

CITY OF PATTERSON CALIFORNIA



THE CITY OF PATTERSON
THE APRICOT CAPITAL OF THE WORLD



Financial Statements
With
Independent Auditor's Report
For the Year Ended
June 30, 2011

CITY OF PATTERSON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011
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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, 2011, 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 17, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The Redevelopment Agency of the City of Patterson is a major component unit of the City. The effects of this legislation are uncertain pending the results of lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012 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 and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Patterson's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular, A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Mark Venturi, CPA". The signature is written in a cursive, flowing style.

Sacramento, California
January 27, 2012

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

As management of the City of Patterson (the City), we offer readers of the City's basic financial statements this narrative overview and analysis of the financial activities of the City as of and for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the accompanying Independent Auditor's Report, the basic financial statements, and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year ended June 30, 2011 include the following:

Government-wide:

- The City's total net assets were \$114,897,202 as of June 30, 2011. Of this total, \$65,797,822 were governmental net assets and \$49,099,380 were business-type net assets.
- Government-wide revenues include program revenues of \$6,904,248 and general revenues and transfers of \$5,773,302, for a total of \$12,677,550.
- Government-wide expenses were \$13,432,683.
- Business-type program revenues, general revenues, and transfers were \$9,106,088 while business-type expenses and transfers were \$7,307,700.

Fund Level:

- Governmental fund balances decreased \$2,559,585 in fiscal year 2011.
- Governmental fund revenues increased \$192,214 in fiscal year 2011.
- Governmental fund expenditures decreased \$714,329 in fiscal year 2011.

General Fund:

- General Fund revenues of \$6,691,357 were \$612,967 lower than the prior year.
- General Fund expenditures of \$8,529,230 represented a decrease of \$946,154 over the prior year.
- General Fund balance of \$10,574,592 as of June 30, 2011, decreased by \$430,849 from 2010 fiscal year's fund balance of \$11,005,441.

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, 2011

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 three major governmental funds in addition to the General Fund: the Landscape Maintenance District fund, the WWTP Construction fund, and the Street Project 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 include 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 59, as required by GASB No. 34.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

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, 2011

| | <u>Governmental Activities 2011</u> | <u>Governmental Activities 2010</u> |
|---|---|---|
| <u>ASSETS</u> | | |
| Cash and investments | \$ 23,184,128 | \$ 24,182,142 |
| Other assets | 5,462,888 | 6,887,633 |
| Capital assets, net | <u>44,101,353</u> | <u>41,911,375</u> |
| TOTAL ASSETS | <u>72,748,369</u> | <u>72,981,150</u> |
| <u>LIABILITIES</u> | | |
| Long-term liabilities | 4,501,235 | 4,186,211 |
| Other liabilities | <u>2,449,312</u> | <u>1,943,622</u> |
| TOTAL LIABILITIES | <u>6,950,547</u> | <u>6,129,833</u> |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 41,633,066 | 39,108,419 |
| Restricted | 5,875,879 | 5,129,667 |
| Unrestricted | <u>18,288,877</u> | <u>27,742,898</u> |
| TOTAL NET ASSETS | <u>\$ 65,797,822</u> | <u>\$ 71,980,984</u> |

The City's governmental net assets amounted to \$65,797,822 as of June 30, 2011, a decrease of \$6,183,162 over 2010. This decrease 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, 2011 comprised the following:

Cash and investments totaled \$23,184,128. 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 \$1,713,146 of current receivables and loans receivable of \$3,719,480 that are due over longer periods of time as explained in Note 4. \$30,262 consisted of interfund receivables.

Capital assets of \$44,101,353 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, totaled \$1,893,039.

Compensated absences payable to employees were \$255,680, as explained in Note 9 to the financial statements.

Long-term liabilities of \$4,501,235 consisted of \$2,333,541 related to the City's other postemployment benefits, and \$2,167,694 of long-term liabilities.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

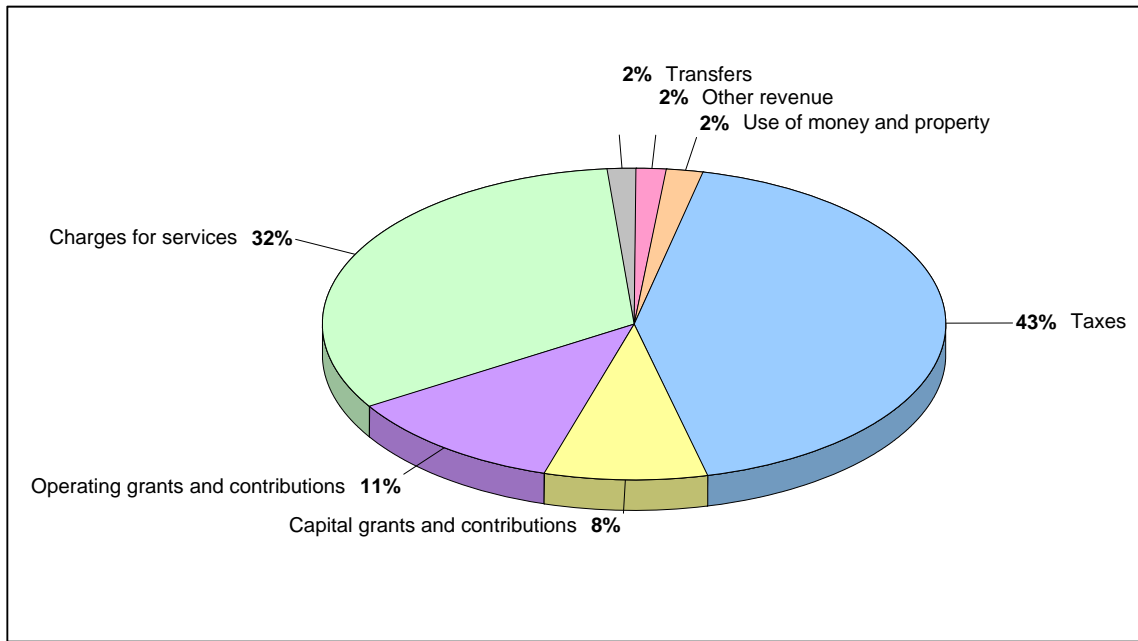
Invested in capital assets, net of related debt, of \$41,633,066, representing the City's investment in capital assets used in governmental activities, net of amounts borrowed to finance those investments.

Restricted net assets of \$5,875,879 was comprised of \$1,086,752 restricted for grants; \$122,651 restricted for code enforcement; \$152,933 restricted for debt service; \$196,513 restricted for capital projects; \$2,899,559 restricted for taxes, fees, and assessments; and \$1,417,471 restricted for redevelopment.

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 \$18,288,877 as of June 30, 2011.

Governmental Activities

Sources of Revenues

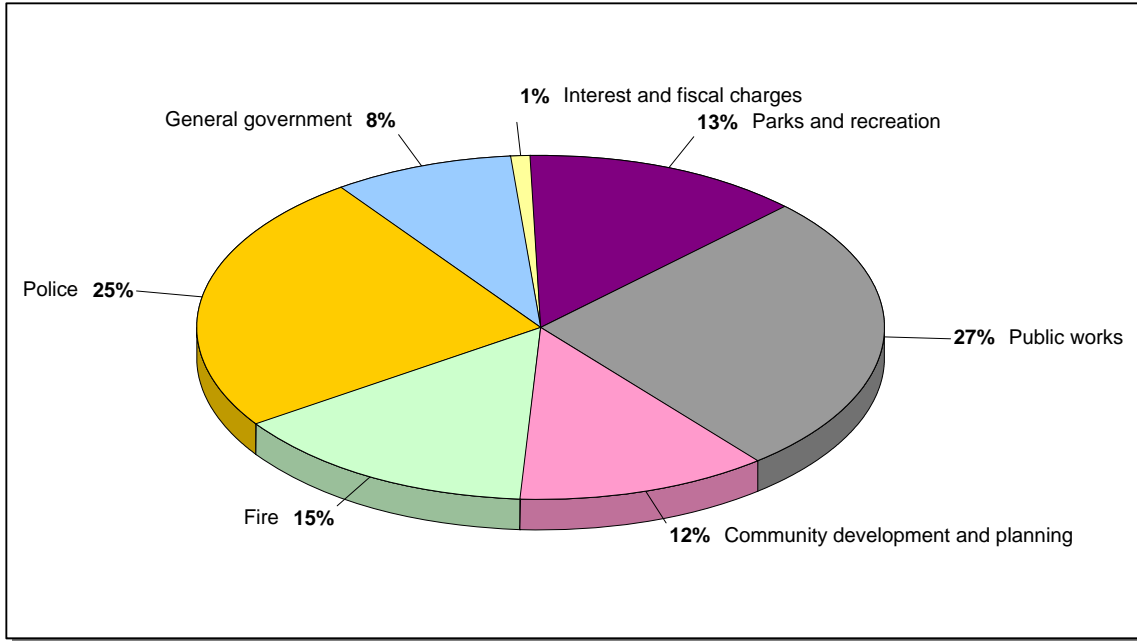


As the Governmental Activities Sources of Revenue chart above shows, \$5,620,687, or 43% of the City's fiscal year 2011 governmental activities revenue came from taxes, while \$4,278,351, or 32% came from charges for services, \$1,111,481 or 8%, came from capital grants and contributions, \$1,514,416 or 11% came from operating grants and 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, 2011

Governmental Activities

Functional Expenses



The Governmental Activities 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 was \$1,137,344, or 8%, of total governmental expenses, community development and planning was \$1,585,362, or 12%, police was \$3,305,964, or 25%, fire was \$1,957,740, or 15%, public works was \$3,564,561, or 27%, parks and recreation was \$1,755,783, or 13%, and interest on long-term liabilities was 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, 2011

Table 2
CHANGE IN GOVERNMENTAL NET ASSETS

| | <u>Governmental Activities 2011</u> | <u>Governmental Activities 2010</u> |
|------------------------------------|---|---|
| <u>EXPENSES</u> | | |
| General government | \$ 1,137,344 | \$ 2,048,675 |
| Police | 3,305,964 | 2,943,414 |
| Fire | 1,957,740 | 2,031,411 |
| Community development and planning | 1,585,362 | 3,094,621 |
| Public works | 3,564,561 | 4,336,645 |
| Parks and recreation | 1,755,783 | 1,794,052 |
| Interest and fiscal charges | <u>125,929</u> | <u>21,599</u> |
| TOTAL EXPENSES | <u>13,432,683</u> | <u>16,270,417</u> |
| <u>REVENUES</u> | | |
| Program revenues | | |
| Charges for services | 4,278,351 | 4,973,799 |
| Operating grants and contributions | 1,514,416 | 886,004 |
| Capital grants and contributions | <u>1,111,481</u> | <u>4,951,831</u> |
| Total program revenues | <u>6,904,248</u> | <u>10,811,634</u> |
| General revenues | | |
| Taxes | 5,620,687 | 5,703,147 |
| Use of money and property | 251,643 | 242,411 |
| Other | <u>(99,028)</u> | <u>1,084,467</u> |
| Total general revenues | <u>5,773,302</u> | <u>7,030,025</u> |
| TOTAL REVENUES | <u>12,677,550</u> | <u>17,841,659</u> |
| CHANGES IN NET ASSETS | <u>\$ (755,133)</u> | <u>\$ 1,571,242</u> |

As Table 2 above shows, \$6,904,248 or 54%, of the City's fiscal year 2011 governmental revenue, came from program revenues and \$5,773,302, or 46%, came from general revenues such as taxes and interest and transfers. Program revenues were composed of charges for services of \$4,278,351, which included permit revenues, fees and charges used to fund expenses incurred in providing services; \$1,514,416 of operating grants and contributions, which included housing and police grants; and capital grants and contributions of \$1,111,481, that consisted mainly of American Recovery and Reinvestment Act funding for Hwy. 33 / 'M' Street realignment and capital contributions for other minor projects.

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

The decrease in expenditures of approximately 17% is partly due to the reduction in personnel costs, reduced capital to other entities and a reduction of 'due-to' transfers of capital contributions in current year (Water Fund). The decrease in program revenues is partly due to a significant reduction of capital contributions that occurred in FY 2010 related to the Community Center. The decrease in taxes is related to a reduction in property values and sales tax, and the increase in use of money and property is due to an increase in investment returns.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

Table 3 presents the net expense or revenue of each of the City's governmental activities, including interest on long-term liabilities. Net expense is defined as total program cost less the revenues generated by those specific activities. The increase in net (expense) revenues in community development and planning, as well as the decrease in net (expense) revenues in public works relates to the capital contributions the City has received. In the prior year, the City received a larger capital contribution related to public works; however, in the current year, capital contributions related to community development and planning.

Table 3
GOVERNMENTAL ACTIVITIES

| | Net (Expense) Revenues from Services 2011 | Net (Expense) Revenues from Services 2010 |
|------------------------------------|--|--|
| | <u>2011</u> | <u>2010</u> |
| General government | \$ (729,712) | \$ (1,365,400) |
| Police | (2,725,539) | (2,481,984) |
| Fire | (1,438,352) | (1,261,088) |
| Community development and planning | (998,742) | 2,010,113 |
| Public works | (195,488) | (1,950,541) |
| Parks and recreation | (314,673) | (388,284) |
| Interest and fiscal charges | <u>(125,929)</u> | <u>(21,599)</u> |
| Total | <u>\$ (6,528,435)</u> | <u>\$ (5,458,783)</u> |

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

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, 2011

| | <u>Business-type 2011</u> | <u>Business-type 2010</u> |
|--|-------------------------------|-------------------------------|
| <u>ASSETS</u> | | |
| Cash and investments | \$ 9,855,324 | \$ 2,021,288 |
| Other assets | 1,433,432 | 1,059,078 |
| Capital assets, net | <u>54,874,976</u> | <u>52,464,725</u> |
| TOTAL ASSETS | <u>66,163,732</u> | <u>55,545,091</u> |
| <u>LIABILITIES</u> | | |
| Long-term liabilities | 15,093,871 | 5,339,547 |
| Other liabilities | <u>1,970,481</u> | <u>2,904,552</u> |
| TOTAL LIABILITIES | <u>17,064,352</u> | <u>8,244,099</u> |
| <u>NET ASSETS</u> | | |
| Invested in capital, net of related debt | 40,214,015 | 47,602,499 |
| Restricted | 6,393,524 | 1,614,098 |
| Unrestricted | <u>2,491,841</u> | <u>(1,915,605)</u> |
| TOTAL NET ASSETS | <u>\$ 49,099,380</u> | <u>\$ 47,300,992</u> |

The net assets of business-type activities increased by \$1,798,388 in fiscal year 2011. The increase of cash and investments of \$7,834,036 and increase in long-term liabilities of \$9,754,324 was primarily due to the issuance of water revenue bonds (see footnote 9 for more information). The decrease in other liabilities of \$934,071 was primarily due to the decrease in 'due-to' other funds, specifically the Water Fund as seen in FY 2010. Capital assets increased by 5% primarily due to completion of the old town utility project and the corporation yard, and construction in progress of various water and sewer projects.

Table 5
CHANGE IN BUSINESS-TYPE NET ASSETS

| | <u>2011</u> | <u>2010</u> |
|--------------|---------------------|-------------------|
| Water | \$ 1,509,832 | \$ 1,235,585 |
| Sewer | 290,518 | (591,863) |
| Garbage | <u>(1,962)</u> | <u>(37,969)</u> |
| Total | <u>\$ 1,798,388</u> | <u>\$ 605,753</u> |

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

ANALYSIS OF MAJOR FUNDS

Governmental Funds

General Fund

General Fund revenues decreased \$612,967 this fiscal year due to the drop in property tax, sales tax, motor vehicle in lieu fees, and investment income. Actual revenues were over budgeted by \$376,428. Tax revenues decreased \$111,199 as assessed values dropped significantly.

General Fund expenditures were \$8,529,230 a decrease of \$946,154 from the prior year. Expenditures decreased due to the City cutting back on overall costs and activities from the prior year, in addition to equipment and legal cost reductions.

As of June 30, 2011, the General Fund's fund balance totaled \$10,574,592. The unassigned portion of the fund balances represents available liquid resources.

Landscape Maintenance District

This fund accounts for assessments and costs related to the maintenance of parks and streetscapes. The fund's fiscal year end fund balance was \$1,218,989.

