



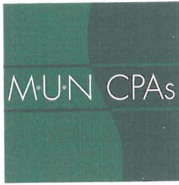
**CITY OF PATTERSON
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

CITY OF PATTERSON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012
TABLE OF CONTENTS

	Page
Independent Auditor's Report	1- 2
Management's Discussion and Analysis	3 - 15
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Governmental Funds	21
Statement of Net Assets - Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24 - 25
Statement of Net Assets - Fiduciary Funds	26
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	27
Notes to Basic Financial Statements	28 - 57
Required Supplemental Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual - General Fund	59
Schedule Of Revenues, Expenditures And Changes In Fund Balance - Budget To Actual - Landscape Maintenance District	60
Schedule of Funding Progress - CalPERS	61
Schedule of Funding Progress - Other Postemployment Benefits (OPEB)	62
Supplemental Information	
Combining Balance Sheets - Non Major Funds	64 - 69
Combining Statement of Revenues, Expenses and Changes in Fund Balances - Non-Major Funds	70 - 75
Combining Statement of Net Assets - Agency Funds	76

CITY OF PATTERSON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012
TABLE OF CONTENTS

	<u>Page</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 <i>Government Auditing Standards</i>	78
Schedule of Findings and Questioned Costs	79
Schedule of Prior Year Findings	80



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, 2012, 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, 2012, 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 provides for the dissolution of redevelopment agencies in the State of California. The Redevelopment Agency of the City of Patterson was a major component unit of the City. The effects of this legislation are described in the footnote.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2013 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.

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 combining and individual nonmajor fund financial statements 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.

ManVnt Ad CPAs

Sacramento, California
February 22, 2013

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

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, 2012. 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, 2012 include the following:

Government-wide:

- The City's total net assets were \$111,345,169 as of June 30, 2012. Of this total, \$63,687,963 were governmental net assets and \$47,657,206 were business-type net assets.
- Government-wide revenues include program revenues of \$6,495,047 and general revenues and transfers of \$7,636,319, for a total of \$14,131,366.
- Government-wide expenses were \$14,692,184.
- Business-type program revenues, general revenues, and transfers were \$6,827,460 while business-type expenses and transfers were \$8,269,634.

Fund Level:

- Governmental fund balances decreased \$2,185,827 in fiscal year 2012.
- Governmental fund revenues decreased \$480,786 in fiscal year 2012.
- Governmental fund expenditures decreased \$1,305,130 in fiscal year 2012.

General Fund:

- General Fund revenues of \$6,506,622 were \$184,735 lower than the prior year.
- General Fund expenditures of \$9,519,556 represented an increase of \$990,326 over the prior year.
- General Fund balance of \$9,339,525 as of June 30, 2012, decreased by \$1,235,067 from 2011 fiscal year's fund balance of \$10,574,592.

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, 2012

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

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

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

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

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

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

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

Fund Financial Statements

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

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

In the City's case, there are two major governmental funds in addition to the General Fund: the Landscape Maintenance District fund and the WWTP Construction 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, 2012

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, 2012

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
<u>ASSETS</u>		
Cash and investments	\$ 21,285,937	\$ 23,184,128
Other assets	4,852,298	5,462,888
Capital assets, net	<u>44,972,023</u>	<u>44,101,353</u>
TOTAL ASSETS	<u>71,110,258</u>	<u>72,748,369</u>
<u>LIABILITIES</u>		
Long-term liabilities	5,106,375	4,501,235
Other liabilities	<u>2,315,920</u>	<u>2,449,312</u>
TOTAL LIABILITIES	<u>7,422,295</u>	<u>6,950,547</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	42,804,314	41,633,066
Restricted	5,670,040	5,875,879
Unrestricted	<u>15,213,609</u>	<u>18,288,877</u>
TOTAL NET ASSETS	<u>\$ 63,687,963</u>	<u>\$ 65,797,822</u>

The City's governmental net assets amounted to \$63,687,963 as of June 30, 2012, a decrease of \$2,109,859 over 2011. 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, 2012 comprised the following:

Cash and investments totaled \$21,285,937. 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 \$1,140,598 of current receivables and loans receivable of \$3,711,700 that are due over longer periods of time as explained in Note 4.

Capital assets of \$44,972,023 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 \$1,767,822.

Compensated absences payable to employees were \$265,628, as explained in Note 9 to the financial statements.

Long-term liabilities of \$5,106,375 consisted of \$3,221,136 related to the City's other postemployment benefits, and \$1,885,239 of long-term liabilities.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

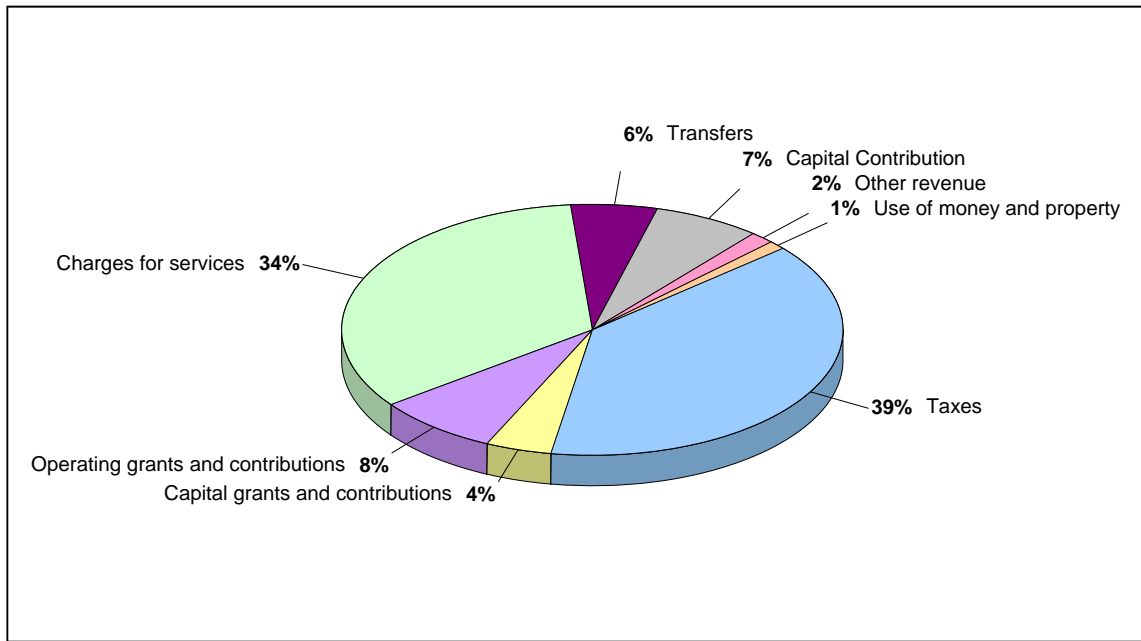
Invested in capital assets, net of related debt, of \$42,804,314, representing the City's investment in capital assets used in governmental activities, net of amounts borrowed to finance those investments.

Restricted net assets of \$5,670,040 was comprised of \$1,079,971 restricted for grants; \$36,999 restricted for code enforcement; \$136,886 restricted for debt service; \$201,924 restricted for capital projects; \$4,214,260 restricted for taxes, fees, and assessments.

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 \$15,213,609 as of June 30, 2012.

Governmental Activities

Sources of Revenues

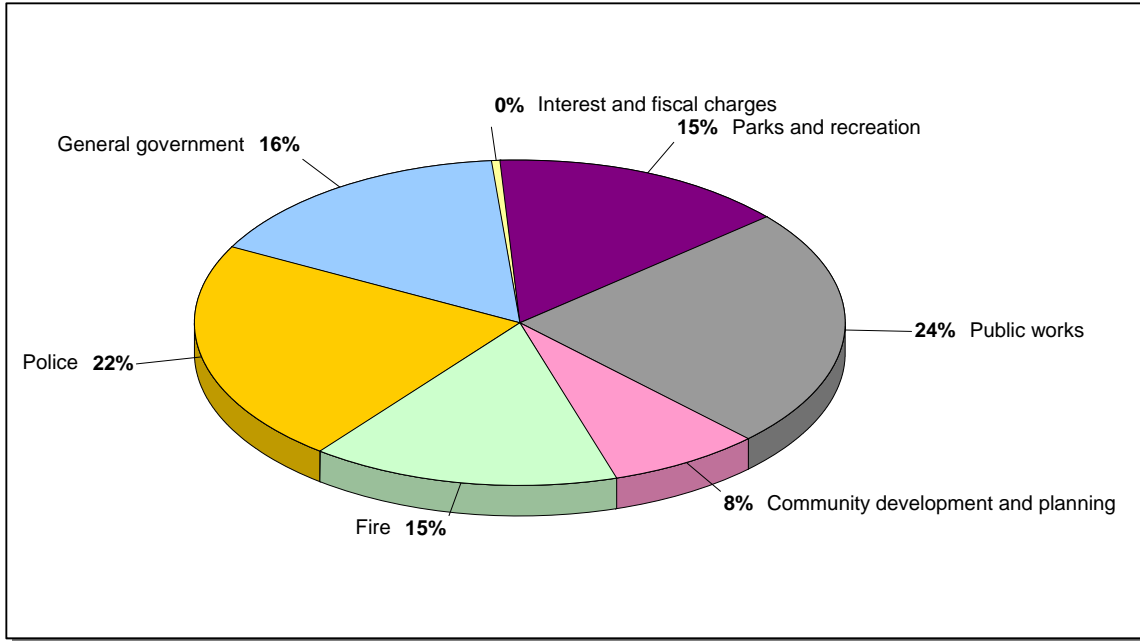


As the Governmental Activities Sources of Revenue chart above shows, \$5,487,806, or 39% of the City's fiscal year 2012 governmental activities revenue came from taxes, while \$4,771,932, or 34% came from charges for services, \$601,377 or 4%, came from capital grants and contributions, \$1,121,738 or 8% 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, 2012

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 \$2,333,516, or 16%, of total governmental expenses, community development and planning was \$1,116,622, or 8%, police was \$3,261,512, or 22%, fire was \$2,245,100, or 15%, public works was \$3,509,406, or 24%, parks and recreation was \$2,157,614, or 15%, 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, 2012

Table 2
CHANGE IN GOVERNMENTAL NET ASSETS

	Governmental Activities 2012	Governmental Activities 2011
<u>EXPENSES</u>		
General government	\$ 2,333,516	\$ 1,137,344
Police	3,261,512	3,305,964
Fire	2,245,100	1,957,740
Community development and planning	1,116,622	1,585,362
Public works	3,509,406	3,564,561
Parks and recreation	2,157,614	1,755,783
Interest and fiscal charges	68,414	125,929
TOTAL EXPENSES	14,692,184	13,432,683
<u>REVENUES</u>		
Program revenues		
Charges for services	4,771,932	4,278,351
Operating grants and contributions	1,121,738	1,514,416
Capital grants and contributions	601,377	1,111,481
Total program revenues	6,495,047	6,904,248
General revenues		
Taxes	5,487,806	5,620,687
Use of money and property	159,602	251,643
Capital Contribution	980,003	-
Other	1,008,908	(99,028)
Total general revenues	7,636,319	5,773,302
TOTAL REVENUES	14,131,366	12,677,550
Extraordinary item - Redevelopment dissolution (Note 17)	(1,549,041)	-
CHANGES IN NET ASSETS	\$ (2,109,859)	\$ (755,133)

As Table 2 above shows, \$6,495,047 or 46%, of the City's fiscal year 2012 governmental revenue, came from program revenues and \$7,636,319, or 54%, came from general revenues such as taxes and interest and transfers. Program revenues were composed of charges for services of \$4,771,932, which included permit revenues, fees and charges used to fund expenses incurred in providing services; \$1,121,738 of operating grants and contributions, which included housing and police grants; and capital grants and contributions of \$601,377, that consisted mainly of energy efficient retro-fit project, sewer, water, and streets projects.

