

CITY OF TURLOCK
FINANCIAL REPORTS
FOR THE YEAR ENDED JUNE 30, 2015



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, 2015:

City of Turlock
Basic Financial Statements

Turlock Public Financing Authority
Component Unit Financial Statements

City of Turlock
Single Audit

City of Turlock Transportation Development Act (TDA)
Financial Statements

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



CITY OF TURLOCK, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

Prepared by
THE ADMINISTRATIVE SERVICES DEPARTMENT

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CITY OF TURLOCK
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Turlock, California as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 that required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Notes 8E and 9:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Mane & Associates

Pleasant Hill, California
March 28, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis is provided by the management of the City of Turlock (City) for the fiscal year 2014-15 financial statements (with comparative information for 2013-14). 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 2014-15 FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The City's net position (assets in excess of liabilities) at June 30, 2015, totaled \$436 million. Governmental activities accounted for \$263 million of the net position, while \$173 million are in the business-type activities.
- Total City revenues, including program and general revenues, were \$81 million; while total expenses were \$67 million.
- Governmental program revenues were \$21 million compared to governmental program expenses of \$41 million.
- Program revenues from business-type activities were \$33 million, while expenses for business-type activities were \$26 million.

Fund Highlights

- Net General Fund expenditures exceeded revenues by \$8.4 million as compared to the prior year when revenues exceeded expenditures by \$257,000. For financial reporting purposes, the "General Fund" includes not only the City's General Fund, but also the Arts Commission, Special Public Safety, and Tourism (2 funds) funds.
- General Fund fund balance of \$7.9 million at June 30, 2015 compared to a projected \$11.9 million when the 2014-15 budget was originally adopted.

Additional discussion regarding the financial results for fiscal year 2014-15 can be found in the "Financial Activities" section of this document.

OVERVIEW OF THESE FINANCIAL STATEMENTS

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

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

THE BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

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

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

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

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

Fund Financial Statements

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

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called "major funds". Major funds account for the most significant financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary with subordinate schedules presenting the detail for each of these other funds. Since the City's most significant fiscal activities may change from year to year, the funds designated as "major funds" may also change from year to year.

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

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

The City of Turlock has twenty-nine (29) governmental funds of which three (3) are considered major funds for presentation purposes. Each major fund is presented separately in the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. The City's three major funds are – the General Fund, Former LMI Housing Fund, and Gas Tax/Street Improvement Fund. The financial information for the remaining non-major governmental funds is combined into a single, aggregated presentation. The basic governmental fund financial statements can be found starting on page 24 in this report.

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

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

governmental-wide financial statements. The Enterprise and Internal Service Fund Financial Statements can be found starting on page 32.

Fiduciary Fund Financial Statements are used to account for resources held for the benefit of parties outside the government. They are not included in the government-wide financial statements because their resources are not available to support City programs. With the dissolution of the Redevelopment Agency, the activities of the Successor Agency to the former Turlock Redevelopment Agency are reported as a Private Purpose Trust Fund in the Fiduciary Fund Section. Additional information about the dissolution of the Redevelopment Agency can be found in Note 13 on page 85 of the financial statements.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 39.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

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

STATEMENT OF NET POSITION						
(in thousands of dollars)						
	Governmental Activities		Business-Type Activities		Total	
	For the FYE June 30		For the FYE June 30		For the FYE June 30	
	2015	2014*	2015	2014*	2015	2014*
Cash and investments	\$ 54,963	\$ 59,906	\$ 87,589	\$ 66,203	\$ 142,552	\$ 126,109
Other assets	39,102	35,790	4,024	18,840	43,126	54,630
Capital assets, net	230,218	228,459	220,433	223,608	450,651	452,067
Total assets	<u>324,283</u>	<u>324,155</u>	<u>312,046</u>	<u>308,651</u>	<u>636,329</u>	<u>632,806</u>
Deferred outflows of resources	<u>11,802</u>		<u>1,421</u>		<u>13,223</u>	
Long-term liabilities	53,830	8,757	127,742	117,646	181,572	126,403
Other liabilities	9,701	7,583	10,435	10,489	20,136	18,072
Total liabilities	<u>63,531</u>	<u>16,340</u>	<u>138,177</u>	<u>128,135</u>	<u>201,708</u>	<u>144,475</u>
Deferred inflows of resources	<u>9,682</u>		<u>2,130</u>		<u>11,812</u>	
Net position:						
Net investment in capital assets	230,164	228,347	110,926	113,873	341,090	342,220
Restricted	62,324	60,870			62,324	60,870
Unrestricted	(29,616)	18,598	62,234	66,643	32,618	85,241
Total net position	<u>\$ 262,872</u>	<u>\$ 307,815</u>	<u>\$ 173,160</u>	<u>\$ 180,516</u>	<u>\$ 436,032</u>	<u>\$ 488,331</u>

* Fiscal year 2014 balances are presented as originally reported in last year's financial statements, because all information required to restate prior year amounts is not readily available.

As noted above, the City's primary investment is in its *net investment in capital assets*. Capital assets, which account for approximately 78% of the City's total net position, include all infrastructure such as the street/roadway system; sewer, water and storm drain collection systems as well as retention basins; the

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

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 \$62 million or 14% of the City's non-capital net position is subject to external restrictions as to their use. The remaining \$33 million is unrestricted and available to meet the City's on-going obligations to its citizens and creditors. Of this amount, (\$30) million related to governmental activities and \$63 million to business-type activities.

During the 2014-15 fiscal year, the City adopted Governmental Accounting Standards Board Statement No. 68 (GASB 68) *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The net effect of implementing this Standard is \$57 million in net pension liability as well as \$13.2 million in deferred outflows and \$11.8 million in deferred inflows. Without the implementation of GASB 68, governmental net position would have been \$305 million (\$13 million unreserved) and business-type net position would have been \$186 million (\$76 million unreserved).

The City's overall net position increased by \$8.9 million during the 2014-15 fiscal year. Governmental fund activities experienced a \$2.8 million increase in net position while the City's business-type funds – those intended to be self-sufficient – experienced a \$6 million increase in net position. The City's Sewer operations net position increased by \$3.9 million and the Water operations reported a \$1.5 million increase in net position. More information regarding the results of operations for all the City's funds can be found later in this report.

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

SUMMARY OF CHANGES IN NET POSITION

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	For the FYE June 30		For the FYE June 30		For the FYE June 30	
	2015	2014*	2015	2014*	2015	2014*
Program Revenues:						
Charges for services	\$ 9,832	\$ 9,945	\$ 28,343	\$ 26,776	\$ 38,175	\$ 36,721
Operating grants and contributions	5,796	5,927	1,264	1,065	7,060	6,992
Capital grants and contributions	5,098	7,870	3,437	2,797	8,535	10,667
Total Program Revenues	20,726	23,742	33,044	30,638	53,770	54,380
General Revenues						
Property taxes	4,434	4,229			4,434	4,229
Sales taxes	12,843	12,241			12,843	12,241
Property tax - VLF In Lieu	5,063	4,522			5,063	4,522
Other taxes	3,380	3,050			3,380	3,050
Interest and investment earnings	129	191	112	116	241	307
Other income	954	249			954	249
Total General Revenues	26,803	24,482	112	116	26,915	24,598
Total Overall Revenues	47,529	48,224	33,156	30,754	80,685	78,978
Expenses						
General government	4,442	3,646			4,442	3,646
Public safety	20,589	25,956			20,589	25,956
Public ways/facilities/transportation	8,417	10,145			8,417	10,145
Parks and recreation	3,589	3,483			3,589	3,483
Community development	3,958	3,109			3,958	3,109
Interest on long-term debt	2	9			2	9
Water			7,566	7,620	7,566	7,620
Sewer			15,593	16,962	15,593	16,962
Transportation			1,495	1,526	1,495	1,526
Building & Safety			1,213	1,115	1,213	1,115
Total Expenses	40,997	46,348	25,867	27,223	66,864	73,571
Increase (Decrease) in Net Position before Transfers and Extraordinary Item	6,532	1,876	7,289	3,531	13,821	5,407
Transfers	1,256	837	(1,256)	(837)	-	-
Contribution from private purpose trust	485	879			485	879
Special item - CalPERS side fund payments	(5,424)				(5,424)	-
Change in net position	2,849	3,592	6,033	2,694	8,882	6,286
Net Position, beginning of year	307,815	304,223	180,516	177,822	488,331	482,045
Prior year restatements	(47,792)		(13,389)		(61,181)	-
Net Position, end of year	\$ 262,872	\$ 307,815	\$ 173,160	\$ 180,516	\$ 436,032	\$ 488,331

* Fiscal year 2014 balances are presented as originally reported in last year's financial statement, because all information required to restate prior year amounts is not readily available.

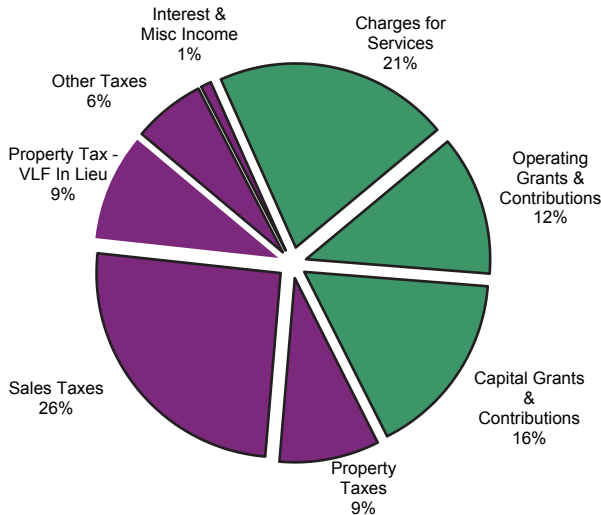
As the above table shows, \$54 million of the City's \$81 million in total revenues comes from program revenue sources. Program revenues are those derived directly from the program itself (user fees) or from parties outside the reporting government's taxpayers or citizenry. Program revenues reduce the need for the cost of the function to be financed by general government revenues. The largest portion of the City's program revenues is "Charges for Services" which include user fees from the City's water and sewer operations, building permit-related fees, developer impact fees and special assessments.

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

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2015**

Citywide expenses, which totaled \$67 million, consisted of \$41 million for governmental activities and \$26 million for business-type activities. Of the \$41 million in governmental activity expenses, \$20.6 million or 50% relate to the provision of public safety (police and fire) services. The next largest component was \$8.4 million or 21% for public ways, facilities and transportation. This component accounts for activities involved in the maintenance and construction of City streets and roads as well as City buildings.

Governmental Activities



Governmental activity revenues totaling \$48 million are comprised of various non-dedicated tax revenues as well as revenues received for specific purposes. Specific purpose or “program” revenues are categorized as follows:

- Charges for Services – Revenues for specialized City services which are typically not demanded by the general population – totaled \$9.8 million as compared to \$9.9 million for 2013-14. Included in this revenue category are the special assessment revenues charged by the City’s Lighting and Landscape maintenance districts as well as charges for specialized services provided by departments throughout the City and fees for participation in City offered recreation programs.

General Revenues Program Revenues

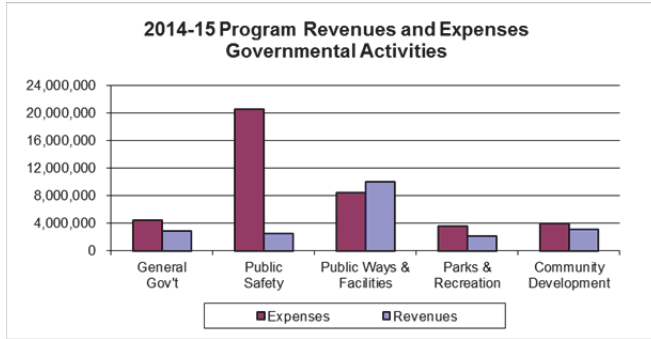
- Operating Grants & Contributions – Revenues received from other governmental agencies which are primarily used for operational needs – totaled \$5.8 million, compared to \$5.9 million in 2013-14. Operating grants include revenues received from the (1) U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development supporting the City’s affordable housing activities; (2) U.S. Department of Justice and California Office of Traffic Safety supporting various police activities; (3) Gas Tax and Local Transportation Funds used for street/road maintenance; and (4) revenues received by the City’s recreation division to support after school enrichment programs in lower income areas of town. Since these types of revenues are generally received on a reimbursement basis, annual amounts will vary from year-to-year depending on the activities in which the City is engaged.
- Capital Grants & Contributions – These are typically development impact related revenues which are collected to finance the cost of new infrastructure as well as federal Department of Transportation revenues – totaled \$5.1 million. The Department of Transportation revenues are used for street/road reconstruction and other maintenance that is more extensive than pothole patching and slurry seals.

General revenues are all other revenues not classified as program revenues and are generally received for unrestricted uses. General revenues include property taxes, sales tax, property tax – VLF in lieu, franchise fees, business license fees, transient occupancy taxes and investment earnings. The City’s governmental activity general revenues totaled \$26.8 million for fiscal 2014-15, \$2.3 million more than received in 2013-14. The detail within the revenue did have mixed results. The majority of the increase is due to increased sales and property tax receipts as well as receipt of SB90 Mandated Cost Reimbursements that had been unpaid by the State of California for over 10 years.

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2015**

Sales tax revenue increased approximately 4.9%. Fiscal year 2014-15 was the 5th consecutive year of sales tax growth after the decline bottomed out in 2009-10. Sales tax revenue has now exceeded its pre-recession peak for the 2nd year in a row. The increase in property tax revenue is reflective of growth in real estate assessed values. While overall values are not yet back to pre-recession levels, the City is seeing steady growth in values among all types of property uses. Investment earnings continue to be weak due to the prolonged, historically low interest rate environment.

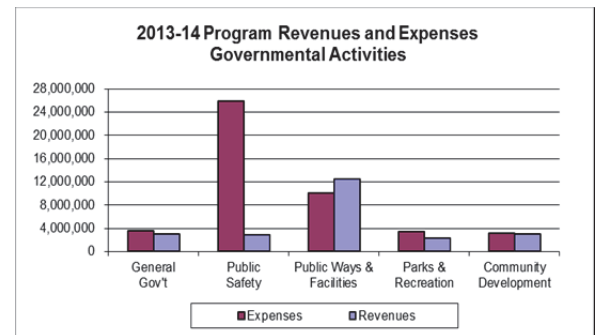
Governmental activity revenues are primarily used to finance governmental activities such as public safety, park maintenance, culture and recreation programs and general government administration.



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, 2014-15 expenses for Governmental Activities exceeded program revenues by \$20.3 million whereas in 2013-14 expenses exceeded revenues by \$22.6 million.

The City continues to work its way through the challenges the current economy presents. Employee concessions, first implemented in fiscal year 2010-11, continued in 2014-15. The concessions consisted of either sharing the cost of benefits and/or the elimination of certain benefits. These negotiated concessions were necessary as the cost of employee benefits – mainly health care and pension costs – continue to increase. The results of operations in other operating funds varied during 2014-15 due to available revenue. More information regarding specific funds can be found in the fund section of the document.

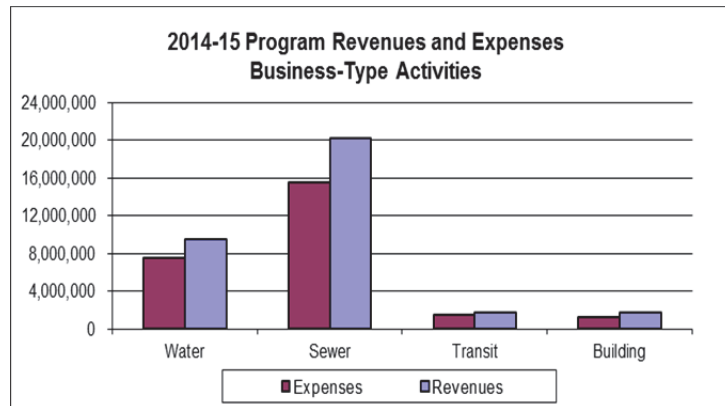
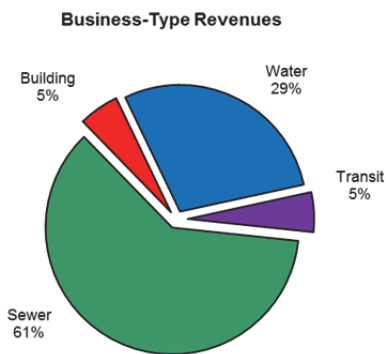
The City continues to work its way through the



**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2015**

Business-Type Activities

Revenues for business-type activities totaled \$33 million and related expenses totaled \$26 million of which \$15.6 million or 61% related to the maintenance and operations of the City’s wastewater treatment plant and the City’s storm drain collection system. Potable water maintenance and operations accounted for \$7.6 million or 29% of business-type activities expenses. Other business-type activities include the operation of both fixed route and dial-a-ride transit systems which provide service in Turlock as well as connecting those in need with County-wide transportation services. The City’s Building division assists all residents and developers in their pursuits of property development and improvements within the City limits.



THE CITY’S FUND FINANCIAL STATEMENTS

Governmental Funds

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

At June 30, 2015, the City’s governmental funds reported combined fund balances of \$45 million, a \$7.7 million decrease over the prior year. The General Fund’s fund balance is \$7.9 million at June 30, 2015. Governmental fund revenues (including transfers in) were \$52.9 million this year, of which General Fund revenues totaled \$33.6 million or 64%. Governmental fund expenditures (including transfers out and special items) totaled \$60.6 million with the General Fund representing 69% of the total or \$41.9 million. The following provides additional information for select governmental funds.

General Fund – As previously mentioned, for financial reporting purposes, the “General Fund” includes not only the City’s General Fund, but also the Arts Commission, Special Public Safety, and Tourism (2 funds) funds. At June 30, 2015, the General Fund had a fund balance of \$7.9 million with \$3.6 million in the unassigned category. As noted in footnote 8, fund balances in governmental funds can fall into one of five categories – nonspendable, restricted, committed, assigned or unassigned. Balances falling in the nonspendable through assigned categories are there by virtue of (1) legal restrictions, (2) City Council action to commit resources for specific activities, and/or (3) action taken by management which signals the City’s intended use of resources. All other balances are categorized as unassigned.

General Fund expenditures exceeded revenues (before transfers and special items) by \$110,900 during fiscal year 2014-15 as compared to \$387,000 in excess expenditures for 2013-14. After net transfers and special items, expenditures exceeded revenues by \$8.3 million for 2014-15. During the 2015-16 budget process (occurring late in fiscal year 2014-15), the City Council approved the expenditure of General Fund reserves to pay-off the side fund portion of the outstanding CalPERS pension liability for the public safety (police and fire) pension plans. A one-time payment of \$5.4 million was made in June of 2015 in order to meet the CalPERS imposed deadline for lump sum payments to have a positive impact on 2015-16 required contributions. It is

City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

anticipated that this pay down of the pension liabilities will result in an annual savings to the City's General Fund for pension costs of approximately \$615,000. This payment is presented in the financial statements as a "Special Item". In addition to this lump sum pension payment, the City set aside nearly \$3.2 million in its vehicle and equipment replacement funds. These amounts are placed in the replacement funds so that when City vehicles and equipment used in every day operations need to be replaced, the City will be in a position to cash-fund these items instead of finance them.

General Fund department directors continued to provide services within their approved budgets which have been status quo for the past few years due to the recession. The bright spot for the General Fund is on the revenue side as sales, property tax and property tax – VLF in lieu revenues exceed projections by a combined \$725,300. Together these revenue sources provided 67% of total General Fund revenues.

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

Former LMI Housing Fund – This fund serves as the successor to the former Housing Set-Aside Fund and was formed after the dissolution of the City's Redevelopment Agency. The purpose of this fund is to account for housing related activities and assets the City elected to retain from the former Redevelopment Agency. For fiscal year 2014-15 the fund's expenditures included \$69,200 in support of a Mobile Home Rental Subsidy program for income eligible senior citizens, and \$33,200 for development costs associated with the second phase of the Avena Bella affordable housing project. Both these programs are enforceable obligations of the Successor Agency to the Turlock Redevelopment Agency, which means they will be funded by future taxes collected by the Successor Agency and transferred to the City.

Gas Tax/Street Improvement – This fund comprises the revenues and related expenditures the City receives from Gas Tax, Local Transportation Fund (LTF), and federal Department of Transportation (DOT) sources. The nearly \$2.2 million decrease in fund balance represents the expenditures associated with federally-funded projects for which the City has not yet received reimbursement as well as the expenditure of Gas Tax Section 2103 dollars received in previous years (\$1.3 million and \$892,000, respectively).

Federally-funded projects typically take 3-4 years from beginning to end. The funding is received on a reimbursement basis meaning that the City spends the money first in accordance with the grant documents and is then reimbursed. The City uses Gas Tax Section 2103 dollars for the local match portion for many federally-funded projects. Major projects undertaken in 2014-15 include the installation of traffic signals at the intersection of Monte Vista/Colorado Avenues and Christoffersen Parkway/Fosberg Road; median improvements along North Walnut Road to direct pedestrian movements to controlled intersections for safe crossings; completion of roadway rehabilitation on Monte Vista Avenue in the vicinity of CSU Stanislaus; and roadway improvements on North Geer Road, on Hawkeye Avenue, and on East Main Street.

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

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements for business-type activities only in a little more detail. The net position for the City's proprietary funds (exclusive of Internal Service funds) increased \$6 million during fiscal year 2014-15, which compares to a \$2.7

**City of Turlock
Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2015**

million increase for fiscal year 2013-14. Overall operating revenues were approximately \$1.6 million higher than the prior year while operating expenses declined by over \$1 million. A water rate increase implemented in 2014-15 accounted for the higher overall operating revenues. Non-recurring sewer fund project expenditures as well as lower chemical usage in the wastewater treatment process accounted for the decrease in expenditures.

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, 2015, the City had \$451 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 2014-15 were over \$10.8 million. The majority of these additions related to infrastructure – streets/roads, water, sewer and storm drain pipes, and park – improvements as well as construction of the public safety facility. Additional information regarding the City’s capital assets can be found in Note 6 on page 58 of this report.

It should be noted the Successor Agency to the Turlock Redevelopment Agency capital assets – \$8.5 million – are not included in the above numbers.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$118.6 million in debt outstanding as compared to \$120.6 million for the prior year. During 2014-15 the City completed the draw downs on its loan through the California State Water Resources Control Board to finance the construction of various WQC Treatment Plant improvements. This construction project received its Notice of Completion in May 2015.

The City’s debt service obligations for 2015-16, totaling approximately \$8.4 million, are made up of the following:

	2015-16
	<u>Debt Service</u>
2012 Sewer Revenue Bonds	\$3,922,900
2008 Water Revenue Bonds	2,029,100
SRF - WQC Upgrade	1,542,400
SRF - Harding Drain By-Pass	937,500
Public Safety Server	12,000
	<u><u>\$8,443,900</u></u>

Additional information regarding each of the City’s debt issues as well as debt service requirements is discussed in greater detail in Note 7 to the financial statements starting on page 61.

