



**CITY OF PATTERSON
ANNUAL FINANCIAL REPORT
AS OF JUNE 30, 2008
WITH
INDEPENDENT AUDITOR'S REPORT
AND
SUPPLEMENTAL INFORMATION**



**WELCOME TO
PATTERSON,
CALIFORNIA**

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CITY OF PATTERSON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008
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INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and Members of the City Council
City of Patterson
Patterson, California

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Patterson (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Patterson as of June 30, 2008, and the respective changes in the financial position and cash flows, where applicable, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008 on our consideration of the City of Patterson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purposes of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Required Supplemental Information is supplementary information required by the Government Accounting Standards Board, but is not a part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Sacramento, CA
October 24, 2008

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

The City of Patterson (the City) was not seriously impacted by any weakness in the economy in Northern California in fiscal year 2008. The future years may hold a different story. While revenues increased, as did the net number of residents in the City, the impact of the weak housing market is upon the City. The City's fiscal highlights are presented below:

FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year ended June 30, 2008 include the following:

Government-wide:

The City's total net assets were \$104,939,311 as of June 30, 2008. Of this total, \$66,671,681 were Governmental net assets and \$38,267,630 were Business-type net assets.

Government-wide revenues include program revenues of \$7,448,211 and general revenues and transfers of \$16,072,559, for a total of \$23,520,770.

Government-wide expenses were \$13,395,068.

Business-type program revenues and interest revenues were \$6,770,060 while business-type expenses and transfers were \$6,381,458.

Fund Level:

Governmental fund balances increased \$1,481,132 in fiscal year 2008.

Governmental fund revenues increased \$619,199 in fiscal year 2008.

Governmental fund expenditures increased \$200,477 in fiscal year 2008.

General Fund:

General Fund revenues of \$10,343,038 were \$623,514 higher than the prior year.

General Fund expenditures of \$10,594,116 represented an increase of \$3,063,717 over the prior year.

General Fund balance of \$12,373,340 as of June 30, 2008, compared favorably with 2007 fiscal year's fund balance of \$11,582,298.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is divided into three parts:

1. Government-wide financial statements;
2. Fund financial statements;
3. Notes to these financial statements.

Government-wide Financial Statements

The Government-wide financial statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

The Statement of Activities provides information about all the City's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net assets for the year.

All of the City's activities are grouped into government activities and business-type activities, as explained below. The amounts in the Statement of Net Assets and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities for the City as a whole.

Government-wide financial statements are prepared on the accrual basis, which mean they measure the flow of all economic resources of the City as a whole.

The Statement of Net Assets and the Statement of Activities present information about the following:

Governmental Activities – All of the City's basic services are considered to be governmental activities. These services are supported by the general City revenues such as taxes, and by specific program revenues such as user fees and charges.

The City's governmental activities also include the activities of another separate legal entity, the Redevelopment Agency of the City of Patterson. The City is financially accountable for this entity. Please refer to the separately issued financial statements.

Business-type Activities – The City's enterprise activities of water, wastewater and solid waste are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of service they use.

Fund Financial Statements

The fund financial statements report on 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 major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. The concept of major funds, and the determination of which funds are major, was established by the Governmental Accounting Standards Board (GASB) Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

In the City's case, there are two major governmental funds in addition to the General Fund: the WWTP Construction fund and the Developer Housing In-Lieu Fee fund.

All of the City's enterprise funds are reported as major funds.

Fund financial statements include governmental and proprietary funds as discussed below.

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.

Proprietary funds financial statements are prepared on the full accrual basis, as in the past, and includes all of their assets and liabilities, current and long-term.

Comparison of budget and actual financial information are presented only for the General Fund and any major special revenue funds starting on page 49, as required by GASB No. 34.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1, 2 and 3 focus on the City's Governmental Statement of Net Assets and Statements of Activities, while Table 4 focuses on the City's Business-type Statement of Net Assets and Statement of Activities.

Table 1
GOVERNMENTAL NET ASSETS AT JUNE 30, 2008

	Governmental Activities 2008	Governmental Activities 2007
<u>ASSETS</u>		
Cash and investments	\$ 29,952,161	\$ 28,997,072
Other assets	5,268,034	5,709,983
Capital assets, net	<u>36,933,598</u>	<u>28,456,530</u>
TOTAL ASSETS	<u>72,153,793</u>	<u>63,163,585</u>
<u>LIABILITIES</u>		
Long-term debt obligations	3,284,355	3,662,222
Other liabilities	<u>2,197,757</u>	<u>2,955,384</u>
TOTAL LIABILITIES	<u>5,482,112</u>	<u>6,617,606</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	33,510,894	24,743,999
Unrestricted	<u>33,160,787</u>	<u>31,801,980</u>
TOTAL NET ASSETS	<u>\$ 66,671,681</u>	<u>\$ 56,545,979</u>

The City's governmental net assets amounted to \$66,671,681 as of June 30, 2008, an increase of \$10,125,702 over 2007. This increase in the change in net assets is reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2008 comprised the following:

Cash and investments comprised \$29,952,161 in the city treasury and \$- of restricted cash and investments. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 3 to the financial statements.

Receivables comprised \$1,103,039 of current receivables and loans receivable of \$4,164,995 that is due over longer periods of time as explained in Note 4.

Capital assets of \$36,933,598 net of depreciation charges, which included all the City's capital assets used in governmental activities.

Current liabilities, including accounts payable, claims and other amounts due currently, total \$1,799,474.

Accrued compensated absence liabilities payable to employees of \$259,934, as explained in Note 9 to the financial statements.

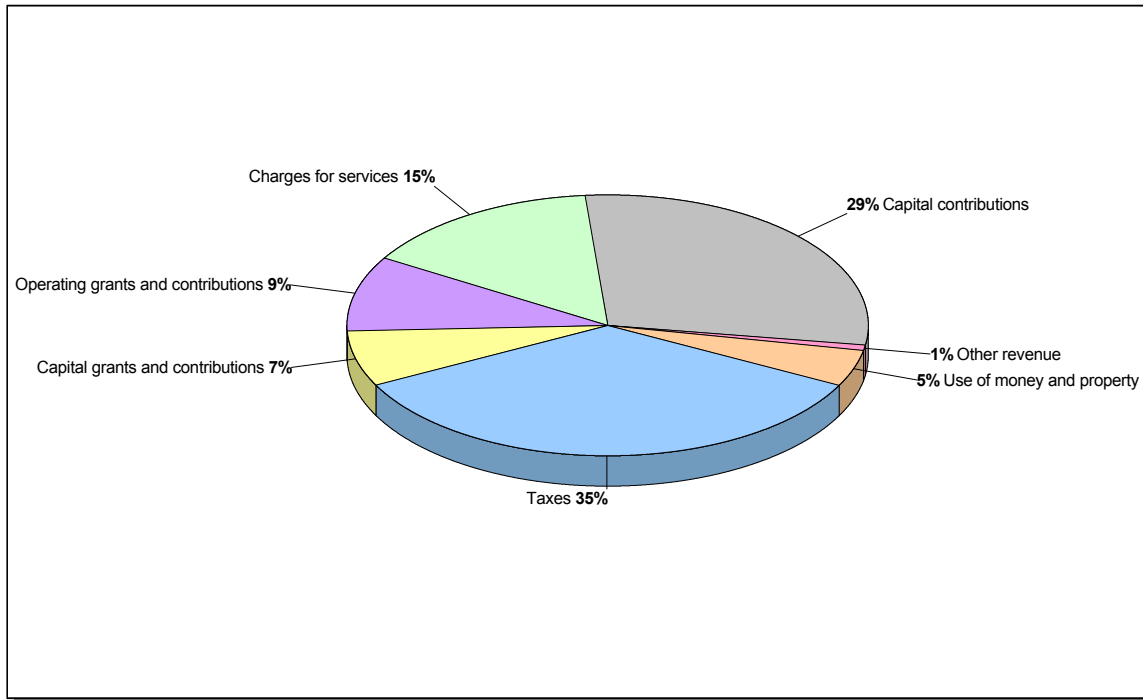
CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

Long-term debt of \$3,422,704 of which \$3,078,227 is due in future years and \$344,477 is due within the next year.

Invested in capital assets, net of related debt, of \$33,510,894, representing the City's investment in capital assets used in governmental activities, net of amounts borrowed to finance those investments.

Unrestricted net assets, the part of net assets that can be used to finance day to day operations without constraints established by debt covenants or other legal requirements or restrictions, was \$33,160,787 as of June 30, 2008.

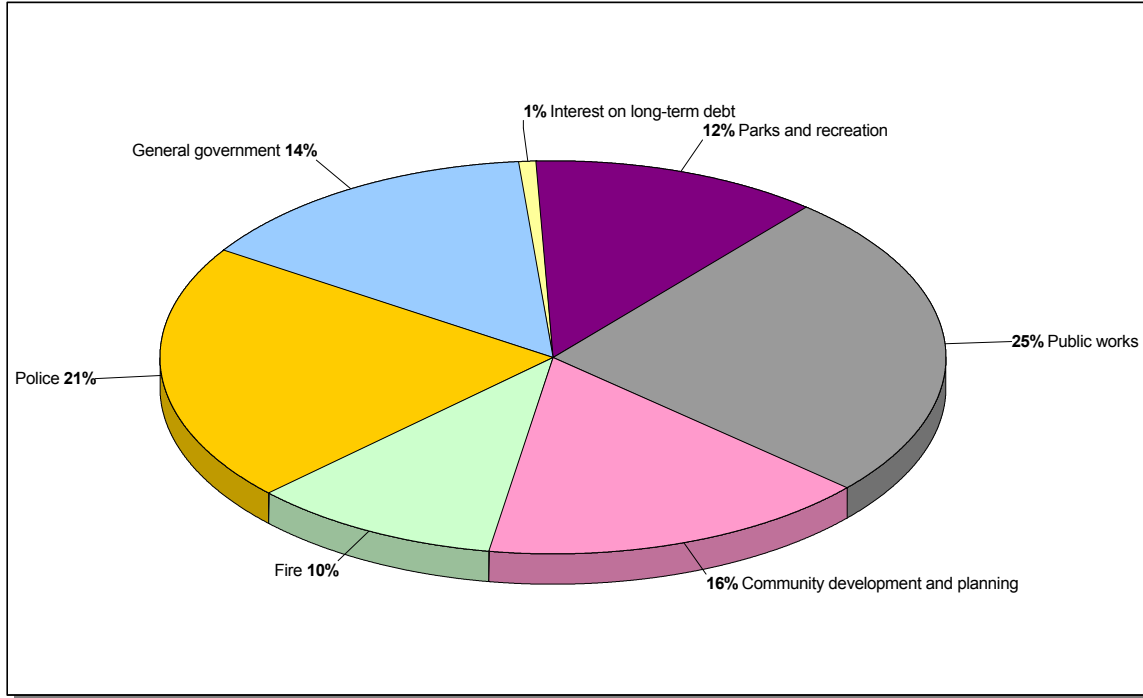
Sources of Revenue



As the Sources of Revenue chart above shows, \$8,300,412, or 35% of the City's fiscal year 2008 governmental activities revenue came from taxes, while \$3,574,593, or 15% came from charges for services, \$6,889,632 or 29%, came from capital contributions, and the remainder came from a variety of sources, as shown above.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

Functional Expenses



The Functional Expenses chart above includes only current year expenses; it does not include capital outlays, which are added to the City's capital assets. As the chart shows, general government is \$1,932,332, or 14%, of total governmental expenses, community development and planning is \$2,147,422, or 16%, police is \$2,855,203, or 21%, fire is \$1,373,809, or 10%, public works is \$3,398,456, or 25%, parks and recreation is \$1,589,328, or 12%, and interest on long-term debt is the remaining 1%.

