

CITY OF NEWMAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

CITY OF NEWMAN, CALIFORNIA

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INDEPENDENT AUDITOR'S REPORT

To The City Council
City Of Newman
State of California

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Newman, State of California, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Newman, State of California's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's 2010 financial statements and, in our report dated November 4, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Newman, as of June 30, 2011 and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2011 on our consideration of the City of Newman, State of California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental 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 and budgetary comparison information on pages 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

CLENDENIN BIRD & COMPANY, PC

Modesto, California
November 15, 2011

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

The following discussion provides readers of the City of Newman's financial statements a narrative overview and analysis of the financial activities of the City of Newman for the fiscal year ended June 30, 2011. Please read this document in conjunction with the accompanying Basic Financial Statements.

The City of Newman (the City) has been impacted by the weakness in the economy in fiscal year 2011. Revenues returned mixed as property tax revenues decreased due to the continued housing market woes; while sales tax revenues increased. The City's financial highlights are presented below:

FISCAL YEAR 2011 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2011 include the following:

Entity-wide:

- The City's total net assets were \$37,508,964 as of June 30, 2011. Of this total, \$25,905,086 were Governmental assets and \$11,603,878 were Business-type assets.
- Entity-wide Governmental revenues include program revenues of \$6,367,122 and general revenues and transfers of \$2,525,837 for a total of \$8,892,959.
- Entity-wide Governmental expenses were \$4,954,491.
- Entity-wide Business-type program revenues and interest revenue were \$3,323,074 while Business-type expenses and transfers were \$2,524,122.

Fund Level:

- Governmental Fund balances increased \$808,098 in fiscal year 2011
- Governmental Fund revenues increased \$3,191,276 in fiscal year 2011.
- Governmental Fund expenditures increased \$1,413,934 in fiscal year 2011.

General Fund:

- General Fund revenues of \$3,339,731 were \$68,006 more than the prior year.
- General Fund expenditures of \$3,736,246 represent an increase of \$127,545 over the prior year.
- General Fund balance of \$3,030,387 as of June 30, 2011, is up \$51,553 from the fiscal year 2010's fund balance of \$2,978,834.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is divided into two parts:

- 1) Management's Discussion and Analysis (MD&A);
- 2) The Basic Financial Statements, which include the Entity-wide and the Fund Financial Statements, along with the Notes to these financial statements.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-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.

The Statement of Activities provides information about all of 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.

The Fund Financial Statements report the City's operations in more detail than the Entity-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.

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. Major Funds are explained below.

The Entity-wide Financial Statements

Entity-wide financial statements are prepared on the accrual basis, which means 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 general City revenues such as taxes, and by specific program revenues such as user fees and charges.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

The City's governmental activities also include the activities of another separate legal entity, the Redevelopment Agency of the City of Newman. 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 and wastewater are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by Governmental Accounting Standards Board (GASB) Statement 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 the 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 five Major Governmental Funds in addition to the General Fund: The CDBG Fund (Funds 15, 19 and 26), the Public Facility Improvement Fund (Fund 40), the Redevelopment Agency Fund (Funds 73 and 74), the Storm Drain Fund (Fund 42) and Federal Grants (Fund 18). Both 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.

Comparisons of Budget and Actual financial information are presented only for the General Fund, as required by GASB Statement 34.

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

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Statement of Activities, while Tables 4 and 5 focus on the City's Business-type Statement of Net Assets and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Assets at June 30, 2011

	2011	2010
Cash and Investments	\$ 10,379,953	\$ 10,567,835
Other Assets	6,240,738	5,181,513
Capital Assets	14,041,328	11,029,780
Total Assets	<u>30,662,019</u>	<u>26,779,128</u>
Long-Term Debt Outstanding	2,617,345	2,738,241
Other Liabilities	2,139,588	2,073,846
Total Liabilities	<u>4,756,933</u>	<u>4,812,087</u>
Net Assets:		
Invested In Capital Assets, Net of Debt	11,423,983	8,291,539
Restricted	10,897,227	10,268,690
Unrestricted	3,583,876	3,406,812
Total Net Assets	<u>\$ 25,905,086</u>	<u>\$ 21,967,041</u>

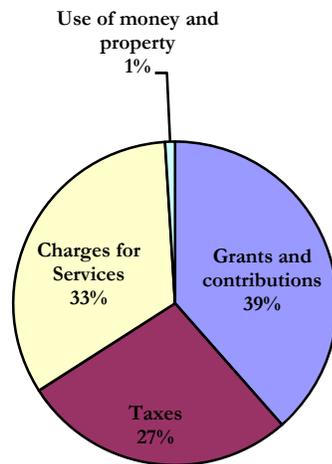
The City's governmental net assets amounted to \$25,905,086 as of June 30, 2011; an increase of \$3,938,045 from 2010. This increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2011 comprised the following:

- Cash and investments comprised \$10,118,413 in the city treasury and \$261,540 of restricted cash and investments. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note III to the financial statements.
- Receivables comprised \$1,082,087 of current receivables and loans receivable for \$5,151,688.
- Capital assets of \$14,041,328, net of depreciation charges, which includes all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims and other amounts due currently, totaling \$2,018,927.
- Accrued compensated absence liabilities payable to employees of \$120,661, as detailed in Note III G to the financial statements.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

- Long-term debt of \$2,617,345 of which \$2,446,860 is due in future years and \$170,485 is due currently.
- Net assets invested in capital assets, net of related debt, of \$11,423,983, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net assets totaling \$10,897,227, which may be used only to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds were placed there by outsiders and cannot be changed by the City.
- 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. The City had \$3,583,876 of unrestricted net assets as of June 30, 2011.

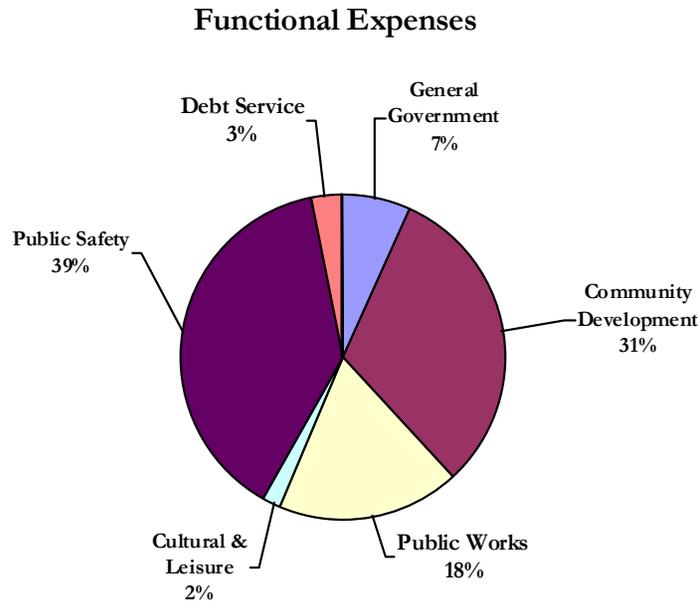
Sources of Revenues



As the Sources of Revenue Chart above shows, \$2,437,327, or 27%, of the City's fiscal year 2011 governmental activities revenue came from taxes, while \$3,425,946, or 39%,

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

came from grants and contributions, \$2,941,176, or 33%, came from charges for services, and the remainder came from a variety of sources, as shown above.



The Functional Expenses Chart above includes only current year expenses; it does not include capital outlays, which are now added to the City's capital assets. As the Chart shows, general government is \$363,633, or 7%, of total government expenses, community development and planning is \$1,531,655, or 31%, Public Safety is \$1,921,529, or 39%, Public Works is \$904,314, or 18%, Culture & Leisure is \$89,414, or 2%, and Debt Service is \$143,946 or 3%.

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

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Table 2
Change In Governmental Net Assets:

	2011
Expenses	
General Government	\$ 363,633
Public Safety	1,921,529
Public Works	904,314
Community Development	1,531,655
Culture And Leisure	89,414
Interest on Long-Term Debt	143,946
Total Expenses	4,954,491
Revenues	
Program Revenues	
Charges For Services	2,941,176
Operating and Capital Grants	3,425,946
Total Program Revenues	6,367,122
General Revenues	
Taxes	2,437,327
Use of Money and Property	88,510
Other	0
Total General Revenues	2,525,837
Total Revenues	8,892,959
 Change in Governmental Net Assets	 \$ 3,938,467

As the Sources of Revenue Chart and Table 2 above show, \$6,367,122, or 72%, of the City's fiscal year 2011 governmental revenue, came from program revenues and \$2,525,837, or 28%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$2,941,176, which include permit revenues, fees and charges used to fund expenses incurred in providing services; \$3,425,946 of operating grants and contributions which include gas tax revenues and housing and police grants. General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

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

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Table 3
Governmental Activities

	Net (Expense) Revenue From Services 2011
General Government	1,405,536
Public Safety	(1,430,536)
Public Works	3,113,320
Community Development	(1,442,329)
Culture And Leisure	(89,414)
Interest on Long-Term Debt	(<u>143,946</u>)
Totals	<u><u>1,412,631</u></u>

Business-type Activities

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

Table 4
Business Net Assets at June 30, 2011

	2011	2010
Cash and Investments	\$ 5,699,983	\$ 7,723,749
Other Assets	347,361	320,608
Capital Assets	<u>7,588,302</u>	<u>5,450,373</u>
Total Assets	<u>13,635,646</u>	<u>13,494,730</u>
Long-Term Debt Outstanding	1,552,473	2,374,000
Other Liabilities	<u>479,295</u>	<u>315,804</u>
Total Liabilities	<u>2,031,768</u>	<u>2,689,804</u>
Net Assets:		
Invested In Capital Assets, Net of Debt	5,925,974	3,076,373
Restricted	0	282,359
Unrestricted	<u>5,677,904</u>	<u>7,446,194</u>
Total Net Assets	<u><u>\$ 11,603,878</u></u>	<u><u>\$ 10,804,926</u></u>

The net assets of business-type activities increased \$798,952 in fiscal year 2011.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Table 5
Change In Business-Type Net Assets:

	Net (Expense) Revenue From Services 2011	Net (Expense) Revenue From Services 2010
Water Fund	\$ (176,187)	\$ 692
Sewer Fund	920,707	856,867
Totals	<u>\$ 744,520</u>	<u>\$ 857,559</u>

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues increased \$68,006 this fiscal year due primarily to greater increases in Sales Tax, Fines and Forfeiture, and Service Charge revenues over declines in property tax revenue. Actual revenues exceeded budgeted amounts by \$136,591. Property taxes decreased \$31,947 as assessed valuations decreased due to falling real estate values. Charges for services were up \$91,915, due to increases in administrative fees, reimbursed salaries and other miscellaneous revenues.

General Fund expenditures were \$3,736,246, an increase of \$127,545 from the prior year. Expenditures were \$43,122 less than budgeted, primarily related to cost reductions associated with General Government, Capital Outlay and Public Safety.

As of June 30, 2011, the General Fund's ending fund balance totaled \$3,030,387. In February of 2009 GASB issued Statement #54 changing the presentation of this fund balance. See the Note I. D.9 to the Basic Financial Statements for detail on the changes and classifications of fund balance. The unassigned portion of General Fund's fund balance is \$3,023,424. This represents the funds available liquid resources.

CDBG Fund

This fund is used to account for grants received to loan out to low income citizens for first time home purchases and/or housing rehabilitation projects. Also included in this fund are grant funds for the Valley Manor Housing project. Those funds were loaned out and are now reflected on our books as a long term loan receivable. Current Receivable from Valley Manor Housing is \$975,000.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

Public Facility Improvement Fund

This fund accounts for the improvement of public facilities funded by developer fees. In fiscal year 2011, the fund received \$392,608 in developer fees. Developer fee revenue increased \$349,480 from the prior year mostly due to the completion of the Newman Family Apartments Project (now Mustang Peak Village Apartments).

The fund's fiscal year end fund balance of \$4,535,770 represents developer fees that have not yet been expended on public facility projects and improvements.

On July 29th 2011 the City purchased 938 Fresno Street. The City will be locating it's City Hall on the second floor of this property. A portion of collected developer fees are for improvements to City Hall and will be spent on this acquisition in fiscal year 2012.

Storm Drain Fund

The fees accounted for here are to be used for expansion and improvements to the City's storm drain system. The fund currently shows a negative balance due to the Fee Credit Parks liability. As homes are built these fee credits reduce.

Proprietary Funds

Water Fund

Operating Revenues decreased \$3,273 to a total of \$889,572 in fiscal year 2011 due to a decline in consumption. Operating Expenses increased \$62,668 to \$1,019,362. There was a resulting operating loss of \$129,790. The fund's net assets decreased \$165,280, to a new total of \$2,692,083. A water rate study awarded to Ecologic (now StanTech) is currently underway.

Sewer Fund

Net assets of the Sewer Fund increased \$964,232 in fiscal year 2011 to a total of \$8,911,795. This increase came from an increase in rates charged and increases in connection fees.

As of June 30, 2011, the fund's net assets were \$8,911,795, of which \$4,594,930 was invested in capital assets, net of related debt. This fiscal year the outstanding sewer bonds were refunded; paying down \$826,141 of the outstanding debt with only a standard loan of \$973,859 remaining. No funds are restricted for debt service. The unrestricted balance is \$4,316,865.

CAPITAL ASSETS

GASB Statement 34 requires the City to record all its capital assets including infrastructure. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

In fiscal year 2011, the City reported the cost of all its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2011 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 6 below:

Table 6
Capital Assets at Year End

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Governmental Activities		
Land	\$ 3,360,205	\$ 3,360,205
Construction in Progress	795,678	1,170,854
Streets and Roads	3,506,657	3,506,657
Buildings	7,785,477	4,139,829
Equipment	2,812,080	2,599,953
Accumulated Depreciation	(4,218,769)	(3,747,718)
Governmental Activities Capital		
Assets Net	<u>\$ 14,041,328</u>	<u>\$ 11,029,780</u>
Business-Type Activities		
Land	\$ 3,456,477	\$ 1,460,000
Construction in Progress	236,304	9,340
Buildings	107,566	107,566
Plant and Equipment	8,121,212	7,973,961
Accumulated Depreciation	(4,333,256)	(4,100,494)
Business-Type Activities Capital		
Assets Net	<u>\$ 7,588,303</u>	<u>\$ 5,450,373</u>

Detail on capital assets, current year additions and construction in progress can be found in Note III E.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB Statement 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 III E to the financial statements.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011

DEBT ADMINISTRATION

The City issued no new bonded debt in fiscal year 2011. The City made all scheduled repayments of existing debt. In 1991 the City issued Sewer bonds which were refunded in 1999. In May of 2011 the City refunded these bonds paying down \$826,141 leaving the outstanding balance as a simple loan with no requirements as to collateral or reserve fund. Each of the City's debt issues is discussed in detail in Note III G to the financial statements. As of June 30, 2011, the City's debt comprised:

Table 7
 Outstanding Debt

	June 30 2011	June 30 2010
<u>Governmental Activity Debt:</u>		
<u>Certificates of Participation:</u>		
1997 Tax allocation and housing, 5.375%-6.200%, due 8/1/27	\$ 2,500,000	\$ 2,620,000
<u>Other Long Term Obligations:</u>		
Note, 5%, due 9/26/12	80,731	118,242
Accounting Software, 5%, Due May 2017	<u>36,614</u>	<u>0</u>
Total Governmental Activity Debt	<u>\$ 2,617,345</u>	<u>\$ 2,738,242</u>
 <u>Business-type Activity Debt:</u>		
<u>Certificates of Participation:</u>		
1991 Sewer treatment facility, 3.60%-5.3%, due 5/1/18	\$ 0	\$ 1,800,000
<u>Revenue Bonds:</u>		
1982 Water Revenue Bonds, Series B, 5.00%, due in 2022	542,000	574,000
<u>Other Long Term Obligations:</u>		
2011 refunding of CoPs, 3.9% due 5/1/2017	937,245	0
Accounting Software, 5%, Due May 2017	<u>73,229</u>	<u>0</u>
Total Business-type Activity Debt:	<u>\$ 1,552,474</u>	<u>\$ 2,374,000</u>

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 Newman, at 1162 Main Street, Newman, CA 95360.

