	-	27,237	335,522
Net increase (decrease) in cash and cash equivalents	474,705	2,225,878	(8,299)	(742,227)	1,950,057
CASH AND CASH EQUIVALENTS:					
Beginning of year, as restated	1,373,014	11,814,102	209,191	1,971,753	15,368,060
End of year	\$ 1,847,719	\$ 14,039,980	\$ 200,892	\$ 1,229,526	\$ 17,318,117
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 93,967	\$ 1,918,308	\$ (50,764)	\$ (910,216)	\$ 1,051,295
Noncash items included in operating income (loss)					
Depreciation	323,503		3,013	91,527	418,043
Changes in assets and liabilities					
Accounts receivable	(5,106)	(245,796)		448	(250,454)
Accounts payable	99,025	274,553	(16,746)	(42,317)	314,515
Payroll payable	(2,432)		4,556	8,576	10,700
Compensated absences	(9,731)		2,513	5,098	(2,120)
Deposits				(6,867)	(6,867)
Claims liability		(90)			(90)
Net OPEB obligation	14,910		20,862	80,539	116,311
Net cash provided (used) by operating activities	\$ 514,136	\$ 1,946,975	\$ (36,566)	\$ (773,212)	\$ 1,651,333

FIDUCIARY FUNDS

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the Government-wide Financial Statements, but are presented in a separate Fiduciary Fund Financial Statement. For the City of Turlock, the following agent activities are accounted for within the Agency Funds:

- ✓ Turlock Community Facilities District (CFD) #1 – Mello Roos Assessment District – This district was established as a funding mechanism to partially pay for the infrastructure improvements installed in the Monte Vista Crossings shopping area. These improvements were in part funded with the proceeds of a bond issuance which is being retired through annual assessments to the owners of the parcels within the District’s boundaries.

- ✓ Turlock Downtown Property and Business Improvement District (PBID) #2 – This is a successor District to one originally established to fund maintenance efforts in downtown Turlock. The current district was established in June 2003 via a vote of the affected property owners. The District has a ten year life and through annual assessments funds prescribed maintenance efforts within the District’s boundaries as well as promotional activities for the downtown area.

City of Turlock
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2009

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Northwest Triangle - Mello Roos Assessments				
Assets				
Cash and investments	\$ 583,292	372,657	(424,633)	\$ 531,316
Cash and investments with fiscal agents	421,921	4,596	(7,932)	418,585
Accounts and interest receivable	9,365	51,276	(9,365)	51,276
Total assets	\$ 1,014,578	\$ 428,529	\$ (441,930)	\$ 1,001,177
Liabilities				
Due to others	\$ 1,014,578	\$ 428,529	\$ (441,930)	\$ 1,001,177
Total liabilities	\$ 1,014,578	\$ 428,529	\$ (441,930)	\$ 1,001,177
Property & Business Improvement District #2				
Assets				
Cash and investments	\$ 65,880	\$ 159,062	\$ (167,311)	\$ 57,631
Accounts and interest receivable	7,689	10,937	(7,689)	10,937
Total assets	\$ 73,569	\$ 169,999	\$ (175,000)	\$ 68,568
Liabilities				
Accounts payable	\$ 48,832	\$ 20,171	\$ (48,832)	\$ 20,171
Due to others	24,737	149,828	(126,168)	48,397
Total liabilities	\$ 73,569	\$ 169,999	\$ (175,000)	\$ 68,568
Total - All Agency Funds				
Assets				
Cash and investments	\$ 649,172	\$ 531,719	\$ (591,944)	\$ 588,947
Cash and investments with fiscal agents	421,921	4,596	(7,932)	418,585
Accounts and interest receivable	17,054	62,213	(17,054)	62,213
Total assets	\$ 1,088,147	\$ 598,528	\$ (616,930)	\$ 1,069,745
Liabilities				
Accounts payable	\$ 48,832	\$ 20,171	\$ (48,832)	\$ 20,171
Due to others	1,039,315	578,357	(568,098)	1,049,574
Total liabilities	\$ 1,088,147	\$ 598,528	\$ (616,930)	\$ 1,069,745

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**REDEVELOPMENT AGENCY OF
THE CITY OF TURLOCK**

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the City of Turlock Redevelopment Agency (Agency), a component unit of the City of Turlock, California, as of and for the year ended June 30, 2009 and 2008, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the basic financial statements date of June 30, 2009 and the year then ended, the State of California (State) has proposed taking some funds from all redevelopment agencies in the State. These funds are significant to the Agency and may affect its ongoing operations. Certain lawsuits are in process to stop such State actions. For more detailed information, see Note 7 in the Notes to Basic Financial Statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2009, and the results of its operations for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Agency adopted Statement of Governmental Accounting Standards Board:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*

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Irvine, California 92606

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Sacramento, California 95825

San Diego
4858 Mercury, Suite 106
San Diego, California 92111

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2009, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Required Supplementary Information, such as budgetary comparison information and other information as listed in the foregoing table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Capricci & Carlson

Oakland, California
December 28, 2009

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Redevelopment Agency of the City of Turlock

Statement of Net Assets

June 30, 2009

(With comparative totals for June 30, 2008)

ASSETS	Governmental Activities	
	2009	2008
Current assets:		
Cash and investments	\$ 19,876,887	\$ 17,332,366
Cash and investments with fiscal agent	11,819,659	13,446,430
Accounts receivable	284,922	517,290
Interest receivable	84,733	127,376
Total current assets	<u>32,066,201</u>	<u>31,423,462</u>
Noncurrent assets:		
Loans receivable	5,828,280	5,744,303
Deferred charges	608,363	645,477
Capital assets:		
Nondepreciable	1,557,751	1,417,751
Depreciable, net	7,669,331	7,822,991
Total capital assets	<u>9,227,082</u>	<u>9,240,742</u>
Total noncurrent assets	<u>15,663,725</u>	<u>15,630,522</u>
Total Assets	<u>47,729,926</u>	<u>47,053,984</u>
LIABILITIES		
Current liabilities:		
Accounts payable	33,129	26,548
Payroll payable	3,872	3,572
Interest payable	456,257	463,552
Deposits payable	1,042,910	807,134
Long-term debt, due within one year	505,000	480,000
Total current liabilities	<u>2,041,168</u>	<u>1,780,806</u>
Noncurrent liabilities:		
Long-term debt, due in more than one year	28,130,080	28,646,310
Total noncurrent liabilities	<u>28,130,080</u>	<u>28,646,310</u>
Total Liabilities	<u>30,171,248</u>	<u>30,427,116</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,062,592	5,939,156
Restricted for:		
Capital projects	287,126	-
Special projects and programs	11,208,960	10,939,500
Total restricted	<u>11,496,086</u>	<u>10,939,500</u>
Unrestricted	-	(251,788)
Total Net Assets	<u>\$ 17,558,678</u>	<u>\$ 16,626,868</u>

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Statement of Activities and Changes in Net Assets
For the fiscal year ended June 30, 2009

(With comparative totals for the fiscal year ended June 30, 2008)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue And Changes in Net Assets	
			Charges for Services	Governmental Activities
			2009	2008
Primary government:				
Governmental activities:				
Public ways and facilities				\$ (44,238)
Community development	\$ 2,200,041	\$ 1,272	\$ (2,198,769)	(1,817,008)
Interest on long-term debt	1,391,123		(1,391,123)	(1,412,732)
Total governmental activities	<u>3,591,164</u>	<u>1,272</u>	<u>(3,589,892)</u>	<u>(3,273,978)</u>
General revenues and transfers:				
Taxes:				
Property			6,720,383	7,816,439
Interest and investment earnings			574,686	1,204,705
Transfers to other City funds			(2,773,367)	(2,879,525)
Total general revenues and transfers			<u>4,521,702</u>	<u>6,141,619</u>
Changes in net assets			931,810	2,867,641
Net Assets:				
Beginning of year			<u>16,626,868</u>	<u>13,759,227</u>
End of year			<u>\$ 17,558,678</u>	<u>\$ 16,626,868</u>