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

The increase in expenditures of approximately 10% is partly due to re-hiring of vacant positions, increased personnel costs, and an increase in OPEB. The overall increase in revenues is partly due to a capital contribution related to the Corporation Yard. The decrease in taxes is related to the elimination of Redevelopment.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

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 2012	Net (Expense) Revenues from Services 2011
	<u>2012</u>	<u>2011</u>
General government	\$ (2,101,350)	\$ (729,712)
Police	(2,927,872)	(2,725,539)
Fire	(1,686,321)	(1,438,352)
Community development and planning	(30,210)	(998,742)
Public works	(747,194)	(195,488)
Parks and recreation	(635,776)	(314,673)
Interest and fiscal charges	<u>(68,414)</u>	<u>(125,929)</u>
Total	<u>\$ (8,197,137)</u>	<u>\$ (6,528,435)</u>

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

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, 2012

	<u>Business-type 2012</u>	<u>Business-type 2011</u>
<u>ASSETS</u>		
Cash and investments	\$ 8,959,919	\$ 9,855,324
Other assets	1,567,341	1,433,432
Capital assets, net	<u>53,227,392</u>	<u>54,874,976</u>
TOTAL ASSETS	<u>63,754,652</u>	<u>66,163,732</u>
<u>LIABILITIES</u>		
Long-term liabilities	15,083,001	15,093,871
Other liabilities	<u>1,014,445</u>	<u>1,970,481</u>
TOTAL LIABILITIES	<u>16,097,446</u>	<u>17,064,352</u>
<u>NET ASSETS</u>		
Invested in capital, net of related debt	38,967,545	40,214,015
Restricted	5,809,966	6,393,524
Unrestricted	<u>2,879,695</u>	<u>2,491,841</u>
TOTAL NET ASSETS	<u>\$ 47,657,206</u>	<u>\$ 49,099,380</u>

The net assets of business-type activities decreased by \$1,442,174 in fiscal year 2012. The decrease of cash and investments of \$895,405 and decrease in long-term liabilities of \$10,870 was primarily due to the capital expenditures and principal debt service payments. The decrease in other liabilities of \$956,036 was primarily due to the decrease in accounts payable at year end. Capital assets decreased by 3% primarily due to the increase in accumulated depreciation and a capital contribution to General Fund.

Table 5
CHANGE IN BUSINESS-TYPE NET ASSETS

	<u>2012</u>	<u>2011</u>
Water	\$ 59,387	\$ 1,509,832
Sewer	(1,727,752)	290,518
Garbage	<u>226,191</u>	<u>(1,962)</u>
Total	<u>\$ (1,442,174)</u>	<u>\$ 1,798,388</u>

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

ANALYSIS OF MAJOR FUNDS

Governmental Funds

General Fund

General Fund revenues decreased \$184,735 this fiscal year due to the slight drop in property tax, motor vehicle in lieu fees, fines, forfeitures and penalties and investment income. These decreases were compensated by increases in sales tax, license, permits and fees and intergovernmental charges. Tax revenues decreased \$144,162 as assessed values dropped slightly, which were compensated by sales tax increase.

General Fund expenditures were \$9,519,556 a increase of \$990,326 from the prior year. Expenditures increased due to the City re-hiring of vacant positions, increase personnel costs and increased OPEB

As of June 30, 2012, the General Fund's fund balance totaled \$9,339,525. 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 \$1,269,373.

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 \$201,924. The project is complete.

Proprietary Funds

Water Fund

Operating revenues increased by \$345,460 in fiscal year 2012 and operating expenses increased by \$520,371 resulting in operating income of \$747,517. Revenue increase is due to increase in water rates. Increase in water expenses results from increased personnel costs, professional services, and operating costs.

The fund's net assets increased by \$59,387 primarily related to less capital contributions and transfers-in from other funds for shared projects, to a new total of \$22,093,683. Of this amount, \$14,855,034 was invested in capital assets, net of related debt and \$5,593,491 was restricted for debt services.

Sewer Fund

Operating revenues increased \$202,746 to \$2,708,584. Operating expenses increased by \$333,345. The fund's net assets decreased by \$1,727,752 in fiscal year 2012. The majority of the decrease came from a capital contribution made to the general fund for the new Corporation Yard and a decrease in capital contributions and transfers-in from other funds for shared projects.

As of June 30, 2012, the fund's net assets were \$25,155,454, of which \$23,901,973 was invested in capital assets, net of related debt, \$216,475 was restricted, and \$1,037,006 was unrestricted.

Garbage Fund

Operating revenues increased by \$194,601 to \$2,147,980. Operating expenses decreased by \$67,374. The change in net assets of the Garbage Fund resulted in a increase of \$226,191 in fiscal year 2012. This increase came from an increase in rates and decrease in professional services.

As of June 30, 2012, the fund's net assets were \$408,069, of which \$210,538 was invested in capital assets, net of related debt and \$197,531 was unrestricted.

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

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 2012, 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 2012, 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,

	<u>2012</u>	<u>2011</u>
Governmental Activities		
Capital assets not being depreciated		
Land	\$ 2,768,831	\$ 2,768,831
Construction in progress	<u>2,234,009</u>	<u>5,961,158</u>
Total capital assets not being depreciated	<u>5,002,840</u>	<u>8,729,989</u>
Capital assets being depreciated		
Buildings	21,499,663	19,018,959
Improvements	10,633,995	10,448,760
Streets and roads	14,425,856	11,128,099
Equipment	<u>4,338,445</u>	<u>4,181,647</u>
Total capital assets not being depreciated	<u>50,897,959</u>	<u>44,777,465</u>
Less: accumulated depreciation		
Buildings	(1,966,059)	(1,489,830)
Improvements	(3,146,119)	(2,630,163)
Streets and roads	(2,434,622)	(2,161,242)
Equipment	<u>(3,381,976)</u>	<u>(3,124,866)</u>
Total accumulated depreciation	<u>(10,928,776)</u>	<u>(9,406,101)</u>
Governmental activities capital assets, net	<u>\$ 44,972,023</u>	<u>\$ 44,101,353</u>

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

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

	2012	2011
Business-type Activities		
Capital assets not being depreciated		
Land	\$ 5,745,597	\$ 5,745,597
Construction in progress	4,651,130	7,455,346
Total capital assets not being depreciated	10,396,727	13,200,943
Capital assets being depreciated		
Infrastructure	54,594,802	51,630,637
Equipment	1,658,477	1,509,080
Total capital assets being depreciated	56,253,279	53,139,717
Less: accumulated depreciation		
Infrastructure	(12,377,767)	(10,533,352)
Equipment	(1,044,847)	(932,332)
Total accumulated depreciation	(13,422,614)	(11,465,684)
Business-type activities capital assets, net	\$ 53,227,392	\$ 54,874,976

Governmental capital assets increased 2%. Business-type capital assets decreased 3% . Both are due to current year capital contributions from Sewer Fund to General Fund. 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, 2012

DEBT ADMINISTRATION

During 2012, 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

	2012	2011
Governmental activities		
Compensated absences	\$ 265,628	\$ 255,680
State water resources loan	1,992,187	2,184,535
Capital leases	175,522	283,752
Total governmental activities	\$ 2,433,337	\$ 2,723,967
Business-type activities		
Water		
Compensated absences	\$ 58,959	\$ 58,324
2011 water revenue bond	9,630,000	9,830,000
Capital leases	34,100	44,600
Total for water fund	9,723,059	9,932,924
Sewer		
Compensated absences	55,126	56,054
Economic bank loan	600,000	665,186
State revolving fund loan	806,513	841,624
1979 sewer bonds	95,000	104,000
2009 sewer bonds	3,025,000	3,085,000
Capital leases	69,234	90,551
Total for sewer fund	4,650,873	4,842,415
Garbage		
Compensated absences	13,480	11,331
Total for garbage fund	13,480	11,331
Total business-type activities	\$ 14,387,412	\$ 14,786,670

CITY OF PATTERSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR END JUNE 30, 2012

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Patterson's economy has begun to grow again after four years of recession. Housing prices have not only stabilized but have begun to rise again. New single-family residential construction activity has begun as well. While 2012 brought the closure of one of the City's largest employers, the Patterson Vegetable Company, it also brought the construction of a new 157,000 square foot Walmart Supercenter and the announcement that Amazon.com would build a one-million square foot state of the art fulfillment center in the Westridge Business Park. Walmart and Amazon alone will create twice as many jobs as those that were lost at the Patterson Vegetable Company.

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 Walmart Supercenter, a Panda Express takeout restaurant, a Gamestop store, an O'Reilly Auto Parts store and an Arco service station and mini mart will add to the City's sales tax base.

Patterson has established 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. The announcement from Amazon will further solidify this growing reputation. These facilities are bringing good paying jobs to the community and should result in other types of economic development in the future. At least five new or expanded medical offices and clinics have come to Patterson over the last year as well, further establishing the City as the retail, commercial and service hub of Western Stanislaus County and northwest Merced County

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 January, 40% in May, 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 2012-2013.

The memorandum of understanding (MOU) with the largest bargaining unit of City employees, AFSCME Local 10, had a termination date of June 30, 2012. Meetings were held throughout the summer and fall of 2012 to reach agreement on a new MOU. At the end of 2012 the membership overwhelmingly ratified a new two-year agreement that will extend through June 30, 2014. The agreement restores the normal performance evaluation merit step process and provides a potential across-the-board increase of 4% in April of 2014 if the City's sales tax revenues reach a specified target in Calendar Year 2013. In December of 2012 the City reached agreement with its second bargaining unit, the Patterson Firefighters' Association, on a new three-year MOU that will extend through December 31, 2015. It also includes potential wage increases in the second and third years based on sales tax revenue performance.

Over the past year the City has dealt with the elimination of its redevelopment agency, brought about by State legislation and a subsequent California Supreme Court decision. The dissolution process will be complete by the end of the 2012-2013 fiscal year.