Street Project Fund

This fund accounts for fees received from various State and Federal funding sources. The City uses the funds for street projects such as: Hwy 33 / 'M' Street realignment, signalization and intersection improvements for vehicle and pedestrian traffic, and other street repairs, maintenance and improvements. The fund's fiscal year end fund deficit of \$95,147 represents funds that have not yet been received from State or Federal sources.

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 was \$196,513. The project is complete.

Proprietary Funds

Water Fund

Operating revenues decreased by \$90,304 in fiscal year 2011 and operating expenses increased by \$452,379 resulting in operating income of \$922,428. Revenue decrease is due to decrease in water usage resulting from the City's water conservation program. Increase in water expenses results from the 1st debt service payment of Water Revenue Bonds 2010.

The fund's net assets increased by \$1,509,832 primarily related to the completion of old town utility project and the new corporation yard, to a new total of \$22,034,296. Of this amount, \$14,709,783 was invested in capital assets, net of related debt and \$6,071,589 was restricted for debt services.

Sewer Fund

Operating revenues decreased \$121,653 to \$2,505,838. Operating expenses increased by \$254,914. The fund's net assets increased by \$290,518 in fiscal year 2011. The majority of the increase came from additional customer base and sewer rate increase.

As of June 30, 2011, the fund's net assets were \$26,883,206, of which \$25,308,499 was invested in capital assets, net of related debt, \$321,935 was restricted, and \$1,252,772 was unrestricted.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

ANALYSIS OF MAJOR FUNDS (continued)

Garbage Fund

Operating revenues increased by \$169,353 to \$1,953,379. Operating expenses increased by \$93,477. The change in net assets of the Garbage Fund resulted in a decrease of \$1,962 in fiscal year 2011. This decrease came from increased operational costs.

As of June 30, 2011, the fund's net assets were \$181,878, of which \$195,733 was invested in capital assets, net of related debt and \$13,855 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 2011, 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 2011, the cost of infrastructure and other capital assets recorded on the City's financial statements is as shown in Table 6 and 7 below:

Table 6
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS AT JUNE 30,

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Governmental Activities | | |
| Capital assets not being depreciated | | |
| Land | \$ 2,768,831 | \$ 2,768,831 |
| Construction in progress | 5,961,158 | 2,394,505 |
| Total capital assets not being depreciated | 8,729,989 | 5,163,336 |
| Capital assets being depreciated | | |
| Buildings | 19,018,959 | 18,873,959 |
| Improvements | 10,448,760 | 10,335,838 |
| Streets and roads | 11,128,099 | 11,049,361 |
| Equipment | 4,181,647 | 4,168,264 |
| Total capital assets not being depreciated | 44,777,465 | 44,427,422 |
| Less: accumulated depreciation | | |
| Buildings | (1,489,830) | (1,017,226) |
| Improvements | (2,630,163) | (2,119,854) |
| Streets and roads | (2,161,242) | (1,887,860) |
| Equipment | (3,124,866) | (2,654,443) |
| Total accumulated depreciation | (9,406,101) | (7,679,383) |
| Governmental activities capital assets, net | \$ 44,101,353 | \$ 41,911,375 |

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

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

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Business-type Activities | | |
| Capital assets not being depreciated | | |
| Land | \$ 5,745,597 | \$ 5,745,597 |
| Construction in progress | 7,455,346 | 10,071,084 |
| Total capital assets not being depreciated | 13,200,943 | 15,816,681 |
| Capital assets being depreciated | | |
| Infrastructure | 51,630,637 | 45,073,280 |
| Equipment | 1,509,080 | 1,335,494 |
| Total capital assets being depreciated | 53,139,717 | 46,408,774 |
| Less: accumulated depreciation | | |
| Infrastructure | (10,533,353) | (8,935,008) |
| Equipment | (932,331) | (825,722) |
| Total accumulated depreciation | (11,465,684) | (9,760,730) |
| Business-type activities capital assets, net | \$ 54,874,976 | \$ 52,464,725 |

Governmental capital assets increased 5%. Business-type capital assets increased 5% primarily due to current year capital contributions. 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, 2011

DEBT ADMINISTRATION

During 2011, the City issued a new bond to cover sewer CIP costs. 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

| | 2011 | 2010 |
|---------------------------------------|----------------------|---------------------|
| Governmental activities | | |
| Compensated absences | \$ 255,680 | \$ 252,574 |
| State water resources loan | 2,184,535 | 2,371,644 |
| Capital leases | 283,752 | 431,312 |
| Total governmental activities | \$ 2,723,967 | \$ 3,055,530 |
| Business-type activities | | |
| Water | | |
| Compensated absences | \$ 58,324 | \$ 55,764 |
| 2011 water revenue bond | 9,830,000 | - |
| Capital leases | 44,600 | 71,404 |
| Total for water fund | 9,932,924 | 127,168 |
| Sewer | | |
| Compensated absences | 56,054 | 52,775 |
| Economic bank loan | 665,186 | 652,144 |
| State revolving fund loan | 841,624 | 774,790 |
| 1979 sewer bonds | 104,000 | 113,000 |
| 2009 sewer bonds | 3,085,000 | 3,140,000 |
| Capital leases | 90,551 | 110,888 |
| Total for sewer fund | 4,842,415 | 4,843,597 |
| Garbage | | |
| Compensated absences | 11,331 | 10,501 |
| Total for garbage fund | 11,331 | 10,501 |
| Total business-type activities | \$ 14,786,670 | \$ 4,981,266 |

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2011

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Although Patterson has felt the impact of the recent downturns in the state and national economies over the past three years, the economic outlook for the City is very hopeful. Patterson has seen a significant drop in housing prices and a significant increase in home foreclosures, resulting in a drop in assessed property values and a corresponding drop in property tax revenue. However, this drop in values appears to have leveled off, and major new commercial and industrial developments in the City will bring significant increases in assessed valuation over the next two years.

Overall, the City appears to be in a favorable position to continue attracting jobs and retail establishments. Sales tax revenues have trended higher over the past year. New retail establishments such as the Wal Mart Supercenter, O'Reilly Auto Parts and an Arco service station and mini mart are coming on board over the next 12 months. Each will add to the City's sales tax base.

Patterson is establishing itself as a prime location for the distribution and logistics industry, with several major national and international corporations operating distribution facilities in the Keystone Business Park. These facilities are bringing good paying jobs to the community and should result in other types of economic development in the future.

Once again, there have been a number of delinquent property tax payments. Regular tax collections will not be affected, 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% in April, and 5% in June).

NEXT YEAR'S BUDGET

The following factors were taken into consideration during the preparation of the City's budget for the fiscal year 2011-2012.

The memorandum of understanding (MOU) with the largest bargaining unit of City employees had a termination date of June 30, 2011. Meetings were held throughout 2011 to revisit the MOU agreement. A 3% cost of living increase was imposed along with a vacation cash out option and other various changes to the MOU.

The City continues to keep a watchful eye on the Legislature and Governor's Office in Sacramento, as we attempt to determine the local impacts of the State's budget. While the City's General Fund appears to have been spared the worst of the State's reallocation plan, the recent Supreme Court decision to eliminate redevelopment agencies will be very harmful to the City's efforts to reduce blight and stimulate new economic growth in older parts of Patterson.

An aging infrastructure for the City's sewer and water system is being addressed. A long range capital improvement plan has been adopted that will put funding and facility improvements in place. The City has now completed a Proposition 218 compliant rate increase procedure that will provide moderate water and sewer rate increases over time that will fund necessary maintenance and upgrades to these critical systems.

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, 2011

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------|
| <u>ASSETS</u> | | | |
| Cash and investments (Note 3) | \$ 23,184,128 | \$ 3,461,800 | \$ 26,645,928 |
| Receivables: | | | |
| Accounts | 1,624,514 | 819,658 | 2,444,172 |
| Interest | 88,632 | 2,454 | 91,086 |
| Notes and loans (Note 4) | 3,719,480 | - | 3,719,480 |
| Internal balances | 30,262 | (30,262) | - |
| Restricted cash and investments (Note 3) | - | 6,393,524 | 6,393,524 |
| Deferred charges, net of amortization | - | 611,320 | 611,320 |
| Capital assets (Note 5): | | | |
| Capital assets, net of accumulated depreciation | <u>44,101,353</u> | <u>54,874,976</u> | <u>98,976,329</u> |
| Total Assets | <u>72,748,369</u> | <u>66,133,470</u> | <u>138,881,839</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable and accrued liabilities | 1,122,886 | 1,270,971 | 2,393,857 |
| Deposits | 677,697 | 104,050 | 781,747 |
| Accrued interest | 71,016 | 3,669 | 74,685 |
| Deferred revenue (Note 8) | 21,440 | - | 21,440 |
| Other postemployment benefits (Note 15) | | | |
| Due in more than one year | 2,333,541 | 868,730 | 3,202,271 |
| Accrued compensated absences (Note 9): | | | |
| Due within one year | 255,680 | 125,709 | 381,389 |
| Long-term liabilities (Note 9): | | | |
| Due within one year | 300,593 | 435,820 | 736,413 |
| Due in more than one year | <u>2,167,694</u> | <u>14,225,141</u> | <u>16,392,835</u> |
| Total Liabilities | <u>6,950,547</u> | <u>17,034,090</u> | <u>23,984,637</u> |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | 41,633,066 | 40,214,015 | 81,847,081 |
| Restricted for: | | | |
| Capital projects | 196,513 | - | 196,513 |
| Debt service | 152,933 | 6,393,524 | 6,546,457 |
| Grants, taxes, and fees | <u>5,526,433</u> | <u>-</u> | <u>5,526,433</u> |
| Total restricted net assets | <u>5,875,879</u> | <u>46,607,539</u> | <u>94,116,484</u> |
| Unrestricted net assets | <u>18,288,877</u> | <u>2,491,841</u> | <u>20,780,718</u> |
| Total Net Assets | <u>\$ 65,797,822</u> | <u>\$ 49,099,380</u> | <u>\$ 114,897,202</u> |

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

CITY OF PATTERSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

| <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 | \$ 1,137,344 | \$ 132,150 | \$ 130,482 | \$ 145,000 | \$ (729,712) | \$ - | \$ (729,712) |
| Police | 3,305,964 | 445,911 | 134,514 | - | (2,725,539) | - | (2,725,539) |
| Fire | 1,957,740 | 327,501 | - | 191,887 | (1,438,352) | - | (1,438,352) |
| Community development and planning | 1,585,362 | 228,818 | 357,802 | - | (998,742) | - | (998,742) |
| Public works | 3,564,561 | 1,791,514 | 891,618 | 685,941 | (195,488) | - | (195,488) |
| Parks and recreation | 1,755,783 | 1,352,457 | - | 88,653 | (314,673) | - | (314,673) |
| Interest and fiscal charges | <u>125,929</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(125,929)</u> | <u>-</u> | <u>(125,929)</u> |
| Total Governmental Activities | <u>13,432,683</u> | <u>4,278,351</u> | <u>1,514,416</u> | <u>1,111,481</u> | <u>(6,528,435)</u> | <u>-</u> | <u>(6,528,435)</u> |
| Business-type activities: | | | | | | | |
| Water | 2,524,277 | 3,183,221 | - | 588,000 | - | 1,246,944 | 1,246,944 |
| Sewer | 3,048,082 | 2,505,838 | - | 550,000 | - | 7,756 | 7,756 |
| Garbage | <u>1,735,341</u> | <u>1,953,379</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>218,038</u> | <u>218,038</u> |
| Total Business-type Activities | <u>7,307,700</u> | <u>7,642,438</u> | <u>-</u> | <u>1,138,000</u> | <u>-</u> | <u>1,472,738</u> | <u>1,472,738</u> |
| Total Primary Government | <u>\$ 20,740,383</u> | <u>\$ 11,920,789</u> | <u>\$ 1,514,416</u> | <u>\$ 2,249,481</u> | <u>\$ (6,528,435)</u> | <u>\$ 1,472,738</u> | <u>\$ (5,055,697)</u> |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property tax | | | | | \$ 2,113,461 | \$ - | \$ 2,113,461 |
| Sales tax | | | | | 1,385,013 | - | 1,385,013 |
| Franchise tax | | | | | 173,004 | - | 173,004 |
| Motor vehicle in lieu | | | | | 1,326,975 | - | 1,326,975 |
| Other taxes | | | | | 622,234 | - | 622,234 |
| Use of money and property | | | | | 251,643 | 24,170 | 275,813 |
| Other revenue | | | | | 202,452 | - | 202,452 |
| Transfers | | | | | <u>(301,480)</u> | <u>301,480</u> | <u>-</u> |
| Total General Revenues and Transfers | | | | | <u>5,773,302</u> | <u>325,650</u> | <u>6,098,952</u> |
| Change in Net Assets | | | | | <u>(755,133)</u> | <u>1,798,388</u> | <u>1,043,255</u> |
| Net Assets - July 1, 2010 | | | | | 66,851,317 | 47,300,992 | 114,152,309 |
| Prior period restatement (Note 18) | | | | | <u>(298,362)</u> | <u>-</u> | <u>(298,362)</u> |
| Net Assets - July 1, 2010, restated | | | | | <u>66,552,955</u> | <u>47,300,992</u> | <u>113,853,947</u> |
| Net Assets - June 30, 2011 | | | | | <u>\$ 65,797,822</u> | <u>\$ 49,099,380</u> | <u>\$ 114,897,202</u> |

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

CITY OF PATTERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

| | <u>General Fund</u> | <u>Landscape Maintenance District</u> | <u>Street Project Fund</u> | <u>WWTP Construction</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------------|---|--------------------------------|------------------------------|---|---|
| <u>ASSETS</u> | | | | | | |
| Cash and investments | \$ 10,092,950 | \$ 1,209,356 | \$ - | \$ 4,384 | \$ 11,877,438 | \$ 23,184,128 |
| Receivables: | | | | | | |
| Accounts | 459,240 | 29,800 | 566,118 | - | 569,356 | 1,624,514 |
| Interest | 7,635 | 1,068 | - | 3 | 8,910 | 17,616 |
| Notes and loans | 16,632 | - | - | 2,184,535 | 1,518,313 | 3,719,480 |
| Due from other funds | <u>1,040,920</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,040,920</u> |
| Total Assets | <u>\$ 11,617,377</u> | <u>\$ 1,240,224</u> | <u>\$ 566,118</u> | <u>\$ 2,188,922</u> | <u>\$ 13,974,017</u> | <u>\$ 29,586,658</u> |
| <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u> | | | | | | |
| LIABILITIES: | | | | | | |
| Accounts payable | \$ 390,824 | \$ 21,235 | \$ 504,038 | \$ - | \$ 206,789 | \$ 1,122,886 |
| Due to other funds | - | - | 157,227 | - | 853,431 | 1,010,658 |
| Deferred revenue | 21,440 | - | - | 1,992,409 | 1,310,000 | 3,323,849 |
| Deposits | <u>630,521</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>47,176</u> | <u>677,697</u> |
| Total Liabilities | <u>1,042,785</u> | <u>21,235</u> | <u>661,265</u> | <u>1,992,409</u> | <u>2,417,396</u> | <u>6,135,090</u> |
| FUND BALANCES (DEFICITS): | | | | | | |
| Restricted | 294,037 | - | - | 196,513 | 5,385,329 | 5,875,879 |
| Committed | 3,564,292 | 1,218,989 | - | - | 6,322,805 | 11,106,086 |
| Assigned | 6,476,305 | - | - | - | - | 6,476,305 |
| Unassigned | <u>239,958</u> | <u>-</u> | <u>(95,147)</u> | <u>-</u> | <u>(151,513)</u> | <u>(6,702)</u> |
| Total Fund Balances (Deficits) | <u>10,574,592</u> | <u>1,218,989</u> | <u>(95,147)</u> | <u>196,513</u> | <u>11,556,621</u> | <u>23,451,568</u> |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 11,617,377</u> | <u>\$ 1,240,224</u> | <u>\$ 566,118</u> | <u>\$ 2,188,922</u> | <u>\$ 13,974,017</u> | <u>\$ 29,586,658</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, 2011

| | |
|--|----------------------|
| Total fund balances of governmental funds | \$ 23,451,568 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds, net of accumulated depreciation of \$9,406,101. | 44,101,353 |
| Certain accounts, notes and loans receivable are not available to pay for current period expenditures and, therefore are offset by deferred revenue in the governmental funds. | 3,302,409 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. | |
| Long-term liabilities | (2,468,287) |
| Compensated absences | (255,680) |
| Net OPEB obligation | (2,333,541) |
| Accrued interest from the current portion of interest due on long-term receivables and liabilities have not been reported in the governmental funds. | |
| Accrued interest payable | (71,016) |
| Accrued interest receivable | <u>71,016</u> |
| Net assets of governmental activities | <u>\$ 65,797,822</u> |