See accompanying Notes to Basic Financial Statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Redevelopment Agency of the City of Turlock
Balance Sheet
Governmental Funds
June 30, 2009
(With comparative totals for June 30, 2008)

	Major Funds				Total	
	Special Revenue	Capital Projects		2009		2008
	Housing Set Aside	Redevelopment	Downtown Improvement Project			
<u>Assets</u>						
Cash and investments	\$ 5,197,393	\$ 14,427,795	\$ 251,699	\$ 19,876,887	\$ 17,332,366	
Cash and investments with fiscal agent		11,819,659		11,819,659	13,446,430	
Accounts Receivable		284,922		284,922	517,290	
Interest receivable	16,777	67,956		84,733	127,376	
Loans receivable	5,796,758	31,522		5,828,280	5,744,303	
Other assets					14,720	
Total Assets	\$ 11,010,928	\$ 26,631,854	\$ 251,699	\$ 37,894,481	\$ 37,182,485	
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 8,216	\$ 24,913		\$ 33,129	\$ 26,548	
Payroll payable		3,872		3,872	3,572	
Deferred revenue	5,796,758	24,281		5,821,039	5,708,509	
Deposits payable		1,042,910		1,042,910	807,134	
Due to City						
Advances from other City funds						
Total Liabilities	5,804,974	1,095,976		6,900,950	6,545,763	
Fund Balances						
Reserved for:						
Loans receivable		31,522		31,522	35,794	
For other assets					14,720	
Unreserved, designated for:						
PERS						
Compensated absences		3,681		3,681	2,243	
Unreserved, undesignated	5,205,954	25,500,675	251,699	30,958,328	30,583,965	
Total Fund Balances	5,205,954	25,535,878	251,699	30,993,531	30,636,722	
Total Liabilities and Fund Balances	\$ 11,010,928	\$ 26,631,854	\$ 251,699	\$ 37,894,481	\$ 37,182,485	

See accompanying Notes to Basic Financial Statements.

**Redevelopment Agency of the City of Turlock
 Reconciliation of the Governmental Funds Balance Sheet
 to the Government-Wide Statement of Net Assets
 June 30, 2009**

Total Fund Balances - Total Governmental Funds \$ 30,993,531

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

Capital assets used in governmental activities are not current financial resources. Therefore capital assets were not reported in the Governmental Funds Balance Sheet.

Non depreciable capital assets	\$ 1,557,751
Depreciable capital assets	8,750,389
Accumulated depreciation	<u>(1,081,058)</u>

Total capital assets 9,227,082

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (456,257)

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

Long-term liabilities - due within one year	\$ (505,000)
Long-term liabilities - due in more than one year	(28,130,080)
Unamortized cost of issuance included in deferred charges	<u>608,363</u>

Total long-term liabilities, net of deferred charges (28,026,717)

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the Governmental Funds Balance Sheet. 5,821,039

Net Assets of Governmental Activities \$ 17,558,678

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Statement of Activities and Changes in Net Assets
For the fiscal year ended June 30, 2009

(With comparative totals for the fiscal year ended June 30, 2008)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue And Changes in Net Assets	
			Charges for Services	Governmental Activities
			2009	2008
Primary government:				
Governmental activities:				
Public ways and facilities				\$ (44,238)
Community development	\$ 2,200,041	\$ 1,272	\$ (2,198,769)	(1,817,008)
Interest on long-term debt	1,391,123		(1,391,123)	(1,412,732)
Total governmental activities	<u>3,591,164</u>	<u>1,272</u>	<u>(3,589,892)</u>	<u>(3,273,978)</u>
General revenues and transfers:				
Taxes:				
Property			6,720,383	7,816,439
Interest and investment earnings			574,686	1,204,705
Transfers to other City funds			(2,773,367)	(2,879,525)
Total general revenues and transfers			<u>4,521,702</u>	<u>6,141,619</u>
Changes in net assets			931,810	2,867,641
Net Assets:				
Beginning of year			<u>16,626,868</u>	<u>13,759,227</u>
End of year			<u>\$ 17,558,678</u>	<u>\$ 16,626,868</u>

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Reconciliation of the Governmental Statement of Revenues, Expenditures and
Changes in Fund Balances to the Government-Wide Statement of Activities and
Changes in Net Assets
For the fiscal year ended June 30, 2009

Net change in fund balances - Total Governmental Funds	\$ 356,809
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	140,000
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditures in the governmental funds.	(153,660)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments. Principal payments on long-term debt	480,000
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in governmental funds. In addition, governmental funds report the effect of debt issuance costs when the debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the Statement of Activities.	(3,869)
Expenses reported in the Statement of Activities which do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenditures are reported as Loans Receivable and Deferred Revenue on the Fund Financial Statements.	112,530
Change in Net Assets of Governmental Activities	\$ 931,810

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The financial transactions of the Agency are also included in the City's Basic Financial Statements and can be obtained from the City's Finance Department located at 156 South Broadway, Turlock, CA 95380.

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

B. Basis of Accounting/Management Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Agency are reported as charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Management Focus (continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all funds as major funds.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the Agency are property tax increment and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents, and Investments

In order to facilitate the management of cash, the Agency pools its cash and investments with those of the City of Turlock. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

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

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

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

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

E. Capital Assets

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

Land Improvements	25-60 years
Furniture and Equipment	5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the Agency has included all infrastructure into the basic financial statements.

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

F. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate activities.

Fund Financial Statements

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

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Net Assets and Fund Equity

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

H. Use of Estimates

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

I. Implementation of New GASB Pronouncements

In 2008-09 the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 49, Accounting and Financial Reporting for Pollution remediation Obligations – This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s (GSAB) authoritative literature.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Implementation of New GASB Pronouncements (continued)

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards – The objective of this Statement is to incorporate into Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presents in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events.

2. CASH AND INVESTMENTS

The Agency maintains a cash and investment pool with the City of Turlock, which includes cash balances and authorized investments of all Agency funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on month-end cash and investment balances in these funds. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the Agency’s investments are stated at fair value.

The Agency’s share of the City’s pooled cash at June 30, 2009, was \$19,876,887. The City’s Basic Financial Statements contain further details regarding cash and investments and can be obtained from the City’s Finance Department.

3. LOANS RECEIVABLE

Government Wide Financial Statements

At June 30, 2009, the Agency’s loans receivable consisted of the following:

	<u>Governmental Activities</u>
Cherry Tree Village	\$ 818,621
Central Valley Coalition for Affordable Housing	4,671,638
First Time Homebuyer Loans	306,500
Commercial Building Improvement Program	31,521
Total	<u>\$ 5,828,280</u>

Cherry Tree Village

The Agency has a loan receivable with Cherry Tree Village Partners, L.P. to assist with the development of a low/moderate-income housing apartment complex. The loan receivable is pursuant to a Loan Agreement which calls for the Agency to advance a total of \$600,000 to the project over eleven years. The loan carries a 5% simple interest rate and is repayable from residual rental receipts per the terms of the Agreement. As of June 30, 2009, the Agency’s receivable consists of the full \$600,000 in principal plus accrued interest of \$218,621.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

3. LOANS RECEIVABLE (continued)

Government Wide Financial Statements (continued)

Central Valley Coalition for Affordable Housing

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

CVCAH is currently participating in three types of projects within the City of Turlock – one of which is using Redevelopment Agency low/moderate income housing funds. CVCAH developed *Crane Terrace*, a 44-unit, three-story, low-income senior living apartment complex which was completed and occupied in August 2006. Since then it has averaged close to 100% occupancy. The Redevelopment Agency has loaned \$4 million to this \$10.5 million project under a Development and Disposition Agreement (DDA) dated April 26, 2005. The DDA calls for repayment of the 55-year note to begin in year 31 from residual rental receipts. The note carries 3% simple interest. The total outstanding principal and interest at June 30, 2009 was \$4,671,638.