The Statements of Activities presents program revenues and expenses and general revenues in detail. All of these elements in the Changes in Governmental Net Assets are summarized below.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

Table 2
CHANGE IN GOVERNMENTAL NET ASSETS

	Governmental Activities 2008	Governmental Activities 2007
<u>EXPENDITURES</u>		
General government	\$ 1,932,332	\$ 2,130,732
Police	2,855,203	3,082,594
Fire	1,373,809	585,066
Community development and planning	2,147,422	3,002,933
Public works	3,398,456	1,197,528
Parks and recreation	1,589,328	2,004,037
Interest on long term debt	98,518	96,858
TOTAL EXPENDITURES	13,395,068	12,099,748
<u>REVENUES</u>		
Program revenues		
Charges for services	3,574,593	4,125,806
Operating grants and contributions	2,227,226	1,802,407
Capital grants and contributions	1,646,392	1,394,460
Total program revenues	7,448,211	7,322,673
General revenues		
Taxes	8,300,412	7,777,226
Use of money and property	1,080,252	1,121,133
Other	6,691,895	9,021,487
Total general revenues	16,072,559	17,919,846
TOTAL REVENUES	23,520,770	25,242,519
CHANGES IN NET ASSETS	\$ 10,125,702	\$ 13,142,771

As Table 2 above shows, \$7,448,211 or 32%, of the City's fiscal year 2008 governmental revenue, came from program revenues and \$16,072,559, or 68%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$3,574,593, which included permit revenues, fees and charges used to fund expenses incurred in providing services; \$2,227,226 of operating grants and contributions, which included gas tax revenues and housing and police grants; and capital grants and contributions of \$1,646,392, that consisted mainly of street project grants and developer impact fees restricted to capital outlay.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Table 3 presents the net expense or revenue of each of the City's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

Table 3
GOVERNMENTAL ACTIVITIES

	Net (Expense) Revenues from Services 2008	Net (Expense) Revenues from Services 2007
General government	\$ (1,195,724)	\$ (700,011)
Police	(2,546,013)	(2,809,532)
Fire	(923,186)	(390,577)
Community development and planning	(1,007,139)	(2,066,542)
Public works	138,425	1,912,840
Parks and recreation	(314,702)	(626,395)
Interest on long term debt	<u>(98,518)</u>	<u>(96,858)</u>
Total	\$ <u>(5,946,857)</u>	\$ <u>(4,777,075)</u>

BUSINESS-TYPE ACTIVITIES

The Statement of Net Assets and Statement of Activities present a summary of the City's Business-type activities that are composed of the City's enterprise funds.

Table 4
BUSINESS-TYPE NET ASSETS AT JUNE 30, 2008

	Business-type 2008	Business-type 2007
<u>ASSETS</u>		
Cash and investments	\$ 2,980,379	\$ 3,176,742
Other assets	949,795	806,700
Capital assets, net	<u>35,553,927</u>	<u>33,747,992</u>
TOTAL ASSETS	<u>39,484,101</u>	<u>37,731,434</u>
<u>LIABILITIES</u>		
Long-term debt outstanding	848,240	507,838
Other liabilities	<u>368,231</u>	<u>233,955</u>
TOTAL LIABILITIES	<u>1,216,471</u>	<u>741,793</u>
<u>NET ASSETS</u>		
Invested in capital, net of related debt	34,722,152	33,274,529
Unrestricted	<u>3,545,478</u>	<u>3,715,112</u>
TOTAL NET ASSETS	\$ <u>38,267,630</u>	\$ <u>36,989,641</u>

The net assets of business-type activities increased by \$1,277,989 in fiscal year 2008.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

BUSINESS-TYPE ACTIVITIES (Continued)

Table 5
CHANGE IN BUSINESS-TYPE NET ASSETS

	Net (Expense) Revenue From Service 2008	Net (Expense) Revenue From Service 2007
Water	\$ 1,171,830	\$ 1,478,935
Sewer	(709,536)	523,008
Garbage	(73,692)	151,164
Total	\$ 388,602	\$ 2,153,107

ANALYSIS OF MAJOR FUNDS

Governmental Funds

General Fund

General Fund revenues increased \$623,514 this fiscal year due primarily to increase in tax revenues and subventions and grants. Actual revenues exceeded budgeted amounts by \$202,099. Tax revenues increased \$669,135 as assessed values rose, driven by new construction. Charges for services, licenses and permits decreased \$579,002 due to a decrease in building permit activity and plan check activity.

General Fund expenditures were \$10,594,116 an increase of \$3,063,717 from the prior year. Expenditures increased due to raising costs. While building permit costs have decreased from \$396,496 to \$151,322, an additional cost of \$494,734 was incurred due to past inspection costs. It is expected that these costs will be less during the course of the next few years. More personnel have attributed to increases.

As of June 30, 2008, the General Fund's fund balance totaled \$12,373,340. The unreserved portion of the fund balances represents available liquid resources.

WWTP Construction Fund

This fund accounts for the capital expenditures on the WWTP construction project funded by developer fees.

The fund's fiscal year end fund balance of \$181,195 represents developer fees that have not yet been expended on the project. The funds may only be used for these purposes.

The project is near completion.

Developer Housing In-Lieu Fee

This fund accounts for fees received from the developers in-lieu of the developers building affordable housing. The City uses the funds for affordable housing projects such as the Senior Housing Complex.

The fund's fiscal year end fund balance of \$1,551,393 represents fees that have not yet been expended on the project. The funds may only be used for these purposes.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

ANALYSIS OF MAJOR FUNDS (Continued)

Proprietary Funds

Water Fund

Revenues increased by \$47,963 in fiscal year 2008 and expenses increased by \$353,868 resulting in operating income of \$1,179,845. There was an increase to water rates which is part of a ten year program.

The fund's net assets increased by \$2,044,847, to a new total of \$10,985,267. Of this amount, \$8,836,901 was invested in capital assets, net of related debt.

Sewer Fund

Operating revenues increased \$157,961 to \$1,918,646. Operating expenses increased by \$1,398,707. The fund's net assets decreased by \$448,764 in fiscal year 2008. The majority of the decrease came from capital contributions from contractors amounting to \$385,052 in 2008 versus \$1,723,292 in 2007. The customer base for service increased in fiscal year 2008.

As of June 30, 2008, the fund's net assets were \$26,911,391, of which \$25,700,118 was invested in capital assets, net of related debt and \$1,211,273 was unrestricted.

Garbage Fund

Operating revenues increased by \$38,155 to \$1,694,244. Operating expenses increased by \$264,489. The change in net assets of the Garbage Fund resulted in an decrease of \$318,094 in fiscal year 2008. This decrease came from increased operational costs.

As of June 30, 2008, the fund's net assets were \$370,972, of which \$185,133 was invested in capital assets, net of related debt and \$185,839 was unrestricted.

CAPITAL ASSETS

GASB No. 34 required the City to record all its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2008, the City reported the cost of all its infrastructure assets and computed the amounts of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2008 the cost of infrastructure and other capital assets recorded on the City's financial statements is as shown in Table 6 and 7 below:

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

Table 6
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS AT JUNE 30,

	2008	2007
Governmental Activities		
Capital assets not being depreciated		
Land	\$ 1,978,831	\$ 1,978,831
Construction in progress	<u>2,303,454</u>	<u>1,897,581</u>
Total capital assets not being depreciated	<u>4,282,285</u>	<u>3,876,412</u>
Capital assets being depreciated		
Buildings	14,454,307	9,700,169
Improvements	9,506,095	6,340,248
Streets and roads	9,722,261	8,881,514
Equipment	<u>3,589,455</u>	<u>3,134,831</u>
Total capital assets not being depreciated	<u>37,272,118</u>	<u>28,056,762</u>
Less: accumulated depreciation		
Buildings	(293,002)	(49,743)
Improvements	(1,156,459)	(853,012)
Streets and roads	(1,371,421)	(1,149,383)
Equipment	<u>(1,799,923)</u>	<u>(1,424,506)</u>
Total accumulated depreciation	<u>(4,620,805)</u>	<u>(3,476,644)</u>
Governmental activities capital assets, net	<u>\$ 36,933,598</u>	<u>\$ 28,456,530</u>

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

Table 7
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS AS OF JUNE 30,

	2008	2007
Business-type Activities		
Capital assets not being depreciated		
Land	\$ 5,745,597	\$ 3,455,828
Construction in progress	<u>1,526,611</u>	<u>4,069,112</u>
Total capital assets not being depreciated	<u>7,272,208</u>	<u>7,524,940</u>
Capital assets being depreciated		
Infrastructure	33,795,218	30,521,453
Equipment	<u>1,302,835</u>	<u>1,306,988</u>
Total capital assets being depreciated	<u>35,098,053</u>	<u>31,828,441</u>
Less: accumulated depreciation		
Infrastructure	(6,146,559)	(5,009,624)
Equipment	<u>(669,775)</u>	<u>(595,765)</u>
Total accumulated depreciation	<u>(6,816,334)</u>	<u>(5,605,389)</u>
Business-type activities capital assets, net	<u>\$ 35,553,927</u>	<u>\$ 33,747,992</u>

Details on capital assets, current year additions and construction in progress can be found in Note 5.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB No. 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 1 and Note 5 to the financial statements.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

DEBT ADMINISTRATION

The City issued no new bonded debt in fiscal year 2008. The City made all scheduled repayments of existing debt. The City's debt issues are discussed in detail in Note 9 of the financial statements. The City's debt balances as of June 30 were as follows:

Table 8
LONG-TERM LIABILITIES

	<u>2008</u>	<u>2007</u>
Governmental activities		
Compensated absences	\$ 259,934	\$ 208,409
State water resources loan	2,730,712	2,903,161
Capital leases	<u>691,992</u>	<u>809,370</u>
Total governmental activities	<u>\$ 3,682,638</u>	<u>\$ 3,920,940</u>
Business-type activities		
Water		
Compensated absences	\$ 37,978	\$ 32,816
Capital leases	<u>126,580</u>	<u>141,452</u>
Total for water fund	<u>164,558</u>	<u>174,268</u>
Sewer		
Compensated absences	42,073	33,727
1981 sewer revenue bond	126,000	131,000
Economic bank loan	430,017	-
Capital leases	<u>149,178</u>	<u>171,059</u>
Total for sewer fund	<u>747,268</u>	<u>335,786</u>
Garbage		
Compensated absences	10,498	11,639
Capital leases	<u>-</u>	<u>29,952</u>
Total for garbage fund	<u>10,498</u>	<u>41,591</u>
Total business-type activities	<u>\$ 922,324</u>	<u>\$ 551,645</u>

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2008

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Until recently, the City has seen strong and continued economic growth through the recent downturns in the State and National economies. Patterson's diverse land use has helped to continue a growth pattern that has resulted in continued economic strength for the City and a strong housing market. A new trend has developed, which has seen a significant drop in housing prices and a significant raise in home foreclosures. The impact will be a drop in assessed property value and a corresponding drop in property tax revenue. This will be realized in 2009-10, and how long it will continue is uncertain. A good indicator is that the volume of sales is beginning to pick up.

Overall, the City appears to be in a favorable position to continue attracting jobs and retail establishments. While other cities in the County have experienced a decline in sales tax, Patterson's revenue continues to climb. This type of growth helps strengthen the City's tax base and increases the diversity of where revenues are generated.

This is the first year to notice a significant raise in the number of delinquent property tax payments. Regular tax collection will not be effected, since the City has agreed to participate in the Teeter Plan. The County forwards the proceeds of property taxes based on what is billed, not on what is collected (55% is remitted in December, 40% is April, and 5% in June).

This does not hold true for the collection of Mello Roos payments (which are attached to property tax bills, but are not part of the Teeter Plan). The City has engaged the services of legal counsel to improve collections. The process has been very successful. All but one delinquent account has been collected for 2006-07 year. The delinquent rate has decreased from 20% to fewer than 7% in 2007-08.

NEXT YEAR'S BUDGET

The following factors were taken into consideration during the preparation of the City's budget for the fiscal year 2008-2009.

The recently negotiated MOU with the City employees will increase salary and benefit costs. This, in addition to the creation of more positions, will impact the budget.

Increases in Public Employees Retirement System (PERS) costs for the safety bargaining unit, due to increased contractual employee benefits. The miscellaneous employees group has experienced a slight decline since 2006-07. That is expected to continue for the immediate future.

There is uncertainty with the State's budget crisis and how it affects the revenues of California cities. It seems that cities in general have been spared the worst of the State's reallocation plan. That holds true for this year, what will happen next year is uncertain.

An aging infrastructure for the City's sewer and water system is being addressed. A long range capital improvement plan (CIP) will be adopted in 2008-09. This will put funding and facility improvements in place. A significant impact is the need to increase utility rates over the next several years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this report should be directed to the City of Patterson, at 1 Plaza, Patterson, CA 95363.