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, 2011

| | <u>General Fund</u> | <u>Landscape Maintenance District</u> | <u>Street Project Fund</u> | <u>WWTP Construction</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|---------------------------------------|----------------------------|--------------------------|---------------------------------|---------------------------------|
| REVENUES | | | | | | |
| Taxes: | | | | | | |
| Property | \$ 1,920,243 | \$ - | \$ - | \$ - | \$ 193,218 | \$ 2,113,461 |
| Sales | 1,385,013 | - | - | - | - | 1,385,013 |
| Franchise | 173,004 | - | - | - | - | 173,004 |
| Motor vehicle in lieu | 1,326,975 | - | - | - | - | 1,326,975 |
| Other | 120,657 | - | - | - | 501,577 | 622,234 |
| License, permits, and fees | 335,757 | - | - | - | 33,000 | 368,757 |
| Charges for current services | 277,893 | 1,608,085 | - | - | 1,564,511 | 3,450,489 |
| Intergovernmental | 452,760 | - | 1,430,359 | - | 658,925 | 2,542,044 |
| Fines, forfeitures and penalties | 459,105 | - | - | - | - | 459,105 |
| Investment earnings | 54,039 | 6,890 | - | 66,431 | 75,402 | 202,762 |
| Miscellaneous revenues | 185,911 | - | - | - | 10,810 | 196,721 |
| | <u>6,691,357</u> | <u>1,614,975</u> | <u>1,430,359</u> | <u>66,431</u> | <u>3,037,443</u> | <u>12,840,565</u> |
| Total Revenues | | | | | | |
| EXPENDITURES | | | | | | |
| General government | 1,289,694 | - | - | - | 30,278 | 1,319,972 |
| Police | 3,305,964 | - | - | - | - | 3,305,964 |
| Fire | 778,901 | - | - | - | 1,011,589 | 1,790,490 |
| Community development and planning | 1,010,923 | - | - | - | 276,699 | 1,287,622 |
| Public works | 950,239 | 1,143,943 | 1,606 | - | 338,178 | 2,433,966 |
| Parks and recreation | 1,053,444 | - | - | - | - | 1,053,444 |
| Capital outlay | 6,648 | - | 2,269,169 | - | 1,412,026 | 3,687,843 |
| Debt service: | | | | | | |
| Principal | 126,456 | 21,104 | - | 187,109 | - | 334,669 |
| Interest and fiscal charges | 6,961 | 3,681 | - | 66,406 | - | 77,048 |
| | <u>8,529,230</u> | <u>1,168,728</u> | <u>2,270,775</u> | <u>253,515</u> | <u>3,068,770</u> | <u>15,291,018</u> |
| Total Expenditures | | | | | | |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,837,873)</u> | <u>446,247</u> | <u>(840,416)</u> | <u>(187,084)</u> | <u>(31,327)</u> | <u>(2,450,453)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from loan repayments | - | - | - | 192,348 | - | 192,348 |
| Transfers in | 1,585,386 | - | 286,040 | - | 457,305 | 2,328,731 |
| Transfers out | - | (267,869) | - | - | (2,362,342) | (2,630,211) |
| | <u>1,585,386</u> | <u>(267,869)</u> | <u>286,040</u> | <u>192,348</u> | <u>(1,905,037)</u> | <u>(109,132)</u> |
| Total Other Financing Sources (Uses) | | | | | | |
| Net Change in Fund Balances | <u>(252,487)</u> | <u>178,378</u> | <u>(554,376)</u> | <u>5,264</u> | <u>(1,936,364)</u> | <u>(2,559,585)</u> |
| Fund Balances - July 1, 2010 | <u>11,005,441</u> | <u>1,040,611</u> | <u>459,229</u> | <u>191,249</u> | <u>13,492,985</u> | <u>26,189,515</u> |
| Prior Period Adjustment (Note 18) | <u>(178,362)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(178,362)</u> |
| Fund Balance Restated - July 1, 2010 | <u>10,827,079</u> | <u>1,040,611</u> | <u>459,229</u> | <u>191,249</u> | <u>13,492,985</u> | <u>26,011,153</u> |
| Fund Balances (Deficits) - June 30, 2011 | <u>\$ 10,574,592</u> | <u>\$ 1,218,989</u> | <u>\$ (95,147)</u> | <u>\$ 196,513</u> | <u>\$ 11,556,621</u> | <u>\$ 23,451,568</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, 2011

| | |
|--|---------------------|
| Net change in fund balance - total governmental funds | \$ (2,559,585) |
| <p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation as expense to allocate those expenditures over the life of the assets.</p> | |
| Capital asset purchases capitalized | 3,687,843 |
| Depreciation expense | (1,726,718) |
| <p>Contributions of capital assets are not included in the governmental fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset contributions.</p> | |
| | 228,853 |
| <p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p> | |
| Loan principal payments | 187,109 |
| Capital lease obligation principal payments | 147,560 |
| <p>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.</p> | |
| | (186,617) |
| <p>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.</p> | |
| Compensated absences | 3,106 |
| Change in allowance for uncollectible receivables | 210,000 |
| Other post employment benefits | <u>(746,684)</u> |
| Change in net assets of governmental activities | <u>\$ (755,133)</u> |

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

CITY OF PATTERSON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

| | <u>Water</u> | <u>Sewer</u> | <u>Garbage</u> | <u>Total</u> |
|---|----------------------|----------------------|-------------------|----------------------|
| <u>ASSETS</u> | | | | |
| Current Assets | | | | |
| Cash and investments | \$ 1,926,203 | \$ 1,535,597 | \$ - | \$ 3,461,800 |
| Accounts receivable | 324,465 | 275,656 | 219,537 | 819,658 |
| Interest receivable | <u>1,520</u> | <u>934</u> | <u>-</u> | <u>2,454</u> |
| Total Current Assets | <u>2,252,188</u> | <u>1,812,187</u> | <u>219,537</u> | <u>4,283,912</u> |
| Restricted cash and investments | 6,071,589 | 321,935 | - | 6,393,524 |
| Deferred charges, net of amortization | 420,464 | 190,856 | - | 611,320 |
| Capital assets | | | | |
| Land | 2,877,956 | 2,867,641 | - | 5,745,597 |
| Construction in progress | 4,068,349 | 3,190,261 | 196,736 | 7,455,346 |
| Infrastructure | 19,827,292 | 31,803,345 | - | 51,630,637 |
| Machinery and equipment | 682,931 | 739,046 | 87,103 | 1,509,080 |
| Less: accumulated depreciation | <u>(2,872,145)</u> | <u>(8,505,433)</u> | <u>(88,106)</u> | <u>(11,465,684)</u> |
| Total Capital Assets | <u>24,584,383</u> | <u>30,094,860</u> | <u>195,733</u> | <u>54,874,976</u> |
| Total Assets | <u>33,328,624</u> | <u>32,419,838</u> | <u>415,270</u> | <u>66,163,732</u> |
| <u>LIABILITIES</u> | | | | |
| Current Liabilities | | | | |
| Accounts payable | 852,375 | 301,739 | 116,857 | 1,270,971 |
| Deposits payable | 104,050 | - | - | 104,050 |
| Accrued interest | - | 3,600 | 69 | 3,669 |
| Due to other funds | - | - | 30,262 | 30,262 |
| Compensated absences, current portion | 58,324 | 56,054 | 11,331 | 125,709 |
| Long-term liabilities, current portion | <u>210,464</u> | <u>225,356</u> | <u>-</u> | <u>435,820</u> |
| Total Current Liabilities | <u>1,225,213</u> | <u>586,749</u> | <u>158,519</u> | <u>1,970,481</u> |
| Long-term Liabilities | | | | |
| Net OPEB obligation | 404,979 | 388,878 | 74,873 | 868,730 |
| Long-term liabilities, net of current | <u>9,664,136</u> | <u>4,561,005</u> | <u>-</u> | <u>14,225,141</u> |
| Total Long-term Liabilities | <u>10,069,115</u> | <u>4,949,883</u> | <u>74,873</u> | <u>15,093,871</u> |
| Total Liabilities | <u>11,294,328</u> | <u>5,536,632</u> | <u>233,392</u> | <u>17,064,352</u> |
| <u>NET ASSETS</u> | | | | |
| Invested in capital assets, net of related debt | 14,709,783 | 25,308,499 | 195,733 | 40,214,015 |
| Restricted for debt service | 6,071,589 | 321,935 | - | 6,393,524 |
| Unrestricted | <u>1,252,924</u> | <u>1,252,772</u> | <u>(13,855)</u> | <u>2,491,841</u> |
| Total Net Assets | <u>\$ 22,034,296</u> | <u>\$ 26,883,206</u> | <u>\$ 181,878</u> | <u>\$ 49,099,380</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, 2011

| | <u>Water</u> | <u>Sewer</u> | <u>Garbage</u> | <u>Total</u> |
|---|----------------------|----------------------|-------------------|----------------------|
| <u>OPERATING REVENUES</u> | | | | |
| Charges for services | \$ 3,183,221 | \$ 2,504,836 | \$ 1,953,379 | \$ 7,641,436 |
| Other | <u>-</u> | <u>1,002</u> | <u>-</u> | <u>1,002</u> |
| Total Operating Revenues | <u>3,183,221</u> | <u>2,505,838</u> | <u>1,953,379</u> | <u>7,642,438</u> |
| <u>OPERATING EXPENSES</u> | | | | |
| Salaries and benefits | 1,099,971 | 1,120,392 | 182,302 | 2,402,665 |
| Contractual and professional services | 93,276 | 143,463 | 1,456,836 | 1,693,575 |
| Supplies and operating costs | 525,734 | 438,545 | 96,031 | 1,060,310 |
| Depreciation | <u>541,812</u> | <u>1,163,142</u> | <u>-</u> | <u>1,704,954</u> |
| Total Operating Expenses | <u>2,260,793</u> | <u>2,865,542</u> | <u>1,735,169</u> | <u>6,861,504</u> |
| Operating Income (Loss) | <u>922,428</u> | <u>(359,704)</u> | <u>218,210</u> | <u>780,934</u> |
| <u>NON-OPERATING REVENUES (EXPENSES)</u> | | | | |
| Interest income | 10,291 | 13,879 | - | 24,170 |
| Interest expense | <u>(263,484)</u> | <u>(182,540)</u> | <u>(172)</u> | <u>(446,196)</u> |
| Total Non-Operating Revenues (Expenses) | <u>(253,193)</u> | <u>(168,661)</u> | <u>(172)</u> | <u>(422,026)</u> |
| Income (Loss) Before Transfers and Contributions | <u>669,235</u> | <u>(528,365)</u> | <u>218,038</u> | <u>358,908</u> |
| <u>TRANSFERS AND CAPITAL CONTRIBUTIONS</u> | | | | |
| Capital contributions | 588,000 | 550,000 | - | 1,138,000 |
| Transfers in | 574,000 | 524,864 | - | 1,098,864 |
| Transfers out | <u>(321,403)</u> | <u>(255,981)</u> | <u>(220,000)</u> | <u>(797,384)</u> |
| Total Transfers and Capital Contributions | <u>840,597</u> | <u>818,883</u> | <u>(220,000)</u> | <u>1,439,480</u> |
| Change in Net Assets | <u>1,509,832</u> | <u>290,518</u> | <u>(1,962)</u> | <u>1,798,388</u> |
| Net Assets - July 1, 2010 | <u>20,524,464</u> | <u>26,592,688</u> | <u>183,840</u> | <u>47,300,992</u> |
| Net Assets - June 30, 2011 | <u>\$ 22,034,296</u> | <u>\$ 26,883,206</u> | <u>\$ 181,878</u> | <u>\$ 49,099,380</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, 2011

| | <u>Water</u> | <u>Sewer</u> | <u>Garbage</u> | <u>Total</u> |
|--|---------------------|---------------------|------------------|---------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | | |
| Cash received from customers | \$ 3,251,575 | \$ 2,505,306 | \$ 1,932,340 | \$ 7,689,221 |
| Cash paid to suppliers | (629,107) | (345,966) | (1,438,044) | (2,413,117) |
| Cash paid to employees | <u>(944,238)</u> | <u>(975,492)</u> | <u>(152,615)</u> | <u>(2,072,345)</u> |
| Net Cash Provided by Operating Activities | <u>1,678,230</u> | <u>1,183,848</u> | <u>341,681</u> | <u>3,203,759</u> |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u> | | | | |
| Transfers in (out) | 252,597 | 268,883 | (220,000) | 301,480 |
| Proceeds from (payments of) interfund loans | <u>(2,163,850)</u> | <u>-</u> | <u>(121,578)</u> | <u>(2,285,428)</u> |
| Net Cash Provided by (Used for) Noncapital Financing Activities | <u>(1,911,253)</u> | <u>268,883</u> | <u>(341,578)</u> | <u>(1,983,948)</u> |
| <u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u> | | | | |
| Principal payments on capital debt | (370,000) | (99,382) | - | (469,382) |
| Interest paid on capital debt | (263,484) | (182,540) | - | (446,024) |
| Debt proceeds | 10,200,000 | 115,258 | - | 10,315,258 |
| Principal payments on capital lease | (26,804) | (20,337) | - | (47,141) |
| Bond issuance costs | (420,464) | - | - | (420,464) |
| Acquisition and construction of capital assets | <u>(1,485,898)</u> | <u>(1,993,150)</u> | <u>-</u> | <u>(3,479,048)</u> |
| Net Cash Provided by (Used for) Capital Financing Activities | <u>7,633,350</u> | <u>(2,180,151)</u> | <u>-</u> | <u>5,453,199</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | | |
| Capital contribution | 588,000 | 550,000 | - | 1,138,000 |
| Interest | <u>9,465</u> | <u>13,664</u> | <u>(103)</u> | <u>23,026</u> |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | <u>597,465</u> | <u>563,664</u> | <u>(103)</u> | <u>1,161,026</u> |
| Net (Increase) Decrease in Cash and Cash Equivalents | <u>7,997,792</u> | <u>(163,756)</u> | <u>-</u> | <u>7,834,036</u> |
| Cash and Cash Equivalents - July 1, 2010 | <u>-</u> | <u>2,021,288</u> | <u>-</u> | <u>2,021,288</u> |
| Cash and Cash Equivalents - June 30, 2011 | <u>\$ 7,997,792</u> | <u>\$ 1,857,532</u> | <u>\$ -</u> | <u>\$ 9,855,324</u> |
| Reconciliation of cash and cash equivalents to the Statement of Net Assets: | | | | |
| Cash and investments | \$ 1,926,203 | \$ 1,535,597 | \$ - | \$ 3,461,800 |
| Restricted cash and investments | <u>6,071,589</u> | <u>321,935</u> | <u>-</u> | <u>6,393,524</u> |
| Total cash and investments | <u>\$ 7,997,792</u> | <u>\$ 1,857,532</u> | <u>\$ -</u> | <u>\$ 9,855,324</u> |

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, 2011

| | <u>Water</u> | <u>Sewer</u> | <u>Garbage</u> | <u>Total</u> |
|--|---------------------|---------------------|-------------------|---------------------|
| <u>RECONCILIATION OF OPERATING INCOME (LOSS)</u> | | | | |
| <u>TO NET CASH PROVIDED BY OPERATING</u> | | | | |
| <u>ACTIVITIES:</u> | | | | |
| Operating Income (Loss) | \$ 922,428 | \$ (359,704) | \$ 218,210 | \$ 780,934 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation expense | 541,812 | 1,163,142 | - | 1,704,954 |
| Amortization expense | - | 6,816 | - | 6,816 |
| Change in assets and liabilities: | | | | |
| Decrease (increase) in accounts receivable | 61,906 | (532) | (21,039) | 40,335 |
| Increase (decrease) in accounts payable | (9,799) | 229,226 | 114,823 | 334,250 |
| Increase in customer deposits | 6,150 | - | - | 6,150 |
| Increase in compensated absences | 2,560 | 3,279 | 830 | 6,669 |
| Increase in net OPEB obligation | <u>153,173</u> | <u>141,621</u> | <u>28,857</u> | <u>323,651</u> |
| Net Cash Provided by Operating Activities | <u>\$ 1,678,230</u> | <u>\$ 1,183,848</u> | <u>\$ 341,681</u> | <u>\$ 3,203,759</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, 2011

| | <u>Agency Funds</u> |
|--|----------------------------|
| <u>ASSETS</u> | |
| Cash and investments (Note 3) | \$ 4,353,475 |
| Restricted cash and investments (Note 3) | 8,205,988 |
| Accounts receivable | 126,161 |
| Other assets | <u>7,462</u> |
| Total Assets | <u>\$ 12,693,086</u> |
| <u>LIABILITIES</u> | |
| Accounts payable | \$ 49,955 |
| Due to bondholders | <u>12,643,131</u> |
| Total Liabilities | <u>\$ 12,693,086</u> |

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

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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 blended component unit is described below.