It should be noted the Successor Agency to the Turlock Redevelopment Agency debt - \$40.6 million – is not included in the above numbers.

**City of Turlock
Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Developing the 2015-16 General Fund budget presented the City Council and Staff with many of the same challenges that the City has been dealing with for the past few years. Since General Fund revenue peaked at \$30.4 million in fiscal year 2006-07, the City has experienced annual declines in operating revenues until 2013-14 when General Fund revenues exceeded the 2006-07 mark by just over \$500,000. Total General Fund revenues were just over \$33.2 million for 2014-15. Sales tax revenue continues to increase and was \$1.4 million higher in 2014-15 than the previous 2006-07 high mark. While property tax revenue had not yet caught up to its previous high mark in 2007-08, it continues to improve and Staff anticipates property tax revenue for 2015-16 to top the previous 2007-08 high.

Budgeted 2015-16 revenues are approximately 2% higher than final revenue for 2014-15 while on-going expenditures are budgeted at approximately 5% higher than 2014-15 actuals. With the continuing recovery of sales and property tax revenue, combined with the interest being shown in developing at the Turlock Regional Industrial Park, Staff believes that the decline in the City's General Fund revenues have hit bottom and will continue their recovery during 2015-16.

The 2015-16 expenditure budget was prepared as a "status quo" budget, thus included employee concessions like prior years. There were personnel costs increases budgeted based on existing MOUs and/or Schedules of Benefits. Even though revenues are improving, the 2015-16 budget still projects deficit spending for on-going operations at approximately \$369,000. An additional appropriation of \$393,000 is included for capital expenditures. More information regarding the City's budget can be obtained by going to the Finance division section under Administrative Services on the City website at www.ci.turlock.ca.us.

REQUESTS FOR INFORMATION

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

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CITY OF TURLOCK

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

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

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

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

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

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

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

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CITY OF TURLOCK
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$54,962,870	\$78,551,093	\$133,513,963
Restricted cash and investments and cash and investments with fiscal agent (Note 3)		9,037,532	9,037,532
Accounts receivable, net (Note 5C)	9,418,446	3,593,325	13,011,771
Interest receivable	43,691	36,973	80,664
Due from Developers (Note 5A)	287,284	157,663	444,947
Long-term loans receivable (Note 5B)	28,531,861		28,531,861
Prepaid expenses	5,685		5,685
Net OPEB asset (Note 10)	815,228	236,144	1,051,372
Capital assets, not being depreciated (Note 6)	63,074,758	41,009,474	104,084,232
Capital assets, being depreciated (net) (Note 6)	167,142,810	179,423,727	346,566,537
Total Assets	324,282,633	312,045,931	636,328,564
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions (Note 9)	11,802,024	1,421,633	13,223,657
LIABILITIES			
Accounts payable	6,265,033	730,661	6,995,694
Payroll payable	1,469,902	156,167	1,626,069
Interest payable	73	1,159,658	1,159,731
Unearned revenue	1,068,821	3,452,149	4,520,970
Deposits payable	342,377	433,735	776,112
Compensated absences (Note 11):			
Due within one year	543,570	137,508	681,078
Due in more than one year	2,174,278	550,024	2,724,302
Estimated claims liability (Note 11):			
Due in more than one year	4,713,193		4,713,193
Long-term debt (Note 7):			
Due within one year	11,182	4,365,249	4,376,431
Due in more than one year	42,626	114,179,689	114,222,315
Net pension liability (Note 9)			
Due in more than one year	44,509,134	12,621,201	57,130,335
Net OPEB obligation (Note 10):			
Due in more than one year	2,390,640	390,992	2,781,632
Total Liabilities	63,530,829	138,177,033	201,707,862
DEFERRED INFLOWS OF RESOURCES			
Related to pensions (Note 9)	9,682,013	2,130,257	11,812,270
NET POSITION (Note 8):			
Net investment in capital assets	230,163,760	110,925,795	341,089,555
Restricted for:			
Capital projects	14,204,732		14,204,732
Special projects and programs	48,118,895		48,118,895
Total Restricted Net Position	62,323,627		62,323,627
Unrestricted	(29,615,572)	62,234,479	32,618,907
Total Net Position	\$262,871,815	\$173,160,274	\$436,032,089

See accompanying notes to basic financial statements

CITY OF TURLOCK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		Total	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:					
General government	\$4,441,681	\$2,622,065	\$23,528	\$222,892	\$2,868,485
Public safety	20,567,759	1,885,025	432,240	162,872	2,480,137
Public ways and facilities/transportation	8,438,169	2,821,567	2,666,401	4,550,512	10,038,480
Parks and recreation	3,588,574	1,522,447	523,170	161,838	2,207,455
Community development	3,957,884	980,960	2,150,829		3,131,789
Interest and fiscal charges	2,468				
Total Governmental Activities	40,996,535	9,832,064	5,796,168	5,098,114	20,726,346
Business-type Activities:					
Water	7,566,232	8,618,414	86,796	780,901	9,486,111
Sewer	15,593,244	17,869,954		2,305,174	20,175,128
Transportation	1,494,593	151,872	1,176,864	350,706	1,679,442
Building & safety	1,212,812	1,702,663			1,702,663
Total Business-type Activities	25,866,881	28,342,903	1,263,660	3,436,781	33,043,344
Total	\$66,863,416	\$38,174,967	\$7,059,828	\$8,534,895	\$53,769,690
General revenues:					
Taxes:					
Property taxes					
Sales taxes					
Property tax-VLF in Lieu					
Other Tax					
Total taxes					
Other revenue					
Interest income					
Contributions from private purpose trust					
Transfers (Note 4)					
Special item					
CalPERS Side Fund contributions (Note 9C)					
Total general revenues, transfers and special item					
Change in Net Position					
Net Position-Beginning, as Restated (Note 8E)					
Net Position-Ending					

See accompanying notes to basic financial statements

Net (Expense) Revenue and
Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
(\$1,573,196)		(\$1,573,196)
(18,087,622)		(18,087,622)
1,600,311		1,600,311
(1,381,119)		(1,381,119)
(826,095)		(826,095)
<u>(2,468)</u>		<u>(2,468)</u>
<u>(20,270,189)</u>		<u>(20,270,189)</u>
	\$1,919,879	1,919,879
	4,581,884	4,581,884
	184,849	184,849
	<u>489,851</u>	<u>489,851</u>
	<u>7,176,463</u>	<u>7,176,463</u>
<u>(20,270,189)</u>	<u>7,176,463</u>	<u>(13,093,726)</u>
4,433,934		4,433,934
12,842,900		12,842,900
5,062,929		5,062,929
<u>3,380,433</u>		<u>3,380,433</u>
25,720,196		25,720,196
953,679		953,679
129,135	112,356	241,491
484,519		484,519
1,255,522	(1,255,522)	
<u>(5,423,948)</u>		<u>(5,423,948)</u>
<u>23,119,103</u>	<u>(1,143,166)</u>	<u>21,975,937</u>
2,848,914	6,033,297	8,882,211
<u>260,022,901</u>	<u>167,126,977</u>	<u>427,149,878</u>
<u>\$262,871,815</u>	<u>\$173,160,274</u>	<u>\$436,032,089</u>

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MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2015. Individual non-major funds may be found in the Supplemental Section.

GENERAL FUND

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

FORMER LMI HOUSING FUND

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

GAS TAX/STREET IMPROVEMENT

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

CITY OF TURLOCK
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	General	Former LMI Housing Fund	Gas Tax/ Street Improvement	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3)	\$6,403,985	\$31,985		\$38,303,042	\$44,739,012
Accounts receivable (Note 5C)	4,307,330	473	\$2,348,534	1,072,291	7,728,628
Interest receivable	25,969			14,617	40,586
Due from other funds (Note 4B)	1,093,354				1,093,354
Due from developers (Note 5A)	20,041			267,243	287,284
Loans receivable (Note 5B)	5,648	12,094,045		16,432,168	28,531,861
Prepaid expenditures	5,685				5,685
Total Assets	\$11,862,012	\$12,126,503	\$2,348,534	\$56,089,361	\$82,426,410
LIABILITIES					
Accounts payable	\$2,171,037	\$20	\$1,277,069	\$332,261	\$3,780,387
Payroll payable	1,360,065		15,884	33,349	1,409,298
Due to other funds (Note 4B)			1,414,720	1,112,701	2,527,421
Unearned revenue	95,854		967,967	5,000	1,068,821
Deposits payable	341,877				341,877
Total Liabilities	3,968,833	20	3,675,640	1,483,311	9,127,804
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue (Note 1F and 5B)		\$12,094,045		16,432,168	28,526,213
FUND BALANCES					
Fund balance (Note 8):					
Nonspendable	31,374			267,243	298,617
Restricted		32,438		22,418,331	22,450,769
Committed	2,090,776			15,785,277	17,876,053
Assigned	2,217,304				2,217,304
Unassigned	3,553,725		(1,327,106)	(296,969)	1,929,650
Total Fund Balances	7,893,179	32,438	(1,327,106)	38,173,882	44,772,393
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$11,862,012	\$12,126,503	\$2,348,534	\$56,089,361	\$82,426,410

See accompanying notes to basic financial statements

CITY OF TURLOCK
Reconciliation of the
GOVERNMENTAL FUNDS-- BALANCE SHEET
with the
GOVERNMENTAL ACTIVITIES NET POSITION
JUNE 30, 2015

Total fund balances reported on the Governmental Funds Balance Sheet \$44,772,393

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

CAPITAL ASSETS

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

228,158,113

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

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

Cash and investments	10,223,858
Accounts receivable	1,689,818
Interest receivable	3,105
Due from other funds	2,527,421
Net OPEB asset	407,061
Capital assets (net of accumulated depreciation)	2,059,455
Accounts payable	(2,484,646)
Payroll payable	(60,604)
Due to other funds	(1,093,354)
Deposits payable	(500)
Compensated absences	(336,759)
Estimated claims liability	(4,713,193)
Net pension liability and related deferred outflows and inflows of resources	(4,555,572)
Net OPEB liability	(52,037)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

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

28,526,213

LONG-TERM ASSETS AND LIABILITIES

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

Long-term debt	(53,808)
Interest payable	(73)
Compensated absences	(2,381,089)
Net pension liability and related deferred outflows and inflows of resources	(37,833,551)
Net OPEB liability	(1,930,436)

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$262,871,815

See accompanying notes to basic financial statements

CITY OF TURLOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	General	Former LMI Housing Fund	Gas Tax/ Street Improvement	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes and assessments	\$19,436,742			\$3,315,898	\$22,752,640
Licenses and permits	1,586,747			7,555	1,594,302
Fines, forfeitures, and penalties	211,249				211,249
Use of money and property	62,499		\$535	55,290	118,324
Intergovernmental	5,859,990		4,529,162	3,088,730	13,477,882
Charges for current services	3,991,824		29,052	3,861,852	7,882,728
Other revenue	199,119	\$24,163	37,920	1,092,355	1,353,557
Total Revenues	31,348,170	24,163	4,596,669	11,421,680	47,390,682
EXPENDITURES					
Current:					
General government	3,821,458			201,244	4,022,702
Public safety	24,646,285			313,995	24,960,280
Public ways and facilities/transportation	338,575		1,803,959	1,661,146	3,803,680
Parks and recreation	1,925,775			1,151,940	3,077,715
Community development	864,031	102,399		3,290,214	4,256,644
Capital outlay	241,785		5,023,173	2,679,939	7,944,897
Debt service:					
Principal	3,692		16,561	95,567	115,820
Interest and fiscal charges	305		280	3,142	3,727
Total Expenditures	31,841,906	102,399	6,843,973	9,397,187	48,185,465
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(493,736)	(78,236)	(2,247,304)	2,024,493	(794,783)
OTHER FINANCING SOURCES (USES)					
Contributions from private purpose trust	229,420	98,757		16,342	344,519
Issuance of capital lease	57,500				57,500
Proceeds from sale of property	95,876			79,906	175,782
Transfers in (Note 4A)	1,843,289		177,452	2,900,691	4,921,432
Transfers (out) (Note 4A)	(4,662,958)		(153,262)	(2,138,860)	(6,955,080)
Total Other Financing Sources (Uses)	(2,436,873)	98,757	24,190	858,079	(1,455,847)
NET CHANGE IN FUND BALANCES BEFORE SPECIAL ITEM	(2,930,609)	20,521	(2,223,114)	2,882,572	(2,250,630)
SPECIAL ITEM					
CalPERS Side Fund contributions (Note 9C)	(5,423,948)				(5,423,948)
NET CHANGE IN FUND BALANCES	(8,354,557)	20,521	(2,223,114)	2,882,572	(7,674,578)
BEGINNING FUND BALANCES (DEFICIT)	16,247,736	11,917	896,008	35,291,310	52,446,971
ENDING FUND BALANCES	\$7,893,179	\$32,438	(\$1,327,106)	\$38,173,882	\$44,772,393

See accompanying notes to basic financial statements

CITY OF TURLOCK
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
 with the
 CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2015

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$7,674,578)

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

CAPITAL ASSETS TRANSACTIONS

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

The capital outlay and other capitalized expenditures are therefore added back to fund balance.	7,906,666
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$236,808 which has already been allocated to serviced funds).	(5,888,262)
Retirements are deducted from the fund balance	(607,385)
Capital contributions are added to fund balance	140,000

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal is added back to fund balance	58,320
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ACCRUAL OF NON-CURRENT ITEMS

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

Unavailable revenue	913,891
Interest payable	1,259
Compensated absences	(56,756)
Net pension liability and related deferred outflows and inflows of resources	5,337,673
Net OPEB liability	(328,946)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

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

Change in Net Position - All Internal Service Funds	3,047,032
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$2,848,914
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See accompanying notes to basic financial statements

CITY OF TURLOCK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES:				
Taxes and assessments	\$18,706,050	\$18,706,050	\$19,436,742	\$730,692
Licenses and permits	1,534,500	1,534,500	1,586,747	52,247
Fines and forfeitures	260,900	260,900	211,249	(49,651)
Use of money and property	90,000	90,000	62,499	(27,501)
Intergovernmental	5,169,507	5,169,507	5,859,990	690,483
Charges for current services	3,937,320	3,937,320	3,991,824	54,504
Other revenue	347,925	159,500	199,119	39,619
	<u>30,046,202</u>	<u>29,857,777</u>	<u>31,348,170</u>	<u>1,490,393</u>
EXPENDITURES:				
Current:				
General government	3,897,395	4,266,744	3,821,458	445,286
Public safety	24,386,456	24,855,950	24,646,285	209,665
Public ways and facilities/transportation	263,543	350,882	338,575	12,307
Parks and recreation	1,999,845	1,942,603	1,925,775	16,828
Community development	1,021,406	1,123,144	864,031	259,113
Capital outlay	274,000	489,442	241,785	247,657
Debt service:				
Principal		3,692	3,692	
Interest and fiscal charges		305	305	
	<u>31,842,645</u>	<u>33,032,762</u>	<u>31,841,906</u>	<u>1,190,856</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(1,796,443)</u>	<u>(3,174,985)</u>	<u>(493,736)</u>	<u>2,681,249</u>
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust			229,420	229,420
Issuance of capital lease		57,500	57,500	
Proceeds from sale of property			95,876	95,876
Transfers in	2,038,499	2,218,344	1,843,289	(375,055)
Transfers (out)	(4,627,712)	(4,794,030)	(4,662,958)	131,072
	<u>(2,589,213)</u>	<u>(2,518,186)</u>	<u>(2,436,873)</u>	<u>81,313</u>
NET CHANGE IN FUND BALANCES BEFORE SPECIAL ITEM				
	<u>(\$4,385,656)</u>	<u>(\$5,693,171)</u>	(2,930,609)	<u>\$2,762,562</u>
SPECIAL ITEM				
CalPERS Side Fund contributions			(5,423,948)	
BEGINNING FUND BALANCE				
			<u>16,247,736</u>	
ENDING FUND BALANCE				
			<u>\$7,893,179</u>	

See accompanying notes to basic financial statements

CITY OF TURLOCK
FORMER LMI HOUSING FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Other revenue	<u>\$1,000</u>	<u>\$1,000</u>	<u>\$24,163</u>	<u>\$23,163</u>
Total Revenues	<u>1,000</u>	<u>1,000</u>	<u>24,163</u>	<u>23,163</u>
EXPENDITURES:				
Current:				
Community development	<u>3,067,000</u>	<u>3,067,000</u>	<u>102,399</u>	<u>2,964,601</u>
Total Expenditures	<u>3,067,000</u>	<u>3,067,000</u>	<u>102,399</u>	<u>2,964,601</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,066,000)</u>	<u>(3,066,000)</u>	<u>(78,236)</u>	<u>2,987,764</u>
OTHER FINANCING SOURCES (USES)				
Contributions from private-purpose trust	<u>916,000</u>	<u>916,000</u>	<u>98,757</u>	<u>(817,243)</u>
Total Other Financing Sources (Uses)	<u>916,000</u>	<u>916,000</u>	<u>98,757</u>	<u>(817,243)</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$2,150,000)</u></u>	<u><u>(\$2,150,000)</u></u>	20,521	<u><u>\$2,170,521</u></u>
BEGINNING FUND BALANCE			<u>11,917</u>	
ENDING FUND BALANCE			<u><u>\$32,438</u></u>	

See accompanying notes to basic financial statements

CITY OF TURLOCK
 GAS TAX / STREET IMPROVEMENT
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES:				
Use of money and property	\$100	\$100	\$535	\$435
Intergovernmental	6,498,543	6,498,543	4,529,162	(1,969,381)
Charges for current services	8,000	8,000	29,052	21,052
Other	3,100	3,100	37,920	34,820
Total Revenues	6,509,743	6,509,743	4,596,669	(1,913,074)
EXPENDITURES:				
Current:				
Public ways and facilities/transportation	1,935,383	1,995,146	1,803,959	191,187
Capital outlay	4,396,000	5,584,434	5,023,173	561,261
Debt service:				
Principal	16,565	16,565	16,561	4
Interest and fiscal charges	330	330	280	50
Total Expenditures	6,348,278	7,596,475	6,843,973	752,502
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	161,465	(1,086,732)	(2,247,304)	(1,160,572)
OTHER FINANCING SOURCES (USES)				
Transfers in	629,000	1,387,567	177,452	(1,210,115)
Transfers out	(629,506)	(1,390,626)	(153,262)	1,237,364
Total Other Financing Sources (Uses)	(506)	(3,059)	24,190	27,249
NET CHANGE IN FUND BALANCE	\$160,959	(\$1,089,791)	(2,223,114)	(\$1,133,323)
BEGINNING FUND BALANCE			896,008	
ENDING FUND BALANCE			(\$1,327,106)	

See accompanying notes to basic financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges. The City has identified the funds below as major proprietary funds in fiscal 2015.

WATER

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

SEWER

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

CITY OF TURLOCK
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2015

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Water	Sewer	Nonmajor Proprietary Funds		
ASSETS					
Current assets					
Cash and investments (Note 3)	\$33,691,288	\$41,660,159	\$3,199,646	\$78,551,093	\$10,223,858
Restricted cash and investments and cash and investments with fiscal agent (Note 3)	2,978,745	6,058,787		9,037,532	
Accounts receivable (Note 5C)	954,712	1,940,291	698,322	3,593,325	1,689,818
Interest receivable	15,836	19,454	1,683	36,973	3,105
Due from developers (Note 5A)		157,663		157,663	
Due from other funds					2,527,421
Total current assets	37,640,581	49,836,354	3,899,651	91,376,586	14,444,202
Non-current assets					
OPEB asset (Note 10)	236,144			236,144	407,061
Capital assets not being depreciated (Note 6)	5,378,255	31,535,841	4,095,378	41,009,474	
Capital assets being depreciated (Note 6)	39,118,015	135,350,079	4,955,633	179,423,727	2,059,455
Total non-current assets	44,732,414	166,885,920	9,051,011	220,669,345	2,466,516
Total Assets	82,372,995	216,722,274	12,950,662	312,045,931	16,910,718
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions (Note 9)	385,972	868,398	167,263	1,421,633	534,715
LIABILITIES					
Current liabilities					
Accounts payable	139,939	430,318	160,404	730,661	2,484,646
Payroll payable	42,265	95,766	18,136	156,167	60,604
Interest payable	212,627	947,031		1,159,658	
Due to other funds (Note 4B)					1,093,354
Compensated absences (Note 11)	31,602	94,988	10,918	137,508	67,352
Bonds and loans payable (Note 7)	725,000	3,640,249		4,365,249	
Unearned revenue			3,452,149	3,452,149	
Deposits payable	433,735			433,735	500
Total current liabilities	1,585,168	5,208,352	3,641,607	10,435,127	3,706,456
Long-term liabilities					
Claims liability (Note 11)					4,713,193
Compensated absences (Note 11)	126,407	379,951	43,666	550,024	269,407
OPEB liability (Note 10)		228,349	162,643	390,992	52,037
Net pension liabilities (Note 9)	3,322,171	7,775,201	1,523,829	12,621,201	4,289,041
Bonds and loans payable (Note 7)	27,213,654	86,966,035		114,179,689	
Total long-term liabilities	30,662,232	95,349,536	1,730,138	127,741,906	9,323,678
Total Liabilities	32,247,400	100,557,888	5,371,745	138,177,033	13,030,134
DEFERRED INFLOWS OF RESOURCES					
Related to pensions (Note 9)	578,363	1,301,259	250,635	2,130,257	801,246
NET POSITION (Note 8):					
Net investment in capital assets	19,536,361	82,338,423	9,051,011	110,925,795	2,059,455
Unrestricted	30,396,843	33,393,102	(1,555,466)	62,234,479	1,554,598
Total Net Position	\$49,933,204	\$115,731,525	\$7,495,545	\$173,160,274	\$3,614,053