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, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments (Note 3)	\$ 21,285,937	\$ 3,149,953	\$ 24,435,890
Receivables:			
Accounts	1,029,588	975,700	2,005,288
Interest	111,010	1,390	112,400
Notes and loans (Note 4)	3,711,700	-	3,711,700
Restricted cash and investments (Note 3)	-	5,809,966	5,809,966
Deferred charges, net of amortization	-	590,251	590,251
Capital assets (Note 5):			
Capital assets, net of accumulated depreciation	<u>44,972,023</u>	<u>53,227,392</u>	<u>98,199,415</u>
Total Assets	<u>71,110,258</u>	<u>63,754,652</u>	<u>134,864,910</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	912,101	333,664	1,245,765
Deposits	733,139	113,200	846,339
Accrued interest	101,142	3,600	104,742
Deferred revenue (Note 8)	21,440	-	21,440
Other postemployment benefits (Note 15)			
Due in more than one year	3,221,136	1,259,570	4,480,706
Accrued compensated absences (Note 9):			
Due within one year	265,628	127,565	393,193
Long-term liabilities (Note 9):			
Due within one year	282,470	436,416	718,886
Due in more than one year	<u>1,885,239</u>	<u>13,823,431</u>	<u>15,708,670</u>
Total Liabilities	<u>7,422,295</u>	<u>16,097,446</u>	<u>23,519,741</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	42,804,314	38,967,545	81,771,859
Restricted for:			
Capital projects	238,923	-	238,923
Debt service	136,886	5,809,966	5,946,852
Grants, taxes, and fees	<u>5,294,231</u>	<u>-</u>	<u>5,294,231</u>
Total restricted net assets	<u>5,670,040</u>	<u>44,777,511</u>	<u>93,251,865</u>
Unrestricted net assets	<u>15,213,609</u>	<u>2,879,695</u>	<u>18,093,304</u>
Total Net Assets	<u>\$ 63,687,963</u>	<u>\$ 47,657,206</u>	<u>\$ 111,345,169</u>

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

CITY OF PATTERSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 2,333,516	\$ 74,190	\$ 157,976	\$ -	\$ (2,101,350)	\$ -	\$ (2,101,350)
Police	3,261,512	207,306	126,334	-	(2,927,872)	-	(2,927,872)
Fire	2,245,100	334,540	224,239	-	(1,686,321)	-	(1,686,321)
Community development and planning	1,116,622	676,078	410,083	251	(30,210)	-	(30,210)
Public works	3,509,406	1,957,980	203,106	601,126	(747,194)	-	(747,194)
Parks and recreation	2,157,614	1,521,838	-	-	(635,776)	-	(635,776)
Interest and fiscal charges	68,414	-	-	-	(68,414)	-	(68,414)
Total Governmental Activities	<u>14,692,184</u>	<u>4,771,932</u>	<u>1,121,738</u>	<u>601,377</u>	<u>(8,197,137)</u>	<u>-</u>	<u>(8,197,137)</u>
Business-type activities:							
Water	3,216,668	3,528,681	-	-	-	312,013	312,013
Sewer	3,386,088	2,708,584	-	-	-	(677,504)	(677,504)
Garbage	1,666,878	2,147,980	-	-	-	481,102	481,102
Total Business-type Activities	<u>8,269,634</u>	<u>8,385,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,611</u>	<u>115,611</u>
Total Primary Government	<u>\$ 22,961,818</u>	<u>\$ 13,157,177</u>	<u>\$ 1,121,738</u>	<u>\$ 601,377</u>	<u>\$ (8,197,137)</u>	<u>\$ 115,611</u>	<u>\$ (8,081,526)</u>
General Revenues:							
Taxes:							
Property tax					\$ 1,900,394	\$ -	\$ 1,900,394
Sales tax					1,542,190	-	1,542,190
Franchise tax					168,451	-	168,451
Motor vehicle in lieu					1,199,856	-	1,199,856
Other taxes					676,915	-	676,915
Use of money and property					159,602	32,583	192,185
Capital contribution					980,003	(980,003)	-
Other revenue					217,324	-	217,324
Transfers					791,584	(610,365)	181,219
Total General Revenues and Transfers					<u>7,636,319</u>	<u>(1,557,785)</u>	<u>6,078,534</u>
Extraordinary item - Redevelopment dissolution (Note 17)					<u>(1,549,041)</u>	<u>-</u>	<u>(1,549,041)</u>
Change in Net Assets					(2,109,859)	(1,442,174)	(3,552,033)
Net Assets - July 1, 2011					<u>65,797,822</u>	<u>49,099,380</u>	<u>114,897,202</u>
Net Assets - June 30, 2012					<u>\$ 63,687,963</u>	<u>\$ 47,657,206</u>	<u>\$ 111,345,169</u>

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

CITY OF PATTERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Landscape Maintenance District	WWTP Construction	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and investments	\$ 10,029,400	\$ 1,249,966	\$ 4,405	\$ 10,002,166	\$ 21,285,937
Receivables:					
Accounts	668,378	90,317	-	270,893	1,029,588
Interest	4,360	709	2	4,797	9,868
Notes and loans	16,632	-	1,992,187	1,702,881	3,711,700
Due from other funds	61,208	-	-	-	61,208
 Total Assets	 \$ 10,779,978	 \$ 1,340,992	 \$ 1,996,594	 \$ 11,980,737	 \$ 26,098,301
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 733,050	\$ 71,619	\$ -	\$ 107,432	\$ 912,101
Due to other funds	-	-	-	61,208	61,208
Deferred revenue	21,440	-	1,794,670	1,310,000	3,126,110
Deposits	685,963	-	-	47,176	733,139
 Total Liabilities	 1,440,453	 71,619	 1,794,670	 1,525,816	 4,832,558
FUND BALANCES:					
Restricted	173,885	1,269,373	201,924	4,024,858	5,670,040
Committed	3,580,604	-	-	6,465,547	10,046,151
Assigned	5,389,558	-	-	-	5,389,558
Unassigned	195,478	-	-	(35,484)	159,994
 Total Fund Balances	 9,339,525	 1,269,373	 201,924	 10,454,921	 21,265,743
 Total Liabilities and Fund Balances	 \$ 10,779,978	 \$ 1,340,992	 \$ 1,996,594	 \$ 11,980,737	 \$ 26,098,301

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, 2012

Total fund balances of governmental funds	\$ 21,265,743
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 \$10,928,776.	44,972,023
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.	3,104,670
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Long-term liabilities	(2,167,709)
Compensated absences	(265,628)
Net OPEB obligation	(3,221,136)
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	(101,142)
Accrued interest receivable	101,142
Net assets of governmental activities	\$ 63,687,963

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, 2012

	<u>General Fund</u>	<u>Landscape Maintenance District</u>	<u>WWTP Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>					
Taxes:					
Property	\$ 1,788,476	\$ -	\$ -	\$ 111,918	\$ 1,900,394
Sales	1,542,190	-	-	-	1,542,190
Franchise	168,451	-	-	-	168,451
Motor vehicle in lieu	1,199,856	-	-	-	1,199,856
Other	82,757	-	-	594,158	676,915
License, permits, and fees	441,445	-	-	711,248	1,152,693
Charges for current services	275,602	1,562,707	-	1,588,245	3,426,554
Intergovernmental	630,324	-	-	1,092,791	1,723,115
Fines, forfeitures and penalties	192,685	-	-	-	192,685
Investment earnings	41,774	5,544	61,187	51,097	159,602
Miscellaneous revenues	<u>143,062</u>	<u>-</u>	<u>-</u>	<u>74,262</u>	<u>217,324</u>
Total Revenues	<u>6,506,622</u>	<u>1,568,251</u>	<u>61,187</u>	<u>4,223,719</u>	<u>12,359,779</u>
<u>EXPENDITURES</u>					
General government	1,756,247	-	-	-	1,756,247
Police	3,229,131	-	-	-	3,229,131
Fire	972,502	-	-	1,124,440	2,096,942
Community development and planning	903,435	-	-	88,483	991,918
Public works	1,312,336	1,283,902	-	215,364	2,811,602
Parks and recreation	1,182,646	-	-	-	1,182,646
Capital outlay	65,920	-	-	1,482,490	1,548,410
Debt service:					
Principal	92,753	15,477	192,348	-	300,578
Interest and fiscal charges	<u>4,586</u>	<u>2,661</u>	<u>61,167</u>	<u>-</u>	<u>68,414</u>
Total Expenditures	<u>9,519,556</u>	<u>1,302,040</u>	<u>253,515</u>	<u>2,910,777</u>	<u>13,985,888</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,012,934)</u>	<u>266,211</u>	<u>(192,328)</u>	<u>1,312,942</u>	<u>(1,626,109)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Proceeds from loan repayments	-	-	197,739	-	197,739
Transfers in	1,777,867	80,998	-	809,795	2,668,660
Transfers out	<u>-</u>	<u>(296,825)</u>	<u>-</u>	<u>(1,580,251)</u>	<u>(1,877,076)</u>
Total Other Financing Sources (Uses)	<u>1,777,867</u>	<u>(215,827)</u>	<u>197,739</u>	<u>(770,456)</u>	<u>989,323</u>
<u>EXTRAORDINARY GAINS (LOSSES)</u>					
Redevelopment dissolution (Note 17)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,549,041)</u>	<u>(1,549,041)</u>
Net Change in Fund Balances	<u>(1,235,067)</u>	<u>50,384</u>	<u>5,411</u>	<u>(1,006,555)</u>	<u>(2,185,827)</u>
Fund Balances - July 1, 2011	<u>10,574,592</u>	<u>1,218,989</u>	<u>196,513</u>	<u>11,461,476</u>	<u>23,451,570</u>
Fund Balances - June 30, 2012	<u>\$ 9,339,525</u>	<u>\$ 1,269,373</u>	<u>\$ 201,924</u>	<u>\$ 10,454,921</u>	<u>\$ 21,265,743</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, 2012

Net change in fund balance - total governmental funds	\$ (2,185,827)
<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	1,413,344
Depreciation expense	(1,522,677)
<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>	
	980,003
<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	192,348
Capital lease obligation principal payments	108,230
<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>	
	(197,739)
<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	(9,946)
Other post employment benefits	<u>(887,595)</u>
Change in net assets of governmental activities	\$ <u>(2,109,859)</u>

