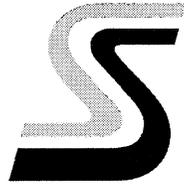


# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

STOCKTON, CALIFORNIA





CITY OF STOCKTON

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
CITY OF STOCKTON, CALIFORNIA**

Prepared and Issued by  
Administrative Services Department

**VANESSA BURKE**  
Chief Financial Officer







# CITY OF STOCKTON



**INTRODUCTORY SECTION**



**City of Stockton**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2011**

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# CITY OF STOCKTON

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CITY HALL • 425 N. El Dorado Street • Stockton, CA 95202 • 209/937-8499  
www.stocktongov.com

December 5, 2012

Honorable Mayor,  
Members of the City Council and  
Citizens of the City of Stockton, California

The Stockton City Charter, Federal grant regulations and agreements with investors require the City of Stockton, California (City) to publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants. Pursuant to that requirement, we submit the Comprehensive Annual Financial Report (CAFR) of the City of Stockton for the fiscal year ended June 30, 2011.

This report has been delayed beyond the deadlines required by legal and contractual requirements as a result of time required to conduct a major effort to review and correct the City's accounting records following the Fiscal 2011 year end. The corrections had policy implications that required City Council approval and had the real possibility of tipping the City into insolvency. Furthermore, the Finance staff had other competing priorities such as: 1) supporting the AB506 process; 2) developing the FY 2012-2013 budget; 3) facilitating multiple audit teams, including the State Controller; and 4) supporting the bankruptcy process. The City's new management team conducted this review in response to the City Council's direction to put the City's fiscal house in order. The City Council's concern about financial systems and reporting resulted from increasing evidence that important financial information was not timely or reliable and, as noted in our letter transmitting the Fiscal 2012-2013 Proposed Budget issued before the end of the 2012 fiscal year, that the city was near insolvency.

The efforts of the City Manager's Office and the Financial Management Division staff and of the audit by its newly appointed certified public accountants, Maze & Associates, have significantly improved the accuracy and reliability of our financial reports. However, obsolete accounting practices and twenty-year-old financial management software continue to affect timeliness. Our efforts have been complicated by intense work efforts aimed at preventing insolvency and then, ultimately, analyzing, planning for and managing a chapter 9 bankruptcy filing. The impact of the City's decision to file for bankruptcy protection following the end of the period reported in this CAFR is discussed in more detail below and is reflected in the unqualified opinion of the City's auditors on these financial statements.

The Governmental Accounting Standards Board (GASB) establishes financial reporting standards for local and state governments in the United States and Canada. Its counterpart in the private-sector is the Financial Accounting Standard Board (FASB).

Both GASB and FASB require that financial reports follow generally accepted accounting principles, referred to as GAAP. Additional standards that govern disclosures in the CAFR are derived from the Government Finance Officers Association of the United States and Canada (GFOA) and the California Committee on Municipal Accounting (CCMA). This CAFR conforms to the requirements established by the charter, GFOA and agreements with investors. It includes the basic financial statements, footnotes and required supplemental information required by GASB for GAAP financial reports, Management's Discussion and Analysis of the financial statements and the opinion of the city's independent auditors regarding the conformance of the financial statements with GAAP and other information required to conform to GFOA standards for a CAFR.

Note that GAAP requires management to provide a narrative overview and analysis discussing the City's financial position to accompany the basic financial statements. This narrative overview is called Management's Discussion and Analysis (MD&A), and provides an analytical overview of the City's financial position. This letter of transmittal is intended to complement the MD&A. It does not duplicate the MD&A and provides more subjective information to improve understanding of the information presented in the CAFR. As a result, for this year, this letter provides insights into the events and conditions that led the City of Stockton to seek the protection of the bankruptcy court within twelve months of the end of Fiscal 2011.

### ***INDEPENDENT AUDIT***

The City Charter, Article XIX, Section 1911 requires each fiscal year that an independent audit be made of all City accounts by certified public accountants. This year the City contracted with Maze & Associates, an independent firm of licensed certified public accountants. For the last ten years our financial statements were audited by Macias Gini & O'Connell LLP. Management concluded that a change in auditors would bring a new perspective regarding the City's systems and financial condition, consistent with the City Council's goal to improve accounting and financial reporting.

The City of Stockton's management acknowledges that it is responsible for this CAFR. It has completed the analysis required to assure that the financial statements are materially correct and in conformance with GAAP. The city's comprehensive system of internal controls is the subject of ongoing efforts to improve the timeliness and accuracy of the CAFR and management reporting. The purpose of the independent audit is to provide reasonable assurance that the financial statements of the City of Stockton as of, and for, the fiscal year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Based on the audit, the independent auditors concluded that there was reasonable basis for rendering an unqualified opinion which states that the City's financial statements as of and for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. Important information was also included in the opinion commenting on the City's ability to continue as a going concern, the subsequent filing for chapter 9 bankruptcy, the dissolution of the Redevelopment Agency, a change in accounting method, and correction of errors.

The independent auditor's report is presented as the first component of the financial section of this report.

## ***SINGLE AUDIT REPORT TO FEDERAL GRANTOR AGENCIES***

The independent audit of the City's financial statements is part of a broader, federally mandated "Single Audit" designed to meet the needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. Additional federal grant reporting requirements and single audit review is required by the City's federal grant awards received under the American Recovery and Reinvestment Act (ARRA). Information relating to the Single Audit is available in the separately issued Single Audit Report. The delay in completion of the Single Audit has resulted in delays in the receipt of grant reimbursements for federally funded capital projects prior to the completion of this CAFR. The delay will be remedied by completion of the Single Audit and does not affect the financial statements at June 30, 2011.

## ***PROFILE OF THE GOVERNMENT***

The City of Stockton is located in the center of California's agriculturally robust San Joaquin Valley and is the seat of San Joaquin County. Stockton is located about 80 miles east of the San Francisco Bay Area and 40 miles south of Sacramento, the capital of California. It is connected to the Bay Area by the ACE commuter train and major freeways. Driving time to the Bay Area ranges from 45 minutes to 90 minutes depending on the destination.

The City encompasses 60 square miles and has an estimated population in January 2012 of approximately 295,707, making it the 13<sup>th</sup> largest city in California. Stockton is surrounded by the rich and fertile lands of the California Central Valley and is home to the largest inland seaport in California. The City has a diversified economic base as a regional center for commerce, both in agricultural and manufacturing export trade activities. Its distribution of sales tax producing businesses mirrors the diversity of the average of all California cities. The University of the Pacific, the California State University-Stanislaus, Stockton campus and Delta Community College are all located in Stockton. Seven school districts serve K-12 students within the City limits.

## ***GOVERNMENT STRUCTURE AND TYPES OF SERVICES***

One of the oldest cities in the State of California, Stockton was incorporated in 1850 and received a special legislative charter, from the State in 1851. Stockton's first local Charter under the 1879 State Constitution was approved by the voters in 1888 and ratified by the State Legislature in 1889. The current Charter, under which the City operates, was approved by the voters in November 1922. This Charter, taking effect in 1923, changed the City from a commission form of government to the current City Council – City Manager form of government. The City Charter has been amended over 100 times since its approval in 1922.

Under the Council-Manager form of government, policy-making and legislative authority are entrusted to the City Council. The mayor and representatives from six districts are chosen by city-wide election for staggered four year terms, with a two term limit. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for appointing department heads, and overseeing the operation of the City. The City Manager, City Attorney, City Auditor, and City Clerk are appointed by the City Council.

The City provides a full range of municipal services. As provided by City Charter these services include: public safety (police and fire), community development, community revitalization and affordable housing, public works and street maintenance, parks,

recreational services, libraries, utilities providing water, wastewater, stormwater and drainage and, through contracts and franchises, solid waste disposal and recycling. It should be noted that the City serves 100% of wastewater accounts in the City while California Water Service Company provides water service to 42% of the accounts within the City and provides billing services for other utilities for their customers under contract with the City. San Joaquin Regional Transit District provides fixed route and paratransit bus service in the City and throughout San Joaquin County.

Certain community development and revitalization activities and infrastructure construction are provided through the Stockton Redevelopment Agency, a legally separate entity. The City Council sits as the Stockton Redevelopment Agency's board, and the Agency functions as a department of the City.

This report includes the financial activity of separate legal entities whose operations the City controls. These entities include:

- Stockton Redevelopment Agency
- Stockton Public Financing Authority

A component unit (stand-alone) report of the Stockton Redevelopment Agency is available.

### ***FACTORS AFFECTING FINANCIAL CONDITION***

The financial information presented in the financial statements is best understood when it is considered from the broader perspective of the environment within which the City of Stockton operates.

### ***PAST YEAR ACCOMPLISHMENTS AND CHALLENGES***

The City of Stockton's advantages in location, markets and access have made Stockton a magnet for real estate development. Its success in attracting commuters from the Bay Area during the last decade, following the high technology bubble, has, however, also exposed it to severe risks in the housing collapse, the financial crisis and the Great Recession. In 2008, the City recorded the highest revenue levels in its history. In the preceding five years permits for single-family dwellings swelled to nearly 3,000 per year. This signaled future population growth of nearly 10,000 people per year.

This growth caused the City to mobilize its resources to provide the infrastructure, facilities and services to serve the new population. City leaders also invested heavily in the amenities and infrastructure they believed would revitalize a decaying downtown and draw development to the City. In response, the Redevelopment Agency borrowed from the City and issued debt with growing, rather than level, debt service payments. Bonds were backed with general revenues that also paid for police and fire services and other core community services in anticipation that strong, ongoing revenues related to growth would be more than adequate to repay the debt.

The events of 2008 in the form of the housing market collapse, the fiscal crisis and the recession, destroyed the foundation of the City's plan based on sustained high growth. Housing permits dropped 95% from 3,000 to 150 per year and fees intended to finance infrastructure dropped accordingly. Tax increment in the City's redevelopment agency dropped by 65%, to levels inadequate to pay debt service over the long run. Compounding the problem the recession caused the City's general revenues to plummet

by 25% or nearly \$50 million and the investment portfolio for the City's retirement plans administered by the California Public Employees Retirement System (PERS) plunged in value along with the stock market and real estate, leading to increased benefit contribution rates.

These reductions and cost increases immediately threatened the City's ability to deliver critical services. In addition, the State acted to eliminate redevelopment agencies in California in Fiscal 2012, potentially exposing the City to added risks that General Fund resources would have to be used for debt repayment that were to have come from redevelopment revenues.

In Fiscal years 2010 through 2012 the City Council approved budgets that reduced base budget levels by \$90 million. It declared fiscal emergencies, reducing pay from 7-23%, city paid pension contributions and medical benefit levels for all employees and retirees. Though significant reductions were done through negotiations some of the City's labor organizations with ongoing contracts responded with lawsuits or threats of litigation. Public safety staffing was reduced by 25% in the Police Department and 30% in the fire department and non-safety staffing in the General Fund was reduced by 43%. Hours of operations for city services were reduced as employees were furloughed. Reductions in medical benefit costs resulted from redesign of the City's self-insured health plan, reducing costs by 30%. The Council on February 28, 2012 approved a series of actions, effective June 30, 2011, to move unrestricted funds into the General Fund to assure liquidity through the end of Fiscal 2011-2012 year.

During this aggressive effort to align service costs with available revenues the City was forced to consume fund balances to buffer the transition to lower costs and service levels. For fifty years California cities used less extreme versions of this transition strategy to respond to economic cycles and to the increasingly frequent tendency of the state government to divert local resources to solve its own problems. During those years the recessionary cycles would end and the California economy would, as it had during the past 50 years, experience a strong, rapid recovery. The recession the state is currently still in is the deepest and longest lasting in the previous 50 years, especially in California's Central Valley and the Inland Empire.

The deepest cost reductions described above were planned and implemented during Fiscal 2011 or immediately after fiscal year-end, including major service reductions and layoffs, imposed pay reductions, increased furloughs and reduced medical cost coverage to employees and retirees. By the end of Fiscal 2011, an economic recovery was still not in sight and economists predicted that recovery would be delayed in Stockton's region until Fiscal 2017 or beyond. Unemployment ranged between 18% and 20% and the City was leading the nation in foreclosures. To assure that it could maintain liquidity through Fiscal 2012, as noted above, the City Council transferred virtually all unrestricted funds into the General Fund to liquidate redevelopment agency cash shortfalls and to supplement revenues in order to maintain critical services.

In the months following the close of the 2011 fiscal year it became apparent that though the City would barely make it through Fiscal year 2012 without becoming insolvent, it would be unable to balance its General Fund budget in future years. It would either have to cut public safety services and core community services financed by the General Fund or restructure its labor costs, post-employment benefits and debt obligations.

With city police staffing ratios already among the lowest level in the state and nation among large cities and with rising violent crime rates that put the City behind only

Oakland, California in its murder rate in California and gave it a ranking as the 10<sup>th</sup> most dangerous city in the country, the City Council concluded that it must restructure its obligations rather than reduce service levels further. The City Council also concluded that deeper cuts in community services like streets, parks and libraries would make the City uncompetitive in attracting businesses and residents. Within twelve months after June 30, 2011 the City completed 90 days of mediation required by state law AB506 prior to being eligible for filing for Chapter 9 bankruptcy protection. That intense mediation did not close a projected \$26 million budget gap for Fiscal 2013. As a result, the City Council concluded that it must seek protection under chapter 9 of the United States Bankruptcy Code on June 28, 2012 to assure that it could continue to deliver the essential services needed, to keep the City safe and to prevent further deterioration in the local economy. After filing for bankruptcy protection, the City continued to meet with its labor unions and was able to negotiate agreements with eight of the City's nine unions.

For detailed information about the City Council's actions subsequent to the end of Fiscal 2011, please refer to the City's website for:

AB506 mediation - <http://www.stocktongov.com/government/departments/manager/AB506/default.html> and Chapter 9 bankruptcy - <http://www.stocktongov.com/government/departments/manager/bankruptcy/default.html>.

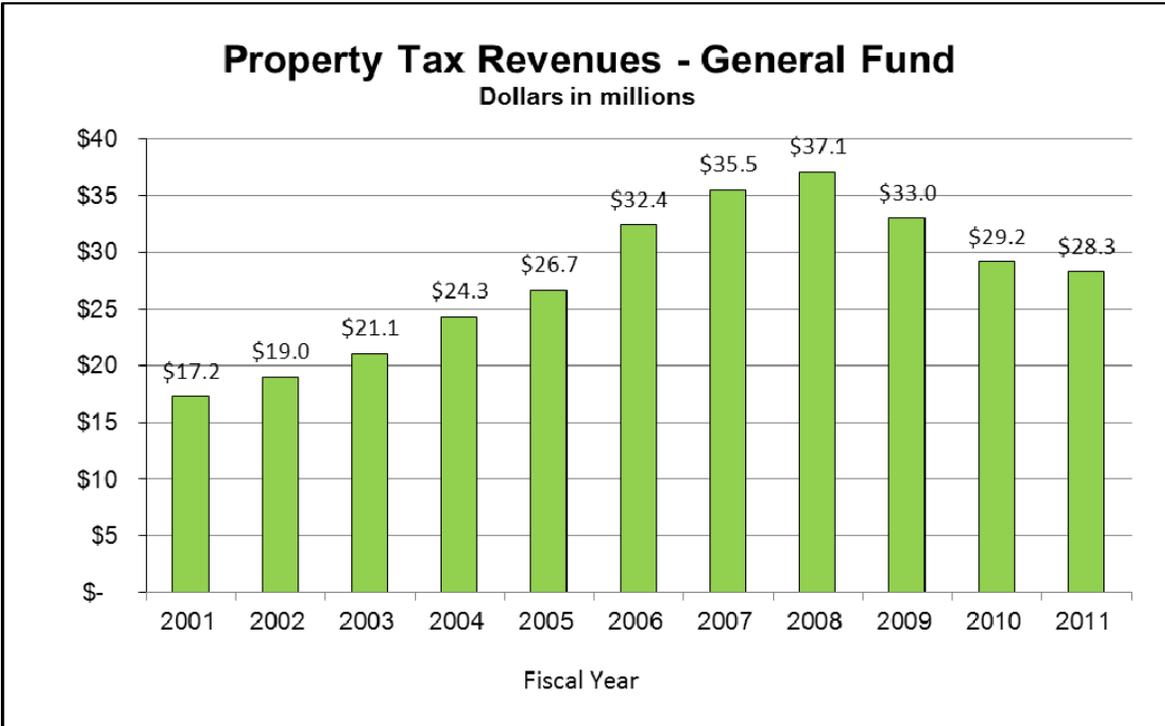
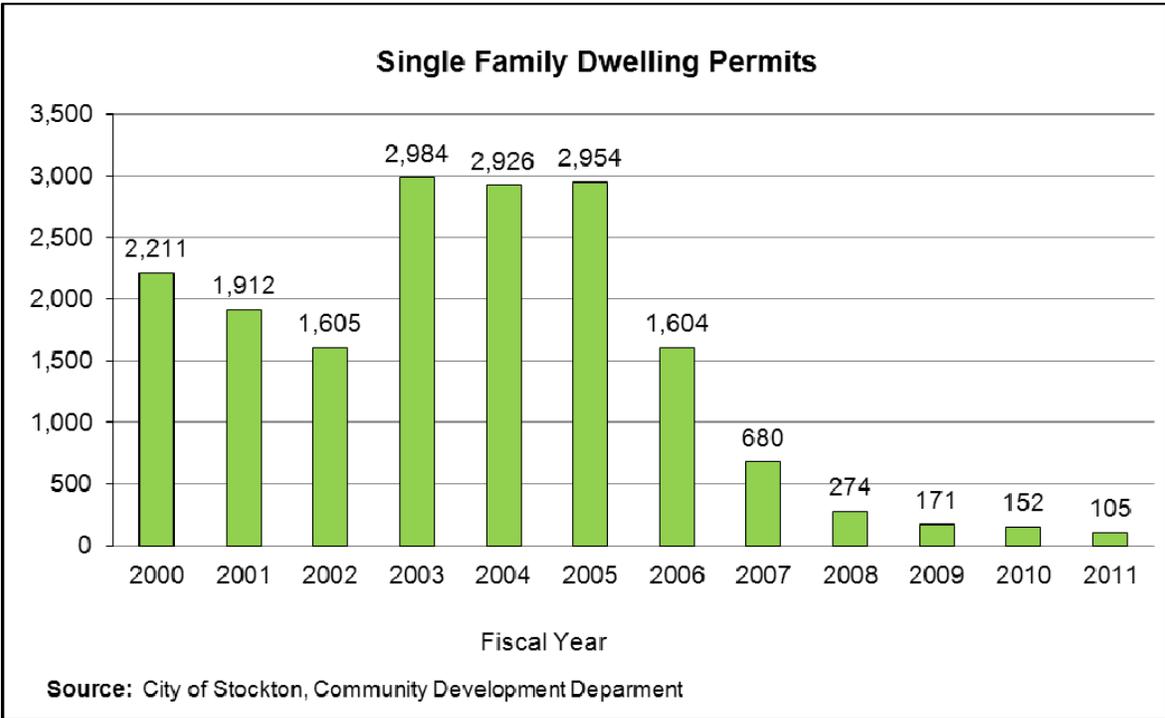
The reader is also directed to the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) website at <http://emma.msrb.org> for access to the City's disclosures required by the MSRB.

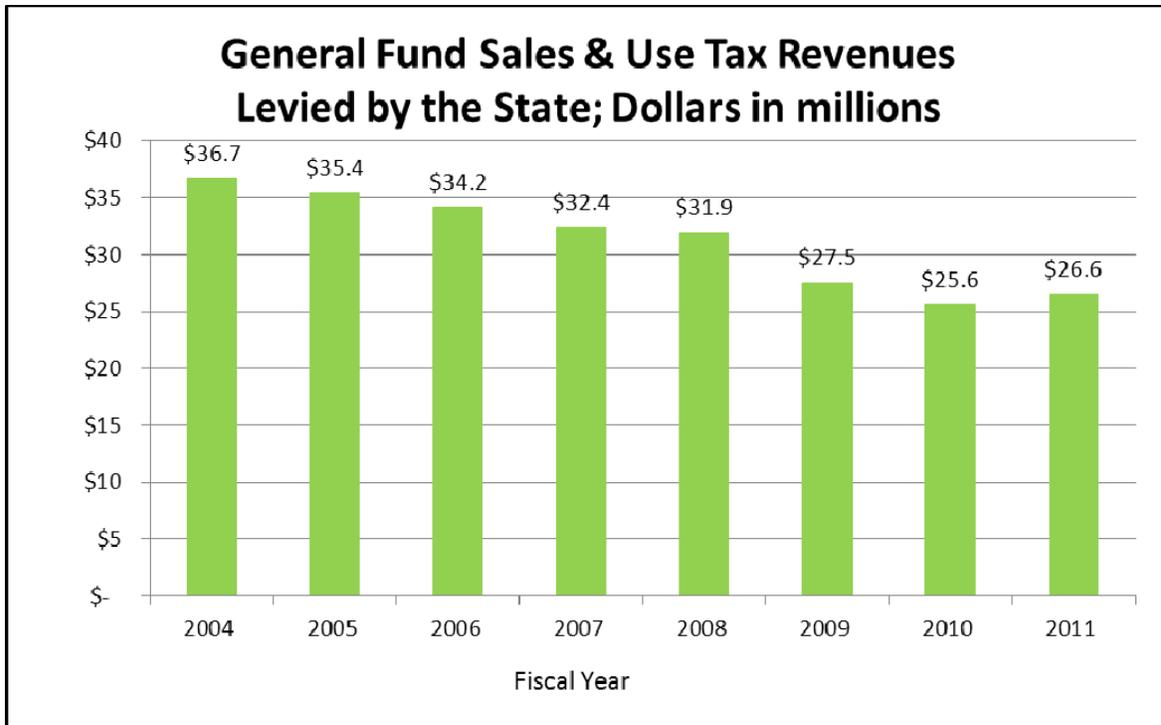
For more detailed analysis of financial performance of the City, refer to the Management's Discussion and Analysis sections titled Financial Analysis of the City's Funds and General Fund Budgetary Highlights.

### ***THE LOCAL ECONOMY AND CITY FINANCIAL CONDITION***

A critical factor in the deterioration of the City's financial condition has been the decline in its major tax revenues, utility tax, property tax and sales tax. With rising debt payment obligations, expected PERS rate increases and rising unfunded post-employment medical benefit costs those falling revenues broke the City's ability to support its obligations and deliver critical services while keeping the community safe and preventing further deterioration. Despite reductions in services, employees, pay and benefits, the steep, prolonged economic decline has proved impossible to manage, except through restructuring.

The tables below show the revenue levels from property and sales and use tax for the last ten years. Note that 88% of the City's debt was issued in 2006, 2007 and 2009 despite rapidly declining numbers of building permits being issued as shown below. The high levels of general tax and sales tax revenue did not begin to suffer major declines until Fiscal 2009 as it started responding to the overall U.S. economy. This lag masked the risk associated with structuring debt with rising debt payment structures that was backed with these very volatile unrestricted resources. It became apparent that the City staff, decision makers, and participants in the capital markets hadn't projected such deep and long declines in future revenues sufficient that were slated to support the City's debt payments. The revenue sources were fragile as the real estate market continued to fall but the debt structure was heavily dependent on growth or relied on the performance of equity markets, in the case of pension obligation bonds. All of these factors led the City to the perfect storm.





#### ***FUTURE ECONOMIC OUTLOOK***

The University of the Pacific's (UOP), Eberhardt School of Business - Business Forecasting Center, the Stockton Metropolitan Statistical Area (MSA) economy has shown volatility over the last ten years and severe weakness over the last five years. Note that the MSA includes Lodi, Manteca and Tracy where economic conditions, though difficult, have not been as badly affected as in Stockton. Between 2007 and 2011, the City has lost nearly 25,000 jobs, 12% since the 2007 peak. Personal income growth was negative between 2008 and 2010 just beginning to recover in 2011. Stockton's unemployment rate (not seasonally adjusted) has improved from a high of 17.6% in November 2010 to 16.2% in September 2012, still exceeding California's current unemployment rate of 10.2% (9.7% not seasonally adjusted)<sup>1</sup>. Stockton is expected to lag the state in employment. The net negative job growth for almost a decade becomes a serious problem because of projected population increases that could add more than 30,000 people to the City through 2018.

Economic development will depend on improving public safety and providing services and facilities that help attract businesses and their employees to Stockton. The State's elimination of the City's redevelopment agency without providing an alternate framework for local economic development will make the challenge more difficult.

The City, like the State of California, faces a sluggish recovery and rising service demand. The expected growth in California personal income coming from high paying jobs in high tech may not benefit Stockton in the near term because tech, finance and business services are underrepresented in the City compared to statewide averages. The implications of the City's economic forecast make restructuring essential to a sustainable future.

<sup>1</sup> State of California, Employment Development Department

## ***FISCAL 2011 POLICY FRAMEWORK TO ADDRESS FISCAL EMERGENCY***

During the Fiscal 2010-11 budget development process, City Council established a set of guiding principles in order to maintain liquidity, achieve a balanced budget and maintain a balance between public safety and basic City services. At that time it was convinced that insolvency would not be good for the City. It still believes that is true but has concluded that the safety of the community cannot be protected without financial restructuring.

After exhausting all the measures available to it, the Council concluded it must seek the protection of the bankruptcy process. The Council's guiding principles for the City during Fiscal 2011 follow. Lack of resources and legal barriers resulted in compromises in these principles as the City sought to avoid insolvency, but the framework laid out here forms the core of the approach that the City will use as it seeks a sustainable financial future.

- Insolvency is not in the best interest of the City and should be avoided.
- Acknowledging that staff is the most important resource of the City, emphasis will be placed on reducing the number of layoffs.
- One-time funds should be used for one-time costs and cannot sustain long-term fiscal health.
- In order to ensure a thriving, livable community, there must be a balance between public safety, infrastructure maintenance, and quality of life services.
- All community stakeholders, both internal and external, should be consulted in finding a resolution to the City's fiscal crisis.
- Long-term fiscal health includes investment in meaningful reserves to withstand future fiscal downturns.
- Additional revenue sources should be explored in conjunction with expenditure reductions.
- Care must be taken not to cut programs that will cause reductions in revenue to the City.
- Reductions should be avoided that might exacerbate City liabilities or have long-term effects that would be costly to reverse.
- The long-term goal is to establish a budget that will ensure accountability, internal controls, and long-term financial stability.

## **LONG TERM FINANCIAL PLANNING**

The City of Stockton has concentrated its long range financial planning on capital investments and its utility operations. Departments have been encouraged to plan beyond the annual budget process, but their plans are not a formal part of the budget process, instead they provide context for current budget proposals. In recent years, long range planning had to give way to urgent current budget priorities as the City concentrated on dealing with falling revenues and the rising costs of its obligations to employees, retirees and bondholders.

In response to the City's serious financial situation and the City Council's direction to get the City's financial house in order, the new City management team has developed and expanded the City's long range planning capacity for the General Fund, where it faces the most severe funding challenges. The budget process now incorporates a five year projection for review by the City Council and budget and accounting data provide the basis for a 40 year forecasting model that can handle rapidly changing scenarios and, detailed calculation models support labor costing options for budgeting and negotiations.

The Stockton City Council adopts a five-year Capital Improvement Program (CIP) each year. The CIP serves as a plan for the public capital projects necessary for orderly implementation of the Stockton General Plan. This five-year CIP is a planning document that does not appropriate funds for projects. As such, the first year of the CIP is incorporated into the adopted annual budget each year. Except for a very small allocation for small capital projects for General Fund supported services, the City's capital projects are supported by restricted special revenues and the revenues of the City's utilities.

## **RESERVE POLICIES**

The City Council has adopted policies establishing minimum target levels of unassigned fund balance to be maintained in the various funds. These target amounts protect the City's financial exposure to severe unforeseen emergencies and economic uncertainties, and are an important component of the City's long-term financial management. The following are examples of such policies for different funds:

- General Fund - 5% of appropriations for catastrophic events and 5% for economic contingencies and budget uncertainty
- Measure W - 25% of anticipated annual revenues
- Municipal Utilities - Six months of operational expenses

The City's financial crisis has prevented it from establishing such reserves for the General Fund at June 30, 2011. No unassigned General Fund balances are available at the end of the fiscal year.

The reserve policies were adopted with the goal to accumulate the targeted reserves over the course of future years. Due to the City's implementation of GASB Statement No. 54 and the City's insolvency, the current General Fund target reserve policy requires a review and revision to accommodate the new accounting principles and objectives that will emerge from the Plan of Adjustment in its bankruptcy process.

The following links for City's current reserve policies are:

<http://www.stocktongov.com/CityCouncil/CouncilPolicies/700-4.pdf>  
<http://www.stocktongov.com/CityCouncil/CouncilPolicies/500-2.pdf>  
<http://www.stocktongov.com/CityCouncil/CouncilPolicies/700-5.pdf>

## **DEBT POLICIES**

The City's debt policies are reviewed by the Debt Policy Committee and adopted by the City Council. These policies are the *Capital Financing and Debt Management Policy* and the *Policies and Procedures for Land-Secured Financing*.

These policies can be found at:

<http://www.stocktongov.com/adminservices/documents/2008-ADOPTED-CIPDebtPolicies-Procedures-FINALIZED06Jun08.pdf>

<http://www.stocktongov.com/adminservices/documents/2008-ADOPTED-LandSecuredDebtPolicies-Procedures-FINALIZED06Jun08.pdf>

## **INVESTMENT POLICY**

The City adopts an investment policy annually that provides guidelines for the prudent investment of the City's cash balances. In late 2006 with the support of the Budget, Finance and Economic Development Committee, the City Council authorized the Administrative Services Department to contract for investment portfolio management services. Effective July 1, 2007, the City entered into an agreement with Chandler Asset Management for management of the City's long-term investment portfolio. Both the City's long-term investment portfolio management and daily liquid cash requirements are overseen by the Department of Administrative Services.

The City's investment policy can be found at:

<http://www.stocktongov.com/adminservices/documents/2011AdoptedInvestmentPolicy.pdf>

## **CASH AND INVESTMENTS**

The California Government Code and the City's investment policy adopted in compliance with that Code define how the City's cash can be invested. The City's policy also outlines the principles for maximizing the efficiency of the City's cash management operations while meeting the daily cash flow demands of the City. The average rate of return on and estimated effective rate of return on investments not held by fiscal agents for the fiscal year ending June 30, 2011 was 3.70% and 2.35%, respectively. As of October 31, 2012, the market value for the City's investments, excluding cash with fiscal agents, totaled \$203.7 million. The City uses professional portfolio management for that part of its portfolio not needed for operations and contingencies over the next six months. Cash required for operations is managed in highly liquid short term investments by City staff.

Additional information on the City's cash and investment management can be found in Notes 1 and 2 in the notes to the financial statements.

## **INTERNAL CONTROLS AND LIMITATIONS**

The intent of the CAFR is to provide the City Council, citizens and City staff with a firm understanding of the City's financial position. Management assumes responsibility for the completeness, accuracy and reliability of the information presented in this report. To provide a reasonable basis for making these representations, City management established an internal control framework over the years that was intended both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements.

In connection with the effort to analyze and correct problems discovered in the detailed evaluation of the City's financial records described above, and the evaluation of internal controls conducted by its independent auditor, the City's management concluded that elements of the existing internal control framework were not working properly, resulting in

material weaknesses and significant deficiencies. The auditor expanded the scope of the audit engagement to address the weaknesses identified. These problems were in existence when the City's new management began its review.

That review has been hampered by vacancies in key senior financial management positions that have been the focus of intense recruiting efforts over the course of the last two years. Those vacancies will be filled by November 2012. The workload imposed on our staff by the City's mediation and bankruptcy processes also demanded extensive resources following the fiscal year and will continue to do so into the foreseeable future. Addressing the weaknesses in internal controls and in the obsolete financial management software system the City operates under will be major priorities for the City's Administrative Services Department to address this year and next.

Budgetary control is at the department level for the General Fund and at the fund level for all other funds, and revisions to increase appropriation authority above a given department's original adopted budget require City Council approval. Fund transfers within like categories of the same department require City Manager approval.

**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 22 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for consideration again this year.

**ACKNOWLEDGEMENTS**

The preparation of this report would not have been possible without the dedicated service of the Accounting staff, and staff from all the City departments whose cooperation in providing detailed information and other support assisted in the preparation and production of the CAFR.

We also want to thank the Mayor, members of the City Council, and the Audit Committee for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,



BOB DEIS  
CITY MANAGER



VANESSA BURKE  
CHIEF FINANCIAL OFFICER

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Stockton  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director



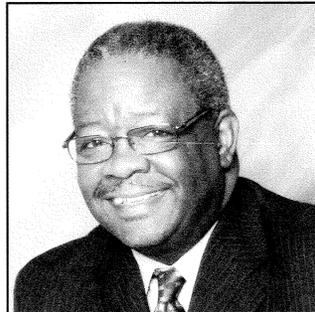
# CITY OF STOCKTON CITY COUNCIL



**ANN JOHNSTON**  
MAYOR



**KATHERINE M. MILLER**  
VICE MAYOR  
*District 2*



**ELBERT H. HOLMAN JR.**  
COUNCILMEMBER  
*District 1*



**PAUL CANEPA**  
COUNCILMEMBER  
*District 3*



**DIANA LOWERY**  
COUNCILMEMBER  
*District 4*



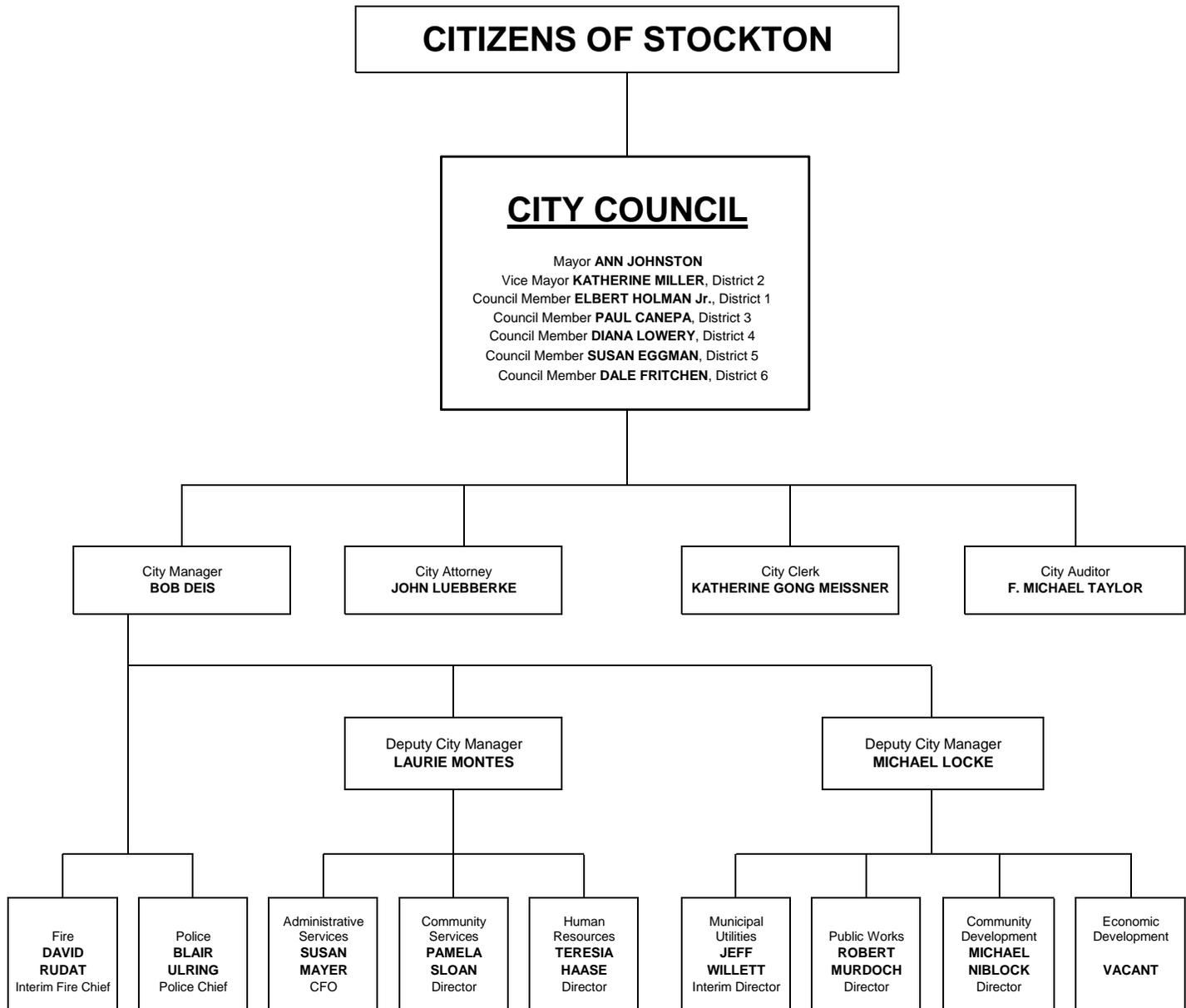
**SUSAN T. EGGMAN, PH.D**  
COUNCILMEMBER  
*District 5*



**DALE FRITCHEN**  
COUNCILMEMBER  
*District 6*



**CITY OF STOCKTON**  
**ORGANIZATION CHART / LIST OF PRINCIPAL OFFICIALS**  
**AS OF JUNE 30, 2011**





# CITY OF STOCKTON



**FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

To the City Council of the  
City of Stockton, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The accompanying financial statements have been prepared assuming that the City and Redevelopment Agency will continue as going concerns, that is the presumption that the City and Agency will be able to pay their expenses and debt service as they come due. As discussed in Note 17, there are conditions which raise doubts about this presumption, including the following:

- On June 28, 2012, the City filed a case seeking bankruptcy protection and the adjustment of its liabilities under Chapter 9 of the United States Bankruptcy Code. Also as discussed in Note 17, the City defaulted on certain debt payments subsequent to year end.
- As of June 30, 2011 the Agency had no unrestricted cash balances. Tax increment revenue has shown severe downward trends over the last three years, and during the fiscal year 2010-11 the Agency reported \$12.7 million for the year as compared to the \$25.6 million reported in fiscal year 2008-09. These trends indicate financial distress of Redevelopment finances.

- As disclosed in Note 17, the State of California adopted ABx1 26 on June 28, 2011, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved Redevelopment Agencies. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and on December 28, 2011 validated its provisions. As a result the Redevelopment Agency was dissolved on January 31, 2012 and its non-housing activities assumed by a Successor Agency.

Management's plans regarding these matters are also described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As disclosed in Note 14, the City changed its method of accounting for governmental fund receivables which are not available for expenditure as of year end by removing the net asset effect from fund balance. The City also restated fund balances and net assets as of July 1, 2010 due to various corrections of errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and other required supplementary information are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents were not audited by us and we do not express an opinion on this information.



November 17, 2012



# CITY OF STOCKTON



**MANAGEMENT'S DISCUSSION AND ANALYSIS**



## *MANAGEMENT'S DISCUSSION AND ANALYSIS*

### *JUNE 30, 2011*

As management of the City of Stockton (City), we offer readers of the City's statements this narrative overview and analysis (MD&A) of the financial performance of the City for the fiscal year ended June 30, 2011 and comparison to the June 30, 2010 financial statement as audited by other auditors. Where June 2010 amounts have been restated in the basic financial statements, the restated amounts have not been considered in our analysis on a comparative basis. Please consider the information presented here in conjunction with the information furnished in the Letter of Transmittal, which is found at the beginning of the Comprehensive Annual Financial Report (CAFR). All statements have been condensed for purposes of the MD&A.

### *FINANCIAL HIGHLIGHTS*

- The City of Stockton's financial condition continues to be challenged by the significant economic decline of the past few years. On May 26, 2010, the City Council declared a state of fiscal emergency and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget for fiscal year 2011. These measures included a Council adopted set of guiding principles to achieve a balanced budget and an action plan to address immediate and long-term financial issues and to provide an open process that maximizes transparency and community engagement. On June 21, 2011, the City Council voted to continue the declaration of fiscal emergency and directed the City Manager to take measures to achieve a balanced budget for fiscal year 2012. The City's fiscal health continued to deteriorate in fiscal year 2011-12 despite various cost cutting measures, thereby leading the City to file a petition for bankruptcy protection on June 28, 2012.
- During the fiscal year, the City completed the construction of the downtown Marina Complex, which had been in the planning stages for over 10 years. Upon completion, the approximately \$25 million multi-year project was transferred into its own enterprise fund. In addition, the City continued construction of the Delta Water Supply Project which was started in 2009 and is anticipated to be completed in 2012. This project when completed will provide a new supplemental water supply for the Stockton Metropolitan Area.
- The assets of the City of Stockton exceed its liabilities at the close of the 2011 fiscal year by \$1,107.4 million (net assets). Of this amount, \$1,059.3 million is invested in capital assets, net of related debt and \$156.3 million is restricted for specific purposes (restricted net assets), leaving a deficit \$108.2 million (unrestricted net assets).
- The City's total net assets decreased by \$21.9 million (after prior period adjustments) compared to 2010 total net assets. This is the fourth year in which the City's net assets have declined. Business-type activities reported an increase of \$7.6 million while governmental activities reported a decrease of \$29.4 million. The governmental activities decrease in net assets is primarily due to a \$30.0 million increase in net other post-employment obligation (OPEB) retiree health insurance liabilities. The ongoing downturn of the economy, depressed housing and construction markets and reduced consumer spending continue to challenge the City's ability to generate revenues sufficient to meet its contractual and vested obligations and preserve economic viability and to meet the ongoing costs of maintaining

public safety. This has caused expenditures to continue to outpace revenues by \$29.4 million in the governmental activities.

- The City's governmental unrestricted net assets deficit grew by 21.0%, from a deficit of \$139.5 million to a deficit of \$169.4 million, or \$29.8 million. The primary reason for the increase in the deficit unrestricted fund balance is due to the fact the City's unrestricted cash and investments balance decreased \$24.5 million from the use of cash as a result of expenditures outpacing revenues by \$29.4 million.
- The City's long-term liabilities related to governmental activities decreased by \$26.6 million, or 5.3% at fiscal year-end primarily due to the early redemption of \$16.3 million in redevelopment bonds and the transfer of \$9.5 million of notes payable to the new Downtown Marina enterprise fund. This decrease was offset by a \$30.0 million increase in net other postemployment obligation (OPEB) to fund retiree health insurance. It should be noted that the City has chosen, as part of the bankruptcy pendency plan, to eliminate funding for the retiree health plan, and therefore the associated OPEB liability, as of June 2014.
- Long-term liabilities related to enterprise funds increased by \$65.4 million or 19.8%, primarily due to the issuance of \$55.0 million in water revenue bonds associated with construction of the final phase of the Delta Water Supply capital project.
- Investment earnings total \$4.8 million, a decrease of \$5.3 million from the prior fiscal year. This is the result of a decrease of \$2.0 million in interest income and a net decrease of \$3.3 million in the fair value of investments. The decrease in investment earnings reflects a decline in cash held in bond project accounts, offset by an increase in the average rate of return on the City's general investment pool, from 3.29% in fiscal year 2010 to 3.70% in fiscal year 2011.
- The City's governmental activities report pension assets of \$128.2 million for fiscal year 2011 from the proceeds of the pension obligation bonds issued in 2007 which prepaid the annual required contributions to the California Public Employees' Retirement System (CalPERS). The decrease of \$2.5 million in pension assets during the year is due to pension costs exceeding annual contributions and the amortization of pension assets exceeding investment earnings.
- As of June 30, 2011, the City's governmental funds report combined ending fund balances of \$113.2 million, a decrease of \$145.5 million, or decline of 56.2%, from 2010. A major component of this change is the result of \$109.7 million in prior period adjustments comprised of \$91.7 million adjustment resulting from the City's change in methodology of accounting for loans to property owners. Other prior period adjustments were primarily made to establish allowances for doubtful accounts and to correct accounting errors discovered after an extensive review made by independent financial consultants and new management staff in connection with getting the City's "fiscal house in order".

## OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended as an introduction to the City of Stockton's basic financial statements.

The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. In addition to the basic financial statements, this report includes other supplementary information.

### Government-wide financial statements

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances and information about the activities of the City as a whole, in a manner similar to a private-sector business. The government-wide financial statements include 1) the statement of net assets, and 2) the statement of activities. Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, libraries, parks and recreation programs, and general government services. The business-type activities of the City include the water utility, wastewater utility, stormwater utility, central parking district, golf courses, as well as the solid waste utility operation.

The government-wide financial statements include the governmental activities of the Redevelopment Agency (Agency) and the Stockton Public Financing Authority (SPFA). Although legally separate from the City, these component units are blended with the primary government because of their governance structure or financial relationship to the City.

The *statement of net assets* presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets and liabilities may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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 occurs, regardless of the timing of the 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).

The government-wide financial statements can be found on pages 48-50 of this report.

### 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, or as required by legal enabling legislation. The City of Stockton uses fund accounting to ensure and demonstrate compliance with legal reporting requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as focus on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided to facilitate this comparison for both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures, and changes in fund balances.

The City maintains several individual governmental funds organized according to their category type. The governmental fund category types are the General Fund, special revenue, debt service, capital projects, and permanent funds. Information is presented separately in the governmental funds' balance sheet and in the governmental funds' statement of revenues, expenditures, and changes in fund balances for the General Fund, HOME Program Loans, Low-Moderate Income Housing RDA Loans, Public Facilities Impact Fees, Capital Improvement and Redevelopment Agency funds, which are reported as major funds. Data from the remaining non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements in the later sections of this report.

The City adopts an annual budget for its General Fund and various other funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget. Budgetary comparison schedules for various other governmental funds are also provided in later sections of this report.

The basic governmental funds financial statements can be found on pages 51-56 of this report.

**Proprietary funds.** Proprietary funds are generally used to account for activities for which the City charges a fee to either its external or internal customers. Proprietary funds provide the same type of information as in the government-wide financial statements, only in more detail. The City maintains two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Water Utility, Wastewater Utility, Stormwater Utility and Central Parking District, which are reported as major funds. Data for the remaining non-major enterprise funds are combined into a single, aggregated presentation. Additional information is provided for each of these non-major enterprise funds in the later sections of this report.
- **Internal service funds** are used to report activities that provide goods and services for certain City insurance, pension and other related programs and activities. The City uses internal service funds to account for its self-insurance programs, pension obligations, active and retired employee health benefit insurance, fleet of vehicles, information technology systems, and radio and other equipment.

Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund information for the internal service funds is provided in the form of combining statements in the later sections in this report.

The basic proprietary fund financial statements can be found on pages 57-64 of this report.

***Fiduciary funds.*** The fiduciary funds are used to account for resources held for the benefit of parties outside the government. This includes resources related to land secured financing, employee payroll withholdings, area of benefit fees, public facilities pass through fees, and other miscellaneous fiduciary activities. The City's fiduciary funds are reported as agency funds and are not reflected in the government-wide financial statements since the resources of the funds are not available to support the City's own programs and services.

The basic fiduciary funds financial statement can be found on page 65 of this report.

**Notes to the financial statements.**

The notes to the financial statements provide additional information that is essential to a full understanding of the financial information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 68-140 of this report.

**Other information.**

In addition to the basic financial statements, this report presents certain required supplementary information. This information provides a budgetary comparison schedule for the City's General Fund, HOME Program Loans Fund, and the Low-Moderate Income Housing RDA Loans Fund as well as information about the City's participation in the CalPERS and PARS defined benefit pension plans, and the City's defined other post-employment benefits (OPEB). Required supplementary information can be found on pages 141-148 of this report.

The combining statements referred to earlier in connection with non-major governmental funds, non-major enterprise funds, and internal service funds are presented immediately following the required supplementary information.

## ***GOVERNMENT-WIDE FINANCIAL ANALYSIS***

### ***Net Assets of the City***

Net assets serve as a useful indicator of a government's financial position. In the case of the City of Stockton, assets exceed liabilities by \$1,107.4 million at the close of the fiscal year, which is a \$29.0 million decrease, or 2.6%, from 2010 total net assets. Of this decrease, a \$63.4 million decrease is attributable to governmental activities offset by a \$34.4 million increase to business-type activities.

By far the largest component of the City of Stockton's net assets is the 96% represented by its investment in capital assets of \$1,059.3 million (e.g., land and easements, buildings and improvements, infrastructure, intangible assets and equipment), net of any related outstanding debt used to acquire these assets.

The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to reduce these liabilities.

An additional portion of the City's net assets, \$156.3 million or 14.1%, represents resources that are subject to various external restrictions on how they may be used. These two segments of capital assets and restricted assets amount to more than 100%, reflecting the fact that, in aggregate, the City's resources are entirely committed in capital assets or are restricted in their uses. The net result is a deficit of \$108.2 million in unrestricted net assets for the City.

The following table presents the government-wide assets, liabilities, and net assets for both 2011 and 2010.