See accompanying notes to basic financial statements

CITY OF TURLOCK
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Water	Sewer	Nonmajor Enterprise Funds		
OPERATING REVENUES					
Charges for services	\$8,584,608	\$17,809,511	\$1,845,939	\$28,240,058	\$11,465,492
Other income	33,806	60,443	8,596	102,845	3,138,923
Total Operating Revenues	8,618,414	17,869,954	1,854,535	28,342,903	14,604,415
OPERATING EXPENSES					
Salaries, benefits and insurance	2,245,777	5,021,113	963,454	8,230,344	14,075,975
Contractual	500,531	1,443,385	1,169,435	3,113,351	259,340
Supplies and maintenance	274,285	873,196	36,650	1,184,131	69,033
Utilities	1,113,718	1,709,046	26,808	2,849,572	76,607
Fleet expense	70,853	246,729	134,943	452,525	91,990
Depreciation and amortization	1,905,620	4,006,590	348,112	6,260,322	236,808
Other expenses	127,901	153,037	28,003	308,941	85,854
Total Operating Expenses	6,238,685	13,453,096	2,707,405	22,399,186	14,895,607
Operating Income (Loss)	2,379,729	4,416,858	(852,870)	5,943,717	(291,192)
NONOPERATING REVENUES (EXPENSES)					
Operating grants	86,796		1,176,864	1,263,660	
Interest income	43,866	68,780	7,010	119,656	10,811
Interest (expense)	(1,327,547)	(2,140,204)		(3,467,751)	
Gain (loss) on disposal of capital assets		56	(7,300)	(7,244)	38,243
Net Nonoperating Revenues (Expenses)	(1,196,885)	(2,071,368)	1,176,574	(2,091,679)	49,054
Income (Loss) Before Contributions and Transfers	1,182,844	2,345,490	323,704	3,852,038	(242,138)
Capital Grants			350,706	350,706	
Capital contributions - connection/impact fees	780,901	2,305,174		3,086,075	
Transfers in (Note 4A)	23,783	402,607		426,390	3,463,622
Transfers out (Note 4A)	(455,725)	(1,160,821)	(65,366)	(1,681,912)	(174,452)
Net Contributions and Transfers	348,959	1,546,960	285,340	2,181,259	3,289,170
Change in net position	1,531,803	3,892,450	609,044	6,033,297	3,047,032
NET POSITION-BEGINNING, AS RESTATED (NOTE 8E)	48,401,401	111,839,075	6,886,501	167,126,977	567,021
ENDING NET POSITION	\$49,933,204	\$115,731,525	\$7,495,545	\$173,160,274	\$3,614,053

See accompanying notes to basic financial statements

CITY OF TURLOCK
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water	Sewer	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$8,462,720	\$19,397,141	\$1,845,939	\$29,705,800	\$9,834,721
Payments to suppliers	(2,356,897)	(4,798,473)	(1,352,521)	(8,507,891)	(1,539,781)
Payments to employees and benefits	(2,209,217)	(4,917,191)	(932,931)	(8,059,339)	(14,033,640)
Other	33,806	60,443	8,596	102,845	3,138,923
Cash Flows from Operating Activities	3,930,412	9,741,920	(430,917)	13,241,415	(2,599,777)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental receipts - operations	86,796		1,334,272	1,421,068	
Interfund receipts (payments)			(358,972)	(358,972)	433,204
Transfers in	23,783	402,607		426,390	3,463,622
Transfers out	(455,725)	(1,160,821)	(65,366)	(1,681,912)	(174,452)
Cash Flows from Noncapital Financing Activities	(345,146)	(758,214)	909,934	(193,426)	3,722,374
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Intergovernmental receipts - capital program			(230,632)	(230,632)	
Acquisition of capital assets, net	(390,184)	(2,549,574)	(340,646)	(3,280,404)	(444,227)
Proceeds from sale of capital assets		56	3,950	4,006	38,243
Issuance of loans		15,529,242		15,529,242	
Long-term debt payment - principal	(700,000)	(2,613,654)		(3,313,654)	
Long-term debt payment - interest	(1,332,112)	(2,251,295)		(3,583,407)	
Connection / impact fees	780,901	2,305,174		3,086,075	
Cash Flows from Capital and Related Financing Activities	(1,641,395)	10,419,949	(567,328)	8,211,226	(405,984)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	57,733	61,636	6,880	126,249	10,784
Cash Flows from Investing Activities	57,733	61,636	6,880	126,249	10,784
Net Cash Flows	2,001,604	19,465,291	(81,431)	21,385,464	727,397
Cash and investments at beginning of period	34,668,429	28,253,655	3,281,077	66,203,161	9,496,461
Cash and investments at end of period	<u>\$36,670,033</u>	<u>\$47,718,946</u>	<u>\$3,199,646</u>	<u>\$87,588,625</u>	<u>\$10,223,858</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:					
Operating income (loss)	\$2,379,729	\$4,416,858	(\$852,870)	5,943,717	(\$291,192)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation and amortization	1,905,620	4,006,590	348,112	6,260,322	236,808
Change in assets and liabilities:					
Accounts receivable	(121,888)	1,587,630		1,465,742	(1,630,771)
OPEB asset	54,597			54,597	75,117
Accounts payable	(278,785)	(373,080)	57,254	(594,611)	1,570,464
Payroll payable	(1,546)	(2,561)	516	(3,591)	1,809
Compensated absences	9,394	(1,448)		7,946	11,237
Claims Liability			(11,440)	(11,440)	
OPEB liability		138,234	30,909	169,143	19,154
Deferred outflows/inflows and net pension liability	(25,885)	(30,303)	(3,398)	(59,586)	(64,982)
Deposits payable	9,176			9,176	(2,527,421)
Cash Flows from Operating Activities	\$3,930,412	\$9,741,920	(\$430,917)	\$13,241,415	(\$2,599,777)
NONCASH TRANSACTIONS:					
Amortization of bond discount	\$379	\$183,157		\$183,536	
Retirement of capital assets			\$11,250	11,250	
Total noncash capital and related financing activities	\$379	\$183,157	\$11,250	\$194,786	

See accompanying notes to basic financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

SUCCESSOR AGENCY TRUST FUND

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

AGENCY FUNDS

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

CITY OF TURLOCK
 FIDUCIARY FUNDS
 STATEMENTS OF FIDUCIARY NET POSITION
 JUNE 30, 2015

	<u>Successor Agency Private-Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments (Note 3)	\$3,793,301	\$748,668
Cash and investments with fiscal agent (Note 3)	3,569,712	406,616
Accounts and interest receivable		8,104
Capital Assets (Note 13B):		
Nondepreciable	1,742,435	
Depreciable, net	<u>6,791,765</u>	
Total Assets	<u>15,897,213</u>	<u>\$1,163,388</u>
LIABILITIES		
Accounts payable	836	\$47,725
Interest payable	753,779	
Long-term debt (Note 13C):		
Due within one year	1,062,044	
Due in more than one year	39,488,524	
Due to stakeholders		<u>1,115,663</u>
Total Liabilities	<u>41,305,183</u>	<u>\$1,163,388</u>
NET POSITION (DEFICIT)		
Net deficit held in trust for other governments	<u>(\$25,407,970)</u>	

See accompanying notes to basic financial statements

CITY OF TURLOCK
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Successor Agency Private-Purpose Trust Fund</u>
ADDITIONS	
Property taxes	\$5,235,793
Net investment income	<u>16,421</u>
Total additions	<u>5,252,214</u>
DEDUCTIONS	
Community development	31,586
Contributions to the City of Turlock	484,519
Depreciation	146,261
Interest and fiscal charges	<u>2,268,679</u>
Total deductions	<u>2,931,045</u>
NET CHANGE IN NET POSITION	2,321,169
NET POSITION (DEFICIT) HELD IN TRUST FOR OTHER GOVERNMENTS	
Beginning of year	<u>(27,729,139)</u>
End of year	<u><u>(\$25,407,970)</u></u>

See accompanying notes to basic financial statements

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CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Turlock Public Financing Authority

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

B. Basis of Presentation

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

C. Major Funds

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

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

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The City also reports the following fund types:

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

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

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

D. *Basis of Accounting*

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

E. *Prepays, Materials, Supplies and Deposits*

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. *Deferred Inflows and Deferred Outflows of Resources*

In addition to assets, the statement of financial position or balance sheet report a separate section for deferred outflows of resources. The City has deferred outflows of resources related to pensions as discussed in Note 9. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from loans receivable. The City also has deferred inflows of resources related to pensions as discussed in Note 9. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

G. *Property Tax Revenue*

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

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

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

H. *Revenue Recognition for Water and Sewer*

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. *Compensated Absences*

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

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

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

The changes of the compensated absences during the fiscal year ended June 30, 2015 were as follows:

	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
Beginning Balance	\$2,649,855	\$691,026	\$3,340,881
Net Change	<u>67,993</u>	<u>(3,494)</u>	<u>64,499</u>
Ending Balance	<u>\$2,717,848</u>	<u>\$687,532</u>	<u>\$3,405,380</u>
Current Portion	<u>\$543,570</u>	<u>\$137,508</u>	<u>\$681,078</u>

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

J. *Use of Estimates*

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgetary Control and Accounting

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

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

B. *Encumbrances*

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

NOTE 3 - CASH AND INVESTMENTS

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

A. *Policies*

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

B. Classification

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

City cash and investments:	
Cash and investments available for operations	\$133,513,963
Restricted cash and investments and cash and investments with fiscal agent	9,037,532
Total City Cash and Investments	142,551,495
Cash and investments in Fiduciary Funds (Separate Statement):	
Successor Agency to the Redevelopment	
Agency Private Purpose Trust Fund:	
Cash available for operations	3,793,301
Cash and investments with fiscal agent	3,569,712
Agency Funds:	
Cash and investments available for operations	748,668
Cash and investments with fiscal agent	406,616
Total Cash and Investments	\$151,069,792

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$5,180
Deposits with financial institutions	64,165,010
Investments	86,899,602
Total Cash and Investments	\$151,069,792

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Notes, Bonds and/or Bills	5 years	A	Unlimited	N/A
U.S. Government Sponsored Securities	5 years	A	Unlimited	No more than 25%
Negotiable Certificates of Deposit	5 years	N/A	30%	N/A
Certificates of Deposit	5 years	A	Unlimited	N/A
Bankers' Acceptances	180 days	A	40%	No more than 30%
Commercial Paper	270 days	A-1 or Higher	25%	No more than 10%
State of Local Agency Investment Fund (LAIF)	N/A	N/A	Equal to maximum limit set by LAIF	N/A
Repurchase Agreement	1 year	N/A	Unlimited	N/A
Money Market and Mutual Funds	N/A	A	20%	N/A
Corporate Notes	5 years	AA	5%	N/A

During fiscal year 2013, the City purchased four certificates of deposit that had maturity dates of more than two years at the time of purchase, which is not in compliance with the City's Investment Policy. As of June 30, 2015, those certificates of deposit had maturity dates that were less than two years.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

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

E. Interest Rate Risk

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
<i>Held by City:</i>					
Federal Agency Securities		\$5,007,420	\$13,975,548		\$18,982,968
California Local Agency Investment Fund	\$50,018,799				50,018,799
Certificates of Deposit	10,942,404				10,942,404
<i>Held by Trustee:</i>					
California Local Agency Investment Fund	939,314				939,314
Money Market Mutual Funds (U.S. Securities)	5,676,249				5,676,249
Investment Agreement				\$339,868	339,868
Total Investments	<u>\$67,576,766</u>	<u>\$5,007,420</u>	<u>\$13,975,548</u>	<u>\$339,868</u>	<u>\$86,899,602</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2015 these investments matured in an average of 239 days.

Money Market Mutual funds are available for withdrawal on demand at June 30, 2015 matured in an average of 40 days.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2015 for each investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAAm	AA+	Total
Federal Agency Securities		\$18,982,968	\$18,982,968
Money Market Mutual Funds (U.S. Securities)	\$4,346,994		4,346,994
Total Rated Investments	<u>\$4,346,994</u>	<u>\$18,982,968</u>	23,329,962
<i>Not rated:</i>			
California Local Agency Investment Fund			50,958,113
Certificates of Deposit			10,942,404
Money Market Mutual Funds (U.S. Securities)			1,329,255
Investment Agreement			339,868
Total Investments			<u>\$86,899,602</u>

G. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2015, the book value of the City's cash with banks and petty cash was \$64,444,515 and the associated bank balances were \$64,439,335. Of the City's bank balances of \$64,439,335 as of June 30, 2015, \$1,563 was exposed to custodial credit risk, because it was not FDIC insured or collateralized.

H. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total Government-wide investments are as follows at June 30, 2015:

Issuer	Type of Investments	Amount
Farmers & Merchants Bank	Certificates of Deposit	\$5,492,573
Turlock Commerce Bank	Certificates of Deposit	4,447,128
Federal Home Loan Bank	Federal Agency Securities	7,014,625
Federal National Mortgage Association	Federal Agency Securities	4,952,070

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The City uses interfund transfers for two main purposes. First to apportion costs initially accounted for in one fund to other funds that benefit from the goods and/or services acquired. Secondly to account for shared funding of capital improvement projects. The City accounts for capital improvement projects in one fund and the funds that are providing funding assistance transfer monies representing their contribution to the project fund.

Transfers between funds during the fiscal year ended June 30, 2015 were as follows:

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred	
General Fund	Non-Major Governmental Funds	\$2,129,958	(A), (B)
	Internal Service Funds	2,533,000	(C)
Gas Tax/Street Improvement Fund	Non-Major Governmental Funds	21,409	(B)
	Internal Service Funds	131,853	(C)
Non-Major Governmental Funds	General Fund	556,171	(A)
	Gas Tax/Street Improvement Fund	113,912	(B)
	Non-Major Governmental Funds	615,618	(A), (B), (D)
	Water Enterprise Fund	23,783	(A)
	Sewer Enterprise Fund	402,607	(B), (D)
	Internal Service Funds	426,769	(C), (E)
Water Enterprise Fund	General Fund	413,854	(A), (E)
	Non-Major Governmental Funds	1,871	(A)
	Internal Service Funds	40,000	(C)
Sewer Enterprise Fund	General Fund	746,514	(A), (E)
	Gas Tax/Street Improvement Fund	60,540	(A), (B)
	Non-Major Governmental Funds	23,767	(A), (B)
	Internal Service Funds	330,000	(C)
Non-Major Enterprise Funds	General Fund	39,750	(E)
	Gas Tax/Street Improvement Fund	3,000	(A)
	Non-Major Governmental Funds	22,616	(A), (C)
Internal Service Funds	General Fund	87,000	(E)
	Non-Major Governmental Funds	85,452	(A), (C)
	Internal Service Funds	2,000	(C)
		\$8,811,444	

- (A) To fund operations including computer replacement
- (B) To fund capital improvements
- (C) To fund the Internal Service Equipment Pool for future vehicle purchases
- (D) To consolidate development impact fee programs
- (E) To fund administrative expenses

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly, after the end of the fiscal year when revenues are received. Current amounts due to the General Fund and Internal Service Funds from the funds listed below at June 30, 2015 were as follows:

	Amount Due to	
	General Fund	Internal Service Funds
Major Special Revenue Fund:		
Gas Tax/Street Improvement		\$1,414,720
Non-major Special Revenue Funds:		
CDBG		155,691
Housing Stimulus Funds		27,341
Stanislaus County Housing Consortium		708,882
Grant Funds		57,787
Non-major Capital Projects Fund:		
East Tuolumne Master Plan		163,000
Internal Service Fund:		
Engineering	\$1,093,354	
Total	\$1,093,354	\$2,527,421

C. Internal Balances

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

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

At June 30, 2015, the City had the following amounts due from developers and loans receivable. These amounts are further described below the table.

	Governmental Activities	Business-Type Activities	Total
Due from developers	\$287,284	\$157,663	\$444,947
Loans receivable	28,531,861		28,531,861
Total	\$28,819,145	\$157,663	\$28,976,808

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

A. Due from Developers

These amounts represent funds expended by the City in the preparation of the master plan and related planning documents required for the development of the City’s Northwest Specific Triangle Plan Area, its Northeast Master Plan Area and its Morgan Ranch Master Plan Area. The amounts expended by the City are being recovered as these Plan Areas develop via a specific development impact fee. The Northwest Triangle receivable of \$157,663 is recorded in the Sewer Enterprise Fund, the Northeast Master Plan receivable of \$20,041 is recorded in the General Fund and the Morgan Ranch Master Plan receivable of \$267,243 is recorded in the Facility Fees Fund.

B. Loans Receivable

Loans receivable at June 30, 2015 consist of the following:

Type of Loan/Borrower	Amount
Central Valley Coalition for Affordable Housing	\$8,850,550
First Time Homebuyer Loans	9,191,629
EAH, Inc.	5,133,155
Owner-Occupied Rehabilitation Loans	3,570,595
Cherry Tree Village Loans	1,722,867
Rehabilitation Forgivable Loans for Energy Improvements	21,100
Rental Rehabilitation Loans	36,317
Employee Computer Loans	5,648
	\$28,531,861
Net long-term notes receivable	\$28,531,861

Central Valley Coalition for Affordable Housing

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

CVCAH is currently participating in three types of projects within the City of Turlock. The first is Crane Terrace, a 44-unit, three-story, low-income senior living apartment complex. Using 20% Set-Aside monies, the former Redevelopment Agency loaned \$4 million to this \$10.5 million project under a Development and Disposition Agreement (DDA) dated April 26, 2005. The DDA calls for repayment of the 55-year note to begin in year 31 from residual rental receipts. The note carries 3% simple interest. The total outstanding principal and interest at June 30, 2015 was \$5,419,159.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

The second type of project is the acquisition and rehabilitation of single-family residential units which will be rented out to HUD qualifying low/moderate income families. CVCAH currently has three of these properties for which the City holds promissory notes totaling \$1,017,529. The notes each carry a 5% annual interest rate and are due and payable, along with all accrued, unpaid interest at maturity, unless the underlying property is sold; at which time the note and all accrued, unpaid interest is due and payable. Total outstanding principal and interest at June 30, 2015 on these three properties was \$1,453,403.

The third type of project is the acquisition of multi-family properties which will be rented to HUD qualifying, low-income families. CVCAH currently owns three multi-family properties for which the City holds promissory notes totaling \$1,394,604. The notes each carry annual interest rates from 3% - 5% and are due and payable, along with all accrued, unpaid interest at maturity, unless the underlying property is sold; at which time the note and all accrued, unpaid interest is due and payable. Total outstanding principal and interest at June 30, 2015 on these three properties was \$1,977,988.

First Time Homebuyer Loans

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

On September 10, 2014, the City Manager approved First Time Home Buyer loan to a City employee for \$50,000. The 30-year loan bears an interest rate equal to 3% and principal and interest payments are deferred until the maturity date. As of June 30, 2015, the amount outstanding was \$49,187 and is included in the balance of loans outstanding.

As of June 30, 2015 the City had 181 loans outstanding.

EAH, Inc.

EAH, Inc. is a nonprofit corporation which develops and manages affordable housing projects in the western United States. The former Redevelopment Agency entered into two Disposition and Development Agreements (DDA) with EAH to assist in the development and help secure financing for a multi-family housing project on 6.7 acres of property in the area of Linwood Avenue and Hwy 99. The site was initially owned by the City of Turlock and will be conveyed to the developer (EAH) pursuant to the terms of the DDA. The proposed project is a two-phased, 140 unit, three-story, apartment complex for low- and very low-income families with amenities that would complement the project and surrounding neighborhood.

The DDA for Phase 1 and construction of the first 80 units on 4.3 acres contains funding of up to \$5 million of former RDA low- and moderate-income funds divided into two separate funding horizons. The first is a pre-development loan of up to \$1 million to reimburse the developer for certain pre-construction, design and engineering costs. The second is a development cost loan of up to \$4 million to be used for construction and development of the project, excluding development fees, management fees or other similar fees.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

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

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

Each loan will be memorialized with a Promissory Note and will become a recorded deed of trust against the property. Each pre-development loan (Phase I and Phase II) is interest free for the earlier of: (1) two years from the date of execution, or (2) when the construction loan closes. Both the pre-development and development cost loans for each phase will be rolled into a permanent loan at the completion of construction of the phase. The combined loans will carry a 3% annual interest rate and be repaid using residual receipts over a 55 year period. As of June 30, 2015, EAH had drawn down all the funds associated with the DDA for Phase I of the project and had drawn down \$133,155 in funding associated with the DDA for Phase II. Outstanding loans for this project total \$5,133,155.

Owner-Occupied Rehabilitation Loans

The Owner-Occupied Rehabilitation Loan program, funded with either Federal Community Development Block Grant (CDBG) or State of California HOME funds, provides eligible homeowners with funding for health, safety and/or building code related improvements to their home. Eligibility is established based on the age and income requirements for U.S. Department of Housing and Urban Development (HUD) funded programs. The loans are for a maximum of 20 years and can be either fully amortizing or deferred – depending on the age and income level of the applicant. The fully amortizing loans carry a 5% simple interest rate for the entire term, while the deferred loans accrue simple interest at 5% for the first 10 years and then no interest for the remaining 10 years. All loans are secured by a recorded silent second deed of trust on the property. The loans are due and payable should the homeowner refinance or sell the property. As of June 30, 2015 the City had 49 loans outstanding.

Cherry Tree Village Loans

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

Rehabilitation Forgivable Loans for Energy Improvements

Using CDBG-R funding, the City has been able to provide forgivable loans for energy improvements made as part of the rehabilitation process for a qualified low/moderate income home owner. The forgivable loans can be used for structural (e.g. windows, weather stripping, insulation) and/or appliance (e.g. HVAC, refrigerator) improvements to the property which reduce the energy usage of the home. The forgivable loans are for up to \$10,000, carry no interest, and are forgiven equally over a five-year period provided the home continues to be the primary residence of the qualified home owner. At June 30, 2015 the City had six loans outstanding.

Rental Rehabilitation Loans

The Rental Rehabilitation Loan program, funded with CDBG funds, is similar to the owner-occupied program except it is for rental properties. To be eligible, the property must be occupied by a qualified low/moderate income tenant based on HUD requirements. These fully amortizing loans are for a maximum of 20 years and carry a 6.5% simple interest rate. The loans are due and payable should the homeowner refinance or sell the property or have a non-qualifying tenant. As of June 30, 2015 the City had one loan outstanding.

Employee Computer Loans

All full-time City employees who have completed their probationary period are eligible to obtain an interest free loan of up to \$2,500 to purchase a computer. All requests for loans are subject to review by the Service Area Director and must be approved by either the City Manager or Assistant City Manager. Repayment of these loans is handled through payroll deductions which are spread out equally over a two year period. Employees must repay the outstanding balance of their loans upon ending their employment with the City. As of June 30, 2015, 8 employees had loans totaling \$5,648 due to the City.