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

CITY OF PATTERSON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>ASSETS</u>				
Current Assets				
Cash and investments	\$ 1,694,996	\$ 1,257,828	\$ 197,129	\$ 3,149,953
Accounts receivable	420,266	309,656	245,778	975,700
Interest receivable	<u>778</u>	<u>522</u>	<u>90</u>	<u>1,390</u>
Total Current Assets	<u>2,116,040</u>	<u>1,568,006</u>	<u>442,997</u>	<u>4,127,043</u>
Restricted cash and investments	5,593,491	216,475	-	5,809,966
Deferred charges, net of amortization	406,211	184,040	-	590,251
Capital assets				
Land	2,877,956	2,867,641	-	5,745,597
Construction in progress	1,631,968	2,822,426	196,736	4,651,130
Infrastructure	22,791,105	31,803,697	-	54,594,802
Machinery and equipment	807,393	749,176	101,908	1,658,477
Less: accumulated depreciation	<u>(3,589,288)</u>	<u>(9,745,220)</u>	<u>(88,106)</u>	<u>(13,422,614)</u>
Total Capital Assets	<u>24,519,134</u>	<u>28,497,720</u>	<u>210,538</u>	<u>53,227,392</u>
Total Assets	<u>32,634,876</u>	<u>30,466,241</u>	<u>653,535</u>	<u>63,754,652</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable	116,115	96,045	121,504	333,664
Deposits payable	113,200	-	-	113,200
Accrued interest	-	3,600	-	3,600
Compensated absences, current portion	58,959	55,126	13,480	127,565
Long-term liabilities, current portion	<u>210,464</u>	<u>225,952</u>	<u>-</u>	<u>436,416</u>
Total Current Liabilities	<u>498,738</u>	<u>380,723</u>	<u>134,984</u>	<u>1,014,445</u>
Long-term Liabilities				
Net OPEB obligation	588,819	560,269	110,482	1,259,570
Long-term liabilities, net of current	<u>9,453,636</u>	<u>4,369,795</u>	<u>-</u>	<u>13,823,431</u>
Total Long-term Liabilities	<u>10,042,455</u>	<u>4,930,064</u>	<u>110,482</u>	<u>15,083,001</u>
Total Liabilities	<u>10,541,193</u>	<u>5,310,787</u>	<u>245,466</u>	<u>16,097,446</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	14,855,034	23,901,973	210,538	38,967,545
Restricted for debt service	5,593,491	216,475	-	5,809,966
Unrestricted	<u>1,645,158</u>	<u>1,037,006</u>	<u>197,531</u>	<u>2,879,695</u>
Total Net Assets	<u>\$ 22,093,683</u>	<u>\$ 25,155,454</u>	<u>\$ 408,069</u>	<u>\$ 47,657,206</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, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>OPERATING REVENUES</u>				
Charges for services	\$ 3,528,681	\$ 2,705,509	\$ 2,102,594	\$ 8,336,784
Other	<u>-</u>	<u>3,075</u>	<u>45,386</u>	<u>48,461</u>
Total Operating Revenues	<u>3,528,681</u>	<u>2,708,584</u>	<u>2,147,980</u>	<u>8,385,245</u>
<u>OPERATING EXPENSES</u>				
Salaries and benefits	1,223,622	1,216,181	209,770	2,649,573
Contractual and professional services	200,917	289,221	1,368,612	1,858,750
Supplies and operating costs	639,483	453,699	89,413	1,182,595
Depreciation	<u>717,142</u>	<u>1,239,786</u>	<u>-</u>	<u>1,956,928</u>
Total Operating Expenses	<u>2,781,164</u>	<u>3,198,887</u>	<u>1,667,795</u>	<u>7,647,846</u>
Operating Income (Loss)	<u>747,517</u>	<u>(490,303)</u>	<u>480,185</u>	<u>737,399</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Interest income	8,263	24,320	-	32,583
Capital contribution	-	(980,003)	-	(980,003)
Interest expense	<u>(435,504)</u>	<u>(187,201)</u>	<u>917</u>	<u>(621,788)</u>
Total Non-Operating Revenues (Expenses)	<u>(427,241)</u>	<u>(1,142,884)</u>	<u>917</u>	<u>(1,569,208)</u>
Income (Loss) Before Transfers and Contributions	<u>320,276</u>	<u>(1,633,187)</u>	<u>481,102</u>	<u>(831,809)</u>
<u>TRANSFERS AND CAPITAL CONTRIBUTIONS</u>				
Transfers in	172,288	876,829	-	1,049,117
Transfers out	<u>(433,177)</u>	<u>(971,394)</u>	<u>(254,911)</u>	<u>(1,659,482)</u>
Total Transfers and Capital Contributions	<u>(260,889)</u>	<u>(94,565)</u>	<u>(254,911)</u>	<u>(610,365)</u>
Change in Net Assets	<u>59,387</u>	<u>(1,727,752)</u>	<u>226,191</u>	<u>(1,442,174)</u>
Net Assets - July 1, 2011	<u>22,034,296</u>	<u>26,883,206</u>	<u>181,878</u>	<u>49,099,380</u>
Net Assets - June 30, 2012	<u>\$ 22,093,683</u>	<u>\$ 25,155,454</u>	<u>\$ 408,069</u>	<u>\$ 47,657,206</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, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Cash received from customers	\$ 3,442,030	\$ 2,674,584	\$ 2,121,739	\$ 8,238,353
Cash paid to suppliers	(836,687)	(941,799)	(1,453,377)	(3,231,863)
Cash paid to employees	<u>(1,039,147)</u>	<u>(1,045,718)</u>	<u>(172,013)</u>	<u>(2,256,878)</u>
Net Cash Provided by Operating Activities	<u>1,566,196</u>	<u>687,067</u>	<u>496,349</u>	<u>2,749,612</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Transfers in (out)	(260,889)	(94,565)	(254,911)	(610,365)
Proceeds from (payments of) interfund loans	<u>-</u>	<u>-</u>	<u>(30,262)</u>	<u>(30,262)</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(260,889)</u>	<u>(94,565)</u>	<u>(285,173)</u>	<u>(640,627)</u>
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>				
Principal payments on capital debt	(200,000)	(169,269)	-	(369,269)
Interest paid on capital debt	(435,504)	(187,201)	(69)	(622,774)
Principal payments on capital lease	(10,500)	(21,317)	-	(31,817)
Bond issuance costs	14,255	-	-	14,255
Acquisition and construction of capital assets	<u>(1,391,868)</u>	<u>(622,676)</u>	<u>(14,805)</u>	<u>(2,029,349)</u>
Net Cash Provided by (Used for) Capital Financing Activities	<u>(2,023,617)</u>	<u>(1,000,463)</u>	<u>(14,874)</u>	<u>(3,038,954)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest	<u>9,005</u>	<u>24,732</u>	<u>827</u>	<u>34,564</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>9,005</u>	<u>24,732</u>	<u>827</u>	<u>34,564</u>
Net (Increase) Decrease in Cash and Cash Equivalents	<u>(709,305)</u>	<u>(383,229)</u>	<u>197,129</u>	<u>(895,405)</u>
Cash and Cash Equivalents - July 1, 2011	<u>7,997,792</u>	<u>1,857,532</u>	<u>-</u>	<u>9,855,324</u>
Cash and Cash Equivalents - June 30, 2012	<u>\$ 7,288,487</u>	<u>\$ 1,474,303</u>	<u>\$ 197,129</u>	<u>\$ 8,959,919</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and investments	\$ 1,694,996	\$ 1,257,828	\$ 197,129	\$ 3,149,953
Restricted cash and investments	<u>5,593,491</u>	<u>216,475</u>	<u>-</u>	<u>5,809,966</u>
Total cash and investments	<u>\$ 7,288,487</u>	<u>\$ 1,474,303</u>	<u>\$ 197,129</u>	<u>\$ 8,959,919</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, 2012

	<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)	\$ 747,517	\$ (490,303)	\$ 480,185	\$ 737,399
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	717,142	1,239,786	-	1,956,928
Amortization expense	-	6,816	-	6,816
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(95,801)	(34,000)	(26,241)	(156,042)
Increase (decrease) in accounts payable	3,713	(205,695)	4,648	(197,334)
Increase in customer deposits	9,150	-	-	9,150
Increase (decrease) in compensated absences	635	(928)	2,148	1,855
Increase in net OPEB obligation	<u>183,840</u>	<u>171,391</u>	<u>35,609</u>	<u>390,840</u>
Net Cash Provided by Operating Activities	<u>\$ 1,566,196</u>	<u>\$ 687,067</u>	<u>\$ 496,349</u>	<u>\$ 2,749,612</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, 2012

<u>ASSETS</u>	<u>Private- Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and investments (Note 3)	\$ 1,519,321	\$ 3,253,961
Restricted cash and investments (Note 3)	-	10,679,114
Accounts receivable	696	389,195
Other assets	<u>-</u>	<u>3,419</u>
Total Assets	<u>1,520,017</u>	<u>14,325,689</u>
 <u>LIABILITIES</u>		
Accounts payable	503	6,580
Due to bondholders	<u>-</u>	<u>14,319,109</u>
Total Liabilities	<u>503</u>	<u>14,325,689</u>
 <u>NET ASSETS</u>		
Held in trust for private purpose	<u>\$ 1,519,514</u>	<u>\$ -</u>

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

CITY OF PATTERSON
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private- Purpose Trust Fund</u>
 <u>ADDITIONS</u>	
Interest income	\$ <u>4,313</u>
 <u>DEDUCTIONS</u>	
Operating costs	<u>33,840</u>
Extraordinary gain due to dissolution of redevelopment agency (Note 17)	<u>1,549,041</u>
Changes in Fiduciary Net Assets	1,519,514
Fiduciary Net Assets - July 1, 2011	<u>-</u>
Fiduciary Net Assets - June 30, 2012	\$ <u>1,519,514</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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.

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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients 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.

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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Private Purpose Trust Fund - Private Purpose Trust Fund is used to report all other trust arrangements under which principal and interest benefit individuals, private organizations, or other governments. This fund was created as a result of the State order to dissolve California Redevelopment Agencies. As the Successor Agency, this fund is used to track the activity by the Oversight Board and the Department of Finance to dissolve the Agency.

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.

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.

Private Purpose Trust Fund - Private Purpose Trust Fund is used to report all other trust arrangements under which principal and interest benefit individuals, private organizations, or other governments. This fund was created as a result of the State order to dissolve California Redevelopment Agencies. As the Successor Agency, this fund is used to track the activity by the Oversight Board and the Department of Finance to dissolve the Agency.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012

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:

55% remitted in January
40% remitted in May
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, 2012

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, 2012

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, 2012. 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, 2012

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, 2012

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. Nondisposable - 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, 2012

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
CSA #15 Assessment District	\$ 5,946
Public Safety	\$ 210,725
Local Law Enforcement Block Grant	\$ 11,691
Local Transportation Fund	\$ 175,937
Redevelopment Agency	\$ 815,407
Affordable Housing	\$ 602,065
Senior Center	\$ 1
Community Facility Impact Fee	\$ 344,413
General Government Impact Fee	\$ 95,032
Public Safety Impact Fee	\$ 127,424

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: BUDGET (continued)

C. Fund Balance and Net Assets Deficits

The following funds had deficit fund balances at June 30, 2012:

<u>Fund</u>	<u>Deficit</u>
Federal CDBG Grant 2003	\$ 17,730
Federal HOME Funds	\$ 2,854
Local Law Enforcement Block Grant	\$ 10,706
Senior Center	\$ 398
Heartland Ranch Infrastructure	\$ 3,796

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, 2012 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	\$ 21,285,937	\$ -	\$ 21,285,937
Business-type activities	<u>3,149,953</u>	<u>5,809,966</u>	<u>8,959,919</u>
Total government-wide cash and investments	<u>24,435,890</u>	<u>5,809,966</u>	<u>30,245,856</u>
Fiduciary activities	<u>4,773,282</u>	<u>10,679,114</u>	<u>15,452,396</u>
Total cash and investments	<u>\$ 29,209,172</u>	<u>\$ 16,489,080</u>	<u>\$ 45,698,252</u>

Cash and investments were carried at fair value as of June 30, 2012 and consisted of the following:

Cash on hand	\$ 550
Deposits with financial institutions	<u>10,538,590</u>
Total cash	<u>10,539,140</u>
Money market mutual funds	16,761,895
Central San Joaquin Valley Risk Management Authority (CSJVRMA)	3,326,777
Local Area Investment Fund (LAIF)	<u>15,070,440</u>
Total investments	<u>35,159,112</u>
Total cash and investments	<u>\$ 45,698,252</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012

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, 2012:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
LAIF	\$ 15,070,440	\$ -	\$ 15,070,440
CSJVRMA	3,326,777	-	3,326,777
Money market funds	272,815	-	272,815
Held by bond trustee:			
Money market funds	<u>16,489,080</u>	<u>-</u>	<u>16,489,080</u>
	<u>\$ 35,159,112</u>	<u>\$ -</u>	<u>\$ 35,159,112</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, 2012.