**City of Stockton's Net Assets**  
(dollar amounts in thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets:</b>						
Current and other assets	421,943	\$ 459,749	191,068	\$ 234,436	\$ 613,011	\$ 694,185
Capital assets	793,267	809,511	733,980	593,034	1,527,247	1,402,545
Total assets	1,215,210	1,269,260	925,048	827,470	2,140,258	2,096,730
<b>Liabilities:</b>						
Current and other liabilities	35,529	30,681	21,252	23,439	56,781	54,120
Long-term liabilities	473,278	499,883	395,000	329,623	868,278	829,506
Net pollution liabilities	1,893	822	-	-	1,893	822
Net OPEB obligation	105,887	75,854	-	-	105,887	75,854
Total liabilities	616,587	607,240	416,252	353,062	1,032,839	960,302
<b>Net assets:</b>						
Invested in capital assets, net of related debt	645,249	612,914	414,066	402,215	1,059,315	1,015,129
Restricted	122,730	188,655	33,558	30,751	156,288	219,406
Unrestricted	(169,356)	(139,549)	61,172	41,442	(108,184)	(98,107)
Total net assets	\$ 598,623	\$ 662,020	\$ 508,796	\$ 474,408	\$ 1,107,419	\$ 1,136,428

**Governmental activities.** Total assets for governmental activities decreased by \$54.1 million, with current and other assets in governmental activities decreasing by \$37.8 million and capital assets decreasing by \$16.3 million. Total liabilities increased by \$9.3 million, with current and other liabilities increasing by \$4.8 million, long-term liabilities decreasing by \$26.6 million, net OPEB obligations increasing by \$30.0 million, and net pollution remediation liabilities increasing by \$1.1 million. The \$26.6 million decrease in long-term liabilities reflects the \$16.3 million early redemption of a portion of the Series 2006A Redevelopment Agency bonds, the transfer of \$9.5 million of notes payable to the new Downtown Marina enterprise fund, and \$7.5 million of scheduled repayments, offset by \$2.0 million of additional long-term obligation to the State for Animal Control and \$4.7 million of additional long-term self-insurance claims and judgments for workers' compensation and property-casualty general liability insurance.

Of the \$63.4 million decrease in total net assets of governmental activities, capital assets net of related debt increased by \$32.3 million and restricted assets decreased by \$65.9 million, which was offset by increases in deficit unrestricted net assets of \$29.8 million during the year. This results in a deficit unrestricted net assets balance of \$169.4 million. The most significant factors in the total net asset decrease are increases in deficit net asset balances of \$27.5 million in the Employee and Retiree Health Insurance Fund, \$7.8 million in the Worker's Compensation Insurance Fund, \$1.2 million in the General Liability Insurance Fund and \$6.6 million in the Retirement Benefits Fund. The decrease in restricted net assets of \$65.9 million was a result of change in accounting method for loans receivable of \$88.8 million, which was offset by \$10.5 million increase of debt service restrictions and \$14.8 million net increase in capital projects funds related to the 2009 Lease Revenue Capital Improvement Bonds, various street

improvement projects and assessments for several major landscape projects to be undertaken in future years. Other restrictions of \$2.4 million reflect changes from current fiscal year activities.

***Business-type activities.*** Total assets for business-type activities increased by \$97.6 million or 11.8%, with current and other assets decreasing by \$43.3 million and capital assets increasing by \$140.9 million. Total liabilities increased by \$63.2 million or 17.9%, with other liabilities decreasing by \$2.2 million and long-term liabilities increasing by \$65.4 million. Total net assets for business-type activities increased by \$34.4 million, or 7.2%. These changes are primarily the result of the bond issue and construction of the Delta Water Supply Project and the transfer of Downtown Marina Complex from a governmental activity to the business-type activities. The decrease in current and other assets is primarily related to a net decrease of \$60.1 million in cash with fiscal agent for the Delta Water Supply Project construction costs. The capital asset increase is the result of \$110.0 million in land, intangible assets, and construction in progress capital expenditures for the Delta Water Supply Project. In addition, the Downtown Marina Complex accounts for an additional \$25.9 million of the increase in capital assets. The primary reason for the decrease in other liabilities is a reduction in accounts payable of \$2.2 million in 2011. The increase in long-term liabilities is the result of the sale of bonds for the Delta Water Supply Project in the amount of \$55.0 million and the transfer of a California Department of Boating and Waterways loan payable in amount of \$10.9 million from the Governmental activities.

Capital assets, net of related debt, increased by \$11.9 million and restricted net assets increased by \$2.8 million. Business-type activities unrestricted net assets increased by \$19.7 million, comprised of an increase of \$9.3 million in the Water Utility, \$10.9 million in the Stormwater Utility, and \$1.4 million in the Other Enterprise Funds, offset by decreases of \$1.2 million in the Wastewater Utility, and approximately \$600,000 in the Central Parking District.

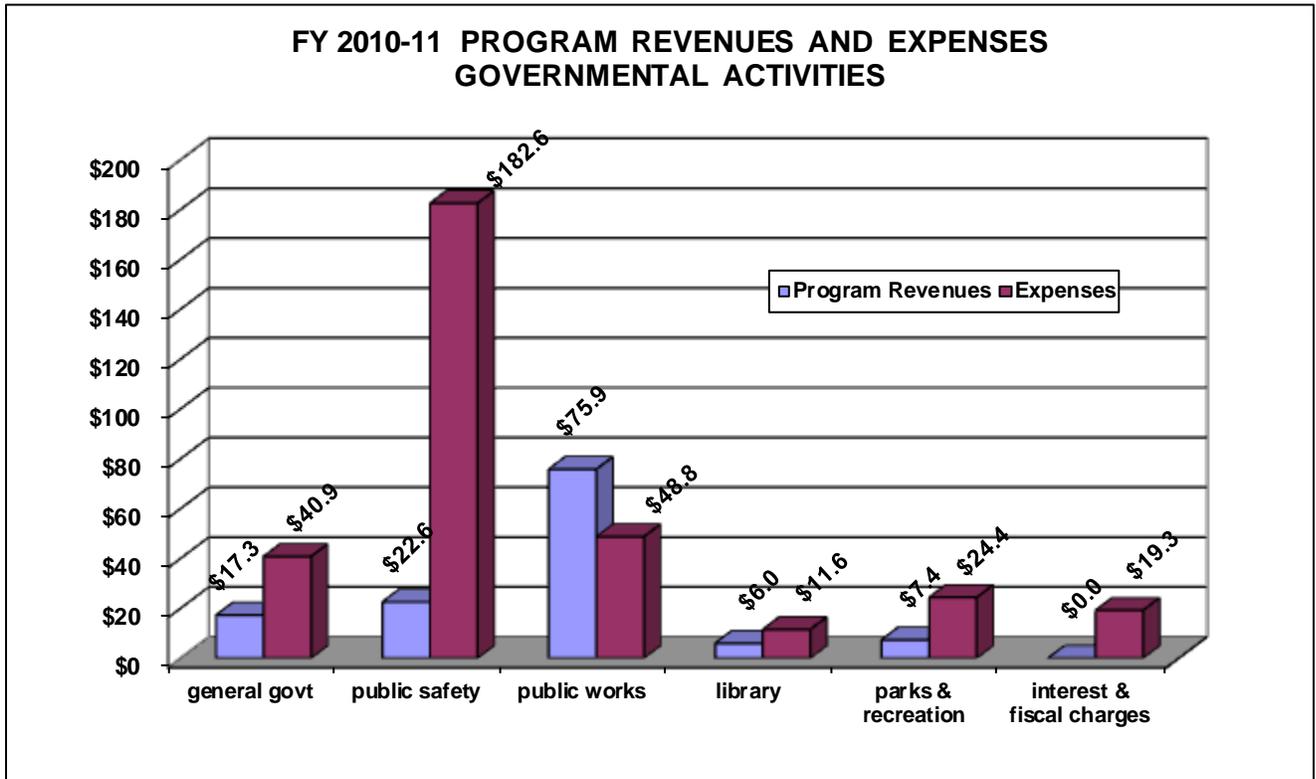
### ***Change in Net Assets of the City***

The City total program expenses of \$427.9 million exceed total revenues of \$402.8 million, special items of \$3.3 million, and a \$7.2 million prior period adjustment for a decrease in net assets of \$29.0 million. This decrease is related to the City's governmental activities as detailed in the table on the following page.

**City of Stockton's Change in Net Assets**  
(dollar amounts in thousands)

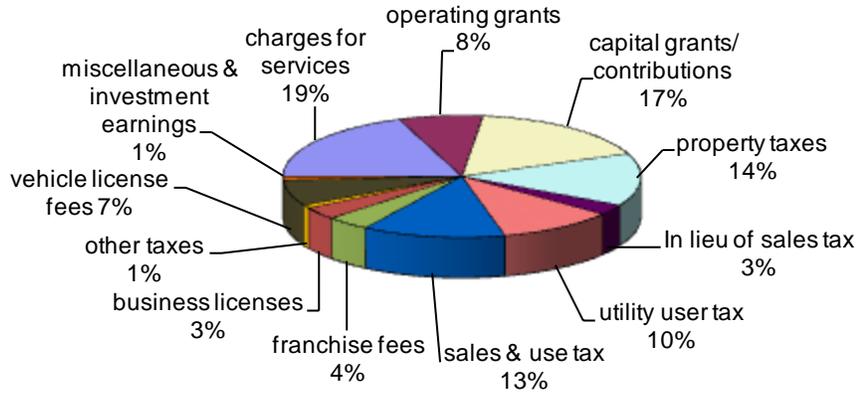
	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
Program revenues:						
Charges for services	\$56,795	\$54,922	\$83,970	\$74,074	\$140,765	\$128,996
Operating grants and contributions	22,355	17,251	4,175	2,482	26,530	19,733
Capital grants and contributions	50,112	40,661	15,961	4,917	66,073	45,578
General revenues:						
Property taxes	41,051	45,549	-	-	41,051	45,549
In lieu of sales tax	8,118	7,087	-	-	8,118	7,087
Utility user taxes	30,994	30,717	-	-	30,994	30,717
Sales and use taxes (City levied)	7,876	7,652	-	-	7,876	7,652
Franchise taxes	11,503	11,354	-	-	11,503	11,354
Business licenses	9,855	9,717	-	-	9,855	9,717
Hotel/motel room taxes	1,799	1,749	-	-	1,799	1,749
Document transfer taxes	583	559	-	-	583	559
Other taxes	155	203	1,152	1,095	1,307	1,298
Motor vehicle fees in lieu	20,014	20,468	-	-	20,014	20,468
Sales and use taxes (State levied)	30,061	28,856	-	-	30,061	28,856
Other shared revenue	352	361	-	-	352	361
Investment earnings	1,620	5,927	3,176	4,192	4,796	10,119
Miscellaneous	1,083	172	-	-	1,083	172
Gain on sale of capital assets	-	8	-	-	-	8
Total revenues	294,326	283,213	108,434	86,760	402,760	369,973
<b>Expenses</b>						
General government	40,873	30,765	-	-	40,873	30,765
Public safety	182,582	187,647	-	-	182,582	187,647
Public works	48,826	56,416	-	-	48,826	56,416
Library	11,589	12,767	-	-	11,589	12,767
Parks and recreation	24,435	22,309	-	-	24,435	22,309
Interest and fiscal charges	19,274	20,430	-	-	19,274	20,430
Water utility	-	-	35,909	28,856	35,909	28,856
Wastewater utility	-	-	49,234	45,958	49,234	45,958
Stormwater utility	-	-	7,406	7,842	7,406	7,842
Central parking district	-	-	4,265	4,616	4,265	4,616
Other	-	-	3,517	2,394	3,517	2,394
Total expenses	327,579	330,334	100,331	89,666	427,910	420,000
Increase/decrease in net assets before transfers	(33,253)	(47,121)	8,103	(2,906)	(25,150)	(50,027)
Transfers	542	1,382	(542)	(1,382)	-	-
Special items	3,270	(288)	-	288	3,270	-
Change in net assets	(29,441)	(46,027)	7,561	(4,000)	(21,880)	(50,027)
Net assets, beginning, original	662,020	708,047	474,408	478,408	1,136,428	1,186,455
Prior period adjustments	(33,956)	-	26,827	-	(7,129)	-
Net assets, beginning, restated	628,064	708,047	501,235	478,408	1,129,299	1,186,455
Net assets, end of year	\$598,623	\$662,020	\$508,796	\$474,408	\$1,107,419	\$1,136,428

**Governmental activities.** Governmental activities program revenues amounted to \$129.3 million to support \$327.6 million in expenses. In the chart below, the program revenue and expense bars by activity illustrate the amount each respective activity is supported by program revenues. Public safety and general government service delivery costs exceed program revenues by \$160.0 million and \$23.6 million, respectively. General government and public safety programs rely heavily on taxes to support their operations and services.



Expenses in the governmental activities have grown as the population of the City of Stockton has grown. The pie chart below illustrates the total revenues of \$294.4 million distribution among its various sources. Charges for services category is the largest revenue source for governmental activities, amounting to \$56.8 million or 19.3% of total revenues. Property tax and sales & use tax are also significant revenue sources for the City’s governmental activities, amounting to 13.9% and 12.9% respectively.

### FY 2010-11 REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total revenues increased by \$11.2 million, or 3.9%, compared to the prior year due primarily to the increase in capital grants and contributions of \$9.5 million, or 23.2%. This increase was partially due to a \$6.2 million increase in state and other agencies grants for street related projects, and a \$2.9 million increase in capital contributions from developers. These increases were due to aggressive pursuit of grant programs by departments to supplement capital demands. Charges for services increased \$1.9 million, or 3.4%, primarily due to increased facility user fee, Stockton Arena revenue and other general governments cost reimbursements.

Changes in City's general revenues occurred as follows:

- Property taxes decreased in total by \$4.5 million or 9.9%. Property taxes have declined significantly the past several years due to declining residential home values and foreclosures, resulting in a devaluation of the City's assessed valuation performed by San Joaquin County.
- There were increases of \$1.2 million in sales and use tax and an approximate \$200,000 in sales tax levied by the City. The combined sales and use tax-related revenue growth of 3.9% reflects an increase in economic activity primarily in new car sales and gasoline sales.
- Investment earnings decreased \$4.3 million or 72.7% due to an overall decrease in cash of \$52.0 million, or 26.8%. This decrease was offset by an increase in the average rate of return on the City's general investment pool, from 3.29% in fiscal year 2010 to 3.70% in fiscal year 2011.

Capital grants and contributions total \$50.1 million or 38.8% of the City's total governmental activities program revenues. Capital grants and contributions include the following:

- \$8.1 million in contributions of capital assets from developers;
- \$6.9 million in Measure K funding, to fund the following programs: \$2.5 million for North Stockton I-5 Widening, \$2.4 million for Eight Mile Road/Union Pacific Railroad (UPRR) East Grade Separation, and \$2.0 million for Eight Mile Road/UPRR West Separation.

- \$4.8 million in state grant revenues expended on projects such as \$2.3 million for Eight Mile Road/UPRR West Grade Separation, \$2.2 million for Eight Mile Road/ UPRR West Separation, and \$0.3 million for Lower Sacramento Road Widening projects.
- \$17.3 million in federal SAFE-TEA funding was expended, which includes \$8.1 million on the street overlay projects, \$3.0 million on Hammer Lane/State Route 99 Interchange improvements, \$2.1 million on the Davis Road/Pixley Slough Bridge, and \$4.1 million on other street improvements.
- \$8.3 million in CDBG and HOME grant funds for low and moderate income housing assistance.
- \$2.8 million in Prop-42 for street related projects.
- \$1.9 million in miscellaneous capital grants.

Program expenses for governmental activities decreased by \$2.8 million, or 0.8%. Key changes in governmental expenses occurred as follows:

- Public works decreased by \$7.6 million, or 13.5%, due to the reductions of \$5.5 million in Measure K funding, \$3.7 million in federally funded SAFE-TEA projects for French Camp/Sperry Road, and approximately \$700,000 in various street improvements. An increase of \$2.3 million for the federally funded 8 Miles Road/ UPRR West Separation offset this decrease.
- Public safety decreased by \$5.1 million, or 2.7%, due to imposed concessions on salary and benefits and unfilled vacancies in positions during the year due to attrition.
- Parks and recreation increased by \$2.1 million, or 9.5%, due to an increase in depreciation and an allocation of \$1.0 million in expenses from another department.
- Library costs decreased by \$1.2 million, or 9.2%, primarily due to reductions in staffing levels and reduced hours of operation.
- General government expenses increased by \$10.1 million, or 32.9%, primarily due to the expensing of \$7.0 million previously recorded as construction in progress assets for Redevelopment funded projects now deemed to be non-capital in nature.
- Interest and fiscal charges decreased by \$1.2 million, or 5.7%, due to principal reduction from both scheduled payments and the early redemption of Redevelopment bonds, resulting in lower interest expense.

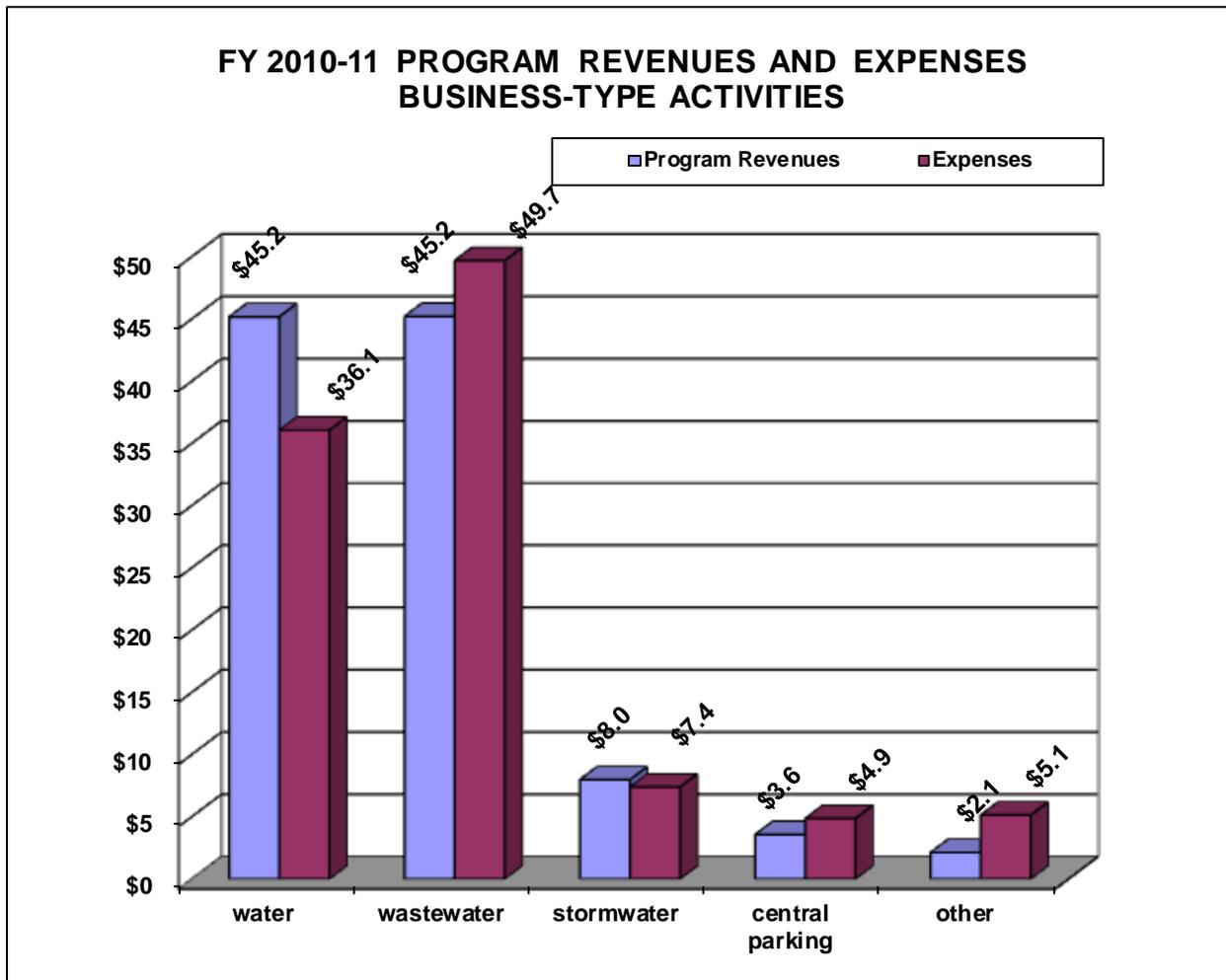
***Special Item of the Governmental Funds***

During the year ended June 30, 2011, a total of \$16.3 million in outstanding principal relating to the 2006 Series A Revenue Bonds of the Redevelopment Agency were purchased at the present value of \$13.3 million in the secondary markets and retired. The purchase of the bonds resulted in a gain in the amount of \$3.3 million which has been included as a special item in the financial statements.

***Business-type activities.*** The City operates three enterprise funds that offer water, wastewater and stormwater services to Stockton residents.

The water utility treats and distributes clean drinking water and performs repair and maintenance functions of existing wells, reservoirs, and water lines, as well as builds additional water distribution system capital improvements through its capital improvement master plan. The wastewater utility collects, treats, and disposes of sewer, and builds additional wastewater collection system capital improvements through its capital improvement master plan. The stormwater utility collects drainage and disposes of stormwater runoff from City streets and

builds additional storm drainage distribution system capital improvements through its capital improvement master plan. The wastewater and stormwater enterprises also perform repair and maintenance functions of existing wastewater and stormwater mains, pump stations, and treatment facilities. Other enterprise functions, such as the central parking facilities, downtown marina, and municipal golf courses, are also business-type activities of the City.

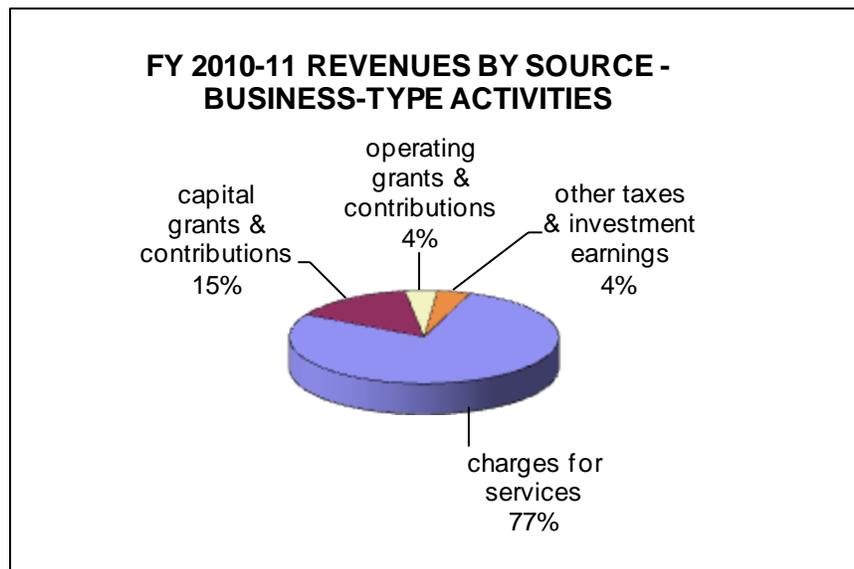


Business-type activities accounted for a \$34.4 million increase in the City's net assets, but includes an increase in net assets of \$26.9 million due to prior period adjustments primarily for the transfer of the completed marina to the Downtown Marina enterprise fund. The bar chart above illustrates how total program revenues and expenses compare. Program revenues exceeded program expenses for two of the five enterprise categories, water by \$9.1 million and stormwater by \$581,000. It should be noted that \$6.5 million of the water enterprise program revenue was from an increase in one-time capital and operating grants that cannot be depended upon to pay for ongoing operating costs in the future. Program expenses exceeded revenues by \$4.5 million in wastewater, \$1.3 million in central parking and \$3.0 million in other business-type funds.

The level of program expenses that exceed revenues in the wastewater fund of \$4.5 million is lower compared to the \$6.8 million in the prior year primarily due to higher operating revenues of \$5.3 million offset by increases in wastewater expenses of \$3.5 million. Both wastewater and stormwater conducted a fee and charges for services rate study this fiscal year to address

revenue generation concerns. As a result, the City Council adopted wastewater rate increases in August of 2010. A Proposition 218 stormwater ballot initiative for a “Clean Water Fee” was undertaken, but failed to get voter approval. In 2011, there was also a water rate increase, approved in 2010, of 15% put into effect as part of funding for the multi-year Delta Water Supply Project.

The pie chart below illustrates the distribution of business-type revenues by category. All the City’s business-type activities rely heavily on charges for services to fund their operations, comprising of 77% of total business-type revenues. Capital grants and contributions are the second largest revenue source comprising of 15%, operating grants and contributions along with taxes and investment earnings both total 4% of total revenues.



Business-type activities program revenue increased overall by \$22.6 million, or 27.8%. Charges for services revenue increased \$9.9 million over the prior year, or 13.4% due to the rate increases described above. Operating grants and contributions increased \$1.7 million over the prior year, or 68%. Capital grants and contributions increased from \$4.9 million in fiscal year 2010 to \$16.0 million in fiscal year 2011, or \$11.0 million. This increase is due to a Proposition 84 Grant received from the State of California for the Delta Water Supply Project of \$8.5 million, and an increase in developer contributions of \$3.1 million overall in the Water, Wastewater and Stormwater funds. It is important to note that these revenues are one-time in nature and cannot be used to fund operating costs, which may serve to obscure the need for rate increases.

Investment earnings in business-type activities total \$3.2 million, a decrease of \$1 million or 24% from fiscal year 2010, due to a decline in cash held by fiscal agents for bond project accounts. This is offset by an increase in the average rate of return on the City’s general investment pool, from 3.29% in fiscal year 2010 to 3.70% in fiscal year 2011.

## ***FINANCIAL ANALYSIS OF THE CITY'S FUNDS***

As noted earlier, the City of Stockton uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. This financial analysis of the major governmental and proprietary funds provides an overview of the City's financial performance. The financial analysis tables in the following section provide summary financial information of the City's major and internal service funds' asset and liabilities balances and current year transactions, along with prior year comparative information. Where June 2010 amounts have been restated in the basic financial statements, the restated amounts have not been considered in our analysis on a comparative basis.

### ***Governmental funds***

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The statement provides fund balance categories and classifications as non-spendable, restricted, committed, assigned and unassigned. The fund balance note disclosures also give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The financial analysis information provided in the following tables is useful in assessing the City's financing requirements. In particular, committed, assigned and unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Total fund balance for the governmental funds of \$113.2 million declined by \$145.5 million compared to the prior year which includes a \$109.7 million prior period adjustment to the fund balance originally reported in fiscal year 2010. Of the total fund balance, \$.6 million is non-spendable, \$117.8 million is restricted, \$5.1 million is committed, \$4.8 million is assigned, and a deficit of \$15.0 million is unassigned.

## General Fund.

The General Fund is the chief operating fund of the City and reflects financial activity related to many tax-supported services provided to Stockton citizens. The total fund balance declined by \$10.9 million compared to the prior year, which includes a decrease of \$15.2 million to the beginning fund balance as previously reported in fiscal year 2010 due to various prior period adjustments. At the end of the fiscal year, current assets exceed current liabilities by \$13.1 million and there were no noncurrent assets and approximately \$864,000 in noncurrent liabilities. Cash and investment balances decreased by approximately \$375,000 from the prior year balances, to total \$12.2 million. This was after the February 28, 2012 cash sweep from other funds to balance the general fund.

### General Fund Financial Analysis

(\$ in millions)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
<b><u>Balance Sheets</u></b>			
Cash and investments	\$ 12.2	\$ 12.6	\$ (0.4)
Other current assets	20.5	28.3	(7.8)
Current liabilities	<u>(19.6)</u>	<u>(15.9)</u>	<u>(3.7)</u>
Net current assets (liabilities)	<u>13.1</u>	<u>25.0</u>	<u>(11.9)</u>
Noncurrent assets	-	11.4	(11.4)
Noncurrent liabilities	<u>(0.9)</u>	<u>(13.3)</u>	<u>12.4</u>
Net noncurrent assets (liabilities)	<u>(0.9)</u>	<u>(1.9)</u>	<u>1.0</u>
Total Fund Balance, End of Year	<u>\$ 12.2</u>	<u>\$ 23.1</u>	<u>\$ (10.9)</u>
<b><u>Statements of Revenues, Expenditures and Changes in Fund Balance</u></b>			
Revenues	\$ 175.3	\$ 177.8	\$ (2.5)
Expenditures	(178.1)	(175.7)	(2.3)
Other financing sources (uses)	7.1	(2.4)	(9.5)
Special items	-	(4.8)	4.8
Net change in Fund Balance	<u>4.3</u>	<u>(5.1)</u>	<u>9.4</u>
Total Fund Balance, Beginning, as originally reported	23.1	28.2	(5.1)
Prior period adjustment	<u>(15.2)</u>	-	<u>(15.2)</u>
Total Fund Balance, Beginning, as adjusted	<u>7.9</u>	<u>28.2</u>	<u>(20.3)</u>
Total Fund Balance, End of Year	<u>\$ 12.2</u>	<u>\$ 23.1</u>	<u>\$ (10.9)</u>
Fund Balances:			
Nonspendable	\$ 0.3	\$ 13.5	\$ (13.2)
Restricted	\$ 2.1	\$ 2.1	\$ -
Committed	\$ 5.1	\$ 1.9	\$ 3.2
Assigned	\$ 4.8	\$ 5.6	\$ (0.8)
Unassigned	\$ -	\$ -	\$ -

Fiscal year 2011 General Fund revenues fell short of expenditures by \$2.5 million partially due to the buyout of the International Facilities Group (IFG) entertainment venue contract. On the contrary, other financing sources exceeded other financing uses by \$9.5 million, primarily due to the need to transfer resources into the general fund from other funds to provide working capital for the General Fund. The net result of operations this fiscal year, not taking into account the prior period adjustments, increased total fund balance by \$4.3 million, from \$23.1 million in fiscal year 2010 to \$12.3 million in fiscal year 2011 but only after one-time transfers to balance the general fund from other funds were made.

The prior period adjustment of \$15.2 million is comprised of approximately \$13.1 million to establish allowances for doubtful accounts against interfund loans from the Redevelopment Agency and Stormwater funds and accounts receivable that are likely to not be recovered, with the remaining balance due to accounting corrections.

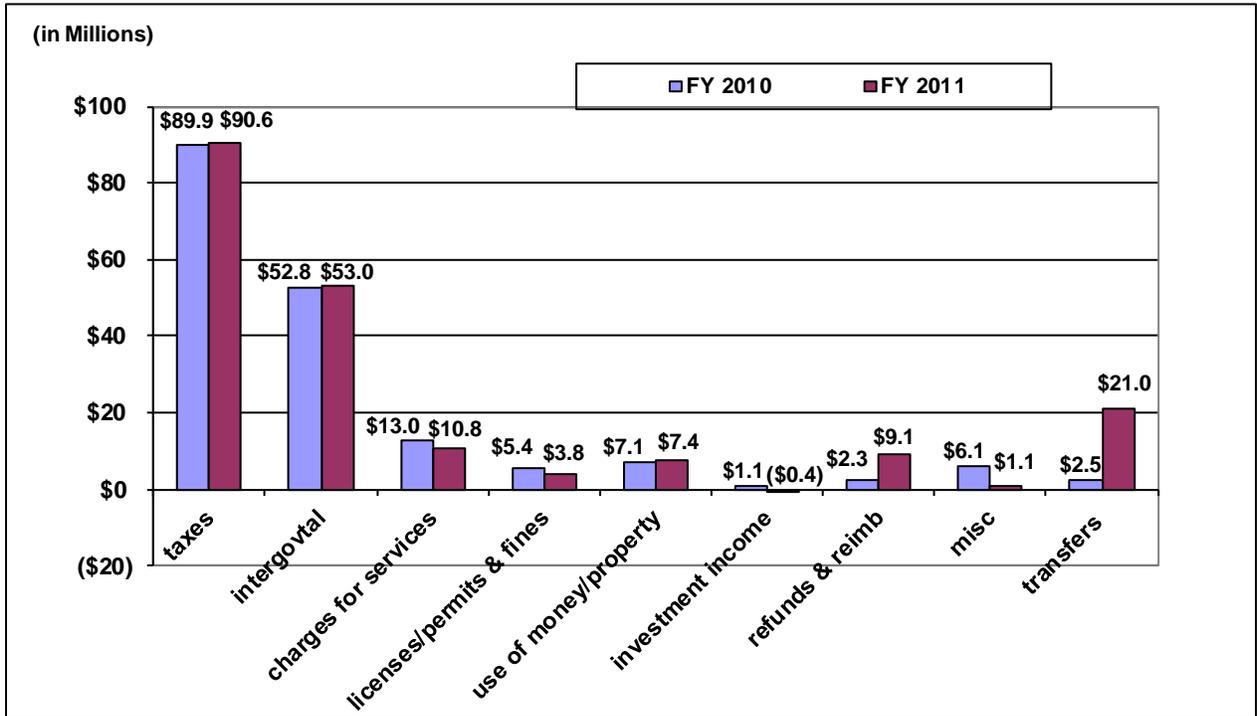
At the end of this fiscal year, the total fund balance for the General Fund of \$12.3 million includes non-spendable fund balance of approximately \$317,000, restricted fund balance of \$2.1 million, committed fund balance of \$5.1 million, assigned fund balance of \$4.8 million, and zero unassigned fund balance. As a measure of the General Fund's liquidity, it is useful to compare assigned and unassigned fund balances to the General Fund's total expenditures of \$178.1 million, amounting to only 2.7% available liquidity.

The following graph illustrates that revenues and transfers have increased \$16.0 million or 8.9% overall compared to the prior year due primarily to one-time transfers of residual cash from other unrestricted funds, amounting to \$11.4 million, and the transfer of a previously recorded fund liability of \$8.4 million (Howard Jarvis settlement) to the Stockton Public Financing Authority debt service fund. Other, modest increases are comprised of approximately \$638,000 in Tax, Business License and Franchise Fee Revenue, \$335,000 in Uses of Money and Property revenue and \$127,000 in Intergovernmental revenue.

These increases were offset by the following reductions:

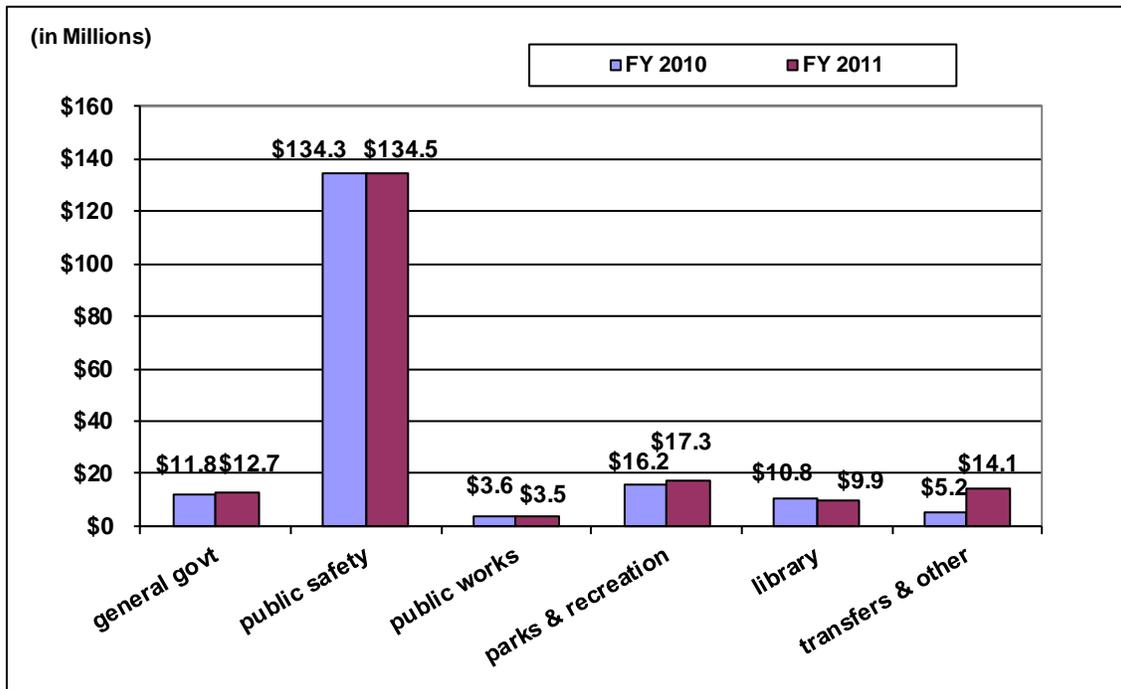
- Charges for services decreased \$2.3 million, or 17.5%, primarily related to a reduction in code enforcement and rental inspection charges from the higher levels of collections in the prior year, billing rate reductions within the four fire district areas due to a more accurate billing rate methodology, and general overall community service related program revenue reductions. It should be noted that the San Joaquin County Assessor's office (County) has notified the City that they will discontinue the application of the "Teeter plan" methodology related to the placement of code enforcement liens on the tax roll. This change will shift the burden for the uncollectible amounts back to the City versus being paid by the County for all amounts placed on the lien.
- Licenses, Permits and Fees decreased \$1.6 million, or 30% due to a large reduction in traffic citation fine revenue collections from \$3.2 million in fiscal 2010 to \$1.8 million in the current year.
- Investment income decreased \$1.5 million, or 136.3% due to an accounting change in the allocation method for fair value for the funds participating in the City's investment pool. The fair market value allocation effective July 1, 2010 is determined and allocated using a daily weighted average balance as compared to the prior years which used a month end balance. This change more accurately reflects an allocation based on cash utilization and receipts throughout the year.

General Fund Revenue Actuals by Source Category - FY 2009-10 vs. FY 2010-11



The following graph illustrates expenditures and transfers in FY 2011 increased by 5.7% or \$10.3 million compared to the prior year. Total General Fund expenditures and transfers this fiscal year amount to \$192.1 million, compared to \$181.8 million last year. Year over year cost increases include \$0.9 million in general government, approximately \$200,000 in public safety, \$1.1 million in parks and recreation and \$8.9 million in transfers and other activities.

General Fund Expenditures Actual by Services Program FY 2009-10 vs. FY 2010-11



The General Fund expenditures and transfers included a one-time payment made to terminate the contract with International Facilities Group (IFG) International for \$2.2 million. In addition, as part of the efforts to get the City's "fiscal house in order", council approved transfers from the General Fund to cover negative fund balances or cash deficits that had accumulated over many years in the following funds: Development Services (\$512,000), Capital Grants (\$693,000), Redevelopment Agency (\$3.9 million) and Other Benefits and Insurance funds (\$3.7 million).

### HOME Fund

The Stockton First-Time Homebuyer Program is managed by the Economic Development Department and funded through U.S. Department of Housing and Urban Development HOME funds. The program offers equity sharing deferred home financing loans to qualified homeowners. The significant decrease of \$24.5 million in the fund balance is due to the City's change in method of accounting for loans to property owners. In previous years, repayments, forgiveness and new loans were reported only on the Balance Sheet. The City's change of methodology now reports repayments as revenue and new loans and project costs as expenditures. Cash and investment balances decreased by approximately \$300,000 from prior year balances to a zero balance at the end of the fiscal year as the City is awaiting grant reimbursement from the United States Department of Housing and Urban Development.

### HOME Fund

(\$ in millions)

	2011	2010	Variance
<b><u>Balance Sheets</u></b>			
Cash and investments	\$ -	\$ 0.3	\$ (0.3)
Other current assets	0.2	-	0.2
Current liabilities	(0.1)	-	(0.1)
Net current assets (liabilities)	0.1	0.3	(0.2)
Noncurrent assets	29.7	24.3	5.4
Noncurrent liabilities	(29.7)	-	(29.7)
Net noncurrent assets (liabilities)	-	24.3	(24.3)
Total Fund Balance, End of Year	<u>\$ 0.1</u>	<u>\$ 24.6</u>	<u>\$ (24.5)</u>
<b><u>Statements of Revenues, Expenditures and Changes in Fund Balance</u></b>			
Revenues	\$ 3.3	\$ 0.4	\$ 2.9
Expenditures	(3.5)	(0.2)	(3.3)
Other financing sources (uses)	-	-	-
Net change in Fund Balance	(0.2)	0.2	(0.4)
Total Fund Balance, Beginning, as originally reported	24.6	24.4	0.2
Prior period adjustment	(24.3)	-	(24.3)
Total Fund Balance, Beginning, as adjusted	0.3	24.4	(24.1)
Total Fund Balance, End of Year	<u>\$ 0.1</u>	<u>\$ 24.6</u>	<u>\$ (24.5)</u>
Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 0.1	\$ 24.6	\$ (24.5)
Committed	\$ -	\$ -	\$ -
Assigned	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ -	\$ -

Revenues for FY 2011 increased by \$2.9 million and expenditures were \$3.3 million higher as compared to the prior year. The increased revenue and the increased expenditures are from the City's change in methodology of accounting for loans to property owners. The revenue now reports the City's federal reimbursements from the United States Department of Housing and Urban Development in addition to repayment of principal on the loans. The expenditures now report the new loans given. In prior years, the total receivable for loans to property owners were reported as restricted fund balance. This balance is now reported as deferred revenue and offsets the receivable balance.

### **Low-Moderate Income Housing RDA Loans Fund**

The Low-Moderate Income Housing Fund accounts for loans to non-profit developers and property owners for rehabilitation and/or construction of housing units, which are deed restricted for occupancy by low-and-moderate income households. The total fund balance decreased by \$48.1 million from the prior year to total \$3.7 million due to the same change in accounting methodology as described above for the Home Fund. At the end of the fiscal year, current assets exceed current liabilities by \$1.8 million and noncurrent assets exceed noncurrent liabilities by \$1.9 million. Cash and investment balances decreased by \$7.7 million from prior year balance to a zero balance at the end of the fiscal year. Within the Redevelopment Agency, the Merged Waterfront Fund borrowed \$1.8 million from Low-Moderate Income Housing Fund to absorb a temporary deficit cash balance at year end. This borrowing was repaid subsequent to year end upon the dissolution of the Agency.

### **Low-Moderate Income Housing Fund Financial Analysis**

(\$ in millions)

	2011	2010	Variance
<b><u>Balance Sheets</u></b>			
Cash and investments	\$ -	\$ 7.7	\$ (7.7)
Other current assets	1.8	-	1.8
Current liabilities	-	-	-
Net current assets (liabilities)	<u>1.8</u>	<u>7.7</u>	<u>(5.9)</u>
Noncurrent assets	54.4	44.1	10.2
Noncurrent liabilities	<u>(52.5)</u>	-	<u>(52.5)</u>
Net noncurrent assets (liabilities)	<u>1.9</u>	<u>44.1</u>	<u>(42.2)</u>
Total Fund Balance, End of Year	<u>\$ 3.7</u>	<u>\$ 51.8</u>	<u>\$ (48.2)</u>
<b><u>Statements of Revenues, Expenditures and Changes in Fund Balance</u></b>			
Revenues	\$ 1.1	\$ -	\$ 1.1
Expenditures	(5.2)	-	(5.2)
Other financing sources (uses)	(2.5)	6.4	8.9
Net change in Fund Balance	<u>(6.7)</u>	<u>6.4</u>	<u>13.1</u>
Total Fund Balance, Beginning, as originally reported	51.8	45.4	6.4
Prior period adjustment	(41.4)	-	41.4
Total Fund Balance, Beginning, as adjusted	<u>10.4</u>	<u>45.4</u>	<u>35.0</u>
Total Fund Balance, End of Year	<u>\$ 3.7</u>	<u>\$ 51.8</u>	<u>\$ (48.1)</u>
Fund Balances:			
Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 3.7	\$ 51.8	\$ (48.1)
Committed	\$ -	\$ -	\$ -
Assigned	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ -	\$ -

Revenues for FY 2011 increased by \$1.1 million and expenditures increased by \$5.2 million compared to the prior year as reserves were used to make additional loans. Other financing sources decreased \$8.9 million. This resulted from the merger of two housing loan funds thereby eliminating the need for transfers between the funds of \$7.1 million as compared to the prior fiscal year. In addition, \$1.2 million of cash was returned to the Redevelopment Agency Strong Neighborhoods Initiative Fund to repay the bond project account for funds that were overdrawn. The prior period adjustment of \$41.4 million is due primarily to the City's change in methodology of accounting for loans to property owners. In prior years, the total receivable for loans to property owners were reported as restricted fund balance. This balance is now reported as deferred revenue and offsets the receivable balance.

### **Public Facilities Impact Fees Capital Project Fund.**

The Public Facilities Impact Fees Fund accounts for the collection and expenditure of fees imposed as a condition of new development within the City. The total fund balance decreased by \$13.1 million from the prior year, to total \$50.5 million. At the end of the fiscal year, current assets exceed current liabilities by \$50.1 million, and noncurrent assets exceed noncurrent liabilities by approximately \$500,000. Cash and investment balances decreased by \$12.8 million from the prior year balances, to total \$50.3 million. The decrease in cash in fiscal year 2011 over the prior fiscal year was due mainly to the use of cash on hand from the prior year to fund current year expenditures.

### **Public Facilities Impact Fees Fund Financial Analysis**

(\$ in millions)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
<b><u>Balance Sheets</u></b>			
Cash and investments	\$ 50.3	\$ 63.1	\$ (12.8)
Other current assets	1.0	1.9	(0.9)
Current liabilities	(1.2)	(1.7)	0.5
Net current assets (liabilities)	<u>50.1</u>	<u>63.3</u>	<u>(13.2)</u>
Noncurrent assets	1.3	1.1	0.2
Noncurrent liabilities	(0.8)	(0.8)	(0.0)
Net noncurrent assets (liabilities)	<u>0.5</u>	<u>0.3</u>	<u>0.2</u>
Total Fund Balance, End of Year	<u>\$ 50.5</u>	<u>\$ 63.6</u>	<u>\$ (13.0)</u>
<b><u>Statements of Revenues, Expenditures and Changes in Fund Balance</u></b>			
Revenues	\$ 3.9	\$ 6.9	\$ (3.0)
Expenditures	(16.8)	(24.6)	7.8
Other financing sources (uses)	0.1	30.6	(30.7)
Net change in Fund Balance	<u>(12.8)</u>	<u>12.9</u>	<u>25.7</u>
Total Fund Balance, Beginning, as originally reported	63.6	50.7	12.9
Prior period adjustment	(0.3)	-	0.3
Total Fund Balance, Beginning, as adjusted	<u>63.3</u>	<u>50.7</u>	<u>13.2</u>
Total Fund Balance, End of Year	<u>\$ 50.5</u>	<u>\$ 63.6</u>	<u>\$ (13.1)</u>
Fund Balances:			
Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 50.5	\$ 53.2	\$ (2.7)
Committed	\$ -	\$ 15.4	\$ (15.4)
Assigned	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ (5.0)	\$ 5.0

The decrease in revenues in the amount of \$3.0 million resulted from a combination of reduction in development activity and implementation during the year of the economic recovery incentive program, which reduced fees by 50% to stimulate new development. Capital outlay expenditures of \$16.8 million funded the construction of street improvements, parks, and other traffic related projects, a decrease of \$7.8 million compared to the prior year expenditures of \$24.6 million. The decrease in expenditures was due to a general downward trend in revenues sources available for development activity due to the economic uncertainty. Other financing sources decreased \$30.7 million due to the receipt in the prior fiscal year of proceeds from the issuance of the 2009 Series A Capital Improvement Projects Revenue Bonds.

The approximate \$300,000 prior year adjustment resulted from accounting corrections of approximately \$100,000 offset by additional allowances for uncollectible advances to other funds of approximately \$400,000.

At the end of the fiscal year, the Public Facilities Impact Fees Fund total fund balance of \$50.5 million is reported as restricted.

#### **Capital Improvement Project Fund.**

The Capital Improvement Fund accounts for the acquisition, construction, and improvement of capital facilities financed by grants, capital lease proceeds and transfers from other City funds.

The \$19.4 million decrease in noncurrent assets is due to the establishment of an allowance in the current fiscal year for uncollectible advances provided to other funds recorded. The \$11.6 million decrease in noncurrent liabilities is due to the reclassification of the Howard Jarvis settlement obligation from a liability of the Capital Improvement Fund to the Stockton Public Financing Authority debt service fund.