First Time Homebuyer Loans

The First Time Homebuyer Loan (FTHB) program, funded using Federal and/or State of California HOME funds along with Redevelopment Agency low/moderate income housing funds, provides eligible prospective homebuyers within the City of Turlock with up to \$80,000 in funding assistance through a silent second deed of trust on their home. The loans are interest free for the first five years and accrue interest at 5% simple interest annually thereafter. The loans are due and payable should the homeowner refinance or sell the property. Proceeds from repaid loans are used to extend new loans. As of June 30, 2009, the Agency funded or assisted in funding 15 outstanding FTHB loans.

Commercial Building Improvement Program

Through its Commercial Building Improvement Program (CBIP), the Agency assists commercial building owners within the Agency's project areas with the cost of facade, seismic retrofit, and building restoration/improvement expenditures in an effort to eliminate blight and maintain the commercial viability of properties. The program contains both grant and loan features, depending on the type of improvements, and has a matching element required of the applicant. The interest rates on the loan element of the program vary from 3% - 5%, again depending on the type of improvements, and loans are fully amortized over a five year period. As of June 30, 2009 there were two CBIP loans outstanding.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

4. CAPITAL ASSETS

Government-Wide Financial Statements

At June 30, 2009, the Agency's capital assets consisted of the following:

<u>Governmental Activities</u>	Balance			Balance
	July 1, 2008	Additions	Deletions	June 30, 2009
Non-depreciable Assets:				
Land	\$ 1,415,251	\$ 140,000		\$ 1,555,251
Construction in progress	2,500			2,500
Total nondepreciable assets	1,417,751	140,000	-	1,557,751
Depreciable Assets:				
Furniture & Equipment	40,361			40,361
Land Improvements	8,710,028			8,710,028
Total depreciable assets	8,750,389	-	-	8,750,389
Less accumulated depreciation:				
Furniture & Equipment	(32,961)	(7,399)		(40,360)
Land Improvements	(894,437)	(146,261)		(1,040,698)
Total accumulated depreciation	(927,398)	(153,660)	-	(1,081,058)
Net depreciable assets	7,822,991	(153,660)	-	7,669,331
Total governmental activities	\$ 9,240,742	\$ (13,660)	\$ -	\$ 9,227,082

Governmental activities depreciation expense for capital assets for the year ended June 30, 2009 was \$153,660 which was recorded as part of Community Development activity expenses.

5. LONG-TERM DEBT

Government-Wide Financial Statements

Following is a summary of the Agency's long-term debt transactions during the fiscal year ended June 30, 2009:

<u>Governmental Activities</u>	Balance			Balance June 30, 2009	Due within one year	Due in more than one year
	July 1, 2008	Additions	Retirements			
Loans payable to City of Turlock						
Public Financing Authority	\$ 28,810,000		\$ (480,000)	\$ 28,330,000	\$ 505,000	\$ 27,825,000
Add: Unamortized Bond Premium	316,310		(11,230)	305,080		305,080
Total	\$ 29,126,310	\$ -	\$ (491,230)	\$ 28,635,080	\$ 505,000	\$ 28,130,080

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

5. LONG-TERM DEBT (Continued)

Government-Wide Financial Statements (continued)

Loans Payable to City of Turlock Public Financing Authority

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

In March 1999, the Authority issued \$4,970,000 in Revenue Bonds and loaned the proceeds to the Agency to finance the rehabilitation of the City's downtown area. The Agency's tax increment revenue is pledged for repayment of the bonds (see below) which carry coupon interest rates ranging from 3.5% - 5.55% and have semi-annual principal and interest payments on the first of March and September through September 2024. The outstanding principal for this loan as of June 30, 2009 is \$3,540,000.

In August 2006, the Authority issued \$25,440,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to finance various infrastructure projects to be constructed within the Agency's project area boundaries. As with the 1999 Bonds, the Agency's tax increment revenue is pledged for repayment of these bonds (see below). The bonds, which carry coupon interest rates ranging from 4.0% - 5.0%, have semi-annual principal and interest payments on the first of March and September through September 2036. The outstanding principal for this loan as of June 30, 2009 is \$24,790,000.

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

Pursuant to a Loan Agreement between the Agency, the Authority and the Bond Trustee, the Agency has pledged its tax increment revenue (reduced by the amount allocable to the Housing Set-Aside fund, unsubordinated pass through payments, and amounts payable to other taxing agencies under Redevelopment Law) for repayment of the Bonds. Pledged revenues are further limited to the current fiscal year's debt service requirements. Debt service for 2008-09 was 20.5% of total tax increment revenues. Total tax increment revenues (prior to Housing Set-Aside and pass through payments) for 2008-09 were \$9,088,584; while principal and interest payments on the bonds totaled \$1,867,254.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2009

5. LONG-TERM DEBT (continued)

Government-Wide Financial Statements (continued)

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

For the Years Ending June 30,	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 145,000	\$ 186,754	\$ 360,000	\$ 1,177,591	\$ 505,000	\$ 1,364,345
2011	150,000	179,009	375,000	1,161,054	525,000	1,340,063
2012	160,000	170,872	390,000	1,143,841	550,000	1,314,713
2013	170,000	162,210	410,000	1,125,841	580,000	1,288,051
2014	180,000	152,023	430,000	1,106,941	610,000	1,258,964
2015-2019	1,040,000	609,084	2,450,000	5,230,980	3,490,000	5,840,064
2020-2024	1,375,000	282,720	2,995,000	4,664,572	4,370,000	4,947,292
2025-2029	320,000	8,721	5,200,000	3,752,050	5,520,000	3,760,771
2030-2034			7,045,000	2,198,625	7,045,000	2,198,625
2035-2039			5,135,000	393,376	5,135,000	393,376
	<u>\$ 3,540,000</u>	<u>\$ 1,751,393</u>	<u>\$ 24,790,000</u>	<u>\$ 21,954,871</u>	<u>\$ 28,330,000</u>	<u>\$ 23,706,264</u>

6. RISK MANAGEMENT

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

7. SUBSEQUENT EVENTS

As part of its 2009-10 budget process, the California State Legislature passed and the governor signed ABX4-26 which authorizes the transfer of \$2.05 billion in local redevelopment agency funds statewide to K-12 schools within California through the Supplemental Educational Revenue Augmentation Fund (SERAF). This transfer would occur over a two-year period (fiscal years 2009-10 and 2010-11). The Turlock Redevelopment Agency would lose \$4.021 million in tax increment from this transfer which would reduce the Agency's ability to fund capital projects. In October 2009 the California Redevelopment Agency (CRA) filed suit challenging the constitutionality of ABX4-26.

A similar transfer totaling \$350 million statewide was approved as part of the State's 2008-09 budget process. The CRA again filed suit and was successful in invalidating the transfer. The State initially appealed the court ruling, but dropped its appeal in September 2009.

REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Turlock
Required Supplementary Information
For the year ended June 30, 2009

BUDGETARY CONTROL AND ACCOUNTING

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

1. The Executive Director submits to the Agency Board a proposed budget for the fiscal year beginning July 1. The budget includes proposed expenditures and the means of financing them.
2. The Board reviews the proposed budget at specially scheduled meetings which are open to the public. The Board also conducts a public hearing on the proposed budget to obtain comments from interested citizens.
3. Prior to July 1, the budget is legally adopted through a passage of a resolution.
4. The Executive Director is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The Board must authorize transfers between funds, between departments, and from the fund balances reserved for specific purposes.
5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the Special Revenue and Capital Projects funds.
6. All budgets are prepared on a basis consistent with generally accepted accounting principles in the United States.
7. Budgeted amounts are reflected after all applicable amendments are revisions.
8. Appropriations lapse at the end of the fiscal year and are rebudgeted, if necessary, for the coming year.
9. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g. City Attorney) or an entire department having multiple organizations (e.g. Parks and Recreation) or an entire fund (e.g. Downtown Support).

**Redevelopment Agency of the City of Turlock
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes
In Fund Balances - Budget and Actual -
Housing Set Aside Fund
For the Fiscal Year Ended June 30, 2009**

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 1,873,000	\$ 1,873,000	\$ 1,667,252	\$ (205,748)
Use of money and property	6,500	6,500	98,218	91,718
Other			-	-
Total Revenues	<u>1,879,500</u>	<u>1,879,500</u>	<u>1,765,470</u>	<u>(114,030)</u>
Expenditures				
Current				
Community development	4,247,907	4,425,126	1,506,549	2,918,577
Capital Outlay			-	-
Total Expenditures	<u>4,247,907</u>	<u>4,425,126</u>	<u>1,506,549</u>	<u>2,918,577</u>
Excess (Deficit) of Revenues over Expenditures	<u>(2,368,407)</u>	<u>(2,545,626)</u>	<u>258,921</u>	<u>2,804,547</u>
Other Financing Sources (Uses)				
Transfers out to other City funds	<u>(94,150)</u>	<u>(94,150)</u>	<u>(94,150)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(94,150)</u>	<u>(94,150)</u>	<u>(94,150)</u>	<u>-</u>
Net change in fund balance	<u>\$ (2,462,557)</u>	<u>\$ (2,639,776)</u>	164,771	<u>\$ 2,804,547</u>
Fund Balance, July 1			<u>5,041,183</u>	
Fund Balance, June 30			<u>\$ 5,205,954</u>	

**Redevelopment Agency of the City of Turlock
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes
In Fund Balances - Budget and Actual -
Redevelopment
For the Fiscal Year Ended June 30, 2009**

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 5,799,800	\$ 5,799,800	\$ 5,053,131	\$ (746,669)
Use of money and property	620,000	620,000	476,468	(143,532)
Other	15,000	15,000	1,272	(13,728)
Total Revenues	<u>6,434,800</u>	<u>6,434,800</u>	<u>5,530,871</u>	<u>(903,929)</u>
Expenditures				
Current				
Community development	1,297,048	1,374,365	652,362	722,003
Capital Outlay		140,000	140,000	-
Debt service				
Principal	480,000	480,000	480,000	-
Interest and fiscal charges	1,387,300	1,387,300	1,387,254	46
Total Expenditures	<u>3,164,348</u>	<u>3,381,665</u>	<u>2,659,616</u>	<u>722,049</u>
Excess (Deficit) of Revenues over Expenditures	<u>3,270,452</u>	<u>3,053,135</u>	<u>2,871,255</u>	<u>(181,880)</u>
Other Financing Sources (Uses)				
Transfers in	11,460	11,460	11,460	-
Transfers out to other City funds	<u>(10,031,076)</u>	<u>(11,321,424)</u>	<u>(2,690,677)</u>	<u>8,630,747</u>
Total Other Financing Sources (Uses)	<u>(10,019,616)</u>	<u>(11,309,964)</u>	<u>(2,679,217)</u>	<u>8,630,747</u>
Net change in fund balance	<u>\$ (6,749,164)</u>	<u>\$ (8,256,829)</u>	192,038	<u>\$ 8,448,867</u>
Fund Balance, July 1			<u>25,343,840</u>	
Fund Balance, June 30			<u>\$ 25,535,878</u>	

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

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

We have audited the basic financial statements of the City of Turlock Redevelopment Agency (Agency), a component unit of the City of Turlock, California, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *control deficiency* 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 misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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To the Board of Directors
of the City of Turlock Redevelopment Agency
Turlock, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of the Agency, others within the entity, and The State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Oakland, California
December 28, 2009



TURLOCK PUBLIC FINANCING AUTHORITY

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

Turlock Public Financing Authority
For the year ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the City of Turlock Public Financing Authority (Authority), a component unit of the City of Turlock, California, as of and for the year ended June 30, 2009, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009, and the respective changes in financial position and cash flow for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Authority adopted Statement of Governmental Accounting Standards Board:

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2009 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 grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Authority has not presented the management's discussion and analysis, budgetary comparison information and other information required by the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Capricci & Carson

Oakland, California
December 28, 2009

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Turlock Public Financing Authority
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Interest receivable	\$ 456,257	\$ 1,171,867	\$ 1,628,124
Total current assets	456,257	1,171,867	1,628,124
Noncurrent assets:			
Cash and investments with fiscal agent	11,819,659	6,841,050	18,660,709
Leases receivable	26,030,019	88,401,064	114,431,083
Deferred Charges	607,864	555,445	1,163,309
Total noncurrent assets	38,457,542	95,797,559	134,255,101
Total assets	38,913,799	96,969,426	135,883,225
LIABILITIES			
Current liabilities:			
Accrued interest	456,257	1,171,867	1,628,124
Long-term debt, due within one year	505,000	2,170,000	2,675,000
Total current liabilities	961,257	3,341,867	4,303,124
Noncurrent liabilities:			
Bonds payable, due in more than one year	28,130,080	93,627,559	121,757,639
Total noncurrent liabilities	28,130,080	93,627,559	121,757,639
Total liabilities	29,091,337	96,969,426	126,060,763
NET ASSETS			
Restricted for:			
Debt Service	2,299,981		2,299,981
Capital projects	7,522,481		7,522,481
Total net assets	\$ 9,822,462	\$ -	\$ 9,822,462

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets		
			Governmental Activities	Business-type Activities	Total
Governmental activities:					
Interest on long-term debt	\$ 1,391,123	\$ -	\$ (1,391,123)	\$ -	\$ (1,391,123)
Total governmental activities	1,391,123	-	(1,391,123)	-	(1,391,123)
Business-type activities:					
Sewer	3,275,434	3,012,979	-	(262,455)	(262,455)
Water	1,480,994	1,334,479	-	(146,515)	(146,515)
Total business-type activities	4,756,428	4,347,458	-	(408,970)	(408,970)
Total	\$ 6,147,551	\$ 4,347,458	(1,391,123)	(408,970)	(1,800,093)
General revenues:					
Lease revenues			100,754		100,754
Interest and investment earnings			1,379,959	408,970	1,788,929
Total general revenues			1,480,713	408,970	1,889,683
Transfers to City of Turlock			(1,767,336)		(1,767,336)
Total general revenues and transfers			(286,623)	408,970	122,347
Changes in net assets			(1,677,746)	-	(1,677,746)
Net Assets:					
Beginning of year			11,500,208	-	11,500,208
End of year			\$ 9,822,462	\$ -	\$ 9,822,462

See accompanying Notes to Basic Financial Statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Turlock Public Financing Authority
Balance Sheet
Governmental Funds
June 30, 2009