CITY OF NEWMAN
STATEMENTS OF NET ASSETS
JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010

	Primary Government		Totals	
	Governmental Activities	Proprietary Activities	2011	2010
ASSETS				
Cash And Investments	10,118,413	5,699,983	15,818,396	17,747,276
Cash With Fiscal Agent	261,540	0	261,540	543,886
Accounts Receivable	1,082,087	347,361	1,429,448	698,981
Loans Receivable	5,151,688	0	5,151,688	4,795,671
Prepaid Expenses	6,963	0	6,963	7,469
Capital Assets (Net Of Accumulated Depreciation):				
Land	3,360,205	3,456,477	6,816,682	4,820,205
Construction In Progress	795,678	236,304	1,031,982	1,180,194
Buildings And Improvements	6,162,610	3,596,323	9,758,933	6,470,732
Equipment And Vehicles	1,012,634	47,960	1,060,594	1,006,100
Infrastructure	2,710,201	251,238	2,961,439	3,002,922
Total Assets	<u>30,662,019</u>	<u>13,635,646</u>	<u>44,297,665</u>	<u>40,273,436</u>
LIABILITIES				
Accounts Payable And Other				
Current Liabilities	2,018,927	422,054	2,440,981	2,219,285
Compensated Absences	120,661	57,241	177,902	170,365
Long-Term Liabilities:				
Due Within One Year	170,485	183,405	353,890	368,511
Due In More Than One Year	<u>2,446,860</u>	<u>1,369,068</u>	<u>3,815,928</u>	<u>4,743,730</u>
Total Liabilities	<u>4,756,933</u>	<u>2,031,768</u>	<u>6,788,701</u>	<u>7,501,891</u>
NET ASSETS				
Invested In Capital Assets				
Net Of Related Debt	11,423,983	5,925,974	17,349,957	11,367,912
Restricted For:				
Capital Projects	4,964,903	0	4,964,903	4,431,622
Community Development Projects	5,105,235	0	5,105,235	4,969,903
Debt Service	827,089	0	827,089	1,149,102
Unrestricted	<u>3,583,876</u>	<u>5,677,904</u>	<u>9,261,780</u>	<u>10,853,006</u>
Total Net Assets	<u>25,905,086</u>	<u>11,603,878</u>	<u>37,508,964</u>	<u>32,771,545</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

Functions/Programs	Expenses
Primary Government:	
Governmental Activities:	
General Government	363,633
Public Safety	1,921,529
Public Works	904,314
Community Development	1,531,655
Culture And Leisure	89,414
Interest on Long-Term Debt	143,946
Total Governmental Activities	<u>4,954,491</u>
Business-Type Activities	
Water Services	1,047,262
Sewer Services	1,476,860
Total Business-Type Activities	<u>2,524,122</u>
Total Primary Government	<u><u>7,478,613</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

Program Revenues			Net (Expense) Revenue And Changes In Net Assets			
Fines, Fees And Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Primary Government		Total	
			Governmental Activities	Proprietary Activities	2011	2010
1,761,091	8,078	0	1,405,536	0	1,405,536	1,057,257
275,347	215,646	0	(1,430,536)	0	(1,430,536)	(1,853,589)
815,412	0	3,202,222	3,113,320	0	3,113,320	(17,953)
89,326	0	0	(1,442,329)	0	(1,442,329)	(1,817,690)
0	0	0	(89,414)	0	(89,414)	(88,436)
0	0	0	(143,946)	0	(143,946)	(151,606)
<u>2,941,176</u>	<u>223,724</u>	<u>3,202,222</u>	<u>1,412,631</u>	<u>0</u>	<u>1,412,631</u>	<u>(2,872,017)</u>
871,075	0	0	0	(176,187)	(176,187)	692
2,397,567	0	0	0	920,707	920,707	856,867
3,268,642	0	0	0	744,520	744,520	857,559
<u>6,209,818</u>	<u>223,724</u>	<u>3,202,222</u>	<u>1,412,631</u>	<u>744,520</u>	<u>2,157,151</u>	<u>(2,014,458)</u>
General Revenues:						
Taxes:						
Property Tax			1,106,467	0	1,106,467	1,219,152
Sales Tax			355,293	0	355,293	310,958
Motor Vehicle Tax			586,339	0	586,339	629,537
Franchise Tax			111,289	0	111,289	109,714
Other Taxes			277,939	0	277,939	384,634
Investment Earnings			88,510	54,432	142,942	155,399
Transfers			0	0	0	0
Total General Revenues And Transfers			<u>2,525,837</u>	<u>54,432</u>	<u>2,580,269</u>	<u>2,809,394</u>
Change In Net Assets			3,938,467	798,952	4,737,419	794,936
Net Assets - Beginning			<u>21,966,619</u>	<u>10,804,926</u>	<u>32,771,545</u>	<u>31,976,609</u>
Net Assets - Ending			<u>25,905,086</u>	<u>11,603,878</u>	<u>37,508,964</u>	<u>32,771,545</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	<u>General</u>	<u>CDBG</u>	<u>Public Facility Improvement Fund</u>
Assets			
Cash And Investments	3,611,023	657,588	4,539,937
Cash with Fiscal Agent	0	0	0
Accounts Receivable	308,387	59,981	0
Loans Receivable	0	4,106,920	0
Prepaid Expenses	6,963	0	0
Total Assets	<u>3,926,373</u>	<u>4,824,489</u>	<u>4,539,937</u>
Liabilities			
Accounts Payable	212,971	0	4,167
Compensated Absences	0	0	0
Other Liabilities	683,015	0	0
Total Liabilities	<u>895,986</u>	<u>0</u>	<u>4,167</u>
Fund Balances			
Nonspendable	6,963	0	0
Restricted	0	4,824,489	0
Committed	0	0	4,535,770
Assigned	0	0	0
Unassigned	3,023,424	0	0
Total Fund Balances	<u>3,030,387</u>	<u>4,824,489</u>	<u>4,535,770</u>
Total Liabilities And Fund Balances	<u>3,926,373</u>	<u>4,824,489</u>	<u>4,539,937</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

Redevelopment Capital Fund	Storm Drain Fund	Federal Grants	Other Funds	Total Governmental Funds	
				2011	2010
(383,562)	198,947	(177,648)	1,672,128	10,118,413	10,305,886
261,540	0	0	0	261,540	261,527
39,011	0	257,778	416,930	1,082,087	378,373
872,830	0	0	171,938	5,151,688	4,795,671
0	0	0	0	6,963	7,469
<u>789,819</u>	<u>198,947</u>	<u>80,130</u>	<u>2,260,996</u>	<u>16,620,691</u>	<u>15,748,926</u>
4,311	0	73,122	160,232	454,803	439,284
6,641	0	0	378	7,019	10,029
0	770,563	0	110,546	1,564,124	1,512,966
<u>10,952</u>	<u>770,563</u>	<u>73,122</u>	<u>271,156</u>	<u>2,025,946</u>	<u>1,962,279</u>
0	0	0	0	6,963	7,469
816,744	0	7,008	315,575	5,963,816	6,758,797
0	0	0	1,109,562	5,645,332	100,999
0	0	0	662,680	662,680	4,668,284
(37,877)	(571,616)	0	(97,977)	2,315,954	2,251,098
<u>778,867</u>	<u>(571,616)</u>	<u>7,008</u>	<u>1,989,840</u>	<u>14,594,745</u>	<u>13,786,647</u>
<u>789,819</u>	<u>198,947</u>	<u>80,130</u>	<u>2,260,996</u>	<u>16,620,691</u>	<u>15,748,926</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Total fund balances - governmental funds		14,594,745
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	3,360,205	
Construction In Progress	795,678	
Infrastructure net of \$796,456 accumulated depreciation	2,710,201	
Buildings and Improvements, net of \$1,622,867 accumulated depreciation	6,162,610	
Equipment and Vehicles, net of \$1,799,446 accumulated depreciation	1,012,634	
Total capital assets		14,041,328
Long-term liabilities applicable to the City's governmental activities are due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.		
Notes payable	(2,617,345)	
Compensated absences	(113,642)	
Total long-term liabilities		(2,730,987)
Total net assets - governmental activities		<u>25,905,086</u>

**CITY OF NEWMAN
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	<u>General</u>	<u>CDBG</u>	<u>Public Facility Improvement Fund</u>
Revenues			
Property Tax	535,607	0	0
Sales Tax	355,293	0	0
Other Tax And Franchises	717,883	0	0
Licenses And Permits	93,496	0	0
Fines And Forfeitures	163,965	0	0
Investment Earnings	25,343	8,689	31,130
Intergovernmental	35,453	0	0
Impact Fees	0	0	392,608
Service Charges And Miscellaneous	1,412,691	61,161	0
Total Revenues	<u>3,339,731</u>	<u>69,850</u>	<u>423,738</u>
Expenditures			
Current			
General Government	329,098	0	0
Public Safety	1,796,060	0	0
Public Works	617,072	0	8,324
Community Development	896,945	13,334	0
Culture And Leisure	76,699	0	0
Debt Service			
Principal	0	0	13,129
Interest & Other Charges	0	0	2,065
Capital Outlay	20,372	0	2,833
Total Expenditures	<u>3,736,246</u>	<u>13,334</u>	<u>26,351</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(396,515)</u>	<u>56,516</u>	<u>397,387</u>
Other Financing Sources (Uses)			
Operating Transfers In	488,068	0	0
Operating Transfers Out	<u>(40,000)</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>448,068</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balances	51,553	56,516	397,387
Fund Balance - Beginning	<u>2,978,834</u>	<u>4,767,973</u>	<u>4,138,383</u>
Fund Balance- Ending	<u><u>3,030,387</u></u>	<u><u>4,824,489</u></u>	<u><u>4,535,770</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

Redevelopment Agency Fund	Storm Drain Fund	Federal Grants	Other Funds	Total Governmental Funds	
				2011	2010
570,860	0	0	0	1,106,467	1,219,152
0	0	0	0	355,293	310,958
0	0	0	257,682	975,565	1,123,885
0	0	0	10,872	104,368	147,807
0	0	0	0	163,965	105,444
8,734	1,268	47	13,299	88,510	92,912
0	0	2,282,148	1,108,345	3,425,946	1,298,872
0	39,324	0	524,714	956,646	50,921
22,297	317	0	219,732	1,716,198	1,351,731
<u>601,891</u>	<u>40,909</u>	<u>2,282,195</u>	<u>2,134,644</u>	<u>8,892,958</u>	<u>5,701,682</u>
0	0	0	9,665	338,763	302,807
0	0	0	10,485	1,806,545	1,967,822
0	0	904	59,826	686,126	860,540
304,751	0	0	214,182	1,429,212	2,030,822
0	0	0	2,149	78,848	77,870
120,000	0	0	24,382	157,511	150,728
138,046	0	0	3,835	143,946	151,606
0	0	2,430,435	990,269	3,443,909	1,128,731
<u>562,797</u>	<u>0</u>	<u>2,431,339</u>	<u>1,314,793</u>	<u>8,084,860</u>	<u>6,670,926</u>
<u>39,094</u>	<u>40,909</u>	<u>(149,144)</u>	<u>819,851</u>	<u>808,098</u>	<u>(969,244)</u>
0	0	64,146	40,000	592,214	846,127
0	0	(80,163)	(472,051)	(592,214)	(820,627)
0	0	(16,017)	(432,051)	0	25,500
39,094	40,909	(165,161)	387,800	808,098	(943,744)
<u>739,773</u>	<u>(612,525)</u>	<u>172,169</u>	<u>1,602,040</u>	<u>13,786,647</u>	<u>14,730,391</u>
<u>778,867</u>	<u>(571,616)</u>	<u>7,008</u>	<u>1,989,840</u>	<u>14,594,745</u>	<u>13,786,647</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds 808,098

The changes in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$3,443,909) exceeded depreciation (\$471,051) in the current period. 2,972,858

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds. These transactions do not have any affect on net assets. 157,511