#### **Capital Improvement Fund Financial Analysis**

(\$ in millions)

<b><u>Balance Sheets</u></b>	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Cash and investments	\$ 2.7	\$ 6.4	\$ (3.8)
Other current assets	6.6	5.8	0.8
Current liabilities	(6.3)	(5.1)	(1.2)
Net current assets (liabilities)	<u>3.0</u>	<u>7.1</u>	<u>(4.2)</u>
Noncurrent assets	-	19.4	(19.4)
Noncurrent liabilities	-	(11.6)	11.6
Net noncurrent assets (liabilities)	<u>-</u>	<u>7.8</u>	<u>(7.8)</u>
Total Fund Balance, End of Year	<u>\$ 3.0</u>	<u>\$ 15.0</u>	<u>\$ (12.0)</u>

## Capital Improvement Fund Financial Analysis (Continued)

(\$ in millions)

### Statements of Revenues, Expenditures and Changes in Fund Balance

	2011	2010	Variance
Revenues	\$ 7.7	\$ 1.2	\$ 6.5
Expenditures	(9.6)	(4.2)	(5.4)
Other financing sources (uses)	8.5	2.0	6.5
Special items	-	(0.3)	0.3
Net change in Fund Balance	<u>6.6</u>	<u>(1.4)</u>	<u>8.0</u>
Total Fund Balance, Beginning, as originally reported	15.0	16.4	(1.4)
Prior period adjustment	<u>(18.6)</u>	-	<u>(18.6)</u>
Total Fund Balance, Beginning, as adjusted	<u>(3.6)</u>	<u>16.4</u>	<u>(20.0)</u>
Total Fund Balance, End of Year	<u>\$ 3.0</u>	<u>\$ 15.0</u>	<u>\$ (12.0)</u>
Fund Balances:			
Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 3.0	\$ 1.0	\$ 2.0
Committed	\$ -	\$ 21.5	\$ (21.5)
Assigned	\$ -	\$ 2.1	\$ (2.1)

As the table above details, expenditures exceeded revenues by \$1.9 million. Revenues increased in 2011 by \$6.5 million due to the increase of capital grants for street related projects. Expenditures totaled \$9.6 million, which is \$5.4 million higher than the prior year due to increased expenditures in the current fiscal year for various street related projects funded by capital grants. Other financing sources (uses) increased \$6.5 million over the prior fiscal year due primarily to the reclassification of a previously recorded liability of \$11.6 million (Howard Jarvis settlement) to the Stockton Public Financing Authority debt service fund offset by transfers out in the amount of \$2.9 million to the General Fund, and other miscellaneous transfers for debt service and allowances for advances to other funds. The \$18.6 million prior period adjustment is due to the recording of various allowances against uncollectible advances to other funds.

The entire \$3.0 million fund balance is restricted for ongoing projects.

### **Redevelopment Agency Capital Project Fund.**

The Redevelopment Agency Fund accounts for financial transactions related to the acquisition, construction, relocation, demolition, and sale of land for those portions of the City earmarked for redevelopment of blighted areas, designated as project areas. Capital improvement projects are financed from bond proceeds, loans from other City funds, and property tax increment revenues. The total fund balance increased by \$19.8 million from the prior year to \$13.6 million primarily due to a prior period adjustment of \$31.2 million, which was necessary based upon the determination that advances made to the Redevelopment Agency from other City funds were not collectible and therefore allowances were established against the advances. At the end of the fiscal year, current assets exceeded current liabilities by \$11.1 million and noncurrent assets fell short of noncurrent liabilities by \$1.2 million. Cash and investment balances decreased by \$23.2 million from the prior year balances, to total \$16.7 million.

## Redevelopment Agency Fund Financial Analysis

(\$ in millions)

	2011	2010	Variance
<b><u>Balance Sheets</u></b>			
Cash and investments	\$ 16.7	\$ 39.9	\$ (23.2)
Other current assets	0.2	0.2	0.0
Current liabilities	(2.1)	(14.2)	12.1
Net current assets (liabilities)	14.8	25.9	(11.1)
Noncurrent assets	0.7	0.8	(0.0)
Noncurrent liabilities	(1.9)	(32.9)	31.0
Net noncurrent assets (liabilities)	(1.2)	(32.1)	30.9
Total Fund Balance, End of Year	\$ 13.6	\$ (6.2)	\$ 19.8
<b><u>Statements of Revenues, Expenditures and Changes in Fund Balance</u></b>			
Revenues	\$ 14.2	\$ 19.3	\$ (5.1)
Expenditures	(9.7)	(31.1)	21.4
Other financing sources (uses)	(15.8)	(21.3)	5.5
Net change in Fund Balance	(11.3)	(33.1)	21.8
Total Fund Balance, Beginning, as originally reported	(6.2)	26.9	(33.1)
Prior period adjustment	31.2	-	31.2
Total Fund Balance, Beginning, as adjusted	25.0	26.9	(1.9)
Total Fund Balance, End of Year	\$ 13.6	\$ (6.2)	\$ 19.9
Fund Balances:			
Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 13.6	\$ 12.4	\$ 1.2
Committed	\$ -	\$ 2.7	\$ (2.7)
Assigned	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ (21.3)	\$ 21.3

Revenues for FY 2011 declined by \$5.1 million compared to the prior year due to continued decreases in assessed property values. Expenditures of \$9.7 million decreased by \$21.4 million due to the cessation of capital project expenditures other than those funded with proceeds of the 2006 Redevelopment Agency Revenue Bonds, Series A, B and C due to the changes in State law for redevelopment agencies and activities. Other financing uses decreased by \$5.5 million due to a transfer of \$6.4 million related to the purchase of the City's own redevelopment bonds. The \$31.2 million prior period adjustment is comprised of \$32.8 million due to the recording of various allowances for uncollectible advances from other funds and \$1.6 million from various accounting corrections or reclassifications.

The Redevelopment Agency Fund balance of \$13.6 million is entirely restricted for expenditure on ongoing capital projects or by bond covenants.

It should be noted that, due to legislative actions taken by the State after the date of these financial statements, that the Redevelopment agency has been dissolved and all assets and liabilities have been transferred to a successor agency (refer to Note 17 - Subsequent Events for a more complete discussion).

### ***Proprietary Funds***

Proprietary funds consist of enterprise funds and internal service funds. The proprietary funds' financial statements provide additional detailed information not found in the government-wide financial statements. Both presentations are accounted for on the full accrual accounting basis. Each funds' financial transactions, both near-term and historic, is provided in the statement of net assets and the statement of revenues, expenses and changes in net assets.

Total net assets of all the enterprise funds totaled \$508.8 million, an increase of \$34.4 million compared with the prior year. In fiscal year 2011, both the Wastewater and Stormwater Utility funds experienced operating losses, where operating expenses exceeded operating revenues by \$1.9 million and \$1.3 million, respectively. Operating losses signal that an enterprise's operating revenue structure is not meeting standard operating and infrastructure renewal and replacement cost needs. This is the fifth consecutive year in which the Wastewater Utility Fund has ended the fiscal year with an operating loss, and the eleventh consecutive year for the Stormwater Utility Fund. Both wastewater and stormwater utilities conducted a fee and charges rate study this fiscal year to address revenue generation concerns, with a Proposition 218 voter ballot initiative conducted in August of 2010. As a result, the City Council adopted wastewater rate increases in August of 2010. The stormwater utility Proposition 218 ballot initiative failed to achieve voter approval of the "Clean Water Fee".

At the end of the fiscal year, enterprise unrestricted net asset balances are as follows: the Water Utility, \$41.7 million; the Wastewater Utility, \$18.2 million; and the Stormwater Utility, \$2.1 million. The Central Parking District reports deficit unrestricted net assets of \$755,000. The Solid Waste, Downtown Marina Complex and Golf funds are combined for financial reporting purposes and together have deficit unrestricted net assets of less than \$1,000.

Internal service fund total net assets declined by \$42.1 million, totaling a deficit \$134.2 million. The internal service funds have unrestricted net asset deficits totaling \$146.2 million. The City's internal service funds are reported in two categories in the later portion of this section: 1) insurance/pension-related funds, and 2) equipment-related funds. Insurance/pension-related internal service funds. Of the \$148.6 million of insurance/pension-related funds deficit net assets, a \$151.2 million deficit is unrestricted and a \$2.6 million surplus is restricted. City equipment-related internal service funds' total net assets declined by \$3.1 million, to a total of \$14.5 million. These equipment-related funds have unrestricted net assets of \$5.7 million and \$8.8 million of net assets invested in capital assets, net of related debt.

## Enterprise Funds Financial Analysis

### **Water Utility Fund.**

The Water Utility Fund accounts for activities associated with the acquisition or construction of water treatment facilities, production, distribution and transmission of potable water to users, and operations related to the provision of services. The total net asset balance increased by \$13.9 million from the prior year to total \$145.0 million. At the end of the fiscal year, current assets exceed current liabilities by \$30.9 million and noncurrent assets exceed noncurrent liabilities by \$114.1 million. Cash and investment balances decreased by \$5.2 million from the prior year balances, to \$34.5 million.

### **Water Fund Financial Analysis**

*(\$ in millions)*

	2011	2010	Variance
<b><u>Statements of Net Assets</u></b>			
Cash and investments	\$ 34.5	\$ 39.7	\$ (5.3)
Other current assets	12.9	2.6	10.3
Current liabilities	(16.5)	(20.5)	4.0
Net current assets (liabilities)	30.9	21.8	9.1
Noncurrent assets	377.2	318.1	59.1
Noncurrent liabilities	(263.1)	(208.8)	(54.3)
Net noncurrent assets (liabilities)	114.1	109.3	4.7
Total Net Assets, End of Year	<u>\$ 145.0</u>	<u>\$ 131.1</u>	<u>\$ 13.9</u>
<b><u>Statements of Revenues, Expenses and Changes in Net Assets</u></b>			
Operating revenues	\$ 30.1	\$ 25.8	\$ 4.3
Operating expenses	(22.5)	(20.0)	(2.5)
Operating income (loss)	7.6	5.8	1.8
Non-operating revenues (expenses)	1.6	(3.4)	5.0
Capital contributions & transfers	2.2	1.6	0.6
Special items	-	0.2	(0.2)
Net change in Fund Balance	11.4	4.2	7.2
Total Fund Balance, Beginning, as originally reported	131.1	126.9	12.7
Prior period adjustment	2.4	-	2.4
Total Net Assets, Beginning of Year, as restated	133.5	126.9	6.6
Total Net Assets, End of Year	<u>\$ 145.0</u>	<u>\$ 131.1</u>	<u>\$ 13.9</u>
Invested in capital assets, net of related debt	\$ 94.1	\$ 96.4	\$ (2.2)
Restricted Net Assets	\$ 9.2	\$ 2.4	\$ 6.8
Unrestricted Net Assets	\$ 41.7	\$ 32.3	\$ 9.4

Operating revenues increased in 2011 by \$4.3 million, while operating expenses increased by \$2.5 million. The fund had operating income of \$7.6 million for the year, which is a \$1.8 million improvement over the prior fiscal year. The reason for the improved financial performance is due to charges for services increasing by \$4.2 million resulting from a 15% rate increase to support the capital and operating costs of the Delta Water Supply Project. Operating expenses also increased \$2.5 million due to purchased water increasing by \$1.4 million and general and administrative expenses increasing \$1.1 million, primarily due to increases to allowances for uncollectible accounts receivable.

Non-operating revenues (expenses) increased in 2011 by \$5.0 million. In 2011, the Water Fund was awarded a State of California Proposition 84 Grant for the Delta Water Supply Project Intake and Pump Station Facility providing an additional \$8.5 million in non-operating revenues. Federal Interest Subsidy payments from the US Treasury on the 2009 Delta Water bond interest also increased \$1.7 million in 2011. This was offset by increased interest expense of \$4.5 million in 2011 primarily due to a full year of interest payments on 2009 Delta Water Supply Series B Project Bonds.

Capital contributions and transfers increased slightly by approximately \$600,000 to \$2.2 million. In this fiscal year there was \$2.4 million prior period adjustment which was a result of a \$1.8 million net receivable adjustment to recognize unbilled water revenues as of the end of the year, a decrease to the deposit account in the amount of approximately \$567,000, and an increase to the Howard Jarvis v. City of Stockton lawsuit settlement in amount of approximately \$99,000.

Components of the Water Fund total assets of \$145.0 million include invested in capital assets net of related debt of \$94.1 million, which decreased by \$2.2 million. Restricted net assets of \$9.2 million increased \$6.8 million, while unrestricted net assets of \$41.7 million decreased by \$9.4 million compared to the prior year.

#### **Wastewater Utility Fund.**

The Wastewater Utility fund accounts for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater. The total net asset balance decreased by \$5.9 million from the prior year to total \$287.2 million. At the end of the fiscal year, current assets exceed current liabilities by \$3.7 million and noncurrent assets exceed noncurrent liabilities by \$283.5 million. Cash and investment balances increased by \$2.3 million from the prior year balances, to total \$5.0 million.

## Wastewater Fund Financial Analysis

(\$ in millions)

	2011	2010	Variance
<b><u>Statements of Net Assets</u></b>			
Cash and investments	\$ 5.0	\$ 2.7	\$ 2.3
Other current assets	5.6	7.2	(1.6)
Current liabilities	(6.9)	(3.2)	(3.7)
Net current assets (liabilities)	3.7	6.7	(3.0)
Noncurrent assets	368.5	373.6	(5.1)
Noncurrent liabilities	(85.0)	(87.1)	2.1
Net noncurrent assets (liabilities)	283.5	286.5	(3.0)
Total Net Assets, End of Year	\$ 287.2	\$ 293.1	\$ (5.9)
<b><u>Statements of Revenues, Expenses and Changes in Net Assets</u></b>			
Operating revenues	\$ 42.6	\$ 37.2	\$ 5.3
Operating expenses	(44.5)	(41.1)	(3.4)
Operating income (loss)	(1.9)	(3.9)	2.0
Non-operating revenues (expenses)	(4.0)	(3.8)	0.2
Capital contributions & transfers	2.2	1.3	0.9
Special items	-	0.4	(0.4)
Net change in Fund Balance	(3.7)	(5.9)	2.2
Total Net Assets, Beginning, as originally reported	293.1	299.0	(5.9)
Prior period adjustment	(2.2)	-	(2.2)
Total Net Assets, Beginning, as restated	290.9	299.0	(8.1)
Total Net Assets, End of Year	\$ 287.2	\$ 293.1	\$ (5.9)
Invested in capital assets, net of related debt	\$ 244.6	\$ 245.3	\$ (0.7)
Restricted Net Assets	\$ 24.4	\$ 28.3	\$ (3.9)
Unrestricted Net Assets	\$ 18.2	\$ 19.4	\$ (1.1)

Operating revenues increased in 2011 by \$5.3 million, while operating expenses increased by \$3.4 million. The result, while still an operating loss of \$1.9 million, is an improvement of \$2.0 million compared to FY 2010 due to an increase in the rate structure, which had not been changed since 1992. The Municipal Utility Department undertook a wastewater rate study and a Proposition 218 voter ballot initiative resulting in Council adoption in August of 2010 of a multi-year rate increase to ensure sufficient revenues to meet the future operational and capital improvement needs of the wastewater system for the near term future.

Capital contributions and transfers increased by approximately \$900,000 due to increased developer contributions of \$1.0 million and a decrease in connection fees of approximately \$300,000 and a decrease of transfers out of \$200,000. In this fiscal year there was a negative prior period adjustment in amount of \$2.2 million which was the result of an increase in the allowance for uncollectible receivables in the amount of \$2.3 million, offset by a positive adjustment related to the Howard Jarvis v. City of Stockton lawsuit settlement in the amount of approximately \$153,000.

The components of the \$287.2 million in total assets include: invested in capital assets net of related debt of \$244.6 million, which decreased by approximately \$700,000; restricted net assets of \$24.4 million, which decreased by \$3.9 million; and unrestricted net assets of \$18.2 million, which decreased by \$1.1 million.

### **Stormwater Utility Fund.**

The Stormwater Utility Fund accounts for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater. The total net asset balance increased by \$11.5 million from the prior year to \$54.9 million. At the end of the fiscal year, current assets exceed current liabilities by \$2.0 million and noncurrent assets exceed noncurrent liabilities by \$52.9 million. Cash and investment balances remained the same at \$1.6 million.

### **Stormwater Fund Financial Analysis**

(\$ in millions)

	2011	2010	Variance
<b><u>Statements of Net Assets</u></b>			
Cash and investments	\$ 1.6	\$ 1.6	\$ 0.0
Other current assets	0.6	0.8	(0.2)
Current liabilities	(0.2)	(0.2)	(0.0)
Net current assets (liabilities)	<u>2.0</u>	<u>2.2</u>	<u>(0.3)</u>
Noncurrent assets	52.9	52.2	0.7
Noncurrent liabilities	-	(11.0)	11.0
Net noncurrent assets (liabilities)	<u>52.9</u>	<u>41.2</u>	<u>11.7</u>
Total Net Assets, End of Year	<u>\$ 54.9</u>	<u>\$ 43.4</u>	<u>\$ 11.5</u>
<b><u>Statements of Revenues, Expenses and Changes in Net Assets</u></b>			
Operating revenues	\$ 5.7	\$ 5.7	\$ 0.0
Operating expenses	(6.9)	(7.8)	0.9
Operating income (loss)	<u>(1.2)</u>	<u>(2.1)</u>	<u>0.9</u>
Non-operating revenues (expenses)	(0.2)	0.1	(0.3)
Capital contributions & transfers	2.1	1.2	0.9
Special items	-	(0.4)	0.4
Net change in Fund Balance	<u>0.7</u>	<u>(1.2)</u>	<u>1.9</u>
Total Net Assets, Beginning, as originally reported	43.4	44.7	2.9
Prior period adjustment	<u>10.8</u>	<u>-</u>	<u>10.8</u>
Total Net Assets, Beginning, as restated	<u>54.2</u>	<u>44.7</u>	<u>9.5</u>
Total Net Assets, End of Year	<u>\$ 54.9</u>	<u>\$ 43.4</u>	<u>\$ 11.5</u>
Invested in capital assets, net of related debt	\$ 52.8	\$ 52.2	\$ 0.6
Restricted Net Assets	\$ -	\$ -	\$ -
Unrestricted Net Assets	\$ 2.1	\$ (8.8)	\$ 10.9

Operating revenues remained consistent with that from the prior year while operating expenses decreased by approximately \$900,000. The \$1.2 million operating loss, although an improvement, resulted in the eleventh consecutive year in which the Stormwater Utility Fund has had a net operating loss. One cause for this continuing loss was due to the Howard Jarvis v. City of Stockton lawsuit settlement payment in the amount of \$406,000. A net operating loss could indicate that an enterprise's operating income structure is not meeting standard operating and infrastructure renewal and replacement cost needs. In early December 2010, the City Council announced that the Stormwater Utility Fund new "Clean Water Fee" failed to secure a

majority of affirmative ballots. Management is discussing options to remedy the ongoing issue of operating losses.

Capital contributions and transfers increased by approximately \$900,000. In this fiscal year there was a prior period adjustment in amount of \$10.8 million which was the result of an increase in the allowance for uncollectible receivables in the amount of approximately \$155,000 with the remaining \$10.9 million attributed to a loan payable allowance for the Howard Jarvis v. City of Stockton lawsuit settlement.

Components of the \$54.9 million total net assets include: invested in capital assets net of related debt of \$52.8 million, which increased by approximately \$600,000; no restricted net assets; and unrestricted net assets of \$2.1 million, which increased by \$10.8 million compared to the prior year.

### Central Parking District Fund

The Central Parking District accounts for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities along with other allowable expenses. The total net asset balance decreased by \$1.1 million from the prior year to \$5.7 million. At the end of the fiscal year, current assets exceed current liabilities by \$100,000 and noncurrent assets exceed noncurrent liabilities by \$5.6 million. Cash and investment balances increased by approximately \$100,000 from the prior year balances, to approximately \$900,000.

### Central Parking District Fund Financial Analysis

(\$ in millions)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
<b><u>Statements of Net Assets</u></b>			
Cash and investments	\$ 0.9	\$ 0.8	\$ 0.1
Other current assets	0.3	0.3	-
Current liabilities	(1.1)	(1.1)	-
Net current assets (liabilities)	<u>0.1</u>	<u>-</u>	<u>0.1</u>
Noncurrent assets	39.0	40.7	(1.7)
Noncurrent liabilities	(33.4)	(33.9)	0.5
Net noncurrent assets (liabilities)	<u>5.6</u>	<u>6.8</u>	<u>(1.2)</u>
Total Net Assets, End of Year	<u>\$ 5.7</u>	<u>\$ 6.8</u>	<u>\$ (1.0)</u>
<b><u>Statements of Revenues, Expenses and Changes in Net Assets</u></b>			
Operating revenues	\$ 3.6	\$ 3.7	\$ (0.1)
Operating expenses	(2.6)	(3.0)	0.4
Operating income (loss)	<u>1.0</u>	<u>0.7</u>	<u>0.3</u>
Non-operating revenues (expenses)	(0.4)	(0.5)	(0.1)
Capital contributions & transfers	(0.6)	(0.8)	0.2
Net change in Fund Balance	<u>-</u>	<u>(0.6)</u>	<u>0.5</u>
Total Net Assets, Beginning, as originally reported	6.8	7.4	0.6
Prior period adjustment	(1.1)	-	1.2
Total Net Assets, Beginning, as restated	<u>5.7</u>	<u>7.4</u>	<u>(1.7)</u>
Total Net Assets, End of Year	<u>\$ 5.7</u>	<u>\$ 6.8</u>	<u>\$ (1.1)</u>
Invested in capital assets, net of related debt	\$ 6.4	\$ 6.9	\$ (0.5)
Restricted Net Assets	\$ -	\$ 0.0	\$ (0.0)
Unrestricted Net Assets	\$ (0.7)	\$ (0.1)	\$ (0.6)

Operating revenues decreased in 2011 by \$100,000, while operating expenses decreased by \$400,000. The result is that the Central Parking net operating income increased by \$300,000 as compared to FY 2010. The prior period adjustment of \$1.1 million was comprised of the recording of an approximate \$800,000 allowance for uncollectible loans receivable and approximately \$300,000 of accounting corrections.

Components of the \$5.7 million total net assets of the Central Parking District Fund include: invested in capital assets net of related debt of \$6.4 million, which decreased by approximately \$500,000 and a deficit unrestricted net assets of approximately \$700,000, an increase of approximately \$600,000 compared to the prior year.

### **Internal Service Funds Financial Analysis**

Internal service funds are established to account for the financing of goods and services provided by one City department to other City departments, on a cost reimbursement basis. The City's internal service activities are categorized into two categories, those relating to the:

- 1) City's insurance/pension-related transactions; such as general liability, workers' compensation liability, employee and retiree health benefits liability, retirement/pension benefits and other insurance liability items; and
- 2) City's various equipment and vehicle fleet needs and information technology equipment and services.

#### **Insurance/Pension-Related, Internal Service Fund.**

Insurance/Pension-related internal service funds have been combined below and include the General Liability Insurance Fund, Workers' Compensation Liability Insurance Fund, Employee and Retiree Health Insurance funds, the Retirement Benefits Fund, and the Other Benefits and Insurance Fund. These funds also account for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions approved by management.

The *General Liability Insurance Fund* accounts for premiums and claims paid and administration of general liability insurance provided to all City departments on a cost reimbursement basis. The *Workers' Compensation Liability Insurance Fund* accounts for premiums and claims paid and administration of workers' compensation insurance provided to City employees incurring injury on the job, of which health benefits and other related liability costs are supported by City department payments into the fund. The *Employee Health and Retiree Health Insurance Fund* accounts for premiums and claims paid and administration of health benefits insurance provided to qualified active and retired City employees, with City departmental payments made to the funds sought to reimburse health related expenses incurred for active employees and current retirees.

The *Retirement and Other Benefits Insurance Fund* accounts for the accumulation and payout of resources for the purpose of providing defined retirement and disability benefits, annual cost of living adjustments and death benefits to City employee plan members and beneficiaries through the California Public Employees' Retirement System (CALPERS) on a cost reimbursement basis and to account for premiums and claims paid and administration of comparatively smaller insurance funds provided to City employees on a cost reimbursement

basis, to include long-term disability, life insurance, and termination pay and compensated absences benefits.

The total net asset deficit balance increased by \$38.0 million from the prior year to total \$148.6 million. At the end of the fiscal year, current assets exceed current liabilities by \$1.2 million and noncurrent assets fell short of noncurrent liabilities by \$149.8 million. Cash and investment balances stayed consistent at \$10.7 million from the prior year.

### Insurance/Pension-Related, Internal Service Fund Financial Analysis

(\$ in millions)

	2011	2010	Variance
<b><u>Statements of Net Assets</u></b>			
Cash and investments	\$ 10.7	\$ 10.7	\$ 0.0
Other current assets	7.9	14.3	(6.4)
Current liabilities	(17.4)	(21.7)	4.3
Net current assets (liabilities)	1.2	3.2	(2.0)
Noncurrent assets	130.3	132.8	(2.5)
Noncurrent liabilities	(280.1)	(246.7)	(33.4)
Net noncurrent assets (liabilities)	(149.8)	(113.8)	(35.9)
Total Net Assets, End of Year	<u>\$ (148.6)</u>	<u>\$ (110.6)</u>	<u>\$ (38.0)</u>
<b><u>Statements of Revenues, Expenses and Changes in Net Assets</u></b>			
Operating revenues	\$ 89.6	\$ 81.6	\$ 8.0
Operating expenses	(124.8)	(121.7)	(3.1)
Operating income (loss)	(35.2)	(40.0)	4.9
Non-operating revenues (expenses)	(3.3)	(5.2)	(1.9)
Capital contributions & transfers	(0.5)	1.0	(1.5)
Net change in Fund Balance	(39.0)	(44.2)	1.4
Total Net Assets, Beginning, as originally reported	(110.6)	(66.3)	44.3
Prior period adjustment	1.0	-	(1.0)
Total Net Assets, Beginning, as restated	(109.6)	(66.3)	(43.3)
Total Net Assets, End of Year	<u>\$ (148.6)</u>	<u>\$ (110.6)</u>	<u>\$ (38.0)</u>
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -
Restricted Net Assets	\$ 2.6	\$ -	\$ 2.6
Unrestricted Net Assets	\$ (151.2)	\$ (110.6)	\$ (40.6)

Operating revenue increased by \$8.0 million in 2011 due to the following factors: internal rates charged to departments for General Insurance, Worker's Compensation and Health funds increased by \$5 million, a new federal funding for Early Retiree Reinsurance Program (ERRP) totaling approximately \$900,000 was recognized and reimbursements from the City's health care stop loss insurance policy increased by \$2 million. Operating expenses increased by \$3.1 million mainly due to an increase in CALPERS rates. As a result, the operating loss of these funds decreased by \$4.9 million to total a loss of \$35.2 million. Non-operating expenses decreased by \$1.9 million. Capital contributions and transfers decreased by \$1.5 million. In addition, there was a prior year adjustment made to recognize revenue for property damage claims in the prior year.

Of the \$148.6 million of insurance/pension-related funds deficit net assets, a \$151.2 million deficit is unrestricted, an increase of \$40.6 million, and a \$2.7 million surplus is restricted, a \$2.6 million increase over the prior year.

The Insurance/Pension-Related, Internal Service Fund net assets (deficit) of \$148.6 million is driven by a variety of factors. One significant factor is an increase in net assets deficit of \$27.5 million in the Health Insurance Fund, primarily due to an increase of \$30.0 million in the City's net Other Post Employment Benefit (OPEB) retiree health insurance obligation for fiscal year 2011. Another contributing factor is the \$40.3 million deficit in the Workers' Compensation Liability Insurance Fund, which grew compared to the prior year by \$7.3 million. It should be noted that the OPEB liability will be eliminated due to the discontinuation of this benefit as of June 2014, as noted previously.

**Equipment-Related, Internal Service Fund.**

Equipment-related internal service funds have been combined below and include the Vehicle Fleet Equipment, Computer Equipment, Radio Equipment, and Other Equipment.

The *Vehicle Fleet Equipment Fund* accounts for the financing, operating and maintenance of vehicles and similar equipment provided to City departments on a cost reimbursement basis. The *Computer Equipment Fund* accounts for the financing, service and maintenance of all computer and related equipment provided to City departments on a cost reimbursement basis. The *Radio Equipment Fund* accounts for the financing, service and maintenance of radio equipment provided to City departments on a cost reimbursement basis. *Other Equipment Funds* accounts for the financing, operating and maintenance of other, comparatively smaller equipment funds provided to City departments on a cost reimbursement basis, which included telephone, other office, and printing and mailing equipment.

The total net asset balance decreased by \$3.1 million from the prior year to total \$14.5 million. At the end of the fiscal year, current assets exceed current liabilities by \$6.2 million and noncurrent assets exceed noncurrent liabilities by \$8.3 million. Cash and investment balances decreased by \$3 million from the prior year balances, to total \$7.9 million.

## Equipment-Related, Internal Service Fund Financial Analysis

(\$ in millions)

	2011	2010	Variance
<b><u>Statements of Net Assets</u></b>			
Cash and investments	\$ 7.9	\$ 10.9	\$ (3.0)
Other current assets	-	0.0	(0.0)
Current liabilities	(1.7)	(1.6)	(0.1)
Net current assets (liabilities)	6.2	9.3	(3.1)
Noncurrent assets	10.3	10.6	(0.3)
Noncurrent liabilities	(2.0)	(2.3)	0.3
Net noncurrent assets (liabilities)	8.3	8.3	0.0
Total Net Assets, End of Year	\$ 14.5	\$ 17.6	\$ (3.1)
<b><u>Statements of Revenues, Expenses and Changes in Net Assets</u></b>			
Operating revenues	\$ 18.6	\$ 17.8	\$ 0.8
Operating expenses	(19.0)	(18.5)	(0.5)
Operating income (loss)	(0.4)	(0.7)	0.3
Non-operating revenues (expenses)	-	(0.1)	(0.1)
Capital contributions & transfers	(2.7)	(0.6)	(2.1)
Total Net Assets, Beginning of Year	17.6	19.0	(1.4)
Total Net Assets, End of Year	\$ 14.5	\$ 17.6	\$ (3.1)
Invested in capital assets, net of related debt	\$ 8.8	\$ 8.3	\$ 0.5
Restricted Net Assets	\$ -	\$ -	\$ -
Unrestricted Net Assets	\$ 5.7	\$ 9.3	\$ (3.6)

Operating revenues increased in 2011 by approximately \$800,000, while operating expenses increased by \$500,000 and non-operating expenses decreased by approximately \$100,000. Capital contributions and transfers changed by \$2.1 million due primarily to a \$2.3 million transfer from the Fleet Equipment Fund to the General Fund. On February 28, 2012 the City Council approved a plan to address unassigned negative General Fund balance by transferring a portion of the Fleet Internal Service Fund accumulated contributions to the General Fund. This decision makes the General Fund fleet replacements vulnerable in the future by not having adequate resources to replace equipment as needs arise.

Components of the \$14.5 million total net assets include: invested in capital assets net of related debt, which increased by \$0.5 million to \$8.8; and unrestricted net assets, that decreased by \$3.6 million compared to the prior year to \$5.7 million.

## ***GENERAL FUND BUDGETARY HIGHLIGHTS***

As experienced by many California cities, the City of Stockton's General Fund budget was severely impacted by the economic downturn that began in the winter of 2008 and has progressively worsened through fiscal years 2009 and 2010 with slight improvements shown in 2011. The General Fund's original budgeted revenue and transfers in were \$179.4 million, which increased during the year to \$198.3 million, primarily due to an increase in budgeted transfers in of \$19.1 million. The original budgeted expenditures and transfers out of \$183.7 million increased 8.4% to a final revised budget of \$198.4 million due primarily to an increase of \$9.8 million to budgeted transfers out.

Management has been focusing its efforts over the last few years on aligning expenditure levels with the declining revenues. These efforts began with the Council adoption of a balanced budget in the summer of 2009 that included significant programmatic service reductions. Increases to the original budget were performed on an ad hoc basis through individual departmental requests to the City Council throughout the year.

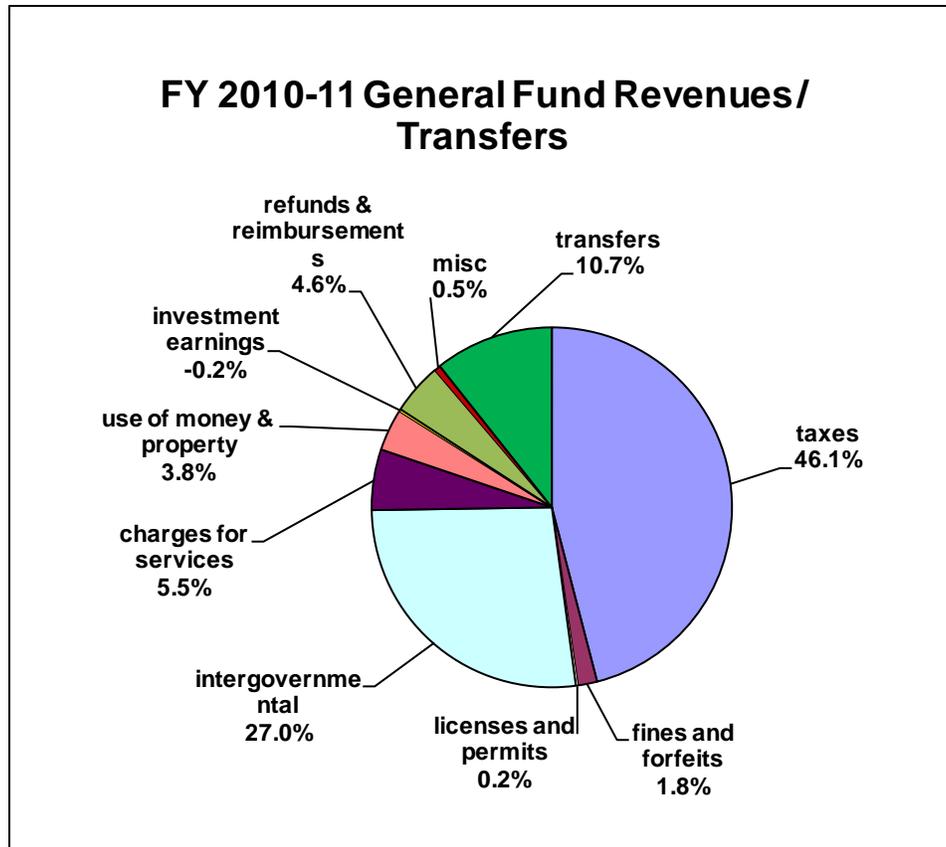
The 2011 fiscal year-end total fund balance declined \$10.9 million, to \$12.2 million. This decline is primarily the result of recording as a prior period adjustment \$15.2 million of allowances for uncollectible inter-fund loans, primarily from the RDA and Stormwater funds in the amount of approximately \$700,000 and \$10.3 million, respectively.

General Fund assigned fund balance ended the fiscal year with \$4.8 million, or 2.7% of total expenditures for the fiscal year. The fiscal year 2011 General Fund unassigned fund balance is zero as all residual balances have been assigned for future appropriations and other operating needs as approved by the City Manager.

### ***General Fund Revenues and Transfers***

Of the \$196.4 million in actual total 2011 General Fund revenues and transfers, \$90.6 million or 46.1% were from taxes. Tax collections support citizen services such as for police and fire protection that cannot be provided in the private sector without a substantial subsidy. The taxes category includes collections for property tax, utility user tax, franchise fees, business licenses, in lieu of sales tax, the hotel/motel transient occupancy tax, and other smaller tax revenue sources.

Taxes are followed by intergovernmental revenues as the second largest revenue source, amounting to \$53.0 million, or 27.0% of the total. This category is comprised of motor vehicle in lieu registration fees, sales and use tax levied by the State of California, payments from San Joaquin County to support the City's operating costs of eight out of thirteen library branches located outside the City's boundaries, and grant funds from the federal and state governments.



The third largest revenue source in fiscal 2011 was transfers in reported at \$21.0 million or 10.7% of the total. This increase was primarily due to an \$8.4 million transfer of a liability to the Stockton Public Financing Authority debt service fund with the remainder primarily from the transfer of unrestricted cash from other funds. These additional transfers were necessary to keep the General Fund from falling into a negative fund balance status and were approved by council on February 28, 2012. An example of sources used were from funds with unrestricted balances, such as internal service funds where prudent balances were already met to cover their future costs.

Charges for services comprised \$10.8 million, or 5.5% of total General Fund revenues and transfers. These revenues are collected in exchange for specific services provided by the City. Collection of these revenues assist in defraying the costs of services, but cannot exceed the reasonable cost of the service. Of the total, the majority are revenues generated from the following areas and programs: \$1.9 million from recreational and entertainment venue services and programs, \$4.3 million from mutual aid Fire Department services contractually provided to neighboring jurisdictions, \$1.9 million in charges to City property owners related to code enforcement efforts and \$1.8 million in other service charges by the Police Department.

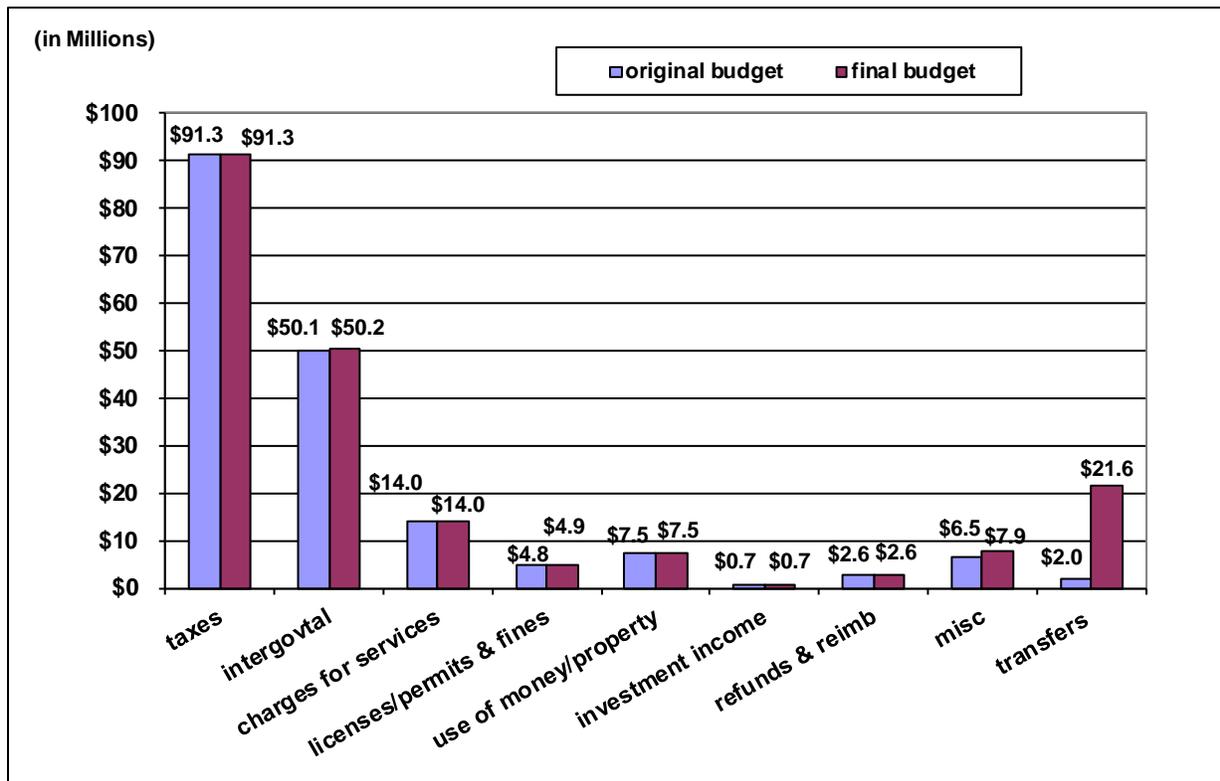
The last primary source of General Fund revenue is from the Refunds and Reimbursement category, amounting to \$9.0 million, or 4.6% of the total. These revenues primarily consist of reimbursements to the General Fund from Proprietary Funds for services provided by General Fund departments like the City Manager's Office, the City Attorney's Office, the City Clerk, Administrative Services and Human Resources. These payments are based upon an independently prepared indirect cost recovery plan performed annually. In addition, \$1.5

million are reimbursements from the Worker's Comp internal service fund for current year claims.

The remaining revenue categories are 6.1% of the total, and include licenses and permits, uses of money and property, investment earnings, fines and forfeitures, and miscellaneous revenue.

The graph below illustrates the significant level of tax support for General Fund services, amounting to \$91.3 million or 46% of the total final budgeted revenue and transfers estimate of \$200.6 million.

**FY 2010-11 General Fund Original vs. Final Budget Revenues by Source Category**

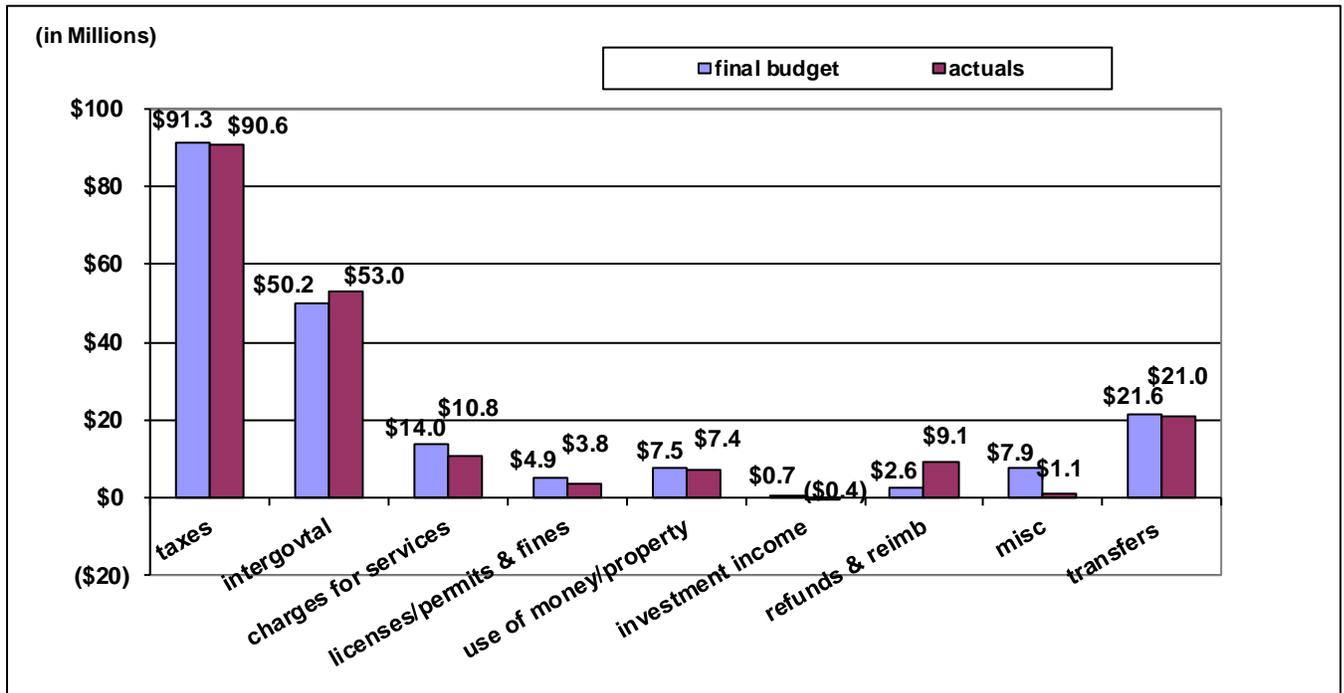


The following graph illustrates that during the year actual revenue collections and transfers of \$196.4 million were \$4.2 million below final budgetary estimates of \$200.6 million. Key components of this 2.1% difference are as follow:

- A shortfall of approximately \$709,000 in tax revenue resulting from deficiencies in business license revenue.
- An increase in intergovernmental revenues of approximately \$2.8 million primarily due to increase in sales tax revenue levied by the State.
- A shortfall of approximately \$3.3 million in charges for services due to reduced safety provided revenue generating services and continuing reduction in code enforcement.
- A shortfall of approximately \$163,000 in licenses and permit fees due to a reclassification between revenue and deferred revenue in police alarm permits.
- A shortfall of approximately \$1.0 million in fines and forfeitures due to decrease in revenue collections of criminal fines, civil penalties, administrative citations and motor vehicles related fines.

- A shortfall of \$1.0 million in investment income due the final determination of the portfolios fair market value.

FY 2010-11 General Fund Final Budget vs. Actual Revenues by Source Category



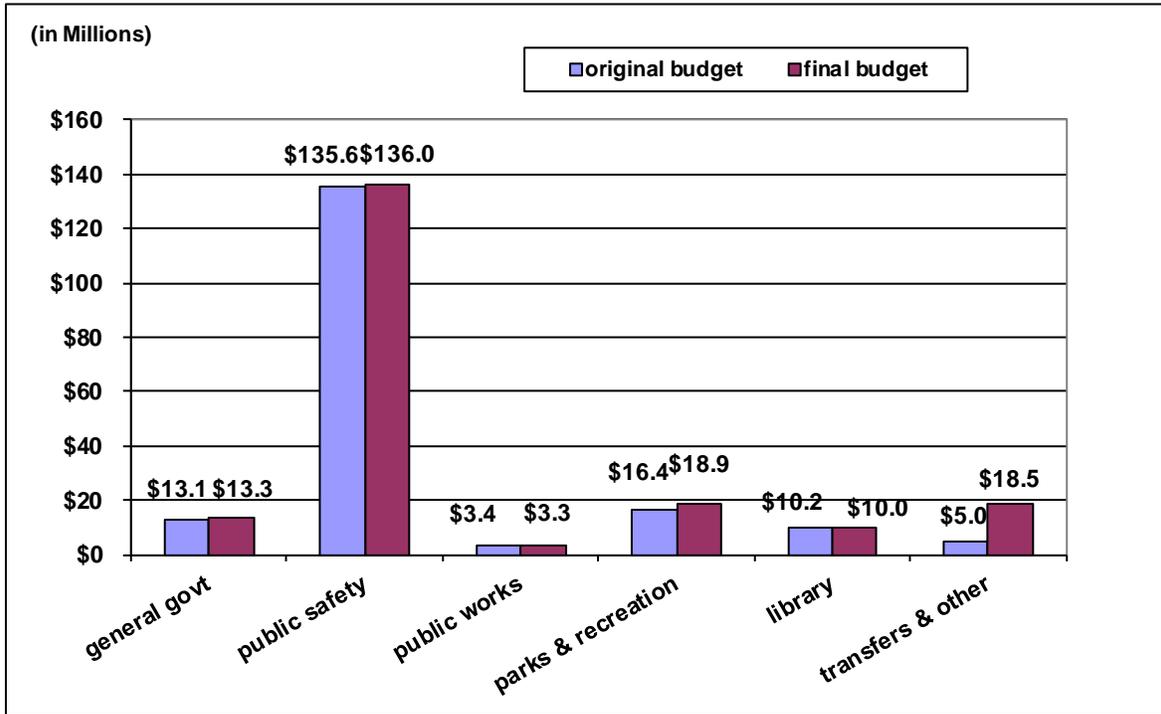
### General Fund Expenditures and Transfers

Of the \$192.1 million of actual expenditures and transfers out, on a budgetary basis, of the General Fund, \$135.0 million, or 70%, were spent on public safety services. The second largest service category was parks and recreation at \$17.3 million, or 9%, of the total; followed by general government and transfers amounting to \$12.7 million and \$14.1 million, both at approximately 7% of the total, respectively. Library expenditures at \$10.0 million, or 5% of the total, include \$3.4 million of City managed County libraries expenditures. Lastly, Public works' operating expenditures are recorded at \$3.5 million, or 2% of the total, with the City's costs for road maintenance and repair, resurfacing and transportation-related infrastructure construction cost being recorded in other special revenue funds supported by state and federal subventions and specific grant programs.

The General Fund ended the year with a total expenditures and transfers budget of \$200.1 million, compared to the originally adopted budget of \$183.7 million. Between the original and final budgets, Transfers and Other were increased by \$13.5 million, or 230.0% due to council approved subsidy transfers to the Redevelopment Agency fund and the Other Benefits & Insurance fund.

The graph below illustrates the changes from the original budget during the year. Note the significant commitment of the total final budget allocated for public safety (police and fire), amounting to \$136.0 million or 70.0% of the total final budget.