CITY OF PATTERSON
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments (Note 3)	\$ 29,952,161	\$ 2,980,379	\$ 32,932,540
Receivables:			
Accounts	1,017,060	949,795	1,966,855
Interest	85,979	-	85,979
Notes and loans (Note 4)	4,164,995	-	4,164,995
Capital assets (Note 5):			
Capital assets, net of accumulated depreciation	<u>36,933,598</u>	<u>35,553,927</u>	<u>72,487,525</u>
TOTAL ASSETS	<u>72,153,793</u>	<u>39,484,101</u>	<u>111,637,894</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	950,001	200,197	1,150,198
Deposits	742,054	90,350	832,404
Accrued interest	85,979	3,600	89,579
Deferred revenue (Note 8)	21,440	-	21,440
Accrued compensated absences (Note 9):			
Due within one year	53,806	18,110	71,916
Due in more than one year	206,128	72,439	278,567
Long-term liabilities (Note 9):			
Due within one year	344,477	55,974	400,451
Due in more than one year	<u>3,078,227</u>	<u>775,801</u>	<u>3,854,028</u>
TOTAL LIABILITIES	<u>5,482,112</u>	<u>1,216,471</u>	<u>6,698,583</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	33,510,894	34,722,152	68,233,046
Unrestricted net assets	<u>33,160,787</u>	<u>3,545,478</u>	<u>36,706,265</u>
TOTAL NET ASSETS	<u>\$ 66,671,681</u>	<u>\$ 38,267,630</u>	<u>\$ 104,939,311</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 1,932,332	\$ 181,211	\$ 405,853	\$ 149,544	\$ (1,195,724)		\$ (1,195,724)
Police	2,855,203	144,492	136,485	28,213	(2,546,013)		(2,546,013)
Fire	1,373,809	141,656	204,049	104,918	(923,186)		(923,186)
Community development and planning	2,147,422	311,391	642,859	186,033	(1,007,139)		(1,007,139)
Public works	3,398,456	1,639,249	837,980	1,059,652	138,425		138,425
Parks and recreation	1,589,328	1,156,594	-	118,032	(314,702)		(314,702)
Interest on long term debt	98,518	-	-	-	(98,518)		(98,518)
Total governmental activities	<u>13,395,068</u>	<u>3,574,593</u>	<u>2,227,226</u>	<u>1,646,392</u>	<u>(5,946,857)</u>		<u>(5,946,857)</u>
Business-type activities:							
Water	1,985,340	3,157,170	-	-		1,171,830	1,171,830
Sewer	2,628,182	1,918,646	-	-		(709,536)	(709,536)
Garbage	1,767,936	1,694,244	-	-		(73,692)	(73,692)
Total business-type activities	<u>6,381,458</u>	<u>6,770,060</u>	<u>-</u>	<u>-</u>		<u>388,602</u>	<u>388,602</u>
Total primary government	<u>\$ 19,776,526</u>	<u>\$ 10,344,653</u>	<u>\$ 2,227,226</u>	<u>\$ 1,646,392</u>	<u>\$ (5,946,857)</u>	<u>\$ 388,602</u>	<u>\$ (5,558,255)</u>
General revenues:							
Taxes:							
Property tax					\$ 4,102,061	\$ -	\$ 4,102,061
Sales tax					1,429,651	-	1,429,651
Franchise tax					135,465	-	135,465
Motor vehicle in lieu					2,180,203	-	2,180,203
Other taxes					453,032	-	453,032
Use of money and property					1,080,252	146,300	1,226,552
Other revenue					160,298	-	160,298
Capital contributions					6,889,632	385,052	7,274,684
Transfers					(358,035)	358,035	-
Total general revenues and transfers					<u>16,072,559</u>	<u>889,387</u>	<u>16,961,946</u>
CHANGES IN NET ASSETS					<u>10,125,702</u>	<u>1,277,989</u>	<u>11,403,691</u>
NET ASSETS JULY 1, 2007					<u>56,545,979</u>	<u>36,989,641</u>	<u>93,535,620</u>
NET ASSETS - JUNE 30, 2008					<u>\$ 66,671,681</u>	<u>\$ 38,267,630</u>	<u>\$ 104,939,311</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	WWTP Construction	Developer Housing In- Lieu Fee	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and investments	\$ 12,956,327	\$ 4,362	\$ 1,551,393	\$ 15,440,079	\$ 29,952,161
Receivables:					
Accounts	676,011	-	-	341,049	1,017,060
Notes and loans	21,598	2,730,712	900,000	512,685	4,164,995
Due from other funds	<u>295,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,097</u>
TOTAL ASSETS	<u>\$ 13,949,033</u>	<u>\$ 2,735,074</u>	<u>\$ 2,451,393</u>	<u>\$ 16,293,813</u>	<u>\$ 35,429,313</u>
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 860,626	\$ -	\$ -	\$ 89,375	\$ 950,001
Due to other funds	-	-	-	295,097	295,097
Deferred revenue	21,440	2,553,879	900,000	290,000	3,765,319
Deposits	<u>693,627</u>	<u>-</u>	<u>-</u>	<u>48,427</u>	<u>742,054</u>
TOTAL LIABILITIES	<u>1,575,693</u>	<u>2,553,879</u>	<u>900,000</u>	<u>722,899</u>	<u>5,752,471</u>
FUND BALANCES					
Reserved for:					
Endowments	-	-	-	43,535	43,535
Unreserved: undesignated	<u>12,373,340</u>	<u>181,195</u>	<u>1,551,393</u>	<u>15,527,379</u>	<u>29,633,307</u>
TOTAL FUND BALANCES	<u>12,373,340</u>	<u>181,195</u>	<u>1,551,393</u>	<u>15,570,914</u>	<u>29,676,842</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,949,033</u>	<u>\$ 2,735,074</u>	<u>\$ 2,451,393</u>	<u>\$ 16,293,813</u>	<u>\$ 35,429,313</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
RECONCILIATION OF THE
BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 29,676,842

Amounts reported for governmental activities in the statement of net assets are different because:

CAPITAL ASSETS

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$4,620,805. 36,933,598

DEFERRED REVENUE

Revenue which are deferred in the fund financial statements because they are not currently available are recorded as revenue in the Statement of Activities. 3,743,879

LONG TERM ASSETS AND LIABILITIES

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Long term liabilities	(3,422,704)
Compensated absences	(259,934)
	<u>66,671,681</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 66,671,681**

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>WWTP Construction</u>	<u>Developer Housing In- Lieu Fee</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>					
Taxes					
Property	\$ 3,600,612	\$ -	\$ -	\$ 501,449	\$ 4,102,061
Sales	1,429,651	-	-	-	1,429,651
Franchise	135,465	-	-	-	135,465
Motor vehicle in lieu	2,180,203	-	-	-	2,180,203
Other	77,694	-	-	375,338	453,032
Licenses and permits	366,510	-	-	395,665	762,175
Charges for current services	993,576	-	-	2,712,394	3,705,970
Subvention and grants	892,318	-	169,036	1,780,225	2,841,579
Fines, forfeitures and penalties	138,487	-	-	-	138,487
From uses of money and property	418,400	81,066	51,093	529,693	1,080,252
Miscellaneous revenues	<u>110,122</u>	<u>-</u>	<u>-</u>	<u>50,176</u>	<u>160,298</u>
TOTAL REVENUES	<u>10,343,038</u>	<u>81,066</u>	<u>220,129</u>	<u>6,344,940</u>	<u>16,989,173</u>
<u>EXPENDITURES</u>					
General administration	1,614,607	-	-	33,972	1,648,579
Police	2,760,223	-	-	-	2,760,223
Fire	616,563	-	-	611,152	1,227,715
Community development and planning	1,817,351	-	3,099	255,537	2,075,987
Public works	1,291,755	-	-	1,599,745	2,891,500
Parks and recreation	1,196,074	-	-	-	1,196,074
Capital outlay	1,186,078	-	106,255	1,846,306	3,138,639
Debt service:					
Principal	104,073	172,449	-	55,210	331,732
Interest and fiscal charges	<u>7,392</u>	<u>81,066</u>	<u>-</u>	<u>10,060</u>	<u>98,518</u>
TOTAL EXPENDITURES	<u>10,594,116</u>	<u>253,515</u>	<u>109,354</u>	<u>4,411,982</u>	<u>15,368,967</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(251,078)</u>	<u>(172,449)</u>	<u>110,775</u>	<u>1,932,958</u>	<u>1,620,206</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Proceeds on capital leases	41,906	-	-	-	41,906
Proceeds from loan repayments	-	177,055	-	-	177,055
Transfers in	1,000,802	-	-	543,589	1,544,391
Transfers out	<u>(588)</u>	<u>-</u>	<u>-</u>	<u>(1,901,838)</u>	<u>(1,902,426)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,042,120</u>	<u>177,055</u>	<u>-</u>	<u>(1,358,249)</u>	<u>(139,074)</u>
NET CHANGES IN FUND BALANCE	<u>791,042</u>	<u>4,606</u>	<u>110,775</u>	<u>574,709</u>	<u>1,481,132</u>
FUND BALANCE - JULY 1, 2007	<u>11,582,298</u>	<u>176,589</u>	<u>1,440,618</u>	<u>14,996,205</u>	<u>28,195,710</u>
FUND BALANCE - JUNE 30, 2008	<u>\$12,373,340</u>	<u>\$ 181,195</u>	<u>\$ 1,551,393</u>	<u>\$ 15,570,914</u>	<u>\$ 29,676,842</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 1,481,132
Governmental funds report capital outlays as expenditures while governmental activities report depreciation as expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	1,329,209
Depreciation expense	(1,145,161)
Contributions of capital assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset contributions.	
	8,293,020
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Loan principal payments	172,449
Capital lease obligation principal payments	159,283
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, but has no effect on net assets	
Capital lease obligations entered into during the year	(41,905)
Receipts of payments and disbursements of funds related to notes and loans receivable are reported as revenues and expenditures, respectively, in governmental funds, but an increase and decrease, respectively, in notes receivable in the Statement of Net Assets	
Change in deferred revenue related to notes receivable in fund statements	(70,800)
Loans made during the year	(41,905)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	<u>(51,525)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 10,125,702</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>ASSETS</u>				
Current Assets				
Cash and investments	\$ 1,953,916	\$ 944,848	\$ 81,615	\$ 2,980,379
Accounts receivable	<u>381,469</u>	<u>447,714</u>	<u>120,612</u>	<u>949,795</u>
Total Current Assets	<u>2,335,385</u>	<u>1,392,562</u>	<u>202,227</u>	<u>3,930,174</u>
Fixed assets				
Land	2,877,956	2,867,641	-	5,745,597
Construction in progress	1,129,095	211,380	186,136	1,526,611
Infrastructure	5,917,473	27,877,745	-	33,795,218
Machinery and equipment	563,780	601,478	137,577	1,302,835
Less: accumulated depreciation	<u>(1,524,823)</u>	<u>(5,152,931)</u>	<u>(138,580)</u>	<u>(6,816,334)</u>
Total Fixed Assets	<u>8,963,481</u>	<u>26,405,313</u>	<u>185,133</u>	<u>35,553,927</u>
TOTAL ASSETS	<u>11,298,866</u>	<u>27,797,875</u>	<u>387,360</u>	<u>39,484,101</u>
<u>LIABILITIES</u>				
Current liabilities				
Accounts payable	58,691	135,616	5,890	200,197
Deposits payable	90,350	-	-	90,350
Accrued interest	-	3,600	-	3,600
Compensated absences, current portion	7,596	8,415	2,099	18,110
Long-term liabilities, current portion	<u>29,357</u>	<u>26,617</u>	<u>-</u>	<u>55,974</u>
Total Current Liabilities	<u>185,994</u>	<u>174,248</u>	<u>7,989</u>	<u>368,231</u>
Long-term liabilities				
Compensated absences	30,382	33,658	8,399	72,439
Long-term liabilities	<u>97,223</u>	<u>678,578</u>	<u>-</u>	<u>775,801</u>
Total Long-term Liabilities	<u>127,605</u>	<u>712,236</u>	<u>8,399</u>	<u>848,240</u>
TOTAL LIABILITIES	<u>313,599</u>	<u>886,484</u>	<u>16,388</u>	<u>1,216,471</u>
<u>NET ASSETS:</u>				
Invested in capital assets, net	8,836,901	25,700,118	185,133	34,722,152
Unrestricted	<u>2,148,366</u>	<u>1,211,273</u>	<u>185,839</u>	<u>3,545,478</u>
TOTAL NET ASSETS	<u>\$ 10,985,267</u>	<u>\$ 26,911,391</u>	<u>\$ 370,972</u>	<u>\$ 38,267,630</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>OPERATING REVENUES</u>				
Charges for services	\$ 3,157,170	\$ 1,918,169	\$ 1,694,244	\$ 6,769,583
Other	<u>-</u>	<u>477</u>	<u>-</u>	<u>477</u>
TOTAL OPERATING REVENUE	<u>3,157,170</u>	<u>1,918,646</u>	<u>1,694,244</u>	<u>6,770,060</u>
<u>OPERATING EXPENSES</u>				
Operations	1,685,660	1,682,648	1,754,141	5,122,449
Depreciation and amortization	<u>291,665</u>	<u>946,643</u>	<u>12,310</u>	<u>1,250,618</u>
TOTAL OPERATING EXPENDITURES	<u>1,977,325</u>	<u>2,629,291</u>	<u>1,766,451</u>	<u>6,373,067</u>
OPERATING INCOME (LOSS)	<u>1,179,845</u>	<u>(710,645)</u>	<u>(72,207)</u>	<u>396,993</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>				
Interest and rental revenue	102,832	32,126	11,342	146,300
Interest expense	<u>(8,015)</u>	<u>1,109</u>	<u>(1,485)</u>	<u>(8,391)</u>
TOTAL NON-OPERATING REVENUE	<u>94,817</u>	<u>33,235</u>	<u>9,857</u>	<u>137,909</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>1,274,662</u>	<u>(677,410)</u>	<u>(62,350)</u>	<u>534,902</u>
<u>CAPITAL CONTRIBUTIONS AND TRANSFERS</u>				
Capital contributions from developers	-	385,052	-	385,052
Transfers in	3,449,987	409,669	-	3,859,656
Transfers out	<u>(2,679,802)</u>	<u>(566,075)</u>	<u>(255,744)</u>	<u>(3,501,621)</u>
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>770,185</u>	<u>228,646</u>	<u>(255,744)</u>	<u>743,087</u>
CHANGES IN NET ASSETS	<u>2,044,847</u>	<u>(448,764)</u>	<u>(318,094)</u>	<u>1,277,989</u>
NET ASSETS - JULY 1, 2007	<u>8,940,420</u>	<u>27,360,155</u>	<u>689,066</u>	<u>36,989,641</u>
NET ASSETS - JUNE 30, 2008	<u>\$ 10,985,267</u>	<u>\$ 26,911,391</u>	<u>\$ 370,972</u>	<u>\$ 38,267,630</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Cash received from customers	\$ 3,216,819	\$ 1,721,841	\$ 1,696,805	\$ 6,635,465
Cash paid to suppliers	(1,036,277)	(1,144,839)	(1,614,441)	(3,795,557)
Cash paid to employees	<u>(636,573)</u>	<u>(415,046)</u>	<u>(162,085)</u>	<u>(1,213,704)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,543,969</u>	<u>161,956</u>	<u>(79,721)</u>	<u>1,626,204</u>
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>				
Principal payments on capital debt	(26,814)	(26,881)	(29,952)	(83,647)
Interest paid on capital debt	(8,015)	-	(1,485)	(9,500)
Proceeds from loan	-	430,017	-	430,017
Acquisition and construction of fixed assets	<u>(2,406,919)</u>	<u>(132,226)</u>	<u>(125,736)</u>	<u>(2,664,881)</u>
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>(2,441,748)</u>	<u>270,910</u>	<u>(157,173)</u>	<u>(2,328,011)</u>
<u>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Transfers in	3,449,987	409,669	-	3,859,656
Transfers out	<u>(2,679,802)</u>	<u>(566,075)</u>	<u>(255,744)</u>	<u>(3,501,621)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>770,185</u>	<u>(156,406)</u>	<u>(255,744)</u>	<u>358,035</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest earned	<u>102,832</u>	<u>33,235</u>	<u>11,342</u>	<u>147,409</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(24,762)</u>	<u>309,695</u>	<u>(481,296)</u>	<u>(196,363)</u>
CASH AND CASH EQUIVALENTS - JULY 1, 2007	<u>1,978,678</u>	<u>635,153</u>	<u>562,911</u>	<u>3,176,742</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2008	<u>\$ 1,953,916</u>	<u>\$ 944,848</u>	<u>\$ 81,615</u>	<u>\$ 2,980,379</u>