Changes in net assets of governmental activities 3,938,467

**CITY OF NEWMAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	2011				
	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)	2010 Actual
	Original	Final			
REVENUES					
Property Tax	499,500	484,500	535,607	51,107	567,554
Sales Tax	320,000	320,000	355,293	35,293	310,958
Other Tax And Franchise Fees	757,500	757,500	717,883	(39,617)	764,221
Licenses And Permits	88,150	88,150	93,496	5,346	137,843
Intergovernmental	37,000	37,000	35,453	(1,547)	33,538
Fines And Forfeitures	54,100	152,600	163,965	11,365	105,444
Investment Earnings	60,000	60,000	25,343	(34,657)	31,391
Service Charges And Miscellaneous	1,269,033	1,303,390	1,412,691	109,301	1,320,776
Total Revenues	<u>3,085,283</u>	<u>3,203,140</u>	<u>3,339,731</u>	<u>136,591</u>	<u>3,271,725</u>
EXPENDITURES					
General Government	351,738	353,238	329,098	(24,140)	284,323
Public Safety	1,968,945	1,966,245	1,796,060	(170,185)	1,964,135
Public Works	491,098	493,048	617,072	124,024	409,944
Community Development	777,166	837,166	896,945	59,779	872,429
Recreation And Leisure	78,271	84,271	76,699	(7,572)	77,870
Capital Outlay	0	45,400	20,372	(25,028)	0
Total Expenditures	<u>3,667,218</u>	<u>3,779,368</u>	<u>3,736,246</u>	<u>(43,122)</u>	<u>3,608,701</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(581,935)</u>	<u>(576,228)</u>	<u>(396,515)</u>	<u>179,713</u>	<u>(336,976)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	358,307	462,807	488,068	25,261	345,299
Transfers Out	(40,000)	(40,000)	(40,000)	0	0
Total Other Financing Sources And (Uses)	<u>318,307</u>	<u>422,807</u>	<u>448,068</u>	<u>25,261</u>	<u>345,299</u>
Net Change In Fund Balance	<u>(263,628)</u>	<u>(153,421)</u>	<u>51,553</u>	<u>204,974</u>	<u>8,323</u>
Fund Balance - Beginning	<u>2,978,834</u>	<u>2,978,834</u>	<u>2,978,834</u>	<u>0</u>	<u>2,970,511</u>
Fund Balance - Ending	<u>2,715,206</u>	<u>2,825,413</u>	<u>3,030,387</u>	<u>204,974</u>	<u>2,978,834</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	2011				
	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)	2010 Actual
	Original	Final			
General Government					
City Council	40,988	42,488	25,628	(16,860)	24,616
City Manager	120,000	120,000	133,616	13,616	118,928
City Clerk	69,606	69,606	51,617	(17,989)	31,458
Finance And Treasurer	121,144	138,844	123,477	(15,367)	109,321
Total General Government	<u>351,738</u>	<u>370,938</u>	<u>334,338</u>	<u>(36,600)</u>	<u>284,323</u>
Public Safety					
Police	1,868,076	1,893,076	1,713,677	(179,399)	1,881,267
Fire	100,869	100,869	89,949	(10,920)	82,868
Total Public Safety	<u>1,968,945</u>	<u>1,993,945</u>	<u>1,803,626</u>	<u>(190,319)</u>	<u>1,964,135</u>
Public Works					
Government Buildings	50,298	50,298	53,456	3,158	49,964
Government Auxiliary	63,685	63,685	228,199	164,514	80,139
Street Maintenance	230,807	232,307	203,126	(29,181)	159,037
Parks	146,308	146,758	139,857	(6,901)	120,804
Total Public Works	<u>491,098</u>	<u>493,048</u>	<u>624,638</u>	<u>131,590</u>	<u>409,944</u>
Community Development					
Planning	67,366	67,366	81,948	14,582	105,384
Building Regulation	51,500	51,500	94,713	43,213	118,538
Refuse Disposal	633,750	633,750	640,702	6,952	609,946
Corporation Yard	4,550	4,550	5,903	1,353	9,487
Engineering	20,000	80,000	73,677	(6,323)	29,074
Total Community Development	<u>777,166</u>	<u>837,166</u>	<u>896,943</u>	<u>59,777</u>	<u>872,429</u>
Recreation And Leisure					
Recreation	78,271	84,271	76,699	(7,572)	77,870
Total Culture And Leisure	<u>78,271</u>	<u>84,271</u>	<u>76,699</u>	<u>(7,572)</u>	<u>77,870</u>
Total General Fund	<u>3,667,218</u>	<u>3,779,368</u>	<u>3,736,244</u>	<u>(43,124)</u>	<u>3,608,701</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
CDBG SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	2011				
	Budgeted Amounts		Actual	Variance	2010 Actual
	Original	Final		With Final Budget Over (Under)	
REVENUES					
Interest Income	1,500	1,500	8,689	7,189	1,995
Program Income	282,092	332,317	61,161	(271,156)	1,121
Intergovernmental	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>243,455</u>
Total Revenues	<u>283,592</u>	<u>333,817</u>	<u>69,850</u>	<u>(263,967)</u>	<u>246,571</u>
EXPENDITURES					
Supplies And Services	<u>265,092</u>	<u>315,317</u>	<u>13,334</u>	<u>(301,983)</u>	<u>11,028</u>
Total Expenditures	<u>265,092</u>	<u>315,317</u>	<u>13,334</u>	<u>(301,983)</u>	<u>11,028</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>18,500</u>	<u>18,500</u>	<u>56,516</u>	<u>38,016</u>	<u>235,543</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	0	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources And (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balance	18,500	18,500	56,516	38,016	235,543
Fund Balance - Beginning	<u>4,767,973</u>	<u>4,767,973</u>	<u>4,767,973</u>	<u>0</u>	<u>4,532,430</u>
Fund Balance - Ending	<u>4,786,473</u>	<u>4,786,473</u>	<u>4,824,489</u>	<u>38,016</u>	<u>4,767,973</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
PUBLIC FACILITY IMPROVEMENT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	2011				
	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)	2010 Actual
	Original	Final			
REVENUES					
Interest Income	20,000	20,000	31,130	11,130	35,144
Impact Fees	378,716	378,716	392,608	13,892	43,128
Total Revenues	<u>398,716</u>	<u>398,716</u>	<u>423,738</u>	<u>25,022</u>	<u>78,272</u>
EXPENDITURES					
Supplies And Services	0	0	8,324	8,324	21,336
Capital Outlay	0	0	2,833	2,833	0
Debt Service					
Principal	13,129	13,129	13,129	0	12,504
Interest & Other Charges	2,065	2,065	2,065	0	2,689
Total Expenditures	<u>15,194</u>	<u>15,194</u>	<u>26,351</u>	<u>11,157</u>	<u>36,529</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>383,522</u>	<u>383,522</u>	<u>397,387</u>	<u>13,865</u>	<u>41,743</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	0	0	0	0	0
Transfers Out	0	0	0	0	0
Total Other Financing Sources And (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balance	383,522	383,522	397,387	13,865	41,743
Fund Balance - Beginning	<u>4,138,383</u>	<u>4,138,383</u>	<u>4,138,383</u>	<u>0</u>	<u>4,096,640</u>
Fund Balance - Ending	<u>4,521,905</u>	<u>4,521,905</u>	<u>4,535,770</u>	<u>13,865</u>	<u>4,138,383</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	2011				
	Budgeted Amounts		Actual	Variance	2010 Actual
	Original	Final		With Final Budget Over (Under)	
REVENUES					
Property Taxes	585,480	585,480	570,860	(14,620)	651,598
Interest Income	2,100	2,100	8,734	6,634	5,820
Intergovernmental	400,000	0	0	0	0
Miscellaneous Revenues	20,000	20,000	22,297	2,297	25,071
Total Revenues	<u>1,007,580</u>	<u>607,580</u>	<u>601,891</u>	<u>(5,689)</u>	<u>682,489</u>
EXPENDITURES					
Salaries And Benefits	114,327	114,327	121,763	7,436	147,608
Supplies And Services	49,077	49,077	100,043	50,966	302,849
SERAF Shift	0	83,000	82,945	(55)	402,877
Pass Through To Others	50,000	50,000	0	(50,000)	49,613
Capital Outlay	0	0	0	0	57,669
Debt Service					
Principal	120,000	120,000	120,000	0	115,000
Interest & Other Charges	141,076	141,076	138,046	(3,030)	143,923
Total Expenditures	<u>474,480</u>	<u>557,480</u>	<u>562,797</u>	<u>5,317</u>	<u>1,219,539</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>533,100</u>	<u>50,100</u>	<u>39,094</u>	<u>(11,006)</u>	<u>(537,050)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	0	83,000	0	(83,000)	25,500
Transfers Out	(400,000)	(400,000)	0	400,000	(268,328)
Total Other Financing Sources And (Uses)	<u>(400,000)</u>	<u>(317,000)</u>	<u>0</u>	<u>317,000</u>	<u>(242,828)</u>
Net Change In Fund Balance	133,100	(266,900)	39,094	305,994	(779,878)
Fund Balance - Beginning	<u>739,773</u>	<u>739,773</u>	<u>739,773</u>	<u>0</u>	<u>1,519,651</u>
Fund Balance - Ending	<u>872,873</u>	<u>472,873</u>	<u>778,867</u>	<u>305,994</u>	<u>739,773</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
STORM DRAIN CAPTIAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	2011				
	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)	2010 Actual
	Original	Final			
REVENUES					
Interest Income	785	785	1,268	483	1,342
Impact Fees	0	19,945	39,324	19,379	1,488
Service Charges And Miscellaneous	0	0	317	317	317
Total Revenues	785	20,730	40,909	20,179	3,147
EXPENDITURES					
Supplies And Services	0	0	0	0	0
Capital Outlay	0	0	0	0	0
Total Expenditures	0	0	0	0	0
Excess (Deficiency) Of Revenues Over Expenditures	785	20,730	40,909	20,179	3,147
OTHER FINANCING SOURCES (USES)					
Transfers In	0	0	0	0	0
Transfers Out	0	0	0	0	0
Total Other Financing Sources And (Uses)	0	0	0	0	0
Net Change In Fund Balance	785	20,730	40,909	20,179	3,147
Fund Balance - Beginning	(612,525)	(612,525)	(612,525)	0	(615,672)
Fund Balance - Ending	(611,740)	(591,795)	(571,616)	20,179	(612,525)

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
FEDERAL GRANT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	2011				
	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)	2010 Actual
	Original	Final			
REVENUES					
Interest Income	0	0	47	47	44
Intergovernmental	1,905,259	1,905,259	2,282,148	376,889	56,188
Total Revenues	<u>1,905,259</u>	<u>1,905,259</u>	<u>2,282,195</u>	<u>376,936</u>	<u>56,232</u>
EXPENDITURES					
Supplies And Services	0	0	904	904	287
Capital Outlay	2,520,337	2,670,337	2,430,435	(239,902)	87,970
Total Expenditures	<u>2,520,337</u>	<u>2,670,337</u>	<u>2,431,339</u>	<u>(238,998)</u>	<u>88,257</u>
Excess (Deficiency) Of Revenues Over Expenditures	(615,078)	(765,078)	(149,144)	615,934	(32,025)
OTHER FINANCING SOURCES (USES)					
Transfers In	780,217	780,217	64,146	(716,071)	268,328
Transfers Out	83,491	83,491	(80,163)	(163,654)	(63,792)
Total Other Financing Sources And (Uses)	<u>863,708</u>	<u>863,708</u>	<u>(16,017)</u>	<u>(879,725)</u>	<u>204,536</u>
Net Change In Fund Balance	248,630	98,630	(165,161)	(263,791)	172,511
Fund Balance - Beginning	172,169	172,169	172,169	0	(342)
Fund Balance - Ending	<u>420,799</u>	<u>270,799</u>	<u>7,008</u>	<u>(263,791)</u>	<u>172,169</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS**

JUNE 30, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010

Business-Type Activities-Enterprise Funds				
	Sewer Fund	Water Fund	Totals	
			2011	2010
Assets				
Cash And Investments	4,202,543	1,497,440	5,699,983	7,441,390
Cash With Fiscal Agent	0	0	0	282,359
Accounts Receivable	263,798	83,563	347,361	320,608
Fixed Assets	8,826,908	2,858,346	11,685,254	9,541,527
Accumulated Depreciation	(3,347,954)	(985,302)	(4,333,256)	(4,100,494)
Work In Progress	89,835	146,469	236,304	9,340
Total Assets	<u>10,035,130</u>	<u>3,600,516</u>	<u>13,635,646</u>	<u>13,494,730</u>
Liabilities				
Accounts Payable	115,421	112,824	228,245	73,764
Customer Deposits	0	92,819	92,819	92,281
Compensated Absences	34,055	23,186	57,241	48,769
Other Liabilities	0	100,990	100,990	100,990
Loan Payable	973,859	36,614	1,010,473	1,800,000
Bond Payable	0	542,000	542,000	574,000
Total Liabilities	<u>1,123,335</u>	<u>908,433</u>	<u>2,031,768</u>	<u>2,689,804</u>
Net Assets				
Invested In Capital Assets, Net Of Related Debt	4,594,930	1,331,044	5,925,974	3,076,373
Restricted For Debt Service	0	0	0	282,359
Unrestricted	<u>4,316,865</u>	<u>1,361,039</u>	<u>5,677,904</u>	<u>7,446,194</u>
Total Net Assets	<u>8,911,795</u>	<u>2,692,083</u>	<u>11,603,878</u>	<u>10,804,926</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011
 WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	Business-Type Activities-Enterprise Funds			
	Sewer Fund	Water Fund	Totals	
			2011	2010
Operating Revenues				
Service Charges	2,109,693	857,757	2,967,450	2,877,369
Miscellaneous Revenues	112,710	31,815	144,525	101,625
Total Operating Revenues	<u>2,222,403</u>	<u>889,572</u>	<u>3,111,975</u>	<u>2,978,994</u>
Operating Expenses				
Employee Services	481,582	410,058	891,640	798,868
Supplies And Services	742,990	528,456	1,271,446	1,302,006
Depreciation	151,914	80,848	232,762	213,997
Total Operating Expenses	<u>1,376,486</u>	<u>1,019,362</u>	<u>2,395,848</u>	<u>2,314,871</u>
Operating Income (Loss)	<u>845,917</u>	<u>(129,790)</u>	<u>716,127</u>	<u>664,123</u>
Nonoperating Revenues (Expenses)				
Investment Earnings	43,525	10,907	54,432	62,487
Connection Fees	42,358	(42,358)	0	216,036
Development Fees	132,806	23,861	156,667	106,928
Development Contribution	0	0	0	0
Interest Expense	(100,374)	(27,900)	(128,274)	(129,528)
Total Nonoperating Revenues (Expenses)	<u>118,315</u>	<u>(35,490)</u>	<u>82,825</u>	<u>255,923</u>
Income Before Transfers	<u>964,232</u>	<u>(165,280)</u>	<u>798,952</u>	<u>920,046</u>
Operating Transfer In	2,638,798	0	2,638,798	190,000
Operating Transfer Out	(2,638,798)	0	(2,638,798)	(215,500)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(25,500)</u>
Change In Net Assets	964,232	(165,280)	798,952	894,546
Total Net Assets - Beginning	<u>7,947,563</u>	<u>2,857,363</u>	<u>10,804,926</u>	<u>9,910,380</u>
Total Net Assets - Ending	<u>8,911,795</u>	<u>2,692,083</u>	<u>11,603,878</u>	<u>10,804,926</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2011
 WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	Business-Type Activities-Enterprise Funds			
	Sewer	Water	Totals	
	Fund	Fund	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Customers And Users	2,184,254	901,506	3,085,760	3,104,025
Payments To Suppliers	(659,692)	(457,272)	(1,116,963)	(1,290,087)
Payments To Employees	(476,094)	(407,075)	(883,169)	(797,525)
Net Cash Provided By Operating Activities	<u>1,048,468</u>	<u>37,159</u>	<u>1,085,627</u>	<u>1,016,412</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer Ins	2,638,798	0	2,638,798	190,000
Transfer Out	(2,638,798)	0	(2,638,798)	(215,500)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>0</u>	<u>0</u>	<u>0</u>	<u>(25,500)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection Fees	42,358	(42,358)	0	216,035
Development Fees	132,806	23,861	156,667	106,928
Purchase Of Capital Assets	(2,092,726)	(204,737)	(2,297,463)	(819,066)
Principal Paid On Capital Debt	(862,755)	(32,000)	(894,755)	(211,000)
Interest Paid On Capital Debt	(100,374)	(27,900)	(128,274)	(129,828)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(2,880,691)</u>	<u>(283,134)</u>	<u>(3,163,825)</u>	<u>(836,931)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received	<u>43,525</u>	<u>10,907</u>	<u>54,432</u>	<u>62,487</u>
Net Cash Provided By Investing Activities	<u>43,525</u>	<u>10,907</u>	<u>54,432</u>	<u>62,487</u>
Net Increase In Cash And Cash Equivalents	(1,788,698)	(235,068)	(2,023,766)	216,768
Cash And Equivalents, July 1	<u>5,991,241</u>	<u>1,732,508</u>	<u>7,723,749</u>	<u>7,506,981</u>
Cash And Equivalents, June 30	<u>4,202,543</u>	<u>1,497,440</u>	<u>5,699,983</u>	<u>7,723,749</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities	Business-Type Activities-Enterprise Funds			
	Sewer Fund	Water Fund	Totals	
			2011	2010
Operating Income	845,917	(129,790)	716,127	664,123
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities				
Depreciation Expense	151,914	80,848	232,762	213,997
(Increase) Decrease In Accounts Receivable	(38,149)	11,396	(26,753)	96,659
Increase (Decrease) In Accounts Payable	83,298	71,183	154,481	11,917
Compensated Absences	5,488	2,984	8,472	1,344
Customer Deposits	0	538	538	28,372
Net Cash Provided (Used) By Operating Activities	<u>1,048,468</u>	<u>37,159</u>	<u>1,085,627</u>	<u>1,016,412</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Newman, California (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management and Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- Financial statements prepared using the full accrual accounting for all of the City’s activities, except for infrastructure (roads, streets, bridges, etc.)
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The more significant of the City’s accounting policies are described below:

A. Financial Reporting Entity

The accompanying basic financial statements present the financial activity of the City of Newman (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations. Discretely presented component units represent other legally separate organizations for which the primary government is financially accountable or for which the nature and significance of their relationship to the primary government are such that exclusion would cause the City’s reporting entity to be misleading or incomplete. The City’s component units are blended; there are no discretely presented component units in the Financial Reporting Entity.