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 and Affordable Housing special revenue funds. The Agency was established in 1997. A separate annual financial report of the Agency is published and is available from the Agency Finance Director at the Agency's administrative office located at 1 Plaza, Patterson, CA 95363.

The City also participates in the following organizations that do not meet the definition of a component unit:

Patterson Public Financing Authority: The Patterson Public Financing Authority was formed in 2001 pursuant to a joint exercise of powers agreement between the City of Patterson and the Redevelopment Agency of the City of Patterson. The Authority is authorized to borrow money for the purpose of financing the acquisition of bonds, notes, and other obligations of, or for the purpose of making loans to, public entities, including the City and the Agency and to provide financing for public capital improvements for lease to public entities, including the City and the Agency. The members of the City Council also sit as the Board of Directors of the Authority.

West Patterson Financing Authority: The West Patterson Financing Authority (the Authority) was formed in 2001 pursuant to a joint exercise of powers agreement between the City of Patterson and the Redevelopment Agency of the City of Patterson. The primary activity of the Authority is issuing special tax bonds on behalf of the West Patterson Financing Authority Community Facilities District No. 2001-1 (Public Improvements). The proceeds of the special tax bonds are used to finance the costs of certain engineering, design, construction and other expenses related to public infrastructure improvements.

On October 18, 2005, pursuant to Resolution No. 2005-04 of the Board of Directors of the Authority, the Authority founded its Community Facilities District No. 2005-1 (West Patterson Business Park) and authorized special tax levies therein. The financial activities of the Authority are included in the City's agency funds. Separate financial statements for the Authority may be obtained from the City 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 United States of America.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 for 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.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Project Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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.

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.

Landscape Maintenance District - This fund is used to account for assessment fees related to the Landscape Maintenance District.

Street Project Fund - This fund accounts for capital projects related to various street projects.

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

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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
- 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 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 liabilities 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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 billings 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.

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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, capital 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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible capital 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, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

H. 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, 2011. 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 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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Transactions

Following is a description of the three 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. 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.

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. 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."

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- d. Assigned - Amounts that are constrained by the government's intent to be set for specific purposes, but are neither restricted or committed.
- e. Unassigned - Amounts representing the residual classification for the general fund.

Further detail about the City's fund balance classification is described in Note 12.

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.

M. Reclassifications

Certain accounts in prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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) The Finance Director submits a preliminary budget by June 30 of each year to City Council. This allows the City to continue normal operations until the final budget is adopted in September. 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 heads 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 and transfers in excess of budgets in the amounts below. Sufficient resources were available in the fund balance of the funds.

| Fund | Amount |
|--------------------------------|---------------|
| Landscape Maintenance District | \$ 27,688 |
| Street Project | 1,399,219 |
| WWTP Fund | 27,713 |
| CSA #15 Assessment District | 1,133 |
| Federal CDBG Grant 2003 | 2,380 |
| First Time Homebuyers | 13,724 |
| Gas Tax | 100,000 |
| Senior Center Fund | 395 |
| Redevelopment Agency | 26,294 |
| Developer Housing In-Lieu Fee | 24,555 |
| General Government Impact Fee | 276,078 |
| Water Impact Fee | 111,787 |
| Future Water Acquisition | 574,000 |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: BUDGET (continued)

C. Fund Balance and Net Assets Deficits

The following funds had deficit fund balances at June 30, 2011:

| <u>Fund</u> | <u>Deficit</u> |
|--------------------------------|----------------|
| Street Project | \$ 95,147 |
| Federal CDBG Grant 2003 | 33,567 |
| Federal HOME Funds | 22,979 |
| Senior Center | 397 |
| Water Impact Fee | 90,576 |
| Heartland Ranch Infrastructure | 3,994 |

These deficits were a result of expenditures incurred in advance of receipt of revenue and will be eliminated through future revenues and expenditure reductions.

NOTE 3: CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 were classified in the accompanying financial statements as follows:

| | <u>Cash and investments</u> | <u>Restricted cash and investments</u> | <u>Total</u> |
|--|---------------------------------|--|----------------------|
| Governmental activities | \$ 23,184,128 | \$ - | \$ 23,184,128 |
| Business-type activities | <u>3,461,800</u> | <u>6,393,524</u> | <u>9,855,324</u> |
| Total government-wide cash and investments | <u>26,645,928</u> | <u>6,393,524</u> | <u>33,039,452</u> |
| Fiduciary activities | <u>4,353,475</u> | <u>8,205,988</u> | <u>12,559,463</u> |
| Total cash and investments | <u>\$ 30,999,403</u> | <u>\$ 14,599,512</u> | <u>\$ 45,598,915</u> |

Cash and investments were carried at fair value as of June 30, 2011 and consisted of the following:

| | |
|--|----------------------|
| Cash on hand | \$ 850 |
| Deposits with financial institutions | <u>8,464,939</u> |
| Total cash | <u>8,465,789</u> |
| Money market mutual funds | 14,872,054 |
| Central San Joaquin Valley Risk Management Authority (CSJVRMA) | 3,258,511 |
| Local Area Investment Fund (LAIF) | <u>19,002,561</u> |
| Total investments | <u>37,133,126</u> |
| Total cash and investments | <u>\$ 45,598,915</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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 |

Investments Authorized by Debt Agreements

Investment of debt issuances held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

| 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) | None | None | None |
| Money market Funds | None | None | None |
| Annuities | None | None | None |
| Mutual Funds | None | None | None |
| Corporate Notes (Minimum rating of "AAA") | None | None | None |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3: CASH AND INVESTMENTS (continued)

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, 2011:

| | Remaining Maturity | | |
|-----------------------|----------------------|-------------|----------------------|
| | 12 months or less | 1-5 years | Fair Value |
| LAIF | \$ 19,002,561 | \$ - | \$ 19,002,561 |
| CSJVRMA | 3,258,511 | - | 3,258,511 |
| Money market funds | 272,542 | - | 272,542 |
| Held by bond trustee: | | | |
| Money market funds | <u>14,599,512</u> | <u>-</u> | <u>14,599,512</u> |
| | <u>\$ 37,133,126</u> | <u>\$ -</u> | <u>\$ 37,133,126</u> |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City had no investments that were highly sensitive to interest rate fluctuations as of June 30, 2011.

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 | \$ 19,002,561 | N/A | | | Not rated |
| CSJVRMA | 3,258,511 | N/A | | | Not rated |
| Money market funds | 272,542 | N/A | | | Not rated |
| Held by bond trustee: | | | | | |
| Money market funds | <u>14,599,512</u> | N/A | AAAm | Aaa | |
| | <u>\$ 37,133,126</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 held no investments in any one issuer (other than U.S. Treasury securities, external investment pools and mutual funds) that represented 5% or more of total City investment as of June 30, 2011.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3: CASH AND INVESTMENTS (continued)

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, 2011, the carrying amount of the City's deposits was \$8,464,939 and bank balances were \$1,640,232 of which all was insured under the FDIC Temporary Transaction Account Guarantee Program.

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.

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 deferred revenue, as they are not expected to be repaid during the fiscal year 2012. These notes receivable comprised the following at June 30, 2011:

| | |
|--|----------------------------|
| State Water Loan Letter of Credit | \$ 2,184,535 |
| Housing Authority of the County of Stanislaus | 290,000 |
| Greater Valley Housing Development Corporation | 900,000 |
| Housing Rehabilitation and Affordable Housing | <u>344,945</u> |
| Total loans and notes receivable | <u>\$ 3,719,480</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 \$2,184,535 at June 30, 2011. \$1,992,409 of this loan has been offset by deferred revenue in the fund financial statements.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4: ACCOUNTS AND NOTES RECEIVABLE (continued)

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 principal 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. 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. There are no payments of principal and interest during the first three years of the initial term of this loan. Commencing on the fourth anniversary (February 2011) all accrued interest and principal shall be repaid as long as the Project is generating positive cash flow as determined by a formula in the promissory note. As of June 30, 2011 the City had advanced the full amount of \$900,000 to the Greater Valley Housing Development Corporation. The balance of this note has been offset by a related deferred revenue. As positive cash flow was not generated during the year, the interest and principal amount is still outstanding.

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, 2011 was \$344,945.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5: CAPITAL ASSETS

Capital asset activity for the Governmental funds for the fiscal year ended June 30, 2011 was as follows:

| | <u>July 1, 2010</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Transfers</u> | <u>June 30, 2011</u> |
|---|----------------------|---------------------|---------------------|------------------|----------------------|
| Governmental Activities | | | | | |
| Capital assets not being depreciated | | | | | |
| Land | \$ 2,768,831 | \$ - | \$ - | \$ - | \$ 2,768,831 |
| Construction in progress | <u>2,394,505</u> | <u>3,566,653</u> | <u>-</u> | <u>-</u> | <u>5,961,158</u> |
| Total capital assets not being depreciated | <u>5,163,336</u> | <u>3,566,653</u> | <u>-</u> | <u>-</u> | <u>8,729,989</u> |
| Capital assets being depreciated | | | | | |
| Buildings | 18,873,959 | 145,000 | - | - | 19,018,959 |
| Improvements | 10,335,838 | 112,922 | - | - | 10,448,760 |
| Streets and roads | 11,049,361 | 78,738 | - | - | 11,128,099 |
| Equipment | <u>4,168,264</u> | <u>13,383</u> | <u>-</u> | <u>-</u> | <u>4,181,647</u> |
| Total capital assets being depreciated | <u>44,427,422</u> | <u>350,043</u> | <u>-</u> | <u>-</u> | <u>44,777,465</u> |
| Less: accumulated depreciation | | | | | |
| Buildings | (1,017,226) | (472,604) | - | - | (1,489,830) |
| Improvements | (2,119,854) | (510,309) | - | - | (2,630,163) |
| Streets and roads | (1,887,860) | (273,382) | - | - | (2,161,242) |
| Equipment | <u>(2,654,443)</u> | <u>(470,423)</u> | <u>-</u> | <u>-</u> | <u>(3,124,866)</u> |
| Total accumulated depreciation | <u>(7,679,383)</u> | <u>(1,726,718)</u> | <u>-</u> | <u>-</u> | <u>(9,406,101)</u> |
| Governmental activities capital assets, net | <u>\$ 41,911,375</u> | <u>\$ 2,189,978</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 44,101,353</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5: CAPITAL ASSETS (continued)

Capital asset activity for the Business-type activities for the fiscal year ended June 30, 2011 was as follows:

| | <u>July 1, 2010</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Transfers</u> | <u>June 30, 2011</u> |
|--|---------------------|---------------------|---------------------|--------------------|----------------------|
| Business-type Activities | | | | | |
| Capital assets not being depreciated | | | | | |
| Land | \$ 5,745,597 | \$ - | \$ - | \$ - | \$ 5,745,597 |
| Construction in progress | <u>10,071,084</u> | <u>3,034,630</u> | <u>-</u> | <u>(5,650,368)</u> | <u>7,455,346</u> |
| Total capital assets not being depreciated | <u>15,816,681</u> | <u>3,034,630</u> | <u>-</u> | <u>(5,650,368)</u> | <u>13,200,943</u> |
| Capital assets being depreciated | | | | | |
| Infrastructure | 45,073,280 | 906,989 | - | 5,650,368 | 51,630,637 |
| Equipment | <u>1,335,494</u> | <u>173,586</u> | <u>-</u> | <u>-</u> | <u>1,509,080</u> |
| Total capital assets being depreciated | <u>46,408,774</u> | <u>1,080,575</u> | <u>-</u> | <u>5,650,368</u> | <u>53,139,717</u> |
| Less: accumulated depreciation | | | | | |
| Infrastructure | (8,935,008) | (1,598,345) | - | - | (10,533,353) |
| Equipment | <u>(825,722)</u> | <u>(106,609)</u> | <u>-</u> | <u>-</u> | <u>(932,331)</u> |
| Total accumulated depreciation | <u>(9,760,730)</u> | <u>(1,704,954)</u> | <u>-</u> | <u>-</u> | <u>(11,465,684)</u> |
| Business-type activities capital assets, net | <u>\$52,464,725</u> | <u>\$ 2,410,251</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 54,874,976</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 as of June 30, 2011 were as follows:

Governmental Activities

| | |
|-------------------------------|---------------------|
| General government | \$ 43,341 |
| Fire | 48,003 |
| Public works | 1,031,023 |
| Parks and recreation | <u>604,351</u> |
| Total Governmental Activities | <u>\$ 1,726,718</u> |

Business-type Activities

| | |
|--------------------------------|---------------------|
| Water | \$ 541,812 |
| Sewer | <u>1,163,142</u> |
| Total Business-type Activities | <u>\$ 1,704,954</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: INTERFUND TRANSFERS

Transfer between funds during the fiscal year ended June 30, 2011 were as follows:

| <u>Transfer from</u> | <u>Transfer to</u> | <u>Description of Transfer</u> | <u>Amount</u> |
|-------------------------------------|--------------------|---|----------------------------|
| <u>Major Governmental Funds</u> | | | |
| Landscape Maintenance District | General Fund | Administrative costs | <u>267,869</u> |
| | | Total Major Governmental Funds Transfers | <u>267,869</u> |
| <u>Non-Major Governmental Funds</u> | | | |
| BAD District | General Fund | Administrative costs | 82,898 |
| BAD District | Sewer Fund | Administrative costs | 176,364 |
| CSA#15 Assessment District | Sewer Fund | Administrative costs | 8,500 |
| Public Safety | General Fund | Administrative costs | 102,327 |
| Federal CDBG Grant 2003 | General Fund | Administrative costs | 21,532 |
| Federal HOME Funds | General Fund | Administrative costs | 11,292 |
| Local Law Enforcement Block Grant | General Fund | Administrative costs | 20,000 |
| Patterson Gardens | Public Safety | Administrative costs | 305,050 |
| First Time Homebuyers | State HCD Rehab | Re-allocate funds | 105,704 |
| Gas Tax | General Fund | Administrative costs | 357,084 |
| Gas Tax | Street Project | Capital projects | 100,000 |
| Redevelopment Agency | Affordable Housing | Housing set-aside funds | 46,551 |
| Storm Drain Impact Fee | Street Project | Capital projects | 111,040 |
| Sewer Impact Fee | Sewer Capital | Capital projects | 340,000 |
| Future Water Acquisition | Water Capital | Capital projects | <u>574,000</u> |
| | | Total Non-Major Governmental Funds Transfers | <u>2,362,342</u> |
| | | Total Governmental Interfund Transfers | \$ <u>2,630,211</u> |
| <u>Proprietary Funds</u> | | | |
| Garbage | General Fund | Administrative costs | \$ 220,000 |
| Sewer | General Fund | Administrative costs | 255,981 |
| Water | General Fund | Administrative costs | 246,403 |
| Water Capital Fund | Street Project | Capital projects | <u>75,000</u> |
| | | Total Proprietary Interfund Transfers | \$ <u>797,384</u> |

NOTE 7: OPERATING LEASES

The City has commitments to lease certain office equipment and property. The total rent expense during the year ended June 30, 2011 was \$94,512. Minimum future lease payments under non-cancelable operating leases as of June 30, 2011 are as follows:

| <u>Fiscal year ended June 30,</u> | |
|-----------------------------------|--------------------------|
| 2012 | \$ 81,165 |
| 2013 | 65,060 |
| 2014 | 27,458 |
| 2015 | <u>3,998</u> |
| Total | \$ <u>177,681</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

| | |
|---|-------------------------|
| State Water Loan Letter of Credit | \$ 1,992,409 |
| Housing Authority of the County of Stanislaus | 290,000 |
| Greater Valley Housing Development Corporation | 900,000 |
| County of Stanislaus Baldwin Road Reimbursement | 21,440 |
| First Time Homebuyer | <u>120,000</u> |
| Total Deferred Revenue | <u>\$ 3,323,849</u> |

Of the amount of deferred revenue in the governmental funds, \$3,182,409 was recognized as revenue in the Statement of Activities, leaving a balance of \$21,440 in the government-wide Statement of Net Assets.