<u>Assets</u>	1999 <u>Revenue Bonds</u>	2006 Tax Allocation <u>Revenue Bonds</u>	<u>Total</u>
Cash and investments with fiscal agent	\$ 378,010	\$ 11,441,649	\$ 11,819,659
Leases receivable	3,161,990	22,868,029	26,030,019
Total Assets	<u>\$ 3,540,000</u>	<u>\$ 34,309,678</u>	<u>\$ 37,849,678</u>
 <u>Liabilities</u> 			
Deferred revenue	\$ 3,161,990	\$ 22,868,029	\$ 26,030,019
Total Liabilities	<u>3,161,990</u>	<u>22,868,029</u>	<u>26,030,019</u>
 <u>Fund Balances</u> 			
Reserved:			
Debt service	378,010	1,921,971	2,299,981
Capital projects		9,519,678	9,519,678
Total Fund Balances	<u>378,010</u>	<u>11,441,649</u>	<u>11,819,659</u>
Total Liabilities and Fund Balance	<u>\$ 3,540,000</u>	<u>\$ 34,309,678</u>	<u>\$ 37,849,678</u>

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2009

Total Fund Balances - Total Governmental Funds \$ 11,819,659

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

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (456,257)

Interest receivable on long-term loans. 456,257

Deferred revenue on the governmental funds statement is an offset against leases receivable but on the government-wide statement long-term debt is the offset against leases receivable less any restricted cash and the deferred revenue has been eliminated. 26,030,019

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

Long-term liabilities - due within one year (505,000)

Long-term liabilities - due in more than one year (28,130,080)

Unamortized cost of issuance included in deferred charges 607,864

Total long-term liabilities, net of deferred charges (28,027,216)

Net Assets of Governmental Activities \$ 9,822,462

Turlock Public Financing Authority
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets		
			Governmental Activities	Business-type Activities	Total
Governmental activities:					
Interest on long-term debt	\$ 1,391,123	\$ -	\$ (1,391,123)	\$ -	\$ (1,391,123)
Total governmental activities	1,391,123	-	(1,391,123)	-	(1,391,123)
Business-type activities:					
Sewer	3,275,434	3,012,979	-	(262,455)	(262,455)
Water	1,480,994	1,334,479	-	(146,515)	(146,515)
Total business-type activities	4,756,428	4,347,458	-	(408,970)	(408,970)
Total	\$ 6,147,551	\$ 4,347,458	(1,391,123)	(408,970)	(1,800,093)
General revenues:					
Lease revenues			100,754		100,754
Interest and investment earnings			1,379,959	408,970	1,788,929
Total general revenues			1,480,713	408,970	1,889,683
Transfers to City of Turlock			(1,767,336)		(1,767,336)
Total general revenues and transfers			(286,623)	408,970	122,347
Changes in net assets			(1,677,746)	-	(1,677,746)
Net Assets:					
Beginning of year			11,500,208	-	11,500,208
End of year			\$ 9,822,462	\$ -	\$ 9,822,462

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Reconciliation of the Governmental Statement of Revenues, Expenditures and
Changes in Fund Balances to the Government-Wide Statement of Activities and
Changes in Net Assets
For the year ended June 30, 2009

Net change in fund balances - Total Governmental Funds \$ (1,626,771)

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

Lease revenue is recognized as revenue on the fund financial statements, (519,811)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.

Principal payments on long-term debt 480,000

Interest expense is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. The following amount represents the change in accrued interest from the prior year. In addition, governmental funds report the effect of debt issuance costs when the debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the Statement of Activities.

Change in accrued interest payable	7,295	
Amortization of issuance costs	<u>(11,164)</u>	(3,869)

Interest revenue from long-term loans receivable is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. The following amount represents the change in accrued interest from the prior year. (7,295)

Change in Net Assets of Governmental Activities \$ (1,677,746)

Turlock Public Financing Authority
Statement of Net Assets
Proprietary Funds
June 30, 2009

<u>Assets</u>	1999 <u>Sewer Bonds</u>	2003A <u>Sewer Bonds</u>	2008 <u>Water Bonds</u>	<u>Total</u>
Cash and investments with fiscal agent	\$ 1,540,640	\$ 3,236,664	\$ 2,063,746	\$ 6,841,050
Interest receivable	284,222	651,112	236,533	1,171,867
Deferred charges		384,482	170,963	555,445
Leases receivable	16,370,089	42,647,511	29,383,464	88,401,064
Total Assets	<u>18,194,951</u>	<u>46,919,769</u>	<u>31,854,706</u>	<u>96,969,426</u>
 <u>Liabilities</u> 				
Current liabilities:				
Interest payable	284,222	651,112	236,533	1,171,867
Current portion - bonds payable	575,000	1,015,000	580,000	2,170,000
Total current liabilities	<u>859,222</u>	<u>1,666,112</u>	<u>816,533</u>	<u>3,341,867</u>
Long-term liabilities:				
Bonds payable	<u>17,335,729</u>	<u>45,253,657</u>	<u>31,038,173</u>	<u>93,627,559</u>
Total Liabilities	<u>18,194,951</u>	<u>46,919,769</u>	<u>31,854,706</u>	<u>96,969,426</u>
 <u>Net Assets</u> 				
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Statement of Activities and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	1999	2003A	2008	
	<u>Sewer Bonds</u>	<u>Sewer Bonds</u>	<u>Water Bonds</u>	<u>Total</u>
Operating Revenue				
Lease Revenue	\$ 909,635	\$ 2,103,344	\$ 1,334,479	\$ 4,347,458
Total Operating Revenue	<u>909,635</u>	<u>2,103,344</u>	<u>1,334,479</u>	<u>4,347,458</u>
Operating Income (Loss)	<u>909,635</u>	<u>2,103,344</u>	<u>1,334,479</u>	<u>4,347,458</u>
Non-Operating Revenues (Expenses)				
Interest income	93,997	168,458	146,515	408,970
Interest expense	<u>(1,003,632)</u>	<u>(2,271,802)</u>	<u>(1,480,994)</u>	<u>(4,756,428)</u>
Total Non-Operating Revenues (Expenses)	<u>(909,635)</u>	<u>(2,103,344)</u>	<u>(1,334,479)</u>	<u>(4,347,458)</u>
Net Income (Loss)	-	-	-	-
Net assets, July 1, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	1999	2003A	2008	Total
	Sewer Bonds	Sewer Bonds	Water Bonds	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 1,438,554	\$ 3,057,042	\$ 1,964,334	\$ 6,459,930
Net Cash Provided (Used) by Operating Activities	1,438,554	3,057,042	1,964,334	6,459,930
Cash Flows from Capital and Related Financing Activities:				
Principal payments on long-term debt	(550,000)	(980,000)	(610,000)	(2,140,000)
Interest paid	(990,232)	(2,254,040)	(1,421,868)	(4,666,140)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,540,232)	(3,234,040)	(2,031,868)	(6,806,140)
Cash Flows from Investing Activities:				
Interest received	101,394	177,007	98,064	376,465
Net Cash Provided (Used) by Investing Activities	101,394	177,007	98,064	376,465
Net Increase (Decrease) in Cash and Cash Equivalents	(284)	9	30,530	30,255
Cash and Cash Equivalents, July 1, 2008	1,540,924	3,236,655	2,033,216	6,810,795
Cash and Cash Equivalents, June 30, 2009	\$ 1,540,640	\$ 3,236,664	\$ 2,063,746	\$ 6,841,050
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Cash Flows from Operating Activities:				
Operating income (loss)	\$ 909,635	\$ 2,103,344	\$ 1,334,479	\$ 4,347,458
Changes in assets and liabilities				
Leases Receivable	528,919	953,698	629,855	2,112,472
Net Cash Provided (Used) by Operating Activities	\$ 1,438,554	\$ 3,057,042	\$ 1,964,334	\$ 6,459,930

See accompanying Notes to Basic Financial Statements.