City of Newman

The City (primary government) was incorporated on June 10, 1908 under the general laws of the State of California. The City provides the full range of municipal services as contemplated by statute. Services provided include sewer, water, public safety (police, fire and civil defense), street construction and maintenance, culture-recreation, public improvements, planning and zoning, and general administrative and support services.

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

City of Newman(continued)

The City operates under a Council-Manager form of government. The City Council consists of four members elected at large for overlapping four year terms. The Mayor is elected to the City Council for a two year term. The City Council appoints a City Manager and City Attorney.

In addition to sitting as the governing board of the City, the City Council also acts as the Board of Directors of one blended component unit: the Redevelopment Agency of the City of Newman.

Blended Component Unit. The Redevelopment Agency serves all the citizens of the City of Newman. The Redevelopment Agency is reported as a capital project fund. Complete financial statements of the Redevelopment Agency may be obtained at the offices of the City of Newman.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes and taxpayer-assessed tax revenues (e.g., franchise taxes, sales taxes, motor vehicle fees, etc.) net of estimated refunds and uncollectible amounts, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the City. The City reports the following major governmental funds:

The **General Fund** 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.

The **CDBG Fund** - To account for federal grants and other monies received and disbursed under the Housing and Community Development Act, to assist low and moderate income groups in obtaining loans to purchase their first home and rehabilitate or revitalize their homes.

The **Public Facility Improvement Fund**- To account for development impact fees collected. These fees are used for infrastructure and capital expenditure resulting from new developments.

Storm Drain- To account for impact fees charged to development to pay for facilities impacted by the development project.

Federal Grants- To account for Federal grants. Historically most of the grants are police related but could include other departments.

Redevelopment Agency/Housing- Redevelopment Agency accounts for the collection of property tax revenues used for the administration of the agency and development within the designated redevelopment area. Redevelopment Housing accounts for 20% of the property tax revenues collected for the Redevelopment Agency, these funds are restricted for low and moderate income housing projects within the designated redevelopment area.

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

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

The city reports the following major proprietary funds.

The **Water Fund** accounts for the activities of the City's water service.

The **Sewer Fund** accounts for the activities of the City's sewer service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers and applicants, for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the enterprise and internal service funds are charges for sales and services. Operating expenses for enterprise funds include salaries and employee benefits, maintenance and operation of systems and facilities, 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. Assets, Liabilities, Net Assets or Equity

1. Cash and Investments

In order to maximize the flexibility of its investment program and to aid in cash budgeting, the City pools the cash of all funds, except for monies deposited with fiscal agents 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 quarterly. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

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

1. Cash and Investments (continued)

In accordance with the State of California Government Code, the City adopts an investment policy annually that, among other things, authorizes types of investments. Authorized investments include:

- Securities of the U.S. government or its agencies
- Certificates of Deposit (or time deposits) placed with commercial banks and/or savings and loan associations
- Bankers Acceptances
- State Treasurer's Local Agency Investment Fund (LAIF)
- Passbook savings account demand deposits
- Small Business Administration Loans
- Other products which are totally guaranteed and insured by the U.S government.

Investments for the City are reported at fair value. LAIF operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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 investment with initial maturities of three months or less.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

3. Property Taxes

Property taxes are levied on the first day of January by the county assessor, and are payable to the county tax collector in two installments.

The first installment is due November 1st, and is delinquent on December 10th, the second installment is due February 1st and is delinquent on April 10th.

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

3. Property Taxes (continued)

Taxes become a lien on the property on January 1st, and on the date of transfer of title, and the date of new construction.

The minimum property value which is taxed is \$2,000; however, tax bills are prepared for properties valued at less than \$2,000 if there is a special assessment to be collected. Article 13A of the California Constitution states, "The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent tax is to be collected by the counties and apportioned according to law to the districts within the counties."

The City has elected under state law (TEETER) to receive all of the annual property assessments in three installments as follows:

December	55%
April	40%
June	<u>5%</u>
	<u>100%</u>

4. Prepaid Items

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

5. Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets (e.g. roads, bridges, sidewalks, traffic lights and signals, street lights and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 for property, plant and equipment and \$25,000 for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

6. Capital Assets (continued)

Depreciation is recorded in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service life using the straight-line method. Assets are depreciated as follows:

Buildings	20-40 years
Improvements	40 years
Machinery and Equipment	3-6 years
Streets and Roads	20 years
Curb, Gutter, Sidewalks, & Median Curbs	20 years
Storm Drains	75 years
Traffic Signals	20 years
Water and Sewer Lines	40 years

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. All vacation and sick leave benefits are accrued as earned by employees. All vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for vacation pay is reported in the governmental and proprietary funds.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances 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 NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

9. Net Assets and Fund Equity

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside the City (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, fund balance is reported in classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications of fund balance are Non-spendable, Restricted, Committed, Assigned, and Unassigned. Non-spendable and Restricted fund balances represent the restricted classifications, and Committed, Assigned, and Unassigned represent the unrestricted classifications.

- Non-spendable fund balance includes amounts that cannot be spent because either 1) it is not in a spendable form, such as inventory or prepaid items or 2) legally or contractually required to be maintained intact.
- Restricted fund balance includes amounts that are constrained for specific purposes which are externally (outside the City) imposed by creditors, grantors, contributors, laws and regulations of other governments, or laws through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that are constrained for specified purpose that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned fund balance represents limitations imposed by management.
- Unassigned fund balance represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specific expenditures, restricted resources are considered spent before unrestricted resources, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Within unrestricted resources, committed and assigned are considered spent (if available) before unassigned amounts.

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

9. Net Assets and Fund Equity (continued)

	General	CDBG	Public Facility Improv.	Redevelop- ment Capital	Storn Drain	Federal Grants	Other Funds	Totals
Fund Balances:								
Nonspendable	6,963	0	0	0	0	0	0	6,963
Restricted To:								
Capital Projects	0	0	0	0	0	7,008	14,077	21,085
Housing	0	0	0	816,744	0	0	171,938	988,682
Public Safety	0	0	0	0	0	0	0	0
Community Development	0	4,824,489	0	0	0	0	129,560	4,954,049
Committed To:								
Streets and Highway	0	0	0	0	0	0	682,544	682,544
Parks and Recreation	0	0	0	0	0	0	395,097	395,097
Housing	0	0	0	0	0	0	31,921	31,921
Public Safety	0	0	0	0	0	0	0	0
Community Development	0	0	0	0	0	0	0	0
Public Fac Improvements	0	0	4,535,770	0	0	0	0	4,535,770
Assigned To								
Streets and Highway	0	0	0	0	0	0	0	0
Transportation	0	0	0	0	0	0	0	0
Contingencies	0	0	0	0	0	0	200,666	200,666
Other Purposes	0	0	0	0	0	0	462,014	462,014
Unassigned	<u>3,023,424</u>	<u>0</u>	<u>0</u>	<u>(37,877)</u>	<u>(571,616)</u>	<u>0</u>	<u>(97,977)</u>	<u>2,315,954</u>
Total Fund Balances	<u>3,030,387</u>	<u>4,824,489</u>	<u>4,535,770</u>	<u>778,867</u>	<u>(571,616)</u>	<u>7,008</u>	<u>1,989,840</u>	<u>14,594,745</u>

10. Use of Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council is required to adopt an annual budget resolution by July 1 of each fiscal year for the general fund, and special revenue, capital projects, debt service, and enterprise funds. These budgets are adopted and presented for reporting purposes on a basis consistent with generally accepted accounting principles.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council made several supplemental budgetary appropriations throughout the year.

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

B. Deficit Fund Equity

For the year ended June 30, 2011, the following fund has a deficit fund balance:

Storm Drain Fund \$571,616

Storm Drain Fund will be reimbursed by future assessments and fees collected from developers within the development district.

III. DETAILED NOTES ON ALL FUNDS

A. Cash And Investments

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

Statement of net assets:

Cash and investments	15,818,396
Cash and investments held by bond trustee	<u>261,540</u>
Total cash and investments	<u>16,079,936</u>

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	1,000
Deposits with financial institutions	8,971,449
Investments in LAIF	<u>7,107,487</u>
Total cash and investments	<u>16,079,936</u>

Investments Authorized by the City's Investment Policy

The City's investment policy authorizes investment in the local government investment pool administered by the State of California (LAIF). The City's investment policy also authorizes cash to be invested in Certificates of Deposits, Bankers Acceptances, and Passbook Savings Demand Deposits. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk.

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

Disclosures 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. As of year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 7.8 months.

		<u>Maturity Date</u>
State investment pool	<u>7,107,487</u>	7.8 months average maturity
Total	<u>7,107,487</u>	

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. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the City's contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

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 California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 governmental 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. 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 and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

Investment in State Investment Pool

The City's 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 this pool is 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 LAIF 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.

Cash with Fiscal Agent

The City maintains cash and investments which are restricted under the terms of various debt agreements. The money is included in the City's pooled cash and investment program. Restricted cash and investments as of June 30, 2011 is \$261,540 in the Redevelopment Agency Fund.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The City deposits deferred compensation plan assets with the California Public Employees Retirement System (PERS). Federal legislation requires that the assets of such plans be held in trust for the exclusive benefit of the plan participants and their beneficiaries. PERS act as the trustees for the plan assets and the City is considered to have limited fiduciary responsibility for the plan assets. As such, the City does not report the deferred compensation plan assets on its financial statements.

B. Accounts Receivable

Receivables at June 30, 2011 for the City's individual major funds and non-major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows. All receivables are expected to be collected within one year.

	<u>General</u>	<u>CDBG</u>	<u>RDA</u>	<u>Federal Grants</u>	<u>Non-Major Govern- mental</u>	<u>Total</u>
Governmental Activities:						
Utility Billing	87,247	0	0	0	0	87,247
Intergovernmental	168,845	59,981	39,011	257,778	416,930	942,545
Other	<u>52,295</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>52,295</u>
Total	<u>308,387</u>	<u>59,981</u>	<u>39,011</u>	<u>257,778</u>	<u>416,930</u>	<u>1,082,087</u>

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

B. Accounts Receivable (continued)

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Business-Type Activities:			
Utility Billing	83,563	163,941	247,504
Other	<u>0</u>	<u>99,857</u>	<u>99,857</u>
Total	<u><u>83,563</u></u>	<u><u>263,798</u></u>	<u><u>347,361</u></u>

C. Loans Receivable

The City is the recipient of Community Development Block Grant and Home Program Funds. The Funds are provided for housing and business loans to qualified recipients at various below market interest rates ranging from 0 to 4%. The terms of the loans range between fifteen and thirty-eight years. All loans are secured by deeds of trust. The amount outstanding as of June 30, 2011 is \$4,106,920. Additional Loans Receivable of the Redevelopment Agency are as follows:

The Agency had the following loans receivables as of June 30, 2011:

Westside Village	377,790
Newman Family Apartments	300,000
Jose Reynose	160,000
West Side Theatre	20,000
Daniel Gray	<u>15,040</u>
Total	<u><u>872,830</u></u>

A 40 year loan was issued to Westside Village Apartments L.P a California Limited Partnership for \$377,790 on June 3, 1999 at a 3.00% interest rate. The loan receivable balance as of June 30, 2011 was \$377,790.

A 55 year loan was issued to Newman Family Apartments L.P a California Limited Partnership for \$300,000 on September 1, 2010 at a 3.00% interest rate. First payment is due May 1, 2012. The loan receivable balance as of June 30, 2011 was \$300,000.

A 10 year loan was issued to Jose Reynose for \$200,000 on June 24, 2009. The interest varies between 0% for two years, 3% for three years and 5.00% for the remainder of the loan. The loan receivable balance as of June 30, 2011 was \$160,000.

A 5 year loan was issued to West Side Theatre Foundation for \$20,000 on April 12, 2011. If the Foundation is not in default under the loan agreement, the loan principle will be forgiven. The interest rate is 0.0% unless default the 105 or higher rate then allowed by law. The loan receivable balance as of June 30, 2011 was \$20,000.

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

C. Loans Receivable (continued)

A 5 year loan was issued to Daniel Gray for up to \$25,000 on April 1, 2011. The interest varies between 0% for the first year, 1.9% for the second year and 2.9% - 3.9% for the remainder of the loan. The loan receivable balance as of June 30, 2011 was \$15,040.

D. Evaluation of Subsequent Events

The City has evaluated subsequent events through November 15, 2011, the date which the financial statements were available to be issued. On July 29th, 2011 the City of Newman closed escrow on a building which will become the new location of the City Hall. The cost of the building was \$980,000 plus escrow/closing costs. The building is a 7500 sq. ft. two story located at 938 Fresno Street.

California Redevelopment Association along with League of California Cities and the cities of San Jose and Union City filed the initial petition on July 18, 2011, challenging the constitutionality of the state's plan to eliminate redevelopment agencies unless they agree to pay \$1.7 billion for FY 2011-12 and \$400 million in subsequent budget years. The central claim in the lawsuit is that AB 1x 26 and AB 1x 27 violate the California State Constitution, including Proposition 22, which was passed by 61 percent of California voters in November 2010. The California Supreme Court will hear oral arguments on November 10, 2011. A decision is expected to be reached before January 15, 2012, when the first payment under AB 1x 27 would be due.