NOTE 9: LONG TERM LIABILITIES

The following is a summary of debt transactions of the City for the year ended June 30, 2011:

| | <u>Original Issue Amount</u> | <u>Balance July 1, 2010</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2011</u> | <u>Due within one year</u> |
|---|--------------------------------------|---------------------------------|----------------------|---------------------|--------------------------------------|--------------------------------|
| Governmental activities | | | | | | |
| Compensated absences | \$ - | \$ 252,574 | \$ 169,008 | \$ (165,902) | \$ 255,680 | \$ 255,680 |
| State water resource loan | 3,783,532 | 2,371,644 | - | (187,109) | 2,184,535 | 192,515 |
| Capital leases | <u>792,492</u> | <u>431,312</u> | <u>-</u> | <u>(147,560)</u> | <u>283,752</u> | <u>108,078</u> |
| Total Governmental Activities | <u>\$ 4,576,024</u> | <u>\$ 3,055,530</u> | <u>\$ 169,008</u> | <u>\$ (500,571)</u> | <u>\$ 2,723,967</u> | <u>\$ 556,273</u> |
| Business-type activities | | | | | | |
| Water | | | | | | |
| Compensated absences | \$ - | \$ 55,764 | \$ 37,357 | \$ (34,797) | \$ 58,324 | \$ 58,324 |
| 2011 Water revenue bonds | 10,200,000 | - | 10,200,000 | (370,000) | 9,830,000 | 200,000 |
| Capital leases | <u>144,521</u> | <u>71,404</u> | <u>-</u> | <u>(26,804)</u> | <u>44,600</u> | <u>10,464</u> |
| Total Water fund | <u>10,344,521</u> | <u>127,168</u> | <u>10,237,357</u> | <u>(431,601)</u> | <u>9,932,924</u> | <u>268,788</u> |
| Sewer | | | | | | |
| Compensated absences | - | 52,775 | 37,992 | (34,713) | 56,054 | 56,054 |
| Economic Bank loan | 652,144 | 652,144 | 13,042 | - | 665,186 | 100,000 |
| State Revolving Fund loan | 774,790 | 774,790 | 102,216 | (35,382) | 841,624 | 35,110 |
| 1979 Sewer revenue bonds | 250,000 | 113,000 | - | (9,000) | 104,000 | 9,000 |
| 2009 Sewer revenue bonds | 3,195,000 | 3,140,000 | - | (55,000) | 3,085,000 | 60,000 |
| Capital leases | <u>80,289</u> | <u>110,888</u> | <u>-</u> | <u>(20,337)</u> | <u>90,551</u> | <u>21,246</u> |
| Total Sewer fund | <u>4,952,223</u> | <u>4,843,597</u> | <u>153,250</u> | <u>(154,432)</u> | <u>4,842,415</u> | <u>281,410</u> |
| Garbage | | | | | | |
| Compensated absences | <u>-</u> | <u>10,501</u> | <u>8,338</u> | <u>(7,508)</u> | <u>11,331</u> | <u>11,331</u> |
| Total Business-type Activities | <u>\$ 15,607,197</u> | <u>\$ 4,981,266</u> | <u>\$ 10,398,945</u> | <u>\$ (593,541)</u> | <u>\$ 14,786,670</u> | <u>\$ 561,529</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9: LONG TERM LIABILITIES (continued)

Governmental activities future debt obligations at June 30, 2011 consisted of the following:

State Water Resource Loan:

In 2005, the City entered into an agreement with the State Water Resource Board for a loan in the amount of \$3,783,532. Interest is calculated at 2.8% per annum payable each February 1. Principal payments are due annually on February 1 and are payable from developer reimbursements.

| <u>Years Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------------|--------------------------|----------------------------|
| 2012 | \$ 192,515 | \$ 61,000 | \$ 253,515 |
| 2013 | 197,739 | 55,776 | 253,515 |
| 2014 | 203,275 | 50,245 | 253,520 |
| 2015 | 208,967 | 44,548 | 253,515 |
| 2016 | 214,924 | 38,591 | 253,515 |
| 2017 - 2021 | <u>1,167,115</u> | <u>99,768</u> | <u>1,266,883</u> |
| Total | \$ <u>2,184,535</u> | \$ <u>349,928</u> | \$ <u>2,534,463</u> |

Capital Leases

The City has entered into various capital lease agreements for a phone system, fire truck and other vehicles and equipment. Lease terms vary with each agreement. Interest rates range from 3.95% - 5.25%. Leased equipment under capital assets at June 30, 2011 consisted of equipment with a cost of \$567,944 and related accumulated depreciation of \$292,593.

| <u>Years Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|--------------------------|-------------------------|--------------------------|
| 2012 | \$ 108,078 | \$ 11,500 | \$ 119,578 |
| 2013 | 84,731 | 7,216 | 91,947 |
| 2014 | 66,601 | 4,339 | 70,940 |
| 2015 | <u>24,342</u> | <u>1,101</u> | <u>25,443</u> |
| Total | \$ <u>283,752</u> | \$ <u>24,156</u> | \$ <u>307,908</u> |

Total Governmental Activities:

| <u>Years Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------------|--------------------------|----------------------------|
| 2012 | \$ 300,593 | \$ 72,500 | \$ 373,093 |
| 2013 | 282,470 | 62,992 | 345,462 |
| 2014 | 269,876 | 54,584 | 324,460 |
| 2015 | 233,309 | 45,649 | 278,958 |
| 2015 | 214,924 | 38,591 | 253,515 |
| 2016 - 2020 | <u>1,167,115</u> | <u>99,768</u> | <u>1,266,883</u> |
| Total | \$ <u>2,468,287</u> | \$ <u>374,084</u> | \$ <u>2,842,371</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9: LONG TERM LIABILITIES (continued)

Business type activities future debt obligations at June 30, 2011 consisted of the following:

2011 Water Revenue Bonds:

In October 2010, the Patterson Public Financing Authority issued 2010 series water revenue bonds in the amount of \$10,200,000. The bonds were issued for certain improvements to the City's municipal water enterprise (the project). The proceeds will be used to (a) finance, together with available monies, the Project, (b) fund a reserve fund for the bonds, and (c) to pay to costs of issuance for the bonds. Interest on the bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2011; and principal payments are payable annually each June 1. Interest rates on the bonds vary from 0.60% - 3.05%. The bonds are secured by a pledge of revenues made by the City.

| <u>Years Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------------|----------------------------|-----------------------------|
| 2012 | \$ 200,000 | \$ 433,540 | \$ 633,540 |
| 2013 | 200,000 | 431,340 | 631,340 |
| 2014 | 205,000 | 428,640 | 633,640 |
| 2015 | 205,000 | 425,258 | 630,258 |
| 2016 | 210,000 | 421,157 | 631,157 |
| 2017 - 2021 | 1,140,000 | 2,016,818 | 3,156,818 |
| 2022 - 2026 | 1,390,000 | 1,776,900 | 3,166,900 |
| 2027 - 2031 | 1,770,000 | 1,401,750 | 3,171,750 |
| 2032 - 2036 | 2,260,000 | 912,250 | 3,172,250 |
| 2037 - 2041 | <u>2,250,000</u> | <u>288,250</u> | <u>2,538,250</u> |
| Totals | \$ <u>9,830,000</u> | \$ <u>8,535,903</u> | \$ <u>18,365,903</u> |

Economic Bank Loan:

In November 2007, the City entered into an agreement with the County of Stanislaus for an Economic Bank Loan 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> |
|---------------------------------|--------------------------|--------------------|--------------------------|
| 2012 | \$ 100,000 | \$ - | \$ 100,000 |
| 2013 | 100,000 | - | 100,000 |
| 2014 | 100,000 | - | 100,000 |
| 2015 | 100,000 | - | 100,000 |
| 2016 | 100,000 | - | 100,000 |
| 2017 - 2021 | <u>165,186</u> | <u>-</u> | <u>165,186</u> |
| Totals | \$ <u>665,186</u> | \$ <u>-</u> | \$ <u>665,186</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9: LONG TERM LIABILITIES (continued)

State Revolving Fund Loan:

In 2008, the City entered into an agreement with the State Water Resource Board for a loan in the amount of \$1,069,602. However, the project for the loan did not commence until the current fiscal year. The loan amount is based on the amount of draws by the City for reimbursable costs. The loan does not bear interest, however has a grant charge of 2.6%. The loan matures in October 2026.

| <u>Years Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|--------------------------|--------------------------|----------------------------|
| 2012 | \$ 35,110 | \$ 21,565 | \$ 56,675 |
| 2013 | 35,706 | 20,969 | 56,675 |
| 2014 | 36,634 | 20,041 | 56,675 |
| 2015 | 37,587 | 19,089 | 56,676 |
| 2016 | 38,564 | 18,111 | 56,675 |
| 2017 - 2021 | 208,393 | 74,984 | 283,377 |
| 2022 - 2026 | 236,930 | 46,447 | 283,377 |
| 2027 - 2031 | <u>212,700</u> | <u>14,002</u> | <u>226,702</u> |
| Totals | \$ <u>841,624</u> | \$ <u>235,208</u> | \$ <u>1,076,832</u> |

1979 Sewer Revenue Bonds

In 1979, the City issued \$250,000 in sewer revenue bonds (Series 1979). Interest is payable semi-annually on each January 1 and July 1 at 5%. The bonds are payable from the revenues 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> |
|---------------------------------|--------------------------|-------------------------|--------------------------|
| 2012 | \$ 9,000 | \$ 2,100 | \$ 11,100 |
| 2013 | 10,000 | 2,375 | 12,375 |
| 2014 | 10,000 | 2,125 | 12,125 |
| 2015 | 11,000 | 1,875 | 12,875 |
| 2016 | 11,000 | 1,600 | 12,600 |
| 2017 - 2021 | <u>53,000</u> | <u>3,450</u> | <u>56,450</u> |
| Totals | \$ <u>104,000</u> | \$ <u>13,525</u> | \$ <u>117,525</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9: LONG TERM LIABILITIES (continued)

2009 Sewer Revenue Bonds

In May 2009, the Patterson Financing Authority authorized the issuance of \$3,195,000 of revenue bonds (Series 2009) to (i) finance, together with other available moneys, certain wastewater system improvements, (ii) fund a reserve for the bonds, and (iii) to pay the cost of issuance of the bonds. The bonds were issued at a discount of \$9,180 and issuance costs totaled \$219,345. Principal is payable on June 1 of each year through June 2039. Interest is payable semi-annually, on each June 1 and December 1. The bonds are secured by a pledge an lien on the net revenues of the City's municipal wastewater enterprise.

| Years Ended June 30, | Principal | Interest | Total |
|---------------------------------|----------------------------|----------------------------|----------------------------|
| 2012 | \$ 60,000 | \$ 156,448 | \$ 216,448 |
| 2013 | 60,000 | 155,037 | 215,037 |
| 2014 | 60,000 | 152,937 | 212,937 |
| 2015 | 65,000 | 150,838 | 215,838 |
| 2016 | 65,000 | 148,562 | 213,562 |
| 2017 - 2021 | 370,000 | 702,275 | 1,072,275 |
| 2022 - 2026 | 455,000 | 609,587 | 1,064,587 |
| 2027 - 2031 | 595,000 | 474,100 | 1,069,100 |
| 2032 - 2036 | 780,000 | 291,775 | 1,071,775 |
| 2037 - 2041 | <u>575,000</u> | <u>64,625</u> | <u>639,625</u> |
| Totals | <u>\$ 3,085,000</u> | <u>\$ 2,906,184</u> | <u>\$ 5,991,184</u> |

Capital Leases

The City has entered into various capital lease agreements for a phone system, fire truck and other vehicles and equipment. Lease terms vary with each agreement. Interest rates range from 3.95% - 5.25%. Leased equipment under capital assets at June 30, 2011 consisted of equipment with a cost of \$360,038 and related accumulated depreciation of \$155,282.

| Years Ended June 30, | Principal | Interest | Total |
|---------------------------------|--------------------------|-------------------------|--------------------------|
| 2012 | \$ 31,710 | \$ 6,059 | \$ 37,769 |
| 2013 | 33,114 | 4,655 | 37,769 |
| 2014 | 34,606 | 3,162 | 37,768 |
| 2015 | <u>35,721</u> | <u>1,616</u> | <u>37,337</u> |
| Totals | <u>\$ 135,151</u> | <u>\$ 15,492</u> | <u>\$ 150,643</u> |

CITY OF PATTERSON
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

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> |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2012 | \$ 435,820 | \$ 619,712 | \$ 1,055,532 |
| 2013 | 438,820 | 614,376 | 1,053,196 |
| 2014 | 446,240 | 606,905 | 1,053,145 |
| 2015 | 454,308 | 598,676 | 1,052,984 |
| 2016 | 424,564 | 589,430 | 1,013,994 |
| 2017 - 2021 | 1,936,579 | 2,797,527 | 4,734,106 |
| 2022 - 2026 | 2,081,930 | 2,432,934 | 4,514,864 |
| 2027 - 2031 | 2,577,700 | 1,889,852 | 4,467,552 |
| 2032 - 2036 | 3,040,000 | 1,204,025 | 4,244,025 |
| 2037 - 2041 | <u>2,825,000</u> | <u>352,875</u> | <u>3,177,875</u> |
| Totals | \$ <u>14,660,961</u> | \$ <u>11,706,312</u> | \$ <u>26,367,273</u> |

COMPENSATED ABSENCES

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

| | <u>Total Current Portion</u> | <u>Total Compensated Absences</u> |
|------------------------------------|----------------------------------|---------------------------------------|
| <u>Government Wide</u> | | |
| General government | \$ 35,432 | \$ 35,432 |
| Fire | 84,872 | 84,872 |
| Public works | 42,194 | 42,194 |
| Community development and planning | 32,282 | 32,282 |
| Parks and recreation | <u>60,900</u> | <u>60,900</u> |
| Total Government Wide | <u>\$ 255,680</u> | <u>\$ 255,680</u> |
| <u>Business-type Activities</u> | | |
| Water | \$ 58,324 | \$ 58,324 |
| Sewer | 56,054 | 56,054 |
| Garbage | <u>11,331</u> | <u>11,331</u> |
| Total Business-type Activities | <u>\$ 125,709</u> | <u>\$ 125,709</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, 2011

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 55 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 does not have direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not included in the general long-term liabilities of the City. The outstanding balance of each of these issues as of June 30, 2011 was as follows:

| | |
|---|-----------------------------|
| Heartland Ranch Reassessment District | \$ 5,310,000 |
| Community Facilities District No. 2001-1 Special Tax Bonds 2002-A | 3,010,000 |
| Community Facilities District No. 2001-1 Special Tax Bonds 2003-A | 9,780,000 |
| Community Facilities District No. 2001-1 Special Tax Bonds 2003-B | 15,035,000 |
| Community Facilities District No. 2001-1 Special Tax Bonds 2004-A | 19,035,000 |
| Community Facilities District No. 2001-1 Special Tax Bonds 2004-B | 19,650,000 |
| Community Facilities District No. 2001-1 Special Tax Bonds 2009-A | 2,615,000 |
| Community Facilities District No. 2001-1 Special Tax Bonds 2009-B | <u>3,215,000</u> |
| Total Debt without City Commitment | \$ <u>77,650,000</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12: FUND BALANCE

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provide more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

The City established the following fund balance procedures:

Committed Fund Balance: The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal action taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

Assigned Fund Balance: Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. The policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Manager and the Finance Director for the purpose of reporting these amounts in the annual financial statements.