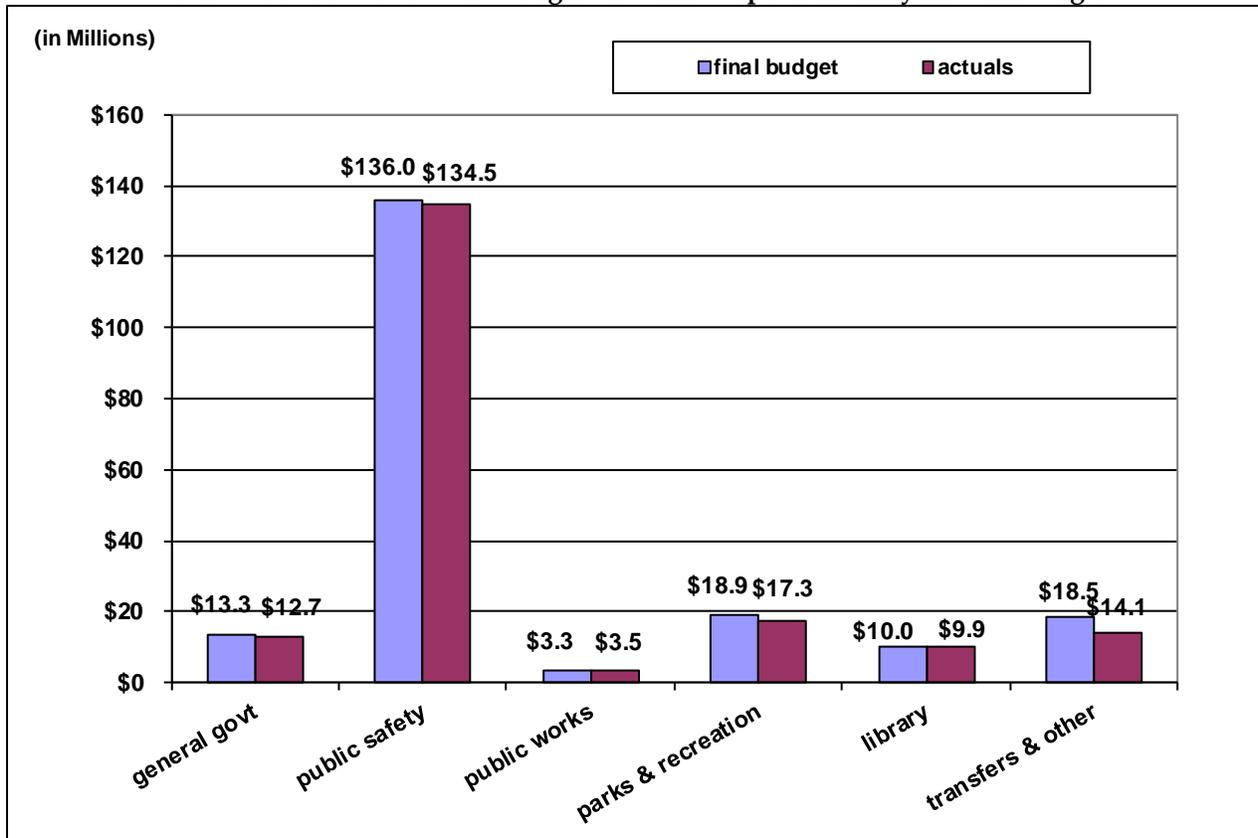
FY 2010-11 General Fund Original and Final Budget Expenditures by Services Program



A variety of cost reduction measures were implemented in FY 2011 that crossed service areas. These measures included the renegotiation of bargaining unit labor agreements, 96 hours of furlough for all miscellaneous City employees and 62 hours for police personnel, a hiring freeze of all City positions including public safety, and a reduction of hours in City operations. Reductions to internal service fund rates paid by General Fund departments were also executed, reducing expenditure levels in operating departmental funds across the City, yet increasing the prior year levels of net asset deficits, especially adversely impacting the financial position of the City's employee benefit internal service funds. Reductions in specific City programs were also implemented across the City's citizen services base.

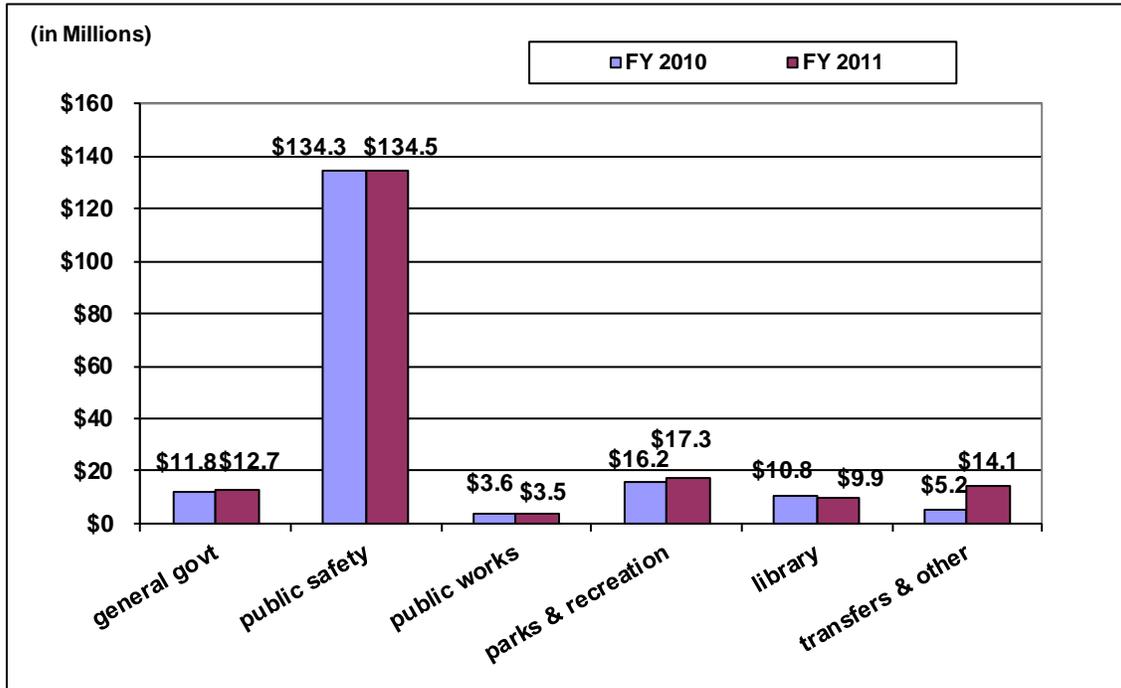
Increases to the budget were also made in Parks & Recreation due to the IFG termination fee of \$2.2 million, in Other expenditures for unexpected cost increases to various capital projects, and most significantly in Transfers Out due to the subsidy transfers to the Redevelopment Agency fund and the Other Benefits & Insurance fund, as also mentioned above.

**FY 2010-11 General Fund Final Budget vs. Actual Expenditures by Services Program**



The following graph illustrates how General Fund actual expenditures are distributed amongst the six functional categories of the organization, with prior year actual expenditures comparative data. Total expenditures in fiscal year 2011 of \$192.1 million were \$10.3 million higher than the prior fiscal year. This largest cost increase is directly attributable to the Transfers and Other expenditure category for the reason of subsidizing the following funds for balance shortages and grant matches: Development Services, Housing, Capital Improvements, Redevelopment, Marina and Internal Service Funds (Compensated Absences).

General Fund Actual Expenditures by Services Program - FY 2009-10 vs. FY 2010-11



**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

The City's investment in capital assets, net of depreciation expense, for its governmental and business-type activities as of June 30, 2011 amounts to \$1.5 billion. This investment in capital assets includes land and easements, buildings and improvements, water and sewer systems, machinery and equipment, park facilities, roads, streets, and bridges. The total increase in the City's capital assets for the fiscal year was \$128 million or 9.1%. This represented a 2.0% decrease for governmental activities and a 23.8% increase for business-type activities, as shown in the following table.

**Changes in Capital Assets, Net of Depreciation**  
(dollar amounts in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$56,719	\$52,279	\$15,607	\$15,606	\$72,326	\$67,885
Intangible Assets	2,806	2,495	750	621	3,556	-
Building and Improvements	266,460	258,002	517,293	494,906	783,753	752,908
Machinery and Equipment	14,041	14,733	3,008	3,001	17,049	17,734
Infrastructure	333,662	327,076	-	-	333,662	327,076
Construction in Progress	119,579	154,926	197,322	78,900	316,901	233,826
<b>Total</b>	<b>\$793,267</b>	<b>\$809,511</b>	<b>\$733,980</b>	<b>\$593,034</b>	<b>\$1,527,247</b>	<b>\$1,399,429</b>

Construction in progress increased by \$83.1 million, or 35.5%, mostly in business type activities that comprised \$118.4 million of the increase. The \$118.4 million increase in business-type activities' construction in progress includes the Delta Water Supply Project, \$109.8 million, Arch Road Sanitary Sewer Force Main Project, \$4.0 million, and the Frontier Way to Aqueduct Waterline Connection Project, \$2.5 million. The governmental activities' construction in progress decreased by \$35.3 that includes \$25.9 million for the Downtown Marina Project which is now capitalized as Building and Improvements in the business type activities, and the capitalization of the Airport Way Neighborhood Service Center (\$7.2 million), the Hatch Ranch Park (\$1.2 million) and the Spanos-Baxter Park (\$1.0 million).

Land increased by \$4.4 million in fiscal year 2011 due to the purchase of 6006 S. French Camp Road ( \$1.6 million), 212 Frank West Circle (\$1.1 million), 234 Frank West Circle (\$0.8 million), and 188 Frank West Circle (\$.09 million), all for street related projects. Building and improvements increased by \$30.8 million due to the completion of several major projects including, \$25.9 for the Downtown Marina Project, Airport Way Neighborhood Service Center (\$7.2 million), the Spanos Park West (\$1.7 million), William Brotherhood Park Gymnasium (\$5.1 million), and Dorothy Jones Community Center (\$2.1 million), which were offset by annual depreciation.

Additional information on the City's capital assets can be found in Note 5 - Capital Assets on pages 94-96 of this report.

## *Long-term debt*

At the end of the fiscal year, the City's total outstanding net bonded debt is \$737.2 million. Of this amount, \$355.0 million is related to governmental activities and \$382.2 million are debt obligations of business-type activities.

Governmental activities net bonded indebtedness decreased by \$3.1 million due to scheduled principal payments and amortization of deferred charges. In addition, \$16.3 million in unscheduled principal payments were made to early redeem 2006 Series A Revenue Bond (Redevelopment Projects) as authorized by Resolution 10-016. The unscheduled payments were financed with unused project funds and resulted in a gain in the amount of \$3.3 million which has been included as a special item in the financial statements.

Business-type activities net bonded indebtedness increased by \$55.0 million due to the sale of the \$55.0 million Series 2010A Delta Water Project bonds during the year, offset by scheduled principal payments and amortization of deferred charges.

Governmental outstanding net bonded debt of \$355.0 million includes \$11.8 million of lease revenue bonds for the City's Stewart/Eberhardt Building/Parking Structure (SEB), \$40.5 million of Series A (tax exempt) and B (taxable) Variable Rate Demand Lease Revenue Bonds for the acquisition of an office building and parking garage in downtown Stockton planned to be the new City administration building (400 East Main), \$13.2 million of certificates of participation for various redevelopment housing projects, \$124.7 million of pension obligation bonds, and \$34.3 in lease revenue bonds for various capital projects expended from the Public Facility Impact Fees Fund. Bonded debt of the Redevelopment Agency is also reported as governmental activity debt, which includes \$47.3 million of revenue bonds for the Stockton Events Center-Arena and \$83.2 million of revenue bonds for various redevelopment and housing projects referred to as the Strong Neighborhoods Initiative (SNI).

Business-type activities outstanding net bonded debt obligations of \$382.2 million includes \$263.3 million of revenue bonds of the Water Utility, \$87.0 million in certificates of participation for the Wastewater Utility, and \$31.9 million in lease revenue bonds in the Central Parking District.

Additional information on the City's long-term debt can be found in Note 6 - Long-Term Debt on pages 97-114 of this report.

## ***CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS***

The following items are currently known facts, decisions or conditions that management were aware of as of the date of the auditor's report and were considered in preparing the City's budget for the 2011-12 fiscal year.

- The City of Stockton was near insolvency as of June 30, 2011. Reserves in the General Fund were nearly exhausted, reserves in internal service funds were near depletion and the City had leveraged itself with inter-fund loans and debt that put the General Fund at risk for backfilling deficits in other funds. Furthermore, the City was straddled with multi-year labor contracts with escalating costs that simply could not be paid within anticipated revenues in the foreseeable future.

The City Council foresaw financial problems going into the fiscal year 2010-11 budget process and declared a fiscal emergency on May 26, 2010. The Council also adopted a fiscal sustainability plan that, if implemented, would enhance the City's ability to get its "fiscal house in order". The focus for that budget cycle and the emergency declaration was implementing measures that would address the General Fund's problem. Since then, as a result of a systematic review of the funds by a new management team and independent consultants, it was clear the fiscal condition of the City had worsened and the problem was not limited to just the General Fund. As a result, on May 17, 2011 the Stockton City Council expanded the fiscal emergency declaration to include more than just the City's general fund and continue it into the next fiscal year 2011-12.

Unfortunately, the City's fiscal health continued to deteriorate in fiscal year 2011-12 despite various cost cutting measures the City implemented. As a result, the City Council in February 2012 authorized the City Manager to enter into mediation required by Assembly Bill 506 hoping that discussions with creditors would yield concessions that would prevent bankruptcy. While progress was made with some creditors, sufficient progress was not made, thereby leading the City to file a petition for bankruptcy on June 28, 2012. Additional details of the bankruptcy can be found in the notes to the financial statements (Note 17- Subsequent Events).

- The City has undergone multiple bond rating downgrades during the fiscal year as discussed further in the notes to the financial statements (Note 17- Subsequent Events). These downgrades have been to both Governmental Activities outstanding debt, as well as Water and Wastewater outstanding debt. The credit rating agency cited the City's narrow financial position, its inability to produce timely financial information, the City's unwillingness to pay as evidenced by defaults in debt payments after year end, and economically challenged tax base as the reason for its bond rating changes. After the close of FY 2011, the City has continued to operate under financial stress and its governmental activities debt has undergone additional bond rating downgrades.
- The San Joaquin County Auditor-Controller has provided the City its estimate of the City's General Fund property tax revenues for fiscal year 2012. The estimate is \$.5 million below the current adopted budget revenue for FY 2012 due to conservative assumptions performed in the early part of calendar 2011. The County estimated that the assessed value of the City fell in 2011 by an estimated 12.3% to \$16.4 billion. In addition, the County discontinued the use of the Teeter plan when liens are placed on the tax roll for code enforcement obligations, which will result in an estimated one to two year reduction of revenue as the City awaits ultimate collection.
- Pursuant to legislative actions taken by the State of California, in an effort to balance its own budget, all redevelopment activities were suspended and the Redevelopment agency is now being dissolved under a successor agency. A more extensive discussion of the history and status of this legislation can be found in notes to the financial statements (Note 17- Subsequent Events). This will have a significant impact on the City's ability to encourage new businesses to come to the City and for existing businesses to expand operations.

## *REQUESTS FOR INFORMATION*

This financial report is designed to provide citizens, taxpayers, customers, grantors, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Administrative Services Department of the City of Stockton at City Hall, 425 North El Dorado Street, Stockton, CA 95202.





# CITY OF STOCKTON



**BASIC FINANCIAL STATEMENTS**





# CITY OF STOCKTON



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**



**CITY OF STOCKTON**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and investments	\$ 107,227,375	\$ 42,731,033	\$ 149,958,408
Restricted cash and investments	35,157,954	107,063,337	142,221,291
Interest receivable	1,084,633	18,105	1,102,738
Accounts receivable, net	21,509,566	9,391,066	30,900,632
Internal balances	(17,273,858)	17,273,858	-
Due from other governments, net	26,899,887	8,505,696	35,405,583
Inventory of supplies	267,547	1,445,228	1,712,775
Other assets	94,610	4,407	99,017
Loans to property owners, net	112,861,177	-	112,861,177
Deferred charges	5,960,299	4,635,237	10,595,536
Net pension asset	128,154,052	-	128,154,052
Capital assets:			
Nondepreciable	179,104,121	213,679,435	392,783,556
Depreciable, net	614,162,523	520,300,173	1,134,462,696
Total assets	<u>1,215,209,886</u>	<u>925,047,575</u>	<u>2,140,257,461</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	10,529,922	13,498,984	24,028,906
Accrued payroll and benefits	5,619,711	-	5,619,711
Accrued interest	6,345,223	6,067,082	12,412,305
Deposits and other liabilities	4,961,728	1,685,676	6,647,404
Unearned revenue	8,072,483	-	8,072,483
Long-term liabilities:			
Due within one year	26,441,763	4,348,724	30,790,487
Due in more than one year	446,835,989	390,651,120	837,487,109
Pollution remediation liabilities	1,892,733	-	1,892,733
Net OPEB obligation	105,887,000	-	105,887,000
Total liabilities	<u>616,586,552</u>	<u>416,251,586</u>	<u>1,032,838,138</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	645,249,141	414,065,937	1,059,315,078
Restricted for:			
Capital projects	67,069,026	33,557,725	100,626,751
Debt service	16,520,684	-	16,520,684
Loan programs	8,106,583	-	8,106,583
Low and moderate-income housing	3,658,519	-	3,658,519
Public safety	588,595	-	588,595
Street improvements	8,685,434	-	8,685,434
Special maintenance districts	11,741,790	-	11,741,790
Retirees	2,613,617	-	2,613,617
Endowments:			
Nonexpendable	304,314	-	304,314
Expendable	332,400	-	332,400
Other purposes	3,108,918	-	3,108,918
Unrestricted (deficit)	<u>(169,355,687)</u>	<u>61,172,327</u>	<u>(108,183,360)</u>
Total net assets	<u>\$ 598,623,334</u>	<u>\$ 508,795,989</u>	<u>\$ 1,107,419,323</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF STOCKTON**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government	\$ 40,872,655	\$ 17,079,304	\$ 225,791	\$ -
Public safety	182,582,168	16,764,654	5,824,846	-
Public works	48,825,998	15,005,037	10,769,155	50,112,149
Library	11,588,844	593,135	5,449,762	-
Parks and recreation	24,434,658	7,352,893	85,261	-
Interest and fiscal charges	19,274,159	-	-	-
Total governmental activities	<u>327,578,482</u>	<u>56,795,023</u>	<u>22,354,815</u>	<u>50,112,149</u>
Business-type activities:				
Water utility	35,909,069	30,055,512	4,175,006	10,952,846
Wastewater utility	49,233,838	42,597,822	-	2,615,818
Stormwater utility	7,406,438	5,879,384	-	2,107,902
Central parking district	4,264,450	3,585,171	-	-
Other	3,517,261	1,852,151	-	283,835
Total business-type activities	<u>100,331,056</u>	<u>83,970,040</u>	<u>4,175,006</u>	<u>15,960,401</u>
<b>Total</b>	<u>\$ 427,909,538</u>	<u>\$ 140,765,063</u>	<u>\$ 26,529,821</u>	<u>\$ 66,072,550</u>

General revenues:

Taxes:

- Property
- In lieu of sales tax
- Utility user
- Sales - levied by City
- Franchise fees
- Business license
- Hotel/motel room
- Document transfer
- Other

Shared revenue:

- Vehicle license fees
- Sales and use tax levied by state
- Other

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Special item

Change in net assets

Net assets, beginning of year, as originally reported

Prior period adjustments

Net assets, beginning of year, as adjusted

Net assets, end of year

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals
\$ (23,567,560)		\$ (23,567,560)
(159,992,668)		(159,992,668)
27,060,343		27,060,343
(5,545,947)		(5,545,947)
(16,996,504)		(16,996,504)
(19,274,159)		(19,274,159)
<u>(198,316,495)</u>		<u>(198,316,495)</u>
	\$ 9,274,295	9,274,295
	(4,020,198)	(4,020,198)
	580,848	580,848
	(679,279)	(679,279)
	<u>(1,381,275)</u>	<u>(1,381,275)</u>
	<u>3,774,391</u>	<u>3,774,391</u>
(198,316,495)	<u>3,774,391</u>	<u>(194,542,104)</u>
41,051,105	-	41,051,105
8,118,132	-	8,118,132
30,993,997	-	30,993,997
7,875,429	-	7,875,429
11,502,735	-	11,502,735
9,855,031	-	9,855,031
1,798,740	-	1,798,740
583,418	-	583,418
154,983	1,152,042	1,307,025
20,013,527	-	20,013,527
30,060,798	-	30,060,798
352,358	-	352,358
1,620,449	3,175,989	4,796,438
1,083,000	-	1,083,000
541,819	(541,819)	-
165,605,521	3,786,212	169,391,733
3,269,612	-	3,269,612
<u>(29,441,362)</u>	<u>7,560,603</u>	<u>(21,880,759)</u>
662,020,332	474,408,601	1,136,428,933
<u>(33,955,636)</u>	<u>26,826,785</u>	<u>(7,128,851)</u>
628,064,696	501,235,386	1,129,300,082
<u>\$ 598,623,334</u>	<u>\$ 508,795,989</u>	<u>\$ 1,107,419,323</u>





# CITY OF STOCKTON



**FUND FINANCIAL STATEMENTS**



## FUND FINANCIAL STATEMENTS

### Governmental Fund Types

Governmental funds consist of the General Fund, special revenue, debt service, capital projects, and permanent funds.

Special revenue and capital projects funds are used to account for the financial resources that are restricted, committed, or assigned to expenditures for special purposes or capital outlays, including the acquisition and development of capital facilities and other capital assets.

The City's major governmental funds include:

- ***General Fund***  
To account for resources not accounted for in another fund. The General Fund is the City's main operating fund reflecting transactions related to municipal governmental services supported by taxes, intergovernmental revenues, charges for services and other governmental type revenues.
- ***HOME Program Loans Special Revenue Fund***  
To account for the City's HOME Program providing affordable housing for low- and very low-income residents in accordance with various federal and state laws.
- ***Low and Moderate-Income Housing RDA Loans Special Revenue Fund***  
To account for loans extended to eligible low and moderate-income families as approved by the Stockton Redevelopment Agency and the California Health and Safety Code.
- ***Public Facilities Impact Fees Capital Projects Fund***  
To account for the collection of and expenditure of fees imposed as a condition of new development within the City, in compliance with California Government Code Section 66006 (AB 1600).  
  
Impact fees have been established for each of the following types of public facilities: Traffic signals, Street improvements, Community recreation center, City office space, Fire stations, Libraries, Police stations, Parkland, Street tree & street signs, Street light in-lieu, Air quality mitigation, and Public facilities fees – administration.
- ***Capital Improvement Capital Projects Fund***  
To account for the acquisition, construction and improvement of capital facilities as required by City Council action or state law in which the projects are financed by grants, lease proceeds and transfers from other City governmental funds.
- ***Redevelopment Agency Capital Projects Fund***  
To account for the acquisition, relocation, demolition and sale of land for those portions of the City earmarked for redevelopment as approved by the City of Stockton Redevelopment Agency and the California Health and Safety Code Section 33670 et seq. Projects are financed from bond proceeds, loans from other city funds and property tax increment revenue.



## Proprietary Fund Types

Proprietary funds focus on the determination of operating income, changes in net assets, financial position, and cash flows. There are two different types: enterprise funds and the internal service funds. Enterprise funds are used to report activities for which a fee is charged to external users for goods and services. Internal service funds may be used to report any activity that provides goods and services on a cost-reimbursement basis to other City funds, departments, or agencies of the primary government and its component units, or to other governments. The City's internal service funds include: General Liability Insurance, Workers' Compensation Insurance, Employee and Retiree Health Insurance, Retirement Benefits, Other Benefits and Insurance, Vehicle Fleet Equipment, Computer Equipment, Radio Equipment, and Other Equipment funds.

The City's major enterprise funds include:

- ***Water Utility Enterprise Fund***  
To account for activities associated with the acquisition or construction of water treatment facilities, production, distribution and transmission of potable water to users, and operations related to the provision of services.
- ***Wastewater Utility Enterprise Fund***  
To account for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater, and operations related to the provision of services.
- ***Stormwater Utility Enterprise Fund***  
To account for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater, and operations related to the provision of services.
- ***Central Parking District Enterprise Fund***  
To account for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities, and operations related to the provision of services.

## Fiduciary Fund Types

The fiduciary funds are used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. The fiduciary fund category includes private-purpose trust funds and agency funds. The City reports a variety of fiduciary funds for land secure financing, developer area of benefit fees, pass-thru public facilities fees on behalf of other entities, funds held in trust as security for development projects, and various community enhancement programs the City administers on behalf of other entities.

**CITY OF STOCKTON**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	General Fund	Special Revenue		Capital Projects
		Home Program Loans	Low-Moderate Income Housing RDA Loans	Public Facilities Impact Fees
<b>ASSETS</b>				
Cash and investments	\$ 12,193,486	\$ -	\$ -	\$ 49,613,306
Cash and investments with fiscal agents	-	-	-	711,416
Receivables, net:				
Interest	1,065,474	-	-	108
Accounts and other receivables, net	12,903,490	5,374	1,476	917,008
Advance deposits	49,610	-	-	-
Due from other funds	-	-	1,775,526	-
Due from other governments, net	6,196,715	230,133	-	-
Inventory of supplies	267,547	-	-	-
Loans to other funds, net	-	-	1,888,752	1,257,342
Loans to property owners, net	-	29,716,875	52,474,833	-
<b>Total assets</b>	<b>\$ 32,676,322</b>	<b>\$ 29,952,382</b>	<b>\$ 56,140,587</b>	<b>\$ 52,499,180</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 2,650,207	\$ 2,935	\$ 7,235	\$ 1,191,304
Accrued payroll and benefits	5,619,711	-	-	-
Due to other funds	-	155,078	-	3,833
Due to other governments	2,085,276	-	-	-
Due to other agencies	1,358,168	-	-	-
Deposits and other liabilities	824,001	-	-	-
Deferred revenue	7,882,725	29,716,875	52,474,833	835,655
Loans from other funds, net	-	-	-	-
<b>Total liabilities</b>	<b>20,420,088</b>	<b>29,874,888</b>	<b>52,482,068</b>	<b>2,030,792</b>
<b>FUND BALANCES (DEFICIT):</b>				
Nonspendable	317,157	-	-	-
Restricted	2,100,000	77,494	3,658,519	50,468,388
Committed	5,080,738	-	-	-
Assigned	4,758,339	-	-	-
Unassigned (deficit)	-	-	-	-
<b>Total fund balances</b>	<b>12,256,234</b>	<b>77,494</b>	<b>3,658,519</b>	<b>50,468,388</b>
<b>Total liabilities and fund balances</b>	<b>\$ 32,676,322</b>	<b>\$ 29,952,382</b>	<b>\$ 56,140,587</b>	<b>\$ 52,499,180</b>

The notes to the basic financial statements are an integral part of this statement.

Capital Projects			
Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental Funds
\$ 2,658,918	\$ -	\$ 24,117,084	\$ 88,582,794
-	16,676,286	17,766,043	35,153,745
-	1,514	17,537	1,084,633
2,813,115	10,490	4,192,525	20,843,478
-	-	-	49,610
3,833	-	20,711	1,800,070
3,822,230	192,013	16,458,796	26,899,887
-	-	-	267,547
-	500,000	-	3,646,094
-	229,885	30,439,584	112,861,177
<u>\$ 9,298,096</u>	<u>\$ 17,610,188</u>	<u>\$ 93,012,280</u>	<u>\$ 291,189,035</u>
\$ 1,303,073	\$ 163,284	\$ 3,918,779	\$ 9,236,817
-	-	-	5,619,711
-	1,775,526	7,088,176	9,022,613
29,652	-	420,013	2,534,941
-	-	-	1,358,168
-	-	195,514	1,019,515
5,002,635	229,885	31,981,211	128,123,819
-	1,888,752	19,141,192	21,029,944
<u>6,335,360</u>	<u>4,057,447</u>	<u>62,744,885</u>	<u>177,945,528</u>
-	-	304,314	621,471
2,962,736	13,552,741	44,979,733	117,799,611
-	-	-	5,080,738
-	-	-	4,758,339
-	-	(15,016,652)	(15,016,652)
<u>2,962,736</u>	<u>13,552,741</u>	<u>30,267,395</u>	<u>113,243,507</u>
<u>\$ 9,298,096</u>	<u>\$ 17,610,188</u>	<u>\$ 93,012,280</u>	<u>\$ 291,189,035</u>



**CITY OF STOCKTON**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL**  
**FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

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**Total Fund Balances - Total Governmental Funds** \$ 113,243,507

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.

Non-depreciable	179,104,121
Depreciable (net of accumulated depreciation, and net of \$10,256,456 reported in the Internal Service Funds)	603,906,067

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

(134,177,962)

Various long-term liabilities are not due and payable in the current period, and therefore, are not reported in the governmental funds:

Compensated absences	(22,755,393)
Pollution remediation	(1,892,733)
Bonds payable and other long-term debt	(257,540,545)
Unamortized bond discounts, premiums and deferred amount on refunding	(1,756,364)
Accrued interest payable (\$2,330,117 is reported in the Internal Service Funds)	(4,015,106)

Deferred inflows and outflows of resources are not available for current period and, therefore, are deferred in the governmental funds or not recorded in the governmental funds:

Deferred revenue	120,051,336
Deferred charges	<u>4,456,406</u>

**Net assets of governmental activities** \$ 598,623,334

The notes to the basic financial statements are an integral part of this statement.

**CITY OF STOCKTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Special Revenue		Capital Projects
		Home Program Loans	Low-Moderate Income Housing RDA Loans	Public Facilities Impact Fees
<b>REVENUES:</b>				
Taxes:				
Property	\$ 28,318,427	\$ -	\$ -	\$ -
In lieu of sales tax	8,118,132	-	-	-
Utility user	30,993,997	-	-	-
Sales - levied by City	-	-	-	-
Franchise fees	11,502,735	-	-	-
Business license	9,249,774	-	-	-
Hotel/motel room	1,798,740	-	-	-
Document transfer	583,418	-	-	-
Other	-	-	-	-
Licenses and permits	339,636	-	-	-
Intergovernmental:				
Federal grants and subsidies	44,417	2,402,285	-	-
Sales and use tax - levied by state	26,550,862	-	-	-
Other governmental	26,370,481	-	-	-
Charges for services	10,763,721	-	-	2,056,506
Fines and forfeitures	3,452,493	-	-	-
Use of money and property	7,417,175	877,830	1,296,772	483,724
Investment income:				
Interest income	(387,403)	8,854	(295,239)	1,222,694
Refunds and reimbursements	9,092,383	-	-	164,507
Miscellaneous	1,075,037	1,189	66,843	-
<b>Total revenues</b>	<b>175,284,025</b>	<b>3,290,158</b>	<b>1,068,376</b>	<b>3,927,431</b>
<b>EXPENDITURES:</b>				
Current:				
General government	12,665,758	-	243,653	-
Public safety	134,539,420	-	-	-
Public works	3,515,999	-	-	-
Library	9,937,259	-	-	-
Parks and recreation	17,323,254	-	-	-
Capital outlay	158,851	3,528,776	4,994,615	16,826,533
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>178,140,541</b>	<b>3,528,776</b>	<b>5,238,268</b>	<b>16,826,533</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,856,516)</b>	<b>(238,618)</b>	<b>(4,169,892)</b>	<b>(12,899,102)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Capital contributions	-	-	-	-
Sale of capital assets	-	-	-	1,126,584
Transfers in	21,030,881	-	2,604,234	1,428,319
Transfers out	(13,977,309)	-	(5,133,458)	(2,481,012)
Issuance of long-term debt	-	-	-	30,240
<b>Total other financing sources (uses)</b>	<b>7,053,572</b>	<b>-</b>	<b>(2,529,224)</b>	<b>104,131</b>
<b>SPECIAL ITEM</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>4,197,056</b>	<b>(238,618)</b>	<b>(6,699,116)</b>	<b>(12,794,971)</b>
Fund balances (deficits), beginning of year, as originally reported	23,147,205	24,579,791	51,759,628	63,589,471
Prior period adjustments	(15,088,027)	(24,263,679)	(41,401,993)	(326,112)
<b>FUND BALANCES (DEFICITS), BEGINNING OF YEAR, AS ADJUSTED</b>	<b>8,059,178</b>	<b>316,112</b>	<b>10,357,635</b>	<b>63,263,359</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 12,256,234</b>	<b>\$ 77,494</b>	<b>\$ 3,658,519</b>	<b>\$ 50,468,388</b>

The notes to the basic financial statements are an integral part of this statement.

Capital Projects			
Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental Funds
\$ -	\$ 12,732,678	\$ -	\$ 41,051,105
-	-	-	8,118,132
-	-	-	30,993,997
-	-	7,875,429	7,875,429
-	-	-	11,502,735
-	-	605,257	9,855,031
-	-	-	1,798,740
-	-	-	583,418
360	-	154,623	154,983
-	-	3,244,675	3,584,311
802,917	-	29,994,254	33,243,873
-	-	3,509,936	30,060,798
5,056,542	1,225,778	15,276,615	47,929,416
-	-	8,441,442	21,261,669
-	-	85,527	3,538,020
28,475	66,662	4,795,654	14,966,292
65,511	156,946	567,344	1,338,707
142,439	8,382	381,615	9,789,326
1,616,842	18,789	4,815,626	7,594,326
<u>7,713,086</u>	<u>14,209,235</u>	<u>79,747,997</u>	<u>285,240,308</u>
-	8,231,518	9,759,387	30,900,316
-	-	17,987,326	152,526,746
-	-	10,012,151	13,528,150
-	-	314,848	10,252,107
-	-	2,345,759	19,669,013
9,352,986	1,434,293	30,678,685	66,974,739
152,266	-	22,508,950	22,661,216
96,513	-	12,609,215	12,705,728
<u>9,601,765</u>	<u>9,665,811</u>	<u>106,216,321</u>	<u>329,218,015</u>
<u>(1,888,679)</u>	<u>4,543,424</u>	<u>(26,468,324)</u>	<u>(43,977,707)</u>
-	(283,834)	-	(283,834)
-	-	-	1,126,584
13,028,965	7,451,754	32,580,680	78,124,833
(4,535,351)	(23,002,816)	(24,998,408)	(74,128,354)
-	-	-	30,240
<u>8,493,614</u>	<u>(15,834,896)</u>	<u>7,582,272</u>	<u>4,869,469</u>
-	-	3,269,612	3,269,612
<u>6,604,935</u>	<u>(11,291,472)</u>	<u>(15,616,440)</u>	<u>(35,838,626)</u>
14,964,668	(6,200,955)	86,908,392	258,748,200
<u>(18,606,867)</u>	<u>31,045,168</u>	<u>(41,024,557)</u>	<u>(109,666,067)</u>
<u>(3,642,199)</u>	<u>24,844,213</u>	<u>45,883,835</u>	<u>149,082,133</u>
<u>\$ 2,962,736</u>	<u>\$ 13,552,741</u>	<u>\$ 30,267,395</u>	<u>\$ 113,243,507</u>



**CITY OF STOCKTON  
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**

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**Net change in fund balances - total governmental funds:** \$ (35,838,626)

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

Governmental funds report capital outlays as expenditures. As donated capital assets don't create or use financial resources, they are not reported in governmental funds. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays, donated capital assets, capital asset disposals and depreciation expense are as follows:

Capitalized capital outlays	29,715,055
Donated capital assets	7,874,248
Capital asset disposals, net	(8,110,484)
Depreciation expense (net of \$2,152,579 reported in Internal Service funds)	(19,767,562)

Long-term debt (including refunding debt), net of bond premiums and discounts, provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal (including bond refundings) and costs of issuance are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets, and the costs of issuance increase deferred charges in the statement of net assets. Long-term debt proceeds, bond premiums, discounts, repayment of principal, costs of issuance and bond refundings are as follows:

Long-term debt issuance	(30,240)
Settlement obligation	220,613
State animal control obligation	(1,615,286)
Repayment of principal	22,661,216
Costs of issuance	(195,894)

Internal service funds are used by management to charge the costs of certain activities, such as central garage, equipment and insurance, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities. (42,094,262)

Revenues in the statement of activities previously recognized as revenue for amounts that were deferred in the governmental funds, as amounts did not represent current financial resources. 17,148,709

Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.

Change in compensated absences	(32,400)
Change in pollution remediation liability	80,581
Amortization of bond discounts and premiums, costs of issuance, and deferred amount on refunding	61,632
Change in accrued interest	481,338

**Change in net assets of governmental activities** \$ (29,441,362)

The notes to the basic financial statements are an integral part of this statement.

**CITY OF STOCKTON**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2011**

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 34,419,234	\$ 5,029,251	\$ 1,642,999
Cash and investments with fiscal agents	144,146	-	-
Receivables, net:			
Interest	8,088	16	-
Accounts and other receivables	4,352,828	4,128,028	581,478
Due from other funds	-	-	-
Due from other governments, net	8,505,696	-	-
Inventory of supplies	-	1,416,012	-
Prepaid expenses	-	-	-
Total current assets	<u>47,429,992</u>	<u>10,573,307</u>	<u>2,224,477</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments	9,184,544	24,373,181	-
Cash and investments with fiscal agents	70,290,149	188,448	-
Loans to other funds, net	7,502,935	11,638,257	-
Deferred charges	3,026,187	882,928	-
Pension asset	-	-	-
Capital assets, net:			
Nondepreciable	191,692,991	13,347,908	450,551
Depreciable, net	95,495,516	318,111,206	52,380,842
Total noncurrent assets	<u>377,192,322</u>	<u>368,541,928</u>	<u>52,831,393</u>
Total assets	<u>424,622,314</u>	<u>379,115,235</u>	<u>55,055,870</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	10,381,429	2,431,084	147,344
Due to other governments	259,760	-	-
Deposits and other liabilities	1,459,733	-	10,000
Accrued interest	3,604,425	1,493,478	-
Capital lease obligation	-	-	-
Compensated absences - current	71,644	308,691	6,077
Self-insurance claims and judgments - current	-	-	-
Other long-term debt - current	725,319	2,675,482	-
Total current liabilities	<u>16,502,310</u>	<u>6,908,735</u>	<u>163,421</u>
Noncurrent liabilities:			
Loans from other funds, net	-	-	-
Compensated absences - long-term	122,562	635,765	12,016
Self-insurance claims and judgments - long-term	-	-	-
Capital lease obligations	-	-	-
Notes payable	406,097	-	-
Certificates of participation	-	84,395,851	-
Bonds payable	262,611,160	-	-
Net OPEB obligation	-	-	-
Total noncurrent liabilities	<u>263,139,819</u>	<u>85,031,616</u>	<u>12,016</u>
Total liabilities	<u>279,642,129</u>	<u>91,940,351</u>	<u>175,437</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	94,142,177	244,576,229	52,831,393
Restricted for capital projects	9,184,544	24,373,181	-
Restricted for debt service	-	-	-
Restricted for retirees	-	-	-
Unrestricted (deficit)	41,653,464	18,225,474	2,049,040
Total net assets (deficit)	<u>\$ 144,980,185</u>	<u>\$ 287,174,884</u>	<u>\$ 54,880,433</u>

The notes to the basic financial statements are an integral part of this statement.

Central Parking District	Enterprise		Governmental
	Other Nonmajor Enterprise	Totals	Activities Internal Service
\$ 863,979	\$ 631,424	\$ 42,586,887	\$ 18,644,581
-	-	144,146	-
10,001	-	18,105	-
294,547	34,185	9,391,066	666,088
-	-	-	7,222,543
-	-	8,505,696	-
-	29,216	1,445,228	-
-	4,407	4,407	45,000
<u>1,168,527</u>	<u>699,232</u>	<u>62,095,535</u>	<u>26,578,212</u>
-	-	33,557,725	-
3,027,015	-	73,505,612	4,209
-	-	19,141,192	609,992
726,122	-	4,635,237	1,503,893
-	-	-	128,154,052
7,828,180	359,805	213,679,435	-
27,454,785	26,857,824	520,300,173	10,256,456
<u>39,036,102</u>	<u>27,217,629</u>	<u>864,819,374</u>	<u>140,528,602</u>
<u>40,204,629</u>	<u>27,916,861</u>	<u>926,914,909</u>	<u>167,106,814</u>
47,179	232,188	13,239,224	1,293,105
-	-	259,760	-
192,364	23,579	1,685,676	49,104
539,839	429,340	6,067,082	2,330,117
-	-	-	328,862
2,362	5,262	394,036	210,696
-	-	-	14,532,025
302,580	251,307	3,954,688	380,000
<u>1,084,324</u>	<u>941,676</u>	<u>25,600,466</u>	<u>19,123,909</u>
1,867,334	-	1,867,334	500,000
947	9,138	780,428	500,921
-	-	-	49,343,846
-	-	-	1,649,100
-	10,870,821	11,276,918	-
-	-	84,395,851	-
31,586,763	-	294,197,923	124,280,000
-	-	-	105,887,000
<u>33,455,044</u>	<u>10,879,959</u>	<u>392,518,454</u>	<u>282,160,867</u>
<u>34,539,368</u>	<u>11,821,635</u>	<u>418,118,920</u>	<u>301,284,776</u>
6,420,637	16,095,501	414,065,937	8,740,740
-	-	33,557,725	-
-	-	-	4,209
-	-	-	2,613,617
(755,376)	(275)	61,172,327	(145,536,528)
<u>\$ 5,665,261</u>	<u>\$ 16,095,226</u>	<u>\$ 508,795,989</u>	<u>\$ (134,177,962)</u>

**CITY OF STOCKTON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND**  
**NET ASSETS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 29,336,427	\$ 41,203,232	\$ 5,345,409
Miscellaneous	716,638	1,394,590	348,362
<b>Total operating revenues</b>	<b>30,053,065</b>	<b>42,597,822</b>	<b>5,693,771</b>
<b>OPERATING EXPENSES:</b>			
Operation and maintenance	6,483,932	24,755,430	1,896,631
General and administrative	3,639,549	8,570,672	3,562,838
Depreciation and amortization	2,551,912	11,155,688	1,540,240
Purchased water	9,863,289	-	-
<b>Total operating expenses</b>	<b>22,538,682</b>	<b>44,481,790</b>	<b>6,999,709</b>
<b>OPERATING INCOME (LOSS)</b>	<b>7,514,383</b>	<b>(1,883,968)</b>	<b>(1,305,938)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Taxes	-	-	-
Grants and subsidies	12,680,702	-	-
Investment income:			
Interest income	2,312,182	752,528	50,413
Gain (loss) from disposal of capital assets	-	-	-
Interest expense and fiscal charges	(13,370,387)	(4,752,048)	(406,729)
Other non-operating revenues	2,447	-	185,613
<b>Total non-operating revenues (expenses)</b>	<b>1,624,944</b>	<b>(3,999,520)</b>	<b>(170,703)</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>9,139,327</b>	<b>(5,883,488)</b>	<b>(1,476,641)</b>
Capital contributions	2,447,150	2,615,818	2,107,902
Transfers in	-	-	-
Transfers out	(168,990)	(466,433)	-
<b>CHANGE IN NET ASSETS</b>	<b>11,417,487</b>	<b>(3,734,103)</b>	<b>631,261</b>
Net assets (deficits) at beginning of the year, as originally reported	131,117,514	293,089,058	43,412,476
Prior period adjustments	2,445,184	(2,180,071)	10,836,696
<b>NET ASSETS, BEGINNING OF YEAR, AS ADJUSTED</b>	<b>133,562,698</b>	<b>290,908,987</b>	<b>54,249,172</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 144,980,185</b>	<b>\$ 287,174,884</b>	<b>\$ 54,880,433</b>

The notes to the basic financial statements are an integral part of this statement.

Central Parking District	Enterprise		Governmental Activities Internal Service
	Other Nonmajor Enterprise	Totals	
\$ 3,584,782	\$ 1,281,947	\$ 80,751,797	\$ 108,267,231
389	570,204	3,030,183	-
<u>3,585,171</u>	<u>1,852,151</u>	<u>83,781,980</u>	<u>108,267,231</u>
1,797,328	2,520,066	37,453,387	136,331,709
-	-	15,773,059	5,285,300
775,847	124,071	16,147,758	2,206,750
-	-	9,863,289	-
<u>2,573,175</u>	<u>2,644,137</u>	<u>79,237,493</u>	<u>143,823,759</u>
1,011,996	(791,986)	4,544,487	(35,556,528)
1,152,042	-	1,152,042	-
-	-	12,680,702	1,130,823
87,181	(26,315)	3,175,989	281,742
-	-	-	-
(1,691,275)	(873,124)	(21,093,563)	(6,915,507)
-	-	188,060	2,239,689
<u>(452,052)</u>	<u>(899,439)</u>	<u>(3,896,770)</u>	<u>(3,263,253)</u>
559,944	(1,691,425)	647,717	(38,819,781)
-	283,835	7,454,705	180,179
-	2,330,160	2,330,160	4,592,340
(609,311)	(1,627,245)	(2,871,979)	(8,047,000)
<u>(49,367)</u>	<u>(704,675)</u>	<u>7,560,603</u>	<u>(42,094,262)</u>
6,842,761	(53,208)	474,408,601	(93,048,518)
(1,128,133)	16,853,109	26,826,785	964,818
<u>5,714,628</u>	<u>16,799,901</u>	<u>501,235,386</u>	<u>(92,083,700)</u>
<u>\$ 5,665,261</u>	<u>\$ 16,095,226</u>	<u>\$ 508,795,989</u>	<u>\$ (134,177,962)</u>

**CITY OF STOCKTON**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 29,183,067	\$ 41,708,588	\$ 5,921,776
Receipts for interfund services provided	-	-	-
Payments to suppliers	(17,087,847)	(17,886,220)	(3,529,553)
Payments to employees	(5,676,413)	(14,212,622)	(1,975,871)
Net cash provided by (used for) operating activities	6,418,807	9,609,746	416,352
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	-	-	-
Transfers out	(168,990)	(466,433)	-
Receipt of cash subsidies and federal grants	4,175,006	-	-
Advance deposits	-	-	-
Receipt of due to other funds	-	-	-
Principal paid on pension obligation debt	-	-	-
Interest paid on pension obligation debt	-	-	-
Due from other funds	-	-	-
Due to other funds	-	-	-
Advances to other funds	441,998	739,204	-
Advances received from other funds	-	-	-
Proceeds from taxes	-	-	-
Net cash provided by (used for) noncapital financing activities	4,448,014	272,771	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from debt	55,000,000	-	-
Purchases of capital assets	(115,669,719)	(8,040,336)	(62,037)
Principal paid on debt	(688,060)	-	-
Interest paid on debt	(13,353,305)	(4,478,813)	(406,729)
Cost of issuance paid	(565,758)	-	-
Net cash provided by (used for) capital and related financing activities	(75,276,842)	(12,519,149)	(468,766)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment earnings	2,548,094	965,512	62,413
Net cash provided by (used for) investing activities	2,548,094	965,512	62,413
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(61,861,927)	(1,671,120)	9,999
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	175,900,000	31,262,000	1,633,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 114,038,073	\$ 29,590,880	\$ 1,642,999

The notes to the basic financial statements are an integral part of this statement.

Central Parking District	Enterprise		Governmental
	Other Nonmajor Enterprise	Totals	Activities Internal Service
\$ 3,590,988	\$ 1,878,425	\$ 82,282,844	108,748,130
-	-	-	2,239,689
(838,146)	(648,069)	(39,989,835)	(87,287,461)
(996,400)	(1,798,020)	(24,659,326)	(19,341,870)
<u>1,756,442</u>	<u>(567,664)</u>	<u>17,633,683</u>	<u>4,358,488</u>
-	2,330,160	2,330,160	4,592,340
(609,311)	(382,000)	(1,626,734)	(8,047,000)
-	-	4,175,006	1,130,823
-	-	-	30,000
-	(500,500)	(500,500)	-
-	-	-	(250,000)
-	-	-	(6,886,967)
-	-	-	6,802,457
-	-	-	(3,333,000)
-	-	1,181,202	(19,605)
(427,332)	-	(427,332)	500,000
<u>1,152,042</u>	<u>-</u>	<u>1,152,042</u>	<u>-</u>
<u>115,399</u>	<u>1,447,660</u>	<u>6,283,844</u>	<u>(5,480,952)</u>
-	-	55,000,000	-
-	(22,823)	(123,794,915)	(1,642,159)
(255,000)	(30,650)	(973,710)	(314,735)
(1,694,027)	(443,784)	(20,376,658)	(98,594)
-	-	(565,758)	-
<u>(1,949,027)</u>	<u>(497,257)</u>	<u>(90,711,041)</u>	<u>(2,055,488)</u>
<u>80,180</u>	<u>(24,315)</u>	<u>3,631,884</u>	<u>281,742</u>
<u>80,180</u>	<u>(24,315)</u>	<u>3,631,884</u>	<u>281,742</u>
2,994	358,424	(63,161,630)	(2,896,210)
<u>3,888,000</u>	<u>273,000</u>	<u>212,956,000</u>	<u>21,545,000</u>
<u>\$ 3,890,994</u>	<u>\$ 631,424</u>	<u>\$ 149,794,370</u>	<u>\$ 18,648,790</u>

**CITY OF STOCKTON**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 7,514,383	\$ (1,883,968)	\$ (1,305,938)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	2,551,912	11,155,688	1,540,240
Provision for uncollectible accounts	-	-	-
Other non-operating revenues	2,447	-	185,613
Changes in assets and liabilities:			
Accounts and other receivables	(246,178)	(871,234)	41,392
Prepaid expenses	-	-	-
Inventory of supplies	-	(35,012)	-
Deferred charges	-	-	-
Pension asset	-	-	-
Accounts payable	(2,845,680)	1,236,084	(41,656)
Due to other governments	101,760	-	-
Deposits and other liabilities	(626,267)	(18,000)	1,000
Compensated absences	(33,570)	26,188	(4,299)
Self-insurance - claims and judgments	-	-	-
Net OPEB obligation	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 6,418,807</u>	<u>\$ 9,609,746</u>	<u>\$ 416,352</u>
<b>NONCASH TRANSACTIONS:</b>			
Amortization of issuance discounts	\$ 14	\$ 27	\$ -
Amortization of issuance premiums	4	-	-
Amortization of loss on refunding	(16,818)	253	-
Capital Contributions	2,447,150	2,615,818	2,107,902
Costs of issuance paid from bond proceeds	-	-	-
Transfer of capital assets from (to) other funds	(24)	(696)	-
Change in accrued interest related to loans to other funds	(441,998)	(739,204)	-
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS:</b>			
Cash and investments	\$ 34,419,234	\$ 5,029,251	\$ 1,642,999
Cash with investments fiscal agents	144,146	-	-
Restricted assets:			
Cash and investments	9,184,544	24,373,181	-
Cash and investments with fiscal agents	70,290,149	188,448	-
Total cash and investments	<u>\$ 114,038,073</u>	<u>\$ 29,590,880</u>	<u>\$ 1,642,999</u>

The notes to the basic financial statements are an integral part of this statement.