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	\$ 15,070,440	N/A			Not rated
CSJVRMA	3,326,777	N/A			Not rated
Money market funds	272,815	N/A			Not rated
Held by bond trustee:					
Money market funds	<u>16,489,080</u>	N/A	AAAm	Aaa	
	<u>\$ 35,159,112</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, 2012.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, the carrying amount of the City's deposits was \$10,538,590 and bank balances were \$11,392,048 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 2013. These notes receivable comprised the following at June 30, 2012:

State Water Loan Letter of Credit	\$ 1,992,187
Housing Authority of the County of Stanislaus	290,000
Greater Valley Housing Development Corporation	900,000
Housing Rehabilitation and Affordable Housing	<u>529,513</u>
Total loans and notes receivable	<u>\$ 3,711,700</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 \$1,992,187 at June 30, 2012. \$1,794,670 of this loan has been offset by deferred revenue in the fund financial statements.

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.

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4: ACCOUNTS AND NOTES RECEIVABLE (continued)

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 were 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. As of June 30, 2012 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. 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 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, 2012 was \$529,513.

NOTE 5: CAPITAL ASSETS

Capital asset activity for the Governmental funds for the fiscal year ended June 30, 2012 was as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>June 30, 2012</u>
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 2,768,831	\$ -	\$ -	\$ -	\$ 2,768,831
Construction in progress	<u>5,961,158</u>	<u>510,662</u>	<u>-</u>	<u>(4,237,811)</u>	<u>2,234,009</u>
Total capital assets not being depreciated	<u>8,729,989</u>	<u>510,662</u>	<u>-</u>	<u>(4,237,811)</u>	<u>5,002,840</u>
Capital assets being depreciated					
Buildings	19,018,959	89,674	-	2,391,030	21,499,663
Improvements	10,448,760	185,235	-	-	10,633,995
Streets and roads	11,128,099	477,621	-	2,820,136	14,425,856
Equipment	<u>4,181,645</u>	<u>150,152</u>	<u>-</u>	<u>6,648</u>	<u>4,338,445</u>
Total capital assets being depreciated	<u>44,777,463</u>	<u>902,682</u>	<u>-</u>	<u>5,217,814</u>	<u>50,897,959</u>
Less: accumulated depreciation					
Buildings	(1,489,830)	(476,229)	-	-	(1,966,059)
Improvements	(2,630,163)	(515,956)	-	-	(3,146,119)
Streets and roads	(2,161,241)	(273,381)	-	-	(2,434,622)
Equipment	<u>(3,124,865)</u>	<u>(257,111)</u>	<u>-</u>	<u>-</u>	<u>(3,381,976)</u>
Total accumulated depreciation	<u>(9,406,099)</u>	<u>(1,522,677)</u>	<u>-</u>	<u>-</u>	<u>(10,928,776)</u>
Governmental activities capital assets, net	<u>\$ 44,101,353</u>	<u>\$ (109,333)</u>	<u>\$ -</u>	<u>\$ 980,003</u>	<u>\$ 44,972,023</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: CAPITAL ASSETS (continued)

Capital asset activity for the Business-type activities for the fiscal year ended June 30, 2012 was as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>June 30, 2012</u>
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 5,745,597	\$ -	\$ -	\$ -	\$ 5,745,597
Construction in progress	<u>7,455,347</u>	<u>736,801</u>	<u>-</u>	<u>(3,541,018)</u>	<u>4,651,130</u>
Total capital assets not being depreciated	<u>13,200,944</u>	<u>736,801</u>	<u>-</u>	<u>(3,541,018)</u>	<u>10,396,727</u>
Capital assets being depreciated					
Infrastructure	51,630,636	403,151	-	2,561,015	54,594,802
Equipment	<u>1,509,080</u>	<u>149,397</u>	<u>-</u>	<u>-</u>	<u>1,658,477</u>
Total capital assets being depreciated	<u>53,139,716</u>	<u>552,548</u>	<u>-</u>	<u>2,561,015</u>	<u>56,253,279</u>
Less: accumulated depreciation					
Infrastructure	(10,533,352)	(1,844,415)	-	-	(12,377,767)
Equipment	<u>(932,332)</u>	<u>(112,515)</u>	<u>-</u>	<u>-</u>	<u>(1,044,847)</u>
Total accumulated depreciation	<u>(11,465,684)</u>	<u>(1,956,930)</u>	<u>-</u>	<u>-</u>	<u>(13,422,614)</u>
Business-type activities capital assets, net	<u>\$ 54,874,976</u>	<u>\$ (667,581)</u>	<u>\$ -</u>	<u>\$ (980,003)</u>	<u>\$ 53,227,392</u>

During the fiscal year June 30, 2012, the City transferred assets from business-type activities to governmental activities totalling \$980,003.

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, 2012 were as follows:

Governmental Activities

General government	\$ 38,219
Fire	42,330
Public works	909,190
Parks and recreation	<u>532,938</u>
Total Governmental Activities	<u>\$ 1,522,677</u>

Business-type Activities

Water	\$ 717,144
Sewer	<u>1,239,786</u>
Total Business-type Activities	<u>\$ 1,956,930</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6: INTERFUND TRANSFERS

Transfer between funds during the fiscal year ended June 30, 2012 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Description of Transfer</u>	<u>Amount</u>
<u>Non-Major Governmental Funds</u>			
BAD District	General Fund	Administrative costs	296,825
LMD	General Fund	Administrative costs	76,427
LMD	Sewer Fund	Capital projects	115,819
CSA#15 Assessment District	General Fund	Administrative costs	8,500
Patterson Gardens Fund	Public Safety	Administrative costs	317,199
Public Safety	General Fund	Administrative costs	168,973
West Patterson Business Park	Sewer Capital Fund	Capital projects	100,000
Heartland Ranch	BAD District	Administrative costs	80,998
HUD Federal Grant Fund	General Fund	Administrative costs	17,229
HUD Home	General Fund	Re-allocate funds	13,730
Local Law Enforcement Block Grant	General Fund	Administrative costs	20,000
Gas Tax	General Fund	Capital projects	350,000
Gas Tax	Street Project	Capital projects	120,000
LTF	Street Project	Capital projects	340,858
Redevelopment Agency	Affordable Housing	Housing set-aside funds	22,384
Storm Drain Impact Fees	Street Project	Capital projects	<u>9,308</u>
	Total Non-Major Governmental Funds Transfers		<u>2,058,250</u>
	Total Governmental Interfund Transfers		\$ <u>2,058,250</u>
<u>Proprietary Funds</u>			
Garbage	General Fund	Administrative costs	\$ 254,911
Sewer	General Fund	Administrative costs	310,384
Sewer	Sewer Capital Fund	Capital projects	661,010
Water	General Fund	Administrative costs	260,889
Water	Water Capital Fund	Capital projects	<u>172,289</u>
	Total Proprietary Interfund Transfers		\$ <u>1,659,483</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, 2012 was \$106,275. Minimum future lease payments under non-cancelable operating leases as of June 30, 2012 are as follows:

<u>Fiscal year ended June 30,</u>	
2013	65,060
2014	27,458
2015	<u>3,998</u>
Total	\$ <u>96,516</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

State Water Loan Letter of Credit	\$ 1,794,670
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>3,126,110</u>

Of the amount of deferred revenue in the governmental funds, \$3,104,670 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, 2012:

	<u>Original Issue Amount</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Due within one year</u>
Governmental activities						
Compensated absences	\$ -	\$ 271,206	\$ 187,000	\$ (192,578)	\$ 265,628	\$ 265,628
State water resource loan	3,783,532	2,184,535	-	(192,348)	1,992,187	197,739
Capital leases	<u>792,492</u>	<u>283,752</u>	<u>-</u>	<u>(108,230)</u>	<u>175,522</u>	<u>84,731</u>
Total Governmental Activities	\$ <u>4,576,024</u>	\$ <u>2,739,493</u>	\$ <u>187,000</u>	\$ <u>(493,156)</u>	\$ <u>2,433,337</u>	\$ <u>548,098</u>
Business-type activities						
Water						
Compensated absences	\$ -	\$ 59,961	\$ 40,548	\$ (41,550)	\$ 58,959	\$ 58,959
2011 Water revenue bonds	10,200,000	9,830,000	-	(200,000)	9,630,000	200,000
Capital leases	<u>144,521</u>	<u>44,600</u>	<u>-</u>	<u>(10,500)</u>	<u>34,100</u>	<u>10,464</u>
Total Water fund	<u>10,344,521</u>	<u>9,934,561</u>	<u>40,548</u>	<u>(252,050)</u>	<u>9,723,059</u>	<u>269,423</u>
Sewer						
Compensated absences	-	58,491	45,889	(49,254)	55,126	55,126
Economic Bank loan	652,144	665,186	-	(65,186)	600,000	100,000
State Revolving Fund loan	774,790	841,624	-	(35,111)	806,513	35,706
1979 Sewer revenue bonds	250,000	104,000	-	(9,000)	95,000	9,000
2009 Sewer revenue bonds	3,195,000	3,085,000	-	(60,000)	3,025,000	60,000
Capital leases	<u>80,289</u>	<u>90,551</u>	<u>-</u>	<u>(21,317)</u>	<u>69,234</u>	<u>21,246</u>
Total Sewer fund	<u>4,952,223</u>	<u>4,844,852</u>	<u>45,889</u>	<u>(239,868)</u>	<u>4,650,873</u>	<u>281,078</u>
Garbage						
Compensated absences	<u>-</u>	<u>12,727</u>	<u>8,123</u>	<u>(7,370)</u>	<u>13,480</u>	<u>13,479</u>
Total Business-type Activities	\$ <u>15,607,197</u>	\$ <u>14,792,140</u>	\$ <u>94,560</u>	\$ <u>(499,288)</u>	\$ <u>14,387,412</u>	\$ <u>563,980</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9: LONG TERM LIABILITIES (continued)

Governmental activities future debt obligations at June 30, 2012 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>
2013	\$ 197,739	\$ 55,777	\$ 253,516
2014	203,275	50,240	253,515
2015	208,967	44,548	253,515
2016	214,924	38,591	253,515
2017	220,836	32,679	-
2018 - 2021	<u>946,446</u>	<u>67,089</u>	<u>1,013,535</u>
Total	\$ <u>1,992,187</u>	\$ <u>288,924</u>	\$ <u>2,027,596</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, 2012 consisted of equipment with a cost of \$567,944 and related accumulated depreciation of \$520,130.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	84,731	7,216	91,947
2014	66,521	4,362	70,883
2015	<u>24,270</u>	<u>1,101</u>	<u>25,371</u>
Total	\$ <u>175,522</u>	\$ <u>12,679</u>	\$ <u>188,201</u>