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts, and unassigned amounts.

As of June 30, 2011, fund balances consisted of the following:

| | <u>General Fund</u> | <u>LMD Fund</u> | <u>Street Projects</u> | <u>WWTP Construction</u> | <u>Non-Major Governmental Funds</u> | <u>Total</u> |
|---------------------------------|----------------------|---------------------|------------------------|------------------------------|---|----------------------|
| Restricted: | | | | | | |
| Grants | \$ 18,453 | \$ - | \$ - | \$ - | \$ 1,068,299 | \$ 1,086,752 |
| Code enforcement | 122,651 | - | - | - | - | 122,651 |
| Debt service | 152,933 | - | - | - | - | 152,933 |
| Capital projects | - | - | - | 196,513 | - | 196,513 |
| Taxes, fees, and assessments | - | - | - | - | 2,899,559 | 2,899,559 |
| Redevelopment | - | - | - | - | 1,417,471 | 1,417,471 |
| Total Restricted | <u>294,037</u> | <u>-</u> | <u>-</u> | <u>196,513</u> | <u>5,385,329</u> | <u>5,875,879</u> |
| Committed: | | | | | | |
| Contingencies | 3,564,292 | - | - | - | - | 3,564,292 |
| Capital projects | - | 1,218,989 | - | - | 6,322,805 | 7,541,794 |
| Total Committed | <u>3,564,292</u> | <u>1,218,989</u> | <u>-</u> | <u>-</u> | <u>6,322,805</u> | <u>11,106,086</u> |
| Assigned: | | | | | | |
| Capital projects | 3,031,735 | - | - | - | - | 3,031,735 |
| Operating deficit | 916,991 | - | - | - | - | 916,991 |
| Equipment replacement | 450,000 | - | - | - | - | 450,000 |
| Park and facilities maintenance | 250,000 | - | - | - | - | 250,000 |
| Master plan | 471,064 | - | - | - | - | 471,064 |
| PERS and OPEB reserves | 1,000,000 | - | - | - | - | 1,000,000 |
| Self insurance | 338,079 | - | - | - | - | 338,079 |
| General plan | 18,436 | - | - | - | - | 18,436 |
| Total Assigned | <u>6,476,305</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,476,305</u> |
| Unassigned | <u>239,958</u> | <u>-</u> | <u>(95,147)</u> | <u>-</u> | <u>(151,513)</u> | <u>(6,702)</u> |
| Total Fund Balance | <u>\$ 10,574,592</u> | <u>\$ 1,218,989</u> | <u>\$ (95,147)</u> | <u>\$ 196,513</u> | <u>\$ 11,556,621</u> | <u>\$ 23,451,568</u> |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13: 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, 2011, 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 | 22.836% | 14.532% |
| Actuarially required contributions | \$139,012 | \$526,875 |

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the total related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefits. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities.

The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CalPERS uses the market related value method of valuing the plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gain and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

Audited financial statements and trend information are available from CalPERS at P.O. Box 942709, Sacramento, California 94229.

The Plan's actuarial value (which differs from market value) and funding progress over the past three year, as reported by PERS in their most recent actuarial valuation are set forth below at their most recent actuarial valuation date of June 30, 2009.

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, 2009 | \$ 434,738 | 100 % | - |
| June 30, 2010 | \$ 578,420 | 100 % | - |
| June 30, 2011 | \$ 665,887 | 100 % | - |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13: CALIFORNIA PUBLIC EMPLOYEES RETIREMENT PLAN (continued)

The schedule of funding progress, which is presented as required supplementary information immediately following the notes to the financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 14: 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. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them. Distributions are not available to the employees until termination, retirement, death or unforeseeable emergency as defined by the Plan.

NOTE 15: POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT

This note includes information required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Description of the Plan

The City sponsors and administers a single-employer health care plan for its employees. The plan provides medical, dental, and vision plan coverage. Medical coverage is provided through CalPERS under the Public Employees' Medical and Hospital Care Act (PEMHCA), also referred to as PERS Health. In addition, the City extends coverage to retirees and their dependents in its self insured dental plan as well as the VSP Vision plan; retirees pay the full cost of this coverage.

For the year ended June 30, 2011, the City reported 88 active and 6 retired employees. Of the actives, 2 are not currently participating but retain the right to elect coverage in the future and have been included in the valuation. Of the retirees, 2 have waived coverage and are assumed not to participate in the future.

Funding Policy

Employees become eligible to retire under PEMHCA and receive City-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service, or by attaining qualifying disability retirement status. The City has selected the unequal contribution method, where it contributes a percent of the amount paid for actives to its eligible retirees. The percent increases each year until the City's contribution for retirees eventually equals that for similarly stated active employees. The City currently covers 100% of the cost of medical coverage for active employees and their dependents up to, but not exceeding, the dollar amount of the family premium for the lowest cost HMO. As of June 30, 2011, the City had not established a formal funding policy or trust to maintain future required contributions. The City is currently funding the benefits on a pay-as-you-go basis.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 15: POST RETIREMENT BENEFITS OTHER THAN RETIREMENT (continued)

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2011, the City's annual cost for the healthcare plan was \$1,071,807. The net pension obligation for governmental activities was \$2,333,541 as of June 30, 2011, and the net pension obligation for business-type activities was \$868,730 as of June 30, 2011. The City's annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2011 were as follows:

| | | |
|---|----|----------------------|
| Annual required contribution | | |
| Service cost at year-end | \$ | 865,980 |
| 30-year amortization of funded liability | | 199,374 |
| Interest | | 90,608 |
| Amortization of net OPEB obligation | | <u>(84,155)</u> |
| Total annual required contribution | | <u>1,071,807</u> |
| Employer contributions | | (1,472) |
| Net pension obligation at July 1, 2010 | | <u>2,131,936</u> |
| Net pension obligation at June 30, 2011 | \$ | <u>3,202,271</u> |

| <u>Year Ended</u> | <u>Annual OPEB cost</u> | <u>Actual Employer Contribution</u> | <u>Percentage Contributed</u> | <u>Net Ending OPEB</u> |
|-------------------|-------------------------|-------------------------------------|-------------------------------|------------------------|
| June 30, 2009 | \$ 1,088,732 | \$ 18,180 | 2 % | \$ 1,070,552 |
| June 30, 2010 | \$ 1,068,594 | \$ 7,210 | 1 % | \$ 2,131,936 |
| June 30, 2011 | \$ 1,071,807 | \$ 1,472 | 0.1 % | \$ 3,202,271 |

Funded Status and Funding Progress

The funded status of the plan based on the most recent actuarial study (2009) using age-adjusted premiums as of June 30, 2011, was as follows:

| | | |
|---|----|----------------------|
| Actuarial accrued liability (AAL) | | |
| Active employees | \$ | 4,212,530 |
| Retired employees | | <u>838,317</u> |
| | | <u>5,050,847</u> |
| Actuarial value of plan assets | | <u>-</u> |
| Unfunded actuarial accrued liability (UAAL) | \$ | <u>5,050,847</u> |
| Funded Ratio (actuarial value of plan assets / AAL) | | 0 % |
| Covered payroll (active plan members) | \$ | 4,372,476 |
| UAAL as a percentage of covered payroll | | 116 % |

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 15: POST RETIREMENT BENEFITS OTHER THAN RETIREMENT (continued)

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on the values which the City's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because 2009 was the year of implementation of GASB Statement No. 45 and the City elected to apply the statement prospectively, only two years are presented in the schedule at this time. In future years, required trend data will be presented.

Actuarial Methods and Assumptions

Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 2009 actuarial valuation, the entry age normal cost method was used. The asset valuation method was based on the market value of assets. The actuarial assumptions included a 7.75% interest rate if funded, and a 4.5% interest rate if unfunded. Salary increases were assumed to be 3.25% per year. Current active and retired participants are assumed to continue their current election through retirement. Non-participating actives are assigned a 50% probability of electing coverage at retirement. Existing elections for spousal coverage are assumed to be maintained through retirement and surviving spouses retain coverage until their death.

NOTE 16: CONTINGENT LIABILITIES AND COMMITMENTS

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

NOTE 17: RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Patterson intends to use available monies of its redevelopment agency for this purpose, and the City and Agency will approve a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

**NOTE 17: RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES
(continued)**

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

The City of Patterson intends to comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$425,901 thousand with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$186,720 thousand will be due annually. The amounts to be paid after Fiscal Year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

On December 29, 2011, the California Supreme Court upheld AB X1 26 which abolishes redevelopment agencies but struck down AB X1 27. The California Redevelopment Association along with the League of California Cities is working on immediate pieces of legislation to preserve the ability to create a restructured redevelopment program and to temporarily postpone the formal dissolution process contained in ABX1 26 that is currently scheduled to take place on February 1, 2012 as part of the Supreme Court's ruling. The Court's ruling requires that redevelopment agencies be dissolved on February 1, 2012. Without legislative action to postpone this deadline, a complicated process would be initiated of abolishing agencies and settling in place successor agencies charged with winding down redevelopment agency activities. Due to the uncertainty of these events, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE18 : PRIOR PERIOD ADJUSTMENTS

Fund Financial Statements

Management determined that a payable that should have been recorded in the prior year was incorrectly recorded, therefore, they have adjusted beginning fund balance of the General Fund by \$178,362.

Government-wide

Management determined that the following adjustments were necessary for the government-wide financial statements:

| <u>Description</u> | <u>Amount</u> |
|---|-------------------|
| Fund financial statement adjustment above | \$ 178,362 |
| Notes receivable revenue not recorded in prior year | <u>120,000</u> |
| Total Government-wide adjustment | <u>\$ 298,362</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PATTERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
JUNE 30, 2011

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Favorable (Unfavorable) |
|--|-------------------------|---------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| <u>REVENUES</u> | | | | |
| Taxes | | | | |
| Property | \$ 1,975,950 | \$ 1,975,950 | \$ 1,920,243 | \$ (55,707) |
| Sales | 1,138,950 | 1,138,950 | 1,385,013 | 246,063 |
| Franchise | 135,000 | 135,000 | 173,004 | 38,004 |
| Motor vehicle in lieu | 1,250,000 | 1,250,000 | 1,326,975 | 76,975 |
| Other | 71,300 | 71,300 | 120,657 | 49,357 |
| License, permits, and fees | 241,200 | 241,200 | 335,757 | 94,557 |
| Charges for current services | 468,269 | 468,269 | 277,893 | (190,376) |
| Intergovernmental | 591,500 | 591,500 | 452,760 | (138,740) |
| Fines, forfeitures and penalties | 143,100 | 143,100 | 459,105 | 316,005 |
| Investment earnings | 159,000 | 159,000 | 54,039 | (104,961) |
| Miscellaneous revenues | <u>140,660</u> | <u>140,660</u> | <u>185,911</u> | <u>45,251</u> |
| Total Revenues | <u>6,314,929</u> | <u>6,314,929</u> | <u>6,691,357</u> | <u>376,428</u> |
| <u>EXPENDITURES</u> | | | | |
| General government | 1,430,702 | 1,430,702 | 1,289,694 | 141,008 |
| Police | 3,392,893 | 3,392,893 | 3,305,964 | 86,929 |
| Fire | 885,405 | 885,405 | 778,901 | 106,504 |
| Community development and planning | 923,514 | 923,514 | 1,010,923 | (87,409) |
| Public works | 954,391 | 954,391 | 950,239 | 4,152 |
| Parks and recreation | 1,111,036 | 1,111,036 | 1,053,444 | 57,592 |
| Capital outlay | 33,000 | 33,000 | 6,648 | 26,352 |
| Debt service: | | | | |
| Principal | 126,647 | 126,647 | 126,456 | 191 |
| Interest and fiscal charges | <u>6,977</u> | <u>6,977</u> | <u>6,961</u> | <u>16</u> |
| Total Expenditures | <u>8,864,565</u> | <u>8,864,565</u> | <u>8,529,230</u> | <u>335,335</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(2,549,636)</u> | <u>(2,549,636)</u> | <u>(1,837,873)</u> | <u>41,093</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers in | 1,975,619 | 1,975,619 | 1,585,386 | (390,233) |
| Transfers out | <u>(326,000)</u> | <u>(326,000)</u> | <u>-</u> | <u>326,000</u> |
| Total Other Financing Sources (Uses) | <u>1,649,619</u> | <u>1,649,619</u> | <u>1,585,386</u> | <u>(64,233)</u> |
| Net Change in Fund Balance | <u>\$ (900,017)</u> | <u>\$ (900,017)</u> | <u>(252,487)</u> | <u>\$ (23,140)</u> |
| Fund Balance - July 1, 2010 | | | 11,005,441 | |
| Prior Period Adjustment | | | <u>(178,362)</u> | |
| Fund Balance - July 1, 2010, restated | | | <u>10,827,079</u> | |
| Fund Balance - June 30, 2011 | | | <u>\$ 10,574,592</u> | |

CITY OF PATTERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
LANDSCAPE MAINTENANCE DISTRICT
JUNE 30, 2011

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Favorable (Unfavorable) |
|--|-------------------------|--------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| <u>REVENUES</u> | | | | |
| Charges for current services | \$ 1,387,896 | \$ 1,387,896 | \$ 1,608,085 | \$ 220,189 |
| Investment earnings | - | - | 6,890 | 6,890 |
| Total Revenues | <u>1,387,896</u> | <u>1,387,896</u> | <u>1,614,975</u> | <u>227,079</u> |
| <u>EXPENDITURES</u> | | | | |
| Public works | 1,408,909 | 1,408,909 | 1,143,943 | 264,966 |
| Debt service: | | | | |
| Principal | - | - | 21,104 | (21,104) |
| Interest and fiscal charges | - | - | 3,681 | (3,681) |
| Total Expenditures | <u>1,408,909</u> | <u>1,408,909</u> | <u>1,168,728</u> | <u>240,181</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(21,013)</u> | <u>(21,013)</u> | <u>446,247</u> | <u>(13,102)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers out | - | - | (267,869) | (267,869) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>-</u> | <u>(267,869)</u> | <u>(267,869)</u> |
| Net Change in Fund Balance | <u>\$ (21,013)</u> | <u>\$ (21,013)</u> | <u>178,378</u> | <u>\$ (280,971)</u> |
| Fund Balance - July 1, 2010 | | | <u>1,040,611</u> | |
| Fund Balance - June 30, 2011 | | | <u>\$ 1,218,989</u> | |

CITY OF PATTERSON
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR CalPERS PENSIONS PLANS

Required Supplementary Information - Safety Plan**

| <u>Valuation Date</u> | <u>(1) Entry Age Actuarial Accrued 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, 2007 | \$ 7,986,055,176 | \$ 6,826,599,459 | \$ 1,159,455,717 | 85.5 % | \$ 831,607,658 | 139.4 % |
| June 30, 2008 | \$ 8,700,467,933 | \$ 7,464,927,716 | \$ 1,235,540,217 | 85.8 % | \$ 914,840,596 | 135.1 % |
| June 30, 2009 | \$ 9,721,675,347 | \$ 8,027,158,724 | \$ 1,694,516,623 | 82.6 % | \$ 973,814,168 | 174.0 % |

Required Supplementary Information - Miscellaneous Plan**

| <u>Valuation Date</u> | <u>(1) Entry Age Actuarial Accrued 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, 2007 | \$ 1,627,025,950 | \$ 1,362,059,317 | \$ 264,966,633 | 83.7 % | \$ 376,292,121 | 70.4 % |
| June 30, 2008 | \$ 1,823,366,479 | \$ 1,529,548,799 | \$ 293,817,680 | 83.9 % | \$ 414,589,514 | 70.9 % |
| June 30, 2009 | \$ 2,140,438,884 | \$ 1,674,260,302 | \$ 466,178,582 | 78.2 % | \$ 440,071,499 | 105.9 % |

**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.

CITY OF PATTERSON
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

| <u>Actuarial Valuation Date</u> | <u>Normal Accrued Liability</u> | <u>Actuarial Value of Assets</u> | <u>Liability (Excess Assets)</u> | <u>Funded Status</u> | <u>Annual Covered Payroll</u> | <u>UAAL as a % of Covered Payroll</u> |
|-------------------------------------|---|--|--|----------------------|---------------------------------------|---|
| June 30, 2009 | \$ 5,050,847 | \$ - | \$ 5,050,847 | 0% | \$ 4,372,476 | 116 % |