Central Parking District	Enterprise		Governmental
	Other Nonmajor Enterprise	Totals	Activities Internal Service
\$ 1,011,996	\$ (791,986)	\$ 4,544,487	\$ (35,556,528)
775,847	124,071	16,147,758	2,206,750
-	-	-	-
-	-	188,060	2,239,689
(6,547)	7,815	(1,074,752)	520,899
-	(4,407)	(4,407)	(40,000)
-	(5,216)	(40,228)	-
-	-	-	70,107
-	-	-	2,564,948
8,179	73,080	(1,569,993)	58,723
-	-	101,760	-
12,364	23,579	(607,324)	(81,896)
(45,397)	5,400	(51,678)	(1,956,075)
-	-	-	4,298,871
-	-	-	30,033,000
<u>\$ 1,756,442</u>	<u>\$ (567,664)</u>	<u>\$ 17,633,683</u>	<u>\$ 4,358,488</u>
\$ (2,420)	\$ -	\$ (2,379)	\$ -
-	-	4	-
-	-	(16,565)	-
-	-	7,170,870	-
-	-	-	-
-	283,835	283,115	180,899
-	-	(1,181,202)	-
\$ 863,979	\$ 631,424	\$ 42,586,887	\$ 18,644,581
-	-	144,146	-
-	-	33,557,725	-
3,027,015	-	73,505,612	4,209
<u>\$ 3,890,994</u>	<u>\$ 631,424</u>	<u>\$ 149,794,370</u>	<u>\$ 18,648,790</u>

**CITY OF STOCKTON**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS**  
**JUNE 30, 2011**

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**ASSETS**

Cash and investments	\$ 50,544,052
Cash and investments with fiscal agents	17,263,167
Receivables, net:	
Interest	101,784
Accounts and other receivables	1,211,159
Due from other governments	955
	<hr/>
Total assets	\$ 69,121,117
	<hr/> <hr/>

**LIABILITIES**

Accounts payable	\$ 432,668
Due to other governments	851,678
Deposits and other liabilities	67,836,771
	<hr/>
Total liabilities	\$ 69,121,117
	<hr/> <hr/>

The notes to the basic financial statements are an integral part of this statement.



# CITY OF STOCKTON



**NOTES TO BASIC FINANCIAL STATEMENTS**



**City of Stockton**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2011**

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**City of Stockton**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2011**

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**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the City of Stockton, California (the "City") have been prepared in conformity with generally accepted accounting principles of the United States of America ("U.S. GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**A. Financial Reporting Entity**

The City was incorporated on July 25, 1850 under the general laws of the State of California. Under the charter adopted in 1923, the City operates under a Council-Manager and appointed City Manager form of government and provides the following services as authorized by its charter: public safety, community services, engineering services, planning services, public works, general administrative services and capital improvements.

These basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and either the City is able to impose its will on that organization or there is a potential for that organization to provide financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Each blended component unit has a June 30 year-end. The following entities are reported component units:

**Blended Component Units**

*The Redevelopment Agency of the City of Stockton (the "Agency")*

The Agency was created by the City of Stockton City Council ("City Council") in February 1975. It was established pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Redevelopment Law." Its purpose is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the territorial limits of the City of Stockton. The Agency has been included in the accompanying basic financial statements since the City Council acts as the Agency's governing board and exerts significant influence over its operations. The Agency's operations are governmental in nature and, as such, have been included in the special revenue, capital projects, and debt service funds. The financial statements of the Agency can be obtained at the Administrative Services Department. See Note 17, Subsequent Events, *Recent Changes in Legislation Affecting California Redevelopment Agencies*.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Financial Reporting Entity, Continued**

*The Stockton Public Financing Authority (the "SPFA")*

The SPFA was created in June 1990 and carries out lease debt financing for the City and Redevelopment Agency. The governing body of the SPFA is comprised of City Council members. The SPFA is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to the City and/or to refinance outstanding obligations of the City. The City does not produce separate financial statements for the SPFA.

**Excluded Agency**

An additional governmental agency in which the City participates is the San Joaquin Area Flood Control Agency (SJAFCFA) which is jointly governed by the City and the County of San Joaquin (County). The City retains neither an on-going financial interest in, nor obligation to SJAFCFA, therefore financial information for the SJAFCFA is not included in the accompanying financial statements.

**B. Basis of Presentation, Measurement Focus and Basis of Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

**Government-Wide Financial Statements**

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities and business-type activities for the City, the primary government, accompanied by a total column. Fiduciary activities of the City are not included in 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 program are offset by program revenues. *Direct expenses* are those expenses specifically associated with a service, program, or department and, are clearly identifiable with a specific function or program. *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 included among program revenues are reported as *general revenues*.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued**

**Government-Wide Financial Statements, Continued**

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

The Government-Wide financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to, Due from other funds
- Loans to, Loans from other funds
- Transfers in, Transfers out

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued**

**Governmental Fund Financial Statements, Continued**

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them such as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences.

The City reports the following major governmental funds:

- ***General Fund***  
To account for resources not accounted for in another fund. The General Fund is the City's main operating fund reflecting transactions related to municipal governmental services supported by taxes, intergovernmental revenues, charges for services and other governmental type revenues.
- ***HOME Program Loans Special Revenue Fund***  
To account for the City's HOME Program providing affordable housing for low- and very low-income residents in accordance with various federal and state laws. HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low- and very low- income households.
- ***Low and Moderate-Income Housing RDA Loans Special Revenue Fund***  
To account for loans extended to eligible low and moderate-income families as approved by the Stockton Redevelopment Agency and the California Health and Safety Code.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued**

**Governmental Fund Financial Statements, Continued**

- ***Public Facilities Impact Fees Capital Projects Fund***

To account for the collection of and expenditure of fees imposed as a condition of new development within the City, in compliance with California Government Code Section 66006 (AB 1600).

Impact fees have been established for each of the following types of public facilities: Traffic signals, Street improvements, Community recreation center, City office space, Fire stations, Libraries, Police stations, Parkland, Street tree & street signs, Street light in-lieu, Air quality mitigation, and Public facilities fees – administration.

- ***Capital Improvement Capital Projects Fund***

To account for the acquisition, construction and improvement of capital facilities as required by City Council action or state law in which the projects are financed by grants, lease proceeds and transfers from other City governmental funds.

- ***Redevelopment Agency Capital Projects Fund***

To account for the acquisition, relocation, demolition and sale of land for those portions of the City earmarked for redevelopment as approved by the City of Stockton Redevelopment Agency and the California Health and Safety Code Section 33670 et seq. Projects are financed from bond proceeds, loans from other city funds and property tax increment revenue.

**Proprietary Fund Financial Statements**

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for all proprietary funds.

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

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

The City reports the following major enterprise funds:

- ***Water Utility Enterprise Fund***

To account for activities associated with the acquisition or construction of water treatment facilities, production, distribution and transmission of potable water to users, and operations related to the provision of services.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued**

**Proprietary Fund Financial Statements, Continued**

- ***Wastewater Utility Enterprise Fund***  
To account for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater, and operations related to the provision of services.
- ***Stormwater Utility Enterprise Fund***  
To account for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater, and operations related to the provision of services.
- ***Central Parking District Enterprise Fund***  
To account for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities, and operations related to the provision of services.

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements. Internal service funds are a type of proprietary fund used to report any activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units on a cost-reimbursement basis. The City's internal service funds include nine individual funds which provide services directly to other City funds.

The *Internal Service Funds* of the City are the General Liability Insurance, Workers' Compensation Insurance, Employee and Retiree Health Insurance, Retirement Benefits, Other Benefits & Insurance, Vehicle Fleet Equipment, Computer Equipment, Radio Equipment, and Other Equipment funds.

**Fiduciary Fund Financial Statements**

Fiduciary fund financial statements include a Statement of Net Assets. Fiduciary fund types are accounted for according to the nature of the fund. The City has only agency funds, which are purely custodial in nature (assets equal liabilities), and thus do not involve measurement of results of operations. The agency funds are accounted for on the accrual basis of accounting like the Proprietary funds.

These funds are used to account for money and property held by the City as trustee or custodian. They are also used to account for various assessment districts for which the City acts as an agent for debt service activities.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*C. Encumbrances*

Formal budgetary integration is employed as a management control device. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as a part of fund balance and do not constitute U.S. GAAP basis expenditures or liabilities because the commitments will be honored during the subsequent year.

*D. Cash, Cash Equivalents and Investments*

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents. The statement of cash flows requires presentation of "cash and cash equivalents." For the purposes of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as "cash and cash equivalents," as such funds are available to the various funds as needed.

The City participates in an investment pool managed by the State of California (State), the Local Agency Investment Fund (LAIF). The City records its investment in LAIF at fair value based on information obtained from the State on the holdings in the pool.

Investment income consists of interest and dividend income and the recognized gain or loss on investments. Money market investments and certain guaranteed investment contracts are carried at cost. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. The City reported its investments at fair value and the unrealized losses on investments amounted to \$214,261 for the fiscal year ended June 30, 2011. The City has also effected a change in accounting method at year-end whereby it now allocates the fair value adjustment for unrealized gains and losses along with interest earnings on investments to the individual pooled funds quarterly based on each fund's average pooled cash and investments balances instead of on ending cash balances with the fair value adjustment only being allocated at year-end.

Certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas are presented in the footnotes:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentration of Credit Risk
- Foreign Currency Risk

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Cash and Investments with Fiscal Agents*

Fiscal agents acting on behalf of the City hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificate of participation or tax allocation bonds and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

*F. Receivables and Payables*

Revenues are recorded when received in cash, except revenues subject to accrual (up to 90 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services.

Federal and State grants are considered receivable and accrued as revenue when all eligibility requirements have been met under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available.

Long-term loans receivable, which consist of the principal amount of the loan plus the accrued borrower's deferred interest, is reported in the governmental fund statements with offsetting deferred revenue as resources are not available for expenditure. Long-term loans receivable reported in the governmental activities on the government-wide statement of net assets is not offset by deferred revenue as it is recorded on an accrual basis at its net realizable value based on an estimate of uncollectible amounts for loan losses.

Unbilled utility revenue earned is recognized as revenue and accounts receivable in the enterprise funds.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "loans 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." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

*G. Inventory of Supplies*

Inventories consist of expendable supplies held for consumption. Inventories are valued at weighted average cost using the first-in first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than purchased.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*H. Accrued Payroll and Related Liabilities*

The City is on a semi-monthly payroll period and employees are paid seven days after the end of the payroll periods ending on the 15<sup>th</sup> and the end of the month or the last working day prior to that date. It is the City's policy to accrue its payroll and benefits liabilities in the Payroll Fund, which is combined with the General Fund for financial reporting purposes. Cash is transferred from the respective funds to the Payroll Fund to cover that Fund's portion of the accrued liabilities with the corresponding payroll expenditures being recorded in the Fund.

*I. Capital Assets*

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 for equipment and works of art; \$10,000 for land, buildings, improvements and intangible assets; \$50,000 for infrastructure, all of which must have an estimated useful life in excess of one year. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and structures	30-50 years
Improvements other than buildings	20-30 years
Machinery and equipment	3-30 years
Infrastructure	50-100 years

Major outlays for capital assets are capitalized as projects once constructed and repairs and maintenance costs are expensed. Interest accrued during capital assets construction, if any, is capitalized for the business-type funds as part of the asset cost. For the year ended June 30, 2011, there was \$1,420,865 in capitalized interest associated with construction in progress.

*J. Capital Contributions*

Capital contributions are comprised of cash and assets donated from developers. Connection fees are reported as capital contributions in the Water Utility and Wastewater Utility enterprise funds.

*K. Accrued Compensated Absences*

In accordance with negotiated labor agreements, employees accumulate earned but unused vacation, other compensated leave, and sick leave pay benefits. Accrued vacation leave is payable at 100% of accumulated hours upon separation of service. Accrued sick leave is payable at 50% of accumulated hours for all City employees upon separation of service due to death, service or disability retirement. Police and Fire department safety and management employees, mid-management, law and unrepresented employees are also eligible for pay-off of 50% of accumulated sick leave upon termination after ten years of service. The above payout percentages were suspended in February 2012 by Council in connection with entering the AB 506 mediation process.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**K. *Accrued Compensated Absences, Continued***

All bargaining unit employees may apply the remaining 50% of accrued sick leave hours for additional California Public Employees' Retirement System (CalPERS) service credit upon retirement. In addition, upon retirement, Fire department safety employees are eligible for pay-off of 100% of accumulated longevity vacation allowance.

**Government-Wide Financial Statements**

For governmental and business-type activities, compensated absences are recorded as expenses when liabilities are incurred.

**Fund Financial Statements**

For governmental funds, compensated absences are recorded as expenditures in the year matured. The General Fund is typically used to liquidate compensated absences. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund's share of the unpaid liability is recorded as a long-term liability of the fund.

**L. *Long-Term Debt***

In the Government-wide and proprietary fund financial statements, long-term debt and other long-term financial obligations are reported as liabilities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, in the year of issuance. The face amount of the 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. The differences between the government-wide and fund financial statements are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

**M. *Property Taxes***

Property taxes are levied on October 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of San Joaquin, California ("County") bills and collects property taxes and remits them to the City according to a payment schedule established by the County. The County operates under the Teeter Plan, whereby the County pays the City 100% of the taxes levied. The County assumes responsibility for collecting any delinquent amounts and upon collection retains the penalty and interest portion of those amounts. No allowance for doubtful accounts was considered necessary.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**M. Property Taxes, Continued**

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year or the current CPI, whichever is less. The City receives a share of this basic tax levy proportionate to what it received during the years 1980-1981.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 90 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

**N. Net Assets**

For government-wide and proprietary fund financial statements, net assets are categorized as follows:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

**O. Fund Balances**

For governmental fund financial statements, fund balances are categorized as follows:

Nonspendable - Amounts that cannot be spent because they are (1) not in spendable form, such as prepaid items, inventories and long-term receivables for which the payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund or (2) legally or contractually required to be maintained intact.

Restricted - Amounts that are restricted by external parties such as creditors or imposed by grants, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The City has legislative restrictions on amounts collected and reported in the City's various governmental funds. As a result, these restrictions have been classified as restricted for community development, debt service reserve, general government, housing projects/loans, libraries and arts, parks and recreation, public safety, public services, redevelopment projects, solid waste/recycling and streets, transit and traffic.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*O. Fund Balances, Continued*

Committed - This amount indicates the portion of fund balances which can only be used for specific purposes pursuant to formal resolution or ordinance of the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

Assigned - Amounts that have been allocated by action of an official authorized by the Stockton City Council in which the City's intent is to use the funds for a specific purpose. The City considers this level of authority to be with the City Manager of the City of Stockton.

Unassigned - Amounts that constitute the residual balances that have no restrictions placed upon them. As restrictions exceed available resources at June 30, 2011, only deficit amounts are reported in the unassigned category.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned depending on the nature of the expenditure.

*P. Use of Estimates*

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates and assumptions.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**2. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The following is a summary of pooled cash and investments, including restricted cash and investments at June 30, 2011:

<b>Deposits:</b>	
Cash on hand	\$ 20,050
Demand deposits	9,511,731
Total deposits	<u>9,531,781</u>
<b>Investments</b>	<u>350,455,137</u>
Total cash and investments	<u><u>\$ 359,986,918</u></u>
 <b>Presented in the government-wide statement of net assets:</b>	
Cash and investments	\$ 149,958,408
Restricted cash and investments	142,221,291
<b>Presented in the statement of fiduciary net assets:</b>	
Cash and investments	50,544,052
Cash and investments with fiscal agents	<u>17,263,167</u>
Total cash and investments	<u><u>\$ 359,986,918</u></u>

**A. Cash Deposits**

The carrying amount of the City's cash deposits were \$9,531,781 at June 30, 2011. Bank balances before reconciling items were \$15,662,921 at that date, the total amount of which was insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Prior to July 1, 2011, interest income earned on pooled cash and investments was allocated on a monthly basis to the various funds based on average daily cash balances and a fair market valuation at year end. Effective July 1, 2011, the City changed its accounting policy and method to a quarterly allocation of accrued interest and fair market valuation adjustments on the basis of average daily cash balances. This change was made on a prospective basis. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued**

**B. Authorized Investments**

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

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum in Portfolio	Minimum Credit Quality
Securities of the U.S. Government or its agencies:			
U.S. Treasury Bonds, Notes and Bills	10 Years**	No Limit	N/A
State of California Obligations	5 Years	No Limit	N/A
49 other States Obligations	5 Years	No Limit	N/A
California Non Stockton Local Agency Obligations	5 Years	No Limit	N/A
U.S. Agency and U.S. Government sponsored Enterprise Securities	10 Years**	No Limit	N/A
City of Stockton Obligations	5 Years*	None	None
Negotiable Certificates of Deposit	5 Years	30%	AA
Time Certificates of Deposit	5 Years	30%	N/A
Bankers' Acceptances	180 Days	40%	N/A
Commercial Paper	270 Days	25%	A1, P1, F-1
Medium-Term Corporate Notes	5 Years	30%	A
California Local Agency Investment Fund (LAIF)			
- Investments made in County or other types of investment pools require due diligence	Upon Demand	\$50,000,000 per account	N/A
California Asset Management Program (CAMP)	Upon Demand	No Limit	N/A
Repurchase Agreements			
- If the City invests in Repurchase Agreements, a Master Repurchase Agreement is required	92 days	20%	N/A
Demand Accounts - Insured/Collateralized Medium Term Notes	N/A	No Limit	N/A
Mutual Funds			
SEC registered Money Market Funds limited to a percentage of the City's surplus as narrowly defined in the California Government Code Section 53601 et seq.	N/A	20%	AAA

\* Limited to 5 years, except permits investment in variable rate demand obligations (VRDO) that are City obligations up to 10 years maturity, as allowed under IRS and SEC rulings. VRDO investments

\*\* Securities with term to maturity greater than 5 years shall not exceed 15% of the total portfolio value.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued**

**B. Authorized Investments, Continued**

*Investments Authorized by Debt Agreements*

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Repurchase Agreements	30 days	Top Four Rating Categories	No Limit	No Limit
U.S. Treasury Bonds, Notes and Bills	No Limit	N/A	No Limit	No Limit
U.S. Agency and U.S. Government Sponsored Enterprise Securities	No Limit	No Limit	No Limit	No Limit
State Obligations	No Limit	Not lower than their bond rating	No Limit	No Limit
Commercial Paper	270 days	A-1+	No Limit	No Limit
Negotiable Certificates of Deposit	No Limit	N/A	No Limit	No Limit
Time Certificates of Deposit	No Limit	N/A	No Limit	No Limit
Corporate Notes and Bonds	No Limit	Not lower than their bond rating	No Limit	No Limit
Guaranteed Investment Contracts	No Limit	Not lower than their bond rating	No Limit	No Limit
Shares of Beneficial Interest	No Limit	Top Rating	No Limit	No Limit
Money Market Mutual Funds	No Limit	Aam	20%	No Limit
Bankers' Acceptances	365 days	A-1+	30%	30%
Municipal Bonds	No Limit	AAA	No Limit	No Limit
California Local Agency Investment Fund	Upon Demand	N/A	\$50,000,000	\$50,000,000
Investment Agreements	No Limit	AA-	No Limit	No Limit

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued**

**C. Investments in Local Agency Investment fund**

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments in LAIF at June 30, 2011 included a portion of pool funds invested in Structured Notes and Asset-Backed Securities:

*Structured Notes* are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

*Asset-Backed Securities*, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011, the City had \$49,830,387 invested in LAIF, which had invested 5.01% of the pool investment funds in Medium-Term and Short-Term Structured Notes and Asset-Backed Securities.

**D. Investments in Repurchase Agreements**

A form of short-term borrowing for dealers in government securities are repurchase agreements. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction, (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement.

**E. Investments in Guaranteed Investment Contracts**

The City has entered into nonparticipating guaranteed investment contracts (GICs), which are authorized under bond documents as outlined in the City's investment policy or the debt agreement.

GICs are non-marketable interest bearing agreements with or guaranteed by certain financial institutions. The agreements provide for a guaranteed return on principal over a specified period. A GIC is a general obligation instrument issued by a financial institution, subject to applicable legal restrictions. The City's investments in GIG's represent proceeds from bond issues that have been set aside (held for the benefit of the bondholders) as debt service reserves and proceeds of bonds that have been invested until used on the projects being financed. The investment contracts holding debt service reserves are held long-term and bear interest ranging from 1.73% to 5.32%, while most project funds are invested short-term with rates ranging from 0.23% to 0.94 %. All of the investment contracts are collateralized by investments, with \$7,819,860 collateralized at 104% to 105%, as set forth in the legal agreements.



**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued**

*F. Risk Disclosures, Continued*

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as of June 30, 2011 for each entity by investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAM	AA/AA+/AA-	A/A+/A-	A-1+	Total
<b>Held by the City and its Component Units:</b>					
U. S. Agencies:					
Non-callable	\$ 48,432,511	\$ -	\$ -	\$ -	\$ 48,432,511
Callable	12,947,488	-	-	-	12,947,488
Medium term notes:					
Non-callable	-	18,400,060	22,648,925	-	41,048,985
Callable	-	-	2,797,608	-	2,797,608
Medium term notes (FDIC Insured)	26,227,821	-	-	-	26,227,821
Money market mutual funds	477,427	-	-	-	477,427
Repurchase agreement	-	-	-	14,749,906	14,749,906
<b>Held by Fiscal Agents:</b>					
U. S. Agencies - noncallable	21,345,280	-	-	-	21,345,280
Tax exempt municipal bonds	1,188,917	687,852	-	-	1,876,769
Money market mutual funds	28,349,068	-	-	-	28,349,068
Total	<u>\$ 138,968,512</u>	<u>\$ 19,087,912</u>	<u>\$ 25,446,533</u>	<u>\$ 14,749,906</u>	
<b>Not rated or exempt from rating disclosure:</b>					
Local Agency Investment Fund					49,830,387
U. S. Treasuries					29,078,754
Negotiable certificates of deposits					671,501
Guaranteed investment contracts					72,612,331
Common/preferred stocks and income bonds					9,301
Total Investments					<u>\$ 350,455,137</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued**

*E. Risk Disclosures, Continued*

*Credit Risk, Continued*

On August 5, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term credit rating on the United States of America from AAA to AA+. At the same time, S&P affirmed its A-1+ short-term rating on the United States of America.

On August 8, 2011, S&P lowered its issuer credit ratings and related issue ratings on ten of twelve Federal Home Loan Banks (FHLB) and the senior debt issued by the FHLB System from AAA to AA+. S&P also lowered the ratings on the senior debt issued by the Federal Farm Credit Banks (FFCB) from AAA to AA+, and lowered the senior issue ratings on Fannie Mae (FNMA) and Freddie Mac (FHLMC) from AAA to AA+. The A subordinated debt rating and the C rating on the preferred stock of these entities remained unchanged. Finally, S&P affirmed the short-term issue ratings for these entities at A-1+. As of June 30, 2011, the City's investments in these agencies that were subject to the downgrade were as follows: FHLB \$11,735,639, FFCB \$14,533,575, FNMA \$12,784,923 and FHLMC \$13,777,298.

On August 8, 2011, S&P also lowered the ratings on one hundred twenty six Federal Deposit Insurance Corporation-guaranteed debt issues from thirty financial institutions that are under the Temporary Liquidity Guarantee Program (TLGP), and four National Credit Union Association guaranteed debt issues from two corporate credit unions under the Temporary Corporate Credit Union Guarantee Program (TCCUGP) from AAA to AA+. As of June 30, 2011, the City's investments in these institutions that were subject to the downgrade were as follows: Goldman Sachs \$4,302,444, Wells Fargo \$3,991,454, Bank of America \$5,280,538, PNC Funding Corporation \$4,774,273, GE Capital Corporation \$4,192,604 and JP Morgan Chase \$3,686,508.

*Custodial Credit Risk*

For an investment, custodial credit risk refers to the event in which the custodial bank (outside party) in possession of an investment security fails to supply the value of investments or collateral securities to the City upon demand. All securities, with the exception of the money market mutual funds and LAIF, are held by a third party custodian, Union Bank of California (UBOC). UBOC is a registered member of the Federal Reserve Bank. The securities held by UBOC are in the street name, and a customer number assigned to the City identifies ownership.

*Concentration Credit Risk*

The City's investment policy regarding the amount that can be invested in any one issuer are stipulated by the California Government Code. However, the City is required to disclose investments that represent a concentration of 5.0 percent or more of investments in any one issuer, held by individual Funds in the securities of issuers other than U. S. Treasury securities, mutual funds and external investment pools.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued**

*F. Risk Disclosures, Continued*

At June 30, 2011, the City's investments that represent a concentration of investments in the securities of any individual issuers, other than U. S. Treasury securities or mutual funds, are set forth below:

Unit	Issuer	Investment Type	Reported Amount
Government-Wide	Trinity Plus	Guaranteed Investment Contract	\$ 20,288,771
Government-Wide	Natixis	Guaranteed Investment Contract	44,503,700
Water Utility Enterprise Fund	Trinity Plus	Guaranteed Investment Contract	17,343,308
Water Utility Enterprise Fund	Natixis	Guaranteed Investment Contract	44,503,700
Wastewater Utility Enterprise Fund	Federal Home Loan Mortgage Corporation	Federal Agency Securities	2,974,174
Nonmajor Funds	Federal Home Loan Mortgage Corporation	Federal Agency Securities	13,293,966

*G. Restricted Cash and Investments*

Certain proceeds of proprietary fund and government-wide certificates of participation (COP), revenue bonds, bonds payable, and other long-term liabilities are classified as restricted cash and investments on the statement of net assets as their use is limited by applicable indentures or covenants. These covenants provide that these funds, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may require. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. The major part of this restriction is for the construction or acquisition of facilities, but also includes reserves for payment of debt service as required by the bond indentures.

The City has a reserve policy governing the establishment of Rate Stabilization Accounts for its Water, Wastewater, and Stormwater Funds. These reserves are to ease future revenue fluctuations, where revenues are interrupted or otherwise insufficient to offset the operating expenditures and to minimize the impact of rate increases. The City has established a "Rate Stabilization Fund" in the Water Fund in connection with the issuance of its 2010 Variable Rate Demand Water Revenue Bonds. The City may apply moneys on deposit in the Rate Stabilization fund for any lawful purpose. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as revenues or used for any lawful purpose. The balance in the Water Rate Stabilization Account at June 30, 2011 is \$8,080,248.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued**

*G. Restricted Cash and Investments, Continued*

At June 30, 2011, Government-Wide restricted cash and investments and restricted cash and investments with fiscal agents are as follows:

<b>Governmental activities</b>	<u>\$ 35,157,954</u>
<b>Business-type activities:</b>	
Water Utility	79,474,693
Wastewater Utility	24,561,629
Central Parking District	3,027,015
Subtotal	<u>107,063,337</u>
Total restricted cash and investments	<u><u>\$ 142,221,291</u></u>

**3. INTERFUND TRANSACTIONS**

*A. Due To/From Other Funds*

“Due to” and “due from” report lending transactions primarily when individual funds overdraw their share of pooled cash or when there are short-term loans between funds. The following is a summary of interfund balances as of June 30, 2011:

<u>Fund Making Short Term Loan</u>	<u>Fund Receiving Short Term Loan</u>	<u>Amount</u>
Internal Service Fund - Workers' Compensation	HOME Program Loans Special Revenue Fund	\$ 155,078
	Non-Major Governmental - Gas Tax Special Revenue Fund	5,237,597
	Non-Major Governmental - Measure W Special Revenue Fund	1,188,357
	Non-Major Governmental - Special Grants Special Revenue Fund	641,511
Low Moderate Inome Housing RDA Loans Special Revenue Fund	Redevelopment Agency Capital Projects Fund	1,775,526
Capital Improvement Capital Projects Fund	Public Facilities Impact fees Capital Projects Fund	3,833
Non-Major Governmental - SPFA Debt Service Fund	Non-Major Governmental - City Admin. Building Special Revenue Fund	20,711
		<u><u>\$ 9,022,613</u></u>

The most significant interfund transactions were as follows:

- \$7,222,543 was borrowed from the Internal Service Workers' Compensation Fund to cover cash overdrafts in the HOME Program Loans and the Other Non-Major Governmental Special Revenue Funds in the investment pool as of June 30, 2011.
- \$1,775,526 was borrowed from the Low-Moderate Income Housing RDA Loans Fund to cover cash overdrafts in the Redevelopment Agency Capital Projects (Merged Waterfront) Fund in the investment pool as of June 30, 2011.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**3. INTERFUND TRANSACTIONS, Continued**

**B. Loans To/From Other Funds**

“Loans to” and “loans from” balances represent loan activity between funds that is non-current. The most significant interfund transactions were as follows:

Fund Making Loan	Fund Receiving Loan	Amount	Allowance for Uncollectable Loans	Net
Public Facilities Impact Fees Capital Projects Fund	Central Parking District Enterprise Fund	\$ 1,257,342	\$ -	\$ 1,257,342
Redevelopment Agency Capital Projects Fund	Internal Service Funds -Workers' Comp.	500,000	-	500,000
Water Utility Enterprise Fund	Non Major Governmental Funds - SPFA	7,502,935	-	7,502,935
Wastewater Utility Enterprise Fund	Non Major Governmental Funds - SPFA	11,638,257	-	11,638,257
Internal Service Funds	Central Parking District Enterprise Fund	609,992	-	609,992
Low Moderate Income Housing RDA Loans	Redevelopment Agency Capital Projects Fund	1,888,752	-	1,888,752
Non-Major Governmental - CDBG Fund	Redevelopment Agency Capital Projects Fund	13,863,641	(13,863,641)	-
Public Facilities Impact Fees Capital Projects Fund	Redevelopment Agency Capital Projects Fund	100,207	(100,207)	-
Non-Major Governmental - Dev. Services Fund	Redevelopment Agency Capital Projects Fund	196,950	(196,950)	-
Wastewater Utility Enterprise Fund	Redevelopment Agency Capital Projects Fund	51,222	(51,222)	-
Central Parking District Enterprise Fund	Redevelopment Agency Capital Projects Fund	847,000	(847,000)	-
General Fund	Redevelopment Agency Capital Projects Fund	727,957	(727,957)	-
	Stormwater Utility Enterprise Fund	10,194,945	(10,194,945)	-
Capital Improvement Capital Projects Fund	Redevelopment Agency Capital Projects Fund	17,056,101	(17,056,101)	-
	Public Facilities Impact Fees Capital Proj. Fund	947,721	(947,721)	-
	Stormwater Utility Enterprise Fund	797,749	(797,749)	-
	Non Major Enterprise Funds - Golf Courses Fund	763,500	(763,500)	-
	Interest on Redevelopment Agency Loans	48,132,734	(48,132,734)	-
Total		<u>\$ 117,077,005</u>	<u>\$ (93,679,727)</u>	<u>\$ 23,397,278</u>

- The \$1,257,342 loan from Public Facilities Impact Fees Capital Projects Fund to the Central Parking District Enterprise Fund is for construction costs of new parking structures.
- The \$500,000 loan from the Redevelopment Agency Capital Projects Fund to the Internal Service Workers’ Compensation Fund was for a working capital loan.
- The \$7,502,935 is a loan from the Water Utility to the Stockton Public Finance Authority (SPFA) Debt Service Fund established as a result of the Howard Jarvis vs. City of Stockton lawsuit settlement of March 2009.
- The \$11,638,257 is a loan from the Wastewater Utility Enterprise Fund to the Stockton Public Finance Authority Debt Service Fund established as a result of the Howard Jarvis vs. City of Stockton lawsuit settlement of March 2009.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**3. INTERFUND TRANSACTIONS, Continued**

**B. Loans To/From Other Funds, Continued**

- The \$609,992 loan from the General Insurance Internal Service Fund to the Central Parking District Enterprise Fund is for settlement costs of property acquired through eminent domain.
- The \$1,888,752 of loans from the Low-Moderate Income Housing RDA Loans Special Revenue Fund to the Redevelopment Agency Capital Projects Fund for project area expenditures.
- The \$13,863,641 in loans from the CDBG Programs Special Revenue Fund to the Redevelopment Agency Capital Projects Fund was for project area expenditures.
- The \$100,207 loan from the Public Facilities Impact Fees Capital Projects Fund to the Redevelopment Agency Capital Projects Fund represents permit fees deferred under the Enterprise Zone Deferral Program.
- The \$196,950 loan from the Non-Major Governmental Development Services Fund to the Redevelopment Agency Capital Projects Fund was for funding building permit fees.
- The \$51,122 loan from the Wastewater Utility Enterprise Fund to the Redevelopment Agency Capital Projects Fund was for funding of two development project permit fees.
- The \$847,000 is a loan from the Central Parking District Enterprise Fund to the Redevelopment Agency Capital Projects Fund for the Waterfront Redevelopment Project Area.
- The \$727,957 is a loan from the General Fund to the Redevelopment Agency Capital Projects Fund for various project areas.
- The \$10,194,945 is a loan from the General Fund to the Stormwater Utility Enterprise Fund for subsidizing its operations established as a result of the *MuniFinancial Review of General Fund Cost Recovery from Utility Funds Report* (dated October 6, 2008), accepted by the Court and City Council.
- The \$17,056,101 from the Capital Improvement Capital Projects Fund to the Redevelopment Agency Capital Projects Fund represents loans for various project areas.
- The \$947,721 loan from the Capital Improvement Capital Projects Fund to the Public Facilities Impact Fees Capital Projects Fund is for construction costs for community centers.
- The \$797,749 is a loan from the Capital Improvement Capital Projects Fund to the Stormwater Utility Enterprise Fund for subsidizing its operations established as a result of the *MuniFinancial Review of General Fund Cost Recovery from Utility Funds Report* (dated October 6, 2008), accepted by the Court and City Council.
- The \$763,500 loan from the Capital Improvement Capital Projects Fund to the Nonmajor Enterprise Funds is for the Swenson Irrigation System Project at the golf course.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**3. INTERFUND TRANSACTIONS, Continued**

*C. Allowance for Uncollectible Loans*

Management has determined that there are a number of interfund balances which may or may not be repaid within a reasonable period of time. Generally accepted accounting principles permit the reporting of interfund balances such as interfund loans and advances only when repayment is expected within a reasonable period of time. However, City policy does not permit the elimination of interfund balances without City Council approval. Accordingly, interfund balances, which are not expected to be repaid within a reasonable period of time or not at all, have been offset with an allowance for uncollectible advances.

The advances to the Stormwater Utility Enterprise Fund are deemed to be uncollectible due to ongoing operating losses in the fund and continued subsidy of its operations by the General Fund. Absent the passage of additional rate increases in the future, the collectability of this loan is deemed to be unlikely. The City is anticipating going to the voters for a rate increase in 2013 which could be used to repay this loan at a future time.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**3. INTERFUND TRANSACTIONS, Continued**

**D. Transfers**

Interfund transfers report the nonreciprocal contributions of resources from one fund to another that include program support, debt service and settlement, and other one-time transfers. The following is a summary of transfers for the year ended June 30, 2011:

		<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
<b>Governmental Activities:</b>				
General Fund	Program Support	\$ 12,614,493 <sup>(1)</sup>	\$(11,358,661) <sup>(2)</sup>	\$ 1,255,832
General Fund	Debt Service/ Settlement	-	(2,618,648)	(2,618,648)
General Fund	Howard Jarvis/ Liability Transfer	8,416,388 <sup>(3)</sup>	-	8,416,388
Low-Moderate Income Housing RDA Loans	Program Support	2,604,234	-	2,604,234
Low-Moderate Income Housing RDA Loans	Debt Service/ Settlement	-	(5,133,458)	(5,133,458)
Public Facilities Impact Fees	Program Support	480,000	-	480,000
Public Facilities Impact Fees	Debt Service/ Settlement	948,319	(2,481,012)	(1,532,693)
Capital Improvement	Program Support	880,185	(2,898,000) <sup>(1)</sup>	(2,017,815)
Capital Improvement	Debt Service/ Settlement	549,337	(1,637,351)	(1,088,014)
Capital Improvement	Howard Jarvis/ Liability Transfer	11,599,443 <sup>(3)</sup>	-	11,599,443
Redevelopment Agency	Program Support	5,824,509 <sup>(2)</sup>	(2,604,415)	3,220,094
Redevelopment Agency	Debt Service/ Settlement	1,627,245	(20,398,401)	(18,771,156)
Other Governmental non-major funds	Program Support	4,398,203	(4,483,535) <sup>(1)</sup>	(85,332)
Other Governmental non-major funds	Debt Service	28,182,477	(499,042)	27,683,435
Other Governmental non-major funds	Howard Jarvis/ Liability Transfer	-	(20,015,831) <sup>(3)</sup>	(20,015,831)
Internal Service Funds	Program Support	4,592,340 <sup>(2)</sup>	(7,547,000) <sup>(1)</sup>	(2,954,660)
Internal Service Funds	Transfer Loan Obligation	-	(500,000) <sup>(4)</sup>	(500,000)
Total governmental activities		<u>82,717,173</u>	<u>(82,175,354)</u>	<u>541,819</u>
<b>Business-type Activities:</b>				
Water Utility	Program Support	-	(168,990)	(168,990)
Wastewater Utility	Program Support	-	(466,433)	(466,433)
Central Parking District	Debt Service/ Settlement	-	(609,311)	(609,311)
Other Enterprise non-major funds	Program Support	864,160	-	864,160
Other Enterprise non-major funds	Debt Service/ Settlement	966,000 <sup>(2)</sup>	(1,627,245)	(661,245)
Other Enterprise non-major funds	Transfer Loan Obligation	500,000 <sup>(4)</sup>	-	500,000
Total business-type activities		<u>2,330,160</u>	<u>(2,871,979)</u>	<u>(541,819)</u>
<b>Total government-wide statements</b>		<u>\$ 85,047,333</u>	<u>\$(85,047,333)</u>	<u>\$ -</u>

Nonroutine and Infrequent Transfers

<sup>(1)</sup>The General Fund includes several one-time transfers in to eliminate negative cash balance occurrences and those transfers include: \$2,898,000 from the Capital Improvement Fund, \$1,300,000 from the Arts Endowment Fund (non-major), \$3,731,000 from the Retirement Benefits Internal Service Fund, \$2,286,000 from the Vehicle Equipment Internal Service Fund and \$1,200,000 from the Computer Equipment Internal Service Fund.

<sup>(2)</sup>The General Fund had several one-time transfers out to correct deficits and subsidize activities in other funds and those transfers include: \$4,603,933 to the Redevelopment Agency (Merged Waterfront) Fund, \$3,697,917 to the Other Benefits & Insurance Internal Service Fund and \$966,000 to the Other Enterprise non-major (Downtown Marina) Fund.

<sup>(3)</sup>During the year the Howard Jarvis Liability of \$20,015,381 was moved from the General Fund (\$8,416,388) and Capital Improvement Fund (\$11,599,443) into the Stockton Public Financing Authority Debt Service Fund (non-major) to account for the debt responsible for its payment.

<sup>(4)</sup>The Workers' Compensation Insurance Internal Service Fund transferred a \$500,000 borrowing to the Downtown Marina Other Enterprise non-major Fund relating to the prior year funding of operating expenditures.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**4. LOANS TO PROPERTY OWNERS**

Loans provided to property owners are managed by the City's Economic Development Department. Loans receivable under the City's loan programs at June 30, 2011 are as follows:

<u>Loan Programs</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Deferred Interest</u>	<u>Total</u>
First Time Home Buyers Program (HOME)	\$ 25,264,570	\$ 4,802,305	\$ 30,066,875
Community Development Block Grant Programs	18,606,377	3,472,025	22,078,402
Neighborhood Stabilization First Time Home Buyer Program	5,356,350	16,936	5,373,286
California Home Loans	2,861,986	175,957	3,037,943
Redevelopment Agency Low & Moderate Income Housing Programs	48,243,498	4,461,220	52,704,718
	<u>\$ 100,332,781</u>	<u>\$ 12,928,443</u>	<u>113,261,224</u>
Less: Allowance for Doubtful Accounts			(400,047)
			<u>\$ 112,861,177</u>

First Time Home Buyers Program

The Home Investment Partnerships Loan Programs are funded through U.S. Department of Housing and Urban Development HOME funds. The programs include deferred gap financing loans for qualified first time homebuyers, owner occupied housing rehabilitation loans to qualified borrowers, and multifamily loans to qualified housing developers. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

Community Development Block Grant Program

The Community Development Block Grants Loan Programs are funded through U.S. Department of Housing and Urban Development CDBG funds. The programs include deferred gap financing loans for qualified first time homebuyers, owner occupied emergency repair loans, public facility project loans, and commercial loan programs. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

Neighborhood Stabilization Program

The Neighborhood Stabilization Program loans are funded through U.S. Department of Housing and Urban Development Neighborhood Stabilization program funds. The programs include acquisition, rehabilitation, and resale of foreclosed homes to qualified home buyers, deferred gap financing loans for qualified home buyers; and acquisition, rehabilitation, and rent of foreclosed properties in targeted areas. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

California Home Loans Program

The California Home Loans Program are funded through the California Department of Housing and Community Development. The programs include deferred gap financing loans to qualified first time homebuyers and owner occupied rehabilitation loans. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**4. LOANS TO PROPERTY OWNERS, Continued**

*Redevelopment Agency Affordable Housing Program*

The Redevelopment Agency Affordable Housing Loans Programs are funded through the Low and Moderate-Income Housing RDA Loans Special Revenue Fund and/or Strong Neighborhoods Initiative Bond proceeds. The programs include loans for rehabilitation and/or construction of affordable housing units which are deed restricted for occupancy by low and moderate income households for at least fifty five years. Interest income is recorded as payments are received.

**5. CAPITAL ASSETS**

**A. Government-Wide Financial Statements**

At June 30, 2011, the City's capital assets consisted of the following:

	<u>Governmental Activites</u>	<u>Business -Type Activities</u>	<u>Total</u>
<b>Capital assets, not being depreciated:</b>			
Land	\$ 56,719,278	\$ 15,606,841	\$ 72,326,119
Intangible assets - easements	2,806,235	750,453	3,556,688
Construction in progress	119,578,608	197,322,141	316,900,749
Total capital assets, not being depreciated	<u>179,104,121</u>	<u>213,679,435</u>	<u>392,783,556</u>
<b>Capital assets, being depreciated:</b>			
Infrastructure	444,301,557	-	444,301,557
Buildings and improvements	342,702,240	731,055,277	1,073,757,517
Machinery and equipment	51,045,666	9,599,407	60,645,073
Total capital assets, being depreciated	<u>838,049,463</u>	<u>740,654,684</u>	<u>1,578,704,147</u>
<b>Less accumulated depreciation for:</b>			
Infrastructure	(110,640,341)	-	(110,640,341)
Buildings and improvements	(76,242,096)	(213,762,827)	(290,004,923)
Machinery and equipment	(37,004,503)	(6,591,684)	(43,596,187)
Total accumulated depreciation	<u>(223,886,940)</u>	<u>(220,354,511)</u>	<u>(444,241,451)</u>
Total capital assets, being depreciated, net	<u>614,162,523</u>	<u>520,300,173</u>	<u>1,134,462,696</u>
<b>Total capital assets, net</b>	<u>\$ 793,266,644</u>	<u>\$ 733,979,608</u>	<u>\$ 1,527,246,252</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**5. CAPITAL ASSETS, Continued**

**B. Governmental Activities**

Summary of changes in governmental activities capital assets for the year ended June 30, 2011 are as follows:

<b>Governmental activities:</b>	<b>Balance at July 1, 2010 (as Restated)</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Balance at June 30, 2011</b>
Capital assets, not being depreciated:					
Land	\$ 52,278,455	\$ 5,655,823	\$ (1,215,000)	\$ -	\$ 56,719,278
Intangible assets - easements	2,494,974	311,261	-	-	2,806,235
Construction in progress	<u>129,300,246</u>	<u>23,187,039</u>	<u>(6,895,484)</u>	<u>(26,013,193)</u>	<u>119,578,608</u>
Total capital assets, not being depreciated	<u>184,073,675</u>	<u>29,154,123</u>	<u>(8,110,484)</u>	<u>(26,013,193)</u>	<u>179,104,121</u>
Capital assets, being depreciated:					
Infrastructure	426,658,025	8,184,327	-	9,459,205	444,301,557
Buildings and improvements	326,072,974	75,278	-	16,553,988	342,702,240
Machinery and equipment	<u>49,495,599</u>	<u>1,434,039</u>	<u>(448,395)</u>	<u>564,423</u>	<u>51,045,666</u>
Total capital assets, being depreciated	<u>802,226,598</u>	<u>9,693,644</u>	<u>(448,395)</u>	<u>26,577,616</u>	<u>838,049,463</u>
Less accumulated depreciation for:					
Infrastructure	(99,581,085)	(11,059,256)	-	-	(110,640,341)
Buildings and improvements	(68,071,017)	(8,171,079)	-	-	(76,242,096)
Machinery and equipment	<u>(34,763,092)</u>	<u>(2,689,806)</u>	<u>448,395</u>	<u>-</u>	<u>(37,004,503)</u>
Total accumulated depreciation	<u>(202,415,194)</u>	<u>(21,920,141)</u>	<u>448,395</u>	<u>-</u>	<u>(223,886,940)</u>
Total capital assets, being depreciated, net	<u>599,811,404</u>	<u>(12,226,497)</u>	<u>-</u>	<u>26,577,616</u>	<u>614,162,523</u>
Governmental activities capital assets, net	<u>\$783,885,079</u>	<u>\$ 16,927,626</u>	<u>\$ (8,110,484)</u>	<u>\$ 564,423</u>	<u>\$ 793,266,644</u>

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2011 are as follows:

<b>Governmental Activities:</b>	
General Government	\$ 4,963,912
Public Works	11,456,118
Parks & Recreation	2,362,052
Library	77,844
Public Safety	907,636
Internal Service Funds	<u>2,152,579</u>
Total	<u>\$ 21,920,141</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**5. CAPITAL ASSETS, Continued**

**C. Business-Type Activities**

Summary of changes in Business-Type activities capital assets for the year ended June 30, 2011 are as follows:

<b>Business-type activities:</b>	<b>Balance at July 1, 2010 (as Restated)</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Balance at June 30, 2011</b>
Capital assets, not being depreciated:					
Land	\$ 15,606,841	\$ -	\$ -	\$ -	\$ 15,606,841
Intangible asset - easements	621,338	129,115	-	-	750,453
Construction in progress	104,525,434	118,706,584	-	(25,909,877)	197,322,141
Total capital assets, not being depreciated	120,753,613	118,835,699	-	(25,909,877)	213,679,435
Capital assets, being depreciated:					
Buildings and improvements	692,939,734	12,205,666	-	25,909,877	731,055,277
Machinery and equipment	9,391,903	771,927	-	(564,423)	9,599,407
Total capital assets, being depreciated	702,331,637	12,977,593	-	25,345,454	740,654,684
Less accumulated depreciation for:					
Buildings and improvements	(198,034,621)	(15,728,206)	-	-	(213,762,827)
Machinery and equipment	(6,390,321)	(201,363)	-	-	(6,591,684)
Total accumulated depreciation	(204,424,942)	(15,929,569)	-	-	(220,354,511)
Total capital assets, being depreciated, net	497,906,695	(2,951,976)	-	25,345,454	520,300,173
Business-type activities capital assets, net	<u>\$618,660,308</u>	<u>\$ 115,883,723</u>	<u>\$ -</u>	<u>\$ (564,423)</u>	<u>\$ 733,979,608</u>

Business-Type activities depreciation expenses for capital assets for the year ended June 30, 2011 are as follows:

<b>Business-type Activities:</b>	
Water Utility	\$ 2,453,362
Wastewater Utility	11,070,039
Stormwater Utility	1,540,240
Central Parking District	741,857
Golf Courses	80,888
Marina	43,183
Total	<u>\$ 15,929,569</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. LONG-TERM DEBT**

**A. Governmental Activities**

Summary of changes in governmental activities long-term debt for the year ended June 30, 2011 are as follows:

	Balance July 1, 2010 (As Restated)	Additions	Reductions	Balance June 30, 2011	Due Within One Year	Due in More Than One Year
<b>Lease Revenue Refunding Bonds:</b>						
2006 Series A (Essential Services Building)	\$ 12,840,000	\$ -	\$ (370,000)	\$ 12,470,000	\$ 385,000	\$ 12,085,000
Deferred amount on refunding	(674,220)	-	31,728	(642,492)	(31,728)	(610,764)
Unamortized discount	(72,015)	-	3,389	(68,626)	(3,389)	(65,237)
<b>Lease Revenue Bonds:</b>						
2009 Series A Capital Improvement Bonds	35,080,000	-	-	35,080,000	-	35,080,000
Unamortized discount	(753,494)	-	26,652	(726,842)	(26,653)	(700,189)
<b>Variable Rate Demand Lease Revenue Bonds:</b>						
2007 Series A	36,500,000	-	-	36,500,000	-	36,500,000
2007 Series B	4,140,000	-	(140,000)	4,000,000	145,000	3,855,000
<b>Total Lease Revenue Bonds</b>	<b>87,060,271</b>	<b>-</b>	<b>(448,231)</b>	<b>86,612,040</b>	<b>468,230</b>	<b>86,143,810</b>
<b>Certificates of Participation:</b>						
Series 2003A (Redevelopment Housing)	1,160,000	-	-	1,160,000	35,000	1,125,000
Series 2003B (Redevelopment Housing)	12,140,000	-	-	12,140,000	295,000	11,845,000
Unamortized discount	(76,329)	-	3,159	(73,170)	(3,158)	(70,012)
<b>Total Certificates of Participation</b>	<b>13,223,671</b>	<b>-</b>	<b>3,159</b>	<b>13,226,830</b>	<b>326,842</b>	<b>12,899,988</b>
<b>Pension Obligation Bonds:</b>						
2007 Series A	96,585,000	-	(250,000)	96,335,000	380,000	95,955,000
2007 Series B	28,325,000	-	-	28,325,000	-	28,325,000
<b>Total Pension Obligation Bonds</b>	<b>124,910,000</b>	<b>-</b>	<b>(250,000)</b>	<b>124,660,000</b>	<b>380,000</b>	<b>124,280,000</b>
<b>Other long-term obligations:</b>						
Notes payable:						
U.S. Dept. of Housing and Urban Development	21,420,000	-	(1,200,000)	20,220,000	1,220,000	19,000,000
California Housing Finance Agency	1,050,000	-	(1,050,000)	-	-	-
Loans payable:						
San Joaquin Council of Governments #1	4,362,159	-	(1,093,950)	3,268,209	1,138,293	2,129,916
San Joaquin Council of Governments #2	497,982	30,240	-	528,222	-	528,222
Capital lease obligations:						
Fire Vehicles	870,508	-	(55,366)	815,142	57,524	757,618
Civic auditorium HVAC system	1,930,000	-	(152,266)	1,777,734	160,130	1,617,604
Citywide communications system	1,422,189	-	(259,369)	1,162,820	271,338	891,482
State Animal Control Obligation	-	1,897,436	(282,150)	1,615,286	-	1,615,286
<b>Total other long-term obligations</b>	<b>31,552,838</b>	<b>1,927,676</b>	<b>(4,093,101)</b>	<b>29,387,413</b>	<b>2,847,285</b>	<b>26,540,128</b>
<b>Redevelopment Agency:</b>						
Revenue Bonds:						
Series 2004 (Stockton Events Center-Arena)	46,320,000	-	(335,000)	45,985,000	395,000	45,590,000
2006 Series A (Redevelopment Projects)	68,745,000	-	(16,330,000)	52,415,000	-	52,415,000
2006 Series B (Redevelopment Projects)	5,570,000	-	(1,570,000)	4,000,000	1,665,000	2,335,000
2006 Series C (Housing Projects)	25,220,000	-	(420,000)	24,800,000	445,000	24,355,000
Unamortized premium	3,394,054	-	(126,560)	3,267,494	126,560	3,140,934
Settlement obligation - Marina Towers	1,801,707	-	(220,613)	1,581,094	231,864	1,349,230
<b>Total Redevelopment Agency</b>	<b>151,050,761</b>	<b>-</b>	<b>(19,002,173)</b>	<b>132,048,588</b>	<b>2,863,424</b>	<b>129,185,164</b>
<b>Total</b>	<b>\$ 407,797,541</b>	<b>\$ 1,927,676</b>	<b>\$ (23,790,346)</b>	<b>\$ 385,934,871</b>	<b>\$ 6,885,781</b>	<b>\$ 379,049,090</b>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

**A. Governmental Activities, Continued**

**Lease Revenue Refunding Bonds**

The 2006 Lease Revenue Refunding Bonds Series A were issued in the amount of \$13,965,000 by the Stockton Public Financing Authority (SPFA) on March 22, 2006. As of June 30, 2011, bonds totaling \$12,470,000 are due in installments ranging from \$385,000 to \$875,000 through August 1, 2031, with remaining interest rates ranging from 4.0% to 4.5% on the bonds outstanding. The Bonds were issued to advance refund and retire \$13,795,000 in outstanding 1999 Certificates of Participation which were used to finance a portion of the acquisition and construction of the Stewart/Eberhardt Building and an adjacent parking facility in downtown Stockton. Repayment of the Bonds is financed from lease payments pledged by the City to the SPFA. The General Fund is obligated to make the lease payments and no other funds are legally pledged to the payment of lease payments; however, certain other internal sources of funding are used by the City to make the payments. The primary sources for repayment are as follows: approximately 85% is paid by the Central Parking District Fund and approximately 15% is paid from the Public Facilities Fee Fund (Police Stations). The principal amount due is reported net of a negative deferred amount on refunding of \$642,492 and an unamortized discount \$68,626.