C. Accounts Receivable

The following table provides a detailed listing of the City's accounts receivable by type as of June 30, 2015:

	Due from Other Governments	Accounts Receivable	Total
General Fund	\$2,715,080	\$1,592,250	\$4,307,330
Former LMI Housing Fund		473	473
Gas Tax / Street Improvement	2,318,006	30,528	2,348,534
Nonmajor Governmental Funds	1,032,837	39,454	1,072,291
Water Enterprise Fund	26,180	928,532	954,712
Sewer Enterprise Fund	65	1,940,226	1,940,291
Nonmajor Enterprise Funds	696,189	2,133	698,322
Internal Service funds	10	1,689,808	1,689,818
Total	\$6,788,367	\$6,223,404	\$13,011,771

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 6 - CAPITAL ASSETS

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

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

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

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Assets Additions and Retirements

At June 30, 2015 the City's capital assets for governmental activities consisted of the following:

Governmental activities

	Balance at June 30, 2014	Additions	Retirements	Transfers	Transfer from Successor Agency	Balance at June 30, 2015
Capital assets not being depreciated:						
Land	\$13,510,495		(\$140,000)		\$140,000	\$13,510,495
Construction in progress	42,207,811	\$7,585,840	(1,348)	(\$228,040)		49,564,263
Total capital assets not being depreciated	<u>55,718,306</u>	<u>7,585,840</u>	<u>(141,348)</u>	<u>(228,040)</u>	<u>140,000</u>	<u>63,074,758</u>
Capital assets being depreciated:						
Land improvements	28,291,556	1,002	(460,940)			27,831,618
Buildings	28,810,551			228,040		29,038,591
Furniture and equipment	9,833,347	407,228				10,240,575
Vehicles	9,331,680	356,523	(278,825)	(17,469)		9,391,909
Infrastructure	178,922,409	300				178,922,709
Total capital assets being depreciated	<u>255,189,543</u>	<u>765,053</u>	<u>(739,765)</u>	<u>210,571</u>		<u>255,425,402</u>
Less accumulated depreciation for:						
Land improvements	(8,920,526)	(881,531)				(9,802,057)
Buildings	(9,869,217)	(959,806)				(10,829,023)
Furniture and equipment	(8,013,752)	(319,593)				(8,333,345)
Vehicles	(7,105,928)	(467,413)	273,728	17,469		(7,282,144)
Infrastructure	(48,539,296)	(3,496,727)				(52,036,023)
Total accumulated depreciation	<u>(82,448,719)</u>	<u>(6,125,070)</u>	<u>273,728</u>	<u>17,469</u>		<u>(88,282,592)</u>
Net capital assets being depreciated	<u>172,740,824</u>	<u>(5,360,017)</u>	<u>(466,037)</u>	<u>\$228,040</u>		<u>167,142,810</u>
Governmental activity capital assets, net	<u>\$228,459,130</u>	<u>\$2,225,823</u>	<u>(\$607,385)</u>		<u>\$140,000</u>	<u>\$230,217,568</u>

Governmental activities depreciation expense for capital assets for the year ended June 30, 2015 was as follows:

Governmental Activities	
General government	\$386,425
Public safety	854,466
Public works	4,099,102
Parks and recreation	483,232
Community development	65,037
Internal service funds	236,808
Total Governmental Activities	<u>\$6,125,070</u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 6 - CAPITAL ASSETS (Continued)

At June 30, 2015 the City's capital assets for business-type activities consisted of the following:

Business-type activities

	Balance at June 30, 2014	Additions	Retirements	Transfers	Balance at June 30, 2015
Capital assets not being depreciated:					
Land	\$3,712,120				\$3,712,120
Construction in progress	34,209,833	\$3,208,251		(\$120,730)	37,297,354
Total capital assets not being depreciated	<u>37,921,953</u>	<u>3,208,251</u>		<u>(120,730)</u>	<u>41,009,474</u>
Capital assets being depreciated:					
Land improvements	6,522,722				6,522,722
Buildings and improvements	5,507,916				5,507,916
Furniture and equipment	22,282,723	71,760	(\$44,441)	120,730	22,430,772
Vehicles	2,992,846			17,469	3,010,315
Infrastructure	289,355,197	393			289,355,590
	<u>326,661,404</u>	<u>72,153</u>	<u>(44,441)</u>	<u>138,199</u>	<u>326,827,315</u>
Less accumulated depreciation for:					
Land improvements	(1,743,597)	(208,425)			(1,952,022)
Buildings and improvements	(2,479,741)	(150,455)			(2,630,196)
Furniture and equipment	(15,696,098)	(918,605)	33,191		(16,581,512)
Vehicles	(1,373,843)	(195,546)		(17,469)	(1,586,858)
Infrastructure	(119,682,173)	(4,970,827)			(124,653,000)
	<u>(140,975,452)</u>	<u>(6,443,858)</u>	<u>33,191</u>	<u>(\$17,469)</u>	<u>(147,403,588)</u>
Net capital assets being depreciated	<u>185,685,952</u>	<u>(6,371,705)</u>	<u>(11,250)</u>	<u>120,730</u>	<u>179,423,727</u>
Total Business-type activity capital assets, net	<u>\$223,607,905</u>	<u>(\$3,163,454)</u>	<u>(\$11,250)</u>		<u>\$220,433,201</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2015 was as follows:

Business-Type Activities

Water	\$1,905,999
Sewer	4,189,747
Transportation	<u>348,112</u>
Total Business-Type Activities	<u><u>\$6,443,858</u></u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 - LONG TERM DEBT

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

A. Current Year Governmental Activities Transactions and Balances

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

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year	Due in More Than One Year
Loan Payable:							
California Energy Commission	\$265,454	\$16,561		\$16,561			
Capital Leases:							
2000 Regional Sports Complex	1,000,000	95,567		95,567			
Public Safety Server	57,500		\$57,500	3,692	\$53,808	\$11,182	\$42,626
Total Governmental Activity Debt	\$1,322,954	\$112,128	\$57,500	\$115,820	\$53,808	\$11,182	\$42,626

Loan Payable

California Energy Commission

The City entered into a loan agreement with the California Energy Commission to provide funding for the replacement of the incandescent lights in the City's traffic signals with light emitting diode (LED) lights. The replacement lights are more energy efficient and longer lasting. The loan, totaling \$265,454, carries a 3.95% annual interest rate and requires semi-annual payments beginning in December 2005 through December 2014. The loan was fully repaid during the fiscal year ended June 30, 2015.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 - LONG TERM DEBT (Continued)

Capital Leases

2000 Regional Sports Complex

In January 2000 the City entered into a \$1,000,000 lease – lease buy back agreement with Calease Public Funding Corporation to finance the acquisition and development of a Regional Sports Complex. The lease carries an annual interest rate of 5.78% and requires quarterly principal and interest lease payments due on the first of January, April, July and October until April 2015 when the lease terminates. The lease was fully repaid during the fiscal year ended June 30, 2015.

Public Safety Server

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

At June 30, 2015, the City’s capital leases were related to capitalized assets totaling \$1,358,986.

Debt Service Requirements

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

For the Year Ending June 30	Governmental Activities Capital Lease Payable	
	Principal	Interest
2016	\$11,182	\$806
2017	11,372	619
2018	11,561	429
2019	11,752	236
2020	7,941	50
Total	\$53,808	\$2,140

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 - LONG TERM DEBT (Continued)

B. Current Year Business-type Transactions and Balances

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

Business-type Activity Debt:	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year	Due in More Than One Year
Revenue Bonds:							
2012 Sewer Revenue	\$51,915,000	\$50,050,000		\$1,955,000	\$48,095,000	\$2,010,000	\$46,085,000
Add: Unamortized bond premium		3,510,510		183,157	3,327,353		3,327,353
2008 Water Revenue	32,365,000	28,630,000		700,000	27,930,000	725,000	27,205,000
Add: Unamortized bond premium		9,033		379	8,654		8,654
Loans Payable:							
State Revolving Fund Loan - Harding Drain By-Pass	15,090,416	14,932,232	\$158,184	658,654	14,431,762	620,050	13,811,712
State Revolving Fund Loan - TRWQCF Upgrade	24,752,169	23,321,342	1,430,827		24,752,169	1,010,199	23,741,970
Total Business-type Activity Debt	\$124,122,585	\$120,453,117	\$1,589,011	\$3,497,190	\$118,544,938	\$4,365,249	\$114,179,689

Revenue Bonds

2012 Sewer Revenue Bonds

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

Pursuant to an Installment Purchase Agreement between the Authority and the City, the City has pledged the net sewer system revenues (defined as total system revenues excluding certain revenues related to deposits, and proceeds from borrowings less maintenance and operating costs) from the Sewer Enterprise Fund operations for repayment of the 2012 bonds and the State Revolving Fund Loans. Based on fiscal year 2014-15 net system revenues of \$10,039,188 annual principal and interest payments (totaling \$4,864,949 in 2014-15) were 206% of net system revenues.

2008 Water Revenue Bonds

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

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 2014-15 net system revenues of \$3,996,752, annual principal and interest payments (totaling \$2,032,112) were 197% of net system revenues.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 - LONG TERM DEBT (Continued)

Loans Payable

State Revolving Fund Loans

The City entered into two agreements with the California State Water Resources Control Board for State Revolving Fund project financing. These loans are on parity with the Sewer Revenue Bonds above. This means that the loans have equal rights to pledged revenues as the sewer bonds.

The first agreement was executed in December 2011 in the amount of \$20 million to fund the Harding Drain Bypass project. The agreement was amended in October 2012 to reduce the project funding to \$15,811,425. The notice of completion for the project was issued on April 22, 2014. The draws on this loan, including capitalized interest, totaled \$15,090,416. The loan bears annual interest of 2.2%, and annual principal and interest payments are due January 1, 2015 through January 1, 2034.

The second agreement was executed in April 2012 in the amount of \$24 million to fund the Turlock Regional Water Quality Control Facility (TRWQCF) upgrade and expansion project. The agreement was amended in January 2013 to increase the project funding to \$26,187,900. During fiscal year 2015, the City expended \$1,009,050 on the project and drew down loan proceeds of \$1,001,736. In addition, accrued interest payable in the amount of \$429,091 was added to the principal balance of the loan. The notice of completion for the project was issued May 26, 2015. The draws on this loan, including capitalized interest, totaled \$24,752,169. The loan bears annual interest of 2.2%, and annual principal and interest payments are due December 1, 2015 through December 1, 2034.

Debt Service Requirements

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

For the Year Ending June 30	<u>Business-Type Activities</u> <u>Bonds and Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$4,365,249	\$4,066,719
2017	4,488,749	3,942,468
2018	4,640,132	3,790,986
2019	4,797,314	3,634,003
2020	4,970,315	3,463,153
2021-2025	27,576,504	14,586,808
2026-2030	30,285,058	9,313,645
2031-2035	28,555,610	4,064,259
2036-2038	<u>5,530,000</u>	<u>562,000</u>
Total	<u>\$115,208,931</u>	<u>\$47,424,041</u>
Add: Unamortized Bond		
Premium	<u>3,336,007</u>	
Net long-term debt	<u>\$118,544,938</u>	

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 - LONG TERM DEBT (Continued)

C. *Debt With No City Commitment*

The City of Turlock has no legal liability with respect to the payment of any indebtedness of the Community Financing District No. 1 Monte Vista Crossings. The City acts solely as an agent for the bondholders in collecting and forwarding the special assessment. Accordingly, no liability for these bonds has been recorded in the City's basic financial statements. The principal amount of outstanding debt of the above District was \$2,845,000 at June 30, 2015.

NOTE 8 – NET POSITION AND FUND BALANCES

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

A. *Net Position*

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

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

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

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

B. *Fund Balances*

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

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

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

Fund Balance Classifications	General Fund	Special Revenue		Other Governmental Funds	Total
		Former LMI Housing Fund	Gas Tax/ Street Improvement		
Nonspendable:					
Items not in spendable form:					
Prepaid expenditures	\$5,685				\$5,685
Loans receivable	5,648			\$267,243	272,891
Due from developers	20,041				20,041
Total Nonspendable Fund Balances	31,374			267,243	298,617
Restricted for:					
Low and moderate income housing		\$32,438		1,100,650	1,133,088
Capital expenditures				7,958,960	7,958,960
Resource conservation				558,270	558,270
Assessment districts				12,219,074	12,219,074
Public safety				501,889	501,889
Development impact fees				79,488	79,488
Total Restricted Fund Balances		32,438		22,418,331	22,450,769
Committed to:					
Public safety	920,013			87,726	1,007,739
Parks and recreation				712	712
Resource conservation				340,108	340,108
Tourism	353,181				353,181
Future deficit spending	425,132				425,132
Capital expenditures	392,450			15,356,731	15,749,181
Total Committed Fund Balances	2,090,776			15,785,277	17,876,053
Assigned to:					
Compensated absences	2,217,304				2,217,304
Total Assigned Fund Balances	2,217,304				2,217,304
Unassigned:					
General Fund	3,553,725				3,553,725
Other governmental fund deficits			(\$1,327,106)	(296,969)	(1,624,075)
Total Unassigned Fund Balances	3,553,725		(1,327,106)	(296,969)	1,929,650
Total Fund Balances	\$7,893,179	\$32,438	(\$1,327,106)	\$38,173,882	\$44,772,393

C. Emergency/Contingency Reserve

The City established a General Fund Emergency/Contingency Reserve with Resolution 2011-123. The required balance of the Emergency/Contingency Reserve is \$6,500,000, which is reported within the unassigned fund balance of the General Fund. However the City Council approved Resolution 2015-119 in June 2015 to temporarily suspend Resolution 2011-123 to allow the reserve to fall below that level for the sole purpose of paying the CalPERS Side Funds discussed in Note 9C below.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

D. Fund Balance/Net Position Deficits

The following funds had deficit fund balances or net position as of June 30, 2015.

Major Governmental Funds:	
Gas Tax/ Street Improvement Fund	\$1,327,106
Non-major Governmental Funds:	
Housing Stimulus Funds Special Revenue Fund	26,120
Stanislaus County Housing Consortium Special Revenue Fund	107,849
East Tuolumne Master Plan Capital Projects Fund	163,000
Non-major Enterprise Funds:	
Building & Safety	1,555,466
Internal Service Funds:	
Information Technology	1,006,143
Engineering	2,940,232

The deficits in the Gas Tax/Street Improvement, Housing Stimulus Funds and Stanislaus County Housing Consortium Special Revenue Funds and the East Tuolumne Master Plan Capital Projects Fund will be eliminated by future revenues.

The deficits in the Building & Safety Enterprise Fund and the Information Technology and Engineering Internal Services Funds were primarily due to the recognition of the net pension obligation and related deferred outflows/inflows of resources. The City will fund the liability over time through annual contributions with a 30 year amortization period to cure the deficits.

E. Net Position Restatements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The intension of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The intension of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The implementation of the above Statements required the City to make prior period adjustments. As a result, the beginning net position of the Governmental Activities was reduced by \$47,791,778 and Business-type Activities was reduced by \$13,389,411. In addition, the beginning net position of the following were restated and reduced in the amounts noted: Water Enterprise Fund \$3,540,447, Sewer Enterprise Fund \$8,238,365, NonMajor Enterprise Funds \$1,610,599 and Internal Service Funds \$4,620,554. See Note 9 for additional information.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS

A. Plan Descriptions and Summary of Balances by Plan

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

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

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

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

	Deferred Outflows of Resources	Net Pension Liability/ Proportionate Share of Net Pension Liability	Deferred Inflows of Resources
Miscellaneous	\$3,847,884	\$32,635,640	\$5,765,886
Safety - Fire	3,240,374	9,504,805	2,408,460
Safety - Police	6,135,399	14,989,890	3,637,924
Total	<u>\$13,223,657</u>	<u>\$57,130,335</u>	<u>\$11,812,270</u>

Each Plan is discussed in detail below.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

B. Miscellaneous Plan

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

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	22.418%	22.418%

Employees Covered – As of the June 30, 2013 actuarial valuation date and the June 30, 2014 measurement date, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous	
	June 30, 2013	June 30, 2014
Inactive employees or beneficiaries currently receiving benefits	187	196
Inactive employees entitled to but not yet receiving benefits	281	282
Active employees	219	211
Total	687	689

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

Net Pension Liability - The City's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

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

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	\$109,667,670	\$71,240,464	\$38,427,206
Changes in the year:			
Service cost	2,252,227		2,252,227
Interest on the total pension liability	8,152,132		8,152,132
Differences between actual and expected experience			0
Changes in assumptions			0
Changes in benefit terms			0
Contribution - employer		2,650,159	(2,650,159)
Contribution - employee (paid by employer)			0
Contribution - employee		1,031,498	(1,031,498)
Net investment income		12,514,268	(12,514,268)
Administrative expenses			0
Benefit payments, including refunds of employee contributions	(4,197,372)	(4,197,372)	0
Net changes	<u>6,206,987</u>	<u>11,998,553</u>	<u>(5,791,566)</u>
Balance at June 30, 2015	<u>\$115,874,657</u>	<u>\$83,239,017</u>	<u>\$32,635,640</u>

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

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

	Miscellaneous
1% Decrease	6.50%
Net Pension Liability	\$48,461,467
Current Discount Rate	7.50%
Net Pension Liability	\$32,635,640
1% Increase	8.50%
Net Pension Liability	\$19,536,665

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - For the year ended June 30, 2015, the City recognized pension expense of \$4,099,569. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$3,847,884	
Differences between actual and expected experience		
Changes in assumptions		
Net differences between projected and actual earnings on plan investments		(\$5,765,886)
Total	\$3,847,884	(\$5,765,886)

\$3,847,884 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2016	(\$1,441,471)
2017	(1,441,471)
2018	(1,441,471)
2019	(1,441,473)

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

C. Safety Plans

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

The Safety Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Safety - Fire	
	Tier 1	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2% to 2.7%
Required employee contribution rates	9%	11.5%
Required employer contribution rates	32.456%	11.5%

	Safety - Police	
	Tier 1	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2% to 2.7%
Required employee contribution rates	9%	11.5%
Required employer contribution rates	34.095%	11.5%

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the contributions to the Safety Plans were as follows:

	Safety - Fire	Safety - Police
Contributions - employer	\$2,545,603	\$1,406,221

As required by State law, effective July 1, 2005, the City’s Safety Plans were terminated, and the employees in those plans were required by CALPERS to join State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through Side Funds offered by CALPERS. In addition to the normal contributions above, the City satisfied its Safety Plans’ liabilities at by making lump sum contributions of \$5,423,948 during the year ended June 30, 2015.

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

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Safety Fire	\$9,504,805
Safety Police	14,989,890
Total Net Pension Liability	\$24,494,695

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Safety Fire	Safety Police
Proportion - June 30, 2013	0.38%	0.25%
Proportion - June 30, 2014	0.25%	0.40%
Change - Increase (Decrease)	-0.13%	0.15%

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the City recognized pension expense of \$4,216,577 for the Safety Plans. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the Safety Plans from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$9,375,773	
Differences between actual and expected experience		
Changes in assumptions		
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(\$5,558,654)
Net differences between projected and actual earnings on plan investments		(487,730)
Total	<u>\$9,375,773</u>	<u>(\$6,046,384)</u>

\$9,375,773 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Annual Amortization</u>
2015	(\$1,563,852)
2016	(1,563,852)
2017	(1,529,015)
2018	(1,389,665)
2019	0
Thereafter	0

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –

The following presents the City’s proportionate share of the net pension liability for each Plan as of the measurement date, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Safety Fire</u>	<u>Safety Police</u>
1% Decrease	6.50%	6.50%
Net Pension Liability	\$15,158,988	\$23,422,092
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$9,504,805	\$14,989,890
1% Increase	0.09	0.09
Net Pension Liability	\$4,846,002	\$8,042,119

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

D. Information Common to the Miscellaneous and Safety Plans

Actuarial Assumptions – For the measurement period ended June 30, 2014, the total pension liabilities were determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous and Safety (all plans)</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality Rate Table	Derived using CalPERS Membership Data for all Funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment and administrative expenses; includes inflation

(3) The mortality table used was developed based on CalPERS’ specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on the CalPERS website under Forms and Publications.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS deemed the difference immaterial to the agent-multiple employer and cost-sharing multiple-employer defined benefit plans.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 – PENSION PLANS (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

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

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS

A. Defined Benefit Plans

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

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

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

For the Police and Fire plans, the City remits the contributions as required by the respective MOU to each plan following each pay period. These plans have established irrevocable trusts for their respective plan assets. As noted above, the plans' trustees are responsible for the development of benefit levels that can be sustained from the contributions received as well as the general plan administration. The City does not have any responsibility for nor involvement in these activities. Under the terms of the Police and Fire MOUs, the City is obligated to make current year contributions to the respective trusts based on the 3% and 4% of personnel costs for Police and Fire, respectively. Management believes the City has no obligation to make any additional contributions to the trusts beyond the above amounts, and therefore there is no unfunded actuarial accrued liability the City is obligated to fund.

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

The ARC for the Police and Fire offset plans are based on the contributions required under each MOU and the amounts contributed for the 2014-15 fiscal year.

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

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

The following table presents the components of the City's annual OPEB cost, amounts actually contributed for the 2014-15 fiscal year and changes in the City's Net OPEB Obligation for the year. The table is broken out between the offset benefit and the City's health care plan.

OFFSET PLAN	Police	Fire	Total		
Annual required contribution	\$263,956	\$167,592	\$431,548		
Interest on net OPEB obligation					
Adjustments					
Annual OPEB cost (expense)	263,956	167,592	431,548		
Contributions to irrevocable trust	(263,956)	(167,592)	(431,548)		
Increase (decrease) in NOO					
Net OPEB obligation (asset) - beginning					
Net OPEB obligation (asset) - ending					
HEALTH CARE PLAN	Management/ Confidential	Miscellaneous	Police	Fire	Total
Annual required contribution	\$67,558	\$566,864	\$234,290	\$181,358	\$1,050,070
Interest on net OPEB obligation	(39,631)	77,503	19,053	(8,177)	48,748
Adjustments	59,569	(116,494)	(28,638)	12,291	(73,272)
Annual OPEB cost (expense)	87,496	527,873	224,705	185,472	1,025,546
Benefits payments (net of recoveries)	(122,030)	(47,858)	(264,747)	(368,692)	(803,327)
Retiree contributions	67,315	82,394	113,568	161,461	424,738
Increase (decrease) in NOO	32,781	562,409	73,526	(21,759)	646,957
Net OPEB obligation (asset) - beginning	(880,686)	1,722,297	423,400	(181,708)	1,083,303
Net OPEB obligation (asset) - ending	(\$847,905)	\$2,284,706	\$496,926	(\$203,467)	\$1,730,260

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

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

<u>OFFSET PLAN</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Police			
2012-13	\$283,603	100.00%	\$0
2013-14	\$266,198	100.00%	0
2014-15	\$263,956	100.00%	0
Fire			
2012-13	\$184,743	100.00%	\$0
2013-14	\$168,557	100.00%	0
2014-15	\$167,592	100.00%	0
<u>HEALTH CARE PLAN</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Management/Confidential			
2012-13	\$124,599	336.22%	(\$880,703)
2013-14	\$86,067	99.98%	(880,686)
2014-15	\$87,496	62.53%	(847,905)
Miscellaneous			
2012-13	\$574,597	74.76%	1,347,667
2013-14	\$538,541	30.44%	1,722,297
2014-15	\$527,873	-6.54%	2,284,706
Police			
2012-13	\$249,824	59.13%	284,341
2013-14	\$228,314	39.09%	423,400
2014-15	\$224,705	67.28%	496,926
Fire			
2012-13	\$204,478	174.22%	(346,024)
2013-14	\$188,630	12.89%	(181,708)
2014-15	\$185,472	111.73%	(203,467)

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

B. Defined Contribution Plans

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

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

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

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

Contributions to each plan during fiscal year 2014-15 were as follows:

Plan	Contributions	
	Employer	Employee
Management/Confidential	\$122,144	\$0
Miscellaneous	166,414	41,594

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 11 - RISK MANAGEMENT

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

The City uses a reinsurance agreement to reduce its exposure to large losses under the workers' compensation program. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the City as direct insurer of the risks reinsured. The City does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums paid to reinsurers during the year ended June 30, 2015 were \$91,147, and the City's deductible under the policy is \$1.250 million, with coverage up to the statutory limit.