SUPPLEMENTARY INFORMATION

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Benefit Assessment Districts</u> | <u>CSA #15 Assessment District</u> | <u>Patterson Gardens Fire Suppression Assessment</u> | <u>Public Safety</u> | <u>Beautification Committee</u> |
|---|---|--|--|----------------------|-------------------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and investments | \$ 1,038,355 | \$ 14,851 | \$ 63,507 | \$ 1,095,327 | \$ 37,517 |
| Receivables: | | | | | |
| Accounts | 8,840 | - | 9,006 | 19,880 | - |
| Interest | 948 | 18 | 41 | 797 | 28 |
| Notes and loans | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 1,048,143</u> | <u>\$ 14,869</u> | <u>\$ 72,554</u> | <u>\$ 1,116,004</u> | <u>\$ 37,545</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | | |
| <u>(DEFICITS)</u> | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable and accrued liabilities | \$ 4,474 | \$ 343 | \$ - | \$ 2,585 | \$ - |
| Due to other funds | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - |
| Deposits | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>4,474</u> | <u>343</u> | <u>-</u> | <u>2,585</u> | <u>-</u> |
| FUND BALANCES (DEFICITS): | | | | | |
| Restricted | 1,043,669 | 14,526 | 72,554 | 1,113,419 | 37,545 |
| Committed | - | - | - | - | - |
| Unassigned | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Fund Balances (Deficits) | <u>1,043,669</u> | <u>14,526</u> | <u>72,554</u> | <u>1,113,419</u> | <u>37,545</u> |
| | | | | | |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 1,048,143</u> | <u>\$ 14,869</u> | <u>\$ 72,554</u> | <u>\$ 1,116,004</u> | <u>\$ 37,545</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>CDBG HA Loan Fund</u> | <u>State HCD Rehab Program</u> | <u>Federal CDBG Grant 2003</u> | <u>First Time Home Buyers</u> | <u>Federal HOME Funds</u> |
|--|------------------------------|------------------------------------|------------------------------------|-----------------------------------|-------------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and investments | \$ - | \$ 184,371 | \$ - | \$ 2,270 | \$ - |
| Receivables: | | | | | |
| Accounts | - | - | 335,644 | - | 117,506 |
| Interest | - | 136 | - | 2 | - |
| Notes and loans | <u>293,489</u> | <u>14,547</u> | <u>-</u> | <u>194,025</u> | <u>116,252</u> |
| Total Assets | <u>\$ 293,489</u> | <u>\$ 199,054</u> | <u>\$ 335,644</u> | <u>\$ 196,297</u> | <u>\$ 233,758</u> |
| <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u> | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ 25,460 | \$ - | \$ 100 |
| Due to other funds | - | - | 343,751 | - | 136,637 |
| Deferred revenue | 290,000 | - | - | - | 120,000 |
| Deposits | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>290,000</u> | <u>-</u> | <u>369,211</u> | <u>-</u> | <u>256,737</u> |
| FUND BALANCES (DEFICITS): | | | | | |
| Restricted | 3,489 | 199,054 | - | 196,297 | - |
| Committed | - | - | - | - | - |
| Unassigned | <u>-</u> | <u>-</u> | <u>(33,567)</u> | <u>-</u> | <u>(22,979)</u> |
| Total Fund Balances (Deficits) | <u>3,489</u> | <u>199,054</u> | <u>(33,567)</u> | <u>196,297</u> | <u>(22,979)</u> |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 293,489</u> | <u>\$ 199,054</u> | <u>\$ 335,644</u> | <u>\$ 196,297</u> | <u>\$ 233,758</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Local Law Enforcement Block Grant</u> | <u>Gas Tax</u> | <u>Local Transportation Fund</u> | <u>Developer Housing In-Lieu Fee</u> | <u>Redevelopment Agency</u> |
|--|--|------------------|--|--|---------------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and investments | \$ - | \$ - | \$ 642,017 | \$ 591,389 | \$ 1,105,710 |
| Receivables: | | | | | |
| Accounts | 6,014 | 65,655 | - | - | 6,811 |
| Interest | - | - | 472 | 435 | 819 |
| Notes and loans | - | - | - | 900,000 | - |
| | <u>6,014</u> | <u>65,655</u> | <u>642,489</u> | <u>1,491,824</u> | <u>1,113,340</u> |
| Total Assets | <u>\$ 6,014</u> | <u>\$ 65,655</u> | <u>\$ 642,489</u> | <u>\$ 1,491,824</u> | <u>\$ 1,113,340</u> |
| <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u> | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable and accrued liabilities | \$ 4 | \$ 2 | \$ 11,560 | \$ - | \$ 22,907 |
| Due to other funds | 5,025 | 2,086 | - | - | 275,026 |
| Deferred revenue | - | - | - | 900,000 | - |
| Deposits | - | - | - | - | - |
| | <u>5,029</u> | <u>2,088</u> | <u>11,560</u> | <u>900,000</u> | <u>297,933</u> |
| Total Liabilities | <u>5,029</u> | <u>2,088</u> | <u>11,560</u> | <u>900,000</u> | <u>297,933</u> |
| FUND BALANCES (DEFICITS): | | | | | |
| Restricted | 985 | 63,567 | 630,929 | - | 815,407 |
| Committed | - | - | - | 591,824 | - |
| Unassigned | - | - | - | - | - |
| | <u>985</u> | <u>63,567</u> | <u>630,929</u> | <u>591,824</u> | <u>815,407</u> |
| Total Fund Balances (Deficits) | <u>985</u> | <u>63,567</u> | <u>630,929</u> | <u>591,824</u> | <u>815,407</u> |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 6,014</u> | <u>\$ 65,655</u> | <u>\$ 642,489</u> | <u>\$ 1,491,824</u> | <u>\$ 1,113,340</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Affordable Housing</u> | <u>Westside Drainage Study</u> | <u>Senior Center</u> | <u>Community Facility Impact Fee</u> | <u>General Government Impact Fee</u> |
|--|-------------------------------|------------------------------------|----------------------|--|--|
| <u>ASSETS</u> | | | | | |
| Cash and investments | \$ 601,628 | \$ 61,581 | \$ - | \$ 652,961 | \$ 557,409 |
| Receivables: | | | | | |
| Accounts | - | - | - | - | - |
| Interest | 436 | 45 | - | 480 | 410 |
| Notes and loans | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 602,064</u> | <u>\$ 61,626</u> | <u>\$ -</u> | <u>\$ 653,441</u> | <u>\$ 557,819</u> |
| <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u> | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ 108,991 | \$ 19,571 |
| Due to other funds | - | - | 397 | - | - |
| Deferred revenue | - | - | - | - | - |
| Deposits | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>397</u> | <u>108,991</u> | <u>19,571</u> |
| FUND BALANCES (DEFICITS): | | | | | |
| Restricted | 602,064 | - | - | - | - |
| Committed | - | 61,626 | - | 544,450 | 538,248 |
| Unassigned | - | - | (397) | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Fund Balances (Deficits) | <u>602,064</u> | <u>61,626</u> | <u>(397)</u> | <u>544,450</u> | <u>538,248</u> |
| | | | | | |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 602,064</u> | <u>\$ 61,626</u> | <u>\$ -</u> | <u>\$ 653,441</u> | <u>\$ 557,819</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Public Safety Impact Fee</u> | <u>Parkland In- Lieu Fee</u> | <u>Street Improvement Impact Fee</u> | <u>Water Impact Fee</u> | <u>Storm Drain Impact Fee</u> |
|--|-------------------------------------|----------------------------------|--|-----------------------------|-----------------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and investments | \$ 906,061 | \$ 15,074 | \$ 2,529,921 | \$ - | \$ 1,377,824 |
| Receivables: | | | | | |
| Accounts | - | - | - | - | - |
| Interest | 666 | 11 | 1,860 | - | 1,013 |
| Notes and loans | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 906,727</u> | <u>\$ 15,085</u> | <u>\$ 2,531,781</u> | <u>\$ -</u> | <u>\$ 1,378,837</u> |
| <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u> | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable and accrued liabilities | \$ 10,725 | \$ - | \$ - | \$ 67 | \$ - |
| Due to other funds | - | - | - | 90,509 | - |
| Deferred revenue | - | - | - | - | - |
| Deposits | - | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>10,725</u> | <u>-</u> | <u>-</u> | <u>90,576</u> | <u>-</u> |
| FUND BALANCES (DEFICITS): | | | | | |
| Restricted | - | - | - | - | - |
| Committed | 896,002 | 15,085 | 2,531,781 | - | 1,378,837 |
| Unassigned | - | - | - | (90,576) | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Fund Balances (Deficits) | <u>896,002</u> | <u>15,085</u> | <u>2,531,781</u> | <u>(90,576)</u> | <u>1,378,837</u> |
| | | | | | |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 906,727</u> | <u>\$ 15,085</u> | <u>\$ 2,531,781</u> | <u>\$ -</u> | <u>\$ 1,378,837</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Sewer Impact Fee</u> | <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>ASSETS</u> | | | | | | |
| Cash and investments | \$ 143,680 | \$ 163,370 | \$ 35,791 | \$ 13,673 | \$ 43,151 | \$ 11,877,438 |
| Receivables: | | | | | | |
| Accounts | - | - | - | - | - | 569,356 |
| Interest | 106 | 120 | 26 | 10 | 31 | 8,910 |
| Notes and loans | - | - | - | - | - | 1,518,313 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 143,786</u> | <u>\$ 163,490</u> | <u>\$ 35,817</u> | <u>\$ 13,683</u> | <u>\$ 43,182</u> | <u>\$ 13,974,017</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | | | |
| <u>(DEFICITS)</u> | | | | | | |
| LIABILITIES: | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 206,789 |
| Due to other funds | - | - | - | - | - | 853,431 |
| Deferred revenue | - | - | - | - | - | 1,310,000 |
| Deposits | - | - | - | - | 47,176 | 47,176 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>47,176</u> | <u>2,417,396</u> |
| FUND BALANCES (DEFICITS): | | | | | | |
| Restricted | - | - | - | - | - | 4,793,505 |
| Committed | 143,786 | 163,490 | 35,817 | 13,683 | - | 6,914,629 |
| Unassigned | - | - | - | - | (3,994) | (151,513) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Fund Balances (Deficits) | <u>143,786</u> | <u>163,490</u> | <u>35,817</u> | <u>13,683</u> | <u>(3,994)</u> | <u>11,556,621</u> |
| Total Liabilities and Fund Balances (Deficits) | <u>\$ 143,786</u> | <u>\$ 163,490</u> | <u>\$ 35,817</u> | <u>\$ 13,683</u> | <u>\$ 43,182</u> | <u>\$ 13,974,017</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