Turlock Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Authority, a blended component unit of the City of Turlock (City), was created on December 15, 1998, pursuant to Article 1 Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as a joint powers authority between the City and the Turlock Redevelopment Agency. The members of the City Council serve as the governing board for the Authority. All powers of the Authority are vested in the governing board.

The financial transactions of the Authority are also included in the City's Basic Financial Statements and can be obtained from the City's Finance Department located at 156 South Broadway, Turlock, CA 95380.

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

B. Basis of Accounting/Management Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The Authority's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the Authority.

These statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Authority are reported as charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Management Focus (continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Authority has presented all funds as major funds.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue source which has been treated as susceptible to accrual by the Authority is investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets.

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

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

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash, Cash Equivalents, and Investments

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

E. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate activities.

Fund Financial Statements

The Governmental Fund Financial Statements do not include long-term debt, as this liability is not payable in the current period. Long-term debt activity is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

In the proprietary fund financial statements, long-term debt and other financed obligations are reported as liabilities in the appropriate funds.

F. Net Assets and Fund Equity

Government-Wide Financial Statements

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

Restricted for Capital Projects – This amount represents the unexpended portion of debt issued during 2006-07 that will be used to finance capital improvement projects.

Fund Financial Statements

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

G. Use of Estimates

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

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Implementation of New GASB Pronouncements

In 2008-09 the Authority adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s (GSAB) authoritative literature.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards – The objective of this Statement is to incorporate into Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presents in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events.

2. CASH AND INVESTMENTS

All the Authority’s cash at June 30, 2009 was held and invested by third-party trustees pursuant to indenture and investment agreements entered into when the related debt was issued. The cash balance with the third party trustees at June 30, 2009 was \$18,660,709. All cash and investments held by third party trustees are reported at cost which approximates fair value.

3. LEASES RECEIVABLE AND DEFERRED REVENUE

The Authority has recorded leases receivable in the amount of \$114,431,083 pursuant to the lease agreements between the Authority and the City in relation to the bonded indebtedness. The leases receivable along with investments held by fiscal agents secure the repayment of the different debt issues. The lease revenue is equal to the Authority’s debt service requirements and is used for that purpose.

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

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2009

4. LONG-TERM DEBT

Government-Wide Financial Statements

Following is a summary of the Authority's long-term debt transactions during the fiscal year ended June 30, 2009:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Due within one year	Due in more than one year
Governmental Activities						
1999 Revenue Bonds	\$ 3,675,000		\$ (135,000)	\$ 3,540,000	\$ 145,000	\$ 3,395,000
2006 Tax Allocation Revenue Bonds	25,135,000		(345,000)	24,790,000	360,000	24,430,000
Add: Unamortized Bond Premium	316,310		(11,230)	305,080		305,080
Total Governmental activities	<u>29,126,310</u>	<u>-</u>	<u>(491,230)</u>	<u>28,635,080</u>	<u>505,000</u>	<u>28,130,080</u>
Business-type Activities						
1999 Sewer Revenues Bonds	18,830,000		(550,000)	18,280,000	575,000	17,705,000
Less: Unamortized Bond Discount	(390,068)		20,797	(369,271)		(369,271)
2003A Sewer Revenue Bonds	47,500,000		(980,000)	46,520,000	1,015,000	45,505,000
Less: Unamortized Bond Discount	(261,745)		10,402	(251,343)		(251,343)
2008 Water Revenue Bonds	32,365,000		(610,000)	31,755,000	580,000	31,175,000
Less: Unamortized Bond Discount	(141,572)		4,745	(136,827)		(136,827)
Total Business-type activities	<u>97,901,615</u>	<u>-</u>	<u>(2,104,056)</u>	<u>95,797,559</u>	<u>2,170,000</u>	<u>93,627,559</u>
Total long-term debt	<u>\$127,027,925</u>	<u>\$ -</u>	<u>\$ (2,595,286)</u>	<u>\$ 124,432,639</u>	<u>\$ 2,675,000</u>	<u>\$ 121,757,639</u>

1999 Revenue Bonds

Turlock Public Financing Authority Revenue Bonds, Series 1999

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

2006 Tax Revenue Allocation Bonds

Turlock Public Financing Authority Tax Allocation Revenue Bonds, Series 2006

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

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2009

4. LONG-TERM DEBT, continued

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

For the Years Ending June 30,	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 145,000	\$ 186,754	360,000	\$ 1,177,591	\$ 505,000	\$ 1,364,345
2011	150,000	179,009	375,000	1,161,054	525,000	1,340,063
2012	160,000	170,872	390,000	1,143,841	550,000	1,314,713
2013	170,000	162,210	410,000	1,125,841	580,000	1,288,051
2014	180,000	152,023	430,000	1,106,941	610,000	1,258,964
2015-2019	1,040,000	609,084	2,450,000	5,230,980	3,490,000	5,840,064
2020-2024	1,375,000	282,720	2,995,000	4,664,572	4,370,000	4,947,292
2025-2029	320,000	8,721	5,200,000	3,752,050	5,520,000	3,760,771
2030-2034			7,045,000	2,198,625	7,045,000	2,198,625
2035-2039			5,135,000	393,376	5,135,000	393,376
	<u>\$ 3,540,000</u>	<u>\$ 1,751,393</u>	<u>\$ 24,790,000</u>	<u>\$ 21,954,871</u>	<u>\$ 28,330,000</u>	<u>\$ 23,706,264</u>

1999 Sewer Revenue Bonds

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

2003A Sewer Revenue Bonds

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

2008 Water Revenue Bonds

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

Turlock Public Financing Authority
Notes to Basic Financial Statements, continued
For the year ended June 30, 2009

4. LONG-TERM DEBT, continued

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

For the Years Ending June 30,	Sewer Revenue Bonds		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 1,590,000	\$ 3,185,434	580,000	1,450,737	\$ 2,170,000	\$ 4,636,171
2011	1,650,000	3,119,703	600,000	1,427,538	2,250,000	4,547,241
2012	1,735,000	3,042,015	625,000	1,403,537	2,360,000	4,445,552
2013	1,810,000	2,959,140	650,000	1,381,663	2,460,000	4,340,803
2014	1,900,000	2,871,790	670,000	1,358,913	2,570,000	4,230,703
2015-2019	10,960,000	12,904,844	3,780,000	6,369,762	14,740,000	19,274,606
2020-2024	14,030,000	9,818,973	4,635,000	5,507,613	18,665,000	15,326,586
2025-2029	15,835,000	5,910,113	5,756,500	4,387,112	21,591,500	10,297,225
2030-2034	15,290,000	1,886,946	7,250,000	2,900,213	22,540,000	4,787,159
2035-2039			7,200,000	922,001	7,200,000	922,001
Total	\$ 64,800,000	\$ 45,698,958	\$ 31,746,500	\$ 27,109,089	\$ 96,546,500	\$ 72,808,047

5. RISK MANAGEMENT

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

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CITY OF TURLOCK

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

City of Turlock
Single Audit Report
For the year ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the City of Turlock (City) as of and for the year ended June 30, 2009, and have issued our report thereon dated June 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *control deficiency* 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 misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of City management, the Mayor and Members of City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carlson

Oakland, California
June 21, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Turlock (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Audit Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended June 30, 2009, and have issued our report thereon dated June 21, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

This report is intended solely for the information and use of City management, the Mayor and Members of City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carlson

Oakland, California
June 21, 2010

City of Turlock
Single Audit Report
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2009