**Lease Revenue Bonds**

The 2009 Lease Revenue Bonds Series A were issued in the amount of \$35,080,000 by the Stockton Public Financing Authority (SPFA) on September 9, 2009. As of June 30, 2011, bonds totaling \$35,080,000 are due in installments ranging from \$525,000 to \$2,750,000 beginning September 1, 2014 through September 1, 2038, with interest rates ranging from 6.75% to 7.0% on the bonds outstanding. The Bonds were issued to finance various capital improvements located throughout the City. Repayment of the Bonds is financed from lease payments pledged by the City to the SPFA. The General Fund is obligated to make the lease payments and no other funds are legally pledged to the payment of lease payments; however, certain other internal sources of funding are used by the City to make the payments. The primary sources for repayment are the Fire Stations, Police Stations, Parklands and Street Improvements Public Facilities Fees funds' revenues. The principal amount due is reported net of an unamortized discount \$726,842. In March 2012, the City defaulted on these lease payments (Note 17).

**Variable Rate Demand Lease Revenue Bonds**

The 2007 Variable Rate Demand Lease Revenue Bonds, Series A (Tax-Exempt) were issued in the amount of \$36,500,000 by the SPFA on November 29, 2007. As of June 30, 2011, Series A bonds totaling \$36,500,000 are due in installments ranging from \$10,000 to \$2,825,000 beginning September 1, 2018 through September 1, 2048. During FY 2010-11, the Bonds bore interest at a "weekly rate" established by the remarketing agent having due regard for prevailing financial market conditions. Interest is paid monthly based on the rate, which is reset on a weekly basis. The maximum interest rate allowed on the bonds is 12% per annum and, as of June 30, 2011, the rate being paid was 4.00%. Rates paid during the year varied from a low of 0.40% to a high of 4.00%.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**Variable Rate Demand Lease Revenue Bonds, Continued**

The 2007 Variable Rate Demand Lease Revenue Bonds, Series B (Taxable) were issued in the amount of \$4,270,000 by the SPFA on November 29, 2007. As of June 30, 2011, Series B bonds totaling \$4,000,000 are due in installments ranging from \$145,000 to \$345,000 through September 1, 2027. The bonds bear interest at a "weekly rate" established by the remarketing agent having due regard for prevailing financial market conditions. Interest is paid monthly based on the rate, which is reset on a weekly basis. The maximum interest rate allowed on the bonds is 15% per annum and as of June 30, 2011, the rate being paid was 4.05%. Rates paid during the year varied from a low of 0.63% to a high of 4.05%.

These Series A and B bonds were issued to provide funds to finance the acquisition of an office building and parking garage located at 400 E. Main in downtown Stockton, which was planned to be converted into the City Administration Building replacing the aging City Hall building and other City offices. The primary source of repayment for both the Series A and B bonds is from revenues derived from lease rental revenues from tenants occupying the building. In April 2012, the City defaulted on the lease payments and the Bond Trustee pursued the City in litigation ultimately taking possession of the building (Note 17).

The bonds are subject to purchase on the demand of the bondholder at a price equal to principal plus accrued interest with seven days notice and delivery to the City's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate.

Under the Standby Bond Purchase Agreement between the Stockton Public Financing Authority, Wells Fargo Corporate Trust (Trustee) and Dexia Credit Local (liquidity facility), the Trustee or remarketing agent is entitled to draw an amount sufficient to pay the purchase price of bonds delivered by bondholders. The Standby Bond Purchase Agreement was valid through November 29, 2014 and carries a variable interest rate equal to the "base rate" as described in the agreement plus 1.0 percent. The base rate is described as the higher of the prime rate as described in the Wall Street Journal or the Federal Funds rate plus 0.50%. In no event will the rates exceed the capped rate of 25% on any outstanding bonds. In August 2012, Dexia notified the City that it was terminating the Standby Bond Purchase Agreement as a result of the City defaulting on the Bonds subsequent to the fiscal year end. After September 30, 2012, Dexia is no longer obligated to purchase Bonds under the Standby Agreement.

Bonds that failed in being remarketed will revert to Dexia Credit Local (liquidity facility) at the current rate that other bonds in the series have been marketed for in that given period. If the remarketing agent is unable to resell any bonds within 180 days, the bonds become purchased (bank) bonds and carry the rates described in the paragraph above. Purchased (bank) bonds are subject to special mandatory redemption over a seven year period with 14 equal semi-annual installments. If the entire balance of all these variable rate outstanding bonds failed to be remarketed, under the Standby Bond Purchase Agreement the City would be required to pay \$12,578,138 per year for seven years. Alternatively, the City has the option of refinancing the outstanding debt to avoid the special mandatory redemption accelerated payment provisions. Subsequent to the fiscal year end of the City, the City's remarketing agent failed to remarket the bonds and the bonds were converted to purchased (bank) bonds held by Dexia.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

**A. Governmental Activities, Continued**

**Variable Rate Demand Lease Revenue Bonds, Continued**

The City is required to pay Dexia Credit Local (liquidity facility) quarterly commitment fees based on a 0.20% for an S&P A rating to a 1.0% for an S&P rating below BBB- annual rate on outstanding bond balances. The City also pays quarterly remarketing fees based on a 0.08% annual rate on outstanding bond balances.

*Variable Rate Interest Rate Risk* - Variable interest rate bonds expose the City to interest rate risk. In order to actively manage this interest rate risk exposure, the City has undertaken various actions. Rental rates charged to the building's tenants include debt service payments at the level at which the City would have paid had the bond issue been issued as a longer-term fixed interest rate bond issuance. Secondly, both the Series A and B bonds are subject to conversion from the weekly reset period used to determine the market variable rate to an alternative time series of up to three years, and are also subject to conversion to a fixed rate structure

**Certificates of Participation**

Certificates of Participation (COP) Series 2003A (Redevelopment Housing Projects) were issued in the amount of \$1,160,000 on June 17, 2003. As of June 30, 2011, certificates totaling \$1,160,000 are due in installments ranging from \$35,000 to \$75,000 beginning September 1, 2011 through September 1, 2033, with interest rates ranging from 3.0% to 4.375% on the certificates outstanding. The COPs were issued to finance certain redevelopment housing projects. Repayment of the COPs is financed from lease payments pledged by the City to the SPFA. The principal amount outstanding at June 30, 2011 is reported net of unamortized discount of \$15,417.

Certificates of Participation (COP) Taxable Series 2003B (Redevelopment Housing Projects) were issued in the amount of \$12,140,000 on June 17, 2003. As of June 30, 2011, certificates totaling \$12,140,000 are due in installments ranging from \$295,000 to \$870,000 through September 1, 2033, with interest rates ranging from 4.52% to 5.28% on the certificates outstanding. The COPs were issued to finance certain redevelopment housing projects. Repayment of the COPs is financed from lease payments pledged by the City to the SPFA. The principal amount outstanding at June 30, 2011 is reported net of unamortized discount of \$57,753.

The City and the Redevelopment Agency have a reimbursement agreement under which the Agency has agreed to reimburse the City for payments the City makes in connection with the COPs from Housing Set-Aside monies. In the event the Agency does not have sufficient Housing Set-Aside amounts in a particular year to make such payment or any portion thereof, the City agrees to allow the Agency to carry the balance forward until there is sufficient Housing Set-Aside amount available to meet the obligation or the City may waive such payments. Unpaid reimbursement payments shall bear interest at the City's annual investment rate of return at the time in effect until paid.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. LONG-TERM DEBT, Continued**

**A. Governmental Activities, Continued**

**Certificates of Participation, Continued**

During the fiscal year ended June 30, 2011, the Agency reimbursed the City for the lease payments that it made amounting to \$667,129. As of June 30, 2011 there are no unpaid amounts by the Agency to the City. The City has pledged lease payments, to the SPFA to repay the outstanding COPs. The General Fund is obligated to make lease payments, and as described above, the General Fund has the right to reimbursement for certain Agency tax increments. For the year ended June 30, 2011, lease reimbursements were \$667,129 and the 20% Agency Housing Set-Aside was \$2,604,233. The total principal and interest remaining to be paid on the COPs is \$22,595,939.

**Pension Obligation Bonds**

The 2007 Taxable Pension Obligation Bonds (POB), Series A were issued in the amount of \$96,985,000 by the City on March 26, 2007. As of June 30, 2011, bonds totaling \$96,335,000 are due in installments ranging from \$380,000 to \$8,400,000 through September 1, 2037, with interest rates ranging from 5.14% to 5.455% on bonds outstanding. The POBs were issued to refinance a portion of the City's unfunded actuarial liability with respect to retirement benefits accruing to its members of the California Public Employees' Retirement System (CalPERS). The obligation of the City to make payments with respect to the POBs is not limited to any specific source of funds and is payable from any legally available moneys or funds of the City. No funds are pledged for payment of the POBs; however, for budgeting purposes the City treats amounts payable on the POBs in the same way it treats other budgeted payments of the City's annual required contributions to CalPERS.

The 2007 Taxable Pension Obligation Bonds (POB), Series B were issued in the amount of \$28,325,000 by the City on March 26, 2007. As of June 30, 2011, bonds totaling \$28,325,000 are due in installments ranging from \$715,000 to \$2,800,000 beginning September 1, 2018 through September 1, 2037, with interest rates ranging from 5.675% to 5.795% on bonds outstanding.

In August 2012, the City defaulted on the Series A and B POB bond payments (Note 17).

**Annual Debt Service Requirements to Maturity**

Year Ending June 30,	Lease Revenue Bonds		Certificates of Participation		Pension Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 530,000	\$ 4,556,137	\$ 330,000	\$ 659,937	\$ 380,000	\$ 6,816,216
2013	555,000	4,534,228	345,000	645,170	930,000	6,782,549
2014	1,105,000	4,493,593	360,000	629,681	1,580,000	6,718,042
2015	1,175,000	4,432,785	375,000	613,471	1,800,000	6,631,176
2016	1,235,000	4,368,342	390,000	596,539	2,035,000	6,532,617
2017-2021	7,425,000	20,729,123	2,250,000	2,686,076	14,250,000	30,681,148
2022-2026	10,530,000	18,318,509	2,860,000	2,045,826	21,295,000	25,742,076
2027-2031	14,745,000	14,886,602	3,685,000	1,202,583	25,300,000	19,535,851
2032-2036	16,390,000	10,389,596	2,705,000	215,956	36,825,000	11,007,425
2037-2041	15,625,000	5,307,200	-	-	20,265,000	1,181,827
2042-2046	10,705,000	2,583,167	-	-	-	-
2047-2049	8,030,000	386,533	-	-	-	-
Total	<u>\$88,050,000</u>	<u>\$94,985,815</u>	<u>\$13,300,000</u>	<u>\$ 9,295,239</u>	<u>\$124,660,000</u>	<u>\$121,628,927</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

**A. Governmental Activities, Continued**

**Other Long-term Obligations**

**Notes Payable**

The City has entered into four Section 108 loan guarantee agreements with the U.S. Department of Housing and Urban Development (HUD) to complete redevelopment projects. As of June 30, 2011, the first loan totaling \$2,185,000 has notes due in installments ranging from \$495,000 to \$600,000 and are to be paid August 1, 2011 through August 1, 2014, with interest rates ranging from 5.80% to 6.17%; the second loan totaling \$1,980,000 has notes due in installments ranging from \$145,000 to \$260,000 and are to be paid August 1, 2011 through August 1, 2020, with interest rates ranging from 5.80% to 6.62%; the third loan totaling \$4,575,000 has notes due in installments ranging from \$645,000 to \$890,000 and are to be paid August 1, 2015 through August 1, 2020, with interest rates ranging from 5.07% to 5.53%; the fourth loan totaling \$11,480,000 has notes due in installments ranging from \$500,000 to \$1,920,000 and are to be paid through August 1, 2024, with interest rates ranging from 3.44% to 5.25%. Repayment of the loans will be financed from program income from the use of loan funds.

The City also entered into two loan agreements with the California Housing Finance Agency for the purposes of the operation of a local housing program. Simple interest is calculated at 3.0% per annum. The term of the two loans are 10 years and 8 years from the date of the agreements and are due along with all interest charges incurred during the term of the loans. As of June 30, 2011 the loans have been fully paid from Redevelopment Agency funds that were approved by the Board.

**Loan Payable -- San Joaquin Council of Governments Loan #1**

In 2009 the City entered into a loan agreement with the San Joaquin Council of Governments (SJCOG) through an advance of future Measure K maintenance funds in the amount of \$6,543,238 to expand the City's street maintenance program. As of June 30, 2011, the outstanding balance is \$3,268,209. The term of the loan is six years in which quarterly repayments of \$272,634 began in September 2008 and continued through March 31, 2011. No interest was charged during the period of September 2008 through March 2011. Beginning April 1, 2011 through March 31, 2014, quarterly payments will be \$319,312 plus interest on any outstanding balance. The interest charges to be incurred will be based upon SJCOG's borrowing rate at that time. For purposes of providing an estimate, simple interest was 4.833% per annum at June 30, 2011.

**Loan Payable -- San Joaquin Council of Governments Loan #2**

In 2009 the City entered into a loan agreement with the San Joaquin Council of Governments (SJCOG) through an advance of future Measure K street maintenance funds in the total amount of \$863,589 to be used for preliminary engineering design of the Otto Drive Interstate I-5 interchange. As of June 30, 2011, the outstanding balance is \$528,222, with the remainder of the loan anticipated to be drawn down in fiscal year 2011/12. The term of the loan is payment in full by December 2, 2013. The interest rate charged through March 31, 2011 is 4.833% with interest rates thereafter determined at a future date.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**Annual Debt Service Requirements to Maturity**

Year Ending June 30,	<u>Notes Payable</u>		<u>Loans Payable</u>	
	U.S. Dept. of Housing & Urban Development and California Housing Finance Agency		San Joaquin Council of Governments Loan #1 and San Joaquin Council of Governments Loan #2	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,220,000	\$ 1,017,494	\$ 1,138,293	\$ 138,954
2013	1,250,000	957,671	1,194,902	82,345
2014	1,290,000	892,992	1,463,236	57,018
2015	1,335,000	824,099	-	-
2016	1,365,000	754,835	-	-
2017-2021	7,645,000	2,641,620	-	-
2022-2025	6,115,000	547,133	-	-
Total	<u>\$ 20,220,000</u>	<u>\$ 7,635,844</u>	<u>\$ 3,796,431</u>	<u>\$ 278,317</u>

**Capital Lease Obligations**

**Fire Vehicles - (Lease #1)**

On April 17, 2007 Resolution 07 - 0133 approved the execution of a Master Equipment/Lease Agreement in the amount of \$7,000,000 with Banc of America Leasing and Capital, LLC to provide a tax-exempt financing mechanism and established the underlying financing tool for designated capital projects. Under the terms of the Master Equipment/Lease Agreement, the City authorized the purchase of an aerial fire truck and water rescue vehicle for the Fire Department in the amount of \$1,000,000. The long-term master lease agreement with Banc of America Public Capital Corporation for the purchase of these vehicles has lease payments due on April 26 and October 26 through October 26, 2022 with an interest rate of 3.862%.

The assets acquired through the capital lease are as follows:

Machinery and Equipment	\$ 1,005,792
Less: Accumulated depreciation	(284,396)
Total	<u>\$ 721,396</u>

**Civic Auditorium HVAC System - (Lease #2)**

On December 15, 2009 Resolution 09 - 0422 approved the execution of a lease purchase agreement with Wells Fargo Securities, LLC in an aggregate amount not to exceed \$2,236,000 to provide a tax-exempt financing mechanism and establish the underlying financing tool for replacement of the Heating, Ventilation & Air Conditioning (HVAC) system for the Stockton Memorial Civic Auditorium. The City authorized the purchase and installation of the HVAC system, making use of \$1,930,000 of the amount authorized. The remaining portion of the project costs were covered through federal grant funding. The lease agreement has payments due on February and August through February 2020 with an interest rate of 5.10%. Lease payments are repayable from the Capital Improvement Projects Fund.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. LONG-TERM DEBT, Continued**

**A. Governmental Activities, Continued**

Capital Lease Obligations, Continued

**Civic Auditorium HVAC System - (Lease #2), Continued**

The assets acquired through the capital lease are as follows:

Construction in Progress	\$ 1,861,906
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**Citywide Communications System - (Lease #3)**

On June 24, 2008 Resolution 08 - 0261 approved the execution of a tax exempt lease through Key Government Finance in the amount of \$2,430,632 to implement a Citywide Unified Communication Environment. The tax-exempt lease has annual lease payments due on August 1 through 2014 with an interest rate of 4.615%.

The assets acquired through the capital lease are as follows:

Machinery and Equipment	\$ 441,334
Less: Accumulated depreciation	<u>(234,695)</u>
Total	<u><u>\$ 206,639</u></u>

These three leases qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments. As of June 30, 2011, the future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	Capital Lease #1		Capital Lease #2		Capital Lease #3	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 57,524	\$ 30,931	\$ 160,130	\$ 88,648	\$ 271,338	\$ 53,662
2013	59,767	28,688	168,401	80,378	283,860	41,140
2014	62,098	26,357	177,099	71,680	296,959	28,041
2015	64,519	23,936	186,246	62,533	310,663	14,337
2016	67,035	21,420	195,866	52,913	-	-
2017-2021	376,481	65,793	889,992	105,124	-	-
2022-2023	127,718	4,964	-	-	-	-
Total	<u><u>\$ 815,142</u></u>	<u><u>\$ 202,089</u></u>	<u><u>\$ 1,777,734</u></u>	<u><u>\$ 461,276</u></u>	<u><u>\$ 1,162,820</u></u>	<u><u>\$ 137,180</u></u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**State Animal Control Obligation**

The City claimed \$2.9 million from July 1, 1998 through June 30, 2007, in unreimbursed State mandates from the State of California, excluding July, 1 2003 through 2005 in Animal Adoption Program costs. Upon an audit of the mandated claims file, the State disallowed \$2.5 million of the \$2.9 million costs claimed but had already paid the City \$2.1 million for the periods mentioned above. The State findings were that the remaining \$1.9 million must be repaid to the State. The City will receive credit for repayment from offsetting future State reimbursements for mandated costs. The offset the City received during the year amounted to \$282,150. The balance of the obligation at June 30, 2011 was \$1,615,286.

**Redevelopment Agency**

**Revenue Bonds**

Revenue Bonds, Series 2004 (Stockton Events Center-Arena) were issued in the amount of \$47,000,000 on March 18, 2004 by the Redevelopment Agency (Agency). As of June 30, 2011, bonds totaling \$45,985,000 are due in installments ranging from \$395,000 to \$4,035,000 through September 1, 2036, with interest rates ranging from 2.625% to 5.0% on bonds outstanding. The Bonds were issued to finance a portion of the costs of an indoor arena, including facilities for ice hockey, indoor football, indoor soccer, concerts, and other events with a seating capacity of approximately 10,000. The Bonds are special obligations of the Agency payable from revenues consisting primarily of lease payments payable by the City to the Agency and pledge payments to be made by the Agency from certain tax increment revenues derived from specified Redevelopment Agency project areas. The lease payments are payable from the City's General Fund and no other sources of revenue are legally pledged by the City to make lease payments. Lease payments are only payable to the extent that the tax increment revenue pledged by the Agency is insufficient to pay debt service when due. The principal amount due is reported net of unamortized premium of \$1,270,827.

The City has pledged future project area tax increment from the combined Waterfront Project Area for repayment of the Revenue Bonds, Series 2004. For the year ended June 30, 2011, principal and interest paid was \$2,471,784 and project area tax increment was \$5,058,519. The total principal and interest remaining to be paid on the Revenue Bonds, Series 2004 is \$84,839,619.

Revenue Bonds, 2006 Series A (Redevelopment Projects), were issued in the amount of \$75,755,000 on July 12, 2006 by the Stockton Public Financing Authority (SPFA). As of June 30, 2011, bonds totaling \$52,415,000 are due in installments ranging from \$310,000 to \$3,060,000 and are to be paid beginning September 1, 2012 through September 1, 2037 with interest rates ranging from 5.0% to 5.25% on the bonds outstanding. These payment dates exclude September 1, 2021 which has been fully retired due to Council Resolution 10-0162 authorizing the City's purchase of outstanding bonds in response to declining property tax increment. The resolution authorized the purchase of up to \$20,000,000 in outstanding bonds utilizing available project funds. As of June 30, 2011 a total of \$23,340,000 in principal was purchased at the present value of \$19,732,981 in the secondary markets and retired which includes \$16,330,000 of principal during the current fiscal year. The purchase of the bonds resulted in a gain in the amount of \$3,269,612 which has been included as a special item in the financial statements. The retired bonds have varying amounts spread over various maturity dates.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

**A. Governmental Activities, Continued**

**Redevelopment Agency, Continued**

**Revenue Bonds, Continued**

The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a portion of three loans (collectively, the Redevelopment Loans) made pursuant to three loan agreements (the Redevelopment Agreement) between the SPFA and the Agency, relating respectively, to the Agency's Midtown Redevelopment Project, North Stockton Redevelopment Project and South Stockton Redevelopment Project. The portion of each Redevelopment Loan allocable to the Series A Bonds will be used by the Agency to finance certain redevelopment projects within or of benefit to the Midtown, North Stockton, and South Stockton Redevelopment Projects. The Bonds are special obligations of the Agency payable from tax increment revenues from the Midtown, North Stockton, and South Stockton Redevelopment Project Area. The principal amount due is reported net of unamortized premium of \$1,996,667.

Taxable Revenue Bonds, 2006 Series B, (Redevelopment Projects), were issued in the amount of \$8,445,000 on July 12, 2006 by the SPFA. As of June 30, 2011, bonds totaling \$4,000,000 are due in installments ranging from \$980,000 to \$1,665,000 and are to be paid through September 1, 2013, with interest rates ranging from 6.07% to 6.10% on the bonds outstanding. The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a portion of the Redevelopment Loans made pursuant to the Redevelopment Agreements. The portion of each Redevelopment Loan allocable to the Series B Bonds will be used by the Agency to finance certain redevelopment projects within or of benefit to the Midtown, North Stockton, and South Stockton Redevelopment Projects. The Bonds are special obligations of the Agency payable from tax increment revenues from the Midtown, North Stockton, and South Stockton Redevelopment Project Areas.

The City has pledged future project area tax increment from the South Stockton, Midtown and North Stockton Redevelopment Project Areas for repayment of the Revenue Bonds, Series 2006 A&B. For the year ended June 30, 2011, there were bond buybacks in the amount of \$16,330,000 and principal and interest paid was \$5,171,419 and project area tax increment was \$7,674,159. The total principal and interest remaining to be paid on the Revenue Bonds, Series 2006 A&B is \$101,344,803.

Taxable Revenue Bonds, 2006 Series C, (Housing Projects), were issued in the amount of \$25,985,000 on July 12, 2006 by the SPFA. As of June 30, 2011, bonds totaling \$24,800,000 are due in installments ranging from \$445,000 to \$1,720,000 and are to be paid through September 1, 2037, with interest rates ranging from 6.15% to 6.87% on bonds outstanding. The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a loan (the Housing Loan) made pursuant to a loan agreement, dated July 1, 2006, by and among the SPFA, the Agency and the Trustee (the Housing Loan Agreement). The Housing Loan will be used by the Agency to finance certain low and moderate income housing projects throughout the City of Stockton. The Bonds are special obligations of the Agency payable from the low and moderate income housing allocation.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. LONG-TERM DEBT, Continued**

**A. Governmental Activities, Continued**

**Redevelopment Agency, Continued**

Revenue Bonds, Continued

The City has pledged future project area tax increment from the Low and Moderate Income Housing Fund for repayment of the Revenue Bonds, Series 2006 C. For the year ended June 30, 2011, principal and interest paid was \$2,114,247 and the low and moderate income housing set-aside allocation was \$2,604,233. The total principal and interest remaining to be paid on the Revenue Bonds, Series 2006 C is \$52,610,054.

See Subsequent Events Note 17 concerning the dissolution of the Agency.

Settlement Obligation

On September 30, 2003, the City of Stockton, upon Resolutions 03-0588 and 03-0589, acquired the properties known as the Marina Towers through the eminent domain process. The properties were eventually rehabilitated and are currently part of the Banner Island Ballpark.

Subsequent to these acquisitions, lawsuits were filed in the Superior Court of San Joaquin regarding the legality of the eminent domain process undertaken to acquire these properties. On June 8, 2010 the City entered into an all-inclusive settlement of both cases. This settlement, passed by Resolution 10-0173, requires that payments of \$312,500 per year be made to Marina Towers LLC. These payments will be made over the course of eight years for a total of \$2,500,000.

The first payment was made in June 2010. The liability is being reported at the present value of the remaining payments in the City's government-wide financial statements in the amount of \$1,581,094 at June 30, 2011 pursuant to Accounting Principles Board Opinion No. 21. In July 2012, the City defaulted on these payments (Note 17).

**Annual Debt Service Requirements to Maturity**

Year Ending June 30,	Redevelopment Revenue Bonds		Settlement Obligation	
	Principal	Interest	Principal	Interest
2012	\$ 2,505,000	\$ 6,686,269	\$ 231,864	\$ 80,636
2013	2,595,000	6,546,779	243,689	68,811
2014	2,890,000	6,401,375	256,117	56,383
2015	2,280,000	6,270,438	269,179	43,321
2016	2,125,000	6,163,845	282,908	29,592
2017-2021	18,550,000	28,451,378	297,337	15,164
2022-2026	18,875,000	23,931,379	-	-
2027-2031	27,285,000	17,589,646	-	-
2032-2036	36,885,000	8,909,011	-	-
2037-2038	13,210,000	644,356	-	-
Total	<u>\$ 127,200,000</u>	<u>\$ 111,594,476</u>	<u>\$ 1,581,094</u>	<u>\$ 293,907</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. LONG-TERM DEBT, Continued**

**B. Business-Type Activities**

Summary of changes in governmental activities long-term debt for the year ended June 30, 2011 are as follows:

	Balance at July 1, 2010 (As Restated)	Additions	Reductions	Balance at June 30, 2011	Due Within One Year	Due in More Than One Year
<b>Water Utility</b>						
California Statewide Community Development Authority Revenue Bonds						
Series 2002A (Water System Capital Improvements)	\$ 10,690,000	\$ -	\$ (620,000)	\$ 10,070,000	\$ 640,000	\$ 9,430,000
Deferred amounts on refunding	(215,833)	-	16,818	(199,015)	(16,818)	(182,197)
Unamortized discount	(182,478)	-	14,219	(168,259)	(14,219)	(154,040)
Stockton Public Financing Authority Revenue Bonds						
Series 2005A (Water System Capital Improvements)	24,230,000	-	-	24,230,000	-	24,230,000
Unamortized premium	113,572	-	(4,468)	109,104	4,468	104,636
Stockton Public Financing Authority Revenue Bonds						
Series 2009A (Delta Water Project)	18,575,000	-	-	18,575,000	-	18,575,000
Series 2009B (Delta Water Project)	154,550,000	-	-	154,550,000	-	154,550,000
Unamortized premium	1,138,609	-	(40,424)	1,098,185	40,424	1,057,761
Stockton Public Financing Authority Revenue Bonds						
Series 2010A (Delta Water Project)	-	55,000,000	-	55,000,000	-	55,000,000
Note payable						
Federal Drought Relief Act Loan	545,621	-	(68,060)	477,561	71,464	406,097
<b>Total Water Utility</b>	<b>209,444,491</b>	<b>55,000,000</b>	<b>(701,915)</b>	<b>263,742,576</b>	<b>725,319</b>	<b>263,017,257</b>
<b>Wastewater Utility</b>						
Stockton Public Financing Authority Certificates of Participation						
Revenue COP 1998 Series A (Wastewater Projects)	80,435,000	-	-	80,435,000	2,330,000	78,105,000
Refunding COP 2003 Series A (Wastewater Projects)	10,110,000	-	-	10,110,000	625,000	9,485,000
Deferred amounts on refunding	(3,320,923)	-	252,222	(3,068,701)	(252,222)	(2,816,479)
Unamortized discount	(432,262)	-	27,296	(404,966)	(27,296)	(377,670)
<b>Total Wastewater Utility</b>	<b>86,791,815</b>	<b>-</b>	<b>279,518</b>	<b>87,071,333</b>	<b>2,675,482</b>	<b>84,395,851</b>
<b>Central Parking District</b>						
Stockton Public Financing Authority Lease Revenue Bonds						
Series 2004 (Parking and Capital Projects)	32,200,000	-	(255,000)	31,945,000	305,000	31,640,000
Unamortized discount	(58,077)	-	2,420	(55,657)	(2,420)	(53,237)
<b>Total Central Parking District</b>	<b>32,141,923</b>	<b>-</b>	<b>(252,580)</b>	<b>31,889,343</b>	<b>302,580</b>	<b>31,586,763</b>
<b>Marina</b>						
State DBAW Construction & Planning Loan	9,525,533	1,627,245	(30,650)	11,122,128	251,307	10,870,821
<b>Total Marina</b>	<b>9,525,533</b>	<b>1,627,245</b>	<b>(30,650)</b>	<b>11,122,128</b>	<b>251,307</b>	<b>10,870,821</b>
<b>Total</b>	<b>\$ 337,903,762</b>	<b>\$ 56,627,245</b>	<b>\$ (705,627)</b>	<b>\$ 393,825,380</b>	<b>\$ 3,954,688</b>	<b>\$ 389,870,692</b>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

***B. Business-Type Activities, Continued***

The City has established a reserve policy for its Water, Wastewater, and Stormwater Funds. These reserves are used to fund capital expenditures on a “pay as you go basis,” provide a cushion against any expenditure fluctuations, and helps alleviate the need for future rate increases.

The City has established a “Rate Stabilization Fund” in the Water Fund. The City may apply moneys on deposit in the Rate Stabilization fund for any lawful purpose. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as revenues of the Water Fund for such fiscal years as long as they are transferred within 270 days of the end of such fiscal year. The balance in the Water Rate Stabilization Account as of June 30, 2011 was \$8.1 million.

**Water Utility**

**Revenue Bonds**

On April 16, 2002, the City participated in the California Statewide Community Development Authority (CSCDA) Water and Wastewater Revenue Bond (Pooled Financing Program), Series 2002A, which issued Bonds in the amount of \$14,280,000 for the City of Stockton. As of June 30, 2011, bonds totaling \$10,070,000 are due in installments ranging from \$640,000 to \$1,090,000 through October 1, 2022, with interest rates ranging from 4.25% to 5.125% on the bonds outstanding. The Bonds were issued to refinance prior water system expansion bonds. Repayment of the Bonds is financed from net revenues pledged by the Water Utility Fund. The principal amount due is reported net of a deferred loss on refunding of \$199,015 and unamortized discount of \$168,259.

The 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) were issued in the amount of \$24,230,000 by the SPFA on November 3, 2005. As of June 30, 2011, bonds totaling \$24,230,000 are due in installments ranging from \$150,000 to \$2,350,000 beginning October 1, 2017 through October 1, 2035, with interest rates ranging from 4.0% to 5.0% on the bonds outstanding. The Bonds were issued to finance various water system capital improvement projects. Repayment of the Bonds is financed from net revenues pledged by the Water Utility Fund. The principal amount due is reported net of unamortized premium of \$109,104.

The 2009 Water Revenue Bonds, Series A (Tax-Exempt, Delta Water Supply Project) were issued in the amount of \$18,575,000 by the SPFA on August 11, 2009. As of June 30, 2011, bonds totaling \$18,575,000 are due in installments ranging from \$3,035,000 to \$5,655,000 beginning October 1, 2012 through October 1, 2016, with interest rates ranging from 4.0% to 5.0% on bonds outstanding. The bonds were issued for the design and construction of the first phase of the Delta Water Supply Project. Repayment of the bonds is financed from net revenues pledged by the Water Utility Fund.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

**B. Business-Type Activities, Continued**

**Water Utility, Continued**

**Revenue Bonds, Continued**

The 2009 Water Revenue Bonds, Series B (Taxable Build America Bonds, Delta Water Supply Project) were issued in the amount of \$154,550,000 by the SPFA on August 11, 2009. The Taxable 2009B Bonds were issued as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. The Authority is to receive a cash subsidy from the United States Treasury pursuant to the Recovery Act equal to 35% of the interest payable on or about each Interest Payment Date. The amount of the subsidy received for June 30, 2011 was \$4,175,006. As of June 30, 2011, bonds totaling \$154,550,000 are due in installments ranging from \$3,835,000 to \$13,570,000 beginning October 1, 2017 through October 1, 2038, with interest rates ranging from 6.09% to 7.942% on bonds outstanding. The bonds were issued for the design and construction of the first phase of the Delta Water Supply Project. Repayment of the bonds is financed from net revenues pledged by the Water Utility Fund. The principal amount due is reported net of unamortized premium of \$1,098,185.

The 2010 Variable Rate Demand Water Revenue Bonds, Series A (Delta Water Supply Project) were issued in the amount of \$55,000,000 by the SPFA on October 20, 2010. As of June 30, 2011, bonds totaling \$55,000,000 are due in installments ranging from \$180,000 to \$15,405,000 beginning October 1, 2017 through October 1, 2040. The bonds bear interest at a "weekly rate" established by the remarketing agent having due regard for prevailing financial market conditions. Interest is paid monthly based on the rate, which is reset on a weekly basis. The maximum interest rate allowed on the bonds is 12% per annum and, as of June 30, 2011, the rate being paid was 0.070%. Rates paid during the year varied from a low of 0.70% to a high of 0.32%. The bonds were issued for the design and construction of the first phase of the Delta Water Supply Project. Repayment of the bonds is financed from net revenues pledged by the Water Utility Fund.

With the issuance of the bonds the City entered into an irrevocable transferable letter of credit with Union Bank, N.A. in order to remarket the bonds at lower interest rates. The letter of credit is valid through October 18, 2013. The City is required to pay Union Bank, N.A. a quarterly Letter of Credit Fee equal to 0.92% of the outstanding principal amount of the Bonds. In addition, the remarketing agent receives an annual Remarketing Fee equal to 0.10% of the average principal amount of the outstanding bonds.

The City has pledged future net revenues from the Water Utility Fund for the repayment of all of the Water Revenue Bonds. For the year ended June 30, 2011, principal and interest paid was \$15,111,911 and net revenues were \$18,433,994. The total principal and interest remaining to be paid on the Water Utility Revenue Bonds is \$526,265,421.

**Note Payable**

In August 1977, the City accepted a Federal Drought Relief Act loan to finance drought relief projects for the Water Utility Enterprise Fund. As of June 30, 2011 the outstanding balance on this loan was \$477,561. The loan bears interest at 5.0% per annum with final payment due in July 2017. The note is repayable from the net revenue of the Water Utility Enterprise Fund.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

***B. Business-Type Activities, Continued***

**Wastewater Utility**

**Certificates of Participation**

Revenue Certificates of Participation (COP) 1998 Series A (Wastewater System Project) were issued in the amount of \$101,650,000 by the SPFA on February 3, 1998. As of June 30, 2011, certificates totaling \$80,435,000 are due in installments ranging from \$2,330,000 to \$7,325,000 through September 1, 2029, with interest rates ranging from 4.7% to 5.2% on the certificates outstanding. The proceeds of the 1998 issue were used to finance the design and construction of a sewer interceptor, to make improvements and modifications to the southern industrial sewer trunk line, and to refund the 1995 Certificates of Participation issue that financed the design, improvements and modifications to the regional wastewater control facilities. Repayment of the COPs is financed from net revenues pledged by the Wastewater Utility Fund. The principal amount due is reported net of a deferred loss on refunding of \$3,068,701 and unamortized discount of \$276,466.

Refunding Certificates of Participation (COP) 2003 Series A (Wastewater System Project) were issued in the amount of \$14,135,000 by the SPFA on May 21, 2003. As of June 30, 2011 certificates totaling \$10,110,000 are due in installments ranging from \$625,000 to \$965,000 through September 1, 2023, with interest rates ranging from 3.10% to 4.25% on the certificates outstanding. The COPs were issued to advance refund the 1993 certificates of participation. Repayment of the COPs is financed from net revenues pledged by the Wastewater Utility Fund. The principal amount due is reported net of an unamortized discount of \$128,500.

The City has pledged future net revenues from the Wastewater Utility Fund for the repayment of the COPs. For the year ended June 30, 2011, the City paid interest only of \$4,538,614 from net revenues in fiscal year 2011 and net revenues were \$11,825,563. The total principal and interest remaining to be paid on the Wastewater Utility COPs is \$140,978,321.

Required coverage ratios of 1.25 on both of the above COPs were not met in fiscal year 2008-09, which had an actual coverage ratio of 0.45. According to the bond issue indenture, failure to meet the debt coverage ratio requires the City to undertake a new rate study for consideration by Council.

The coverage ratio was not met due to extraordinary costs related to the wastewater utility having taken back operations from a private sector utility contractor, OMI Thames. Additionally, wastewater utility rates have not been increased since 1993 and through a proposition 218 vote that passed in August 2010, are being raised to cover increased operating costs and meet required coverage ratios. The rate increases are being phased in and include an adjustment mechanism to account for inflation. To ensure that coverage ratios during the phase in period are met, debt service principal payments and related interest due in September 2010 were placed in an irrevocable defeasance escrow account during the fiscal year ended 2010 for principal and interest debt service payment for fiscal year ended June 30, 2011. As a result of these efforts, the debt coverage ratio for FY 2010-11 was 2.64.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

***B. Business-Type Activities, Continued***

**Central Parking District**

**Lease Revenue Bonds**

Lease Revenue Bonds, Series 2004 (Parking and Capital Projects) were issued in the amount of \$32,785,000 by the SPFA on June 16, 2004. As of June 30, 2011, bonds totaling \$31,945,000 are due in installments ranging from \$305,000 to \$2,950,000 through September 1, 2034, with interest rates ranging from 4.0% to 5.375% on the bonds outstanding. The Bonds were issued to finance the construction of the Stockton Events Center Parking Structure, the Edward S. Coy Parking Garage, and other parking facilities within the Central Parking District. Repayment of the Bonds is financed from lease payments pledged by the City to the SPFA. The lease payments are payable from the City's General Fund and no other sources of revenue are legally pledged by the City to make lease payments; however, certain other internal sources of funding are used by the City to make payments. The primary source for repayment is certain revenues from the Central Parking District. The principal amount due is reported net of unamortized discount of \$55,657. In March 2012, the City defaulted on these lease payments. The Bond Trustee pursued the City in litigation to take possession of the City's three parking garages (Note 17).

**Marina**

**Note Payable**

On March 17, 1997, the City entered into an agreement with the California Department of Boating and Waterways (DBAW) for a planning loan to provide funding toward a feasibility study regarding the potential construction of waterfront improvements. That feasibility study was approved on May 16, 2000 and application was made for a construction loan to develop a small craft harbor facility. Engineering work began in fiscal year 2006 and construction of the facility started during the fiscal year ended June 30, 2009. This project was completed in 2011. The combined amount outstanding on both the planning and construction loans as of June 30, 2011 is \$11,122,128.

The project will be repaid under a 30-year repayment schedule at 4.5% interest, and repayment of principal began August 2011. Repayment of the loans is secured by a pledge of the gross revenues of the Marina, but such amounts are insufficient to pay full debt service. The loan provides that, subject to the requirements of Article XVI, Section 18 of the California Constitution (the "Debt Limit"), the City will make up any shortfall in debt service after application of Marina revenues. The Marina does not generate sufficient revenues to cover operational costs (net of debt service) and the City has subsidized the shortfall in operation expenses; however, the City did not make payment of debt service on August 1, 2012 (Note 17). The City does not believe the requirements of the Debt Limit have been satisfied such that the City's General Fund is obligated to make payments on the loan.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. LONG-TERM DEBT, Continued**

**B. Business-Type Activities, Continued**

**Annual Debt Service Requirements to Maturity**

Year Ending June 30,	Water Utility		Wastewater Utility		Central Parking District	
	Revenue Bonds and		Certificates of		Lease	
	Federal Drought Relief Act Loan		Participation		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 711,464	\$ 14,444,174	\$ 2,955,000	\$ 4,417,469	\$ 305,000	\$ 1,613,416
2013	3,780,037	14,352,544	3,090,000	4,287,089	360,000	1,600,116
2014	3,938,788	14,195,342	3,230,000	4,143,139	410,000	1,584,716
2015	4,102,728	14,030,653	3,390,000	3,985,729	470,000	1,566,529
2016	4,291,864	13,840,683	3,555,000	3,819,526	530,000	1,545,279
2017-2021	28,217,680	64,779,287	20,610,000	16,274,342	3,755,000	7,274,778
2022-2026	33,450,000	55,395,039	26,570,000	10,591,037	6,135,000	6,042,794
2027-2031	42,685,000	42,547,143	27,145,000	2,914,990	9,385,000	4,060,259
2032-2036	57,110,000	25,531,914	-	-	10,595,000	1,164,057
2037-2041	84,615,000	4,839,702	-	-	-	-
Total	<u>\$ 262,902,561</u>	<u>\$ 263,956,481</u>	<u>\$ 90,545,000</u>	<u>\$ 50,433,321</u>	<u>\$ 31,945,000</u>	<u>\$ 26,451,944</u>

Year Ending June 30,	Marina Note Payable	
	Principal	Interest
2012	\$ 251,307	\$ 468,370
2013	217,941	500,218
2014	194,372	490,329
2015	203,318	481,383
2016	212,677	472,024
2017-2021	1,216,823	2,206,682
2022-2026	1,525,506	1,897,999
2027-2031	1,910,569	1,512,936
2032-2036	2,392,847	1,030,657
2037-2041	2,996,768	426,704
Total	<u>\$ 11,122,128</u>	<u>\$ 9,487,302</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**6. LONG-TERM DEBT, Continued**

**C. Debt Without City Commitment**

Land Secured Debt Financing (No City Commitment) - The City has authorized the formation of community facilities districts (CFDs) and assessment districts (local improvement districts) (LIDs) and the issuance of bonds under various public improvement acts of the State of California to finance eligible public facilities necessary to serve developing commercial, industrial, residential and/or mixed use developments. The bonds are secured by annual special tax levies or liens placed on the property within the districts.

The City is not liable for repayment and is only responsible for collecting the special taxes or assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings when necessary. These bonds are payable solely from special taxes or assessments, specific reserves, and the proceeds from property foreclosures. Accordingly, the bonds are not reported as liabilities in the City's basic financial statements. As of June 30, 2011, there were nine CFD special tax bonds, two special assessment bonds, and seven revenue bonds outstanding with aggregate principal amounts payable of \$87,875,000, \$14,370,000, and \$44,900,000, respectively.

Conduit Debt (No City Commitment) - Revenue bonds, certificates of participation, and capital leases have been issued to provide financial assistance to public and private sector entities for the funding of mortgage loans, capital improvements to medical facilities and refinancing of previously existing debt deemed to be in the public interest. The debt is secured by the property financed and is payable solely from payments received on the underlying assets. Neither the City, nor the State, nor any political subdivision thereof is obligated in any manner for repayment of the debt. Accordingly, the outstanding debt is not reported as liabilities in the City's basic financial statements. As of June 30, 2011, there were two series of revenue bonds, one certificate of participation, and two leases with an aggregate principal amount payable of \$32,258,500.