Total Governmental Activities:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	282,470	62,993	345,463
2014	269,796	54,602	324,398
2015	233,237	45,649	278,886
2016	214,924	38,591	253,515
2017	220,836	32,679	-
2018 - 2020	<u>946,446</u>	<u>67,089</u>	<u>1,013,535</u>
Total	\$ <u>2,167,709</u>	\$ <u>301,603</u>	\$ <u>2,215,797</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9: LONG TERM LIABILITIES (continued)

Business type activities future debt obligations at June 30, 2012 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>
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	215,000	416,223	631,223
2018 - 2022	1,180,000	1,978,895	3,158,895
2023 - 2027	1,455,000	1,712,600	3,167,600
2028 - 2032	1,860,000	1,313,250	3,173,250
2033 - 2037	2,370,000	799,250	3,169,250
2038 - 2040	<u>1,730,000</u>	<u>175,750</u>	<u>1,905,750</u>
Totals	\$ <u>9,630,000</u>	\$ <u>8,102,363</u>	\$ <u>17,732,363</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>
2013	100,000	-	100,000
2014	100,000	-	100,000
2015	100,000	-	100,000
2016	100,000	-	100,000
2017	100,000	-	100,000
2018 - 2022	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Totals	\$ <u>600,000</u>	\$ <u>-</u>	\$ <u>600,000</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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>
2013	35,706	20,969	56,675
2014	36,634	20,041	56,675
2015	37,587	19,088	56,675
2016	38,564	18,111	56,675
2017	39,566	17,109	56,675
2018 - 2022	213,810	69,565	283,375
2023 - 2027	243,087	40,288	283,375
2028 - 2032	<u>161,559</u>	<u>8,471</u>	<u>170,030</u>
Totals	\$ <u>806,513</u>	\$ <u>213,642</u>	\$ <u>1,020,155</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>
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	12,000	1,025	13,025
2018 - 2022	<u>41,000</u>	<u>1,100</u>	<u>42,100</u>
Totals	\$ <u>95,000</u>	\$ <u>10,100</u>	\$ <u>105,100</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 60,000	\$ 155,037	\$ 215,037
2014	60,000	152,938	212,938
2015	65,000	150,838	215,838
2016	65,000	148,562	213,562
2017	70,000	146,287	216,287
2018 - 2022	385,000	686,313	1,071,313
2023 - 2027	475,000	586,512	1,061,512
2028 - 2032	630,000	441,375	1,071,375
2033 - 2037	820,000	248,875	1,068,875
2038 - 2042	<u>395,000</u>	<u>33,000</u>	<u>428,000</u>
Totals	<u>\$ 3,025,000</u>	<u>\$ 2,749,737</u>	<u>\$ 5,774,737</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, 2012 consisted of equipment with a cost of \$360,038 and related accumulated depreciation of \$260,396.

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	33,114	4,655	37,769
2014	34,606	3,162	37,768
2015	<u>35,614</u>	<u>1,616</u>	<u>37,230</u>
Totals	<u>\$ 103,334</u>	<u>\$ 9,433</u>	<u>\$ 112,767</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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>
2013	\$ 438,820	\$ 614,376	\$ 1,053,196
2014	446,240	606,906	1,053,146
2015	454,201	598,675	1,052,876
2016	424,564	589,430	1,013,994
2017	436,566	580,644	1,017,210
2018 - 2022	1,919,810	2,735,873	4,655,683
2023 - 2027	2,173,087	2,339,400	4,512,487
2028 - 2032	2,651,559	1,763,096	4,414,655
2033 - 2037	3,190,000	1,048,125	4,238,125
2038 - 2042	<u>2,125,000</u>	<u>208,750</u>	<u>2,333,750</u>
Totals	\$ <u>14,259,847</u>	\$ <u>11,085,275</u>	\$ <u>25,345,122</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	\$ 40,883	\$ 40,883
Fire	86,350	86,350
Public works	43,130	43,130
Community development and planning	33,596	33,596
Parks and recreation	<u>61,669</u>	<u>61,669</u>
Total Government Wide	<u>\$ 265,628</u>	<u>\$ 265,628</u>
<u>Business-type Activities</u>		
Water	\$ 58,959	\$ 58,959
Sewer	55,126	55,126
Garbage	<u>13,479</u>	<u>13,479</u>
Total Business-type Activities	<u>\$ 127,564</u>	<u>\$ 127,564</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, 2012

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, 2012 was as follows:

Heartland Ranch Reassessment District	\$ 5,060,000
Community Facilities District No. 2001-1 Special Tax Bonds 2002-A	2,930,000
Community Facilities District No. 2001-1 Special Tax Bonds 2003-A	9,555,000
Community Facilities District No. 2001-1 Special Tax Bonds 2003-B	15,010,000
Community Facilities District No. 2001-1 Special Tax Bonds 2004-A	18,950,000
Community Facilities District No. 2001-1 Special Tax Bonds 2004-B	19,505,000
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>3,195,000</u>
Total Debt without City Commitment	\$ <u>76,820,000</u>

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, fund balances consisted of the following:

	<u>General Fund</u>	<u>LMD Fund</u>	<u>WWTP Construction</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Restricted:					
Grants	\$ -	\$ -	\$ -	\$ 1,079,971	\$ 1,079,971
Debt service	136,886	-	-	-	136,886
Capital projects	36,999	-	201,924	-	238,923
Taxes, fees, and assessments	-	1,269,373	-	2,944,887	4,214,260
Total Restricted	<u>173,885</u>	<u>1,269,373</u>	<u>201,924</u>	<u>4,024,858</u>	<u>5,670,040</u>
Committed:					
Contingencies	3,580,604	-	-	-	3,580,604
Capital projects	-	-	-	6,465,547	6,465,547
Total Committed	<u>3,580,604</u>	<u>-</u>	<u>-</u>	<u>6,465,547</u>	<u>10,046,151</u>
Assigned:					
Capital projects	4,963,427	-	-	-	4,963,427
Self insurance	380,015	-	-	-	380,015
General plan	46,116	-	-	-	46,116
Total Assigned	<u>5,389,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,389,558</u>
Unassigned	<u>195,478</u>	<u>-</u>	<u>-</u>	<u>(35,484)</u>	<u>159,994</u>
Total Fund Balance	<u>\$ 9,339,525</u>	<u>\$ 1,269,373</u>	<u>\$ 201,924</u>	<u>\$ 10,454,921</u>	<u>\$ 21,265,743</u>

CITY OF PATTERSON
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012

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, 2012, 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	26.290%	17.356%
Actuarially required contributions	\$240,684	\$667,938

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, 2010.

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, 2010	\$ 578,420	100 %	-
June 30, 2011	\$ 665,887	100 %	-
June 30, 2012	\$ 908,622	100 %	-

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, the City reported 80 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, 2012, 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, 2012

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

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2012, the City's annual cost for the healthcare plan was \$1,318,980. The net pension obligation for governmental activities was \$3,221,136 as of June 30, 2012, and the net pension obligation for business-type activities was \$1,259,570 as of June 30, 2012. The City's annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2012 were as follows:

Annual required contribution		
Service cost at year-end	\$	1,010,000
30-year amortization of unfunded liability		321,000
Interest		128,091
Amortization of net OPEB obligation		<u>(140,111)</u>
 Total annual required contribution		 <u>1,318,980</u>
 Employer contributions		 (40,545)
 Net pension obligation at July 1, 2011		 <u>3,202,271</u>
 Net pension obligation at June 30, 2012	\$	 <u>4,480,706</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, 2010	\$ 1,068,594	\$ 7,210	1 %	\$ 2,131,936
June 30, 2011	\$ 1,071,807	\$ 1,472	0.1 %	\$ 3,202,271
June 30, 2012	\$ 1,318,980	\$ 40,545	3.1 %	\$ 4,480,706

Funded Status and Funding Progress

The funded status of the plan based on the most recent actuarial study (2010) using age-adjusted premiums as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)		
Active employees	\$	7,229,000
Retired employees		<u>1,616,000</u>
		<u>8,845,000</u>
 Actuarial value of plan assets		 <u>-</u>
 Unfunded actuarial accrued liability (UAAL)	\$	 <u>8,845,000</u>
 Funded Ratio (actuarial value of plan assets / AAL)		 0 %
 Covered payroll (active plan members)	\$	4,159,809
 UAAL as a percentage of covered payroll		 213 %

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 three 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 June 30, 2010 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 4.0% interest rate. 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: EXTRAORDINARY ITEM - SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 25, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-08.

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

CITY OF PATTERSON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 17: EXTRAORDINARY ITEM - SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (continued)

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill 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 the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements totaled \$1,549,041. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain totaled \$1,549,041.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PATTERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
JUNE 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Favorable
				(Unfavorable)
<u>REVENUES</u>				
Taxes				
Property	\$ 2,102,449	\$ 2,102,449	\$ 1,788,476	\$ (313,973)
Sales	1,440,000	1,440,000	1,542,190	102,190
Franchise	150,000	150,000	168,451	18,451
Motor vehicle in lieu	1,350,000	1,350,000	1,199,856	(150,144)
Other	85,950	85,950	82,757	(3,193)
License, permits, and fees	328,180	328,180	441,445	113,265
Charges for current services	397,955	397,955	275,602	(122,353)
Intergovernmental	602,277	602,277	630,324	28,047
Fines, forfeitures and penalties	353,100	353,100	192,685	(160,415)
Investment earnings	48,397	48,397	41,774	(6,623)
Miscellaneous revenues	<u>166,647</u>	<u>166,647</u>	<u>143,062</u>	<u>(23,585)</u>
Total Revenues	<u>7,024,955</u>	<u>7,024,955</u>	<u>6,506,622</u>	<u>(518,333)</u>
 <u>EXPENDITURES</u>				
General government	1,463,627	1,463,627	1,756,247	(292,620)
Police	3,514,233	3,514,233	3,229,131	285,102
Fire	922,714	922,714	972,502	(49,788)
Community development and planning	868,438	868,438	903,435	(34,997)
Public works	999,904	999,904	1,312,336	(312,432)
Parks and recreation	1,147,010	1,147,010	1,182,646	(35,636)
Capital outlay	-	-	65,920	(65,920)
Debt service:				
Principal	92,782	92,782	92,753	29
Interest and fiscal charges	<u>5,355</u>	<u>5,355</u>	<u>4,586</u>	<u>769</u>
Total Expenditures	<u>9,014,063</u>	<u>9,014,063</u>	<u>9,519,556</u>	<u>(505,493)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,989,108)</u>	<u>(1,989,108)</u>	<u>(3,012,934)</u>	<u>(12,840)</u>
 <u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,872,981	1,872,981	1,777,867	(95,114)
Transfers out	<u>(280,196)</u>	<u>(280,196)</u>	<u>-</u>	<u>280,196</u>
Total Other Financing Sources (Uses)	<u>1,592,785</u>	<u>1,592,785</u>	<u>1,777,867</u>	<u>185,082</u>
Net Change in Fund Balance	<u>\$ (396,323)</u>	<u>\$ (396,323)</u>	<u>(1,235,067)</u>	<u>\$ 172,242</u>
Fund Balance - July 1, 2011			10,574,592	
Fund Balance - June 30, 2012			<u>\$ 9,339,525</u>	