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

E. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental-type Activities				
Capital assets not being depreciated:				
Land	3,360,205	0	0	3,360,205
Construction in progress	<u>1,170,855</u>	<u>536,520</u>	<u>(911,697)</u>	<u>795,678</u>
Total capital assets not being depreciated	<u>4,531,060</u>	<u>536,520</u>	<u>(911,697)</u>	<u>4,155,883</u>
Capital assets being depreciated:				
Infrastructure	3,506,657	0	0	3,506,657
Equipment and vehicles	2,599,953	212,127	0	2,812,080
Building and improvements	<u>4,139,829</u>	<u>3,645,648</u>	<u>0</u>	<u>7,785,477</u>
Total capital assets being depreciated	<u>10,246,439</u>	<u>3,857,775</u>	<u>0</u>	<u>14,104,214</u>
Less accumulated depreciation for:				
Infrastructure	(672,735)	(123,721)	0	(796,456)
Equipment and vehicles	(1,614,889)	(184,557)	0	(1,799,446)
Building and improvements	<u>(1,460,094)</u>	<u>(162,773)</u>	<u>0</u>	<u>(1,622,867)</u>
Total accumulated depreciation	<u>(3,747,718)</u>	<u>(471,051)</u>	<u>0</u>	<u>(4,218,769)</u>
Net capital assets being depreciated	<u>6,498,721</u>	<u>3,386,724</u>	<u>0</u>	<u>9,885,445</u>
Total net capital assets - Governmental-type activities	<u>11,029,781</u>	<u>3,923,244</u>	<u>(911,697)</u>	<u>14,041,328</u>

Depreciation was charged to functions/programs of the primary government as follows:

Government Activities:

General Government	24,870
Public Safety	114,984
Public Works	218,188
Community Development	102,443
Culture And Leisure	<u>10,566</u>
Total Depreciation Expense – Government Activities	<u>471,051</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

E. Capital Assets(continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital assets not being depreciated:				
Land	1,460,000	1,996,477	0	3,456,477
Construction in progress	<u>9,340</u>	<u>226,964</u>	<u>0</u>	<u>236,304</u>
Total capital assets not being depreciated	<u>1,469,340</u>	<u>2,223,441</u>	<u>0</u>	<u>3,692,781</u>
Capital assets being depreciated:				
Infrastructure	7,106,956	0	0	7,106,956
Equipment and vehicles	867,005	147,251	0	1,014,256
Building and improvements	<u>107,566</u>	<u>0</u>	<u>0</u>	<u>107,566</u>
Total capital assets being depreciated	<u>8,081,527</u>	<u>147,251</u>	<u>0</u>	<u>8,228,778</u>
Less accumulated depreciation for:				
Infrastructure	(3,318,480)	(183,135)	0	(3,501,615)
Equipment and vehicles	(698,177)	(44,445)	0	(742,622)
Building and improvements	<u>(83,837)</u>	<u>(5,182)</u>	<u>0</u>	<u>(89,019)</u>
Total accumulated depreciation	<u>(4,100,494)</u>	<u>(232,762)</u>	<u>0</u>	<u>(4,333,256)</u>
Net capital assets being depreciated	<u>3,981,033</u>	<u>(85,511)</u>	<u>0</u>	<u>3,895,522</u>
Total net capital assets - Business-type activities	<u><u>5,450,373</u></u>	<u><u>2,137,930</u></u>	<u><u>0</u></u>	<u><u>7,588,303</u></u>

Depreciation was charged to functions/programs of the primary government as follows:

Business- Type Activities:

Water	80,848
Sewer	<u>151,914</u>
Total Depreciation Expense – Business-Type Activities	<u><u>232,762</u></u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

F. Transfers

Interfund transfers for the year ended June 30, 2011 consisted of the following amounts:

Fund	Transfer In	Transfer Out
General Fund	488,068	40,000
Federal Grants	64,146	0
Employee Home Loan	40,000	0
COPS Grant	0	149,536
Federal Grants	0	80,163
Gas Tax	0	258,369
Local Transportation	0	64,146
Total	<u>592,214</u>	<u>592,214</u>

G. Long-Term Debt

Long-term debt consists of the following:

Governmental-Type Activities:

Fire Truck Purchase

The City purchased a Pierce F in September 2006 from Oshkosh Capital for \$263,822. Repayment will be made in yearly installments of \$43,411 at a 5% rate of interest. The loan matures September 26, 2012. The principal balance was \$80,731 as of June 30, 2011.

Year Ending June 30	Principal	Interest	Total
2012	39,383	4,028	43,411
2013	41,348	2,063	43,411
Total	<u>80,731</u>	<u>6,091</u>	<u>86,822</u>

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

G. Long-Term Debt (continued)

Certificates of Participation

In the year ended June 30, 1997 the City issued tax allocation project and housing bonds. The bonds payable were \$2,500,000 as of June 30, 2011.

Year Ending June 30	Principal	Interest	Total
2012	125,000	131,798	256,798
2013	125,000	125,298	250,298
2014	130,000	118,571	248,571
2015	135,000	111,515	246,515
2016	145,000	103,953	248,953
2017-2021	695,000	402,825	1,097,825
2022-2026	785,000	203,847	988,847
2027-2028	360,000	19,619	379,619
	<u>2,500,000</u>	<u>1,217,426</u>	<u>3,717,426</u>

Springbrook Accounting Software Purchase

The City purchased Springbrook Accounting Software in May 2011 from Springbrook Software Inc. for \$142,191. The purchase price was split three ways with Water, Sewer and General Fund. Repayment will be made in yearly installments, the first year of \$18,307 at a 0% and the remaining payments at \$21,140 at a 5% rate of interest. The loan matures in May 2017. The General Fund principal balance was \$36,614 as of June 30, 2011.

Year Ending June 30	Principal	Interest	Total
2012	6,102	0	6,102
2013	5,521	1,526	7,047
2014	5,797	1,250	7,047
2015	6,087	960	7,047
2016	6,391	655	7,046
2017	6,716	335	7,051
	<u>36,614</u>	<u>4,726</u>	<u>41,340</u>

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

G. Long-Term Debt (continued)

Business-Type Activities:

The \$1,050,000 of Water Revenue Bonds of 1982 are due in annual installments of \$9,000 to \$59,000 through 2022 with interest of 5%. This issue is being serviced, principal and interest by the Water Fund. The principal amount unpaid at June 30, 2011 is \$542,000.

Year Ending June 30	Principal	Interest	Total
2012	34,000	26,250	60,250
2013	36,000	24,500	60,500
2014	38,000	22,650	60,650
2015	39,000	20,725	59,725
2016	41,000	18,725	59,725
2017-2021	240,000	57,110	297,110
2022-2026	114,000	5,800	119,800
	<u>542,000</u>	<u>175,760</u>	<u>717,760</u>

Certificates of Participation

The City issued certifications of participation in May 1991 to assist in financing the acquisition, construction, and improvement of their wastewater treatment facilities. The total amount of the issue was \$3,590,000 with interest rates ranging from 4.5% to 6.74%.

The City refunded these certificates in November 1999. The total amount of the issue was \$3,455,000 with interest rates ranging from 3.6% to 5.3%. This was refinanced in 2011, which paid down the bond payable and set the interest rate at 3.9% for the remainder of the payments. The bonds payable as of June 30, 2011 is \$937,245.

Year Ending June 30	Principal	Interest	Total
2012	137,200	39,914	177,114
2013	145,900	31,399	177,299
2014	156,400	25,709	182,109
2015	161,500	19,609	181,109
2016	166,100	13,311	179,411
2017	170,145	6,833	176,978
Total	<u>937,245</u>	<u>136,775</u>	<u>1,074,020</u>

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

G.Long-Term Debt (continued)

Springbrook Accounting Software Purchase

The City purchased Springbrook Accounting Software in May 2011 from Springbrook Software Inc. for \$142,191. The purchase price was split three ways with Water, Sewer and General Fund. Repayment will be made in yearly installments, the first year of \$18,307 at a 0% and the remaining payments at \$21,140 at a 5% rate of interest. The loan matures in May 2017. The Water and Sewer Fund principal balance is \$73,229 split evenly as of June 30, 2011.

Year Ending June 30	Principal	Interest	Total
2012	12,204	0	12,204
2013	11,042	3,052	14,094
2014	11,594	2,500	14,094
2015	12,174	1,920	14,094
2016	12,782	1,310	14,092
2017	13,433	670	14,103
	<u>73,229</u>	<u>9,452</u>	<u>82,681</u>

The following is a summary of changes in the City's long-term debt and other long-term liabilities during the year ended June 30, 2011:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities:					
Loans Payable	118,242	0	(37,511)	80,731	39,383
Certificate of Participation	2,620,000	0	(120,000)	2,500,000	125,000
Springbrook Software Note	0	36,614		36,614	6,102
Compensated Absences	121,372	0	(711)	120,661	0
Long-term liabilities of Governmental Activities:	<u>2,859,614</u>	<u>36,614</u>	<u>(158,222)</u>	<u>2,738,006</u>	<u>170,485</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

G.Long-Term Debt (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds	574,000	0	(32,000)	542,000	34,000
Certificate of Participation (Refinanced)	1,800,000	0	(862,755)	937,245	137,200
Springbrook Software Note	0	73,229		73,229	12,205
Compensated Absences	<u>48,719</u>	<u>8,522</u>	<u>0</u>	<u>57,241</u>	<u>0</u>
Long-term liabilities of Governmental Activities:	<u>2,422,719</u>	<u>81,751</u>	<u>(894,755)</u>	<u>1,609,715</u>	<u>183,405</u>

H. Payables And Other Liabilities

Payables at June 30, 2011 for the City's individual major funds and nonmajor funds in the aggregate are as follows:

	<u>General</u>	<u>Storm Drain</u>	<u>Public Facility Inprov</u>	<u>Federal Grants</u>	<u>Redevelop- ment Agency</u>	<u>Non- major Govern- mental</u>	<u>Total</u>
Governmental Activities:							
Vendors	212,971	0	4,167	73,122	4,311	160,232	454,803
Compensated Absences	0	0	0	0	6,641	378	7,019
Developer Deposits	<u>683,015</u>	<u>770,563</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>110,546</u>	<u>1,564,124</u>
Total	<u>895,986</u>	<u>770,563</u>	<u>4,167</u>	<u>73,122</u>	<u>10,952</u>	<u>271,156</u>	<u>2,025,946</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

H. Payables And Other Liabilities (continued)

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Business-Type Activities:			
Vendors	112,824	115,421	228,245
Customer Deposits	92,819	0	92,819
Developer Deposits	100,990	0	100,990
Total	<u>306,633</u>	<u>115,421</u>	<u>422,054</u>

I. Stanislaus County Supplemental Education Revenue Augmentation Fund (SERAF)

On February 9, 2010 the Agency Board of Directors authorizing a loan of \$402,877 (the LMIHF Loan) from the Housing Fund to the Redevelopment Fund at 0% interest. The purpose for this loan was to comply with State Legislation ABX4-26 which among other things required the Redevelopment Agency to make payments to the Stanislaus County Supplemental Education Revenue Augmentation Fund (SERAF). Statute allows for the Agency to borrow funds from its Low and Moderate Income Housing Fund if there are insufficient other monies to make the required payment. An additional \$82,945 was loan in 2011, for a total of \$485,822.

According to SB68 the Redevelopment Fund until 2015 to repay the May 2010 payment (\$402,822) and until 2016 to repay the payment that will be made in May 2011 of 82,945. Redevelopment monies come from tax increments. With the recent reduction in housing prices the Agency needs to look at the newly reduced tax increments. Should the values fall to the Redevelopment inception date levels there would be little to no tax increment. In the near future, most likely prior to the second SERAF payment, the Agency will have more information from which to create a more accurate repayment schedule. Currently the Agency is planning to repay the loan prior to the 5 year deadline to avoid incurring any interest charges.

IV. OTHER INFORMATION

A. Risk Management

The City of Newman participates with other public entities in a joint exercise of powers agreement, which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

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

A. Risk Management (continued)

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each workers' compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$10,000 and workers' compensation losses under \$10,000. The CSJVRMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$10,000,000. The CSJVRMA participates in an excess pool that provides workers' compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit. The CSJVRMA is a consortium of fifty-four (54) cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA.

The financial position and results of operations for the CSJVRMA, as of June 30, 2010, are presented below:

Total Assets	<u>67,337,173</u>
Total Liabilities	55,453,249
Total Net Assets	<u>11,883,924</u>
Total Liabilities & Retained Earnings	<u>67,337,173</u>
Total Revenues for Year	32,727,775
Total Expenses for Year	<u>30,147,304</u>
Net Income for Year	<u>2,580,471</u>

At the termination of the joint powers agreement and after all claims have been settled, any excess deficit will be divided among the cities in accordance with its governing documents.

B. Commitments and Contingencies

The City of Newman is a party in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

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

C. Employee Retirement Systems and Plans

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office – 400 P Street – SacramentoCA95814.

Participants are required to contribute 8% (9% for public-safety employees) of their annual covered salary. The City makes the contributions required of the City employees on their behalf and for their account. The contribution requirements of plan members and the City are established and may be amended by PERS. The City is required to contribute at an actuarially determined rate. The current rate is 17.444% for non-safety employees, 26.923% of police employees, of annual covered payroll.

For June 30, 2011, the City's annual pension cost was \$369,861 due to excess PERS funds determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of PERS assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was five years for prior service unfunded, and 15 years for remaining unfunded.

THREE-YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/09	\$376,800	100%	0
06/30/10	\$400,072	100%	0
06/30/11	\$369,891	100%	0

D. New Accounting Pronouncements

The following new Governmental Accounting Standards Board (GASB) statement was implemented effective for periods beginning after June 15, 2010:

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

D. New Accounting Pronouncements (continued)

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established new fund balance classifications for governmental funds. It changed the previous terminology of Reserved and Unreserved to five new classifications, which are Non-spendable, Restricted, Committed, Assigned, and Unassigned.

GASB Statement 54 added additional note disclosures for the new classifications and refined the definitions of the various governmental fund types. For more information concerning this change, see the Fund Balance Policies note.

The following tables illustrate the reclassification of fund balances:

Fund Balances as of June 30, 2010

	General	CDBG	Public Facility Improve.	Redevelop- ment Capital	Storn Drain	Other Funds	Totals
Fund Balances:							
Reserved	0	0	0	0	0	0	0
Unreserved	<u>2,978,834</u>	<u>4,767,973</u>	<u>4,138,383</u>	<u>739,773</u>	<u>(612,525)</u>	<u>1,774,209</u>	<u>13,786,647</u>
Total Fund Balances	<u>2,978,834</u>	<u>4,767,973</u>	<u>4,138,383</u>	<u>739,773</u>	<u>(612,525)</u>	<u>1,774,209</u>	<u>13,786,647</u>

Fund Balances Reclassification as of June 30, 2010

	General	CDBG	Public Facility Improve.	Redevelop- ment Capital	Storn Drain	Other Funds	Totals
Fund Balances:							
Nonspendable	7,469	0	0	0	0	0	7,469
Restricted	0	4,767,973	0	766,610	0	1,224,214	6,758,797
Committed	0	0	0	0	0	100,999	100,999
Assigned	0	0	4,138,383	0	0	529,901	4,668,284
Unassigned	<u>2,971,365</u>	<u>0</u>	<u>0</u>	<u>(26,837)</u>	<u>(612,525)</u>	<u>(80,905)</u>	<u>2,251,098</u>
Total Fund Balances	<u>2,978,834</u>	<u>4,767,973</u>	<u>4,138,383</u>	<u>739,773</u>	<u>(612,525)</u>	<u>1,774,209</u>	<u>13,786,647</u>

**COMBINING FINANCIAL STATEMENTS
NON-MAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

Program Income Miscellaneous- To account for miscellaneous income.

Park Facility Fee- To account for developer fees related to parks.

State Grants- To account for various grants received from the State of California. Funds are used for community development.

Abandon Vehicle Fund- To account for money received by the Police Department for the disposal of abandon vehicles.

Gas Tax- To account for state gas tax revenues collected based on population. The revenues may be expended for street and road repair, maintenance, design, construction and traffic signal design and installation.

Employee Home Loan Fund- To account for funds set aside for City of Newman employees home loan program..

K-9 Fund- To account for donations made to the City for the purpose of the police K-9 Units.

COPS Grant Fund- To account for grant funds for police services.

Asset Forfeiture- To account for money received by the Police Department as a result of Asset Forfeiture. The funds are used to augment the SLENET Task Force which is currently run by the State Department of Justice.

Local Transportation- To account for Local Transportation Funds received from STANCOG as a pass thru of gas and sales tax funds to be used for improvements to transportation related areas.

County CDBG Fund- To account for various repayments received from the Stanislaus County. Refunds are for various public works and community development projects.

Business License Surcharge- To account for revenues generated by a portion of the business licenses collected.

Lighting and Landscaping District- To account for the money received from residences in certain districts who pay an assessment based on the benefit they receive. These funds are used to cover the costs of street lighting and landscape maintenance in their specific zones.

**COMBINING FINANCIAL STATEMENTS
NON-MAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

Contingency Fund- To account for funds reserved for emergency or contingent needs. These funds are only to be used at the direction of the City Council for emergencies or unplanned needs.