**7. ACCRUED COMPENSATED ABSENCES**

The value of accumulated vacation, sick, and longevity vacation allowance is accrued, as appropriate, for all funds. A liability for these amounts is presented in the government-wide and proprietary fund financial statements. The changes in Compensated Absences of governmental and business-type activities were as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Beginning Balance	\$ 22,982,395	\$ 1,243,646	\$ 24,226,041
Prior Period Adjustments (Note 14)	<u>2,410,097</u>	<u>23,855</u>	<u>2,433,952</u>
Adjusted Beginning Balance	25,392,492	1,267,501	26,659,993
Additions	11,855,012	1,473,883	13,328,895
Payments	<u>(13,780,494)</u>	<u>(1,566,920)</u>	<u>(15,347,414)</u>
Ending Balance	<u>\$ 23,467,010</u>	<u>\$ 1,174,464</u>	<u>\$ 24,641,474</u>
Current Portion	<u>\$ 5,023,957</u>	<u>\$ 394,036</u>	<u>\$ 5,417,993</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**8. FUND BALANCES**

A summary of the composition of the City's reported nonspendable, restricted, committed, assigned and unassigned fund balance amounts as reported in the City's Governmental Funds balance sheet at June 30, 2011 is as follows:

	General Fund	HOME Program Loans	Low-Moderate Income Housing RDA Loans	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency Capital Projects	Other Governmental	Total Governmental Funds
<b>Fund balances:</b>								
Nonspendable:								
Inventories	\$ 267,547	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,547
Permanent fund - principal	-	-	-	-	-	-	304,314	304,314
Advance deposits	49,610	-	-	-	-	-	-	49,610
Total Nonspendable	<u>317,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,314</u>	<u>621,471</u>
Restricted for:								
DS/SC Invest-Dept Boat/Water	1,100,000	-	-	-	-	-	-	1,100,000
Section 108 Loan	1,000,000	-	-	-	-	-	-	1,000,000
Community development	-	-	-	-	-	-	11,500,186	11,500,186
Debt service reserve	-	-	-	-	-	-	13,662,278	13,662,278
General government	-	-	-	1,038,193	2,349,162	-	137,448	3,524,803
Housing	-	77,494	3,658,519	-	-	3,964,930	6,566,958	14,267,901
Libraries and arts	-	-	-	9,319,904	613,574	-	625,394	10,558,872
Parks and recreation	-	-	-	5,698,280	-	-	484,063	6,182,343
Public safety	-	-	-	424,298	-	-	1,110,837	1,535,135
Public service	-	-	-	-	-	-	143,848	143,848
Redevelopment	-	-	-	-	-	9,587,811	-	9,587,811
Solid waste/recycling	-	-	-	-	-	-	1,854,986	1,854,986
Streets, transit & traffic	-	-	-	33,987,713	-	-	8,893,735	42,881,448
Total Restricted	<u>2,100,000</u>	<u>77,494</u>	<u>3,658,519</u>	<u>50,468,388</u>	<u>2,962,736</u>	<u>13,552,741</u>	<u>44,979,733</u>	<u>117,799,611</u>
Committed for:								
Public works	867,645	-	-	-	-	-	-	867,645
General government operations	4,213,093	-	-	-	-	-	-	4,213,093
Total Committed	<u>5,080,738</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,080,738</u>
Assigned for:								
General government	376,580	-	-	-	-	-	-	376,580
General government operations	4,381,759	-	-	-	-	-	-	4,381,759
Total Assigned	<u>4,758,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,758,339</u>
Unassigned:								
	-	-	-	-	-	-	(15,016,652)	(15,016,652)
<b>Total Fund Balances</b>	<u>\$12,256,234</u>	<u>\$ 77,494</u>	<u>\$ 3,658,519</u>	<u>\$ 50,468,388</u>	<u>\$ 2,962,736</u>	<u>\$ 13,552,741</u>	<u>\$ 30,267,395</u>	<u>\$ 113,243,507</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**9. RETIREMENT PLANS**

The City of Stockton contributes to three pension plans; the Safety Plan of the City of Stockton, and the Miscellaneous Plan of the City of Stockton, which are both part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), and the City of Stockton Retirement Enhancement Plan, a customized supplemental retirement plan administered by Public Agency Retirement Services (PARS) for municipal utilities employees who worked under a private contract between 2003 and 2008.

All full-time City employees are eligible to participate in either the Safety or Miscellaneous retirement plans. Part-time employees must meet specific criteria for participation.

CalPERS is an agent multiple-employer agency trust, that acts as a common investment and administrative agent for participating public entities in the State of California, providing retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

CalPERS benefits are payable monthly for life in an amount equal to a certain percent of the employees highest annual salary. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the CalPERS comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA, 95814

PARS is an agent multiple-employer agency trust that acts as a common investment and administrative agent for participating public entities in the State of California. Annual financial reports for the aggregate Plan may be obtained by contacting PARS directly.

**SAFETY PLAN:**

*Plan Description* - The Safety Plan of the City of Stockton is for sworn Police and Fire employees. Sworn Safety employees are eligible for retirement at age 50 or older with a minimum of five years CalPERS service.

*Funding Policy* - Safety Plan participants are required to contribute 9% of their annual covered salary. As part of the City employees' benefit package, the City pays the employees' contribution. The City is required to contribute at an actuarially determined rate. The rate for Safety Plan members was 23.271% of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by CalPERS.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**9. RETIREMENT PLANS, Continued**

**SAFETY PLAN, Continued:**

*Annual Pension Cost* - For the year ended June 30, 2011, the City's Safety Plan annual pension costs were \$12,996,540. The annual pension costs were more than the City's required and actual contributions of \$12,703,252 due to positive interest earnings on the net pension asset offset by a negative adjustment to the annual required contribution. This was due to a declining active payroll percentage contribution. The required contribution rates were determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.55% to 13.15%; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the Safety Plan's assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Based on the actuarial valuation dated June 30, 2010 (most recent valuation), the remaining average amortization period was 28 years for the Safety Plan.

*Funded Status and Funding Progress* - As of June 30, 2011, the Safety Plan was 87.4% funded. The actuarial accrued liability for benefits was \$758,325,561. The actuarial value of assets was \$662,601,684 resulting in an unfunded actuarial accrued liability (UAAL) of \$95,723,877. The covered payroll (annual payroll of active employees covered by the plan) was \$54,798,082, and the ratio of the UAAL to covered payroll was 174.7%.

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

*Pension Asset* - The City prepaid its Annual Required Contributions (ARC) with proceeds from the 2007 Taxable Pension Obligation Bonds Series A and Series B. (See Note 6, Long-Term Debt). The City's net pension asset was determined in accordance with the provisions of GASB Statement No. 27 and represents contributions in excess of the ARC. The pension asset is being amortized over a 30 year period. The pension asset balance at June 30, 2011 is \$94,341,571 for the Safety Plan.

The City's annual pension cost and change in the net pension asset related to the Safety Plan for the year ended June 30, 2011, were as follows:

Annual required contribution	\$ 14,552,087
Interest on beginning net pension asset	(7,334,210)
Adjustment to the annual required contribution	5,778,663
Annual pension cost	<u>12,996,540</u>
Contributions made	12,703,252
Less: annual pension cost	<u>(12,996,540)</u>
Change in pension asset	(293,288)
Pension asset, beginning of the year	94,634,859
Pension asset, end of the year	<u><u>\$ 94,341,571</u></u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**9. RETIREMENT PLANS, Continued**

**SAFETY PLAN, Continued:**

Fiscal Year	Three-Year Trend Information			
	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Pension Asset
6/30/2009	\$ 10,288,755	\$ 11,932,433	116%	\$ 92,998,680
6/30/2010	10,624,275	12,260,454	115%	94,634,859
6/30/2011	12,996,540	12,703,252	98%	94,341,571

**MISCELLANEOUS PLAN:**

*Plan Description* - The Miscellaneous Plan of the City of Stockton is available to full time employees not enrolled in the Safety Plan.

City employees are eligible for retirement at age 55 or older with a minimum of five years CalPERS service.

*Funding Policy* - Miscellaneous Plan participants are required to contribute 7% of their annual covered salary. As part of the City employees' benefit package, the City pays the employees' contribution. The City is required to contribute at an actuarially determined rate. The rate for Miscellaneous Plan members was 14.087% of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by CalPERS.

*Annual Pension Cost* - For the year ended June 30, 2011, the City's Miscellaneous Plan annual pension costs were \$9,755,736. The annual pension costs were more than the City's required and actual contributions of \$7,484,660 due to positive interest earnings on the net pension asset offset by a negative adjustment to the annual required contribution. This was due to a declining active payroll percentage contribution. The required contribution rates were determined as part of the June 30, 2009 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.55% to 14.45%; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the Miscellaneous Plan's assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Based on the actuarial valuation dated June 30, 2010 (most recent valuation), the remaining average amortization was 23 years for the Miscellaneous Plan.

*Funded Status and Funding Progress* - As of June 30, 2010, the most recent valuation date, the Miscellaneous Plan was 90.4% funded. The actuarial accrued liability for benefits was \$548,129,809 and the actuarial value of assets was \$495,325,729 resulting in unfunded actuarial accrued liabilities (UAAL) of \$52,804,080. The covered payroll (annual payroll of active employees covered by the plan) was \$56,256,198 and the percentage of the UAAL to covered payroll was 93.9%.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**9. RETIREMENT PLANS, Continued**

**MISCELLANEOUS PLAN, Continued:**

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

*Pension Asset* - The City prepaid its Annual Required Contributions (ARC) with proceeds from the 2007 Taxable Pension Obligation Bonds Series A and Series B. (See Note 6, Long-Term Debt). The net prepaid pension asset was determined in accordance with the provisions of GASB Statement No. 27 and represents contributions in excess of the ARC. The pension asset is being amortized over a 30 year period. The pension asset balance at June 30, 2011 is \$33,812,481 for the Miscellaneous Plan.

The City's annual pension cost and change in the net pension asset related to the Miscellaneous Plan for the year ended June 30, 2011, were as follows:

Annual required contribution	\$ 10,348,851
Interest on beginning net pension asset	(2,796,476)
Adjustment to the annual required contribution	<u>2,203,361</u>
Annual pension cost	9,755,736
Contributions made	7,484,660
Less: annual pension cost	<u>(9,755,736)</u>
Change in pension asset	(2,271,076)
Pension asset, beginning of the year	<u>36,083,557</u>
Pension asset, end of the year	<u><u>\$ 33,812,481</u></u>

**Three-Year Trend Information**

Fiscal Year	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Pension Asset
6/30/2009	\$ 6,681,994	\$ 7,331,594	110%	\$ 35,459,693
6/30/2010	7,602,409	8,226,273	108%	36,083,557
6/30/2011	9,755,736	7,484,660	77%	33,812,481

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**9. RETIREMENT PLANS, Continued**

**ENHANCEMENT PLAN:**

*Plan Description* - The City of Stockton Retirement Enhancement Plan (REP), a closed retirement plan, provides retirement benefits for Municipal Utility Department employees for the period of time they worked for OMI-Thames Water Stockton, Inc. The City of Stockton entered into an agreement with Public Agency Retirement Services (PARS) (a public sector retirement plan administrator specializing in providing public entities customized retirement plans and solutions) to contribute to a supplemental plan for employees joining or re-joining City service after having been employed between 2003 and 2008 by OMI-Thames, a private sector utility contractor. OMI-Thames employees did not earn CalPERS service credit during the period of time OMI-Thames operated the City utilities. Upon retirement, the REP benefits will supplement any CalPERS retirement for which those particular employees are eligible. Eligibility for the REP, a single-employer postemployment defined benefit plan, other than employment with OMI-Thames between 2003 and 2008, is defined as concurrent retirement with CalPERS and the City upon attaining age 55 and a minimum of 5 years of full-time continuous service with the City, with at least 1 year of continuous City service after March 1, 2008.

*Funding Policy* - The City is required to make contributions at an actuarially determined rate. The rate for members of the REP was 14.16% of annual covered payroll. As part of the OMI-Thames relinquishment agreement, the City pays for the entire benefit obligation. A level dollar contribution amortized over 20 years is used to determine the City contribution. The contribution requirements of the plan may be amended depending on future actuarial valuations and earnings levels.

*Annual Pension Cost* - For the year ended June 30, 2011, the City's REP annual pension costs were \$736,445 and the City's contributions were \$842,523 including the prior year's Net Pension Obligation. The required contribution rate was determined as part of the June 30, 2010 actuarial valuation, using the entry age normal actuarial cost method with contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses); (b) projected salary increases that vary based on years of service from 3.85% to 12.65%; (c) inflation of 3.0%; (d) payroll growth of 3.0%. The actuarial value of the REPs assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over time. The City's REPs unfunded actuarial accrued liability is being amortized as a level dollar amount over a 20 year amortization period on a closed basis. Based on the actuarial valuation dated June 30, 2010 (most recent valuation), the remaining amortization period as of June 30, 2010 was 17.67 years.

*Funded Status and Funding Progress* - The REP began on March 1, 2008. As of June 30, 2010, the most recent actuarial valuation date, the REP was 23.2% funded. The actuarial accrued liability (AAL) for benefits was \$7,078,832 and the actuarial value of plan assets was \$1,642,635, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,436,197. The covered payroll (annual payroll of active employees covered by the REP) was \$5,200,274 and the percentage of the UAAL to covered payroll was 104.54%.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**9. RETIREMENT PLANS, Continued**

**ENHANCEMENT PLAN, Continued:**

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

<b>Three-Year Trend Information</b>				
<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Actual Contributions</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
6/30/2009	\$ 1,248,000	\$ 1,248,000	100%	\$ -
6/30/2010	729,867	623,789	85%	106,078
6/30/2011	736,445	842,523	114%	-

The following is a summary of the Net Pension Asset by pension plan at June 30, 2011:

<b>Retirement Plans:</b>	
Safety Plan	\$ 94,341,571
Miscellaneous Plan	33,812,481
Enhancement Plan	-
Total	<u>\$ 128,154,052</u>

**10. RISK SERVICES**

The City is exposed to various risks of loss related to liability torts; theft of, damage to, and destruction of assets; errors and omissions; health and medical needs of employees; and natural disasters. The City established three internal service insurance funds (General Liability, Workers' Compensation and Employee and Retiree Health Insurance funds) to account for and finance its self-insured risks of loss. Under the City's risk management program, the City retains risk for up to \$1,000,000 for each general liability claim, \$500,000 for each workers' compensation claim and \$250,000 for each medical plan member under the health benefits program. The City purchases stop loss coverage for the health benefits program from Union Labor Life Insurance Company up to a maximum of \$1,750,000 per member. The City's coverage for excess claims for general liability and workers' compensation is discussed later in this note under risk pools. The workers' compensation and health benefits programs are administered by third-party claims administrators. The general liability program is self-administered by the City of Stockton.

The City records estimated liabilities for claims filed or expected to be filed up to the amounts for which it retains risk in the Internal Service Funds, under the title, *Self-insurance claims and judgments*. Charges to the General Fund and other funds are determined from an analysis of claims costs, and are recorded as expenditures or expenses in the various funds and revenues in the internal service insurance funds. Charges for general liability and workers' compensation insurances are a percentage of payroll, and the charge for health benefits is a monthly dollar amount for all active occupied positions.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**10. RISK SERVICES, Continued**

The City contracts with independent actuaries to perform an analysis of the City's potential liability for the City's retained risk portions of the various self-insurance programs. The amounts recorded as liabilities represent estimates of amounts to be paid for reported claims, as well as incurred but not reported claims based upon past experience, modified for current trends and information. For general liability and workers' compensation for the current year, the present value of estimated outstanding losses is recognized at a 70% confidence level, using a 2.49% discount rate to reflect future investment earnings. Prior to 2006, it had been the City's practice to report the undiscounted expected value of estimated unpaid claims liabilities. While the ultimate amounts of losses incurred through June 30, 2011 are dependent on future developments, based upon information provided from the City Attorney, outside counsel and others involved with the administration of the programs, the City's management believes that the aggregate accrual is adequate to recognize such losses. There have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded coverage each of the past three years. During this fiscal year the City's self-insured retention under the health benefits program was \$250,000.

Changes in the balances of the City's claims liabilities, which includes nonincremental claims adjustments expenses, for the current and prior fiscal years are as follows:

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Health Benefits</u>	<u>Total</u>
Balance, June 30, 2009	\$ 5,574,000	\$ 45,057,000	\$ 2,735,000	\$ 53,366,000
Claims incurred	1,284,000	13,538,000	35,800,000	50,622,000
Claims paid	<u>(1,182,000)</u>	<u>(8,890,000)</u>	<u>(34,339,000)</u>	<u>(44,411,000)</u>
Balance, June 30, 2010	5,676,000	49,705,000	4,196,000	59,577,000
Claims incurred	2,034,839	11,197,257	34,086,354	47,318,450
Claims paid	<u>(1,223,276)</u>	<u>(7,593,349)</u>	<u>(34,202,954)</u>	<u>(43,019,579)</u>
Balance, June 30, 2011	<u>\$ 6,487,563</u>	<u>\$ 53,308,908</u>	<u>\$ 4,079,400</u>	<u>\$ 63,875,871</u>

**Risk Pools** - The City is a member of two joint powers authorities organized pursuant to California Government Code for the purpose of pooling self-insured losses, as described below.

*General Liability Insurance* - In 1986, the City joined with other municipalities and regional municipal joint powers authorities to form the California Joint Powers Risk Management Authority (CJPRMA), a public entity risk pool currently operating as a general liability risk management and insurance program for 22 member entities. The City's self-insured retention (SIR) is \$1 million. Losses above the City's SIR are pooled up to \$5 million per occurrence, with reinsurance in place above the \$5 million up to \$40 million. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions, physical automobile damage and certain other coverage.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**10. RISK SERVICES, Continued**

The CJPRMA governing board is comprised of a representative from each member entity. All members have a single vote for policy and charter changes. An executive committee of seven is elected to handle administration. Members are assessed annual contributions based on actuarially determined rates. CJPRMA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves. Financial statements for CJPRMA for the fiscal year ended June 30, 2011 can be obtained from CJPRMA at 322 Constitution Drive, Livermore, California 94551.

*Workers' Compensation Insurance* - The City of Stockton has been self-funded for its Worker's Compensation Program since 1979. In July 2003, in an effort to stabilize and control its costs of access to workers' compensation coverage, the City joined California Public Entity Insurance Authority (CPEIA), a public entity risk pool which operated an Excess Workers' Compensation (EWC) Program. CPEIA has since merged into an existing authority known as California State Association of Counties Excess Insurance Authorities (CSACEIA). The City's self-insured retention is currently set at \$500,000 per occurrence. Losses above the City's SIR are pooled up to \$4 million per occurrence by the Authority.

CSACEIA was formed in 1979 by 29 California counties for the purpose of pooling risk and providing a viable and cost effective solution for the counties' insurance and risk management needs. It has since expanded to allow admittance from cities and other entities and currently includes 93% of the counties in California, nearly 61% of the cities, as well as, numerous school districts, special districts, housing authorities and other Joint Powers Authorities.

*Property Protection* - The City participates in CJPRMA's All Risks Property Protection Program, which is primarily underwritten by a casualty insurance company. The Program provides \$10 million per occurrence in coverage to participating members, subject to a deductible of \$25,000. Premiums, which are negotiated each year, are based on property values and are not subject to retroactive adjustments.

**11. POSTEMPLOYMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits through CalPERS, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and various employee bargaining units.

*Plan Description* - The City of Stockton's Retiree Healthcare Plan (RHP) is a single-employer defined benefit healthcare plan administered by Delta Health Systems of Stockton, California. All City management and public safety employees who receive a CalPERS retirement allowance upon separation are eligible for coverage under the RHP at age 50. Other miscellaneous employees who receive a CalPERS retirement allowance and have 15 or more years of service are eligible for coverage at age 50. Some employees, retired for disability, may qualify at a younger age. Employees retired for disability must be covered under a medical plan of the City and be eligible to receive monthly pension for CalPERS Disability Retirement. However, disability retirement is not available to other miscellaneous employees. Currently, 960 retirees meet these eligibility requirements and participate in the Plan.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**11. POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued**

*Funding Policy* - The contribution requirements are paid by City departments and are based on amounts established in the City's Annual Budget. For the 2010/11 year, the City's contributions were financed on a pay-as-you-go basis. During the year, expenditures of approximately \$12,943,613 were recognized for payment of post-employment health care benefits. Most retirees do not contribute to the plan. Retirees who exhaust their City-paid benefit before reaching age 65 can purchase coverage until they reach age 65. Those that qualify for City paid benefits may purchase coverage for additional dependents not covered by the City's contribution to the RHP.

*Annual OPEB Cost and Net OPEB Obligation* - The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The components of the City's annual OPEB cost, contributions to the plan, and changes in the City's net OPEB obligation for the year ended June 30, 2011 were as follows:

Annual required contribution (ARC)	\$ 43,808,000
Interest on net OPEB obligation	3,413,430
Adjustment to the annual required contribution	<u>(4,244,817)</u>
Annual OPEB cost (AOC)	42,976,613
Contributions made	<u>(12,943,613)</u>
Increase in net OPEB obligation	30,033,000
Net OPEB Obligation at June 30, 2010	75,854,000
Net OPEB Obligation at June 30, 2011	<u><u>\$ 105,887,000</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the year ended June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of Annual OPEB Contributed</u>	<u>OPEB Obligation</u>
6/30/2011	\$ 42,976,613	30%	\$ 105,887,000
6/30/2010	40,891,000	34%	75,854,000
6/30/2009	34,585,000	30%	48,805,000

*Funded Status and Funding Progress* - As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$416,737,585 and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$416,737,585. The covered payroll (annual payroll of active employees covered by the plan that included data through June 30, 2011) was \$102,040,120 and the ratio of the UAAL to the covered payroll was 408.41%.

**11. POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) 4.5% investment rate of return on the City's pooled investments, (b) 3.0% general inflation assumption, (c) 3.25% projected salary increase and (d) healthcare cost trend rate of 9.3% for members who are also covered by Medicare and 9.0% for non-Medicare members. The healthcare cost trend rate was reduced by decrement to an ultimate rate of 5.0% after 8 years for both groups. The UAAL is being amortized as a level percentage of projected payroll over 30 years on a closed basis. The remaining amortization period at June 30, 2011 is 26 years.

**12. POLLUTION REMEDIATION OBLIGATIONS**

GASB Statement No. 49 requires the Agency to report a pollution remediation liability upon the occurrence of an obligating event, such as being compelled by a regulatory agency or legal action to cleanup existing pollution. The liability is estimated based on the expected future cash flows technique (i.e., the sum of the probability-weighted amounts in a range of possible estimated amounts). Only components of the liability (e.g., site assessment, site investigation, corrective measures feasibility study, remediation design, remediation operations and maintenance, and post-remediation monitoring) which can be reasonably estimated are included in the estimated liability. Expected recoveries from insurers and other responsible parties reduce the estimated liability.

Actual pollution remediation costs may vary from the estimated liability for many reasons, including changes in pollution laws and regulations, technology used for the cleanup, the remediation plan or operating conditions, prices of products and services.

The Agency has identified six sites along the Stockton channel that are designated "Brownfields" by the U.S. Environmental Protection Agency (EPA), with the goal of revitalizing contaminated properties that the Agency currently owns in the area near Stockton's downtown waterfront in the Waterfront Redevelopment Project Area. The following are details of each of the six Agency-owned contaminated sites, including a description of the pollution, the obligating event requiring remediation action, estimable remediation costs components, and recoveries by responsible parties. Details of the liabilities as of June 30, 2011 are also discussed.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**12. POLLUTION REMEDIATION OBLIGATIONS, Continued**

In order to provide clarification of the following discussion, the California Polanco Redevelopment Act (AB 3193, Chapter 1113, Statutes of 1990, Polanco), part of the Community Redevelopment Act, was enacted by the California legislature to assist redevelopment agencies in responding to brownfield properties in their redevelopment areas. It prescribes processes for redevelopment agencies to follow when cleaning up a hazardous substance release in a redevelopment project area. It also provides immunity from liability for redevelopment agencies and subsequent property purchasers for sites cleaned up under a cleanup plan approved by the California Department of Toxic Substances Control (DTSC) or a Regional Board.

The following provides a discussion of the six identified brownfield sites of the Agency:

*Area 1 (Southpointe)* – Soil and groundwater contamination has been identified in Area 1 associated with historic railroad lines and underground petroleum storage tanks and pipelines. The obligating events for this site stem from a Polanco agreement notice issued to the responsible party associated with the soil contamination, and the Agency encountering groundwater contamination as part of the planned development of the site. Estimable costs are for consultant, legal and City personnel costs for cleanup of the site. Ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2011 was \$895,050, which included reasonably estimable recovery of costs by the responsible parties.

*Area 2A-Unocal* – Soil and groundwater contamination has been identified in Area 2A-Unocal associated with total petroleum hydrocarbons, volatile and semi-volatile organic compounds. The obligating event for this site stems from a Polanco agreement notice issued to the responsible party, currently in negotiation for settlement. Estimable costs are for consultant, legal and City personnel costs for clean up of the soil contamination, and pre-cleanup and investigative study of the site relative to the groundwater contamination. Future groundwater cleanup and ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2011 was \$405,330, which included reasonably estimable recovery of costs by the responsible party.

*Area 2A-Morton/Alco* – Groundwater contamination has been identified in Area 2A-Morton/Alco associated with total petroleum hydrocarbons, volatile and semi-volatile organic compounds. The Agency has entered into a Polanco agreement with the Regional Water Quality Control Board for remediation action. Estimable costs are for consultant services and City personnel costs for pre-cleanup and investigative study of the site relative to the groundwater contamination. Future groundwater cleanup and ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2011 was \$467,457, which included reasonably estimable recovery of pre-cleanup and investigative study costs by the responsible party.

*Area 3, Area 4 and Area 24* – Soil and groundwater contamination has been identified in Area 3, Area 4 and Area 24 associated with total petroleum hydrocarbons and metals emanating from the French drains along the railroad spurs on the site. The Agency has entered into a voluntary cleanup agreement with the California Department of Toxic Substances Control (DTSC) for oversight of lead contamination on the property. A soil management plan was completed for lead and a deed restriction was placed on the property limiting it to commercial and industrial land uses. A voluntary cleanup agreement has been completed with the Central Valley Regional Water Quality Control Board (CVRWQCB) related to petroleum contaminated soil and groundwater that emanated from the French drains. The Agency is currently under discussions with the state DTSC and the CVRWQCB regarding the appropriate agency to enter into a Polanco agreement to access sub-surface conditions in Areas 3, 4, and 24.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**12. POLLUTION REMEDIATION OBLIGATIONS, Continued**

Estimable costs include consultant, legal and City personnel costs for cleanup of the sites and for post-remediation/monitoring. The net pollution remediation liability for Area 3 and Area 4 includes reasonably estimable recovery of post-remediation/monitoring costs by the responsible parties. The net liability of Area 3 as of June 30, 2011 is (\$67,611) which included reasonably estimable recovery of costs by the responsible party and adjustments in the estimate during fiscal year 2011 for corrective measures, feasibility study and remediation design, offset by a revised estimate of the recovery by the responsible parties. A net recovery is expected due to expenditures incurred by the City during fiscal year 2011. The net liability for Area 4 at June 30, 2011 remains at \$55,000. The net pollution remediation liability for Area 24 as of June 30, 2011 was \$137,507, which included reasonably estimable recovery of costs by the responsible party.

In summary, as reflected in the governmental activities statement of activities, the total net pollution remediation liability of the six sites as of June 30, 2011 was \$1,892,733, which included reasonably estimable recovery of costs by the responsible parties. During the year ended June 30, 2011, the City incurred \$80,581 in related pollution remediation outlays and adjustments to future outlays, and recoveries for the polluted sites.

**13. INDIVIDUAL FUND DISCLOSURES**

**A. Deficit Fund Balances**

At June 30, 2011, the following funds had net assets or fund balance deficits:

<u>Fund</u>	<u>Fund Type</u>	<u>Deficit</u>
Stockton Public Financing Authority	Non-Major Governmental - Special Revenue Fund	\$ 15,016,652
General Liability Insurance	Internal Service Fund	\$ 3,766,246
Workers' Compensation Insurance	Internal Service Fund	\$ 40,308,335
Employee and Retiree Health Insurance	Internal Service Fund	\$ 109,426,440

- The Stockton Public Financing Authority Debt Service Fund (nonmajor governmental) has a deficit fund balance of (\$15,016,652) as of June 30, 2011 due to the reclass of the (\$19,141,192) Howard Jarvis settlement pertaining to the Water and Wastewater Enterprise Funds into the Fund. The liabilities were previously recorded in the General Fund (\$7,502,935) and Capital Improvement Fund (\$11,638,257). The General Fund and Capital Improvement Fund are to transfer monies in to pay down the Howard Jarvis settlement.
- General Liability Insurance Fund (internal service fund) has an accumulated deficit fund balance of (\$3,766,246) as of June 30, 2011. The City has historically budgeted revenues and projected on a cash basis. Contributions to cover claims expenditures are based on a percentage of payroll based upon city-wide loss experience. As a result, contributions have been insufficient to cover the outstanding claims liabilities. On an accrual basis of accounting, the Fund has a long-term liability of (\$4,370,747) for claims and judgments while the cash balance of the fund as of June 30, 2011 is \$1,671,568. Currently the rates are proposed to cover anticipated annual cash flow, and have not been increased to cover the actuarial value of losses for the year or to address past funding deficits.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**13. INDIVIDUAL FUND DISCLOSURES, Continued**

**A. Deficit Fund Balances, Continued**

- The Workers' Compensation Insurance Fund (internal service fund) has an accumulated deficit fund balance of (\$40,308,335) as of June 30, 2011. The City has historically budgeted revenues and projected expenditures in the Fund on a cash basis. Contributions to cover claims expenditures are based on a percentage of payroll based upon city-wide loss experience. As a result, contributions have been insufficient to cover the outstanding claims liabilities. On an accrual basis of accounting, the Fund has a long-term liability of (\$44,973,099) for claims and judgments while the cash balance of the fund as of June 30, 2011 is \$6,354,206. The City has increased rates in Fiscal Year 2011-12 to help fund the accumulated deficit over time.
- The Employee and Retiree Health Insurance Fund (internal service fund) has an accumulated deficit fund balance of (\$109,426,440) as of June 30, 2011. The City budgets revenues and projects expenses in the on a cash basis. On an accrual basis of accounting, the Fund has a long-term liability for Other Postemployment Benefits (OPEB) of (\$105,887,000) and an operating loss of (\$30,812,071) due to the increase in the OPEB accrual. The Fund had a cash balance of \$381,992 as of June 30, 2011. As part of the City's pendency plan filed under Chapter 9 bankruptcy, the City Council has authorized the discontinuance of the retiree health benefits to be phased in over a two year period beginning in Fiscal Year 2012-13. This action was taken to reduce or eliminate the unfunded OPEB liability and restore the Fund's financial health.

**B. Expenditures In Excess Of Appropriations**

For the year ended June 30, 2011, expenditures exceeded appropriations in the following programs/functions/fund (legal level of budgetary control) of the respective funds:

<u>Funds</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures over Appropriations</u>
<b>General Fund:</b>			
General government:			
City auditor	\$ 449,490	\$ 471,516	\$ (22,026)
Public works	3,343,278	3,526,010	(182,732)
<b>Low-Moderate Income Housing Loans Special Revenue Fund:</b>			
Capital outlay	25,417	4,994,615	(4,969,198)

The General Fund expenditures for the City Auditor and Public Works Departments were higher than anticipated for these departments due to increased external audit fees as well as budget classification of expenditures. The General Fund, however, did not have excess expenditures over appropriations at the fund level.

The Low-Moderate Income Housing Loans Fund had expenditures exceed appropriations due to a change in accounting method effected at year-end on the treatment for recording loan expenditures and the final budget was not adjusted for this.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**14. PRIOR PERIOD ADJUSTMENTS**

**A. Fund Financial Statements - Governmental**

On July 1, 2010, the City recorded the following prior period adjustments to the following governmental funds:

	Special Revenue			Capital Projects				Total
	General Fund	HOME	Low-Moderate	Public	Capital Improvement	Redevelopment Agency	Other Governmental	
		Program Loans	Income Housing RDA Loans	Facilities Impact Fees				
Fund Balances, as Previously Reported	\$ 23,147,205	\$ 24,579,791	\$ 51,759,628	\$ 63,589,471	\$ 14,964,668	\$ (6,200,955)	\$ 86,908,392	\$ 258,748,200
Change in Accounting Method:								
Home-owner loan reclassification	-	(21,989,226)	(44,115,358)	-	-	(254,861)	(25,356,214)	(91,715,659)
Recategorization of fund balance	-	-	2,713,365	-	-	(2,713,365)	-	-
Total	-	(21,989,226)	(41,401,993)	-	-	(2,968,226)	(25,356,214)	(91,715,659)
Correction of Errors:								
Allowances for interfund loans	(10,922,902)	-	-	(100,207)	(18,617,350)	32,843,078	(14,060,590)	(10,857,971)
Recording interfund loan interest	-	-	-	220,353	-	-	-	220,353
Prior years accrual adjustments	(1,247,891)	-	-	-	-	1,170,316	(413,028)	(490,603)
Customer accounts receivable adjustments	(2,420,707)	-	-	(446,258)	10,483	-	(1,155,725)	(4,012,207)
Parking citation double counting	(496,527)	-	-	-	-	-	-	(496,527)
Correcting homeowner loan balances	-	(2,274,453)	-	-	-	-	(39,000)	(2,313,453)
Total	(15,088,027)	(2,274,453)	-	(326,112)	(18,606,867)	34,013,394	(15,668,343)	(17,950,408)
Fund Balances, as Adjusted	\$ 8,059,178	\$ 316,112	\$ 10,357,635	\$ 63,263,359	\$ (3,642,199)	\$ 24,844,213	\$ 45,883,835	\$ 149,082,133

**General Fund**

Adjustments of (\$15,088,027) are the result of the following: (1) establishing allowances for doubtful accounts on two long-term interfund loans amounting to (\$10,194,945) and (\$727,957) relating to the Stormwater Utility Enterprise Fund and Redevelopment Agency Capital Projects Fund, respectively (see Note 3B for more information), (2) (\$2,420,707) decrease resulting from the setting up an allowance for doubtful accounts across various receivable account types based on updated aging analysis and reconciliation to the subsidiary ledger as well as necessary deferred revenue reclasses on certain receivables that should have been billed, deferred or allowed against in prior years, (3) (\$496,527) decrease to receivables caused by the double counting of parking citation revenue in the prior year, (4) a (\$1,247,891) decrease attributable to (a) (\$816,000) decrease related to the Stockton Ports deferred licensing fees, (b) (\$181,945) decrease attributable to miscellaneous cash reconciliation corrections, (c) \$65,359 net increase from adjusting prepaid asset and other liability accounts and (d) (\$315,305) decrease representing payroll clearing account balance sheet adjustments.

**HOME Program Loans**

Adjustments of (\$24,263,679) are the result of (1) a (\$21,989,226) reduction due to a change in accounting method, (2) a (\$2,274,453) decrease attributable to correcting the overstated homeowner loan balances on the City's General Ledger compared to the third-party administrator's (Amerinational) loan portfolio statements. The change in accounting method established the use of the deferred revenue account as an offset to the homeowner loans receivable balances compared to the outstanding balance being a component of Fund Balance. This change is a better reporting practice given that these loans are long-term in nature and with many having forgiveness clauses based on performance criteria.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**14. PRIOR PERIOD ADJUSTMENTS, Continued**

**A. Fund Financial Statements - Governmental, Continued**

**Low/Moderate Income Housing Loans**

Adjustments of (\$41,401,993) are the result of a (1) (\$44,115,358) reduction due to a change in accounting method (2) \$2,713,365 increase attributable to the recategorization of the Low/Moderate Income Housing Projects Capital Projects Fund into this fund. The change in accounting method established the use of the deferred revenue account as an offset to the homeowner loans receivable balances compared to the outstanding balance being a component of Fund Balance. This change is a better reporting practice given that these loans are long-term in nature and with many having forgiveness clauses based on performance criteria

**Public Facility Fees**

Adjustments of (\$326,112) are the result of (1) adding accrued interest of (\$100,207) to the allowance for doubtful accounts on the interfund loan receivable from the Redevelopment Agency Capital Projects Fund, (2) recording \$220,353 in accrued interest on the interfund loan with the Central Parking District (deemed collectible) and (3) a (\$446,258) decrease associated with setting up an allowance for permit receivables based on collectability and aging analysis.

**Capital Improvements Funds**

Adjustments of (\$18,606,867) are the result of the following: (1) establishing allowances for doubtful accounts on three long-term interfund loans of (\$17,056,101), (\$797,749) and (\$763,500) pertaining to the Redevelopment Agency Capital Projects Fund, Stormwater Utility Enterprise Fund and the Non-Major Golf Courses Enterprise Fund, respectively (see Note 3B for more information) and (2) \$10,483 increase to miscellaneous receivables based on collectability analysis.

**Redevelopment Agency Capital Projects Fund**

Adjustments of \$31,045,168 are the result of the following: (1) establishing a contra liability on six long-term interfund loans amounting to \$32,843,078 with the General Fund, Low/Moderate Income Housing RDA Loans Special Revenue Fund, Public Facilities Impact Fees Capital Projects Fund, Capital Improvement Capital Projects Fund, Development Services Special Revenue Fund (non-major), Wastewater Utility Enterprise Fund and Central Parking District Enterprise Fund (see Note 3B for more information), (2) (\$2,713,365) decrease related to the recategorization of a sub fund into the Low/Moderate Income Housing RDA Loans Special Revenue Fund, (3) \$1,170,316 increase due to the removal of accrued legal expenses that were paid in the prior year but the accrual was not reversed and (4) (\$254,861) reduction due to a change in accounting method pertaining to homeowner loans and the use of the deferred revenue account instead of Fund Balance as has been noted with the other funds.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**14. PRIOR PERIOD ADJUSTMENTS, Continued**

**A. Fund Financial Statements - Governmental, Continued**

**Other Governmental (Non-Major Governmental Funds)**

Adjustments of (\$41,024,557) are the result of the following: (1) a (\$25,356,214) reduction due to a change in accounting method pertaining to homeowner loans and the use of the deferred revenue account instead of Fund Balance as has been noted with the other funds, (2) establishing an allowance for doubtful accounts on two long-term interfund loans amounting to (\$13,863,640) and (\$196,950) with the Redevelopment Agency Capital Projects Fund and Development Services non-major fund, (3) (\$413,028) in total adjustments to accrual balances, (4) (\$1,155,725) related to establishing allowance for doubtful accounts on various Fire, Community Development and Miscellaneous receivables and (5) (\$39,000) decrease related to adjusting homeowner loan balances.

**B. Fund Financial Statements - Proprietary**

On July 1, 2010, the City recorded the following prior period adjustments to the following proprietary funds:

	Water Utility	Wastewater Utility	Stormwater Utility	Central Parking District	Other Non-Major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds	Total Proprietary Funds
Fund Balances, as Previously Reported	\$131,117,514	\$293,089,058	\$43,412,476	\$6,842,761	\$ (53,208)	\$474,408,601	\$(93,048,518)	\$381,360,083
Correction of Errors:								
Allowances for interfund loans	-	(51,222)	10,992,694	(847,000)	763,499	10,857,971	-	10,857,971
Recording interfund loan interest	-	-	-	(280,741)	-	(280,741)	60,378	(220,363)
Prior years accruals adjustments	98,933	153,461	-	-	(10,900)	241,494	-	241,494
Customer accounts receivable adjustment	1,779,650	(2,259,884)	(155,251)	-	-	(635,485)	918,999	283,514
Custodial accounts adjustments	566,891	-	-	-	-	566,891	-	566,891
Compensated absences	(290)	(22,426)	(747)	(392)	-	(23,855)	(14,559)	(38,414)
Downtown marina asset and debt transfer	-	-	-	-	16,100,510	16,100,510	-	16,100,510
<b>Total</b>	<b>2,445,184</b>	<b>(2,180,071)</b>	<b>10,836,696</b>	<b>(1,128,133)</b>	<b>16,853,109</b>	<b>26,826,785</b>	<b>964,818</b>	<b>27,791,603</b>
Fund Balances, as Adjusted	\$133,562,698	\$290,908,987	\$54,249,172	\$5,714,628	\$16,799,901	\$501,235,386	\$(92,083,700)	\$409,151,686

**Water Fund**

Adjustments of \$2,445,184 are the result of (1) adjustments to the customer accounts receivable accounts based on a reconciliation and aging analysis amounting to a \$1,840,732 increase due to increasing the unbilled receivable balance of the prior year with minor offsets of (\$61,082) from revising the allowance for uncollectible customer accounts, (2) \$98,933 increase in due from the General Fund relating to the Howard Jarvis settlement in accordance with the court ordered settlement, (3) \$566,891 increase attributable to the reconciliation of the subsidiary ledger to the General Ledger across the custodial accounts (advance payments) and (4) (\$290) decrease related to compensated absences adjustment.

**Wastewater Fund**

Adjustments of (\$2,180,071) are the result of (1) a decrease of (\$2,259,884) in accounts receivable based on a reconciliation of the subsidiary ledger to the General Ledger with CalWater amounting to (\$1,978,123) of this decrease and (\$281,761) decrease based on adjusting the allowance for uncollectible accounts relating to the Wastewater Connection Fees and other accounts, (2) (\$22,426) decrease related to compensated absences adjustment, (3) \$153,461 increase in due from other funds relating to the Howard Jarvis settlement in accordance with the court ordered settlement, (4) establishing a (\$51,222) allowance for doubtful accounts with the Redevelopment Agency Capital Projects Fund relating to the receivable for the Deferred Enterprise Zone program which is likely uncollectible.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**14. PRIOR PERIOD ADJUSTMENTS, Continued**

***B. Fund Financial Statements - Proprietary, Continued***

**Stormwater Fund**

Adjustments of \$10,836,696 are the result of recording a (1) \$10,992,694 contra liability on the long-term interfund loans payable balance that is owed to the General Fund \$10,194,945 and the Capital Projects Capital Improvement Fund \$797,749 relating to the Howard Jarvis settlement receivable due to the City filing for Chapter 9 bankruptcy protection subsequent to June 2011 as collectability of this amount is deemed uncertain, (2) (\$155,251) decrease based on a reconciliation and aging analysis on receivables and (3) a (\$747) decrease related to compensated absences.

**Central Parking District**

Adjustments of (\$1,128,133) relate to (1) establishing an allowance for doubtful accounts of (\$847,000) relating to the long-term interfund loan with Redevelopment Agency Capital Projects Merged Waterfront project area, (2) the accrual of prior years' accrued interest payable on two loans in the amounts of (\$220,353) and (\$60,387) to the Public Facility Fees Air Quality (City-Wide) Fund and General Insurance Internal Service Fund, respectively and (4) a (\$392) decrease related to compensated absences.

**Other Proprietary Funds (Non-Major Enterprise Funds)**

Adjustments of \$16,853,109 relate to (1) recording to the Golf Courses Fund a \$763,499 contra liability on the long-term interfund loan payable balance that is owed to the Capital Projects Capital Improvement Fund and (2) recording to the Downtown Marina Fund the \$25,626,042 marina capital asset and related debt of (\$9,525,532) as the project was completed in fiscal year 2009-10 and should have been transferred from the Redevelopment Agency to the Downtown Marina Fund, as well as (\$10,900) of net activity from fiscal year 2009-10 that had not previously been recorded.

**Internal Service Funds**

Adjustments of \$964,818 relate to the recording to the General Insurance Fund a \$918,999 property damage reimbursement receivable and \$60,378 interest accrual on the interfund loan with the Central Parking District Enterprise Fund as well as a (\$14,559) total decrease relating to the understatement of accrued compensated absences amongst the Internal Service Funds.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**14. PRIOR PERIOD ADJUSTMENTS, Continued**

*C. Government-Wide Financial Statements*

In addition to the prior period adjustments recorded in the Fund Financial Statements, the City recorded the following additional prior period adjustments in the Government-Wide Financial Statements:

	<u>Fund Balances, as Previously Reported</u>	<u>Corrections of Errors</u>	<u>Fund Balances, as Restated</u>
<b>Governmental Activities</b>	\$ 662,020,332	\$ (33,955,636)	\$ 628,064,696
<b>Business-Type Activities</b>	<u>474,408,601</u>	<u>26,826,785</u>	<u>501,235,386</u>
<b>Total</b>	<u>\$ 1,136,428,933</u>	<u>\$ (7,128,851)</u>	<u>\$ 1,129,300,082</u>

Accordingly, net assets were restated as follows:

**Governmental Activities**

Adjustments of (\$33,955,636) resulted from (1) (\$1,151,666) decrease related to the pollution remediation liability on the projects areas being understated due to calculation error, (2) (\$2,392,321) decrease related to compensated absences adjustment, (3) reclass of the Marina project capital assets of (\$25,626,042) along with associated debt of \$9,525,532 due to the transfer to the Downtown Marina Enterprise Fund (Business-Type activities) and (4) (\$14,311,139) representing the non-eliminated carry-over of governmental fund adjustments noted in the previous section)

**Business-Type Activities**

Business-Type activities adjustments of \$26,826,785 are the same as those recorded in the Proprietary Enterprise Funds as there were no eliminations between Proprietary funds and the Government-Wide Financial Statements (see Proprietary Fund - Enterprise prior period adjustments in the previous section).

**15. SPECIAL ITEM**

During the year ended June 30, 2011, a total of \$16,330,000 in outstanding principal relating to the 2006 Series A Revenue Bonds of the Redevelopment Agency were purchased at the present value of \$13,296,845 including fees and accrued interest in the secondary markets and retired. The purchase of the bonds resulted in a gain in the amount of \$3,269,612, which has been included as a special item in the financial statements. The transaction was subject to management's control and considered infrequent in occurrence. The special item is reflected in the Government-Wide Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds for the Redevelopment Agency Debt Service Fund (nonmajor).

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**16. COMMITMENTS AND CONTINGENCIES**

*Contingent Liability - Pending Litigation*

Various claims and legal actions are pending against the City, some of which have a reasonable possibility for an unfavorable outcome. These legal actions involve property, personal injury, and civil rights claims. Financial Accounting Standards Board *Accounting Standards Codification 450, Contingencies (formerly Statement of Financial Accounting Standards Statement No. 5, Accounting for Contingencies)* requires disclosure of pending litigation for which a contingency is reasonably possible and the amount reasonably estimable. Amounts for the above mentioned claims, that are not reasonably estimable at this time, have not been included in the financial statements. Management believes that ultimate disposition of these matters will not have a material adverse effect on the City's financial position or results of operations.

The City is self-insured and participates in two public entity risk pools. Details of this are covered in Note 10, Risk Services.

*Police Department Labor Agreements*

In 2010, the City Council enacted Resolution No. 10-0166 that declared a state of emergency based on fiscal circumstances, and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget for fiscal year 2010-11. On June 22, 2010, the City Council approved resolutions 10-0200 and 10-0201 adopting emergency measures affecting the terms and conditions of labor agreements for sworn employees in the Police departments. The emergency measures temporarily suspended scheduled pay increases from taking effect during fiscal year 2010-11, as scheduled by labor agreements with the police union.

As a result of the adoption of the fiscal emergency declaration and measures, the Stockton Police Officers Association has initiated grievance claims for some of the disputes that may end in arbitration actions against the City to force termination of the emergency measures. Resolution of these actions is expected during fiscal year 2012-13. Adverse decisions or judgments when claims are settled, may result in retroactive payments to sworn employees that will negatively impact the financial position of the City's General Fund at fiscal year-end 2013.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**16. COMMITMENTS AND CONTINGENCIES, Continued**

*Capital Commitments*

The City is undertaking a number of capital improvement projects, the most significant of which include the following capital project commitments outstanding at June 30, 2011:

	<u>Amount</u>
Water Utility - Delta Diversion Water Project	\$ 34,639,079
Lower Sacramento Road Widening/UPRR	13,954,171
Eight Mile Road/UPRR (E) Grade Sep.	10,154,225
Eight Mile Road/UPRR (E) West Sep.	9,765,191
Developer reimbursements	5,852,760
Rubberized Cap Seal	<u>3,369,484</u>
Total capital project commitments	<u>\$ 77,734,910</u>

*Operating Leases*

Operating lease obligations are primarily for rental of parking facilities space, but other lease obligations are included. Total expenditures for leases were \$212,069 for the year ended June 30, 2011. The future minimum lease payments required for those operating leases are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2012	\$ 222,673
2013	233,806
2014	245,496
2015	257,771
2016	270,659
2017-2021	1,570,337
2022-2026	<u>2,004,186</u>
Total	<u>\$ 4,804,928</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**16. COMMITMENTS AND CONTINGENCIES, Continued**

*Encumbrances*

The City utilizes encumbrance accounting as a means of controlling expenditures. Under this method, funds are encumbered when purchase orders, contracts and other commitments are signed or approved by authorized City officials. Such outstanding commitments at year-end do not constitute expenditures or liabilities.