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

Type of Coverage (Deductible)	Coverage Limits
Liability (\$1,000,000)	\$29,000,000
Property (\$2,500 to \$50,000)	Various sublimits to \$50,000,000
Automobile - for vehicles with values more than \$25,000 (\$500)	10,000
Automobile - for vehicles with values less than \$25,000 (\$500)	25,000

The City contributes its pro rata share of anticipated losses to a pool administered by CSJVRMA. Should actual losses among participants be greater than the anticipated losses, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. The City paid CSJVRMA premiums of \$579,693 during the fiscal year ended June 30, 2015. Settled claims have not exceeded commercial excess liability coverage in any of the past three fiscal years.

In addition to the coverage through CSJVRMA, the City has purchased the following commercial policy coverage for vehicles and equipment up to the value of the vehicles and equipment as provided to the insurance company:

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 11 - RISK MANAGEMENT (Continued)

All unpaid claims that were probable liabilities that occurred prior to the year-end and that were estimated based on actuarial studies or historical data were recorded in accordance with GASB No. 10.

For the Year Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30
2013	\$3,433,104	\$6,170,520	(\$5,691,915)	\$3,911,709
2014	3,911,709	5,946,352	(5,144,868)	4,713,193
2015	4,713,193	7,689,748	(7,689,748)	4,713,193

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. *Litigation*

As of June 30, 2015, the City is a party to various lawsuits. There are certain personal injury lawsuits which have been denied by the City Council. The outcome and eventual liability to the City, if any, in these cases is not known at this time. After reviewing these lawsuits with legal counsel, management estimates that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

B. *Federal and State Grant Programs*

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

C. *Construction and Other Commitments*

The City had the following outstanding significant commitments at June 30, 2015:

<u>Projects</u>	<u>Amount</u>
Fulkerth & 99 Interchange Design	\$198,482
Council Chambers Improvements	542,917
Other contracts	156,718

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 13 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. REDEVELOPMENT DISSOLUTION

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

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

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

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

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

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

AB1484 required the Successor Agency to complete two due diligence reviews – one for the low and moderate income housing assets of the Successor Agency (Housing DDR), and a second for all other balances of the Successor Agency (Non-housing DDR). The due diligence reviews are to calculate the balance of unencumbered balances as of June 30, 2012 available to be remitted to the County for disbursement to taxing entities. The Successor Agency submitted both due diligence reviews to the State Department of Finance for review and approval. The Department of Finance did not initially approve the Housing DDR, which indicated that the Successor Agency had no funds available for distribution, and the State made adjustments to the Housing DDR and instead made a demand for the return of funds totaling \$1,001,062, which were held by the City’s Former LMI Housing Fund. The City remitted that amount to the County in December 2012. The Department of Finance did not initially approve the Non-housing DDR, which indicated that the Successor Agency had no funds available for distribution, and although the State made adjustments to the Non-housing DDR, the adjusted balance still indicated that there were no funds available for distribution. The Successor Agency received its Finding of Completion in April 2013 which means it can now utilize bond proceeds for projects consistent with the original bond covenants. During 2014/15 the Successor Agency funded \$109,564 for project costs deemed enforceable obligations.

Cash and investments of the Successor Agency as of June 30, 2015 are discussed in Note 3. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2015.

B. CAPITAL ASSETS

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

Capital assets at June 30, 2015 were comprised of:

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

	Balance at June 30, 2014	Additions	Transfer to City	Balance at June 30, 2015
Capital assets not being depreciated:				
Land	\$1,882,435		(\$140,000)	\$1,742,435
Total capital assets not being depreciated	<u>1,882,435</u>		<u>(140,000)</u>	<u>1,742,435</u>
Capital assets being depreciated:				
Land improvements	8,647,404			8,647,404
Furniture and equipment	40,361			40,361
Infrastructure	62,624			62,624
Total capital assets being depreciated	<u>8,750,389</u>			<u>8,750,389</u>
Less accumulated depreciation for:				
Land improvements	(1,741,897)	(\$144,174)		(1,886,071)
Furniture and equipment	(40,361)			(40,361)
Infrastructure	(30,105)	(2,087)		(32,192)
Total accumulated depreciation	<u>(1,812,363)</u>	<u>(146,261)</u>		<u>(1,958,624)</u>
Net capital assets being depreciated	<u>6,938,026</u>	<u>(146,261)</u>		<u>6,791,765</u>
Governmental activity capital assets, net	<u>\$8,820,461</u>	<u>(\$146,261)</u>	<u>(\$140,000)</u>	<u>\$8,534,200</u>

C. LONG-TERM OBLIGATIONS

1. Current Year Transactions and Balances

The following bonds are obligations of the Authority payable from and secured by loan payments made by the former Turlock Redevelopment Agency. The bonds are secured by the tax increment revenues of the former RDA and have been transferred to the Successor Agency for the former Turlock Redevelopment Agency. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. In addition, under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved enforceable obligations. The outstanding balances as of June 30, 2015 are as follows:

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

	Original Issue Amount	Balance June 30, 2014	Retirements	Balance June 30, 2015	Due Within One Year	Due in More Than One Year
Revenue Bonds:						
1999 Revenue Bonds	\$4,970,000	\$2,735,000	\$185,000	\$2,550,000	\$195,000	\$2,355,000
2006 Tax Allocation Revenue Bonds	25,440,000	22,825,000	450,000	22,375,000	470,000	21,905,000
Add: Unamortized bond premium		342,541	15,453	327,088		327,088
2011 Tax Allocation Revenue Bonds	15,300,000	15,010,000	260,000	14,750,000	270,000	14,480,000
Less: Unamortized bond discount		(90,266)	(3,528)	(86,738)		(86,738)
Loan Payable:						
Economic Development Bank	889,305	762,261	127,043	635,218	127,044	508,174
Total Successor Agency Debt	<u>\$46,599,305</u>	<u>\$41,584,536</u>	<u>\$1,033,968</u>	<u>\$40,550,568</u>	<u>\$1,062,044</u>	<u>\$39,488,524</u>

2. 1999 Revenue Bonds

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

3. 2006 Tax Revenue Allocation Bonds

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

4. 2011 Tax Revenue Allocation Bonds

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

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

5. Economic Development Bank Loan

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

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

For private-purpose trust fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any differences between proprietary refunded debt and the debt issued to refund it, called a deferred charge on refunding, is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter. The deferred charge is reported as a deferred inflow or outflow of resources, as applicable. Bond issuance costs, other than prepaid insurance, are expensed in the year incurred.

7. Debt Service Requirements

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

For the Year Ending June 30	Successor Agency								
	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		2011 Tax Allocation Revenue Bonds		Economic Development Bank Loan Payable	Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2016	\$195,000	\$133,466	\$470,000	\$1,066,441	\$270,000	\$1,051,681	\$127,044	\$1,062,044	\$2,251,588
2017	210,000	122,624	490,000	1,046,066	280,000	1,038,269	127,044	1,107,044	2,206,959
2018	220,000	110,907	510,000	1,026,066	295,000	1,023,340	127,044	1,152,044	2,160,313
2019	230,000	98,645	530,000	1,005,266	310,000	1,006,500	127,044	1,197,044	2,110,411
2020	245,000	85,702	550,000	983,116	325,000	987,838	127,042	1,247,042	2,056,656
2021-2025	1,450,000	205,738	3,125,000	4,531,755	1,750,000	4,596,708		6,325,000	9,334,201
2026-2030			5,795,000	3,478,875	1,355,000	4,070,948		7,150,000	7,549,823
2031-2035			7,400,000	1,837,500	1,935,000	3,472,687		9,335,000	5,310,187
2036-2040			3,505,000	177,375	8,230,000	1,714,875		11,735,000	1,892,250
Total	\$2,550,000	\$757,082	\$22,375,000	\$15,152,460	\$14,750,000	\$18,962,846	\$635,218	40,310,218	\$34,872,388
Add: Unamortized Bond Premium								327,088	
Less: Unamortized Bond (Discount)								(86,738)	
Net long-term debt								\$40,550,568	

CITY OF TURLOCK
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

D. COMMITMENTS AND CONTINGENCIES

1. State Approval of Enforceable Obligations

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

2. State Asset Transfer Review

The activities of the former Redevelopment Agency and the Successor Agency are subject to further examination by the State of California and the amount, if any, of expenditures which may be disallowed by the State cannot be determined at this time. In addition, the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The City received the results of the review in February 2015 which indicate assets of \$402,582, comprised of salaries for two City employees paid with the former Redevelopment Agency's cash of \$75,327 and the purchase of 301 Star Avenue from the City in the amount of \$327,255, should be returned to the Successor Agency. However, the City disputes the finding and management is determining how to respond to the matter, and the amount if any, of assets that may be required to be returned to the Successor Agency cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

Miscellaneous Agent Multiple-Employer Defined Benefit Pension Plan
As of fiscal year ending June 30, 2015
Last 10 Years*

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Measurement Date	<u>6/30/2014</u>
Total Pension Liability	
Service Cost	\$2,252,227
Interest	8,152,132
Differences between expected and actual experience	
Changes in assumptions	
Changes in benefits	
Benefit payments, including refunds of employee contributions	(4,197,372)
Net change in total pension liability	<u>6,206,987</u>
Total pension liability - beginning	<u>109,667,670</u>
Total pension liability - ending (a)	<u><u>\$115,874,657</u></u>
Plan fiduciary net position	
Contributions - employer	\$2,650,159
Contributions - employee	1,031,498
Net investment income	12,514,268
Benefit payments, including refunds of employee contributions	(4,197,372)
Net change in plan fiduciary net position	<u>11,998,553</u>
Plan fiduciary net position - beginning	<u>71,240,464</u>
Plan fiduciary net position - ending (b)	<u><u>\$83,239,017</u></u>
Net pension liability - ending (a)-(b)	<u><u>\$32,635,640</u></u>
Plan fiduciary net position as a percentage of the total pension liability	71.84%
Covered - employee payroll	<u><u>\$13,044,287</u></u>
Net pension liability as percentage of covered-employee payroll	250.19%

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions. There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF CONTRIBUTIONS

	2015
Actuarially determined contribution	\$3,847,884
Contributions in relation to the actuarially determined contributions	(3,847,884)
Contribution deficiency (excess)	\$0
Covered-employee payroll	\$12,730,821
Contributions as a percentage of covered-employee payroll	30.22%

Notes to Schedule

Valuation date: 6/30/2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Average remaining amortization period	28 years as of valuation date
Asset valuation method	15 year Smoothed Market value
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, includes inflation
Retirement age	The probability of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality Rate Table	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Measurement Date	<u>6/30/2014</u>
<i>Safety - Fire</i>	
Plan's Proportion of the Net Pension Liability (Asset)	0.15275%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	<u>\$9,504,805</u>
Plan's Covered-Employee Payroll	<u>\$3,833,651</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	247.93%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.48%
<i>Safety - Police</i>	
Plan's Proportion of the Net Pension Liability (Asset)	0.24090%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	<u>\$14,989,890</u>
Plan's Covered-Employee Payroll	<u>\$6,169,734</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	242.96%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	76.19%

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

REQUIRED SUPPLEMENTARY INFORMATION

Safety Plans, Cost Sharing Multiple-Employer Defined Pension Plans
As of fiscal year ending June 30, 2015
Last 10 Years*

SCHEDULE OF CONTRIBUTIONS

	2015
<i>Safety - Fire</i>	
Actuarially determined contribution	\$ 1,406,221
Contributions in relation to the actuarially determined contributions	(1,406,221)
Contribution deficiency (excess)	\$ -
 Covered-employee payroll	 \$ 3,411,101
 Contributions as a percentage of covered-employee payroll	 41.22%
<i>Safety - Police</i>	
Actuarially determined contribution	\$ 2,545,603
Contributions in relation to the actuarially determined contributions	(2,545,603)
Contribution deficiency (excess)	\$ -
 Covered-employee payroll	 \$ 6,029,747

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NON-MAJOR GOVERNMENTAL FUNDS

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

Integrated Waste Management (AB939)

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

Development Impact Fees

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

Equipment Replacement

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

Lighting & Landscaping Assessment Districts

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

CDBG, State HOME Program, and Housing Stimulus Funds

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

Stanislaus County Housing Consortium

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

North Turlock Master Plan

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

Airport

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

Facility Fees

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

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	SPECIAL REVENUE FUNDS			
	Asset Forfeitures	Integrated Waste Mgmt (AB939)	Bicycle Safety	Sports Facilities
ASSETS				
Cash and investments	\$12,072	\$915,559	\$76,039	\$21,144
Accounts receivable		2,143		3,536
Interest receivable		412		
Due from developers				
Loans receivable				
Total Assets	\$12,072	\$918,114	\$76,039	\$24,680
LIABILITIES				
Accounts payable		\$18,314	\$385	\$10,260
Payroll payable		1,422		8,708
Due to other funds				
Unearned revenue				5,000
Total Liabilities		19,736	385	23,968
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
FUND BALANCE				
Fund balance:				
Nonspendable				
Restricted		558,270		
Committed	12,072	340,108	75,654	712
Unassigned				
Total Fund Balances (Deficit)	12,072	898,378	75,654	712
Total Liabilities and Fund Balances	\$12,072	\$918,114	\$76,039	\$24,680

SPECIAL REVENUE FUNDS

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
\$10,454 48	\$3,935,981 1,747	\$4,562,085 31,299	\$257,386 115	\$627,548 285	\$12,161,340 56,262 5,673	\$55,088
<u>\$10,502</u>	<u>\$3,937,728</u>	<u>\$4,593,384</u>	<u>\$257,501</u>	<u>\$627,833</u>	<u>\$12,223,275</u>	<u>\$55,088</u>
\$1,684	\$16,766	\$21,478			\$43,239 16,050	
<u>1,684</u>	<u>16,766</u>	<u>21,478</u>			<u>59,289</u>	
8,818	3,920,962	4,571,906	\$257,501	\$627,833	12,163,986	\$55,088
<u>8,818</u>	<u>3,920,962</u>	<u>4,571,906</u>	<u>257,501</u>	<u>627,833</u>	<u>12,163,986</u>	<u>55,088</u>
<u>\$10,502</u>	<u>\$3,937,728</u>	<u>\$4,593,384</u>	<u>\$257,501</u>	<u>\$627,833</u>	<u>\$12,223,275</u>	<u>\$55,088</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

SPECIAL REVENUE FUNDS

	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus County Housing Consortium
ASSETS					
Cash and investments	\$74,767		\$1,097,895		
Accounts receivables	4,721	\$177,355		\$1,221	\$615,837
Interest receivable			170		
Due from developers					
Loans receivable		6,111,210	4,499,464	135,222	5,686,272
Total Assets	\$79,488	\$6,288,565	\$5,597,529	\$136,443	\$6,302,109
LIABILITIES					
Accounts payable		\$13,862			\$12,852
Payroll payable		5,217			1,952
Due to other funds		155,691		\$27,341	708,882
Unearned revenue					
Total Liabilities		174,770		27,341	723,686
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue		6,111,210	\$4,499,464	135,222	5,686,272
FUND BALANCE					
Fund balance:					
Nonspendable					
Restricted	\$79,488	2,585	1,098,065		
Committed					
Unassigned				(26,120)	(107,849)
Total Fund Balances (Deficit)	79,488	2,585	1,098,065	(26,120)	(107,849)
Total Liabilities and Fund Balances	\$79,488	\$6,288,565	\$5,597,529	\$136,443	\$6,302,109

SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS					
Grant Funds	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan	Turlock Regional Industrial Park
\$403,866 179,555	\$416,972 200	\$156,030 71	\$245,601	\$2,281,796 1,035	\$2,641,730 1,220	\$186,946
<u>\$583,421</u>	<u>\$417,172</u>	<u>\$156,101</u>	<u>\$245,601</u>	<u>\$2,282,831</u>	<u>\$2,642,950</u>	<u>\$186,946</u>
\$32,563 57,787	\$17,497	\$10,884	\$53	\$1,435		
<u>90,350</u>	<u>17,497</u>	<u>10,884</u>	<u>53</u>	<u>1,435</u>		
493,071	399,675	145,217	245,548	2,281,396	\$2,642,950	\$186,946
<u>493,071</u>	<u>399,675</u>	<u>145,217</u>	<u>245,548</u>	<u>2,281,396</u>	<u>2,642,950</u>	<u>186,946</u>
<u>\$583,421</u>	<u>\$417,172</u>	<u>\$156,101</u>	<u>\$245,601</u>	<u>\$2,282,831</u>	<u>\$2,642,950</u>	<u>\$186,946</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

CAPITAL PROJECTS FUNDS				
	East Tuolumne Master Plan	Airport	Facility Fees	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments		\$76,797	\$8,085,946	\$38,303,042
Accounts receivables		314		1,072,291
Interest receivable			3,689	14,617
Due from developers			267,243	267,243
Loans receivable				16,432,168
Total Assets	163,000	\$77,111	\$8,356,878	\$56,089,361
LIABILITIES				
Accounts payable		\$314	\$130,675	\$332,261
Payroll payable				33,349
Due to other funds	\$163,000			1,112,701
Unearned revenue				5,000
Total Liabilities	163,000	314	130,675	1,483,311
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				16,432,168
Fund Balance				
Fund balance:				
Nonspendable			267,243	267,243
Restricted			7,958,960	22,418,331
Committed		76,797		15,785,277
Unassigned	(163,000)			(296,969)
Total Fund Balances (Deficit)	(163,000)	76,797	8,226,203	38,173,882
Total Liabilities and Fund Balances	(163,000)	\$77,111	\$8,356,878	\$56,089,361

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CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>SPECIAL REVENUE FUNDS</u>			
	<u>Asset Forfeitures</u>	<u>Integrated Waste Mgmt (AB939)</u>	<u>Bicycle Safety</u>	<u>Sports Facilities</u>
REVENUES				
Taxes and assessments				
Licenses and permits			\$4,117	
Use of money and property		\$1,737		
Intergovernmental	\$2,950	23,528		
Charges for current services		94,045		\$220,986
Other				
Total Revenues	<u>2,950</u>	<u>119,310</u>	<u>4,117</u>	<u>220,986</u>
EXPENDITURES				
Current:				
General government		116,169		
Public safety	4,363		913	
Public ways and facilities/transportation				
Parks and recreation				614,375
Community development				
Capital outlay				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	<u>4,363</u>	<u>116,169</u>	<u>913</u>	<u>614,375</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,413)</u>	<u>3,141</u>	<u>3,204</u>	<u>(393,389)</u>
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust				
Proceeds from sale of property				
Transfers in				389,733
Transfers (out)				(19,031)
Total Other Financing Sources (Uses)				<u>370,702</u>
NET CHANGE IN FUND BALANCES	(1,413)	3,141	3,204	(22,687)
BEGINNING FUND BALANCES (DEFICITS)	<u>13,485</u>	<u>895,237</u>	<u>72,450</u>	<u>23,399</u>
ENDING FUND BALANCES (DEFICITS)	<u>\$12,072</u>	<u>\$898,378</u>	<u>\$75,654</u>	<u>\$712</u>

SPECIAL REVENUE FUNDS

Animal Fees Forfeiture	Development Impact Fees	Equipment Replacement	NW Triangle Plan Fee	Development Benefit	Lighting & Landscaping Assessment Districts	Downtown Assessment District
		\$112,930			\$2,674,793	
	\$6,419		\$311	\$1,189	19,358	
\$23,598 108	172,674	192,688 9,153	37,377		289	
23,706	179,093	314,771	37,688	1,189	2,694,440	
		67,684 72,374 18,240 3,761 210,127 245,553	67		1,456,374	
18,063	63,214					
	35,215					
	95,567 3,142					
18,063	197,138	617,739	67		1,456,374	
5,643	(18,045)	(302,968)	37,621	1,189	1,238,066	
	(8,350)	1,775,357 (5,331)	(693,250)		(327,305)	
	(8,350)	1,770,026	(693,250)		(327,305)	
5,643	(26,395)	1,467,058	(655,629)	1,189	910,761	
3,175	3,947,357	3,104,848	913,130	626,644	11,253,225	\$55,088
\$8,818	\$3,920,962	\$4,571,906	\$257,501	\$627,833	\$12,163,986	\$55,088

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	SPECIAL REVENUE FUNDS				
	Northeast Turlock CFD #2	CDBG	State HOME Funds	Housing Stimulus Funds	Stanislaus Housing Consortium
REVENUES					
Taxes and assessments	\$528,175				
Licenses and permits					
Use of money and property	2,816		\$665		
Intergovernmental		\$429,918	644,570		\$1,068,816
Charges for current services					
Other		187,969	359,962	\$25,000	498,166
Total Revenues	530,991	617,887	1,005,197	25,000	1,566,982
EXPENDITURES					
Current:					
General government	16,117				
Public safety					
Public ways and facilities/transportation					
Parks and recreation					
Community development		703,035	637,155	24,528	1,714,715
Capital outlay					
Debt service:					
Principal					
Interest and fiscal charges					
Total Expenditures	16,117	703,035	637,155	24,528	1,714,715
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	514,874	(85,148)	368,042	472	(147,733)
OTHER FINANCING SOURCES (USES)					
Contributions from private purpose trust		5,053			482
Proceeds from sale of property		79,906			
Transfers in		187			26,070
Transfers (out)	(514,875)				
Total Other Financing Sources (Uses)	(514,875)	85,146			26,552
NET CHANGE IN FUND BALANCES	(1)	(2)	368,042	472	(121,181)
BEGINNING FUND BALANCES (DEFICITS)	79,489	2,587	730,023	(26,592)	13,332
ENDING FUND BALANCES (DEFICITS)	\$79,488	\$2,585	\$1,098,065	(\$26,120)	(\$107,849)

SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS					
Grant Funds	Capital Improvement	Street Light Installation	Downtown Improvement Project	North Turlock Master Plan	North East Turlock Master Plan	Turlock Regional Industrial Park
	\$3,438 878	\$301		\$3,780	\$4,072	
\$908,197 22,070 6,708	46,466	10,101		4,524	1,254,223	\$119,986
<u>936,975</u>	<u>50,782</u>	<u>10,402</u>		<u>8,304</u>	<u>1,258,295</u>	<u>119,986</u>
217,907						
533,804	115,472		\$83	637		
39,563	31,410	17,710	654	25,478		
<u>791,274</u>	<u>146,882</u>	<u>17,710</u>	<u>737</u>	<u>26,115</u>		
<u>145,701</u>	<u>(96,100)</u>	<u>(7,308)</u>	<u>(737)</u>	<u>(17,811)</u>	<u>1,258,295</u>	<u>119,986</u>
37,752	64,512			(15,000)	(125,000)	(302,654)
<u>37,752</u>	<u>64,512</u>			<u>(15,000)</u>	<u>(125,000)</u>	<u>(302,654)</u>
183,453	(31,588)	(7,308)	(737)	(32,811)	1,133,295	(182,668)
<u>309,618</u>	<u>431,263</u>	<u>152,525</u>	<u>246,285</u>	<u>2,314,207</u>	<u>1,509,655</u>	<u>369,614</u>
<u>\$493,071</u>	<u>\$399,675</u>	<u>\$145,217</u>	<u>\$245,548</u>	<u>\$2,281,396</u>	<u>\$2,642,950</u>	<u>\$186,946</u>