Capital Repair & Replacement- To account for internally derived depreciation expense used to establish a capital reserve fund.

**CITY OF NEWMAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	Special Revenue			
	Program Income Misc. Fund	Park Facility Fee Fund	State Grants Fund	Abandoned Vehicle Program
Assets				
Cash And Investments	1,596	505,643	(108,254)	14,901
Cash with Fiscal Agent	0	0	0	0
Accounts Receivable	0	0	10,277	0
Loans Receivable	0	0	0	0
Due From Other Funds	0	0	0	0
Total Assets	<u>1,596</u>	<u>505,643</u>	<u>(97,977)</u>	<u>14,901</u>
Liabilities And Fund Balances				
Liabilities				
Accounts Payable	0	0	0	0
Compensated Absences	0	0	0	105
Other Liabilities	0	110,546	0	0
Due To Other Funds	0	0	0	0
Total Liabilities	<u>0</u>	<u>110,546</u>	<u>0</u>	<u>105</u>
Fund Balances				
Reserved	0	0	0	0
Unreserved	1,596	395,097	(97,977)	14,796
Total Fund Balances	<u>1,596</u>	<u>395,097</u>	<u>(97,977)</u>	<u>14,796</u>
Total Liabilities And Fund Balances	<u>1,596</u>	<u>505,643</u>	<u>(97,977)</u>	<u>14,901</u>

Special Revenue

Gas Tax Fund	Employee Home Loan Fund	K-9 Fund	COPS Grant Fund	Asset Forfeit Fund	Local Transportation Fund	County CDBG Construction Fund
0	31,921	0	(25,004)	992	682,544	(200,431)
0	0	0	0	0	0	0
0	0	0	25,004	0	0	343,560
0	171,938	0	0	0	0	0
0	0	0	0	0	0	0
<u>0</u>	<u>203,859</u>	<u>0</u>	<u>0</u>	<u>992</u>	<u>682,544</u>	<u>143,129</u>
0	0	0	0	0	0	129,052
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>129,052</u>
0	0	0	0	0	0	0
0	203,859	0	0	992	682,544	14,077
<u>0</u>	<u>203,859</u>	<u>0</u>	<u>0</u>	<u>992</u>	<u>682,544</u>	<u>14,077</u>
<u>0</u>	<u>203,859</u>	<u>0</u>	<u>0</u>	<u>992</u>	<u>682,544</u>	<u>143,129</u>

**CITY OF NEWMAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

Special Revenue

	Business License Surcharge Fund	Lighting Landscape District Fund	Contingency Fund	Capital Repair Replacement Fund	Total Non-Major Special Revenue Funds	
					2011	2010
Assets						
Cash And Investments	12,212	106,261	200,666	449,081	1,672,128	1,763,186
Cash with Fiscal Agent	0	0	0	0	0	0
Accounts Receivable	0	22,628	0	15,461	416,930	162,659
Loans Receivable	0	0	0	0	171,938	142,600
Due From Other Funds	0	0	0	0	0	0
Total Assets	<u>12,212</u>	<u>128,889</u>	<u>200,666</u>	<u>464,542</u>	<u>2,260,996</u>	<u>2,068,445</u>
Liabilities And Fund Balances						
Liabilities						
Accounts Payable	1,867	13,852	0	15,461	160,232	181,433
Compensated Absences	0	273	0	0	378	390
Other Liabilities	0	0	0	0	110,546	112,413
Due To Other Funds	0	0	0	0	0	0
Total Liabilities	<u>1,867</u>	<u>14,125</u>	<u>0</u>	<u>15,461</u>	<u>271,156</u>	<u>294,236</u>
Fund Balances						
Reserved	0	0	0	0	0	0
Unreserved	10,345	114,764	200,666	449,081	1,989,840	1,774,209
Total Fund Balances	<u>10,345</u>	<u>114,764</u>	<u>200,666</u>	<u>449,081</u>	<u>1,989,840</u>	<u>1,774,209</u>
Total Liabilities And Fund Balances	<u>12,212</u>	<u>128,889</u>	<u>200,666</u>	<u>464,542</u>	<u>2,260,996</u>	<u>2,068,445</u>

**CITY OF NEWMAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	Special Revenue			
	Program Income Misc. Fund	Park Facility Fee Fund	State Grants Fund	Abandoned Vehicle Program
Revenues				
Investment Earnings	11	2,347	0	89
Intergovernmental	0	0	370,781	8,078
Property Taxes	0	0	0	0
Other Taxes	0	0	0	0
Impact Fees	0	312,760	0	0
Licenses And Permits	0	0	0	0
Service Charges And Miscellaneous	0	0	0	0
Total Revenues	<u>11</u>	<u>315,107</u>	<u>370,781</u>	<u>8,167</u>
Expenditures				
General Government	0	0	0	0
Public Safety	0	0	0	4,613
Public Works	0	0	4,915	0
Community Development	0	0	0	0
Culture And Leisure	0	0	0	0
Debt Service				
Principal	0	0	0	0
Interest & Other Charges	0	0	0	0
Capital Outlay	0	0	382,938	0
Total Expenditures	<u>0</u>	<u>0</u>	<u>387,853</u>	<u>4,613</u>
Excess(Deficiency) Of Revenues Over Expenditures	<u>11</u>	<u>315,107</u>	<u>(17,072)</u>	<u>3,554</u>
Other Financing Sources (Uses)				
Operating Transfers In	0	0	0	0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balances	11	315,107	(17,072)	3,554
Fund Balance - Beginning	<u>1,585</u>	<u>79,990</u>	<u>(80,905)</u>	<u>11,242</u>
Fund Balance - Ending	<u><u>1,596</u></u>	<u><u>395,097</u></u>	<u><u>(97,977)</u></u>	<u><u>14,796</u></u>

Special Revenue

Gas Tax Fund	Employee Home Loan Fund	K-9 Fund	COPS Grant Fund	Asset Forfeit Fund	Local Transportation Fund	County CDBG Construction Fund	Business License Surcharge Fund
687	250	0	619	7	4,724	43	284
0	0	0	100,030	0	250,067	379,389	0
0	0	0	0	0	0	0	0
257,682	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	10,872
0	0	0	0	0	108	0	0
<u>258,369</u>	<u>250</u>	<u>0</u>	<u>100,649</u>	<u>7</u>	<u>254,899</u>	<u>379,432</u>	<u>11,156</u>
0	0	0	0	0	0	0	2,830
0	0	1	0	0	0	0	0
0	0	0	0	0	0	54,911	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	161,850	391,735	0
<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>161,850</u>	<u>446,646</u>	<u>2,830</u>
<u>258,369</u>	<u>250</u>	<u>(1)</u>	<u>100,649</u>	<u>7</u>	<u>93,049</u>	<u>(67,214)</u>	<u>8,326</u>
0	40,000	0	0	0	0	0	0
<u>(258,369)</u>	<u>0</u>	<u>0</u>	<u>(149,536)</u>	<u>0</u>	<u>(64,146)</u>	<u>0</u>	<u>0</u>
<u>(258,369)</u>	<u>40,000</u>	<u>0</u>	<u>(149,536)</u>	<u>0</u>	<u>(64,146)</u>	<u>0</u>	<u>0</u>
0	40,250	(1)	(48,887)	7	28,903	(67,214)	8,326
<u>0</u>	<u>163,609</u>	<u>1</u>	<u>48,887</u>	<u>985</u>	<u>653,641</u>	<u>81,291</u>	<u>2,019</u>
<u>0</u>	<u>203,859</u>	<u>0</u>	<u>0</u>	<u>992</u>	<u>682,544</u>	<u>14,077</u>	<u>10,345</u>

**CITY OF NEWMAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

Special Revenue

	Lighting Landscape District Fund	Contingency Fund	Capital Repair Replacement Fund	Total Non-Major Special Revenue Funds	
				2011	2010
Revenues					
Investment Earnings	629	1,445	2,164	13,299	17,220
Intergovernmental	0	0	0	1,108,345	1,021,879
Property Taxes	0	0	0	0	0
Other Taxes	0	0	0	257,682	359,664
Impact Fees	211,954	0	0	524,714	6,305
Licenses And Permits	0	0	0	10,872	9,964
Service Charges And Miscellaneous	1,979	0	217,645	219,732	4,446
Total Revenues	<u>214,562</u>	<u>1,445</u>	<u>219,809</u>	<u>2,134,644</u>	<u>1,419,478</u>
Expenditures					
General Government	0	5	6,830	9,665	18,484
Public Safety	0	0	5,871	10,485	3,687
Public Works	0	0	0	59,826	429,260
Community Development	214,182	0	0	214,182	244,418
Culture And Leisure	0	0	2,149	2,149	0
Debt Service					
Principal	0	0	24,382	24,382	23,224
Interest & Other Charges	0	0	3,835	3,835	4,994
Capital Outlay	0	0	53,746	990,269	1,071,062
Total Expenditures	<u>214,182</u>	<u>5</u>	<u>96,813</u>	<u>1,314,793</u>	<u>1,795,129</u>
Excess(Deficiency) Of Revenues Over Expenditures	<u>380</u>	<u>1,440</u>	<u>122,996</u>	<u>819,851</u>	<u>(375,651)</u>
Other Financing Sources (Uses)					
Operating Transfers In	0	0	0	40,000	475,328
Operating Transfers Out	0	0	0	(472,051)	(552,299)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(432,051)</u>	<u>(76,971)</u>
Net Change In Fund Balances	380	1,440	122,996	387,800	(452,622)
Fund Balance - Beginning	<u>114,384</u>	<u>199,226</u>	<u>326,085</u>	<u>1,602,040</u>	<u>2,226,831</u>
Fund Balance - Ending	<u>114,764</u>	<u>200,666</u>	<u>449,081</u>	<u>1,989,840</u>	<u>1,774,209</u>

CITY OF NEWMAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

FEDERAL GRANTOR/PASS- THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Federal Expenditures
U.S. Department of Transportation				
Passed Through State of California:				
ARRA Stimulus	20.507	N/A	2,201,985	2,201,985
U.S. Department of Transportation				
CMAQ Grant	20.509	N/A	<u>161,850</u>	<u>161,850</u>
Total U.S. Department of Transportation			<u>2,363,835</u>	<u>2,363,835</u>
U.S. Department of Justice				
COPS Recovery Hiring Program grant	16.738	N/A	280,314	80,163
Local Law Enforcement Block Grant	16.710	N/A	<u>100,030</u>	<u>100,030</u>
Total U.S.Department Of Justice			<u>380,344</u>	<u>180,193</u>
Total Expenditures of Federal Awards			<u>2,744,179</u>	<u>2,544,028</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

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

SUMMARY OF AUDITOR'S RESULTS

1. Type of report issued on the financial statements – Unqualified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements and any such conditions that are material weaknesses– None
3. Disclosure of any noncompliance which are material to the financial statements - None
4. Disclosure of any significant deficiencies in internal control over major programs and any such conditions that are material weaknesses – None
5. Type of report issued on compliance for major programs – Unqualified
6. Audit findings relative to the major federal programs – None
7. Major programs are as follows: ARRA Stimulus, U.S. Department of Transportation (Passed through State of California) CFDA numbers 20.507 and CMAQ Grant, U.S. Department of Transportation, CFDA numbers 20.509
8. Expenses in excess of \$300,000 was used as the threshold to distinguish between Type A and Type B programs

FINDINGS - FINANCIAL STATEMENT AUDIT

Findings relating to financial statements which are required to be reported – None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS

Findings relating to major federal award programs which are required to be reported – None

PRIOR YEAR'S FINDINGS - None

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

To The City Council
City of Newman
State of California

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Newman, State of California, as of and for the year ended June 30, 2011 which collectively comprise the City of Newman, State of California's basic financial statements and have issued our report thereon dated November 15, 2011. 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 Newman, State of California'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 City of Newman, State of California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Newman, State of California'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 the City of Newman, State of California'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*.

This report is intended solely for the information and use of management, 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

CLENDENIN BIRD & COMPANY, PC

Modesto, California
November 15, 2011

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

To The City Council
City of Newman
State of California

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

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

In our opinion, City of Newman, State of California, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

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

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

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

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

CLENDENIN, BIRD & COMPANY, PC

Modesto, California
November 15, 2011



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**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
BASED ON AN EXAMINATION OF GENERAL-PURPOSE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH THE
CALIFORNIA TRANSPORTATION DEVELOPMENT ACT**

To The City Council
City of Newman
State of California

We have audited the general-purpose financial statements of the City of Newman, State of California for the year ended June 30, 2011, and have issued our report thereon dated November 15, 2011. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the California Administrative Code Section 6664 of the Transportation Development Act and the allocation instructions of the Stanislaus Area Association of Governments, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of Newman is responsible for the City's compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the City's compliance with laws and regulations, noncompliance with which could have a material effect on the general-purpose financial statements of the City.

In our opinion the City of Newman Transportation Development Act funds were accounted for in conformance with the applicable laws, rules and regulations of the Transportation Development Act and the allocation instructions of the Stanislaus Council of Governments.

CLENDENIN BIRD & COMPANY, PC

Modesto, California
November 15, 2011

CITY OF NEWMAN
REDEVELOPMENT AGENCY
COMPONENT UNIT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

**CITY OF NEWMAN
REDEVELOPMENT AGENCY**

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INDEPENDENT AUDITOR'S REPORT

To The Board Members
Redevelopment Agency of Newman Redevelopment Agency
State Of California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Newman Redevelopment Agency, State of California, as of and for the years ended June 30, 2011, which collectively comprise the Redevelopment Agency's basic financial statements as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Newman Redevelopment Agency's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. The prior year comparative information has been derived from the City of Newman Redevelopment Agency's financial statements and, in our report dated November 4, 2010, we expressed an unqualified opinion on the financial statements.

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 general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Newman Redevelopment Agency, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2011 on our consideration of the City of Newman Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CLENDENIN BIRD & COMPANY, PC

Modesto, California
November 15, 2011

**City of Newman Redevelopment Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

As management of the City of Newman Redevelopment Agency we offer readers of the Agency's Financial Statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2011. This document has been prepared as required by the Statement No. 34 of Governmental Accounting Standards Board (GASB 34).

Financial Highlights

Tax increment revenues are sufficient to cover debt related expenses and provide funding for both housing and non-housing priorities. The Agency continues to deliver high quality projects that have been planned based on neighborhood and business needs and goals.

The following are the amounts received from tax increments in fiscal year 2010-2011 with comparative totals for the previous three fiscal years.

<u>Fiscal Year Receipt</u>	<u>2010-2011</u>	<u>2009-2010</u>	<u>2008-2009</u>	<u>2007-2008</u>
Total for the year	\$ 570,860	\$ 651,598	\$ 882,343	\$ 926,507

The assets of the Agency exceeded its liabilities at the close of the fiscal year by \$357,083 (net assets). The Agency's investment in assets is primarily in City owned property; it does not hold all capital purchases in its own name.