NON CASH SUPPLEMENTAL DISCLOSURE:

Acquisition of fixed assets through capital leases	\$ 11,942	\$ -	\$ -	\$ 11,942
Acquisition of fixed assets through contributed capital	\$ -	\$ 385,052	\$ -	\$ 385,052

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO</u>				
<u>NET CASH PROVIDED (USED) BY OPERATING</u>				
<u>ACTIVITIES:</u>				
Operating Income (Loss)	\$ 1,179,845	\$ (710,645)	\$ (72,207)	\$ 396,993
ADJUSTMENTS TO RECONCILE OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED (USED) BY				
OPERATING ACTIVITIES				
Depreciation expense	291,665	946,643	12,310	1,250,618
Loss on asset disposal	3,193	2,129	-	5,322
CHANGES IN ASSETS AND LIABILITIES:				
(Increase) Decrease in accounts receivable	51,149	(196,805)	2,562	(143,094)
Increase (Decrease) in accounts payable	4,455	112,288	(21,245)	95,498
Increase (Decrease) in customer deposits	8,500	-	-	8,500
Increase (Decrease) in compensated absences	<u>5,162</u>	<u>8,346</u>	<u>(1,141)</u>	<u>12,367</u>
NET CASH PROVIDED (USED) BY OPERATING				
ACTIVITIES	<u>\$ 1,543,969</u>	<u>\$ 161,956</u>	<u>\$ (79,721)</u>	<u>\$ 1,626,204</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	\$ 1,326,903
Restricted cash and investments	15,667,820
Accounts receivable	<u>45,040</u>
TOTAL ASSETS	\$ <u>17,039,763</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 148,572
Due to bondholders	<u>16,891,191</u>
TOTAL LIABILITIES	\$ <u>17,039,763</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Patterson (the City) operates under a Council-Manager form of government and provides the following services as authorized: public safety (police, fire and civil defense), highway and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services. The City also, provides water, garbage, and sewer service. In addition, the City Council sits as the Executive Board of the Patterson Redevelopment Agency. The City Manager acts as the Executive Director of that agency.

The accompanying basic financial statements present the financial activities of the City, which is the primary government presented, along with the financial activities of its component unit, which is an entity for which the City is financially accountable. Although it is a separate legal entity, the blended component unit is in substance part of the City's operations and is reported as an integral part of the City's financial statements. The City's component unit that is described below is blended.

Blended Component Unit: The Redevelopment Agency of the City of Patterson (the Agency) is a separate governmental entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency have been included in these financial statements in the Redevelopment Agency of the City of Patterson Special Revenue Fund. The Agency was established in 1997. A separate Annual Financial Report of the Agency is published and is available with the Agency Finance Director at the Agency's administrative office located at 1 Plaza, Patterson, CA 95363.

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 U.S.A.

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

Government-wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include the activities of the overall City government except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between governmental and business-type activities of the City. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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, are presented as general revenues.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements:

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories with each major fund displayed in a separate column. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

All remaining governmental funds are aggregated and reported as nonmajor funds in a single column, regardless of their fund type.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of financial resources for the payment of interest and principal on the general long-term liabilities of the City other than debt service payments made by enterprise funds.

Capital Project Funds - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by enterprise funds.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (not included in government-wide statements)

Agency Funds - Agency Funds are clearing type funds for the collection of taxes or deposits held in trust, on behalf of individuals, private organizations and other governments. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major Funds

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

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

WWTP Construction Fund - This fund accounts for the construction of a wastewater treatment plant, funded by developer fees.

Developer Housing In-Lieu Fee - This fund accounts for affordable housing. In-lieu of developers building affordable houses within their projects, they can pay the City a fee, per house. Those funds are used by the City for affordable housing projects such as the Senior Apartment complex under development.

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

Water Fund - This fund accounts for all financial transactions relating to the City's water service. Services are on a user charge basis to residents and business owners in Patterson.

Sewer Fund - This fund accounts for all financial transactions relating to the City's wastewater treatment collection and treatment. Services are on a user charge basis to residents and business owners located in Patterson.

Garbage Fund - This fund accounts for all financial transactions relating to the City's solid waste service. Services are on a user charge basis to residents and business owners located in Patterson.

The City also reports the following fund type:

Agency Funds - These funds are used to report resources held by the City in a purely custodial capacity, which involves only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. 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.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item "b" below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All Governmental Funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b. All Proprietary Funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

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 assets are available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, which do not conflict with Government Accounting Standards Board Pronouncements.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenues of the water, sewer, and garbage enterprise funds are charges to customers for sales and services. Revenues are based on cycle billing rendered to customers. All residential and commercial utility customers are billed once a month. There is one billing cycle per month that includes all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

The County of Stanislaus levies, bills, and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year or levy, due to the adoption of the "alternate method of property tax distribution", known as the Teeter Plan, by the City and the County of Stanislaus. The Teeter Plan authorizes the Auditor/Controller of the County of Stanislaus to allocate 100% of the secured property taxes billed, but not yet paid. The County of Stanislaus remits tax monies to the City in three installments as follows:

50% remitted in December
45% remitted in April
5% remitted in June

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County of Stanislaus for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

E. Cash and Investments

The City pools the cash of all funds, except for monies deposited with fiscal agent in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of a particular fund's equity in the pool, the pool operates like a demand deposit account for the participating funds.

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on month-end balances and is adjusted at fiscal year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

The City's investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. The Local Area Investment Fund (LAIF) determines the fair value of their portfolio quarterly and report a factor to the City; the City applies that factor to convert its share of LAIF from amortized cost to fair value. This amount is included in cash and cash equivalents in the balance sheet of the governmental funds. Changes in fair value are allocated to each participating fund.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents to be change and petty cash funds, equity in the City's cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Accounts and Interest Receivable

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines and other fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables.

G. Capital Assets

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

With the implementation of GASB Statement 34, the City has recorded all its public domain (infrastructure) capital assets, which include streets, bridges, roads, sidewalks, traffic lights, and parks.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings	20-40
Improvements	40
Machinery and equipment	3-6
Streets and roads	20
Curbs, gutters, sidewalks, and median curbs	20
Storm drains	75

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave and compensatory time off, which are accrued as earned. The City's liability for compensated absences is recorded in the government-wide Statement of Net Assets for governmental funds and the Statement of Net Assets for proprietary funds as appropriate. A liability is calculated for all the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary and related payroll costs are those in effect at June 30, 2008. The amount of accrued sick pay is not due upon termination and therefore is not recorded as a liability for the City.

I. Long Term Liabilities

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term liabilities, and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, including deferred refunding amounts and underwriters' discounts, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Interfund Transactions

Following is a description of the four basic types of interfund transactions made during the year and the related accounting policies:

1. Interfund services provided and used - transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.
2. Reimbursements (expenditure transfers) - transactions to reimburse a fund for specific expenditures incurred for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and a reduction of expenditures in the receiving fund.
3. Residual equity transfers - transactions recording equity contributions and distributions between funds. The receiving fund records such transactions as an addition to fund balance, if it is a Governmental Fund, or a capital contribution, if it is a Proprietary Fund. The disbursing fund records the transfer as a reduction of fund balance, retained earnings, or contributed capital.
4. Operating transfers - all other interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as operating transfers in and out.

Transactions between funds of the City are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds on the balance sheet of the governmental funds.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Equity Classifications

Government-wide Statements

Net Assets are the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three categories under GASB Statement 34. These categories apply only to Net Assets, which is determined at the Government-wide level, and are described below:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Reserve for low and moderate income housing is the portion of redevelopment fund balances legally restricted to be set aside for low and moderate income housing expenditures.

Reserve for special projects are set aside by management for future use in projects for the City.

Reserve for capital projects is the portion of fund balance to be used for construction within the various community facility districts of the City.

L. Use of Estimates

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

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2: BUDGET

A. Budgets and Budgetary Accounting

The following procedures are performed by the City in establishing the budgetary data reflected in the financial statements:

- 1) Prior to July 1, the City Manager submits to the City Council a proposed operating budget for the coming fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayers' comments.
- 3) The appropriated budget is prepared by fund, department, and division. The government department head may make transfers of appropriation within a department. Transfers of appropriations between departments requires approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.
- 4) The budget is legally adopted through the passage of a council resolution.
- 5) The City Council may amend the budget by resolution during the fiscal year. The City Manager may transfer appropriations from one program, activity, or object to another within the same fund. All appropriations lapse at the end of the fiscal year to the extent they have not been expended. Capital Project funds are based on a project time frame, rather than a fiscal year "operating" time frame reappropriating unused appropriations from year to year until project completion.
- 6) A budget review is presented to the City Council by the City Manager mid-year and approved additions or changes are legally adopted through Council resolution.
- 7) Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and the Capital Project Funds.
- 8) Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with United States generally accepted accounting principles.

B. Excess of Expenditures or Expense over Appropriations

The funds below incurred expenditures in excess of budgets in the amounts below. Sufficient resources were available in the General Fund to finance the excess.

<u>Fund</u>	<u>Amount</u>
WWTP Construction	\$ 253,515
Police Equipment	4,588
Patterson Gardens Fire Assessment District	802
Developer Housing In-lieu Fee	354

C. Fund Balance and Net Assets Deficits

The following funds had deficit fund balances at June 30, 2008:

<u>Fund</u>	<u>Deficit</u>
Federal CDBG Grant 2003	\$ 10,048
Federal HOME Funds	17,661
Water Impact Fee	163,600
Heartland Ranch Infrastructure	4,238

CITY OF PATTERSON
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 2: BUDGET (Continued)

D. Budget to Actual

With the exception of the General Fund the City prepares its budget based on the functions related to each source of revenue and stream of expenditures. As such, the City does not have budgetary comparisons for each of the major funds. The City has elected to present budget to actual comparisons for the General Fund as supplementary information, as required by GASB 34.