(Continued)

CITY OF TURLOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	CAPITAL PROJECTS FUNDS			
	East Tuolumne Master Plan	Airport	Facility Fees	Total Nonmajor Funds
REVENUES				
Taxes and assessments				\$3,315,898
Licenses and permits				7,555
Use of money and property			\$13,764	55,290
Intergovernmental		\$10,751		3,088,730
Charges for current services	\$5,000		1,658,114	3,861,852
Other			5,000	1,092,355
Total Revenues	5,000	10,751	1,676,878	11,421,680
Current:				
General government			1,274	201,244
Public safety			375	313,995
Public ways and facilities/transportation	5,000	1,385	674	1,661,146
Parks and recreation				1,151,940
Community development				3,290,214
Capital outlay			2,285,010	2,679,939
Debt service:				
Principal				95,567
Interest and fiscal charges				3,142
Total Expenditures	5,000	1,385	2,287,333	9,397,187
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		9,366	(610,455)	2,024,493
OTHER FINANCING SOURCES (USES)				
Contributions from private purpose trust			10,807	16,342
Proceeds from sale of property				79,906
Transfers in			607,080	2,900,691
Transfers (out)		(9,152)	(118,912)	(2,138,860)
Total Other Financing Sources (Uses)		(9,152)	498,975	858,079
NET CHANGE IN FUND BALANCES		214	(111,480)	2,882,572
BEGINNING FUND BALANCES (DEFICITS)	(163,000)	76,583	8,337,683	35,291,310
ENDING FUND BALANCES (DEFICITS)	(\$163,000)	\$76,797	\$8,226,203	\$38,173,882

(Concluded)

NONMAJOR ENTERPRISE FUNDS

Transportation

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

Building & Safety

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

CITY OF TURLOCK
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Transportation</u>	<u>Building & Safety</u>	<u>Total Nonmajor Enterprise Funds</u>
ASSETS			
Current assets			
Cash and investments	\$3,056,980	\$142,666	\$3,199,646
Accounts receivable	698,322		698,322
Interest receivable	1,442	241	1,683
	<u>3,756,744</u>	<u>142,907</u>	<u>3,899,651</u>
Total current assets			
Non-current assets			
Capital assets not being depreciated	4,095,378		4,095,378
Capital assets being depreciated	4,955,633		4,955,633
	<u>9,051,011</u>		<u>9,051,011</u>
Total non-current assets			
	<u>12,807,755</u>	<u>142,907</u>	<u>12,950,662</u>
Total Assets			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	21,606	145,657	167,263
	<u>21,606</u>	<u>145,657</u>	<u>167,263</u>
LIABILITIES			
Current liabilities			
Accounts payable	65,175	95,229	160,404
Payroll payable	2,199	15,937	18,136
Due to other funds			
Compensated absences	3,893	7,025	10,918
Unearned revenue	3,452,149		3,452,149
	<u>3,523,416</u>	<u>118,191</u>	<u>3,641,607</u>
Total current liabilities			
Long-term liabilities			
Compensated absences	15,567	28,099	43,666
OPEB liability	22,950	139,693	162,643
Net pension liabilities	184,043	1,339,786	1,523,829
	<u>222,560</u>	<u>1,507,578</u>	<u>1,730,138</u>
Total long-term liabilities			
	<u>3,745,976</u>	<u>1,625,769</u>	<u>5,371,745</u>
Total Liabilities			
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	32,374	218,261	250,635
	<u>32,374</u>	<u>218,261</u>	<u>250,635</u>
NET POSITION			
Net investment in capital assets	9,051,011		9,051,011
Unrestricted		(1,555,466)	(1,555,466)
	<u>9,051,011</u>	<u>(1,555,466)</u>	<u>7,495,545</u>
Total Net Position			

CITY OF TURLOCK
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Transportation</u>	<u>Building & Safety</u>	<u>Total Nonmajor Enterprise Funds</u>
OPERATING REVENUES			
Charges for services	\$144,959	\$1,700,980	\$1,845,939
Other income	6,913	1,683	8,596
Total Operating Revenues	<u>151,872</u>	<u>1,702,663</u>	<u>1,854,535</u>
OPERATING EXPENSES			
Salaries, benefits and insurance	120,274	843,180	963,454
Contractual	831,711	337,724	1,169,435
Supplies and maintenance	33,616	3,034	36,650
Utilities	15,941	10,867	26,808
Fleet expense	127,808	7,135	134,943
Depreciation and amortization	348,112		348,112
Other expenses	17,131	10,872	28,003
Total Operating Expenses	<u>1,494,593</u>	<u>1,212,812</u>	<u>2,707,405</u>
Operating Income (Loss)	<u>(1,342,721)</u>	<u>489,851</u>	<u>(852,870)</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grants	1,176,864		1,176,864
Interest income	6,174	836	7,010
Loss from sale of capital assets	(7,300)		(7,300)
Net Nonoperating Revenues (Expenses)	<u>1,175,738</u>	<u>836</u>	<u>1,176,574</u>
Income (Loss) Before Capital Grants and Transfers	<u>(166,983)</u>	<u>490,687</u>	<u>323,704</u>
Capital grants	350,706		350,706
Transfers in			
Transfers out	(6,000)	(59,366)	(65,366)
Net Capital Grants and Transfers	<u>344,706</u>	<u>(59,366)</u>	<u>285,340</u>
Change in net position	<u>177,723</u>	<u>431,321</u>	<u>609,044</u>
NET POSITION-BEGINNING, AS RESTATED	<u>8,873,288</u>	<u>(1,986,787)</u>	<u>6,886,501</u>
ENDING NET POSITION (DEFICIT)	<u>\$9,051,011</u>	<u>(\$1,555,466)</u>	<u>\$7,495,545</u>

CITY OF TURLOCK
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Transportation	Building & Safety	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$144,959	\$1,700,980	\$1,845,939
Payments to suppliers	(1,026,953)	(325,568)	(1,352,521)
Payments to employees	(116,245)	(816,686)	(932,931)
Other	6,913	1,683	8,596
	<u>(991,326)</u>	<u>560,409</u>	<u>(430,917)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental receipts - operations	1,334,272		1,334,272
Interfund receipts (payments)		(358,972)	(358,972)
Transfers in			
Transfers out	(6,000)	(59,366)	(65,366)
	<u>1,328,272</u>	<u>(418,338)</u>	<u>909,934</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Intergovernmental receipts - capital program	(230,632)		(230,632)
Acquisition of capital assets, net	(340,646)		(340,646)
Proceeds from sale of capital assets	3,950		3,950
	<u>(567,328)</u>	<u></u>	<u>(567,328)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	6,285	595	6,880
	<u>6,285</u>	<u>595</u>	<u>6,880</u>
	(224,097)	142,666	(81,431)
Cash and investments at beginning of period	<u>3,281,077</u>	<u></u>	<u>3,281,077</u>
Cash and investments at end of period	<u>\$3,056,980</u>	<u>\$142,666</u>	<u>\$3,199,646</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:			
Operating income (loss)	(\$1,342,721)	\$489,851	(\$852,870)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation	348,112		348,112
Change in assets and liabilities:			
Accounts payable and other accrued expenses	(746)	58,000	57,254
Payroll payable	179	337	516
Claims Liability	2,496	(13,936)	(11,440)
OPEB liability	2,982	27,927	30,909
Deferred outflows/inflows and net pension liability	(1,628)	(1,770)	(3,398)
	<u>(\$991,326)</u>	<u>\$560,409</u>	<u>(\$430,917)</u>
NONCASH TRANSACTIONS			
Retirement of capital assets	<u>\$11,250</u>	<u></u>	<u>\$11,250</u>

INTERNAL SERVICE FUNDS

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

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

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

Equipment Pool

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

Self Insurance

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

Information Technology

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

Engineering

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

CITY OF TURLOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2015

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
ASSETS					
Current Assets:					
Cash and investments	\$4,242,116	\$5,786,913	\$194,829		\$10,223,858
Accounts receivable	22,012	1,667,806			1,689,818
Interest receivable	292	2,813			3,105
Due from other funds (Note 4B)	1,414,720	1,112,701			2,527,421
Total Current Assets	5,679,140	8,570,233	194,829		14,444,202
Noncurrent Assets:					
OPEB asset	172,125			\$234,936	407,061
Capital assets (net of accumulated depreciation)	1,018,749			1,040,706	2,059,455
Total Non-Current Assets	1,190,874			1,275,642	2,466,516
Total Assets	6,870,014	8,570,233	194,829	1,275,642	16,910,718
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	72,044		130,743	331,928	534,715
LIABILITIES					
Current Liabilities:					
Accounts payable	122,653	2,328,048	27,193	6,752	2,484,646
Payroll payable	7,535		14,101	38,968	60,604
Due to other funds				1,093,354	1,093,354
Compensated absences	8,044		16,587	42,721	67,352
Deposits payable				500	500
Total Current Liabilities	138,232	2,328,048	57,881	1,182,295	3,706,456
Long-term Liabilities:					
Estimated claims liability		4,713,193			4,713,193
Compensated absences	32,176		66,349	170,882	269,407
OPEB liability			52,037		52,037
Net pension liabilities	632,259		959,536	2,697,246	4,289,041
Total Long-Term Liabilities	664,435	4,713,193	1,077,922	2,868,128	9,323,678
Total Liabilities	802,667	7,041,241	1,135,803	4,050,423	13,030,134
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	107,955		195,912	497,379	801,246
NET POSITION					
Net investment in capital assets	1,018,749			1,040,706	2,059,455
Unrestricted	5,012,687	1,528,992	(1,006,143)	(3,980,938)	1,554,598
Total Net Position	\$6,031,436	\$1,528,992	(\$1,006,143)	(\$2,940,232)	\$3,614,053

CITY OF TURLOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
OPERATING REVENUES					
Charges for services	\$687,867	\$8,321,052	\$875,040	\$1,581,533	\$11,465,492
Refunds & other income	1,413	3,134,813		2,697	3,138,923
Total Operating Revenues	689,280	11,455,865	875,040	1,584,230	14,604,415
OPERATING EXPENSES					
Salaries, benefits and insurance	421,447	11,144,569	689,944	1,820,015	14,075,975
Contractual	28,295	15,029	96,535	119,481	259,340
Supplies and maintenance	33,057		2,050	33,926	69,033
Utilities	30,833		20,524	25,250	76,607
Fleet expense	81,251		275	10,464	91,990
Depreciation and amortization	181,793			55,015	236,808
Other expenses	7,065	38,042	30,590	10,157	85,854
Total Operating Expenses	783,741	11,197,640	839,918	2,074,308	14,895,607
Total Operating Income (Loss)	(94,461)	258,225	35,122	(490,078)	(291,192)
NONOPERATING REVENUES (EXPENSES)					
Interest income	1,201	9,610			10,811
Gain (loss) on disposal of capital assets	38,243				38,243
Interest (expense)					
Total Nonoperating Revenues (Expenses)	39,444	9,610			49,054
Income (Loss) Before Transfers	(55,017)	267,835	35,122	(490,078)	(242,138)
Transfers in	3,335,622			128,000	3,463,622
Transfers (out)	(4,101)		(5,300)	(165,051)	(174,452)
Change in Net Position	3,276,504	267,835	29,822	(527,129)	3,047,032
NET POSITION-BEGINNING, AS RESTATED	2,754,932	1,261,157	(1,035,965)	(2,413,103)	567,021
ENDING NET POSITION	\$6,031,436	\$1,528,992	(\$1,006,143)	(\$2,940,232)	\$3,614,053

CITY OF TURLOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Equipment Pool	Self Insurance	Information Technology	Engineering	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$679,253	\$6,698,895	\$875,040	\$1,581,533	\$9,834,721
Payments to suppliers	(1,496,394)	282,051	(128,967)	(196,471)	(1,539,781)
Payments to employees	(416,469)	(11,144,569)	(688,690)	(1,783,912)	(14,033,640)
Other	1,413	3,134,813		2,697	3,138,923
Cash Flows from (used by) Operating Activities	<u>(1,232,197)</u>	<u>(1,028,810)</u>	<u>57,383</u>	<u>(396,153)</u>	<u>(2,599,777)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund receipts				433,204	433,204
Operating transfers in	3,335,622			128,000	3,463,622
Operating transfers (out)	(4,101)		(5,300)	(165,051)	(174,452)
Cash Flows from Noncapital Financing Activities	<u>3,331,521</u>		<u>(5,300)</u>	<u>396,153</u>	<u>3,722,374</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(444,227)				(444,227)
Proceeds from sale of capital assets	38,243				38,243
Interest paid on capital lease obligations					
Cash Flows from (used by) Capital and Related Financing Activities	<u>(405,984)</u>				<u>(405,984)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earnings	1,133	9,651			10,784
Cash Flows from Investing Activities	<u>1,133</u>	<u>9,651</u>			<u>10,784</u>
Net Cash Flows	1,694,473	(1,019,159)	52,083		727,397
Cash and investments at beginning of period	<u>2,547,643</u>	<u>6,806,072</u>	<u>142,746</u>		<u>9,496,461</u>
Cash and investments at end of period	<u>\$4,242,116</u>	<u>\$5,786,913</u>	<u>\$194,829</u>		<u>\$10,223,858</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income (loss)	(\$94,461)	\$258,225	\$35,122	(\$490,078)	(\$291,192)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	181,793			55,015	236,808
Change in assets and liabilities:					
Accounts receivable	(8,614)	(1,622,157)			(1,630,771)
OPEB asset	9,876			65,241	75,117
Accounts payable	98,827	1,447,823	21,007	2,807	1,570,464
Payroll payable	(1,206)		430	2,585	1,809
Due from other funds	(1,414,720)	(1,112,701)			(2,527,421)
Compensated absences	10		5,845	5,382	11,237
Claims liability					
OPEB liability			19,154		19,154
Deferred outflows/inflows and net pension liability	(3,702)		(24,175)	(37,105)	(64,982)
Cash Flows from (used by) Operating Activities	<u>(\$1,232,197)</u>	<u>(\$1,028,810)</u>	<u>\$57,383</u>	<u>(\$396,153)</u>	<u>(\$2,599,777)</u>

AGENCY FUNDS

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

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

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

CITY OF TURLOCK
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2015

<u>Northwest Triangle - Mello Roos Assessments</u>	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Assets				
Cash and investments	\$714,831	\$407,052	\$431,954	\$689,929
Cash and investments with fiscal agents	406,619		3	406,616
Accounts and interest receivable	1,474	319	1,474	319
Total Assets	<u>\$1,122,924</u>	<u>\$407,371</u>	<u>\$433,431</u>	<u>\$1,096,864</u>
Liabilities				
Accounts payable		\$40		\$40
Due to others	\$1,122,924	407,331	\$433,431	1,096,824
Total Liabilities	<u>\$1,122,924</u>	<u>\$407,371</u>	<u>\$433,431</u>	<u>\$1,096,864</u>
<u>Property & Business Improvement District #2</u>				
Assets				
Cash and investments		\$145,574	\$86,835	\$58,739
Accounts and interest receivable		7,785		7,785
Total Assets		<u>\$153,359</u>	<u>\$86,835</u>	<u>\$66,524</u>
Liabilities				
Accounts payable		\$47,685		\$47,685
Due to others		105,674	\$86,835	18,839
Total Liabilities		<u>\$153,359</u>	<u>\$86,835</u>	<u>\$66,524</u>
<u>Total - All Agency Funds</u>				
Assets				
Cash and investments	\$714,831	\$552,626	\$518,789	\$748,668
Cash and investments with fiscal agents	406,619		3	406,616
Accounts and interest receivable	1,474	8,104	1,474	8,104
Total Assets	<u>\$1,122,924</u>	<u>\$560,730</u>	<u>\$520,266</u>	<u>\$1,163,388</u>
Liabilities				
Accounts payable		\$47,725		\$47,725
Due to stakeholders	\$1,122,924	513,005	\$520,266	1,115,663
Total Liabilities	<u>\$1,122,924</u>	<u>\$560,730</u>	<u>\$520,266</u>	<u>\$1,163,388</u>



**TURLOCK PUBLIC FINANCING AUTHORITY
COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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TURLOCK PUBLIC FINANCING AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Turlock Public Financing Authority (Authority) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic component unit financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Authority as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pleasant Hill, California
March 28, 2016

TURLOCK PUBLIC FINANCING AUTHORITY

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

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

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

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

TURLOCK PUBLIC FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments with fiscal agent (Note 2)	\$3,569,713	\$2,039,784	\$5,609,497
Interest receivable	753,779	777,597	1,531,376
Leases receivable (Note 3)	36,345,637	77,321,223	113,666,860
Total Assets	40,669,129	80,138,604	120,807,733
LIABILITIES			
Interest payable	753,779	777,597	1,531,376
Long-term debt (Note 4):			
Due within one year	935,000	2,735,000	3,670,000
Due in more than one year	38,980,350	76,626,007	115,606,357
Total Liabilities	40,669,129	80,138,604	120,807,733
NET POSITION (Note 5):			
Restricted for:			
Debt service	_____	_____	_____
Total Net Position	_____	_____	_____

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Governmental Activities	Business-type Activities	
Governmental Activities:					
Interest and fiscal charges	\$2,268,678	\$2,264,635	(\$4,043)		(\$4,043)
Total Governmental Activities	<u>2,268,678</u>	<u>2,264,635</u>	<u>(4,043)</u>		<u>(4,043)</u>
Business-type Activities:					
Sewer	1,772,190	1,772,188		(\$2)	(2)
Water	<u>1,327,168</u>	<u>1,327,044</u>		<u>(124)</u>	<u>(124)</u>
Total Business-type Activities	<u>3,099,358</u>	<u>3,099,232</u>		<u>(126)</u>	<u>(126)</u>
Total	<u>\$5,368,036</u>	<u>\$5,363,867</u>	<u>(4,043)</u>	<u>(126)</u>	<u>(4,169)</u>
General revenues:					
Interest income			<u>4,043</u>	<u>126</u>	<u>4,169</u>
Total general revenues and transfers			<u>4,043</u>	<u>126</u>	<u>4,169</u>
Change in Net Position					
Net Position-Beginning					
Net Position-Ending					

See accompanying notes to basic financial statements

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TURLOCK PUBLIC FINANCING AUTHORITY

FUND FINANCIAL STATEMENTS

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

TURLOCK PUBLIC FINANCING AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	<u>1999</u> <u>Revenue Bonds</u>	<u>2006</u> <u>Tax Allocation</u> <u>Revenue Bonds</u>	<u>2011</u> <u>Tax Allocation</u> <u>Revenue Bonds</u>	<u>Total</u>
ASSETS				
Cash and investments with fiscal agent (Note 2)	\$381,605	\$1,858,853	\$1,329,255	\$3,569,713
Leases receivable (Note 3)	<u>2,168,395</u>	<u>20,843,235</u>	<u>13,334,007</u>	<u>36,345,637</u>
Total Assets	<u><u>\$2,550,000</u></u>	<u><u>\$22,702,088</u></u>	<u><u>\$14,663,262</u></u>	<u><u>\$39,915,350</u></u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue (Notes 1C and 3)	<u>\$2,168,395</u>	<u>\$20,843,235</u>	<u>\$13,334,007</u>	<u>\$36,345,637</u>
FUND BALANCES				
Fund balance (Note 5):				
Restricted:				
Debt service	<u>381,605</u>	<u>1,858,853</u>	<u>1,329,255</u>	<u>3,569,713</u>
Total Fund Balances	<u>381,605</u>	<u>1,858,853</u>	<u>1,329,255</u>	<u>3,569,713</u>
Total Deferred Inflows of Resources and Fund Balances	<u><u>\$2,550,000</u></u>	<u><u>\$22,702,088</u></u>	<u><u>\$14,663,262</u></u>	<u><u>\$39,915,350</u></u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 Reconciliation of the
 GOVERNMENTAL FUNDS-- BALANCE SHEET
 with the
 GOVERNMENTAL ACTIVITIES NET POSITION
 JUNE 30, 2015

Total fund balances reported on the Governmental Funds Balance Sheet \$3,569,713

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

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are unavailable on the Fund Balance Sheets, because they are not available currently
 are taken into revenue in the Statement of Activities. 36,345,637

LONG-TERM ASSETS AND LIABILITIES

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

Interest receivable	753,779
Long-term debt	(39,915,350)
Interest payable	(753,779)
	(753,779)

NET POSITION OF GOVERNMENTAL ACTIVITIES

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2015

	1999 Revenue Bonds	2006 Tax Allocation Revenue Bonds	2011 Tax Allocation Revenue Bonds	Total
REVENUES				
Lease revenue	\$311,250	\$1,537,084	\$1,323,225	\$3,171,559
Use of money and property	17,191	113	337	17,641
Total Revenues	328,441	1,537,197	1,323,562	3,189,200
EXPENDITURES				
Debt service:				
Principal	185,000	450,000	260,000	895,000
Interest and fiscal charges	143,441	1,087,141	1,063,619	2,294,201
Total Expenditures	328,441	1,537,141	1,323,619	3,189,201
NET CHANGE IN FUND BALANCES		56	(57)	(1)
BEGINNING FUND BALANCES	381,605	1,858,797	1,329,312	3,569,714
ENDING FUND BALANCES	\$381,605	\$1,858,853	\$1,329,255	\$3,569,713

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
 with the
 CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2015

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$1)

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

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal is added back to fund balance	895,000
Amortization of bond premium/discount is added back to fund balance	11,925

ACCRUAL OF NON-CURRENT ITEMS

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

Interest receivable	(13,598)
Unavailable revenue	(906,924)
Interest payable	13,598
	13,598

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES _____

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2015

	2012 Sewer Bonds	2008 Water Bonds	Total
ASSETS			
Cash and investments with fiscal agent (Note 2)		\$2,039,784	\$2,039,784
Interest receivable	\$564,970	212,627	777,597
Leases receivable (Note 3)	51,422,353	25,898,870	77,321,223
Total Assets	51,987,323	28,151,281	80,138,604
LIABILITIES			
Current liabilities:			
Interest payable	564,970	212,627	777,597
Bonds payable (Note 4)	2,010,000	725,000	2,735,000
Total current liabilities	2,574,970	937,627	3,512,597
Long-term liabilities :			
Bonds payable (Note 4)	49,412,353	27,213,654	76,626,007
Total Liabilities	51,987,323	28,151,281	80,138,604
NET POSITION (Note 5):			
Restricted			
Total Net Position			