| | Benefit Assessment Districts | CSA #15 Assessment District | Patterson Gardens Fire Suppression Assessment | Public Safety | Beautification Committee |
|--|---|--|--|----------------------|-------------------------------------|
| REVENUES | | | | | |
| Taxes | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other | - | - | - | - | - |
| License, permits, and fees | - | - | - | - | - |
| Charges for current services | 485,478 | 8,715 | 326,275 | 740,231 | - |
| Intergovernmental | - | - | - | - | - |
| Investment earnings | 6,558 | 124 | 889 | 5,526 | 213 |
| Miscellaneous revenues | - | - | - | - | - |
| Total Revenues | <u>492,036</u> | <u>8,839</u> | <u>327,164</u> | <u>745,757</u> | <u>213</u> |
| EXPENDITURES | | | | | |
| General government | - | - | - | - | - |
| Fire | - | - | 4,446 | 1,007,143 | - |
| Public works | 141,655 | - | - | - | 156 |
| Community development and planning | - | 6,133 | - | - | - |
| Capital outlay | - | - | - | - | - |
| Total Expenditures | <u>141,655</u> | <u>6,133</u> | <u>4,446</u> | <u>1,007,143</u> | <u>156</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>350,381</u> | <u>2,706</u> | <u>322,718</u> | <u>(261,386)</u> | <u>57</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | - | - | 305,050 | - |
| Transfers out | <u>(259,262)</u> | <u>(8,500)</u> | <u>(305,050)</u> | <u>(102,327)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>(259,262)</u> | <u>(8,500)</u> | <u>(305,050)</u> | <u>202,723</u> | <u>-</u> |
| Net Change in Fund Balances | <u>91,119</u> | <u>(5,794)</u> | <u>17,668</u> | <u>(58,663)</u> | <u>57</u> |
| Fund Balances (Deficits) - July 1, 2010 | <u>952,550</u> | <u>20,320</u> | <u>54,886</u> | <u>1,172,082</u> | <u>37,488</u> |
| Fund Balances (Deficits) - June 30, 2011 | <u>\$ 1,043,669</u> | <u>\$ 14,526</u> | <u>\$ 72,554</u> | <u>\$ 1,113,419</u> | <u>\$ 37,545</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>CDBG HA Loan</u> | <u>State HCD Rehab Program</u> | <u>Federal CDBG Grant 2003</u> | <u>First Time Home Buyers</u> | <u>Federal HOME Funds</u> |
|--|---------------------|------------------------------------|------------------------------------|-----------------------------------|-------------------------------|
| <u>REVENUES</u> | | | | | |
| Taxes | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other | - | - | - | - | - |
| License, permits, and fees | - | - | - | - | - |
| Charges for current services | - | - | - | - | - |
| Intergovernmental | - | - | 240,296 | - | 117,506 |
| Investment earnings | - | 943 | - | 425 | - |
| Miscellaneous revenues | - | - | - | - | 10,810 |
| | <u>-</u> | <u>943</u> | <u>240,296</u> | <u>425</u> | <u>128,316</u> |
| Total Revenues | <u>-</u> | <u>943</u> | <u>240,296</u> | <u>425</u> | <u>128,316</u> |
| <u>EXPENDITURES</u> | | | | | |
| General government | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Public works | - | - | - | - | - |
| Community development and planning | - | - | 10,446 | - | 148,701 |
| Capital outlay | - | - | 241,946 | - | - |
| | <u>-</u> | <u>-</u> | <u>252,392</u> | <u>-</u> | <u>148,701</u> |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>252,392</u> | <u>-</u> | <u>148,701</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>-</u> | <u>943</u> | <u>(12,096)</u> | <u>425</u> | <u>(20,385)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | |
| Transfers in | - | 105,704 | - | - | - |
| Transfers out | - | - | (21,532) | (105,704) | (11,292) |
| | <u>-</u> | <u>105,704</u> | <u>(21,532)</u> | <u>(105,704)</u> | <u>(11,292)</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>105,704</u> | <u>(21,532)</u> | <u>(105,704)</u> | <u>(11,292)</u> |
| Net Change in Fund Balances | <u>-</u> | <u>106,647</u> | <u>(33,628)</u> | <u>(105,279)</u> | <u>(31,677)</u> |
| Fund Balances (Deficits) - July 1, 2010 | <u>3,489</u> | <u>92,407</u> | <u>61</u> | <u>301,576</u> | <u>8,698</u> |
| Fund Balances (Deficits) - June 30, 2011 | <u>\$ 3,489</u> | <u>\$ 199,054</u> | <u>\$ (33,567)</u> | <u>\$ 196,297</u> | <u>\$ (22,979)</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Local Law Enforcement Block Grant</u> | <u>Gas Tax</u> | <u>Local Transportation Fund</u> | <u>Developer Housing In-Lieu Fee</u> | <u>Redevelopment Agency</u> |
|--|--|------------------|--|--|---------------------------------|
| <u>REVENUES</u> | | | | | |
| Taxes | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ 193,218 |
| Other | - | 501,577 | - | - | - |
| License, permits, and fees | - | - | - | - | - |
| Charges for current services | - | - | - | - | - |
| Intergovernmental | 16,484 | - | 86,217 | - | - |
| Investment earnings | 25 | 863 | 3,370 | 3,489 | 6,533 |
| Miscellaneous revenues | - | - | - | - | - |
| | <u>16,509</u> | <u>502,440</u> | <u>89,587</u> | <u>3,489</u> | <u>199,751</u> |
| Total Revenues | | | | | |
| <u>EXPENDITURES</u> | | | | | |
| General government | - | - | - | - | 30,278 |
| Fire | - | - | - | - | - |
| Public works | - | - | 37,915 | 36,555 | - |
| Community development and planning | - | - | - | - | 111,022 |
| Capital outlay | - | - | 18,771 | - | 29,069 |
| | <u>-</u> | <u>-</u> | <u>56,686</u> | <u>36,555</u> | <u>170,369</u> |
| Total Expenditures | | | | | |
| Excess (deficiency) of revenues over (under) expenditures | <u>16,509</u> | <u>502,440</u> | <u>32,901</u> | <u>(33,066)</u> | <u>29,382</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | (20,000) | (457,084) | - | - | (46,551) |
| | <u>(20,000)</u> | <u>(457,084)</u> | <u>-</u> | <u>-</u> | <u>(46,551)</u> |
| Total Other Financing Sources (Uses) | | | | | |
| Net Change in Fund Balances | <u>(3,491)</u> | <u>45,356</u> | <u>32,901</u> | <u>(33,066)</u> | <u>(17,169)</u> |
| Fund Balances (Deficits) - July 1, 2010 | <u>4,476</u> | <u>18,211</u> | <u>598,028</u> | <u>624,890</u> | <u>832,576</u> |
| Fund Balances (Deficits) - June 30, 2011 | <u>\$ 985</u> | <u>\$ 63,567</u> | <u>\$ 630,929</u> | <u>\$ 591,824</u> | <u>\$ 815,407</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Affordable Housing</u> | <u>Westside Drainage Study</u> | <u>Senior Center</u> | <u>Community Facility Impact Fee</u> | <u>General Government Impact Fee</u> |
|--|-------------------------------|------------------------------------|----------------------|--|--|
| <u>REVENUES</u> | | | | | |
| Taxes | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other | - | - | - | - | - |
| License, permits, and fees | - | - | - | - | 1,341 |
| Charges for current services | - | - | - | - | - |
| Intergovernmental | - | - | - | 4,800 | 145,000 |
| Investment earnings | 3,207 | 348 | - | 5,332 | 3,515 |
| Miscellaneous revenues | - | - | - | - | - |
| | <u>3,207</u> | <u>348</u> | <u>-</u> | <u>10,132</u> | <u>149,856</u> |
| Total Revenues | | | | | |
| | <u>3,207</u> | <u>348</u> | <u>-</u> | <u>10,132</u> | <u>149,856</u> |
| <u>EXPENDITURES</u> | | | | | |
| General government | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Public works | - | - | - | - | - |
| Community development and planning | - | - | 397 | - | - |
| Capital outlay | - | - | - | 601,549 | 309,411 |
| | <u>-</u> | <u>-</u> | <u>397</u> | <u>601,549</u> | <u>309,411</u> |
| Total Expenditures | | | | | |
| | <u>-</u> | <u>-</u> | <u>397</u> | <u>601,549</u> | <u>309,411</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>3,207</u> | <u>348</u> | <u>(397)</u> | <u>(591,417)</u> | <u>(159,555)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | |
| Transfers in | 46,551 | - | - | - | - |
| Transfers out | - | - | - | - | - |
| | <u>46,551</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | | | | | |
| | <u>46,551</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | <u>49,758</u> | <u>348</u> | <u>(397)</u> | <u>(591,417)</u> | <u>(159,555)</u> |
| Fund Balances (Deficits) - July 1, 2010 | <u>552,306</u> | <u>61,278</u> | <u>-</u> | <u>1,135,867</u> | <u>697,803</u> |
| Fund Balances (Deficits) - June 30, 2011 | <u>\$ 602,064</u> | <u>\$ 61,626</u> | <u>\$ (397)</u> | <u>\$ 544,450</u> | <u>\$ 538,248</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Public Safety Impact Fee</u> | <u>Parkland In- Lieu Fee</u> | <u>Street Improvement Impact Fee</u> | <u>Water Impact Fee</u> | <u>Storm Drain Impact Fee</u> |
|--|-------------------------------------|----------------------------------|--|-----------------------------|-----------------------------------|
| <u>REVENUES</u> | | | | | |
| Taxes | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other | - | - | - | - | - |
| License, permits, and fees | 1,459 | - | 9,095 | - | 21,105 |
| Charges for current services | - | - | - | - | - |
| Intergovernmental | - | - | - | 36,321 | - |
| Investment earnings | 5,652 | 85 | 14,294 | - | 8,190 |
| Miscellaneous revenues | - | - | - | - | - |
| | <u>7,111</u> | <u>85</u> | <u>23,389</u> | <u>36,321</u> | <u>29,295</u> |
| Total Revenues | | | | | |
| <u>EXPENDITURES</u> | | | | | |
| General government | - | - | - | - | - |
| Fire | - | - | - | - | - |
| Public works | 121,299 | - | - | 598 | - |
| Community development and planning | - | - | - | - | - |
| Capital outlay | 24,475 | - | 67,462 | 111,787 | 4,900 |
| | <u>145,774</u> | <u>-</u> | <u>67,462</u> | <u>112,385</u> | <u>4,900</u> |
| Total Expenditures | | | | | |
| Excess (deficiency) of revenues over (under) expenditures | <u>(138,663)</u> | <u>85</u> | <u>(44,073)</u> | <u>(76,064)</u> | <u>24,395</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | - | - | - | - | (111,040) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(111,040)</u> |
| Total Other Financing Sources (Uses) | | | | | |
| Net Change in Fund Balances | <u>(138,663)</u> | <u>85</u> | <u>(44,073)</u> | <u>(76,064)</u> | <u>(86,645)</u> |
| Fund Balances (Deficits) - July 1, 2010 | <u>1,034,665</u> | <u>15,000</u> | <u>2,575,854</u> | <u>(14,512)</u> | <u>1,465,482</u> |
| Fund Balances (Deficits) - June 30, 2011 | <u>\$ 896,002</u> | <u>\$ 15,085</u> | <u>\$ 2,531,781</u> | <u>\$ (90,576)</u> | <u>\$ 1,378,837</u> |

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Sewer Impact Fee</u> | <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> |
|--|-----------------------------|-------------------------------------|--|-------------------------------------|---|---|
| REVENUES | | | | | | |
| Taxes | | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 193,218 |
| Other | - | - | - | - | - | 501,577 |
| License, permits, and fees | - | - | - | - | - | 33,000 |
| Charges for current services | - | - | - | 3,812 | - | 1,564,511 |
| Intergovernmental | 12,301 | - | - | - | - | 658,925 |
| Investment earnings | 2,117 | 925 | 208 | 2,327 | 244 | 75,402 |
| Miscellaneous revenues | - | - | - | - | - | 10,810 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,810</u> |
| Total Revenues | <u>14,418</u> | <u>925</u> | <u>208</u> | <u>6,139</u> | <u>244</u> | <u>3,037,443</u> |
| EXPENDITURES | | | | | | |
| General government | - | - | - | - | - | 30,278 |
| Fire | - | - | - | - | - | 1,011,589 |
| Public works | - | - | - | - | - | 338,178 |
| Community development and planning | - | - | - | - | - | 276,699 |
| Capital outlay | - | - | 2,656 | - | - | 1,412,026 |
| | <u>-</u> | <u>-</u> | <u>2,656</u> | <u>-</u> | <u>-</u> | <u>1,412,026</u> |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>2,656</u> | <u>-</u> | <u>-</u> | <u>3,068,770</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>14,418</u> | <u>925</u> | <u>(2,448)</u> | <u>6,139</u> | <u>244</u> | <u>(31,327)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | - | - | - | 457,305 |
| Transfers out | (340,000) | - | - | (574,000) | - | (2,362,342) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>(574,000)</u> | <u>-</u> | <u>(1,905,037)</u> |
| Total Other Financing Sources (Uses) | <u>(340,000)</u> | <u>-</u> | <u>-</u> | <u>(574,000)</u> | <u>-</u> | <u>(1,905,037)</u> |
| Net Change in Fund Balances | <u>(325,582)</u> | <u>925</u> | <u>(2,448)</u> | <u>(567,861)</u> | <u>244</u> | <u>(1,936,364)</u> |
| Fund Balances (Deficits) - July 1, 2010 | <u>469,368</u> | <u>162,565</u> | <u>38,265</u> | <u>581,544</u> | <u>(4,238)</u> | <u>13,492,985</u> |
| Fund Balances (Deficits) - June 30, 2011 | <u>\$ 143,786</u> | <u>\$ 163,490</u> | <u>\$ 35,817</u> | <u>\$ 13,683</u> | <u>\$ (3,994)</u> | <u>\$ 11,556,621</u> |

CITY OF PATTERSON
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

| | <u>West Patterson Financing Authority</u> | <u>West Patterson Business Park</u> | <u>Heartland Ranch 2002</u> | <u>Total</u> |
|---------------------------------|---|---|---------------------------------|----------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ 2,875,338 | \$ 835,415 | \$ 642,722 | \$ 4,353,475 |
| Restricted cash and investments | 7,781,721 | - | 424,267 | 8,205,988 |
| Accounts receivable | 113,267 | 1,046 | 11,848 | 126,161 |
| Other assets | <u>6,345</u> | <u>630</u> | <u>487</u> | <u>7,462</u> |
| Total Assets | <u>\$ 10,776,671</u> | <u>\$ 837,091</u> | <u>\$ 1,079,324</u> | <u>\$ 12,693,086</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 49,955 | \$ - | \$ - | \$ 49,955 |
| Due to bondholders | <u>10,726,716</u> | <u>837,091</u> | <u>1,079,324</u> | <u>12,643,131</u> |
| Total Liabilities | <u>\$ 10,776,671</u> | <u>\$ 837,091</u> | <u>\$ 1,079,324</u> | <u>\$ 12,693,086</u> |

OTHER REPORTS



**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, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents and have issued our report thereon dated January 27, 2012. 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 opinions 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and identified in the schedule of findings and questioned costs as finding 2011-1.

We noted certain other matters that we reported to management of the City of Patterson in a separate letter dated January 27, 2012.

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

Sacramento, California
 January 27, 2012

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA
 Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council of
the City of Patterson
Patterson, California

Compliance

We have audited the City of Patterson's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Patterson's major federal programs for the year ended June 30, 2011. The City of Patterson's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Patterson's management. Our responsibility is to express an opinion on the City of Patterson's compliance based on our audit.

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

In our opinion, City of Patterson, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-2.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

PRINCIPALS

Chris A. Mann, CPA , CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-3 and 2011-4 to be significant deficiencies.

The City of Patterson's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Patterson's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

A handwritten signature in black ink that reads "Mandi Nul CPAs". The signature is written in a cursive, flowing style.

Sacramento, California
January 27, 2012

**CITY OF PATTERSON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

| <u>Federal Grantor/Pass-Through Grantor Program</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number/Grant Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--|---------------------------------|
| U.S Department of Transportation | | | |
| Direct Programs: | | | |
| ARRA: Highway Planning and Construction | 20.205 | ESPLCM 524 | \$ 637,319 |
| CMAQ: Highway Planning and Construction | 20.205 | ESPLCM 524 | <u>667,884</u> |
| Total U.S. Department of Transportation | | | <u>1,305,203</u> |
| U.S Department of Energy | | | |
| Direct Programs: | | | |
| Energy Efficiency and Conservation Block Grant | 81.128 | CBG-09-063 | <u>3,391</u> |
| Total U.S. Department of Energy | | | <u>3,391</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,308,594</u> |

CITY OF PATTERSON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Patterson (the City). The City of Patterson reporting entity is defined in Note 1 of the City's Annual Financial Report. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

NOTE 4: CLAIMS

The City of Patterson has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

**CITY OF PATTERSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|---|-------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | Yes |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes |
| Identification of Major Programs: ARRA and CMAQ: U.S. Department of Transportation, Highway Planning and Construction, CFDA 20.205 | |
| Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | No |

SECTION II - FINANCIAL STATEMENT FINDINGS

| | |
|--|----|
| Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted <i>Government Auditing Standards</i> | No |
|--|----|

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---|-----|
| Findings and questioned costs for Federal Awards, which includes audit findings and defined in section 510(a) | Yes |
|---|-----|

**CITY OF PATTERSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-1: Blight Progress Report (Redevelopment Compliance)

Criteria

Per Health and Safety Code Section 33080.1, the Agency must produce and present on a timely basis to its legislative body a description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous year.

Condition

The Agency did not produce and present on a timely basis to its legislative body a description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous year.

Cause

There was a lack over oversight and monitoring of compliance required of the Agency due to limited activities, staff turnover, and uncertainty of redevelopment continued existence as a result of ABX1-26 and 27.

Recommendation

We recommend the Agency perform review of compliance required of the Agency and adhere to all legal requirements.

Management's Response

Management intends to produce the required reports in order to be in compliance with the redevelopment requirements.

Finding 2011-2: Quality Control Program (Federal Compliance)

Criteria

In accordance with the Department of Transportation program special tests and provision compliance requirements for CFDA 20.205, the entity must have a quality assurance (QA) program, approved by FHWA, for construction projects to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor (23 CFR sections 637.201, 637.205, and 637.207).

Condition

During our audit over compliance, we noted that the City did not have in a quality control program in place.

Cause

Due to staffing levels, the City was unaware of such requirements and was not able to establish a quality control program.

Recommendation

We recommend the City establish a quality control program to be in compliance with the requirements of the special tests and provision requirements.

Management's Response

Management intends to research and examine further CFDA 20.205 requirements and make preparations to establish and maintain a quality control program in accordance with Federal guidelines.

**CITY OF PATTERSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-3: Procurement Policy (Internal Control over Compliance)

Criteria

To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that covered transactions (as defined in the suspension and debarment common rule) are not made with a debarred or suspended party.

Condition

We noted the City's current procurement/bidding policies have not been updated since 2003.

Cause

The City was not aware that an update to their procurement policy was necessary.

Recommendation

We recommend the City revisit their procurement policy to ensure that it is in-line with all Local, State, and Federal requirements. Conflict of interest statements should also be maintained for individuals with responsibility for procurement with goods and services. Official written policy for procurement and contracts should establish:

- Contract files that document significant procurement history;
- Methods of procurement, authorized including selection of contract type, contractor selection or rejection, and the basis of contract price;
- Verification that procurements provide full and open competition;
- Requirements for cost or price analysis, including for contract modifications;
- Obtaining and reacting to suspension and debarment certifications; and
- Other applicable requirements for procurements under Federal awards are followed.

Management's Response

Now that the City has been made aware of its need to update the procurement policies, we will update the policies and set an on-going time frame and guideline for doing so. The updates will include but not limited to the following: signed conflict of interest statements, where necessary, written policies and procedures for procurement and bidding processes. This documentation will also include cost and price analysis, as well as how to check for and deal with suspended and debarred parties.

**CITY OF PATTERSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-4: Grant Coordination and Oversight (Internal Control over Compliance)

Criteria

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition

During our audit, we noted that documented policies and procedures were not in place surrounding the preparation of the Schedule of Expenditures of Federal Awards or compliance with program requirements.

Cause

As this was the first year that the City required a single audit, internal controls were not put into place surrounding the preparation of the Schedule of Expenditure of Federal Awards. It appears the project/grant managers were not regularly communicating with the Finance Department in order to compile the necessary information.

Recommendation

We recommend that a process be put into place between the grant managers and finance department to ensure that all compliance and financial reporting requirements are met.

Management's Response

The City has already begun to implement new processes and procedures that will allow for internal control of each Federally Assisted project. These projects will be monitored and tracked at a detailed level by the Project Administration group and used primarily by Public Works, but will be readily available to other departments, if needed. This detail will include but is not limited to expenses, time and labor tracking as well as fund and account numbers. Two of the main purposes of these new processes are to have up-to-date tracking and to maintain a regularly scheduled billing and reimbursement process. This process consists of quarterly billings in March, June, September and December for the prior quarter. Data and reimbursement packages will be gathered and generated by Public Works and then forwarded to the Capital Projects Manager or Public Works Manager for review and compliance. After which it will be forwarded to Finance for review and approval and back to Public Works for any changes before submission. Because these are new processes and new controls, they are a work in progress and will be updated and enhanced as needed.

**CITY OF PATTERSON
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2011**

There were no findings reported for the year ended June 30, 2010, and therefore, no follow-up corrective action necessary.