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct Programs:</i>			
Community Development Block Grant Program (CDBG)	14.228 *	B-06-MC-06-0039	\$ 209,034
Community Development Block Grant Program (CDBG)	14.228 *	B-07-MC-06-0039	784,055
Program Income - CDBG	14.228 *	-	115,934
Home Investment in Affordable Housing Grant (HOME)	14.239	M-06-DC-06-0240	454,614
Home Investment in Affordable Housing Grant (HOME)	14.239	M-07-DC-06-0240	752,886
Home ADDI funds (HOME)	14.239	M-08-DC-06-0240	7,722
Program Income - HOME	14.239	-	<u>231,049</u>
Total U.S. Department of Housing and Urban Development			<u>2,555,294</u>
U. S. Department of Transportation			
<i>Passed through the California Department of Transportation:</i>			
CMAQ various projects	20.205	CML-5165(025, 029 - 031)	259,926
STP Grant	20.205		299,809
STEP Grant	20.605 *	PT0823	194,996
AVOID Grant	20.605 *	AL0967	123,502
<i>Direct Programs:</i>			
FTA Section 5307	20.205	69080138	1,015,848
Total U. S. Department of Transportation			<u>1,894,081</u>
U. S. Department of Justice			
Bureau of Justice Assistance Grant (JAG)	16.738	2006-DJ-BX-0510	18,023
Bureau of Justice Assistance Grant (JAG)	16.738	2007-DJ-BX-0516	35,147
Bureau of Justice Assistance Grant (JAG)	16.738	2008-DJ-BX-0694	2,776
VESTS	16.607	N/A	<u>12,084</u>
Total U. S. Department of Justice			<u>68,030</u>
Total Federal Awards Expenditures			<u>\$ 4,517,405</u>

* Denotes major program

City of Turlock
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2009

1. REPORTING ENTITY

The City was incorporated in 1908. The City operates under a Council-Manager form of government and provides the following services: police and fire, streets and highways, sanitation, water, sewer, culture-recreation, public improvements, planning and zoning, and general administrative services. The financial reporting entity consists of the City, the primary government, and its component units. The component units discussed below are included in the reporting entity because of their operational or financial relationships with the City.

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial statements for the above component units can be obtained from the City of Turlock, 156 South Broadway, Suite 110, Turlock, CA 95380.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Funds received under the various grant programs have been recorded within the General, Special Revenue, Capital Projects, and Enterprise funds of the City. The City utilizes the modified accrual method of accounting for the General, Special Revenue, and Capital Projects funds, and utilizes the full accrual method of accounting for the Enterprise funds. Expenditures of Federal awards reported on the Schedule of Expenditures of Federal Awards (Schedule) are recognized when incurred. The accompanying Schedule has been prepared accordingly.

B. Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all Federal financial assistance programs of the City. Federal financial assistance received directly from Federal agencies, as well as Federal financial assistance passed through the State of California and Stanislaus County, are included in the Schedule.

The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

City of Turlock
Single Audit Report
Schedule of Findings and Questioned Costs
For the year ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City.
2. No significant deficiencies relating to the audit of the financial statements are reported in the basic financial statements.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major Federal award programs is reported in the basic financial statements.
5. The auditors' report on compliance for the major Federal award programs for the City expresses an unqualified opinion.
6. Audit findings relative to the major Federal award programs for the City are reported in Part C of this Schedule below.
7. The programs tested as major programs include:

Major Program	Expenditures
CDBG	\$ 1,109,023
Step Grant	194,966
Avoid Grant	123,502
Total Major Program Expenditures	\$ 1,427,491
Total Federal Expenditures	\$ 4,517,405
Percent of Total Federal Award Expenditures	32%

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

No financial statement findings were noted.

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

No findings or questioned costs were noted on the City's major programs.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

No findings or questioned costs were noted on the City's major programs for the previous year.

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**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
For the year ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Transportation Development Act Article III Funds (TDA Funds) of the City of Turlock, California (City), as of and for the year ended June 30, 2009, as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the TDA Funds and are not intended to, and do not, present fairly the financial position of the City as of June 30, 2009, and the changes in fund balances thereof for the year then ended in conformity with general accepted accounting principles in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TDA Funds as of June 30, 2009 and the respective changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with Government Auditing Standards, we have also issued a report dated December 28, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report and considered in assessing the results of our audits.

Caporicci & Larson

Oakland, California
December 28, 2009

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CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Balance Sheet
Governmental Fund - Streets Special Revenue Fund
June 30, 2009

		Special Revenue Fund <u>Streets</u>
<u>Assets</u>		
Cash and investments		\$ 1,399,923
Accounts receivable		<u>743,676</u>
Total Assets		<u>\$ 2,143,599</u>
<u>Liabilities and Fund Equity</u>		
Liabilities		
Accounts and salaries payable		<u>\$ 28,016</u>
Total Liabilities		<u>28,016</u>
Fund Balance:		
Unreserved		<u>2,115,583</u>
Total Fund Balance		<u>2,115,583</u>
Total Liabilities and Fund Balance		<u>\$ 2,143,599</u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund - Streets Special Revenue Fund
For the Fiscal Year Ended June 30, 2009

Revenues	
Intergovernmental revenues	\$ 1,195,917
Other	<u>338,772</u>
Total Revenues	<u>1,534,689</u>
Expenditures	
Public ways and facilities/transportation	1,057,851
Capital outlay	<u>222,996</u>
Total Expenditures	<u>1,280,847</u>
Excess (Deficit) of Revenues over Expenditures	253,842
Other Financing Sources (Uses)	
Transfers in from other City funds	3,000
Transfers out to other City funds	<u>(425,366)</u>
Total Other Financing Sources (Uses)	<u>(422,366)</u>
Net Change in Fund Balance	(168,524)
Fund Balance, July 1, 2008	<u>2,284,107</u>
Fund Balance, June 30, 2009	<u><u>\$ 2,115,583</u></u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Revenues, Expenditures, and Changes in Fund
Balance - Budget and Actual
Governmental Fund - Streets Special Revenue Fund
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental revenues	\$ 684,821	\$ 1,195,917	\$ 511,096
Other	196,500	338,772	142,272
Total Revenues	<u>881,321</u>	<u>1,534,689</u>	<u>653,368</u>
Expenditures			
Public ways and facilities/transportation	1,286,141	1,057,851	228,290
Capital outlay	445,979	222,996	222,983
Total Expenditures	<u>1,732,120</u>	<u>1,280,847</u>	<u>451,273</u>
Excess (Deficit) of Revenues over Expenditures	(850,799)	253,842	1,104,641
Other Financing Sources (Uses)			
Transfers in from other City funds	3,000	3,000	-
Transfers out to other City funds	(645,725)	(425,366)	220,359
Total Other Financing Sources (Uses)	<u>(642,725)</u>	<u>(422,366)</u>	<u>220,359</u>
Net Change in Fund Balance	<u>\$ (1,493,524)</u>	(168,524)	<u>\$ 1,325,000</u>
Fund Balance, July 1, 2008		<u>2,284,107</u>	
Fund Balance, June 30, 2009		<u>\$ 2,115,583</u>	

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Net Assets
Proprietary Fund - Transportation Enterprise Fund
June 30, 2009

	<u>Enterprise Fund Transportation</u>
<u>Assets</u>	
Current assets:	
Cash and investments	\$ 1,837,859
Accounts receivable	705,830
Interest receivable	7,349
Total current assets	<u>2,551,038</u>
Capital assets - net	<u>3,482,312</u>
 Total Assets	 <u>6,033,350</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	68,241
Salaries payable	2,512
Deferred revenue	742,955
Compensated absences - due in one year	3,325
Total current liabilities	<u>817,033</u>
Compensated absences - due in more than one year	13,298
Total liabilities	<u>830,331</u>
Net Assets:	
Invested in capital assets, net of related debt	3,482,312
Restricted for transportation activities	1,720,707
 Total Net Assets	 <u>\$ 5,203,019</u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund - Transportation Enterprise Fund
For the Fiscal Year Ended June 30, 2009