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>2012</u>	<u>2008</u>	<u>Total</u>
	<u>Sewer Bonds</u>	<u>Water Bonds</u>	
OPERATING REVENUES			
Lease revenue	<u>\$1,772,188</u>	<u>\$1,327,044</u>	<u>\$3,099,232</u>
Total Operating Revenues	<u>1,772,188</u>	<u>1,327,044</u>	<u>3,099,232</u>
Operating Income (Loss)	<u>1,772,188</u>	<u>1,327,044</u>	<u>3,099,232</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	2	124	126
Interest (expense)	<u>(1,772,190)</u>	<u>(1,327,168)</u>	<u>(3,099,358)</u>
Net Nonoperating Revenues (Expenses)	<u>(1,772,188)</u>	<u>(1,327,044)</u>	<u>(3,099,232)</u>
Change in net position			
BEGINNING NET POSITION	<u> </u>	<u> </u>	<u> </u>
ENDING NET POSITION	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>2012</u>	<u>2008</u>	<u>Total</u>
	<u>Sewer Bonds</u>	<u>Water Bonds</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	<u>\$3,927,397</u>	<u>\$2,029,808</u>	<u>\$5,957,205</u>
Cash Flows from Operating Activities	<u>3,927,397</u>	<u>2,029,808</u>	<u>5,957,205</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Long-term debt payment - principal	(1,955,000)	(700,000)	(2,655,000)
Long-term debt payment - interest	<u>(1,972,400)</u>	<u>(1,332,112)</u>	<u>(3,304,512)</u>
Cash Flows from Noncapital and Related Financing Activities	<u>(3,927,400)</u>	<u>(2,032,112)</u>	<u>(5,959,512)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>2</u>	<u>124</u>	<u>126</u>
Cash Flows from Investing Activities	<u>2</u>	<u>124</u>	<u>126</u>
Net Cash Flows	(1)	(2,180)	(2,181)
Cash and investments at beginning of period	<u>1</u>	<u>2,041,964</u>	<u>2,041,965</u>
Cash and investments at end of period	<u><u> </u></u>	<u><u>\$2,039,784</u></u>	<u><u>\$2,039,784</u></u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:			
Operating income	\$1,772,188	\$1,327,044	\$3,099,232
Change in assets and liabilities:			
Interest receivable	17,053	4,565	21,618
Leases receivable	<u>2,138,156</u>	<u>698,199</u>	<u>2,836,355</u>
Cash Flows from Operating Activities	<u><u>\$3,927,397</u></u>	<u><u>\$2,029,808</u></u>	<u><u>\$5,957,205</u></u>

See accompanying notes to basic financial statements

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Purpose*

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

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

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

B. *Basis of Presentation*

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

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

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

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

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Deferred Outflows/Inflows of Resources*

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

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

D. *Estimates and Assumptions*

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

NOTE 2 - INVESTMENTS HELD BY FISCAL AGENT

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

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

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

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - INVESTMENTS HELD BY FISCAL AGENT (Continued)

A. Investments Authorized by Debt Agreements

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

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

B. Interest Rate Risk

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

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

Investment Type	12 Months or less	More than 36 Months	Total
Held by Fiscal Agent:			
Money Market Mutual Funds (U.S. Securities)	\$5,269,629		\$5,269,629
Investment Agreement		\$339,868	339,868
	\$5,269,629	\$339,868	\$5,609,497

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - INVESTMENTS HELD BY FISCAL AGENT (Continued)

C. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual rating as of June 30, 2015 for the Money Market Mutual Funds was AAAM as provided by Standard & Poor's investment rating system. Money market mutual funds are available for withdrawal on demand and at June 30, 2015, have an average maturity of 40 days.

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

Issuer	Investment Type	Amount
NationsBank	Investment Agreement	\$339,868

NOTE 3 – LEASES RECEIVABLE FROM THE CITY OF TURLOCK

The Authority has recorded leases receivable in the amount of \$113,666,860 pursuant to the lease agreements between the Authority and the City and Successor Agency in relation to the bonded indebtedness. The leases receivable along with investments held by fiscal agents secure the repayment of the different debt issues. The lease revenue is equal to the Authority's debt service requirements and is used for that purpose.

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

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 – LONG TERM DEBT

A. Current Year Activity

Following is a summary of the Authority's long-term debt transactions during the fiscal year ended June 30, 2015:

	Original Issue Amount	Balance June 30, 2014	Retirements	Balance June 30, 2015	Current Portion	Due in More Than One Year
Governmental Activity Debt:						
1999 Revenue Bonds	\$4,970,000	\$2,735,000	(\$185,000)	\$2,550,000	\$195,000	\$2,355,000
2006 Tax Allocation Revenue Bonds	25,440,000	22,825,000	(450,000)	22,375,000	470,000	21,905,000
Add: Unamortized bond premium		342,541	(15,453)	327,088		327,088
2011 Tax Allocation Revenue Bonds	15,300,000	15,010,000	(260,000)	14,750,000	270,000	14,480,000
Less: Unamortized bond discount		(90,266)	3,528	(86,738)		(86,738)
Total Governmental Activities	45,710,000	40,822,275	(906,925)	39,915,350	935,000	38,980,350
Business-type Activities Debt:						
Revenue Bonds:						
2012 Sewer	51,915,000	50,050,000	(1,955,000)	48,095,000	2,010,000	46,085,000
Add: Unamortized bond premium		3,510,510	(183,157)	3,327,353		3,327,353
2008 Water	32,365,000	28,630,000	(700,000)	27,930,000	725,000	27,205,000
Less: Unamortized bond premium		9,033	(379)	8,654		8,654
Total Business Type Activities	84,280,000	82,199,543	(2,838,536)	79,361,007	2,735,000	76,626,007
Total Long-Term Debt	\$129,990,000	\$123,021,818	(\$3,745,461)	\$119,276,357	\$3,670,000	\$115,606,357

B. 1999 Revenue Bonds

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

For the Year Ending June 30	Principal	Interest	Total
2016	\$195,000	\$133,466	\$328,466
2017	210,000	122,624	332,624
2018	220,000	110,907	330,907
2019	230,000	98,645	328,645
2020	245,000	85,702	330,702
2021-2025	1,450,000	205,738	1,655,738
Total	\$2,550,000	\$757,082	\$3,307,082

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 – LONG TERM DEBT (Continued)

C. 2006 Tax Allocation Revenue Bonds

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

For the Year Ending June 30	Principal	Interest	Total
2016	\$470,000	\$1,066,441	\$1,536,441
2017	490,000	1,046,066	1,536,066
2018	510,000	1,026,066	1,536,066
2019	530,000	1,005,266	1,535,266
2020	550,000	983,116	1,533,116
2021-2025	3,125,000	4,531,755	7,656,755
2026-2030	5,795,000	3,478,875	9,273,875
2031-2035	7,400,000	1,837,500	9,237,500
2036-2037	3,505,000	177,375	3,682,375
Total	<u>\$22,375,000</u>	<u>\$15,152,460</u>	<u>\$37,527,460</u>

D. 2011 Tax Allocation Revenue Bonds

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

For the Year Ending June 30	Principal	Interest	Total
2016	\$270,000	\$1,051,681	\$1,321,681
2017	280,000	1,038,269	1,318,269
2018	295,000	1,023,340	1,318,340
2019	310,000	1,006,500	1,316,500
2020	325,000	987,838	1,312,838
2021-2025	1,750,000	4,596,708	6,346,708
2026-2030	1,355,000	4,070,948	5,425,948
2031-2035	1,935,000	3,472,687	5,407,687
2036-2040	8,230,000	1,714,875	9,944,875
Total	<u>\$14,750,000</u>	<u>\$18,962,846</u>	<u>\$33,712,846</u>

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 – LONG TERM DEBT (Continued)

E. 2012 Sewer Revenue Bonds

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

For the Year Ending June 30	Principal	Interest	Total
2016	\$2,010,000	\$1,912,925	\$3,922,925
2017	2,080,000	1,841,175	3,921,175
2018	2,165,000	1,756,275	3,921,275
2019	2,255,000	1,667,875	3,922,875
2020	2,350,000	1,575,775	3,925,775
2021-2025	13,315,000	6,301,450	19,616,450
2026-2030	13,745,000	3,302,164	17,047,164
2031-2034	10,175,000	834,700	11,009,700
Total	<u>\$48,095,000</u>	<u>\$19,192,339</u>	<u>\$67,287,339</u>

F. 2008 Water Revenue Bonds

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

For the Year Ending June 30	Principal	Interest	Total
2016	\$725,000	\$1,304,113	\$2,029,113
2017	755,000	1,275,112	2,030,112
2018	785,000	1,244,913	2,029,913
2019	815,000	1,213,512	2,028,512
2020	855,000	1,172,763	2,027,763
2021-2025	4,835,000	5,312,212	10,147,212
2026-2030	6,030,000	4,121,889	10,151,889
2031-2035	7,600,000	2,548,074	10,148,074
2036-2038	5,530,000	562,000	6,092,000
Total	<u>\$27,930,000</u>	<u>\$18,754,588</u>	<u>\$46,684,588</u>

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 – LONG TERM DEBT (Continued)

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

For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any differences between proprietary refunded debt and the debt issued to refund it, called a deferred charge on refunding, is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter. The deferred charge on refunding is reported as a deferred inflow or outflow of resources, as applicable. Bond issuance costs, other than prepaid insurance, are expensed in the year incurred.

NOTE 5 – NET POSITION AND FUND BALANCES

A. *Net Position*

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

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

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

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

B. *Fund Balances*

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

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

TURLOCK PUBLIC FINANCING AUTHORITY
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 5 – NET POSITION AND FUND BALANCES (Continued)

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category. As of June 30, 2015 the Authority did not have any nonspendable fund balances.

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

Committed fund balances have constraints imposed by resolution of the Board of Directors which may be altered only by formal action of the Board of Directors. Encumbrances and nonspendable amounts subject to Board of Director commitments are included along with spendable resources. As of June 30, 2015 the Authority did not have any committed fund balances.

Assigned fund balances are amounts constrained by the Authority's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board of Directors or its designee and may be changed at the discretion of the Board of Directors or its designee, the City Manager. This category includes: encumbrances; nonspendables, when it is the Board of Director's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue and Capital Projects which have not been restricted or committed. As of June 30, 2015 the Authority did not have any assigned fund balances.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. As of June 30, 2015 the Authority did not have any unassigned fund balances.



CITY OF TURLOCK

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

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CITY OF TURLOCK
SINGLE AUDIT REPORT
For The Year Ended June 30, 2015

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CITY OF TURLOCK

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2015**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Internal control over major programs:

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

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

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.228</u>	<u>Community Development Block Grants/State’s Program</u>
<u>20.507</u>	<u>Federal Transit - Formula Grants</u>
<u>20.205</u>	<u>Highway Planning and Construction (Federal-Aid Highway Program)</u>

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

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose significant deficiencies and material weaknesses, but no instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated March 28, 2016, which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Finding: SA2015-001

Program Funds Drawn Down Prior to Disbursement

CFDA Number:

14.228

CFDA Title:

Community Development Block Grant Program/State's Program

Name of Federal Agency:

Department of Housing and Urban Development

Criteria: OMB Circular A-133 Compliance Supplement, Part C – Cash Management, requires that when entities are funded on a reimbursement basis, program costs must be paid with entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency, but up to \$100 per year may be kept for administrative expenses.

The requirements for cash management are contained in the OMB Circular 102 (Paragraph 2.a.), the A-102 Common Rule (§.21), Treasury regulations at 31 CFR part 205, Federal awarding agency regulations, and the terms and conditions of the award.

OMB Circular 102 (Paragraph 2.a.) indicates that cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a grantee, in a lump sum, not more than three business days prior to the day the grantee issues checks or initiates EFT payments.

Condition: The City undertook two rehabilitation projects charged to the grant during fiscal year 2015 and we noted for one of the projects the City disbursed \$270,000 on February 25, 2015 to a servicing agent who processes the payments to contractors and other vendors for the costs incurred for the rehabilitation projects. The disbursement to the servicing agent was funded with both program income and grant (entitlement) funds. The servicing agent did not place the funds in an interest bearing account. The grant funds, totaling \$198,830, were drawn down on June 2, 2015 for this project. At the time of the draw down, \$42,648 in project-related expenses had been paid and another \$10,290 was paid within three days of the draw. An additional \$23,190 in project expenses were paid by June 30, 2015.

As of June 30, 2015, the unexpended grant funds on deposit with the servicing agent totaled \$193,872. The grant funds were not fully expended until March 8, 2016. Therefore, after we discussed the issue with City staff, City staff has revised the reporting for the program expenditures on the Schedule of Expenditures of Federal Awards (SEFA) to reduce the program expenditures by \$193,872 and report the balance held by the servicing agent as unexpended grant funds.

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

Finding: SA2015-001

Program Funds Drawn Down Prior to Disbursement (Continued)

Questioned costs: None. Although the City funded the project with program income and grant funds drawn in advance of expenditure, the funds did appear to be expended on eligible grant activities.

Effect: The City is not in compliance with the cash management requirements of the grant and potentially owes the grantor \$25 for interest earned on the grant funds drawn in advance of disbursement through June 30, 2015, plus any interest earned subsequent to that date through the date the servicing agent's account was exhausted.

Cause: City staff indicated that the process of using a servicing agent and depositing 100% of the funds approved for a rehabilitation project with the servicing agent at the start of the project has been in place at least the last thirteen years and that during that time the City's CDBG program has been subjected to numerous monitoring visits from the grantor. At no time during these monitoring visits was this process questioned. In addition, City Staff believes that at the time they started using a servicing agent and the process for funding rehabilitation projects, it received guidance from its HUD representative as to the appropriateness of its process. Unfortunately, City Staff does not have written documentation of this guidance and was unable to obtain documentation from the grantor that this was an allowable method for the use of the grant funds.

Recommendation: If the City continues to use the servicing agent for rehabilitation projects, the City must revise its procedures to ensure that grant funds are not drawn prior to payments to third-party vendors for project expenditures (assumes the City does not desire to request advance draws on grant funds). And, unexpended program income, as of the end of the fiscal year, including that on deposit with servicing agents, must be reported on the SEFA at year end. In addition, the City should work with the grantor to determine if the interest earned on the unexpended funds is to be returned to the grantor. Finally, unexpended grant funds with the servicing agent should earn interest.

View of Responsible Officials and Planned Corrective Actions

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

Corrective action plan: As noted above in the cause section, the City believed its procedures for funding Rehabilitation projects using its servicing agent were allowable. The City will work with HUD to clarify the situation and will modify its grant draw down process for rehabilitation projects as necessary.

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

Finding: SA2015-002

Timely Submittal of Reimbursement Requests

CFDA Number: 20.205
CFDA Title: Highway Planning and Construction (Federal-Aid Highway Program)
Name of Federal Agency: U.S. Department of Transportation
Name of pass-through Entity: California Department of Transportation

Criteria: Sections 5, 1D and 1D of the “Special Covenants or Remarks” to the grant agreements for the CML-5165(049), STPL-5165(074) and STPL-5165(076) projects, respectively, between the City and the State Department of Transportation require that the City submit invoices/reimbursement requests at least once every six months commencing after the funds are encumbered. If the City fails to do so, under the terms of the respective agreements, the State reserves the right to suspend future authorizations/obligations for Federal-aid projects or encumbrances for State funded projects, as well as to suspend invoice payments for any ongoing or future project.

Condition: During our expenditure testing for the program, we noted the following:

- A disbursement on October 1, 2014 for project CML-5165(049) was not yet invoiced to the grantor as of February 11, 2016. The most recent reimbursement request for the project was filed on March 25, 2015, but did not include the October disbursement, and the next reimbursement request should have been filed no later than September 2015.
- A disbursement on August 20, 2015 for June 2015 costs for project STPL-5165(074) was not invoiced to the grantor as of February 11, 2016. The most recent reimbursement request for the project was filed on July 8, 2015, and the next reimbursement request should have been filed no later than January 2016.
- A disbursement on August 20, 2015 for June 2015 costs for project STPL-5165(079) was not invoiced to the grantor as of February 11, 2016. The most recent reimbursement request for the project was filed on July 8, 2015, and the next reimbursement request should have been filed no later than January 2016.

Effect: The City is not in compliance with the timely reimbursement filing requirements of the three grant agreements. Lack of compliance with the provision of the grant agreements could impact grant funding.

Cause: Per inquiry with staff, the department responsible for submitting the reports is under-staff.

Recommendation: The City should immediately file the delinquent reimbursement requests for eligible project costs incurred and the City should develop procedures to comply with all the reimbursement request reporting requirements of the federal grants.

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

Finding: SA2015-002

Timely Submittal of Reimbursement Requests (Continued)

View of Responsible Officials and Planned Corrective Actions

Name of contact person: Wayne York, Traffic Transportation Engineering Supervisor
(209) 668-5520, ext 4439

Corrective action plan: The City shall, within 30 days, provide a reimbursement request to the California Department of Transportation for federal projects CML-5165(049), STPL-5165(074) and STPL-5165(076).

The City shall, within 30 days, develop a table of all federally funded capital improvement projects. In addition to project titles this table shall include the corresponding date of the last reimbursement request submitted to the California Department of Transportation and the target date for the next reimbursement request. Each target date shall reflect a date that is no greater than six (6) months from the date of the previous reimbursement request. This table shall be reviewed weekly to ensure timely submissions of future reimbursement requests.

Finding: SA2015-003

Documentation of Verification that Vendor is not Suspended or Debarred

CFDA Number: 20.507

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

Name of Federal Agency: U.S. Department of Transportation

Criteria: Under 49 CFR Part 29, non-Federal entities are prohibited from contracting with covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. When the City enters into a covered transaction with a vendor for the Federal Transit - Formula Grants, the City is required to verify the vendor is not suspended or debarred or otherwise excluded.

Condition: City staff was not able to provide documentation that the verification had been completed for the following vendors: Transit Capital, First Transit, Pires, Lipomi & Navarro Architects and EFS West. Although we understand the City implemented new procedures in August 2015 to comply with the documentation requirements of 49 CFR Part 29, the new procedures were implemented after the above contracts were already in place.

Effect: The City is not in compliance with the procurement requirements of the grant.

Cause: The City did not retain documentation to illustrate it verified the vendors were not debarred or suspended prior to the award of the contract.

Recommendation: The City should ensure all current and future vendors funded by Federal grants are not debarred or suspended from participating in Federal grants. It must also maintain documentation illustrating such verification occurred prior to signing contracts with vendors.

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

Finding: SA2015-003

Documentation of Verification that Vendor is not Suspended or Debarred (Continued)

View of Responsible Officials and Planned Corrective Actions

Name of contact person: Wayne York, Traffic Transportation Engineering Supervisor
(209) 668-5520, ext 4439

Corrective action plan: The City shall, prior to contract award, verify that a prospective contractor or vendor anticipating to receive funds under a federal transit grant is not suspended or debarred. This verification shall take place on the System for Award Management (SAM) website and the screenshot of the results of such an inquiry shall be saved by City staff in project files.

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

Prepared by Management

Financial Statement Prior Year Findings

There were financial statement findings in the prior year, the current status of which we have communicated in a separate Memorandum on Internal Control dated March 28, 2016, which is an integral part of our audits and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

Finding: SA2014-001

Reporting Review Process

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

Current status: The referenced report is prepared with the assistance of the City's consulting engineering firm and reviewed by a City Staff Engineer. City Staff will be more diligent in their review of documents prepared by consultants to ensure any errors are caught and corrected before the report is sent to the State. In May 2015 the City responded to an inquiry by the State Water Resources Control Board (Board) regarding this finding and the City's corrective action plan. The City did not receive any further correspondence from the Board regarding this issue. The project has been completed and closed out.

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

Finding: SA2014-002 **Subrecipient Monitoring and Audit Finding Compliance**

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

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

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

Current status: Implemented - The City is performing several monitoring tasks, primarily Quarterly Desk Reviews. During these Reviews, the City assesses each subrecipient’s progress in meeting performance and expenditure goals. Reviews of performance goals appears to be mainly ensuring that subrecipients are using funding from CDBG in compliance with program requirements by reviewing cumulative expenditure rate to budget, eligibility of line item expenditures to budget, and adequacy and clarity of supporting documentation for line item expenditures. In addition, the City established written procedures for subrecipient monitoring in October 2015.

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

Finding: SA2013-02 Timely Report Submission

CFDA Number: 14.239

CFDA Title: Home Investment Partnerships Program

Name of Federal Agency: Department of Housing and Urban Development

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

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

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

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

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

View of Responsible Officials and Planned Corrective Actions:

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

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

The HUD reporting system is now on-line. The City is in the process of getting our user access approved and functional. We have completed the user access application process and are currently awaiting HUD's reply. When we have access we will upload the reports. The reports are currently available in the Housing Program Services office for review.

CITY OF TURLOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development Direct Programs:			
Community Development Block Grant Program/State's Program		B-12-MC-06-0039 B-13-MC-06-0039	
Program expenditures	14.228		\$185,232
Subgrants	14.228		50,815
Program income	14.228		267,875
Unexpended grant draw balance at the end of the year	14.228		<u>193,872</u>
Program Subtotal			<u>697,794</u>
HOME Investment Partnerships Program		M-12-DC-06-0240 M-13-DC-06-0240	
Program expenditures	14.239		1,073,082
Program income	14.239		<u>615,080</u>
Program Subtotal			<u>1,688,162</u>
Total Department of Housing and Urban Development			<u>2,385,956</u>
U.S. Department of Justice Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2012-DJ-BX-1110	10,985
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2013-DJ-BX-0761	31,542
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2014-DJ-BX-0893	<u>7,930</u>
Program Subtotal			<u>50,457</u>
Public Safety Partnership and Community Policing Grants			
COPS Hiring Grant	16.710	2014-UM-WX-0103	<u>41,667</u>
Total Department of Justice			<u>92,124</u>
Department of Transportation Direct Programs:			
Federal Transit - Formula Grants (Urbanized Area Formula Program)			
Operating Assistance - 2014	20.507	CA90-Z264	300,000
Operating Assistance	20.507	CA90-Z217	187,268
Operating and Capital Assistance	20.507	CA90-Z098	<u>208,921</u>
Program Subtotal			<u>696,189</u>
Airport Improvement Program	20.106	3-06-0265-010-2015	<u>751</u>
Department of Transportation Pass-Through from:			
California Department of Transportation			
Highway Planning and Construction (Federal-Aid Highway Program)			
Congestion Mitigation and Air Quality Improvement Program (CMAQ)	20.205	CML-5165	1,093,600
Surface Transportation Program (STP)	20.205	RSTP-5165	2,668,716
Highway Safety Improvement Program (HSIP)	20.205	HISPL-5165	<u>27,000</u>
Program Subtotal			<u>3,789,316</u>
Total Department of Transportation			<u>4,486,256</u>
Total Expenditures of Federal Awards			<u><u>\$6,964,336</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF TURLOCK

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2015**

NOTE 1-REPORTING ENTITY

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

NOTE 2-BASIS OF ACCOUNTING

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

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

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

NOTE 3 - PRIOR YEAR ADJUSTMENTS

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

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal or Pass-Through Identifying Number	Federal Expenditures
Department of Transportation Pass-Through from:			
California Department of Transportation			
Highway Planning and Construction (Federal-Aid Highway Program)			
Congestion Mitigation and Air Quality Improvement Program (CMAQ)	20.205	CML-5165	\$6,205
Surface Transportation Program (STP)	20.205	RSTP-5165	33,280

These adjustments do not affect the current year Schedule of Expenditures of Federal Awards, and are being included only as an informational item.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Turlock as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2016. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control, we consider to be material weaknesses as listed on the Status of Prior Schedule of Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated March 28, 2016 which is an integral part of our audits and should be read in conjunction with this report.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies and Status of Prior Year Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated March 28, 2016 which is an integral part of our audits and should be read in conjunction with this report.