NOTE 3: CASH AND INVESTMENTS

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Unrestricted	Restricted	Total
Governmental activities	\$ 29,952,161	\$ -	\$ 29,952,161
Business-type activities	2,980,379	-	2,980,379
Total government-wide cash and investments	32,932,540	-	32,932,540
Fiduciary activities	1,326,903	15,667,820	16,994,723
Total cash and investments	\$ 34,259,443	\$ 15,667,820	\$ 49,927,263

Cash and investments are carried at fair value as of June 30, 2008 and consisted of the following:

Cash on hand	\$ 850
Deposits with financial institutions	1,757,656
Total cash	1,758,506
Money market mutual funds	22,611,529
Central San Joaquin Valley Risk Management Authority (CSJRMA)	2,959,697
Local Area Investment Fund (LAIF)	22,597,531
Total investments	48,168,757
Total cash and investments	\$ 49,927,263

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3: CASH AND INVESTMENTS (Continued)

Authorized Investments of the City

The table below identifies the investment types that are authorized by the City's investment policy. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Certificates of Deposit	2 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Money market Funds	N/A	None	None
Annuities	N/A	None	None
Mutual Funds	N/A	5%	None
Corporate Notes (Minimum rating of "AAA")	5 years	5%	None

Disclosure Relating to 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. One of the ways that the City's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity as of June 30, 2008:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
LAIF	\$ 22,597,531	\$ -	\$ 22,597,531
CSJRMA	2,959,697	-	2,959,697
Money market funds	6,943,709	-	6,943,709
Held by bond trustee:			
Money market funds	<u>15,667,820</u>	<u>-</u>	<u>15,667,820</u>
	<u>\$ 48,168,757</u>	<u>\$ -</u>	<u>\$ 48,168,757</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments that are highly sensitive to interest rate fluctuations.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3: CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, 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 minimum rating required by (where applicable) the California Government Code or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Minimum Legal Rating	Rating as of Fiscal Year End		
			S&P	Moody's	N/A
LAIF	\$ 22,597,531	N/A			Not rated
CSJRMA	2,959,697	N/A			Not rated
Money Market Funds Held by bond trustee:	6,943,709	N/A			Not rated
Money Market Funds	<u>15,667,820</u>	N/A	AAAm	Aaa	
	<u>\$ 48,168,757</u>				

Concentration of Credit Risk

The City complies with the limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. The City holds no investments in any one issuer (other than U.S. Treasury securities, external investment pools and mutual funds) that represent 5% or more of total City investment.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2008, the carrying amount of the City's deposits was \$1,757,656 and bank balances were \$2,515,878 of which \$300,000 was insured.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in these pools are reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4: LOANS AND NOTES RECEIVABLE

The City engages in programs designed to encourage business enterprises, construction or improvements in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, homeowners or developers who agree to spend these funds in accordance with the City's terms. Although these notes are expected to be repaid in full, their balance has been offset in the fund financial statements by a reservation of fund balance, as they are not expected to be repaid during the fiscal year 2009. These notes receivable comprised the following at June 30, 2008:

State Water Loan Letter of Credit	\$ 2,730,712
Housing Authority of the County of Stanislaus	290,000
Greater Valley Housing Development Corporation	900,000
Housing Rehabilitation and Affordable Housing	<u>244,283</u>
Total notes and loans receivable	<u>\$ 4,164,995</u>

State Water Loan Letter of Credit

The City borrowed \$3,783,532 from the State of California Water Resource Board in April 2000. The proceeds were used to expand the wastewater treatment plant. The City received security from KB Home by the way of a letter of credit for the principal and interest payments on the loan. The note bears interest of 2.5% per annum payable on February 1. The balance remaining on the note receivable was \$2,730,712 at June 30, 2008.

Housing Authority of the County of Stanislaus

The City has a 30-year note receivable with the Housing Authority of the County of Stanislaus in the amount of \$290,000. The note does not bear interest and principle payments are deferred for 30 years. The balance of this note has been offset by deferred revenue in the amount of \$290,000 in the fund financial statements.

Greater Valley Housing Development Corporation

On February 1, 2007 the City entered into a loan agreement with the Greater Valley Housing Development Corporation in the amount of \$900,000. There are no payments of principal and interest during the first three years of the initial term of this loan. As of June 30, 2008 the City had advanced the full amount of \$900,000 to the Greater Valley Housing Development Corporation. These funds are to be used to build a elderly housing project for low income senior citizens known as the "Las Palmas Place Senior Apartments". Funding for this loan is derived from developer fees collected over the past few years. The balance of this note has been offset by a related deferred revenue.

Housing Rehabilitation and Affordable Housing

The City has provided loans to various homeowners and businesses for rehabilitation. The loans have various interest rates and payment dates. The balance of these notes receivable at June 30, 2008 was \$244,283.

The government does not use the allowance for uncollectible method, as management has determined the loss of revenues from receivables to be immaterial. Any loss from uncollectible accounts is directly written off at the time of the loss.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5: CAPITAL ASSETS

Capital asset activity for the Governmental funds for the fiscal year ended June 30, 2008 was as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>June 30, 2008</u>
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 1,978,831	\$ -	\$ -	\$ -	\$ 1,978,831
Construction in progress	<u>1,897,581</u>	<u>476,067</u>	<u>-</u>	<u>(70,194)</u>	<u>2,303,454</u>
Total capital assets not being depreciated	<u>3,876,412</u>	<u>476,067</u>	<u>-</u>	<u>(70,194)</u>	<u>4,282,285</u>
Capital assets being depreciated					
Buildings	9,700,169	4,754,138	-	-	14,454,307
Improvements	6,340,248	3,165,847	-	-	9,506,095
Streets and roads	8,881,514	770,553	-	70,194	9,722,261
Equipment	<u>3,134,831</u>	<u>455,624</u>	<u>(1,000)</u>	<u>-</u>	<u>3,589,455</u>
Total capital assets being depreciated	<u>28,056,762</u>	<u>9,146,162</u>	<u>(1,000)</u>	<u>70,194</u>	<u>37,272,118</u>
Less: accumulated depreciation					
Buildings	(49,743)	(243,259)	-	-	(293,002)
Improvements	(853,012)	(303,447)	-	-	(1,156,459)
Streets and roads	(1,149,383)	(222,038)	-	-	(1,371,421)
Equipment	<u>(1,424,506)</u>	<u>(376,417)</u>	<u>1,000</u>	<u>-</u>	<u>(1,799,923)</u>
Total accumulated depreciation	<u>(3,476,644)</u>	<u>(1,145,161)</u>	<u>1,000</u>	<u>-</u>	<u>(4,620,805)</u>
Governmental activities capital assets, net	<u>\$28,456,530</u>	<u>\$ 8,477,068</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,933,598</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5: CAPITAL ASSETS (Continued)

Capital asset activity for the Business-type activities for the fiscal year ended June 30, 2008 was as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>June 30, 2008</u>
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 3,455,828	\$ 2,289,769	\$ -	\$ -	\$ 5,745,597
Construction in progress	<u>4,069,112</u>	<u>731,264</u>	<u>-</u>	<u>(3,273,765)</u>	<u>1,526,611</u>
Total capital assets not being depreciated	<u>7,524,940</u>	<u>3,021,033</u>	<u>-</u>	<u>(3,273,765)</u>	<u>7,272,208</u>
Capital assets being depreciated					
Infrastructure	30,521,453	-	-	3,273,765	33,795,218
Equipment	<u>1,306,988</u>	<u>40,842</u>	<u>(44,995)</u>	<u>-</u>	<u>1,302,835</u>
Total capital assets being depreciated	<u>31,828,441</u>	<u>40,842</u>	<u>(44,995)</u>	<u>3,273,765</u>	<u>35,098,053</u>
Less: accumulated depreciation					
Infrastructure	(5,009,624)	(1,136,935)	-	-	(6,146,559)
Equipment	<u>(595,765)</u>	<u>(113,683)</u>	<u>39,673</u>	<u>-</u>	<u>(669,775)</u>
Total accumulated depreciation	<u>(5,605,389)</u>	<u>(1,250,618)</u>	<u>39,673</u>	<u>-</u>	<u>(6,816,334)</u>
Business-type activities capital assets, net	<u>\$33,747,992</u>	<u>\$ 1,811,257</u>	<u>\$ (5,322)</u>	<u>\$ -</u>	<u>\$ 35,553,927</u>

Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities

General administration	\$ 175,503
Fire	103,847
Public works	513,714
Parks and recreation	<u>352,097</u>
Total governmental activities	<u>\$ 1,145,161</u>

Business-type Activities

Water	\$ 291,665
Sewer	946,643
Garbage	<u>12,310</u>
Total business-type activities	<u>\$ 1,250,618</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6: INTERFUND TRANSFERS

Transfer between funds during the fiscal year ended June 30, 2008 were as follows:

<u>Funds receiving transfers</u>	<u>Funds making transfers</u>	<u>Purpose</u>	<u>Amount transferred</u>
General fund	Public Safety CDF	Administrative costs	\$ 59,035
	Gas Tax	Street maintenance costs	294,641
	Senior Center	Administrative salaries	5,000
	Garbage	Administrative costs	255,744
	Sewer	Administrative costs	156,406
	Water	Administrative costs	229,976
Public Safety CFD	Patterson Gardens Fire Assessment District	Excess funds to Fire District	400,000
Abandoned Vehicle	General Fund	Abandoned vehicle abatement	588
CDBG Home Ownership	CDBG	First time homebuyers allocation	42,711
Affordable Housing	Redevelopment Agency	20% increment funding to set-aside	100,290
Future Water Acquisition	Water Capital	Costs from land acquisition	1,000,161
Water Operations	Water Capital	Prior year funds to operations	2,449,826
Sewer Operations	Sewer Capital	Prior year funds to operations	<u>409,669</u>
Total transfers			<u>\$ 5,404,047</u>

NOTE 7: OPERATING LEASES

Minimum future lease payments under non-cancelable operating leases for each of the next four years are:

<u>Fiscal year ended June 30,</u>	
2009	\$ 26,141
2010	25,491
2011	10,597
2012	<u>2,600</u>
Total	<u>\$ 64,829</u>

Rent expense for the fiscal year ending June 30, 2008 was \$46,928.

NOTE 8: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2008, the various components of deferred revenue and unearned revenue reported in the governmental funds was as follows:

State Water Loan Letter of Credit	\$ 2,553,879
Housing Authority of the County of Stanislaus	290,000
Greater Valley Housing Development Corporation	900,000
County of Stanislaus Baldwin Road Reimbursement	<u>21,440</u>
Total Deferred Revenue	<u>\$ 3,765,319</u>

Of the amount of deferred revenue in the governmental funds, \$3,743,879 was recognized as revenue in the Statement of Activities, leaving a balance of \$21,440 in the government-wide Statement of Net Assets.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9: LONG TERM LIABILITIES

The following is a summary of debt transactions of the City for the year ended June 30, 2008.