As of the close of the fiscal year, the Agency's funds (all governmental) reported combined ending fund balance of \$778,867 which is an increase of \$39,094 in comparison with the prior year. Even though revenues declined, the increase in fund balance was attributable to the significant reduction of expenditures in general government and community development. In 2009-2010 the State Legislation passed ABX4-26 requiring the Redevelopment Agency to make a \$402,877 payment in 2009-2010 to the Stanislaus County Supplemental Education Revenue Augmentation Fund (SERAF) and an additional SERAF payment in 2010-2011 of \$82,945. With the passing of ABX1-26 and 27 in 2010-2011, the State is continuing its attempted raids on Redevelopment Agencies statewide. Due to challenges from the League of California Cities and the California Redevelopment Association this legislation has been stayed and is pending judgment in the California Supreme Court.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Redevelopment Agency basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**City of Newman Redevelopment Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Government-wide Financial Statements: The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. The Agency, while a separate legal entity, acts as a financial conduit for the City and as such does not hold title to all the assets it helps construct. Therefore, its net assets are not any indication of its financial health.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with the finance-related legal requirements. All of the funds of the Agency can be divided into two categories: capital projects fund and debt service fund.

The Agency adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Government-wide Financial Analysis

By far the largest portion of the Agency's net assets reflects amounts designated for capital projects (e.g., land, buildings, machinery, and equipment). Unlike most other type of governmental bodies who provide day-to-day services, the main purpose of the Agency is to provide capital funds for the development of a certain geographical area of the City. The table below shows the components of the net assets.

**City of Newman Redevelopment Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Redevelopment Agency		
Net Assets:		
	2011	2010
Current Assets	\$ 1,199,059	\$ 822,546
Noncurrent Assets	2,078,216	2,136,022
Total Assets	3,277,275	2,958,568
Current Liabilities	420,192	82,783
Noncurrent Liabilities	2,500,000	2,620,000
Total Liabilities	2,920,192	2,702,783
Net Assets:		
Invested In capital Assets	(421,784)	(483,978)
Restricted	1,040,407	1,001,300
Unrestricted	(261,540)	(261,527)
Total Net Assets	\$ 357,083	\$ 255,795

There was an increase of \$101,288 in the Agency's net assets (including any prior year adjustments) during the fiscal year.

Governmental Activities: All the activities of the agency are governmental and it has no business-type activities.

Redevelopment Agency		
Change In Net Assets:		
	2011	2010
General Revenues:		
Property Tax (Tax Increments)	\$ 570,860	\$ 651,598
Miscellaneous and Transfers	22,297	(217,757)
Use of Money and Property	8,734	5,820
Total General Revenues	601,891	439,661
Net Expenses	500,602	1,104,675
Change In Net Assets:	101,289	(665,014)
Net Assets Beginning of Year	255,794	920,808
Net Assets End of Year	\$ 357,083	\$ 255,794

Financial Analysis of the Agency's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Agency's Governmental Funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Agency's financing requirements. Prior to the 2010-2011 fiscal year, fund balance was divided between reserved and unreserved. In

**City of Newman Redevelopment Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

particular, unreserved fund balance may have served as a useful measure of a government's net resources available for spending at the end of the fiscal year. Starting with the 2010-2011 fiscal year GASB #54 requires fund balance to be classified into one of five classifications. The classifications of fund balance are Non-spendable, Restricted, Committed, Assigned, and Unassigned. Note #6, Net Assets and Fund Equity contains more detailed presentation of these classifications. It should, however, be noted that most of the fund balance is restricted by the Agency for specific uses due to the nature of the Redevelopment Agency fund.

The Agency is required by State law to set aside 20% of the tax increment revenue in a separate fund for low and moderate-income housing purposes. The fund balance in this fund, increased by \$50,134 to \$816,744.

The fund balance in the Redevelopment General Fund, decreased by \$(11,040) to \$(37,877).

Budgetary Highlights

The Agency's overall revenues were \$5,538 less than estimated. The Agency's overall expenditures were \$10,854 over the estimated amount.

Capital Asset and Debt Administration

Capital Assets: As of June 30, 2011, the Agency's capital assets were \$2,078,216. As noted earlier the Agency acts as a financial conduit for the City of Newman and as a result its investments in capital assets are recorded as City assets rather than Agency assets.

Long-term Debt: At the end of the current fiscal year, the Agency has total bonded debt outstanding of \$2,500,000. The tax increments revenue of the Agency secures all bonded debt of the Agency.

The Agency's debt decreased by \$120,000 during the fiscal year.

Additional information on the Agency long-term receivables can be found in Note IV D of this report.

Economic Factors and Next Year's Budgets

Since the Agency's primary source of revenue is tax increments, property values and new construction in the redevelopment area are the key economic factors that define the future resources of the agency. Tax increment revenue decreased by 12.4% in fiscal year 2010-2011. The decrease is due to a decrease in property values in the Redevelopment Area and adjustment of prior year assessments.

**City of Newman Redevelopment Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Newman Finance Division at 1162 Main Street, Newman, CA 95360

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2011**

WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010

	Primary Government		
	Governmental Activities	Totals	
		2011	2010
ASSETS			
Cash And Investments	25,678	25,678	3,239
Cash with Fiscal Agent	261,540	261,540	261,527
Accounts Receivable	39,011	39,011	0
Loans Receivable	872,830	872,830	557,790
Capital Assets (Net Of Accumulated Depreciation):			
Land	1,262,332	1,262,332	1,262,332
Construction In Progress	57,669	57,669	57,669
Buildings And Improvements	161,502	161,502	172,103
Infrastructure	596,713	596,713	643,918
Total Assets	<u>3,277,275</u>	<u>3,277,275</u>	<u>2,958,577</u>
LIABILITIES			
Accounts Payable And Other			
Current Liabilities	4,311	4,311	73,144
Compensated Absences	6,641	6,641	9,639
Other Liabilities	409,240	409,240	0
Long-Term Liabilities:			
Due Within One Year	125,000	125,000	120,000
Due In More Than One Year	<u>2,375,000</u>	<u>2,375,000</u>	<u>2,500,000</u>
Total Liabilities	<u>2,920,192</u>	<u>2,920,192</u>	<u>2,702,783</u>
NET ASSETS			
Invested In Capital Assets			
Net Of Related Debt	(421,784)	(421,784)	(483,978)
Restricted For			
Community Development Projects	778,867	778,867	739,773
Debt Service	261,540	261,540	261,527
Unrestricted	<u>(261,540)</u>	<u>(261,540)</u>	<u>(261,527)</u>
Total Net Assets	<u>357,083</u>	<u>357,083</u>	<u>255,794</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

Functions/Programs	Expenses
Primary Government:	
Governmental Activities:	
General Government	88,431
Community Development	274,125
Pass Through To Others	0
Interest On Long-Term Debt	<u>138,046</u>
Total Governmental Activities	<u>500,602</u>
Total Primary Government	<u><u>500,602</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

Program Revenues			Net (Expense) Revenue And Changes In Net Assets Primary Government		
Fines, Fees And Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	2011	Totals 2010
0	0	0	(88,431)	(88,431)	(402,877)
0	0	0	(274,125)	(274,125)	(508,262)
0	0	0	0	0	(49,613)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(138,046)</u>	<u>(138,046)</u>	<u>(143,923)</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>(500,602)</u>	<u>(500,602)</u>	<u>(1,104,675)</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>(500,602)</u>	<u>(500,602)</u>	<u>(1,104,675)</u>

General Revenues:

Taxes:			
Property Tax Increments	570,860	570,860	651,598
Investment Earnings	8,734	8,734	5,820
Intergovernmental	0	0	0
Service Charges And Miscellaneous	22,297	22,297	25,071
Transfers	<u>0</u>	<u>0</u>	<u>(242,828)</u>
Total General Revenues And Transfers	<u>601,891</u>	<u>601,891</u>	<u>439,661</u>
Change In Net Assets	101,289	101,289	(665,014)
Net Assets - Beginning	<u>255,794</u>	<u>255,794</u>	<u>920,808</u>
Net Assets - Ending	<u>357,083</u>	<u>357,083</u>	<u>255,794</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	<u>General</u>	<u>Redevelopment Housing</u>	<u>Total Governmental 2011</u>	<u>2010</u>
Assets				
Cash And Investments	(409,240)	25,678	(383,562)	3,239
Cash with Fiscal Agent	261,540	0	261,540	261,527
Accounts Receivable	33,763	5,248	39,011	0
Loans Receivable	572,830	300,000	872,830	557,790
Interfund Receivable	<u>0</u>	<u>485,822</u>	<u>485,822</u>	<u>402,877</u>
Total Assets	<u><u>458,893</u></u>	<u><u>816,748</u></u>	<u><u>1,275,641</u></u>	<u><u>822,556</u></u>
Liabilities				
Accounts Payable	4,307	4	4,311	73,144
Compensated Absences	6,641	0	6,641	9,639
Interfund Payable	<u>485,822</u>	<u>0</u>	<u>485,822</u>	<u>402,877</u>
Total Liabilities	<u><u>496,770</u></u>	<u><u>4</u></u>	<u><u>496,774</u></u>	<u><u>485,660</u></u>
Fund Balances				
Nonspendable	0	0	0	0
Restricted for:				
Housing	0	816,744	816,744	766,610
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	<u>(37,877)</u>	<u>0</u>	<u>(37,877)</u>	<u>(26,837)</u>
Total Fund Balances	<u><u>(37,877)</u></u>	<u><u>816,744</u></u>	<u><u>778,867</u></u>	<u><u>739,773</u></u>
Total Liabilities And Fund Balances	<u><u>458,893</u></u>	<u><u>816,748</u></u>	<u><u>1,275,641</u></u>	<u><u>1,225,433</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total fund balances - governmental funds 778,867

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	1,262,332	
Construction In Progress	57,669	
Buildings and improvements, net of \$64,049, accumulated depreciation	161,502	
Infrastructure, net of \$347,402 accumulated depreciation	596,713	
Total capital assets		2,078,216

Long-term liabilities applicable to the City's governmental activities are due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Notes payable	(<u>2,500,000</u>)	
Total long-term liabilities		(<u>2,500,000</u>)

Total net assets - governmental activities 357,083

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	<u>General</u>	<u>Redevelopment Housing</u>	<u>Total Governmental</u>	
			2011	2010
Revenues				
Property Tax Increments	456,688	114,172	570,860	651,598
Investment Earnings	6,254	2,480	8,734	5,820
Intergovernmental	0	0	0	0
Service Charges And Miscellaneous	<u>1,000</u>	<u>21,297</u>	<u>22,297</u>	<u>25,071</u>
Total Revenues	<u>463,942</u>	<u>137,949</u>	<u>601,891</u>	<u>682,489</u>
Expenditures				
Current				
General Government	0	0	0	0
Community Development	185,600	36,206	221,806	450,457
SERAF Shift	82,945	0	82,945	402,877
Pass Through To Others	0	0	0	49,613
Debt Service				
Principal	96,000	24,000	120,000	115,000
Interest And Other Charges	110,437	27,609	138,046	143,923
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,669</u>
Total Expenditures	<u>474,982</u>	<u>87,815</u>	<u>562,797</u>	<u>1,219,539</u>
Excess (Deficiency) Of Revenues				
Over Expenditures	(11,040)	50,134	39,094	(537,050)
Other Financing Sources (Uses)				
Operating Transfers In	0	0	0	25,500
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	(268,328)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	(242,828)
Net Change In Fund Balances				
	(11,040)	50,134	39,094	(779,878)
Fund Balance - Beginning	(26,837)	766,610	739,773	1,519,651
Fund Balance- Ending	<u>(37,877)</u>	<u>816,744</u>	<u>778,867</u>	<u>739,773</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds 39,094

The changes in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$57,805) exceeded capital outlay (\$0) in the current period. (57,805)

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds. These transactions do not have any affect on net assets. 120,000

Changes in net assets of governmental activities 101,289

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)	2010 Actual
	Original	Final			
REVENUES					
Property Tax Increments	469,380	469,380	456,688	(12,692)	521,278
Investment Earnings	100	100	6,254	6,154	(164)
Service Charges And Miscellaneous	0	0	1,000	1,000	24,573
Intergovernmental	0	0	0	0	0
Total Revenues	<u>469,480</u>	<u>469,480</u>	<u>463,942</u>	<u>(5,538)</u>	<u>545,687</u>
EXPENDITURES					
Salaries And Benefits	75,490	75,490	100,888	25,398	119,064
Supplies And Services	46,777	46,777	84,712	37,935	245,184
Capital Outlay	0	0	0	0	57,669
SERAF Shift	0	83,000	82,945	(55)	402,877
Pass Through To Others	50,000	50,000	0	(50,000)	49,613
Debt Service					
Principal	96,000	96,000	96,000	0	92,000
Interest	<u>112,861</u>	<u>112,861</u>	<u>110,437</u>	<u>(2,424)</u>	<u>115,138</u>
Total Expenditures	<u>381,128</u>	<u>464,128</u>	<u>474,982</u>	<u>10,854</u>	<u>1,081,545</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>88,352</u>	<u>5,352</u>	<u>(11,040)</u>	<u>(16,392)</u>	<u>(535,858)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	0	83,000	0	(83,000)	25,500
Transfers Out	<u>(400,000)</u>	<u>(400,000)</u>	<u>0</u>	<u>400,000</u>	<u>(268,328)</u>
Total Other Financing Sources And (Uses)	<u>(400,000)</u>	<u>(317,000)</u>	<u>0</u>	<u>317,000</u>	<u>(242,828)</u>
Net Change In Fund Balance	(311,648)	(311,648)	(11,040)	300,608	(778,686)
Fund Balance - Beginning	<u>(26,837)</u>	<u>(26,837)</u>	<u>(26,837)</u>	<u>0</u>	<u>751,849</u>
Fund Balance - Ending	<u>(338,485)</u>	<u>(338,485)</u>	<u>(37,877)</u>	<u>300,608</u>	<u>(26,837)</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REDEVELOPMENT HOUSING CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance	2010
	Original	Final		With Final Budget Over (Under)	
REVENUES					
Property Tax Increments	116,100	116,100	114,172	(1,928)	130,320
Investment Earnings	2,000	2,000	2,480	480	5,984
Service Charges And Miscellaneous	<u>0</u>	<u>0</u>	<u>21,297</u>	<u>21,297</u>	<u>498</u>
Total Revenues	<u>118,100</u>	<u>118,100</u>	<u>137,949</u>	<u>19,849</u>	<u>136,802</u>
EXPENDITURES					
Salaries And Benefits	38,837	38,837	20,875	(17,962)	28,544
Supplies And Services	2,300	2,300	15,331	13,031	57,665
Debt Service					
Principal	24,000	24,000	24,000	0	23,000
Interest	<u>28,215</u>	<u>28,215</u>	<u>27,609</u>	<u>(606)</u>	<u>28,785</u>
Total Expenditures	<u>93,352</u>	<u>93,352</u>	<u>87,815</u>	<u>(5,537)</u>	<u>137,994</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>24,748</u>	<u>24,748</u>	<u>50,134</u>	<u>25,386</u>	<u>(1,192)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	0	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources And (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balance	24,748	24,748	50,134	25,386	(1,192)
Fund Balance - Beginning	<u>766,610</u>	<u>766,610</u>	<u>766,610</u>	<u>0</u>	<u>767,802</u>
Fund Balance - Ending	<u>791,358</u>	<u>791,358</u>	<u>816,744</u>	<u>25,386</u>	<u>766,610</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Redevelopment Agency of Newman, California have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The financial statements include:
 - A Management and Discussion and Analysis (MD&A) section providing an analysis of the Redevelopment Agency’s overall financial position and results of operations.
 - Financial statements prepared using the full accrual accounting for all of the Redevelopment Agency’s activities, including infrastructure (roads, streets, bridges, etc.)

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

The more significant of the Redevelopment Agency’s accounting policies are described below:

A. Financial Reporting Entity

The accompanying basic financial statements present the financial activity of the Redevelopment Agency, a blended component unit of the City of Newman.