Compliance and Other Matters

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

City's Response to Findings

City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated March 28, 2016 which is an integral part of our audits and should be read in conjunction with this report. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

Pleasant Hill, California
March 28, 2016

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

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

Report on Compliance for Each Major Federal Program

We have audited City of Turlock's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs items SA2015-001, SA2015-002 and SA2015-003. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items SA2015-001, SA2015-002 and SA2015-003 that we consider to be significant deficiencies.

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

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

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

We have audited the basic financial statements of the City as of and for the year ended June 30, 2015, and have issued our report thereon dated March 28, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mane & Associates

Pleasant Hill, California
March 28, 2016

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CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014

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CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act Funds (TDA Funds) which are included in the Streets Special Revenue Fund and the Transportation Enterprise Fund of the City of Turlock (City), California, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the TDA Funds' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 that required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Notes 5C and 9:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

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

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the TDA Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TDA Funds' internal control over financial reporting and compliance.



Pleasant Hill, California
March 28, 2016

**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
JUNE 30, 2015 AND 2014**

	2015	2014
ASSETS		
Cash and investments (Note 2)	\$480,342	\$387,386
Accounts receivable	545,233	319,134
Total Assets	\$1,025,575	\$706,520
 LIABILITIES		
Accounts and salaries payable	\$57,608	\$123,122
Unearned revenue (Note 4)	967,967	583,398
Total Liabilities	1,025,575	706,520
 FUND BALANCES (Note 5)		
Unassigned		
Total Liabilities and Fund Balance	\$1,025,575	\$706,520

See accompanying notes to financial statements

**CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
REVENUES:		
Intergovernmental revenues	\$604,597	\$611,851
Charges for services	17,611	26,232
Interest income and other revenues	535	235
Other	30,507	
Total Revenues	653,250	638,318
EXPENDITURES:		
Public ways and facilities / transportation	639,409	607,539
Capital outlay		53,685
Total Expenditures	639,409	661,224
Excess of Revenues over Expenditures	13,841	(22,906)
OTHER FINANCING SOURCES (USES)		
Transfers in from Transportation Enterprise Fund	3,000	3,000
Transfers in from other City funds		53,685
Transfers out to other City funds	(16,841)	(33,779)
Total Other Financing Sources (Uses)	(13,841)	22,906
Net Change in Fund Balance		
Fund Balance, Beginning of Year		
Fund Balance, End of Year		

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT PROGRAM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND - STREETS SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES:				
Intergovernmental revenues	\$965,624	\$965,624	\$604,597	(\$361,027)
Charges for services			17,611	17,611
Interest income and other revenues	100	100	535	435
Other			30,507	30,507
	<hr/>			
Total Revenues	<u>965,724</u>	<u>965,724</u>	<u>653,250</u>	<u>(312,474)</u>
EXPENDITURES:				
Public ways and facilities / transportation	742,620	742,620	639,409	103,211
Capital outlay	45,000	45,000		45,000
	<hr/>			
Total Expenditures	<u>787,620</u>	<u>787,620</u>	<u>639,409</u>	<u>148,211</u>
Excess (Deficiency) of Revenues over Expenditures	<u>178,104</u>	<u>178,104</u>	<u>13,841</u>	<u>(164,263)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in from Transportation Enterprise Fund	3,000	3,000	3,000	
Transfers out to other City funds	(16,895)	(16,895)	(16,841)	54
	<hr/>			
Total Other Financing Sources (Uses)	<u>(13,895)</u>	<u>(13,895)</u>	<u>(13,841)</u>	<u>54</u>
Net Change in Fund Balance	<u>\$164,209</u>	<u>\$164,209</u>		<u>(\$164,209)</u>
Fund Balance, Beginning of Year			<hr/>	
Fund Balance, End of Year			<hr/> <hr/>	

See accompanying notes to financial statements

CITY OF TURLOCK
TRANSPORTATION ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014*</u>
ASSETS		
Current assets:		
Cash and investments (Note 2)	\$3,056,980	\$3,281,077
Accounts receivable, grants	698,322	406,076
Interest receivable	<u>1,442</u>	<u>1,553</u>
Total current assets	<u>3,756,744</u>	<u>3,688,706</u>
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	4,095,378	3,754,731
Depreciable, net	<u>4,955,633</u>	<u>5,314,996</u>
Total noncurrent assets	<u>9,051,011</u>	<u>9,069,727</u>
Total Assets	<u>12,807,755</u>	<u>12,758,433</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 9)	<u>21,606</u>	<u> </u>
LIABILITIES		
Current liabilities:		
Accounts payable and accruals	65,175	65,921
Salaries payable	2,199	2,020
Unearned revenue (Note 4)	3,452,149	3,583,833
Compensated absences - due in one year	<u>3,893</u>	<u>3,393</u>
Total current liabilities	<u>3,523,416</u>	<u>3,655,167</u>
Long-term liabilities		
Compensated absences	15,567	13,571
Net OPEB obligation	22,950	19,968
Net pension liabilities (Note 9)	<u>184,043</u>	<u> </u>
Total long-term liabilities	<u>222,560</u>	<u>33,539</u>
Total Liabilities	<u>3,745,976</u>	<u>3,688,706</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 9)	<u>32,374</u>	<u> </u>
NET POSITION (Note 5)		
Net investment in capital assets	<u>9,051,011</u>	<u>9,069,727</u>
Total Net Position	<u>\$9,051,011</u>	<u>\$9,069,727</u>

See accompanying notes to basic financial statements

* Not restated for the provisions of GASB Statement No. 68 discussed in Note 5C

CITY OF TURLOCK
TRANSPORTATION ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014*</u>
OPERATING REVENUES		
Charges for services	\$144,959	\$150,150
Other income	6,913	9,521
	<u>151,872</u>	<u>159,671</u>
OPERATING EXPENSES		
Salaries, benefits and insurance	120,274	113,283
Contractual	831,711	802,296
Supplies and maintenance	33,616	23,156
Utilities	15,941	15,273
Fleet expense	127,808	196,681
Depreciation	348,112	365,745
Other expenses	17,131	9,604
	<u>1,494,593</u>	<u>1,526,038</u>
Operating loss	<u>(1,342,721)</u>	<u>(1,366,367)</u>
NON-OPERATING REVENUES (EXPENSES)		
Operating grants	1,176,864	992,993
Loss from sale of capital assets	(7,300)	
Investment income	6,174	6,915
	<u>1,175,738</u>	<u>999,908</u>
LOSS BEFORE CAPITAL GRANTS AND TRANSFERS	(166,983)	(366,459)
Capital grants	350,706	381,298
Transfers out to the Streets Special Revenue Fund	(3,000)	(3,000)
Transfers out to other City funds	(3,000)	(3,000)
	<u>177,723</u>	<u>8,839</u>
Change in net position	177,723	8,839
NET POSITION-BEGINNING, AS RESTATED (NOTE 5C)	<u>8,873,288</u>	<u>9,060,888</u>
ENDING NET POSITION	<u><u>\$9,051,011</u></u>	<u><u>\$9,069,727</u></u>

See accompanying notes to financial statements

* Not restated for the provisions of GASB Statement No. 68 discussed in Note 5C

CITY OF TURLOCK
TRANSPORTATION ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014*</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$151,872	\$183,851
Payments to suppliers	(1,026,953)	(1,052,611)
Payments to employees	(116,245)	(110,005)
Cash Flows from Operating Activities	<u>(991,326)</u>	<u>(978,765)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(6,000)	(6,000)
Intergovernmental receipts - operations	1,042,026	543,543
Cash Flows from Noncapital Financing Activities	<u>1,036,026</u>	<u>537,543</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental receipts - capital program	61,614	1,418,659
Proceeds from sale of capital assets	3,951	
Purchases of capital assets	(340,647)	(374,584)
Cash Flows from Capital and Related Financing Activities	<u>(275,082)</u>	<u>1,044,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	6,285	6,576
Cash Flows from Investing Activities	<u>6,285</u>	<u>6,576</u>
Net Cash Flows	(224,097)	609,429
CASH AND CASH EQUIVALENTS		
Cash and investments at beginning of period	3,281,077	2,671,648
Cash and investments at end of period	<u>\$3,056,980</u>	<u>\$3,281,077</u>
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	(\$1,342,721)	(\$1,366,367)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	348,112	365,745
Change in assets and liabilities:		
Accounts receivable for operations		24,180
Accounts payable	(746)	(5,601)
Salaries payable	179	(4)
Compensated absences	2,496	(500)
Net OPEB obligation	2,982	3,782
Deferred outflows/inflows and net pension liability	(1,628)	
Cash Flows from Operating Activities	<u>(\$991,326)</u>	<u>(\$978,765)</u>
NONCASH TRANSACTIONS		
Retirement of capital assets	<u>(\$11,251)</u>	

See accompanying notes to financial statements

* Not restated for the provisions of GASB Statement No. 68 discussed in Note 5C

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *The Reporting Entity*

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

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

B. *Fund Accounting*

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

Governmental Fund Type

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

Proprietary Fund Type

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Basis of Accounting and Measurement Focus*

Streets Special Revenue Fund

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

The Streets Special Revenue Fund is used to account for the City's share of the Transportation Development Act (TDA) allocations that are legally restricted for street maintenance and capital improvements.

Transportation Enterprise Fund

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

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

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

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Deferred Inflows and Deferred Outflows of Resources

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

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

E. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

The TDA Funds participate in the City's cash and investment pool. The City pools surplus cash from all sources and all funds, except cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity. Investment income is allocated among funds on the basis of the average month-end cash and investment balances in these funds. As of June 30, 2015 and June 30, 2014, the TDA Funds had cash and investment balances of \$3,537,322 and \$3,668,463, respectively.

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

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

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

The City’s investment policy authorizes the following investments:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Notes, Bonds and/or Bills	5 years	A	Unlimited	N/A
U.S. Government Sponsored Securities	5 years	A	Unlimited	No more than 25%
Negotiable Certificates of Deposit	5 years	N/A	30%	N/A
Certificates of Deposit	5 years	A	Unlimited	N/A
Bankers' Acceptances	180 days	A	40%	No more than 30%
Commercial Paper	270 days	A-1 or Higher	25%	No more than 10%
State of Local Agency Investment Fund (LAIF)	N/A	N/A	Equal to maximum limit set by LAIF	N/A
Repurchase Agreement	1 year	N/A	Unlimited	N/A
Money Market and Mutual Funds	N/A	A	20%	N/A
Corporate Notes	5 years	AA	5%	N/A

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

NOTE 3 – CAPITAL ASSETS

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 3 – CAPITAL ASSETS (Continued)

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

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

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

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

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

Transportation Enterprise Fund

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

	<u>Balance at</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$1,823,738			\$1,823,738
Construction in progress	1,930,993	\$340,647		2,271,640
Total capital assets not being depreciated	<u>3,754,731</u>	<u>340,647</u>		<u>4,095,378</u>
Capital assets being depreciated:				
Land improvements	2,070,214			2,070,214
Buildings	1,904,615			1,904,615
Furniture and equipment	446,687		(\$37,501)	409,186
Vehicles	2,772,017			2,772,017
Total capital assets being depreciated	<u>7,193,533</u>		<u>(37,501)</u>	<u>7,156,032</u>
Less accumulated depreciation for:				
Land improvements	(72,257)	(69,007)		(141,264)
Buildings	(367,600)	(63,487)		(431,087)
Furniture and equipment	(230,956)	(30,816)	26,250	(235,522)
Vehicles	(1,207,724)	(184,802)		(1,392,526)
Total accumulated depreciation	<u>(1,878,537)</u>	<u>(348,112)</u>	<u>26,250</u>	<u>(2,200,399)</u>
Net capital assets being depreciated	<u>5,314,996</u>	<u>(348,112)</u>	<u>(11,251)</u>	<u>4,955,633</u>
Capital assets, net	<u>\$9,069,727</u>	<u>(\$7,465)</u>	<u>(\$11,251)</u>	<u>\$9,051,011</u>

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

The TDA Funds received grants from the State of California Department of Transportation for projects financed with Public Transportation Modernization, Improvement, and Service Enhancement Account (Proposition 1B), and had received Local Transportation Fund and State Transit Assistance funds in advance of costs being incurred. As of June 30, 2015 and 2014, unearned revenue related to those programs is as follows:

	2015	2014
<i>Streets Special Revenue Fund:</i>		
State Transit Assistance and Local Transportation Fund	\$967,967	\$583,398
<i>Transportation Enterprise Fund:</i>		
Proposition 1B	\$2,252,004	\$1,899,784
State Transit Assistance and Local Transportation Fund	1,200,145	1,684,049
Total Transit Enterprise Fund	\$3,452,149	\$3,583,833

NOTE 5 – NET POSITION AND FUND BALANCES

A. Net Position

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

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

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

B. Fund Balances

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

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

CITY OF TURLOCK
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NOTE 5 – NET POSITION AND FUND BALANCES (Continued)

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

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

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

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

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
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NOTE 5 – NET POSITION AND FUND BALANCES (Continued)

C. Net Position Restatements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The intension of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The intension of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The implementation of the above Statements required the City to make prior period adjustments. As a result, the beginning net position of the Transportation Enterprise Fund was reduced by \$196,439. See Note 9 for additional information.

NOTE 6 – TRANSPORTATION DEVELOPMENT ACT

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

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
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**NOTE 7 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE
ENHANCEMENT ACCOUNT (PTMISEA)**

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

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

In fiscal years 2008 through 2015, the Program received a total of \$4,997,243 from Proposition 1B funds and expended \$2,778,285, including the expenditure of interest on the unspent funds. For fiscal year 2015, the Program received Proposition 1B funds totaling \$417,527 and expended \$68,593, including the expenditure of interest on unspent funds. Unspent grant receipts have been reported as unearned revenue in the accompanying financial statements and the schedule below delineates the funds received and the expenditure of these funds along with the interest earned on the unexpended funds.

<u>Project Name</u>	<u>Grant Amount</u>	<u>Interest</u>	<u>Expended through June 30, 2015</u>	<u>Transfers to Other Projects</u>	<u>Unearned Revenue</u>
Bus LED Designation Signs and Brochure Holders	\$12,975	\$163	(\$13,138)		
Construction of Timed Fill Compressed Natural Gas (CNG) Bus Fueling Station	315,495	6,889	(279,853)	(\$42,531)	
Compressed Natural Gas Transit Bus (35-foot)	495,495	14,112	(507,333)	(2,274)	
Transit Transfer Center	1,265,574	5,539	(1,549,015)	277,902	
Transit Transfer Center Phase II	532,437	2,588	(78,554)	275,148	\$731,619
CNG Slow Fill Compressor	350,000	392	(350,392)		
Electronic Farebox System	200,000	671			200,671
Dispatch Office	130,000	183		(130,183)	
Operations and Bus Storage	377,740	322		(378,062)	
Paratransit Bus Purchase	900,000	2,045			902,045
Bus Parking Expansion	267,527	91			267,618
Bus Stop Improvements	150,000	51			150,051
Total	<u>\$4,997,243</u>	<u>\$33,046</u>	<u>(\$2,778,285)</u>		<u>\$2,252,004</u>

CITY OF TURLOCK
TRANSPORTATION DEVELOPMENT ACT FUNDS
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 – PENSION PLAN

Personnel costs accounted for under TDA and FTA funding include costs associated with the City's pension benefit plan. The costs attributed to TDA and FTA funding are part of the City's Miscellaneous Plan, an Agent-Multiple Employer Plan administered by the California Public Employees' Retirement System (CalPERS), and are allocated to TDA and FTA funds in the same manner as they are allocated to other City funds which have personnel expenditures. More information regarding the Plan can be found in the basic financial statements for the City of Turlock.

NOTE 10 - OTHER EMPLOYEE BENEFITS

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

NOTE 11 - MAJOR CONTRACTOR

On October 25, 2011, the City renewed its contract agreement with First Transit Inc. to operate and maintain the DART and BLAST programs. The term is from December 1, 2011, to November 30, 2014, with an option to extend for an additional three years. In October 2014, the City exercised the option and extended the contract to November 30, 2017. First Transit Inc. is paid monthly based on a fixed fee plus a fee calculated at a fixed rate per vehicle multiplied by the number of service hours. Expenses incurred under this contract amounted to \$552,110 for the fiscal year ended June 30, 2015.

NOTE 12 – CONTINGENT LIABILITIES

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Transportation Development Act Funds (TDA Funds) of the City of Turlock (City), California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2016. Our report included emphasis of a matter paragraphs disclosing the implementation of new accounting principles and the restatement of beginning net position.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated March 28, 2016, which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

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

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

Pleasant Hill, California
March 28, 2016

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

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

Report on Compliance for TDA Funds

We have audited the City of Turlock, California's (City) Streets Special Revenue Fund and the Transportation Enterprise Fund (TDA Funds) compliance with the types of compliance requirements described in Section 6666 and 6667 of the *Rules and Regulations of the California Administrative Code in the Transportation Development Act Statutes and Administrative Code for 1987* (the Act) and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG) that could have a direct and material effect on the TDA Funds for the year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on TDA Funds

In our opinion, the TDA Funds complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the TDA Funds for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

We have also issued a separate Memorandum on Internal Control dated March 28, 2016, which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

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



Pleasant Hill, California
March 28, 2016

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

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

Report on Compliance for PTMISEA Projects

We have audited the revenues and expenses of the City of Turlock, California's (City) Public Transportation Modernization, Improvement and Service Enhancement Account Projects, as disclosed in Note 7 to the accompanying financial statements, a program of the Transportation Enterprise Fund, (the Projects) compliance with the rules and regulations of the *Public Transportation Modernization, Improvement and Service Enhancement Account* (PTMISEA) that could have a direct and material effect on the Projects for the year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the PTMISEA Projects

In our opinion, the Projects complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Projects for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

We have also issued a separate Memorandum on Internal Control dated March 28, 2016, which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

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



Pleasant Hill, California
March 28, 2016



**CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM**

FINANCIAL STATEMENTS

For the Years Ended June 30, 2015 and 2014

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**CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule) of the Abandoned Vehicle Abatement Program (Program) of the City of Turlock as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Program's financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and requirements described in Section 9250.7, Chapter 6, Article 2, and Section 22710, Chapter 10, Article 1 of the California Vehicle Code and the allocation instructions and resolutions of the StanCOG. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the Schedule referred to above presents fairly, in all material respects, the revenues, expenditures and changes in fund balance of the program for the years ended June 30, 2015 and 2014 in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note 1, the Schedule is intended to present only the results of operations of the Program of the City. It does not purport to, and does not, present fairly the financial position of the City as of June 30, 2015 and 2014, and changes in fund balances for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Pleasant Hill, California
March 28, 2016

CITY OF TURLOCK
 ABANDONED VEHICLE ABATEMENT PROGRAM
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 FOR YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Revenues:		
Registration Fees	\$83,548	\$59,272
Contribution from City of Turlock		23,048
Total Revenues	83,548	82,320
Expenditures:		
Personnel	50,507	74,015
Services and Supplies	12,449	8,305
Total Expenditures	62,956	82,320
Excess of revenues over expenditures	20,592	
Fund balance at beginning of year	_____	_____
Fund balance at end of year	\$20,592	_____

See accompanying notes to the financial statement

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CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
NOTES TO THE FINANCIAL STATEMENT
For the Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY SIGNIFICANT ACCOUNTING POLICIES

A. *Abandoned Vehicle Abatement Program*

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

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

B. *The Reporting Entity*

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

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

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

Governmental funds are accounted for using the modified accrual basis of accounting and "current financial resources" measurement focus. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized in the accounting period in which they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Program's accrual period is generally 90 days after fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

CITY OF TURLOCK
ABANDONED VEHICLE ABATEMENT PROGRAM
NOTES TO THE FINANCIAL STATEMENT
For the Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *Use of Estimates*

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

**INDEPENDENT AUDITOR’S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
AND REQUIREMENTS DESCRIBED IN SECTION 9250.7, CHAPTER 6, ARTICLE 2,
AND SECTION 22710, CHAPTER 10, ARTICLE 1 OF THE CALIFORNIA VEHICLE CODE
AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE STANCOG**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule) of the Abandoned Vehicle Abatement Program (Program) of the City of Turlock (City), California, as of and for the years ended June 30, 2015 and 2014, and the related notes to the Schedule, and have issued our report thereon dated March 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated March 28, 2016, which is an integral part of our audit and should be read in conjunction with this report.

Program's Response to Findings

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

Purpose of this Report

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



Pleasant Hill, California
March 28, 2016

INDEPENDENT AUDITORS' COMPLIANCE REPORT ON THE ABANDONED VEHICLE ABATEMENT PROGRAM

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

Report on Compliance for Abandoned Vehicle Abatement Program

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Abandoned Vehicle Abatement Program (Program) of the City of Turlock (City) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon date March 28, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants described in Section 9250.7, Chapter 6, Article 2, and Section 22710, Chapter 10, Article 1 of the California Vehicle Code and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG).

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and requirements described in Section 9250.7, Chapter 6, Article 2, and Section 22710, Chapter 10, Article 1 of the California Vehicle Code and the allocation instructions and resolutions of the StanCOG. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Abandoned Vehicle Abatement Program

In our opinion, the Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Program for the years ended June 30, 2015 and 2014.

Other Matters

The results of our auditing procedures did not disclose any instances of noncompliance. Our opinion on the Abandoned Vehicle Abatement Program is not modified with respect to these matters.

Program's Response to Findings

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

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements, specified in Section 9250.7, Chapter 6, Article 2, and Section 22710, Chapter 10, Article 1 of the California Vehicle Code and the allocation instructions and resolutions of the StanCOG between the Program and StanCOG. Accordingly, this report is not suitable for any other purpose.



Pleasant Hill, California
March 28, 2016

**STATUS OF PRIOR YEAR
SCHEDULE OF FINDINGS**

AVA2013-01 Accurate Preparation of Quarterly Status Reports

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

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

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

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

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

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

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