Operating Revenues	
Charges for services	\$ 148,639
Other income	42,522
	<u>191,161</u>
Total Operating Revenues	<u>191,161</u>
Operating Expenses	
Salaries, benefits and insurance	125,199
Contractual	964,909
Supplies and maintenance	154,900
Utilities	7,009
Depreciation	144,395
Other expenses	130,804
	<u>1,527,216</u>
Total Operating Expenses	<u>1,527,216</u>
Operating Loss	<u>(1,336,055)</u>
Non-Operating Revenues (Expenses)	
Intergovernmental revenues	990,894
Interest income	53,159
Loss on disposal of capital assets	(47,575)
	<u>996,478</u>
Total Non-Operating Revenues	<u>996,478</u>
Income before operating transfers	(339,577)
Transfers out	<u>(79,101)</u>
Net income	(418,678)
Net Assets, July 1, 2008	<u>5,621,697</u>
Net Assets, June 30, 2009	<u><u>\$ 5,203,019</u></u>

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Statement of Cash Flows
Proprietary Fund - Transportation Enterprise Fund
For the Fiscal Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 49,638
Cash paid to suppliers	(1,371,953)
Cash paid to employees	(108,381)
Net cash provided (used) by operating activities	(1,430,696)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(653,977)
Proceeds from sale of capital assets	1,244
Net cash provided (used) by capital and related financing activities	(652,733)

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:

Transfers out	(79,101)
Intergovernmental revenues	1,124,181
Net cash provided (used) by capital and related financing activities	1,045,080

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	57,359
Net cash provided (used) by investing activities	57,359

Net increase (decrease) in cash and cash equivalents (980,990)

CASH AND CASH EQUIVALENTS:

Beginning of year	2,818,849
End of year	\$ 1,837,859

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

Operating income (loss)	\$ (1,336,055)
Noncash items included in operating income (loss)	
Depreciation and amortization	144,395
Changes in assets and liabilities	
Accounts receivable	(141,523)
Accounts payable	(114,331)
Salaries payable	195
Compensated absences	16,623
Net cash provided (used) by operating activities	\$ (1,430,696)

See accompanying notes to the financial statements.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements
For fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

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

B. Fund Accounting

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

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

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

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

Governmental Fund Type

Governmental funds are accounted for using the modified accrual basis of accounting and "*current financial resources*" measurement focus. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized in the accounting period in which they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City's accrual period is generally 60 days after fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

A Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specific purposes. The Streets Special Revenue Fund is used to account for the City's share of the Transportation Development Act (TDA) allocations that are legally restricted for street maintenance and capital improvements. In addition, this fund accounts for the Proposition 42 and Proposition 1B funds whose use is generally restricted to pavement maintenance, rehabilitation and/or reconstruction.

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation, Basis of Accounting, and Measurement Focus (continued)

Proprietary Fund Type

Proprietary funds are accounted for using the accrual basis of accounting and the “*economic resources*” measurement focus. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period in which they are incurred. Proprietary funds are used to account for activities that are similar to those found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The following is the City's proprietary fund type:

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

Capital Assets

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

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

D. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents have been defined as cash, pooled cash, and investments held by the City with a maturity of three months or less.

E. Use of Estimates

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

F. Proprietary Fund Accounting

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2009

2. CASH AND INVESTMENTS

Cash amounts are pooled with the cash and investments of the City. The pooled funds are invested in accordance with the City's investment policy established pursuant to State law. Refer to the City's basic financial statements for disclosures of cash and investments, related risk categorization and information regarding GASB Statement No. 31 disclosures.

3. CAPITAL ASSETS

Capital assets of the Transportation Enterprise Fund at June 30, 2009, consist of the following:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Buildings & improvements	\$ 196,113			\$ 1,719,231	\$ 1,915,344
Buses & equipment	1,959,477	\$ 259,278	\$ (121,576)		2,097,179
Construction in process	1,412,192	394,699		(1,719,231)	87,660
Total asset cost	<u>3,567,782</u>	<u>653,977</u>	<u>(121,576)</u>	<u>-</u>	<u>4,100,183</u>
Less: Accumulated depreciation					
Buildings & improvements	(40,669)	(11,313)			(51,982)
Buses & equipment	(505,564)	(133,082)	72,757		(565,889)
Total accumulated depreciation	<u>(546,233)</u>	<u>(144,395)</u>	<u>72,757</u>	<u>-</u>	<u>(617,871)</u>
Net capital assets	<u>\$ 3,021,549</u>	<u>\$ 509,582</u>	<u>\$ (48,819)</u>	<u>\$ -</u>	<u>\$ 3,482,312</u>

4. TRANSPORTATION DEVELOPMENT ACT (TDA)

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

5. PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT
Notes to the Financial Statements, continued
For fiscal year ended June 30, 2009

**5. PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE
ENHANCEMENT ACCOUNT (continued)**

During the 2007-08 fiscal year the City and received \$823,965 from the State's PTMISEA account for (1) the construction of a Compressed Natural Gas (CNG) fueling station, (2) the purchase of a new CNG bus for the City's fixed route transit system, and (3) the purchase of bus LED designation signs and brochure holders. At June 30, 2008 \$793,628 of this funding was unspent. The following delineates the expenditure of these funds during fiscal year 2008-09 along with the interest earned on the unexpended funds. The amounts were verified by our auditors in the course of our annual external audit.

Unexpended proceeds at June 30, 2008	\$ 793,628
Interest earned during 2008-09	16,674
Expenditures incurred during 2008-09:	
Design and engineering for CNG fueling station along with initial payment for fueling station equipment	(45,728)
Preliminary engineering for purchase of CNG bus	(2,431)
Acquisition and installation of LED designation signs and brochure holders	(13,138)
Unexpended proceeds at June 30, 2009	\$ 749,005

6. CONTINGENT LIABILITIES

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

7. RISK MANAGEMENT

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

INDEPENDENT AUDITORS' COMPLIANCE REPORT

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

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

As part of the audit, we performed testing of the following program:

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.

During the fiscal year ended June 30, 2008, the City applied for and received \$823,965 from the State's PTMISEA account for (1) the construction of a Compressed Natural Gas (CNG) fueling station, (2) the purchase of a new CNG bus for the City's fixed route transit system, and (3) the purchase of bus LED designation signs and brochure holders. At June 30, 2008, \$793,628 was unspent. The following table delineates the expenditure of these funds during fiscal year 2009 along with the interest earned on the unexpended funds:

Unexpended proceeds at June 30, 2008	\$ 793,628
Interest earned during fiscal year 2009	16,674
Expenditures incurred:	
Design and engineering for CNG fueling station	(45,728)
Preliminary engineering for purchase of CNG bus	(2,431)
Acquisition and installation of LED designation	(13,138)
Unexpended proceeds at June 30, 2009	<u>\$ 749,005</u>

To the Honorable Mayor and Members of City Council
of the City of Turlock
Turlock, California
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We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Audit Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the TDA Funds. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion the TDA funds allocated to and received by the City pursuant to the Act were expended in conformance with the applicable statutes, rules and regulations of the Act and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG).

This report is intended for the information of the Mayor, City Council Members, management, and the Stanislaus Council of Governments (StanCOG). However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Oakland, California
December 28, 2009