	<u>Original Issue Amount</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due within one year</u>
Governmental activities						
Compensated absences	\$ -	\$ 208,409	\$ 51,525	\$ -	\$ 259,934	\$ 53,806
State water resource loan	3,783,532	2,903,161	-	(172,449)	2,730,712	177,055
Capital leases	<u>792,492</u>	<u>809,370</u>	<u>41,905</u>	<u>(159,283)</u>	<u>691,992</u>	<u>167,422</u>
Total governmental activities	<u>\$ 4,576,024</u>	<u>\$ 3,920,940</u>	<u>\$ 93,430</u>	<u>\$ (331,732)</u>	<u>\$ 3,682,638</u>	<u>\$ 398,283</u>
Business-type activities						
Water						
Compensated absences	\$ -	\$ 32,816	\$ 5,162	\$ -	\$ 37,978	\$ 7,596
Capital leases	<u>144,521</u>	<u>141,452</u>	<u>11,942</u>	<u>(26,814)</u>	<u>126,580</u>	<u>29,357</u>
Total for Water fund	<u>144,521</u>	<u>174,268</u>	<u>17,104</u>	<u>(26,814)</u>	<u>164,558</u>	<u>36,953</u>
Sewer						
Compensated absences	-	33,727	8,346	-	42,073	8,415
Economic Bank Loan	430,017	-	430,017	-	430,017	-
1979 Sewer revenue bonds	250,000	131,000	-	(5,000)	126,000	8,000
Capital leases	<u>80,289</u>	<u>171,059</u>	<u>-</u>	<u>(21,881)</u>	<u>149,178</u>	<u>18,617</u>
Total for Sewer fund	<u>760,306</u>	<u>335,786</u>	<u>438,363</u>	<u>(26,881)</u>	<u>747,268</u>	<u>35,032</u>
Garbage						
Compensated absences	-	11,639	-	(1,141)	10,498	2,099
Capital leases	<u>310,453</u>	<u>29,952</u>	<u>-</u>	<u>(29,952)</u>	<u>-</u>	<u>-</u>
Total for Garbage fund	<u>310,453</u>	<u>41,591</u>	<u>-</u>	<u>(31,093)</u>	<u>10,498</u>	<u>2,099</u>
Total business-type activities	<u>\$ 1,215,280</u>	<u>\$ 551,645</u>	<u>\$ 455,467</u>	<u>\$ (84,788)</u>	<u>\$ 922,324</u>	<u>\$ 74,084</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9: LONG TERM LIABILITIES (Continued)

Governmental activities future debt obligations at June 30, 2008 consisted of the following:

State Water Resource Loan:

State Water Resource Board loan payable - original amount \$3,783,532, interest at 2.8% per annum payable February 1. Principal payable from developer reimbursements.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 177,055	\$ 76,460	\$ 253,515
2010	182,013	71,502	253,515
2011	187,109	66,406	253,515
2012	192,515	61,000	253,515
2013	197,739	55,777	253,516
2014 - 2018	1,075,021	192,554	1,267,575
2019 - 2023	<u>719,260</u>	<u>40,593</u>	<u>759,853</u>
Totals	\$ <u>2,730,712</u>	\$ <u>564,292</u>	\$ <u>3,295,004</u>

Capital Leases

Capital lease agreements for a phone system, fire truck and other vehicles and equipment.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 167,422	\$ 30,862	\$ 198,284
2010	140,507	22,873	163,380
2011	136,409	16,283	152,692
2012	96,400	9,813	106,213
2013	72,386	6,063	78,449
2014 - 2018	<u>78,868</u>	<u>4,839</u>	<u>83,707</u>
Totals	\$ <u>691,992</u>	\$ <u>90,733</u>	\$ <u>782,725</u>

Total Governmental Activities:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 344,477	\$ 107,322	\$ 451,799
2010	322,520	94,375	416,895
2011	323,518	82,689	406,207
2012	288,915	70,813	359,728
2013	270,125	61,840	331,965
2014 - 2018	1,153,889	197,393	1,351,282
2019 - 2023	<u>719,260</u>	<u>40,593</u>	<u>759,853</u>
Totals	\$ <u>3,422,704</u>	\$ <u>655,025</u>	\$ <u>4,077,729</u>

CITY OF PATTERSON
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 9: LONG TERM LIABILITIES (Continued)

Business type activities future debt obligations at June 30, 2008 consisted of the following:

1979 Sewer Revenue Bonds

1979 Sewer Bonds - original amount \$250,000, interest at 5% per annum payable January 1 and July 1. Bonds are payable from the revenue of the sewer system and mature on January 1 of each year through 2020.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 8,000	\$ 5,950	\$ 13,950
2010	8,000	5,550	13,550
2011	9,000	5,125	14,125
2012	9,000	4,675	13,675
2013	10,000	4,200	14,200
2014 - 2018	56,000	13,000	69,000
2019 - 2023	<u>26,000</u>	<u>1,025</u>	<u>27,025</u>
Totals	\$ <u>126,000</u>	\$ <u>39,525</u>	\$ <u>165,525</u>

Economic Bank Loan:

Economic Bank Loan from the County of Stanislaus- The City can borrow up to \$706,329 to fund economic development projects. The loan bears no interest and the first annual payment is due on July 1, 2012.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ -	\$ -
2010	-	-	-
2011	-	-	-
2012	100,000	-	100,000
2013	100,000	-	100,000
2014 - 2018	<u>230,017</u>	<u>-</u>	<u>230,017</u>
Totals	\$ <u>430,017</u>	\$ <u>-</u>	\$ <u>430,017</u>

Capital Leases

Capital lease agreements for a phone system, and other vehicles and equipment.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 47,974	\$ 12,610	\$ 60,584
2010	45,114	10,354	55,468
2011	47,209	8,255	55,464
2012	31,710	6,059	37,769
2013	33,114	4,655	37,769
2014 - 2018	<u>70,637</u>	<u>4,778</u>	<u>75,415</u>
Totals	\$ <u>275,758</u>	\$ <u>46,711</u>	\$ <u>322,469</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9: LONG TERM LIABILITIES (Continued)

Total Business-type Activities:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 55,974	\$ 18,560	\$ 74,534
2010	53,114	15,904	69,018
2011	56,209	13,380	69,589
2012	140,710	10,734	151,444
2013	143,114	8,855	151,969
2014 - 2018	356,654	17,778	374,432
2019 - 2023	<u>26,000</u>	<u>1,025</u>	<u>27,025</u>
Totals	\$ <u>831,775</u>	\$ <u>86,236</u>	\$ <u>918,011</u>

COMPENSATED ABSENCES

The net changes of the compensated absences were allocated to departments on the Statements of Activities as follows:

	<u>Total Current Portion</u>	<u>Long Term Portion</u>	<u>Total Compensated Absences</u>
Government Wide			
General government	\$ 10,704	\$ 41,005	\$ 51,709
Fire	15,359	58,840	74,199
Public works	7,943	30,431	38,374
Community development and planning	10,560	40,455	51,015
Parks and recreation	<u>9,240</u>	<u>35,397</u>	<u>44,637</u>
Total Government Wide	\$ <u>53,806</u>	\$ <u>206,128</u>	\$ <u>259,934</u>
Business-type Activities			
Water	\$ 7,596	\$ 30,382	\$ 37,978
Sewer	8,415	33,658	42,073
Garbage	<u>2,099</u>	<u>8,399</u>	<u>10,498</u>
Total Business-type Activities	\$ <u>18,110</u>	\$ <u>72,439</u>	\$ <u>90,549</u>

The General Fund has been used to liquidate compensated absences for the governmental funds.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City obtains insurance coverage.

Public entity risk pools are formally organized and separated entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influences by member municipalities beyond their representation of that board. Obligations and liabilities of these risk pools are not the City's responsibility.

Since 1986, the City has joined together with other cities to form a public entity risk pool known as the Central San Joaquin Valley Risk Management Authority - CSJVRMA (the Authority), a joint powers authority established in accordance with the California government code. The relationship between the City and the Authority is such that the Authority is not a component unit of the City for financial reporting purposes. Financial statements for the Authority may be obtained from the Authority's management.

The Authority is currently operating as a common risk management and insurance program for 54 member cities. The program's general objectives are to formulate, develop, and administer, on the behalf of the member cities, a program of insurance, to obtain lower cost for that coverage, and to develop a comprehensive loss control program. A member may withdraw from the Authority only by giving six months notice. Cities applying for membership in the Authority may do so on approval of a two-thirds vote of the board of the Authority.

The programs are an insurance pool provided through the deposits of the member cities. The Authority is not an insurance company. Liability coverage provided by the Authority is completely self-insured by its member cities, and all losses and related costs are paid for by those member cities. All losses and costs of the program are shared among the other member cities in the pool. Sharing is accomplished in this program by determining the amount of risk each member city brings to the pool. The individual city's share is expressed as a "relative risk" of the member. The Joint Powers Authority Agreement provides that the Authority will be self-sustaining through member premiums and assessments and will reinsure through commercial insurance products for claims in excess of \$500,000 per each insured event. Each city has a Self-Insured Retention (SIR) based on the risk of the City. This is the amount for which the city is self-insured. The City of Patterson's self-insured amount is \$25,000. If a claim exceeds the SIR of the member city, the amount that exceeds the SIR is paid by the various pool layers. The rate in which the city absorbs pooled claims is based on the "losses per \$100 of payroll."

NOTE 11: DEBT WITHOUT CITY COMMITMENT

Special assessment districts in various parts of the City have issued debt finance infrastructure improvements and facilities within their boundaries. The City is the collecting and paying agent for the debt issued by these Districts, but has not direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not included in the general long-term debt of the City. The outstanding balance of each of these issues is as follows:

Heartland Ranch Reassessment District	\$ 6,510,000
Community Facilities District No. 2001-1 Special Tax Bonds 2002-A	3,300,000
Community Facilities District No. 2001-1 Special Tax Bonds 2003-A	10,400,000
Community Facilities District No. 2001-1 Special Tax Bonds 2003-B	15,040,000
Community Facilities District No. 2001-1 Special Tax Bonds 2004-A	19,100,000
Community Facilities District No. 2001-1 Special Tax Bonds 2004-B	19,890,000
Community Facilities District No. 2001-1 Special Tax Anticipation Note 2007-A	<u>4,810,000</u>
Total	<u>\$ 79,050,000</u>

CITY OF PATTERSON
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 12: CALIFORNIA PUBLIC EMPLOYEES RETIREMENT PLAN

Plan Description:

City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service; one year of credited service is equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect for the year ended June 30, 2008, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	55
Monthly benefits, as a % of annual salary	3%	2.7%
Required employee contribution rates	9%	8%
Required employer contribution rates	23.78%	15.33%
Actuarially required contributions	\$46,877	\$306,771

Three-Year Trend Information for CALPERS:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 242,563	100 %	-
June 30, 2007	\$ 769,677	100 %	-
June 30, 2008	\$ 353,648	100 %	-

Required Supplementary Information - Safety Plan**

<u>Valuation Date</u>	<u>(1) Entry Age Actuarial Liability</u>	<u>(2) Actuarial Value of Assets</u>	<u>(3) Unfunded Liability (Excess Assets) (1) - (2)</u>	<u>(4) Funded Status (2) / (1)</u>	<u>(5) Annual Covered Payroll</u>	<u>(6) Unfunded Actuarial Liability as a percentage of Covered Payroll ((1) - (2)) / (5)</u>
June 30, 2004	\$ 5,383,921,942	\$ 4,424,586,846	\$ (959,335,096)	82.2 %	\$ 575,296,434	166.8 %
June 30, 2005	\$ 6,367,049,264	\$ 5,295,150,375	\$(1,071,898,889)	83.2 %	\$ 664,147,796	161.4 %
June 30, 2006	\$ 7,278,049,834	\$ 6,102,615,567	\$(1,175,434,267)	83.8 %	\$ 754,730,438	155.7 %

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12: CALIFORNIA PUBLIC EMPLOYEES RETIREMENT PLAN (Continued)

Required Supplementary Information - Miscellaneous Plan Pooled**

<u>Valuation Date</u>	(1) Entry Age Actuarial Accrued Liability	(2) Actuarial Value of Assets	(3) Unfunded Liability (Excess Assets) (1) - (2)	(4) Funded Status (2) / (1)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Liability as a percentage of Covered Payroll ((1) - (2)) / (5)
June 30, 2004	\$ 681,517,006	\$ 580,960,891	\$ 100,556,115	85.2 %	\$160,107,449	62.8 %
June 30, 2005	\$ 872,346,612	\$ 729,556,809	\$ 142,789,803	83.6 %	\$203,995,039	70.0 %
June 30, 2006	\$ 1,280,157,040	\$ 1,069,546,974	\$ 210,610,066	83.5 %	\$304,898,179	69.1 %

**A new State law authorized the creation of risk pools by PERS and required mandatory participation of small employers to help reduce large fluctuations in their contribution rates. As an employer with less than 100 active members, the City is now required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is no longer available.

NOTE 13: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. During the past year, the employees contributed \$55,931. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

NOTE 14: POST RETIREMENT BENEFITS OTHER THAN RETIREMENT

The City provides health care benefits for 2 retired employees and their spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement age of 50 and have a minimum of five years of service working for the City. The cost of the retiree health care benefits is recognized as an expenditure as health care premiums are paid. For the year ending June 30, 2008, those costs totaled \$9,130.