CITY OF PATTERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
LANDSCAPE MAINTENANCE DISTRICT
JUNE 30, 2012

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<u>REVENUES</u>				
Charges for current services	\$ 1,556,934	\$ 1,556,934	\$ 1,562,707	\$ 5,773
Investment earnings	5,810	5,810	5,544	(266)
Total Revenues	1,562,744	1,562,744	1,568,251	5,507
 <u>EXPENDITURES</u>				
Public works	1,706,290	1,706,290	1,283,902	422,388
Debt service:				
Principal	-	-	15,477	(15,477)
Interest and fiscal charges	-	-	2,661	(2,661)
Total Expenditures	1,706,290	1,706,290	1,302,040	404,250
Excess (deficiency) of revenues over (under) expenditures	(143,546)	(143,546)	266,211	(398,743)
 <u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	-	-	80,998	-
Transfers out	-	-	(296,825)	(296,825)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(215,827)	(296,825)
Net Change in Fund Balance	\$ (143,546)	\$ (143,546)	50,384	\$ (695,568)
Fund Balance - July 2, 2011			1,218,989	
Fund Balance - June 30, 2012			\$ 1,269,373	

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, 2009	\$ 9,721,675,347	\$ 8,027,158,724	\$1,694,516,623	82.6 %	\$973,814,168	174.0 %
June 30, 2010	\$ 10,165,475,166	\$ 8,470,235,152	\$1,695,240,014	83.3 %	\$955,980,815	177.3 %
June 30, 2011	\$ 10,951,745,049	\$ 9,135,654,246	\$1,816,090,803	83.4 %	\$949,833,090	191.2 %

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, 2009	\$ 2,140,438,884	\$ 1,674,260,302	\$ 466,178,582	78.2 %	\$440,071,499	105.9 %
June 30, 2010	\$ 2,297,871,345	\$ 1,815,671,616	\$ 482,199,729	79.0 %	\$434,023,381	111.1 %
June 30, 2011	\$ 2,486,708,579	\$ 1,981,073,089	\$ 505,635,490	79.7 %	\$427,300,410	118.3 %

**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 %
June 30, 2010	\$ 8,845,000	\$ -	\$ 8,845,000	0%	\$ 4,159,809	213 %

SUPPLEMENTARY INFORMATION

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2012

	<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	\$ 1,153,219	\$ 8,816	\$ 78,938	\$ 888,853	\$ 37,647
Receivables:					
Accounts	26,494	132	5,982	19,797	-
Interest	616	8	36	408	17
Notes and loans	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,180,329</u>	<u>\$ 8,956</u>	<u>\$ 84,956</u>	<u>\$ 909,058</u>	<u>\$ 37,664</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>(DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 2,616	\$ 376	\$ -	\$ 6,364	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Deposits	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>2,616</u>	<u>376</u>	<u>-</u>	<u>6,364</u>	<u>-</u>
FUND BALANCES (DEFICITS):					
Restricted	1,177,713	8,580	84,956	902,694	37,664
Committed	-	-	-	-	-
Unassigned	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances (Deficits)	<u>1,177,713</u>	<u>8,580</u>	<u>84,956</u>	<u>902,694</u>	<u>37,664</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 1,180,329</u>	<u>\$ 8,956</u>	<u>\$ 84,956</u>	<u>\$ 909,058</u>	<u>\$ 37,664</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2012

	<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	\$ -	\$ 187,196	\$ -	\$ 4,154	\$ -
Receivables:					
Accounts	-	-	9,101	-	26,170
Interest	-	86	-	2	-
Notes and loans	<u>293,489</u>	<u>12,882</u>	<u>-</u>	<u>192,157</u>	<u>114,363</u>
Total Assets	<u>\$ 293,489</u>	<u>\$ 200,164</u>	<u>\$ 9,101</u>	<u>\$ 196,313</u>	<u>\$ 140,533</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	26,831	-	23,387
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>26,831</u>	<u>-</u>	<u>143,387</u>
FUND BALANCES (DEFICITS):					
Restricted	3,489	200,164	-	196,313	-
Committed	-	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>(17,730)</u>	<u>-</u>	<u>(2,854)</u>
Total Fund Balances (Deficits)	<u>3,489</u>	<u>200,164</u>	<u>(17,730)</u>	<u>196,313</u>	<u>(2,854)</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 293,489</u>	<u>\$ 200,164</u>	<u>\$ 9,101</u>	<u>\$ 196,313</u>	<u>\$ 140,533</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Local Law Enforcement Block Grant</u>	<u>Gas Tax</u>	<u>Local Transportation Fund</u>	<u>Street Project Fund</u>	<u>Developer Housing In-Lieu Fee</u>	<u>Redevelopment Agency</u>
<u>ASSETS</u>						
Cash and investments	\$ -	\$ 115,750	\$ 446,494	\$ 81,416	\$ 405,608	\$ -
Receivables:						
Accounts	-	62,171	10,869	110,177	-	-
Interest	-	53	360	-	186	-
Notes and loans	(114)	-	-	-	1,090,104	-
	<u>(114)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,090,104</u>	<u>-</u>
Total Assets	<u>\$ (114)</u>	<u>\$ 177,974</u>	<u>\$ 457,723</u>	<u>\$ 191,593</u>	<u>\$ 1,495,898</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>						
LIABILITIES:						
Accounts payable and accrued liabilities	\$ -	\$ 1,288	\$ 2,731	\$ 4,244	\$ 1,640	\$ -
Due to other funds	10,592	-	-	-	-	-
Deferred revenue	-	-	-	-	900,000	-
Deposits	-	-	-	-	-	-
	<u>10,592</u>	<u>1,288</u>	<u>2,731</u>	<u>4,244</u>	<u>901,640</u>	<u>-</u>
Total Liabilities	<u>10,592</u>	<u>1,288</u>	<u>2,731</u>	<u>4,244</u>	<u>901,640</u>	<u>-</u>
FUND BALANCES (DEFICITS):						
Restricted	-	176,686	454,992	187,349	594,258	-
Committed	-	-	-	-	-	-
Unassigned	(10,706)	-	-	-	-	-
	<u>(10,706)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances (Deficits)	<u>(10,706)</u>	<u>176,686</u>	<u>454,992</u>	<u>187,349</u>	<u>594,258</u>	<u>-</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ (114)</u>	<u>\$ 177,974</u>	<u>\$ 457,723</u>	<u>\$ 191,593</u>	<u>\$ 1,495,898</u>	<u>\$ -</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2012

	<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	\$ -	\$ 61,880	\$ -	\$ 199,945	\$ 447,397
Receivables:					
Accounts	-	-	-	-	-
Interest	-	28	-	92	205
Notes and loans	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ -</u>	<u>\$ 61,908</u>	<u>\$ -</u>	<u>\$ 200,037</u>	<u>\$ 447,602</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>(DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 4,386
Due to other funds	-	-	398	-	-
Deferred revenue	-	-	-	-	-
Deposits	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>398</u>	<u>-</u>	<u>4,386</u>
FUND BALANCES (DEFICITS):					
Restricted	-	-	-	-	-
Committed	-	61,908	-	200,037	443,216
Unassigned	-	-	(398)	-	-
	<u>-</u>	<u>-</u>	<u>(398)</u>	<u>-</u>	<u>-</u>
Total Fund Balances (Deficits)	<u>-</u>	<u>61,908</u>	<u>(398)</u>	<u>200,037</u>	<u>443,216</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ 61,908</u>	<u>\$ -</u>	<u>\$ 200,037</u>	<u>\$ 447,602</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2012

	<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	\$ 809,559	\$ 15,147	\$ 2,883,898	\$ 12,257	\$ 1,598,733
Receivables:					
Accounts	-	-	-	-	-
Interest	371	7	1,325	6	732
Notes and loans	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 809,930</u>	<u>\$ 15,154</u>	<u>\$ 2,885,223</u>	<u>\$ 12,263</u>	<u>\$ 1,599,465</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 41,352	\$ -	\$ 32,625	\$ -	\$ 9,810
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Deposits	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>41,352</u>	<u>-</u>	<u>32,625</u>	<u>-</u>	<u>9,810</u>
FUND BALANCES (DEFICITS):					
Restricted	-	-	-	-	-
Committed	768,578	15,154	2,852,598	12,263	1,589,655
Unassigned	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances (Deficits)	<u>768,578</u>	<u>15,154</u>	<u>2,852,598</u>	<u>12,263</u>	<u>1,589,655</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 809,930</u>	<u>\$ 15,154</u>	<u>\$ 2,885,223</u>	<u>\$ 12,263</u>	<u>\$ 1,599,465</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2012