The financial statements of the Redevelopment Agency of the City of Newman have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statements No. 14 and 34. GASB 14 defines the financial reporting entity and component units that need to be included in the reporting entity.

A component unit is a separate governmental unit, agency, or nonprofit corporation that is evaluated in relation to specific criteria to determine if it should be included in the financial reporting entity.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

Blended Component Unit

The Redevelopment Agency governing board is comprised of the members of the City Council, and City employees perform all activities of the Redevelopment Agency. Although it is legally separate from the City of Newman, the Redevelopment Agency is reported in the Redevelopment Agency's general purpose financial statements as if it were part of the City because its sole purpose is to encourage new investment and reinvestment within the Redevelopment Agency's legally designated redevelopment areas in partnership with property owners.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements (note that the Redevelopment Agency has no proprietary funds). Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Redevelopment Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes and taxpayer-assessed tax revenues (e.g., franchise taxes, sales taxes, motor vehicle fees, etc.) net of estimated refunds and uncollectible amounts, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the Redevelopment Agency. The Redevelopment Agency reports the following major governmental funds:

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

The **Redevelopment Agency Housing Fund** accounts for 20% of the property tax revenues collected for the Redevelopment Agency. These revenues are to be used exclusively for development of low and moderate income housing within the designated redevelopment area.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers for applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the Redevelopment Agency's policy to use restricted resources first, then unrestricted resources, as they are needed.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

D. Assets, Liabilities, Net Assets or Equity

1. Cash and Investments

In order to maximize the flexibility of its investment program and to aid in cash budgeting, the Redevelopment Agency pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the Redevelopment Agency's cash and investment pool.

As the Redevelopment Agency 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 quarterly. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

In accordance with the State of California Government Code, the Redevelopment Agency adopts an investment policy annually that, among other things, authorizes types of investments. Authorized investments include:

- Securities of the U.S. government or its agencies
- Certificates of Deposit (or time deposits) placed with commercial banks and/or savings and loan associations
- Bankers Acceptances
- State Treasurer's Local Agency Investment Fund (LAIF)
- Passbook savings account demand deposits
- Small Business Administration Loans
- Other products which are totally guaranteed and insured by the U.S government.

Investments for the Redevelopment Agency, as well as its component units, are reported at fair value. LAIF operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangement outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e. the current portion of interfund loans) or advances to/from other funds (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Receivables and Payables (continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Property taxes are levied on the first day of March by the County Assessor, and are payable to the County Tax Collector in two installments.

The first installment is due November 1st, and delinquent December 10th, the second installment is due February 1st and delinquent April 10th. Taxes become a lien on the property on March 1st, and on the date of transfer of title, and the date of new construction.

The minimum property value which is taxed is \$2,000; however, tax bills are prepared for properties valued at less than \$2,000 if there is a special assessment to be collected.

Article 13A of the California Constitution states, "The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent tax is to be collected by the counties and apportioned according to law to the districts within the counties."

The Redevelopment Agency has elected under state law (Teeter) to receive all of the annual property assessments in three installments as follows:

December	55%
April	40%
June	<u>5%</u>
	<u>100%</u>

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, traffic lights and signals, street lights and similar items), are reported in the applicable governmental columns in the government-wide financial statements.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

4. Capital Assets (continued)

Capital assets are defined by the Redevelopment Agency as assets with an initial, individual cost of \$5,000 for property, plant and equipment and \$25,000 for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Redevelopment Agency is depreciated using the straight-line method over the following estimated useful lives:

Buildings	20-40 years
Improvements	40 years
Machinery and Equipment	3-6 years
Streets and Roads	20 years
Curb, Gutter, Sidewalks, & Median Curbs	20 years
Storm Drains	75 years
Traffic Signals	20 years
Water and Sewer Lines	40 years

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances 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 NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

6. Net Assets and Fund Equity

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets and unrestricted net assets.

Restricted net assets represent net assets restricted by parties outside the Redevelopment Agency (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The nonexpendable portion of permanent trust funds and endowments is reported as permanently restricted. The Redevelopment Agency's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, fund balance is reported in classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications of fund balance are Non-spendable, Restricted, Committed, Assigned, and Unassigned. Non-spendable and Restricted fund balances represent the restricted classifications, and Committed, Assigned, and Unassigned represent the unrestricted classifications.

- Non-spendable fund balance includes amounts that cannot be spent because either 1) it is not in a spendable form, such as inventory or prepaid items or 2) legally or contractually required to be maintained intact.
- Restricted fund balance includes amounts that are constrained for specific purposes which are externally (outside the City) imposed by creditors, grantors, contributors, laws and regulations of other governments, or laws through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that are constrained for specified purpose that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned fund balance represents limitations imposed by management.
- Unassigned fund balance represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specific expenditures, restricted resources are considered spent before unrestricted resources, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Within unrestricted resources, committed and assigned are considered spent (if available) before unassigned amounts.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

7. Use of Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Redevelopment Agency Council is required to adopt an annual budget resolution by July 1 of each fiscal year for the General Fund, and special revenue, capital projects and permanent funds. These budgets are adopted and presented for reporting purposes on a basis consistent with generally accepted accounting principles.

The appropriated budget is prepared by fund, function, and department. The City Administrator may authorize transfers of appropriations within the budget or supplemental appropriations for items less than \$10,000. The transfer of appropriations or supplemental appropriations that are greater than \$10,000 must be approved by the Redevelopment Agency Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The board made several supplemental budgetary appropriations throughout the year.

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

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

Statement of net assets:

Cash and investments	25,678
Cash with Fiscal Agent	<u>261,540</u>
Total cash and investments	<u>287,218</u>

Cash and investments as of June 30, 2011 consist of the following:

Investment in Local Agency Investment Fund (LAIF)	25,678
Deposit with financial institution	<u>261,540</u>
Total cash and investments	<u>287,218</u>

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

A. Cash and Investments (continued)

The Redevelopment Agency's investment policy does not contain any specific provisions intended to limit the Redevelopment Agency's exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures 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 the market interest rates. As of year end, the weighted average maturity of the investments contained in the LAIF investment pool is 7.8 months.

		<u>Maturity Date</u>
State investment pool	<u>25,678</u>	7.8 months average maturity
Total	<u>25,678</u>	

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. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Redevelopment Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

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 California Government Code and the Redevelopment Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 governmental 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.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

A. Cash and Investments (continued)

California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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 and the Redevelopment Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

The Redevelopment Agency is a voluntary participant in the California State Treasurer's 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 Redevelopment Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Redevelopment Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF 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.

B. Evaluation of Subsequent Events

The Agency has evaluated subsequent events through November 15, 2011, the date which the financial statements were available to be issued.

California Redevelopment Association along with League of California Cities and the cities of San Jose and Union City filed the initial petition on July 18, 2011, challenging the constitutionality of the state's plan to eliminate redevelopment agencies unless they agree to pay \$1.7 billion for FY 2011-12 and \$400 million in subsequent budget years. The central claim in the lawsuit is that AB 1x 26 and AB 1x 27 violate the California State Constitution, including Proposition 22, which was passed by 61 percent of California voters in November 2010. The California Supreme Court will hear oral arguments on November 10, 2011. A decision is expected to be reached before January 15, 2012, when the first payment under AB 1x 27 would be due.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental-type Activities</u>				
Capital assets not being depreciated:				
Land	1,262,332	0	0	1,262,332
Construction in progress	<u>57,669</u>	<u>0</u>	<u>0</u>	<u>57,669</u>
Total capital assets not being depreciated	<u>1,320,001</u>	<u>0</u>	<u>0</u>	<u>1,320,001</u>
Capital assets being depreciated:				
Infrastructure	944,114	0	0	944,114
Building and improvements	<u>225,553</u>	<u>0</u>	<u>0</u>	<u>225,553</u>
Total capital assets being depreciated	<u>1,169,667</u>	<u>0</u>	<u>0</u>	<u>1,169,667</u>
Less accumulated depreciation for:				
Infrastructure	(300,196)	(47,206)	0	(347,402)
Building and improvements	<u>(53,450)</u>	<u>(10,599)</u>	<u>0</u>	<u>(64,049)</u>
Total accumulated depreciation	<u>(353,646)</u>	<u>(57,805)</u>	<u>0</u>	<u>(411,451)</u>
Net capital assets being depreciated	<u>816,021</u>	<u>(57,805)</u>	<u>0</u>	<u>758,216</u>
Total net capital assets - Governmental-type activities	<u>2,136,022</u>	<u>(57,805)</u>	<u>0</u>	<u>2,078,217</u>

Depreciation was charged to functions/programs of governmental activities for the year ended June 30, 2011 as follows:

General government	5,486
Community Development	<u>52,319</u>
Total depreciation expense – governmental	<u>57,805</u>

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

D. Loans Receivable

The Agency had the following loans receivables as of June 30, 2011:

Westside Village	\$377,790
Newman Family Apartments	300,000
Jose Reynose	160,000
West Side Theatre	20,000
Daniel Gray	<u>15,040</u>
Total	<u>\$872,830</u>

A 40 year loan was issued to Westside Village Apartments L.P., a California Limited Partnership for \$377,790 on June 3, 1999 at a 3.00% interest rate. The loan receivable balance as of June 30, 2011 was \$377,790.

A 55 year loan was issued to Newman Family Apartments L.P., a California Limited Partnership for \$300,000 on September 1, 2010 at a 3.00% interest rate. First payment is due May 1, 2012. The loan receivable balance as of June 30, 2011 was \$300,000.

A 10 year loan was issued to Jose Reynose for \$200,000 on June 24, 2009. The interest varies between 0% for two years, 3% for three years and 5.00% for the remainder of the loan. . The loan receivable balance as of June 30, 2011 was \$160,000.

A 5 year loan was issued to West Side Theatre Foundation for \$20,000 on April 12, 2011. If the Foundation is not in default under the loan agreement, the loan principle will be forgiven. The interest rate is 0.0% unless default then 10% or higher rate then allowed by law. The loan receivable balance as of June 30, 2011 was \$20,000.

A 6 year loan was issued to Daniel Gray for up to \$25,000 on April 1, 2011. The interest varies between 0% for the first year, 1.9% for the second year, and 2.9% - 3.9% for the remainder of the loan. The loan receivable balance as of June 30, 2011 was \$15,040.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

E. Long-Term Debt

Certificate of Participation

In the year ended June 30, 1997 the City issued tax allocation project and housing bonds. The bonds payable balance for the 1997 tax allocation bonds were \$2,500,000 as of June 30, 2011.

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2012	125,000	131,798	256,798
2013	125,000	125,298	250,298
2014	130,000	118,571	248,571
2015	135,000	111,515	246,515
2016	145,000	103,953	248,953
2017-2021	695,000	402,825	1,097,825
2022-2026	785,000	203,847	988,847
2027-2028	360,000	19,619	379,619
	<u>2,500,000</u>	<u>1,217,426</u>	<u>3,717,426</u>

The following is a summary of changes in the Redevelopment Agency's long-term debt and other long-term liabilities during the year ended June 30, 2011:

	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
Governmental Activities:				
Certificates of Participation	2,620,000	0	(120,000)	2,500,000
Total long-term liabilities	<u>2,620,000</u>	<u>0</u>	<u>(120,000)</u>	<u>2,500,000</u>

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

F. Stanislaus County Supplemental Education Revenue Augmentation Fund (SERAF)

On February 9, 2010 the Agency Board of Directors authorizing a loan of \$402,877 (the LMIHF Loan) from the Housing Fund to the Redevelopment Fund at 0% interest. The purpose for this loan was to comply with State Legislation ABX4-26 which among other things required the Redevelopment Agency to make payments to the Stanislaus County Supplemental Education Revenue Augmentation Fund (SERAF). Statute allows for the Agency to borrow funds from its Low and Moderate Income Housing Fund if there are insufficient other monies to make the required payment. An additional \$82,945 was loan in 2011, for a total of \$485,822.

According to SB68, the Redevelopment Fund has until 2015 to repay the May 2010 payment (\$402,877) and until 2016 to repay the payment that will be made in May 2011 (\$82,945). Redevelopment monies come from tax increments. With the recent reduction in housing prices the Agency needs to look at the newly reduced tax increments. Should the values fall to the Redevelopment inception date levels there would be little to no tax increment. In the near future, most likely prior to the second SERAF payment, the Agency will have more information from which to create a more accurate repayment schedule. Currently the Agency is planning to repay the loan prior to the 5 year deadline to avoid incurring any interest charges.

G. New Accounting Pronouncements:

The following new Governmental Accounting Standards Board (GASB) statement was implemented effective for periods beginning after June 15, 2010:

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established new fund balance classifications for governmental funds. It changed the previous terminology of Reserved and Unreserved to five new classifications, which are Non-spendable, Restricted, Committed, Assigned, and Unassigned. GASB Statement 54 added additional note disclosures for the new classifications and refined the definitions of the various governmental fund types. For more information concerning this change, see the Fund Balance Policies note.

**CITY OF NEWMAN
REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

G. New Accounting Pronouncements (Continued)

The following tables illustrate the reclassification of fund balances:

Fund Balances as of June 30, 2010

	General	Redevelopment Housing	Totals
Fund Balances:			
Reserved	0	0	0
Unreserved	(26,837)	766,610	739,773
Total Fund Balances	<u>(26,837)</u>	<u>766,610</u>	<u>739,773</u>

Fund Balances Reclassification as of June 30, 2010

	General	Redevelopment Housing	Totals
Fund Balances:			
Nonspendable	0	0	0
Restricted	0	766,610	766,610
Committed	0	0	0
Assigned	0	0	0
Unassigned	(26,837)	0	(26,837)
Total Fund Balances	<u>(26,837)</u>	<u>766,610</u>	<u>739,773</u>

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

To The Board Members
City of Newman Redevelopment Agency
State of California

We have audited the financial statements of the City of Newman Redevelopment Agency, State of California, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 15, 2011. 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 City of Newman Redevelopment Agency, State of California'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 City of Newman Redevelopment Agency, State of California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Newman Redevelopment Agency, State of California'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 Newman Redevelopment Agency, State of California'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*.

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

CLENDENIN BIRD & COMPANY, PC

Modesto, California
November 15, 2011

INDEPENDENT AUDITOR'S COMPLIANCE REPORT

To The Board Members
City Of Newman Redevelopment Agency
State of California

We have audited City of Newman Redevelopment Agency's compliance with the compliance requirements contained in the *Guidelines for Compliance Audits of California Redevelopment Agencies* applicable to City of Newman's Redevelopment Agency for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of City of Newman Redevelopment Agency's management. Our responsibility is to express an opinion on City of Newman Redevelopment Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, Division of Local Government Fiscal Affairs. Those standards and *Guidelines for Compliance Audits of California Redevelopment Agencies* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the component unit financial statements occurred. An audit includes examining, on a test basis, evidence about City of Newman Redevelopment Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Newman Redevelopment Agency's compliance with those requirements. In our opinion, City of Newman Redevelopment Agency complied, in all material respects, with the compliance requirement referred to above that are applicable to the Redevelopment Agency for the year ended June 30, 2011.

Internal Control Over Compliance

Management of City of Newman Redevelopment Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered City of Newman Redevelopment Agency's internal control over compliance to determine the auditing procedures for the purpose of

expressing our opinion over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Newman Redevelopment Agency's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

CLENDENIN BIRD & COMPANY, PC

Modesto, California
November 15, 2011