NOTE 15: SUBSEQUENT EVENTS

Other Post Employment Benefits

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The basic premise of the statement is that other postemployment benefits (OPEB) are earned by employees and should be recognized by the employer as the employee provides services. GASB 45 requires employers to account for and report the annual cost of OPEB and the outstanding obligations and commitments related to them in the same manner as they currently do for pensions. The City will be required to implement GASB No. 45 in the fiscal year beginning July 1, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PATTERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
GENERAL FUND
JUNE 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Taxes				
Property	\$ 2,955,100	\$ 2,955,100	\$ 3,600,612	\$ 645,512
Sales	1,345,000	1,345,000	1,429,651	84,651
Franchise	100,000	100,000	135,465	35,465
Motor vehicle in lieu	1,807,000	1,807,000	2,180,203	373,203
Other	136,600	136,600	77,694	(58,906)
Licenses and permits	635,355	635,355	366,510	(268,845)
Charges for current services	1,577,232	1,577,232	993,576	(583,656)
Subvention and grants	1,044,352	1,044,352	892,318	(152,034)
Fines, forfeitures and penalties	128,100	128,100	138,487	10,387
From uses of money and property	354,000	354,000	418,400	64,400
Miscellaneous revenues	<u>58,200</u>	<u>58,200</u>	<u>110,122</u>	<u>51,922</u>
TOTAL REVENUES	<u>10,140,939</u>	<u>10,140,939</u>	<u>10,343,038</u>	<u>202,099</u>
<u>EXPENDITURES</u>				
General administration	1,773,719	1,773,719	1,614,607	159,112
Police	2,654,095	2,654,095	2,760,223	(106,128)
Fire	643,484	643,484	616,563	26,921
Community development and planning	2,229,961	2,229,961	1,817,351	412,610
Public works	840,292	840,292	1,291,755	(451,463)
Parks and recreation	1,184,928	1,184,928	1,196,074	(11,146)
Capital outlay	-	-	1,186,078	(1,186,078)
Debt service:				
Principal	104,073	104,073	104,073	-
Interest and fiscal charges	<u>6,637</u>	<u>6,637</u>	<u>7,392</u>	<u>(755)</u>
TOTAL EXPENDITURES	<u>9,437,189</u>	<u>9,437,189</u>	<u>10,594,116</u>	<u>(1,156,927)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>703,750</u>	<u>703,750</u>	<u>(251,078)</u>	<u>1,359,026</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds on capital leases	-	-	41,906	41,906
Transfers in	1,584,899	1,584,899	1,000,802	(584,097)
Transfers out	<u>(125,000)</u>	<u>(125,000)</u>	<u>(588)</u>	<u>124,412</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,459,899</u>	<u>1,459,899</u>	<u>1,042,120</u>	<u>(417,779)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 2,163,649</u>	<u>\$ 2,163,649</u>	<u>791,042</u>	<u>\$ 941,247</u>
FUND BALANCE - JULY 1, 2007			<u>11,582,298</u>	
FUND BALANCE - JUNE 30, 2008			<u>\$ 12,373,340</u>	

SUPPLEMENTARY INFORMATION

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Landscaping Assessment Districts</u>	<u>Benefit Assessment Districts</u>	<u>CSA #15 Assessment District</u>	<u>Patterson Gardens Fire Suppression Assessment</u>	<u>Public Safety</u>
<u>ASSETS</u>					
Cash and investments	\$ 1,356,248	\$ 732,653	\$ 41,064	\$ 47,968	\$ 777,534
Receivables:					
Accounts	68,476	23,725	132	18,443	39,848
Notes and loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,424,724</u>	<u>\$ 756,378</u>	<u>\$ 41,196</u>	<u>\$ 66,411</u>	<u>\$ 817,382</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 62,568	\$ 6,586	\$ 234	\$ -	\$ 2,963
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>62,568</u>	<u>6,586</u>	<u>234</u>	<u>-</u>	<u>2,963</u>
FUND BALANCES (DEFICITS):					
Reserved for:					
Endowments	-	-	-	-	-
Unreserved: undesignated	<u>1,362,156</u>	<u>749,792</u>	<u>40,962</u>	<u>66,411</u>	<u>814,419</u>
TOTAL FUND BALANCES (DEFICITS)	<u>1,362,156</u>	<u>749,792</u>	<u>40,962</u>	<u>66,411</u>	<u>814,419</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 1,424,724</u>	<u>\$ 756,378</u>	<u>\$ 41,196</u>	<u>\$ 66,411</u>	<u>\$ 817,382</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>West Patterson Business Park</u>	<u>Beautification Committee</u>	<u>CDBG HA Loan Fund</u>	<u>State HCD Rehab Program</u>	<u>Federal CDBG Grant 2003</u>
<u>ASSETS</u>					
Cash and investments	\$ 1,472,205	\$ 39,915	\$ -	\$ 128,558	\$ -
Receivables:					
Accounts	-	-	-	-	5,156
Notes and loans	<u>-</u>	<u>-</u>	<u>293,489</u>	<u>19,711</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,472,205</u>	<u>\$ 39,915</u>	<u>\$ 293,489</u>	<u>\$ 148,269</u>	<u>\$ 5,156</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 1,500	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	15,204
Deferred revenue	-	-	290,000	-	-
Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,500</u>	<u>-</u>	<u>290,000</u>	<u>-</u>	<u>15,204</u>
FUND BALANCES (DEFICITS):					
Reserved for:					
Endowments	-	32,000	-	-	-
Unreserved: undesignated	<u>1,470,705</u>	<u>7,915</u>	<u>3,489</u>	<u>148,269</u>	<u>(10,048)</u>
TOTAL FUND BALANCES (DEFICITS)	<u>1,470,705</u>	<u>39,915</u>	<u>3,489</u>	<u>148,269</u>	<u>(10,048)</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 1,472,205</u>	<u>\$ 39,915</u>	<u>\$ 293,489</u>	<u>\$ 148,269</u>	<u>\$ 5,156</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>First Time Home Buyers</u>	<u>Federal HOME Funds</u>	<u>Police Equipment</u>	<u>Gas Tax</u>	<u>Local Transportation Fund</u>
<u>ASSETS</u>					
Cash and investments	\$ 39,344	\$ -	\$ 2,786	\$ -	\$ 365,893
Receivables:					
Accounts	-	-	-	126,672	31,396
Notes and loans	<u>199,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 238,829</u>	<u>\$ -</u>	<u>\$ 2,786</u>	<u>\$ 126,672</u>	<u>\$ 397,289</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	17,661	-	-	-
Deferred revenue	-	-	-	-	-
Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>17,661</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS):					
Reserved for:					
Endowments	-	-	-	-	-
Unreserved: undesignated	<u>238,829</u>	<u>(17,661)</u>	<u>2,786</u>	<u>126,672</u>	<u>397,289</u>
TOTAL FUND BALANCES (DEFICITS)	<u>238,829</u>	<u>(17,661)</u>	<u>2,786</u>	<u>126,672</u>	<u>397,289</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 238,829</u>	<u>\$ -</u>	<u>\$ 2,786</u>	<u>\$ 126,672</u>	<u>\$ 397,289</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Abandoned Vehicle Abatement</u>	<u>Street Project</u>	<u>Redevelopment Agency</u>	<u>Affordable Housing</u>	<u>Storm Drain Impact Fee</u>
<u>ASSETS</u>					
Cash and investments	\$ -	\$ 397,766	\$ 834,325	\$ 376,656	\$ 2,486,944
Receivables:					
Accounts	-	-	27,201	-	-
Notes and loans	-	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 397,766</u>	<u>\$ 861,526</u>	<u>\$ 376,656</u>	<u>\$ 2,486,944</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ -	\$ 1,003	\$ 5,648	\$ -	\$ -
Due to other funds	-	-	98,632	-	-
Deferred revenue	-	-	-	-	-
Deposits	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>1,003</u>	<u>104,280</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS):					
Reserved for:					
Endowments	-	-	-	-	-
Unreserved: undesignated	-	396,763	757,246	376,656	2,486,944
TOTAL FUND BALANCES (DEFICITS)	<u>-</u>	<u>396,763</u>	<u>757,246</u>	<u>376,656</u>	<u>2,486,944</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ -</u>	<u>\$ 397,766</u>	<u>\$ 861,526</u>	<u>\$ 376,656</u>	<u>\$ 2,486,944</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Westside Drainage Study</u>	<u>2004 WWTP Expansion</u>	<u>Senior Center</u>	<u>Community Facility Impact Fee</u>	<u>General Government Impact Fee</u>
<u>ASSETS</u>					
Cash and investments	\$ 61,278	\$ 83,749	\$ 50,464	\$ 1,150,737	\$ 578,793
Receivables:					
Accounts	-	-	-	-	-
Notes and loans	-	-	-	-	-
TOTAL ASSETS	<u>\$ 61,278</u>	<u>\$ 83,749</u>	<u>\$ 50,464</u>	<u>\$ 1,150,737</u>	<u>\$ 578,793</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 1,663	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Deposits	-	-	1,250	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>2,913</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS):					
Reserved for:					
Endowments	-	-	11,535	-	-
Unreserved: undesignated	<u>61,278</u>	<u>83,749</u>	<u>36,016</u>	<u>1,150,737</u>	<u>578,793</u>
TOTAL FUND BALANCES (DEFICITS)	<u>61,278</u>	<u>83,749</u>	<u>47,551</u>	<u>1,150,737</u>	<u>578,793</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 61,278</u>	<u>\$ 83,749</u>	<u>\$ 50,464</u>	<u>\$ 1,150,737</u>	<u>\$ 578,793</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Public Safety Impact Fee</u>	<u>Parkland In- Lieu Fee</u>	<u>Street Improvement Impact Fee</u>	<u>Water Impact Fee</u>	<u>Sewer Impact Fee</u>
<u>ASSETS</u>					
Cash and investments	\$ 777,425	\$ 15,000	\$ 2,364,145	\$ -	\$ 391,989
Receivables:					
Accounts	-	-	-	-	-
Notes and loans	-	-	-	-	-
TOTAL ASSETS	<u>\$ 777,425</u>	<u>\$ 15,000</u>	<u>\$ 2,364,145</u>	<u>\$ -</u>	<u>\$ 391,989</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 1,800	\$ -	\$ 3,230	\$ -	\$ -
Due to other funds	-	-	-	163,600	-
Deferred revenue	-	-	-	-	-
Deposits	-	-	-	-	-
TOTAL LIABILITIES	<u>1,800</u>	<u>-</u>	<u>3,230</u>	<u>163,600</u>	<u>-</u>
FUND BALANCES (DEFICITS):					
Reserved for:					
Endowments	-	-	-	-	-
Unreserved: undesignated	<u>775,625</u>	<u>15,000</u>	<u>2,360,915</u>	<u>(163,600)</u>	<u>391,989</u>
TOTAL FUND BALANCES (DEFICITS)	<u>775,625</u>	<u>15,000</u>	<u>2,360,915</u>	<u>(163,600)</u>	<u>391,989</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 777,425</u>	<u>\$ 15,000</u>	<u>\$ 2,364,145</u>	<u>\$ -</u>	<u>\$ 391,989</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Delta Mendota Storm Gate</u>	<u>Aquatic Center Construction</u>	<u>Future Water Acquisition</u>	<u>Heartland Ranch Infrastructure</u>	<u>Total Non-major Governmental Funds</u>
ASSETS					
Cash and investments	\$ 156,883	\$ 58,020	\$ 608,798	\$ 42,939	\$ 15,440,079
Receivables:					
Accounts	-	-	-	-	341,049
Notes and loans	-	-	-	-	512,685
	<u>156,883</u>	<u>58,020</u>	<u>608,798</u>	<u>42,939</u>	<u>16,293,813</u>
TOTAL ASSETS	\$ 156,883	\$ 58,020	\$ 608,798	\$ 42,939	\$ 16,293,813
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 2,180	\$ -	\$ 89,375
Due to other funds	-	-	-	-	295,097
Deferred revenue	-	-	-	-	290,000
Deposits	-	-	-	47,177	48,427
	<u>-</u>	<u>-</u>	<u>2,180</u>	<u>47,177</u>	<u>722,899</u>
TOTAL LIABILITIES	-	-	2,180	47,177	722,899
FUND BALANCES (DEFICITS):					
Reserved for:					
Endowments	-	-	-	-	43,535
Unreserved: undesignated	<u>156,883</u>	<u>58,020</u>	<u>606,618</u>	<u>(4,238)</u>	<u>15,527,379</u>
TOTAL FUND BALANCES (DEFICITS)	156,883	58,020	606,618	(4,238)	15,570,914
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 156,883	\$ 58,020	\$ 608,798	\$ 42,939	\$ 16,293,813