	<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	\$ 303,956	\$ 164,163	\$ 36,216	\$ 17,564	\$ 43,360	\$ 10,002,166
Receivables:						
Accounts	-	-	-	-	-	270,893
Interest	139	75	17	8	20	4,797
Notes and loans	-	-	-	-	-	1,702,881
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 304,095</u>	<u>\$ 164,238</u>	<u>\$ 36,233</u>	<u>\$ 17,572</u>	<u>\$ 43,380</u>	<u>\$ 11,980,737</u>
<u>LIABILITIES AND FUND BALANCES</u>						
<u>(DEFICITS)</u>						
LIABILITIES:						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,432
Due to other funds	-	-	-	-	-	61,208
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>1,525,816</u>
FUND BALANCES (DEFICITS):						
Restricted	-	-	-	-	-	4,024,858
Committed	304,095	164,238	36,233	17,572	-	6,465,547
Unassigned	-	-	-	-	(3,796)	(35,484)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances (Deficits)	<u>304,095</u>	<u>164,238</u>	<u>36,233</u>	<u>17,572</u>	<u>(3,796)</u>	<u>10,454,921</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 304,095</u>	<u>\$ 164,238</u>	<u>\$ 36,233</u>	<u>\$ 17,572</u>	<u>\$ 43,380</u>	<u>\$ 11,980,737</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	<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>
REVENUES					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-
License, permits, and fees	-	-	-	-	-
Charges for current services	481,818	8,500	333,652	758,263	-
Intergovernmental	-	-	-	-	-
Investment earnings	5,453	74	509	4,765	171
Miscellaneous revenues	(1)	-	-	-	-
	<u>487,270</u>	<u>8,574</u>	<u>334,161</u>	<u>763,028</u>	<u>171</u>
Total Revenues					
EXPENDITURES					
Fire	-	-	4,560	1,119,880	-
Public works	160,980	-	-	-	52
Community development and planning	-	6,020	-	-	-
Capital outlay	-	-	-	2,099	-
	<u>160,980</u>	<u>6,020</u>	<u>4,560</u>	<u>1,121,979</u>	<u>52</u>
Total Expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>326,290</u>	<u>2,554</u>	<u>329,601</u>	<u>(358,951)</u>	<u>119</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	317,199	-
Transfers out	(192,246)	(8,500)	(317,199)	(168,973)	-
	<u>(192,246)</u>	<u>(8,500)</u>	<u>(317,199)</u>	<u>148,226</u>	<u>-</u>
Total Other Financing Sources (Uses)					
EXTRAORDINARY GAINS (LOSSES)					
Redevelopment dissolution	-	-	-	-	-
	<u>134,044</u>	<u>(5,946)</u>	<u>12,402</u>	<u>(210,725)</u>	<u>119</u>
Net Change in Fund Balances					
Fund Balances (Deficits) - July 2, 2011	<u>1,043,669</u>	<u>14,526</u>	<u>72,554</u>	<u>1,113,419</u>	<u>37,545</u>
Fund Balances (Deficits) - June 30, 2012	<u>\$ 1,177,713</u>	<u>\$ 8,580</u>	<u>\$ 84,956</u>	<u>\$ 902,694</u>	<u>\$ 37,664</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	<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	-	-	347,336	-	62,747
Investment earnings	-	1,110	-	16	32
Miscellaneous revenues	-	-	-	-	-
	<u>-</u>	<u>1,110</u>	<u>347,336</u>	<u>16</u>	<u>62,779</u>
Total Revenues	<u>-</u>	<u>1,110</u>	<u>347,336</u>	<u>16</u>	<u>62,779</u>
<u>EXPENDITURES</u>					
Fire	-	-	-	-	-
Public works	-	-	-	-	-
Community development and planning	-	-	523	-	28,924
Capital outlay	-	-	313,747	-	-
	<u>-</u>	<u>-</u>	<u>314,270</u>	<u>-</u>	<u>28,924</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>314,270</u>	<u>-</u>	<u>28,924</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>1,110</u>	<u>33,066</u>	<u>16</u>	<u>33,855</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	-	-	-
Transfers out	-	-	(17,229)	-	(13,730)
	<u>-</u>	<u>-</u>	<u>(17,229)</u>	<u>-</u>	<u>(13,730)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(17,229)</u>	<u>-</u>	<u>(13,730)</u>
<u>EXTRAORDINARY GAINS (LOSSES)</u>					
Redevelopment dissolution	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>1,110</u>	<u>15,837</u>	<u>16</u>	<u>20,125</u>
Fund Balances (Deficits) - July 2, 2011	<u>3,489</u>	<u>199,054</u>	<u>(33,567)</u>	<u>196,297</u>	<u>(22,979)</u>
Fund Balances (Deficits) - June 30, 2012	<u>\$ 3,489</u>	<u>\$ 200,164</u>	<u>\$ (17,730)</u>	<u>\$ 196,313</u>	<u>\$ (2,854)</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Local Law Enforcement Block Grant</u>	<u>Gas Tax</u>	<u>Local Transportation Fund</u>	<u>Street Project Fund</u>	<u>Developer Housing In-Lieu Fee</u>	<u>Redevelopment Agency</u>
REVENUES						
Taxes						
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,918
Other	-	594,158	-	-	-	-
License, permits, and fees	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Intergovernmental	8,307	-	230,000	182,101	-	-
Investment earnings	2	883	3,002	-	2,434	1,998
Miscellaneous revenues	-	-	-	-	-	71,764
	<u>8,309</u>	<u>595,041</u>	<u>233,002</u>	<u>182,101</u>	<u>2,434</u>	<u>185,680</u>
Total Revenues						
EXPENDITURES						
Fire	-	-	-	-	-	-
Public works	-	11,922	40,737	-	-	1,673
Community development and planning	-	-	-	-	-	53,016
Capital outlay	-	-	27,344	369,773	-	794
	<u>-</u>	<u>11,922</u>	<u>68,081</u>	<u>369,773</u>	<u>-</u>	<u>55,483</u>
Total Expenditures						
Excess (deficiency) of revenues over (under) expenditures	<u>8,309</u>	<u>583,119</u>	<u>164,921</u>	<u>(187,672)</u>	<u>2,434</u>	<u>130,197</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	470,167	-	-
Transfers out	(20,000)	(470,000)	(340,858)	-	-	(22,208)
	<u>(20,000)</u>	<u>(470,000)</u>	<u>(340,858)</u>	<u>470,167</u>	<u>-</u>	<u>(22,208)</u>
Total Other Financing Sources (Uses)						
EXTRAORDINARY GAINS (LOSSES)						
Redevelopment dissolution	-	-	-	-	-	(923,396)
	<u>(11,691)</u>	<u>113,119</u>	<u>(175,937)</u>	<u>282,495</u>	<u>2,434</u>	<u>(815,407)</u>
Net Change in Fund Balances						
Fund Balances (Deficits) - July 2, 2011	<u>985</u>	<u>63,567</u>	<u>630,929</u>	<u>(95,146)</u>	<u>591,824</u>	<u>815,407</u>
Fund Balances (Deficits) - June 30, 2012	<u>\$ (10,706)</u>	<u>\$ 176,686</u>	<u>\$ 454,992</u>	<u>\$ 187,349</u>	<u>\$ 594,258</u>	<u>\$ -</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	<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>
REVENUES					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-
License, permits, and fees	-	-	-	-	22,447
Charges for current services	-	-	-	2,200	-
Intergovernmental	-	-	-	-	-
Investment earnings	1,151	282	-	1,314	2,175
Miscellaneous revenues	-	-	(1)	2,500	-
	<u>1,151</u>	<u>282</u>	<u>(1)</u>	<u>6,014</u>	<u>24,622</u>
Total Revenues					
EXPENDITURES					
Fire	-	-	-	-	-
Public works	-	-	-	-	-
Community development and planning	-	-	-	-	-
Capital outlay	-	-	-	350,427	119,654
	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,427</u>	<u>119,654</u>
Total Expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>1,151</u>	<u>282</u>	<u>(1)</u>	<u>(344,413)</u>	<u>(95,032)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	22,429	-	-	-	-
Transfers out	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)					
	<u>22,429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXTRAORDINARY GAINS (LOSSES)					
Redevelopment dissolution	<u>(625,645)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(602,065)</u>	<u>282</u>	<u>(1)</u>	<u>(344,413)</u>	<u>(95,032)</u>
Fund Balances (Deficits) - July 2, 2011	<u>602,065</u>	<u>61,626</u>	<u>(397)</u>	<u>544,450</u>	<u>538,248</u>
Fund Balances (Deficits) - June 30, 2012	<u>\$ -</u>	<u>\$ 61,908</u>	<u>\$ (398)</u>	<u>\$ 200,037</u>	<u>\$ 443,216</u>

CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	<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	8,671	-	405,827	-	274,303
Charges for current services	-	-	-	-	-
Intergovernmental	-	-	-	102,821	-
Investment earnings	3,855	69	12,563	18	6,952
Miscellaneous revenues	-	-	-	-	-
	<u>12,526</u>	<u>69</u>	<u>418,390</u>	<u>102,839</u>	<u>281,255</u>
Total Revenues					
<u>EXPENDITURES</u>					
Fire	-	-	-	-	-
Public works	-	-	-	-	-
Community development and planning	-	-	-	-	-
Capital outlay	139,950	-	88,265	-	70,437
	<u>139,950</u>	<u>-</u>	<u>88,265</u>	<u>-</u>	<u>70,437</u>
Total Expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>(127,424)</u>	<u>69</u>	<u>330,125</u>	<u>102,839</u>	<u>210,818</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	-	-	-
Transfers out	-	-	(9,308)	-	-
	<u>-</u>	<u>-</u>	<u>(9,308)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)					
<u>EXTRAORDINARY GAINS (LOSSES)</u>					
Redevelopment dissolution	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(127,424)</u>	<u>69</u>	<u>320,817</u>	<u>102,839</u>	<u>210,818</u>
Fund Balances (Deficits) - July 2, 2011	<u>896,002</u>	<u>15,085</u>	<u>2,531,781</u>	<u>(90,576)</u>	<u>1,378,837</u>
Fund Balances (Deficits) - June 30, 2012	<u>\$ 768,578</u>	<u>\$ 15,154</u>	<u>\$ 2,852,598</u>	<u>\$ 12,263</u>	<u>\$ 1,589,655</u>

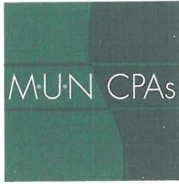
CITY OF PATTERSON
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	<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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,918
Other	-	-	-	-	-	594,158
License, permits, and fees	-	-	-	-	-	711,248
Charges for current services	-	-	-	3,812	-	1,588,245
Intergovernmental	159,228	-	251	-	-	1,092,791
Investment earnings	1,081	748	165	77	198	51,097
Miscellaneous revenues	-	-	-	-	-	74,262
	<u>160,309</u>	<u>748</u>	<u>416</u>	<u>3,889</u>	<u>198</u>	<u>4,223,719</u>
Total Revenues						
EXPENDITURES						
Fire	-	-	-	-	-	1,124,440
Public works	-	-	-	-	-	215,364
Community development and planning	-	-	-	-	-	88,483
Capital outlay	-	-	-	-	-	1,482,490
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,910,777</u>
Total Expenditures						
Excess (deficiency) of revenues over (under) expenditures	<u>160,309</u>	<u>748</u>	<u>416</u>	<u>3,889</u>	<u>198</u>	<u>1,312,942</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	809,795
Transfers out	-	-	-	-	-	(1,580,251)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(770,456)</u>
Total Other Financing Sources (Uses)						
EXTRAORDINARY GAINS (LOSSES)						
Redevelopment dissolution	-	-	-	-	-	(1,549,041)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,549,041)</u>
Net Change in Fund Balances	<u>160,309</u>	<u>748</u>	<u>416</u>	<u>3,889</u>	<u>198</u>	<u>(1,006,555)</u>
Fund Balances (Deficits) - July 2, 2011	<u>143,786</u>	<u>163,490</u>	<u>35,817</u>	<u>13,683</u>	<u>(3,994)</u>	<u>11,461,476</u>
Fund Balances (Deficits) - June 30, 2012	<u>\$ 304,095</u>	<u>\$ 164,238</u>	<u>\$ 36,233</u>	<u>\$ 17,572</u>	<u>\$ (3,796)</u>	<u>\$ 10,454,921</u>

CITY OF PATTERSON
COMBINING STATEMENT OF NET ASSETS
AGENCY FUNDS
JUNE 30, 2012

	<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	\$ 114,548	\$ 2,415,927	\$ 723,486	\$ 3,253,961
Restr. cash and investments	10,339,960	-	339,154	10,679,114
Accounts receivable	379,099	-	10,096	389,195
Other assets	<u>2,037</u>	<u>1,027</u>	<u>355</u>	<u>3,419</u>
Total Assets	<u>\$ 10,835,644</u>	<u>\$ 2,416,954</u>	<u>\$ 1,073,091</u>	<u>\$ 14,325,689</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 1,627	\$ 4,953	\$ -	\$ 6,580
Due to bondholders	<u>10,834,017</u>	<u>2,412,001</u>	<u>1,073,091</u>	<u>14,319,109</u>
Total Liabilities	<u>\$ 10,835,644</u>	<u>\$ 2,416,954</u>	<u>\$ 1,073,091</u>	<u>\$ 14,325,689</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, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents and have issued our report thereon dated February 22, 2013. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Patterson in a separate letter dated February 22, 2013.

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.

A handwritten signature in cursive script that reads "Mann Urrutia Nelson CPAs".

Sacramento, California
February 22, 2013

**CITY OF PATTERSON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

There are no findings reported for the year ended June 30, 2012.

**CITY OF PATTERSON
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2012**

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.

Status :On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California.

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.

Status: Recommendation implemented.

**CITY OF PATTERSON
SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)
JUNE 30, 2012**

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.

Status: In progress

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.

Status: In progress.