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Landscaping Assessment Districts</u>	<u>Benefit Assessment Districts</u>	<u>CSA #15 Assessment District</u>	<u>Patterson Gardens Fire Suppression Assessment</u>	<u>Public Safety</u>
REVENUES					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Charges for current services	1,220,274	473,093	17,086	291,565	655,987
Subvention and grants	-	-	-	-	-
From uses of money and property	50,525	28,421	1,268	12,222	14,788
Miscellaneous revenues	-	-	-	-	-
TOTAL REVENUES	<u>1,270,799</u>	<u>501,514</u>	<u>18,354</u>	<u>303,787</u>	<u>670,775</u>
EXPENDITURES					
General administration	-	-	-	-	-
Fire	-	-	-	20,802	590,350
Public works	1,217,047	347,767	-	-	-
Community Development	-	-	15,482	-	-
Capital outlay	8,343	-	-	-	38,150
Debt service:					
Principal	55,210	-	-	-	-
Interest and fiscal charges	10,060	-	-	-	-
TOTAL EXPENDITURES	<u>1,290,660</u>	<u>347,767</u>	<u>15,482</u>	<u>20,802</u>	<u>628,500</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(19,861)</u>	<u>153,747</u>	<u>2,872</u>	<u>282,985</u>	<u>42,275</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	400,000
Transfers out	-	-	-	(400,000)	(59,035)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,000)</u>	<u>340,965</u>
NET CHANGE IN FUND BALANCE	<u>(19,861)</u>	<u>153,747</u>	<u>2,872</u>	<u>(117,015)</u>	<u>383,240</u>
FUND BALANCE (DEFICIT) - JULY 1, 2007	<u>1,382,017</u>	<u>596,045</u>	<u>38,090</u>	<u>183,426</u>	<u>431,179</u>
FUND BALANCE (DEFICIT) - JUNE 30, 2008	<u>\$ 1,362,156</u>	<u>\$ 749,792</u>	<u>\$ 40,962</u>	<u>\$ 66,411</u>	<u>\$ 814,419</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>West Patterson Business Park</u>	<u>Beautification Committee</u>	<u>CDBG HA Loan</u>	<u>State HCD Rehab Program</u>	<u>Federal CDBG Grant 2003</u>
<u>REVENUES</u>					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Charges for current services	40,742	-	-	-	-
Subvention and grants	-	-	-	-	64,640
From uses of money and property	51,753	1,331	-	4,655	-
Miscellaneous revenues	-	1,525	-	-	-
TOTAL REVENUES	<u>92,495</u>	<u>2,856</u>	<u>-</u>	<u>4,655</u>	<u>64,640</u>
<u>EXPENDITURES</u>					
General administration	-	-	-	-	-
Fire	-	-	-	-	-
Public works	31,352	1,432	-	-	-
Community Development	-	-	-	-	19,468
Capital outlay	327,396	-	-	-	275
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>358,748</u>	<u>1,432</u>	<u>-</u>	<u>-</u>	<u>19,743</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(266,253)</u>	<u>1,424</u>	<u>-</u>	<u>4,655</u>	<u>44,897</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(42,711)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,711)</u>
NET CHANGE IN FUND BALANCE	<u>(266,253)</u>	<u>1,424</u>	<u>-</u>	<u>4,655</u>	<u>2,186</u>
FUND BALANCE (DEFICIT) - JULY 1, 2007	<u>1,736,958</u>	<u>38,491</u>	<u>3,489</u>	<u>143,614</u>	<u>(12,234)</u>
FUND BALANCE (DEFICIT) - JUNE 30, 2008	<u>\$ 1,470,705</u>	<u>\$ 39,915</u>	<u>\$ 3,489</u>	<u>\$ 148,269</u>	<u>\$ (10,048)</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>First Time Home Buyers</u>	<u>Federal HOME Funds</u>	<u>Police Equipment</u>	<u>Gas Tax</u>	<u>Local Transportation Fund</u>
<u>REVENUES</u>					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	375,338	-
Licenses and permits	-	-	-	-	-
Charges for current services	-	-	-	-	-
Subvention and grants	-	-	-	-	89,014
From uses of money and property	3,092	(66)	-	7,587	10,413
Miscellaneous revenues	-	-	-	-	-
TOTAL REVENUES	<u>3,092</u>	<u>(66)</u>	<u>-</u>	<u>382,925</u>	<u>99,427</u>
<u>EXPENDITURES</u>					
General administration	-	-	-	-	-
Fire	-	-	-	-	-
Public works	-	-	-	-	2,147
Community Development	-	21,621	-	-	-
Capital outlay	-	-	44,588	-	9,374
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>21,621</u>	<u>44,588</u>	<u>-</u>	<u>11,521</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>3,092</u>	<u>(21,687)</u>	<u>(44,588)</u>	<u>382,925</u>	<u>87,906</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	42,711	-	-	-	-
Transfers out	-	-	-	(294,641)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>42,711</u>	<u>-</u>	<u>-</u>	<u>(294,641)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>45,803</u>	<u>(21,687)</u>	<u>(44,588)</u>	<u>88,284</u>	<u>87,906</u>
FUND BALANCE (DEFICIT) - JULY 1, 2007	<u>193,026</u>	<u>4,026</u>	<u>47,374</u>	<u>38,388</u>	<u>309,383</u>
FUND BALANCE (DEFICIT) - JUNE 30, 2008	<u>\$ 238,829</u>	<u>\$ (17,661)</u>	<u>\$ 2,786</u>	<u>\$ 126,672</u>	<u>\$ 397,289</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Abandoned Vehicle Abatement</u>	<u>Street Project</u>	<u>Redevelopment Agency</u>	<u>Affordable Housing</u>	<u>Storm Drain Impact Fee</u>
<u>REVENUES</u>					
Taxes					
Property	\$ -	\$ -	\$ 501,449	\$ -	\$ -
Other	-	-	-	-	-
Licenses and permits	-	-	-	-	230,387
Charges for current services	-	-	-	-	-
Subvention and grants	18,987	679,295	-	-	-
From uses of money and property	-	1,358	20,363	14,160	78,140
Miscellaneous revenues	-	-	-	-	-
TOTAL REVENUES	<u>18,987</u>	<u>680,653</u>	<u>521,812</u>	<u>14,160</u>	<u>308,527</u>
<u>EXPENDITURES</u>					
General administration	19,575	-	-	-	-
Fire	-	-	-	-	-
Public works	-	-	-	-	-
Community Development	-	-	147,237	411	-
Capital outlay	-	384,855	-	-	3,009
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>19,575</u>	<u>384,855</u>	<u>147,237</u>	<u>411</u>	<u>3,009</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(588)</u>	<u>295,798</u>	<u>374,575</u>	<u>13,749</u>	<u>305,518</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	588	-	-	100,290	-
Transfers out	-	-	(100,290)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>588</u>	<u>-</u>	<u>(100,290)</u>	<u>100,290</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>295,798</u>	<u>274,285</u>	<u>114,039</u>	<u>305,518</u>
FUND BALANCE (DEFICIT) - JULY 1, 2007	<u>-</u>	<u>100,965</u>	<u>482,961</u>	<u>262,617</u>	<u>2,181,426</u>
FUND BALANCE (DEFICIT) - JUNE 30, 2008	<u>\$ -</u>	<u>\$ 396,763</u>	<u>\$ 757,246</u>	<u>\$ 376,656</u>	<u>\$ 2,486,944</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Westside Drainage Study</u>	<u>2004 WWTP Expansion</u>	<u>Senior Center</u>	<u>Community Facility Impact Fee</u>	<u>General Government Impact Fee</u>
<u>REVENUES</u>					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-
Licenses and permits	-	-	-	23,622	-
Charges for current services	-	-	10,788	-	-
Subvention and grants	-	-	-	-	81,073
From uses of money and property	-	-	1,865	39,339	18,264
Miscellaneous revenues	-	-	48,651	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>61,304</u>	<u>62,961</u>	<u>99,337</u>
<u>EXPENDITURES</u>					
General administration	-	-	-	-	-
Fire	-	-	-	-	-
Public works	-	-	-	-	-
Community Development	-	-	11,485	-	-
Capital outlay	-	-	3,415	43,988	60,427
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>14,900</u>	<u>43,988</u>	<u>60,427</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>46,404</u>	<u>18,973</u>	<u>38,910</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	-	-	-
Transfers out	-	-	(5,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>41,404</u>	<u>18,973</u>	<u>38,910</u>
FUND BALANCE (DEFICIT) - JULY 1, 2007	<u>61,278</u>	<u>83,749</u>	<u>6,147</u>	<u>1,131,764</u>	<u>539,883</u>
FUND BALANCE (DEFICIT) - JUNE 30, 2008	<u>\$ 61,278</u>	<u>\$ 83,749</u>	<u>\$ 47,551</u>	<u>\$ 1,150,737</u>	<u>\$ 578,793</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Public Safety Impact Fee</u>	<u>Parkland In- Lieu Fee</u>	<u>Street Improvement Impact Fee</u>	<u>Water Impact Fee</u>	<u>Sewer Impact Fee</u>
<u>REVENUES</u>					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-
Licenses and permits	141,656	-	-	-	-
Charges for current services	-	-	-	-	-
Subvention and grants	28,213	3,831	181,093	376,412	146,838
From uses of money and property	30,461	-	79,378	-	9,766
Miscellaneous revenues	-	-	-	-	-
TOTAL REVENUES	<u>200,330</u>	<u>3,831</u>	<u>260,471</u>	<u>376,412</u>	<u>156,604</u>
<u>EXPENDITURES</u>					
General administration	-	-	-	14,397	-
Fire	-	-	-	-	-
Public works	-	-	-	-	-
Community Development	-	-	-	-	-
Capital outlay	772,138	-	150,348	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>772,138</u>	<u>-</u>	<u>150,348</u>	<u>14,397</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(571,808)</u>	<u>3,831</u>	<u>110,123</u>	<u>362,015</u>	<u>156,604</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(571,808)</u>	<u>3,831</u>	<u>110,123</u>	<u>362,015</u>	<u>156,604</u>
FUND BALANCE (DEFICIT) - JULY 1, 2007	<u>1,347,433</u>	<u>11,169</u>	<u>2,250,792</u>	<u>(525,615)</u>	<u>235,385</u>
FUND BALANCE (DEFICIT) - JUNE 30, 2008	<u>\$ 775,625</u>	<u>\$ 15,000</u>	<u>\$ 2,360,915</u>	<u>\$ (163,600)</u>	<u>\$ 391,989</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Delta Mendota Storm Gate</u>	<u>Aquatic Center Construction</u>	<u>Future Water Acquisition</u>	<u>Heartland Ranch Infrastructure</u>	<u>Total Non-major Governmental Funds</u>
<u>REVENUES</u>					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ 501,449
Other	-	-	-	-	375,338
Licenses and permits	-	-	-	-	395,665
Charges for current services	-	-	2,859	-	2,712,394
Subvention and grants	-	103,940	6,889	-	1,780,225
From uses of money and property	5,240	-	45,370	-	529,693
Miscellaneous revenues	-	-	-	-	50,176
TOTAL REVENUES	<u>5,240</u>	<u>103,940</u>	<u>55,118</u>	<u>-</u>	<u>6,344,940</u>
<u>EXPENDITURES</u>					
General administration	-	-	-	-	33,972
Fire	-	-	-	-	611,152
Public works	-	-	-	-	1,599,745
Community Development	-	-	39,833	-	255,537
Capital outlay	-	-	-	-	1,846,306
Debt service:					
Principal	-	-	-	-	55,210
Interest and fiscal charges	-	-	-	-	10,060
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>39,833</u>	<u>-</u>	<u>4,411,982</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>5,240</u>	<u>103,940</u>	<u>15,285</u>	<u>-</u>	<u>1,932,958</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	-	-	543,589
Transfers out	-	-	(1,000,161)	-	(1,901,838)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(1,000,161)</u>	<u>-</u>	<u>(1,358,249)</u>
NET CHANGE IN FUND BALANCE	<u>5,240</u>	<u>103,940</u>	<u>(984,876)</u>	<u>-</u>	<u>574,709</u>
FUND BALANCE (DEFICIT) - JULY 1, 2007	<u>151,643</u>	<u>(45,920)</u>	<u>1,591,494</u>	<u>(4,238)</u>	<u>14,996,205</u>
FUND BALANCE (DEFICIT) - JUNE 30, 2008	<u>\$ 156,883</u>	<u>\$ 58,020</u>	<u>\$ 606,618</u>	<u>\$ (4,238)</u>	<u>\$ 15,570,914</u>

CITY OF PATTERSON
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	West Patterson Financing Authority	Heartland Ranch 2002	Total
<u>ASSETS</u>			
Cash and investments	\$ 226,457	\$ 1,100,446	\$ 1,326,903
Restricted cash and investments	15,284,374	383,446	15,667,820
Accounts receivable	-	45,040	45,040
TOTAL ASSETS	\$ 15,510,831	\$ 1,528,932	\$ 17,039,763
<u>LIABILITIES</u>			
Accounts payable	\$ 145,822	\$ 2,750	\$ 148,572
Due to bondholders	15,365,009	1,526,182	16,891,191
TOTAL LIABILITIES	\$ 15,510,831	\$ 1,528,932	\$ 17,039,763

**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**

Honorable Mayor and Members of the City Council
City of Patterson
Patterson, California

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Patterson (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents and have issued our report thereon dated October 24, 2008. 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.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City of Patterson in a separate letter dated October 24, 2008.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sacramento, California
October 24, 2008