GASB Statement No. 54 provides additional guidance on the classification within the fund balances section of amounts that have been encumbered. Encumbrances of balances within the governmental funds are classified as either nonspendable, committed, restricted or assigned and are included in the respective functional categories. These encumbrances are not separately classified in the financial statements, and are summarized at June 30, 2011 as follows:

	<u>Amount</u>
General Fund	\$ 1,434,721
Public Facility Impact Fees	\$ 8,526,115
Capital Improvements	\$ 20,650,986
Redevelopment Agency	\$ 1,342,299
Other Governmental	\$ 24,418,389

*Operating Leases*

Operating lease obligations are primarily for rental of parking facilities space, but other lease obligations are included. Total expenditures for leases were \$212,069 for the year ended June 30, 2011. The future minimum lease payments required for those operating leases are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2012	\$ 222,673
2013	233,806
2014	245,496
2015	257,771
2016	270,659
2017-2021	1,570,337
2022-2026	2,004,186
Total	<u>\$ 4,804,928</u>

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**16. COMMITMENTS AND CONTINGENCIES, Continued**

*Facilities Management Agreement*

On January 25, 2011, the Stockton City Council approved a Facilities Management Agreement (Agreement) with Spectacor Management Group (SMG) for providing operation management and marketing services to the City for the Stockton Events Center, which includes a multi-purpose indoor arena and a baseball park, the Events Center common areas, the Bob Hope Theatre and the Oak Park Ice Arena. The Agreement was entered into upon termination of the agreement with International Facilities Group (IFG), which had been managing the Arena venue since 2004.

SMG is responsible for operating these facilities in keeping with the management goals set and approved each year by the City Council, with the overarching goal of having the facilities operating revenues exceed the respective operating expenses.

The Agreement is for a period of five years commencing in 2011, and may be renewed at the option of the City for one additional five-year period. Either party may terminate the Agreement for cause during the agreement period due to a material breach by the other party or for default. Beginning in 2014, the City may terminate the Agreement without cause.

SMG is required to provide various fidelity and performance bonds, which includes various types of coverage in the amount of \$1,000,000. These coverage's extend to the areas of: Commercial General and Automobile Liability, Professional Errors and Omissions, Crime, Employment and Worker's Compensation. Additionally, there is an umbrella Liability coverage requirement of \$5,000,000.

Compensation to SMG is determined from a base fee for all venues, plus performance based compensation, as defined in the Agreement. Both of these components are eligible for periodic adjustments based on the consumer price index (CPI).

Financial activities of the Facilities Management Agreement is reported in the General Fund.

*Federal and State Grant Programs*

The City participates in a number of state and federal grant programs that are subject to financial and compliance audits by the grantors. Audits of certain grant programs for or including the year ended June 30, 2011, have not yet been conducted or completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, management does not believe that any audit disallowances would have a material effect on the financial position of the City.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**17. SUBSEQUENT EVENTS**

*A. Recent Changes in Legislation Affecting California Redevelopment Agencies*

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by the City opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. Concurrently with these two measures, the State passed various budget and trailer bills that are related and collectively constitute the Redevelopment Restructuring Acts. If all sponsoring communities were to opt-in to the voluntary program, these contributions amount to an estimated \$1.7 billion for fiscal year 2012 and an estimated \$400 million in each succeeding year.

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of ABx1 26 and 27 to the California Supreme Court on numerous grounds, including that the acts violate certain provisions of the California Constitution. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities.

On December 29, 2011, the Supreme Court issued its opinion largely upholding as constitutional ABx1 26, invalidating as unconstitutional ABx1 27, and holding that ABx1 26 may be severed from ABx1 27 and enforced independently. The Supreme Court generally reformed and revised the effective dates and deadlines for performance of obligations under Health and Safety Code Part 1.85 of ABx1 26 arising before May 1, 2012, to take effect four months later, while leaving the effective dates or deadlines for performance of obligations under Health and Safety Code Part 1.8 of AB 26 unchanged. The effective date of Agency dissolution was delayed until February 1, 2012.

The suspension provisions of ABx1 26 prohibit all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26. During the suspension period, an agency is required to prepare an Enforceable Obligation Payment Schedule no later than August 29, 2011, that allows it to continue to pay certain obligations. The Agency adopted its Enforceable Obligation Payment Schedule (EOPS) on August 23, 2011.

In addition, the suspension provisions require the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the State Controller is required to order the asset returned to the successor agency. The State Controller's Office has not yet scheduled this asset transfer review.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**17. SUBSEQUENT EVENTS, Continued**

Management has evaluated subsequent events to determine if events or transactions through the date of the financial statements require adjustment to, or disclosure in the financial statements.

**A. Recent Changes in Legislation Affecting California Redevelopment Agencies, Continued**

The Agency is currently subject to the suspension provisions as described above, and was dissolved effective February 1, 2012. The City has the election to have the City form and operate the successor agency. All assets and liabilities of the Agency were transferred to the successor agency effective February 1, 2012.

**B. Fiscal Emergency, AB 506 Negotiations, Chapter 9 Bankruptcy and Pendency Plan Adoption**

On May 26, 2010, the City Council declared a state of emergency based on fiscal circumstances and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget for fiscal year 2010-11, which was accomplished. Unfortunately, the City's fiscal health continued to deteriorate in fiscal years 2010-11 and 2011-12 despite various cost cutting measures the City implemented. As a result, the fiscal emergency was continued on May 17, 2011 and February 28, 2012, along with Council authorization for the City Manager to enter into the measures specified in California Assembly Bill 506 (AB 506). By participating in the AB 506 process, the City hoped that discussions with creditors would yield concessions relating to the City's obligations. While progress was made with some creditors, sufficient progress was not made to avoid insolvency, thereby leading the City to file a petition for chapter 9 bankruptcy relief on June 28, 2012.

Additionally, the City adopted a Pendency Plan on June 26, 2012, under which it is operating for fiscal year 2012-13. Payments of principal and interest for General Fund debt obligations not required for the City to operate have been suspended, pending the outcome of the bankruptcy process. The Bankruptcy Judge has appointed a mediator to work with the City and its largest creditors during the bankruptcy process toward a plan of adjustment.

Several creditors challenged the City's petition on eligibility to be a chapter 9 debtor. The City is currently in discovery on the eligibility issue, and the case is expected to be heard in early 2013. The City started mediation with creditors in October 2012.

The City was current on all debt payments for fiscal year 2010-11. On February 28, 2012, the Council approved suspending payment on three bonds, with payments due at various times prior to the end of the fiscal year 2011-12, to preserve General Fund cash and attempt to avoid insolvency. Accordingly, the City entered into default on the following debt obligations, beginning in fiscal year 2011-12:

- 2004 Series Lease Revenue Bonds of the Stockton Public Financing Authority (Parking and Capital Projects)
- 2007 Series A and B Variable Rate Demand Lease Revenue Bonds (City Admin Building)
- 2009 Series A Lease Revenue Refunding Bonds (Capital Improvement Bonds)

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**17. SUBSEQUENT EVENTS, Continued**

***B. Fiscal Emergency, AB 506 Negotiations, Chapter 9 Bankruptcy and Pendency Plan Adoption, Continued***

The City's bankruptcy filings and Pendency Plan notified debt creditors that the City would enter into default on the following debt and contractual obligations beginning in fiscal year 2012-13:

- 2003 Series A and Series B Certificates of Participation (Redevelopment Housing Program)
- 2007 Series A and B Pension Obligation Bonds
- California Department of Boating & Waterways (Stockton Downtown Marina)
- Howard - Jarvis Settlement
- Marina Towers

In some cases, prior to bankruptcy, the creditors took possession and control of the assets backed by the debt obligations, including three downtown parking structures and 400 E. Main Street, the City Administration Building.

***C. Bond Ratings***

On September 9, 2010, Moody's Investor Service downgraded its rating with respect to the 1998 and 2003 Wastewater Certificates of Participation to A2 from Aa3. On October 21, 2010, Moody's Investor Service downgraded its rating with respect to the 2005 Water Revenue Bonds of the Water Utility to Aa3 from Aa2. On January 20, 2011, Moody's Investor Service downgraded the City's Issuer Rating from Aa3 to A1, and concurrently downgraded the City's Pension Obligation Bonds, 2007 Series A and B from A1 to A2 and the Lease Revenue Refunding bonds 2006 Series A from A2 to A3. On June 28, 2011 Moody's Investor Service downgraded the underlying ratings assigned to the 2006 Lease Revenue Refunding Bonds Series A to Baa2 from A3 and the 2007 Pension Obligation Bonds Series A and B to Baa1 from A2. The credit rating agency cited the City's narrow financial position and economically challenged tax base as the reason for its bond rating change.

After the close of fiscal year 2010-11, the City has continued to operate under financial stress and its General Fund backed debt has undergone multiple bond rating downgrades.





# CITY OF STOCKTON



**REQUIRED SUPPLEMENTARY INFORMATION**



**City of Stockton**  
**Required Supplementary Information, (Unaudited)**  
**For the year ended June 30, 2011**

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**1. BUDGETARY INFORMATION**

Budget Process

- In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. Total appropriations shall not exceed the total of estimated revenues, estimated unencumbered balances of funds to be carried over from the preceding year and unencumbered available fund balances. The General Fund, HOME Program Loans Special Revenue Fund, Low-Moderate Income Housing RDA Loans Special Revenue Fund and certain nonmajor special revenue funds (Solid Waste and Recycling, Gas Tax, Measure K Streets Sales Tax, Measure W Public Safety Sales Tax, Special Assessments, Development Services, and Other Special Revenue) and certain capital projects funds (Public Facilities Impact Fees and Capital Improvement) have legally adopted annual budgets. Prior to July 1, the original adopted budget is legally enacted through the passage of a resolution by the City Council. In the event this does not occur, the City Manager's draft budget is in force until a budget is adopted by the City Council.
- Enterprise and internal service funds are accounted for on a cost of service (net income) or capital maintenance measurement focus. The City is not legally mandated to report the results of operations for these fund types on a budgetary comparison basis; therefore, budgetary data related to these funds has not been presented.
- If expenditures exceed appropriations at the department level for the General Fund or at the fund level for all other funds, the City Manager is authorized to transfer budgeted amounts between line items within any fund. During the year, the City Council approves supplemental appropriations and, by resolution, has also authorized the City Manager to transfer fund balances to applicable appropriation accounts, or to transfer between funds, when necessary to continue purposes approved by the City Council in the current year, adopted budget, or subsequent action. Amounts reported as final budget in the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - On a Budgetary Basis include amendments authorized throughout the year.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and certain special revenue and capital projects funds. Formal budgetary integration is not employed for the debt service funds because effective budgetary control is alternatively achieved through bond indenture provisions.
- All unencumbered appropriations lapse at year-end, with the exception of some capital improvement projects and miscellaneous grants in the respective funds. Encumbered appropriations are re-appropriated in the following year's budget.



**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. BUDGETARY INFORMATION, Continued**

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting, which is different from accounting principles generally accepted in the United States of America (GAAP).

The statements of revenues, expenditures and changes in fund balances have been prepared on the modified accrual basis of accounting in accordance with GAAP. The schedules of revenues, expenditures and changes in fund balances - budget and actual - on a budgetary basis have been prepared on the budgetary basis, which is different from GAAP.

The variations from GAAP that are for budgetary purposes include the following:

- Outstanding commitments relating to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under GAAP, these obligations are recognized when goods are received or services are rendered.
- The write-off of uncollectible accounts receivables is not recognized as an expenditure. Under GAAP, these write-offs are recognized as expenditures when the accounts receivables are determined to be uncollectible.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year or project length basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds are excluded from budgetary reporting.

**City of Stockton**  
**Required Supplementary Information, (Unaudited), Continued**  
**For the year ended June 30, 2011**

**1. BUDGETARY INFORMATION, Continued**

*Budget Comparison Schedule – General Fund*

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property	\$ 27,185,001	\$ 27,185,001	\$ 28,318,427	\$ 1,133,426
In lieu of sales tax	8,245,000	8,245,000	8,118,132	(126,868)
Utility user	31,380,000	31,380,000	30,993,997	(386,003)
Franchise fees	11,560,000	11,560,000	11,502,735	(57,265)
Business license	10,119,602	10,119,602	9,249,774	(869,828)
Hotel/motel room	2,075,000	2,075,000	1,798,740	(276,260)
Document transfer	710,000	710,000	583,418	(126,582)
Licenses and permits	370,975	502,975	339,636	(163,339)
Intergovernmental:				
Federal grants and subsidies	-	44,417	44,417	-
Sales and use tax - levied by state	24,670,000	24,670,000	26,550,862	1,880,862
Other governmental	25,478,195	25,489,299	26,370,481	881,182
Charges for services	14,032,924	14,032,924	10,763,721	(3,269,203)
Fines and forfeitures	4,384,100	4,384,100	3,452,493	(931,607)
Use of money and property	7,481,082	7,507,275	7,417,175	(90,100)
Investment income:				
Interest income	650,000	650,000	754,903	104,903
Net increase in fair value of investments	-	-	(1,142,306)	(1,142,306)
Refunds and reimbursements	2,604,525	2,604,525	9,092,383	6,487,858
Miscellaneous	6,508,298	7,874,243	1,075,037	(6,799,206)
Total revenues	<u>177,454,702</u>	<u>179,034,361</u>	<u>175,284,025</u>	<u>(3,750,336)</u>
<b>EXPENDITURES:</b>				
General government:				
City council	510,768	521,268	506,454	14,814
City manager	1,182,048	1,091,548	1,090,050	1,498
City attorney	1,182,048	887,289	886,984	305
City clerk	715,053	787,052	766,662	20,390
City auditor	449,490	449,490	471,516	(22,026)
Administrative services	3,223,710	2,848,710	2,829,567	19,143
Human resources	1,670,754	1,554,754	1,553,244	1,510
Housing and redevelopment	405,492	321,492	314,793	6,699
Non-departmental	3,755,491	4,829,491	4,530,070	299,421
Total general government	<u>13,094,854</u>	<u>13,291,094</u>	<u>12,949,340</u>	<u>341,754</u>

The note to the required supplementary information is an integral part of this schedule.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**1. BUDGETARY INFORMATION, Continued**

*Budget Comparison Schedule – General Fund, Continued*

	Budget		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Police	88,572,258	87,731,809	87,281,530	450,279
Fire	46,987,308	48,308,469	47,720,195	588,274
Total public safety	<u>135,559,566</u>	<u>136,040,278</u>	<u>135,001,725</u>	<u>1,038,553</u>
Public works	<u>3,432,321</u>	<u>3,343,278</u>	<u>3,526,010</u>	<u>(182,732)</u>
Library	<u>10,171,818</u>	<u>10,034,317</u>	<u>9,989,206</u>	<u>45,111</u>
Parks and recreation	<u>16,400,709</u>	<u>18,897,591</u>	<u>17,931,585</u>	<u>966,006</u>
Capital Outlay	<u>809,201</u>	<u>2,569,672</u>	<u>177,396</u>	<u>2,392,276</u>
Total expenditures	<u>179,468,469</u>	<u>184,176,230</u>	<u>179,575,262</u> *	<u>4,600,968</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	<u>(2,013,767)</u>	<u>(5,141,869)</u>	<u>(4,291,237)</u> *	<u>850,632</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,973,622	21,575,559	21,030,881	(544,678)
Transfers out	<u>(4,203,101)</u>	<u>(15,932,886)</u>	<u>(13,977,309)</u>	<u>1,955,577</u>
Total other financing sources (uses)	<u>(2,229,479)</u>	<u>5,642,673</u>	<u>7,053,572</u>	<u>1,410,899</u>
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	<u>\$ (4,243,246)</u>	<u>\$ 500,804</u>	<u>2,762,335</u> *	<u>\$ 2,261,531</u>
BASIS ADJUSTMENT:				
Encumbrances (included in Final Budget and Actual expenditures above)			<u>1,434,721</u> *	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			<u>4,197,056</u>	
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY REPORTED			23,147,205	
Prior period adjustment			<u>(15,088,027)</u>	
FUND BALANCE, BEGINNING OF YEAR AS ADJUSTED			<u>8,059,178</u>	
FUND BALANCE, END OF YEAR			<u>\$ 12,256,234</u>	

\* Adjusted to GAAP Basis.

The note to the required supplementary information is an integral part of this schedule.

**City of Stockton**  
**Required Supplementary Information, (Unaudited), Continued**  
**For the year ended June 30, 2011**

**1. BUDGETARY INFORMATION, Continued**

*Budget Comparison Schedule – HOME Program Loans Special Revenue Fund*

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 6,284	\$ 6,284	\$ 1,296,772	\$ 1,290,488
Interest income	200,000	200,000	(295,239)	(495,239)
Miscellaneous	-	-	66,843	66,843
<b>Total revenues</b>	<b>206,284</b>	<b>206,284</b>	<b>1,068,376</b>	<b>862,092</b>
<b>EXPENDITURES:</b>				
General government	511,756	2,493,893	243,653	2,250,240
Capital outlay	1,600,922	25,417	4,994,615 *	(4,969,198)
<b>Debt service:</b>				
Principal	2,785,626	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>4,898,304</b>	<b>2,519,310</b>	<b>5,238,268</b>	<b>(2,718,958)</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)</b>	<b>(4,692,020)</b>	<b>(2,313,026)</b>	<b>(4,169,892)</b>	<b>(1,856,866)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	2,771,000	4,032,934	2,604,234	(1,428,700)
Transfers out	-	(3,644,804)	(5,133,458)	(1,488,654)
<b>Total other financing sources (uses)</b>	<b>2,771,000</b>	<b>388,130</b>	<b>(2,529,224)</b>	<b>(2,917,354)</b>
<b>NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)</b>	<b>\$ (1,921,020)</b>	<b>\$ (1,924,896)</b>	<b>(6,699,116)</b>	<b>\$ (4,774,220)</b>
<b>BASIS ADJUSTMENT:</b>				
Encumbrances			-	
<b>NET CHANGE IN FUND BALANCE (GAAP BASIS)</b>			<b>(6,699,116)</b>	
<b>FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY REPORTED</b>			51,759,628	
Prior period adjustment			(41,401,993)	
<b>FUND BALANCE, BEGINNING OF YEAR AS ADJUSTED</b>			<b>10,357,635</b>	
<b>FUND BALANCE, END OF YEAR</b>			<b>\$ 3,658,519</b>	

\* There was a change in accounting method effected at year-end on the treatment for recording loan expenditures and the Final Budget was not adjusted for this.

The note to the required supplementary information is an integral part of this schedule.

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**1. BUDGETARY INFORMATION, Continued**

*Budget Comparison Schedule – Low-Moderate Income Housing RDA Loans Special Revenue Fund*

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 6,284	\$ 6,284	\$ 1,296,772	\$ 1,290,488
Interest income	200,000	200,000	(295,239)	(495,239)
Miscellaneous	-	-	66,843	66,843
Total revenues	<u>206,284</u>	<u>206,284</u>	<u>1,068,376</u>	<u>862,092</u>
EXPENDITURES:				
General government	511,756	2,493,893	243,653	2,250,240
Capital outlay	1,600,922	25,417	4,994,615 *	(4,969,198)
Debt service:				
Principal	2,785,626	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>4,898,304</u>	<u>2,519,310</u>	<u>5,238,268</u>	<u>(2,718,958)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	<u>(4,692,020)</u>	<u>(2,313,026)</u>	<u>(4,169,892)</u>	<u>(1,856,866)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	2,771,000	4,032,934	2,604,234	(1,428,700)
Transfers out	-	(3,644,804)	(5,133,458)	(1,488,654)
Total other financing sources (uses)	<u>2,771,000</u>	<u>388,130</u>	<u>(2,529,224)</u>	<u>(2,917,354)</u>
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	<u>\$ (1,921,020)</u>	<u>\$ (1,924,896)</u>	<u>(6,699,116)</u>	<u>\$ (4,774,220)</u>
BASIS ADJUSTMENT:				
Encumbrances			-	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			<u>(6,699,116)</u>	
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY REPORTED			51,759,628	
Prior period adjustment			<u>(41,401,993)</u>	
FUND BALANCE, BEGINNING OF YEAR AS ADJUSTED			<u>10,357,635</u>	
FUND BALANCE, END OF YEAR			<u>\$ 3,658,519</u>	

\* There was a change in accounting method effected at year-end on the treatment for recording loan expenditures and the Final Budget was not adjusted for this.

The note to the required supplementary information is an integral part of this schedule.

**City of Stockton**  
**Required Supplementary Information (Unaudited), Continued**  
**For the year ended June 30, 2011**

**2. DEFINED BENEFIT PENSION PLAN**

The schedules of the defined benefit pension plans and OPEB plan funded status displays a historical summary of the Actuarial Accrued Liability, the Actuarial Value of Assets, the Unfunded Actuarial Accrued Liability ("UAAL"), the Funded Ratio, the estimated annual covered payroll and the UAAL as a percentage of covered payroll for each of the City's defined benefit pension plans and the City's OPEB plan.

The four tables below are based on the most recent information available.

**PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)**  
**SAFETY PLAN**  
**SCHEDULE OF FUNDING PROGRESS**  
(\$ amounts in thousands)

<b>Valuation Date</b>	<b>Entry Age Actuarial Accrued Liability (1)</b>	<b>Actuarial Value of Assets (2)</b>	<b>Unfunded Liability (UAAL) (1)-(2)</b>	<b>Funded Status (2)/(1)</b>	<b>Annual Covered Payroll (3)</b>	<b>UAAL As a Percentage of Payroll [(1)-(2)]/(3)</b>
6/30/10	\$ 758,326	\$ 662,602	\$ 95,724	87.4%	\$ 54,798	174.7%
6/30/09	724,324	644,940	79,384	89.0%	58,596	135.5%
6/30/08	664,028	625,633	38,395	94.2%	56,811	67.6%
6/30/07	619,816	592,315	27,501	95.6%	54,128	50.8%

**PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)**  
**MISCELLANEOUS PLAN**  
**SCHEDULE OF FUNDING PROGRESS**  
(\$ amounts in thousands)

<b>Valuation Date</b>	<b>Entry Age Actuarial Accrued Liability (1)</b>	<b>Actuarial Value of Assets (2)</b>	<b>Unfunded Liability (UAAL) (1)-(2)</b>	<b>Funded Status (2)/(1)</b>	<b>Annual Covered Payroll (3)</b>	<b>UAAL As a Percentage of Payroll [(1)-(2)]/(3)</b>
6/30/10	\$ 548,130	\$ 495,326	\$ 52,804	90.4%	\$ 56,256	93.9%
6/30/09	535,151	478,673	56,478	89.4%	62,265	90.7%
6/30/08	491,467	460,950	30,517	93.8%	66,743	45.7%
6/30/07	453,621	434,989	18,632	95.9%	57,120	32.6%

**City of Stockton**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. DEFINED BENEFIT PENSION PLAN, Continued**

**RETIREMENT ENHANCEMENT PLAN (PARS)**  
**MUNICIPAL UTILITY DEPARTMENT PLAN (CLOSED)**  
**SCHEDULE OF FUNDING PROGRESS**  
(\$ amounts in thousands)

Valuation Date	Actuarial Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (UAAL) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/10	\$ 7,079	\$ 1,643	\$ 5,436	23.2%	\$ 5,200	104.54%
3/1/08	4,846	-	4,846	0.0%	5,740	84.43%

\*Only two valuation dates are available.

**3. OTHER POST EMPLOYMENT BENEFITS**

**REQUIRED SUPPLEMENTARY INFORMATION**  
Schedule of Funding Progress for the City's Plan  
(\$ amounts in thousands)

Valuation Date	Actuarial Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/11	\$ 416,738	-	\$ 416,738	0.0%	\$ 102,040	408.4%
6/30/09	543,702	-	543,702	0.0%	107,679	504.9%
6/30/07	388,303	-	388,303	0.0%	98,464	394.4%

GASB 45 actuarial valuations are only required to be performed and reported every two years. As required by GASB Statement No. 45, the City will report three actuarial reports of data in the above table as the information becomes available in subsequent years. Therefore, new data will be added in subsequent financial reports.





# CITY OF STOCKTON



**NONMAJOR GOVERNMENTAL FUNDS**



## NON-MAJOR GOVERNMENTAL FUNDS

### **SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for specific governmental revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects.

The City's non-major governmental special revenue funds include:

#### ***Special Grants Fund***

To account for resources from miscellaneous, comparatively smaller grants from federal and state governments to support public safety and other community programs which are not otherwise accounted for in other special revenue funds.

#### ***Solid Waste and Recycling Fund***

To account for the administration of solid waste collection services, and the planning and implementation of solid waste reduction and recycling programs, in compliance with California Public Resources Code Section 40050 through 40063 (AB 939).

#### ***Gas Tax Fund***

To account for revenues and expenditures apportioned to the City under the California Streets and Highway Code, sections 2103 through 2107.5. Expenditures of these resources for administration, maintenance and construction must be street and transportation related. This fund includes state and federal funding from the Intermodal Surface Transportation Efficiency Act, SB325 Non-Transit, and Traffic Congestion Relief program.

#### ***Measure K Streets Sales Tax Fund***

To account for revenues and expenditures apportioned to the City from ½ cent sales tax collections under Measure K. The Measure K program is administered by the San Joaquin Council of Governments (SJCOG) as the Local Transportation Authority for San Joaquin County. SJCOG was established as the Local Transportation Authority for this measure when San Joaquin County voters approved the enactment of the Measure K program in 1990. In 2006 voters approved to extend this measure for an additional 30 years. Expenditures for administration, maintenance and construction received under Measure K must be for street and transportation related projects.

#### ***Measure W Public Safety Tax Fund***

To account for revenues and expenditures apportioned to the City ¼ cent sales tax collections from the district including the City of Stockton under Measure W, which was adopted by local voters in November 2004. Expenditures are for administration, implementation, and operation of the Police and Fire Safe Neighborhood Gang and Drug Prevention Program, among other programs.

## **NON-MAJOR GOVERNMENTAL FUNDS (Continued)**

### ***Special Assessments Fund***

To account for revenues and expenditures related to levies on property owners as approved by the City Council and state laws for special types of services – basic street and neighborhood lighting, land and streetscapes, and stormwater drainage maintenance services.

### ***Community Development Block Grant***

To account for federal grant programs and other resources that provide for development of a viable urban community by providing a suitable living environment and expansion of economic opportunities, principally for low- and moderate-income residents. This fund includes the City's annual federal funding from the Community Development Block Grant, Community Rehabilitation Loan program, federal revolving loan program, and revitalization activities in the designated Urban Development Action Grant area.

### ***Neighborhood Stabilization Loan Program Fund***

To account for the City's Neighborhood Stabilization Loan Program that provides loans to non-profit housing developers to acquire and rehabilitate abandoned and foreclosed homes, and provides down payment assistance to qualified low- and moderate-income households who purchase from the non-profit organization authorized under the NSLP program as authorized by Division B, Title 111 of the U.S. Housing and Economic Recovery Act (HERA) of 2008.

### ***Housing Grants and Loans Program Fund***

To account for the City's economic development and federal department of Housing and Urban Development (HUD) Section 108 housing grant and loan programs that provide funding for low- and moderate-income housing development in Stockton, as approved by the City Council and various federal and state laws.

### ***City Administration Building Fund***

To account for the operations and maintenance of the tenant occupied City Administration Building at 400 E. Main Street. Tenants include private sector firms, governmental entities and various City of Stockton departments. This building is managed through a contractual agreement with an outside management firm. Rental revenues from the building tenants and all other revenues are restricted for expenditures towards the building's maintenance and operations.

### ***Development Services Fund***

To account for resources for development planning and project review services including land use entitlements, permit processing and review and inspection of public improvements to ensure orderly physical growth and development of the City as approved by the City Council. Revenues and fees collected and recorded in this fund are committed to is related activities.

## **NON-MAJOR GOVERNMENTAL FUNDS (Continued)**

### ***Other Special Revenue Fund***

To account for the resources of comparatively smaller special revenue funds, including the Litigated Asset Seizure public safety program, Cal-Home Reuse Loan Program, State Housing Loan Program and various governmental expendable special revenue/trusts of funds donated to the City for various community projects and programs.

## **DEBT SERVICE FUNDS**

Debt Service Funds are used to account for and report financial resources that are restricted committed, or assigned to expenditures for principal and interest on long-term debt.

The City's non-major governmental debt service funds include:

### ***Redevelopment Agency Debt Service Fund***

To account for the accumulation of resources for the retirement of principal and interest payment on long-term debt for revenue bonds issued on behalf of and approved by the Stockton Redevelopment Agency.

### ***Stockton Public Financing Authority Debt Service Fund***

To account for the accumulation of resources for the retirement of principal and interest payment on long-term debt for municipal bonds issued on behalf of and approved by the Stockton Public Financing Authority.

## **PERMANENT FUND**

The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, can be spent. Permanent Fund resources help support designated arts, recreation, library and public safety programs.

**CITY OF STOCKTON**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	Special Revenue			
	Special Grants	Solid Waste & Recycling	Gas Tax	Measure K Streets Sales Tax
<b>ASSETS</b>				
Cash and investments	\$ -	\$ 1,808,288	\$ -	\$ 2,392,460
Cash and investments with fiscal agents	-	-	-	-
Receivables, net:				
Interest	-	-	-	-
Accounts and other receivables	6,369	48,743	929,790	2,368,693
Due from other funds	-	-	-	-
Due from other governments, net	1,558,817	-	7,504,115	4,719,336
Loans to property owners, net	-	-	-	-
<b>Total assets</b>	<b>\$ 1,565,186</b>	<b>\$ 1,857,031</b>	<b>\$ 8,433,905</b>	<b>\$ 9,480,489</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 109,742	\$ 2,045	\$ 1,584,472	\$ 1,627,644
Due to other funds	641,511	-	5,237,597	-
Due to other governments	-	-	-	349,905
Deposits and other liabilities	-	-	-	-
Deferred revenue	493,837	-	194,995	234,347
Loan from other funds	-	-	-	-
<b>Total liabilities</b>	<b>1,245,090</b>	<b>2,045</b>	<b>7,017,064</b>	<b>2,211,896</b>
<b>FUND BALANCES (DEFICIT):</b>				
Nonspendable	-	-	-	-
Restricted	320,096	1,854,986	1,416,841	7,268,593
Unassigned	-	-	-	-
<b>Total fund balances</b>	<b>320,096</b>	<b>1,854,986</b>	<b>1,416,841</b>	<b>7,268,593</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,565,186</b>	<b>\$ 1,857,031</b>	<b>\$ 8,433,905</b>	<b>\$ 9,480,489</b>

Special Revenue				
Measure W Public Safety Tax	Special Assessments	CDBG Programs	Neighborhood Stabilization Loan Program	Housing Grant / Loan Programs
\$ -	\$ 11,942,585	\$ 997,199	\$ 2,101,999	\$ 134,273
-	-	-	-	1,255,568
-	-	-	-	131
-	65,030	11,852	-	-
-	-	-	-	-
1,463,722	-	-	-	1,212,806
-	-	21,987,106	5,373,286	41,249
<u>\$ 1,463,722</u>	<u>\$ 12,007,615</u>	<u>\$ 22,996,157</u>	<u>\$ 7,475,285</u>	<u>\$ 2,644,027</u>
\$ 6,866	\$ 219,513	\$ 128,300	\$ 6,754	\$ -
1,188,357	-	-	-	-
-	-	70,108	-	-
-	-	-	-	-
-	46,312	21,987,106	5,373,286	41,249
-	-	-	-	-
<u>1,195,223</u>	<u>265,825</u>	<u>22,185,514</u>	<u>5,380,040</u>	<u>41,249</u>
-	-	-	-	-
268,499	11,741,790	810,643	2,095,245	2,602,778
-	-	-	-	-
<u>268,499</u>	<u>11,741,790</u>	<u>810,643</u>	<u>2,095,245</u>	<u>2,602,778</u>
<u>\$ 1,463,722</u>	<u>\$ 12,007,615</u>	<u>\$ 22,996,157</u>	<u>\$ 7,475,285</u>	<u>\$ 2,644,027</u>

**CITY OF STOCKTON**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**JUNE 30, 2011**

	Special Revenue		
	City Administration Building	Development Services	Other Special Revenue
<b>ASSETS</b>			
Cash and investments	\$ 1,411,345	\$ 21,330	\$ 2,614,032
Cash and investments with fiscal agents	-	-	-
Receivables, net:			
Interest	-	-	-
Accounts and other receivables	-	749,253	12,795
Due from other funds	-	-	-
Due from other governments, net	-	-	-
Loans to property owners, net	-	-	3,037,943
	<u>\$ 1,411,345</u>	<u>\$ 770,583</u>	<u>\$ 5,664,770</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 52,239	\$ 22,946	\$ 106,404
Due to other funds	20,711	-	-
Due to other governments	-	-	-
Deposits and other liabilities	-	174,803	-
Deferred revenue	84,463	487,673	3,037,943
Loan from other funds	-	-	-
	<u>157,413</u>	<u>685,422</u>	<u>3,144,347</u>
Total liabilities			
<b>FUND BALANCES (DEFICIT):</b>			
Nonspendable	-	-	-
Restricted	1,253,932	85,161	2,520,423
Unassigned	-	-	-
	<u>1,253,932</u>	<u>85,161</u>	<u>2,520,423</u>
Total fund balances			
Total liabilities and fund balances (deficit)	<u>\$ 1,411,345</u>	<u>\$ 770,583</u>	<u>\$ 5,664,770</u>

Debt Service		Permanent
Redevelopment Agency	Stockton Public Financing Authority	Miscellaneous
\$ -	\$ 6,000	\$ 687,573
12,395,113	4,115,362	-
13,233	3,178	995
-	-	-
-	20,711	-
-	-	-
-	-	-
<u>\$ 12,408,346</u>	<u>\$ 4,145,251</u>	<u>\$ 688,568</u>
\$ -	\$ -	\$ 51,854
-	-	-
-	-	-
-	20,711	-
-	-	-
-	19,141,192	-
<u>-</u>	<u>19,161,903</u>	<u>51,854</u>
-	-	304,314
12,408,346	-	332,400
-	(15,016,652)	-
<u>12,408,346</u>	<u>(15,016,652)</u>	<u>636,714</u>
<u>\$ 12,408,346</u>	<u>\$ 4,145,251</u>	<u>\$ 688,568</u>

CITY OF STOCKTON  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue			
	Special Grants	Solid Waste & Recycling	Gas Tax	Measure K Streets Sales Tax
REVENUES:				
Taxes:				
Sales - levied by City	\$ -	\$ -	\$ -	\$ -
Business licenses	-	-	-	-
Other	-	-	154,623	-
Licenses and permits	-	-	-	-
Intergovernmental:				
Federal grants and subsidies	4,992,125	-	18,743,036	-
Sales and use tax - levied by state	-	-	-	3,509,936
Other governmental	1,080,966	-	7,193,131	6,948,078
Charges for services	865,702	-	2,802	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	618
Investment income:				
Interest income	(10,526)	51,927	(477,682)	95,111
Refunds and reimbursements	31,871	9,404	66,538	314
Miscellaneous	19,915	1,318,593	-	2,790,440
Total revenues	<u>6,980,053</u>	<u>1,379,924</u>	<u>25,682,448</u>	<u>13,344,497</u>
EXPENDITURES:				
Current:				
General government	1,124,868	-	-	-
Public safety	5,283,856	-	-	-
Public works	62,014	1,515,852	7,818,755	-
Library	60,503	-	-	-
Parks and recreation	164,326	-	-	-
Capital outlay	443,248	-	18,066,650	7,008,992
Debt service:				
Principal retirement	-	-	-	1,093,950
Interest and fiscal charges	-	-	-	43,266
Total expenditures	<u>7,138,815</u>	<u>1,515,852</u>	<u>25,885,405</u>	<u>8,146,208</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(158,762)</u>	<u>(135,928)</u>	<u>(202,957)</u>	<u>5,198,289</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	282,562	-	1,887,084	-
Transfers out	-	(147,251)	(60,000)	(1,887,085)
Total other financing sources (uses)	<u>282,562</u>	<u>(147,251)</u>	<u>1,827,084</u>	<u>(1,887,085)</u>
SPECIAL ITEM	-	-	-	-
NET CHANGE IN FUND BALANCES	<u>123,800</u>	<u>(283,179)</u>	<u>1,624,127</u>	<u>3,311,204</u>
FUND BALANCES, BEGINNING OF YEAR AS ORIGINALLY REPORTED	196,296	2,138,165	180,795	4,449,975
PRIOR PERIOD ADJUSTMENT	-	-	(388,081)	(492,586)
BEGINNING FUND BALANCES (DEFICITS), AS ADJUSTED	<u>196,296</u>	<u>2,138,165</u>	<u>(207,286)</u>	<u>3,957,389</u>
FUND BALANCES (DEFICITS), END OF YEAR	<u>\$ 320,096</u>	<u>\$ 1,854,986</u>	<u>\$ 1,416,841</u>	<u>\$ 7,268,593</u>

Special Revenue				
Measure W Public Safety Tax	Special Assessments	CDBG Programs	Neighborhood Stabilization Loan Program	Housing Grant / Loan Programs
\$ 7,875,429	\$ -	\$ -	\$ -	\$ -
-	605,257	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	4,638,570	75,000	1,460,480
-	-	-	-	-
-	-	-	-	-
-	3,371,644	3,653	-	-
-	-	-	-	-
-	-	1,193,208	1,150,712	-
(2,772)	280,570	(139,102)	47,766	2,140
181,574	-	5,454	-	-
-	-	-	105	-
<u>8,054,231</u>	<u>4,257,471</u>	<u>5,701,783</u>	<u>1,273,583</u>	<u>1,462,620</u>
-	590,940	724,594	89,405	-
8,600,499	-	-	-	-
-	255,243	314,068	-	-
-	-	-	-	-
-	2,104,256	-	-	-
-	-	2,877,034	2,260,323	7,419
-	-	1,200,000	-	-
-	-	1,072,543	-	-
<u>8,600,499</u>	<u>2,950,439</u>	<u>6,188,239</u>	<u>2,349,728</u>	<u>7,419</u>
<u>(546,268)</u>	<u>1,307,032</u>	<u>(486,456)</u>	<u>(1,076,145)</u>	<u>1,455,201</u>
-	-	407,846	-	16,659
-	-	(46,479)	-	(319,846)
-	-	361,367	-	(303,187)
-	-	-	-	-
<u>(546,268)</u>	<u>1,307,032</u>	<u>(125,089)</u>	<u>(1,076,145)</u>	<u>1,152,014</u>
814,767	10,434,758	32,585,034	7,842,831	1,489,764
-	-	(31,649,302)	(4,671,441)	(39,000)
<u>814,767</u>	<u>10,434,758</u>	<u>935,732</u>	<u>3,171,390</u>	<u>1,450,764</u>
<u>\$ 268,499</u>	<u>\$ 11,741,790</u>	<u>\$ 810,643</u>	<u>\$ 2,095,245</u>	<u>\$ 2,602,778</u>

CITY OF STOCKTON  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue		
	City Administration Building	Development Services	Other Special Revenue
REVENUES:			
Taxes:			
Sales - levied by City	\$ -	\$ -	\$ -
Business licenses	-	-	-
Other	-	-	-
Licenses and permits	-	3,178,939	65,736
Intergovernmental:			
Federal grants and subsidies	-	-	85,043
Sales and use tax - levied by state	-	-	-
Other governmental	-	-	54,440
Charges for services	-	4,125,246	72,395
Fines and forfeitures	-	85,527	-
Use of money and property	2,408,569	1	42,546
Investment income:			
Interest income	2,523	-	55,095
Refunds and reimbursements	-	80,060	4,400
Miscellaneous	10,800	114,096	561,674
Total revenues	<u>2,421,892</u>	<u>7,583,869</u>	<u>941,329</u>
EXPENDITURES:			
Current:			
General government	1,878,959	4,696,986	100,084
Public safety	-	3,797,190	305,781
Public works	-	-	46,219
Library	-	-	234,086
Parks and recreation	-	-	76,981
Capital outlay	15,019	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>1,893,978</u>	<u>8,494,176</u>	<u>763,151</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>527,914</u>	<u>(910,307)</u>	<u>178,178</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	512,318	29,820
Transfers out	(1,089,042)	-	(132,875)
Total other financing sources (uses)	<u>(1,089,042)</u>	<u>512,318</u>	<u>(103,055)</u>
SPECIAL ITEM	-	-	-
NET CHANGE IN FUND BALANCES	<u>(561,128)</u>	<u>(397,989)</u>	<u>75,123</u>
FUND BALANCES, BEGINNING OF YEAR AS ORIGINALLY REPORTED	1,815,060	1,115,789	5,344,414
PRIOR PERIOD ADJUSTMENTS	-	(632,639)	(2,899,114)
BEGINNING FUND BALANCES (DEFICITS), AS ADJUSTED	<u>1,815,060</u>	<u>483,150</u>	<u>2,445,300</u>
FUND BALANCES (DEFICITS), END OF YEAR	<u>\$ 1,253,932</u>	<u>\$ 85,161</u>	<u>\$ 2,520,423</u>

Debt Service		Permanent	
Redevelopment Agency	Stockton Public Financing Authority	Miscellaneous	Totals
\$ -	\$ -	\$ -	\$ 7,875,429
-	-	-	605,257
-	-	-	154,623
-	-	-	3,244,675
-	-	-	29,994,254
-	-	-	3,509,936
-	-	-	15,276,615
-	-	-	8,441,442
-	-	-	85,527
-	-	-	4,795,654
523,931	80,409	57,954	567,344
-	-	2,000	381,615
-	-	3	4,815,626
<u>523,931</u>	<u>80,409</u>	<u>59,957</u>	<u>79,747,997</u>
67,163	381,601	104,787	9,759,387
-	-	-	17,987,326
-	-	-	10,012,151
-	-	20,259	314,848
-	-	196	2,345,759
-	-	-	30,678,685
18,655,000	1,560,000	-	22,508,950
7,432,450	4,060,956	-	12,609,215
<u>26,154,613</u>	<u>6,002,557</u>	<u>125,242</u>	<u>106,216,321</u>
<u>(25,630,682)</u>	<u>(5,922,148)</u>	<u>(65,285)</u>	<u>(26,468,324)</u>
22,362,950	7,081,441	-	32,580,680
-	(20,015,830)	(1,300,000)	(24,998,408)
<u>22,362,950</u>	<u>(12,934,389)</u>	<u>(1,300,000)</u>	<u>7,582,272</u>
<u>3,269,612</u>	<u>-</u>	<u>-</u>	<u>3,269,612</u>
<u>1,880</u>	<u>(18,856,537)</u>	<u>(1,365,285)</u>	<u>(15,616,440)</u>
12,406,466	4,092,279	2,001,999	86,908,392
-	(252,394)	-	(41,024,557)
<u>12,406,466</u>	<u>3,839,885</u>	<u>2,001,999</u>	<u>45,883,835</u>
<u>\$ 12,408,346</u>	<u>\$ (15,016,652)</u>	<u>\$ 636,714</u>	<u>\$ 30,267,395</u>





# CITY OF STOCKTON



**NONMAJOR ENTERPRISE FUNDS**



## NON-MAJOR ENTERPRISE FUNDS

Enterprise funds are used to report activities for which a fee is charged to external users for goods and services. These funds are used by governments to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of City Council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the City Council has decided that periodic determination of income is appropriate for accountability purposes.

The City's non-major enterprise funds include:

### ***Solid Waste Enterprise Fund***

To account for residual activities as a result of final transition and outsourcing of garden refuse collection services.

### ***Downtown Marina Enterprise Fund***

To account for resources and activities associated with the operations and maintenance of the Downtown Stockton Marina facilities.

### ***Golf Courses Enterprise Fund***

To account for resources and activities associated with the improvement, operation and maintenance of the Swenson and Van Buskirk golf courses.

**CITY OF STOCKTON**  
**COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS**  
**JUNE 30, 2011**

	Solid Waste	Downtown Marina	Golf Courses	Total
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ -	\$ 520,896	\$ 110,528	\$ 631,424
Receivables, net:				
Accounts and other receivables	-	24,780	9,405	34,185
Prepaid items	-	4,407	-	4,407
Inventory of supplies	-	96	29,120	29,216
Total current assets	-	550,179	149,053	699,232
Noncurrent assets:				
Capital assets, net:				
Nondepreciable	-	-	359,805	359,805
Depreciable, net	-	25,889,880	967,944	26,857,824
Total noncurrent assets	-	25,889,880	1,327,749	27,217,629
Total assets	-	26,440,059	1,476,802	27,916,861
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	-	103,433	128,755	232,188
Deposits and other liabilities	-	23,579	-	23,579
Accrued interest	-	429,340	-	429,340
Compensated absences - current	-	-	5,262	5,262
Other long term debt - current	-	251,307	-	251,307
Total current liabilities	-	807,659	134,017	941,676
Noncurrent liabilities:				
Compensated absences - non current	-	-	9,138	9,138
Notes payable	-	10,870,821	-	10,870,821
Total noncurrent liabilities	-	10,870,821	9,138	10,879,959
Total liabilities	-	11,678,480	143,155	11,821,635
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	-	14,767,752	1,327,749	16,095,501
Unrestricted (deficit)	-	(6,173)	5,898	(275)
Total net assets	\$ -	\$ 14,761,579	\$ 1,333,647	\$ 16,095,226

**CITY OF STOCKTON**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Solid Waste	Downtown Marina	Golf Courses	Total
OPERATING REVENUES:				
Charges for services	\$ 181	\$ 193,075	\$ 1,088,691	\$ 1,281,947
Miscellaneous	310	120	569,774	570,204
Total operating revenues	491	193,195	1,658,465	1,852,151
OPERATING EXPENSES:				
Operation and maintenance	(321)	517,221	2,003,166	2,520,066
Depreciation and amortization	-	43,183	80,888	124,071
Total operating expenses	(321)	560,404	2,084,054	2,644,137
OPERATING INCOME (LOSS)	812	(367,209)	(425,589)	(791,986)
NON-OPERATING REVENUES AND EXPENSES:				
Investment income:				
Interest income	(7,481)	(18,834)	-	(26,315)
Interest expense and fiscal charges	-	(873,124)	-	(873,124)
Total non-operating revenues (expenses)	(7,481)	(891,958)	-	(899,439)
LOSS BEFORE TRANSFERS AND CONTRIBUTIONS	(6,669)	(1,259,167)	(425,589)	(1,691,425)
Capital Contributions	-	283,835	-	283,835
Transfers out	-	(1,627,245)	-	(1,627,245)
Transfers in	147,251	1,505,287	677,622	2,330,160
CHANGE IN NET ASSETS	140,582	(1,097,290)	252,033	(704,675)
Net assets (deficits) at beginning of the year, as originally reported	(140,582)	(230,741)	318,115	(53,208)
Prior period adjustments	-	16,089,610	763,499	16,853,109
NET ASSETS (DEFICIT) - BEGINNING OF YEAR, AS ADJUSTED	(140,582)	15,858,869	1,081,614	16,799,901
NET ASSETS, END OF YEAR	\$ -	\$ 14,761,579	\$ 1,333,647	\$ 16,095,226

**CITY OF STOCKTON**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Solid Waste	Downtown Marina	Golf Courses	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users	\$ 7,491	\$ 191,994	\$ 1,678,940	\$ 1,878,425
Payments to suppliers	(8,261)	(421,227)	(218,581)	(648,069)
Payments to employees	-	(13,704)	(1,784,316)	(1,798,020)
Net cash used for operating activities	(770)	(242,937)	(323,957)	(567,664)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchases of capital assets	-	(23,186)	363	(22,823)
Long-term debt:				
Principal paid	-	(30,650)	-	(30,650)
Interest and financing fees paid	-	(443,784)	-	(443,784)
Net cash provided by noncapital financing activities	-	(497,620)	363	(497,257)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	147,251	1,505,287	677,622	2,330,160
Receipt (payment) of due to other funds	(139,000)	-	(243,000)	(382,000)
Advances received from other funds	-	(500,000)	(500)	(500,500)
Net cash provided by noncapital financing activities	8,251	1,005,287	434,122	1,447,660
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment earnings	(7,481)	(16,834)	-	(24,315)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>247,896</b>	<b>110,528</b>	<b>358,424</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>-</b>	<b>273,000</b>	<b>-</b>	<b>273,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 520,896</b>	<b>\$ 110,528</b>	<b>\$ 631,424</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 812	\$ (367,209)	\$ (425,589)	\$ (791,986)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation and amortization	-	43,183	80,888	124,071
Allowance for uncollectible	-	-	-	-
Changes in assets and liabilities:				
Accounts and other receivables	7,000	(24,780)	25,595	7,815
Prepays	-	(4,407)	-	(4,407)
Inventory of supplies	-	(96)	(5,120)	(5,216)
Accounts payable	(8,582)	86,793	(5,131)	73,080
Deposits and other liabilities	-	23,579	-	23,579
Compensated absences	-	-	5,400	5,400
Net cash used for operating activities	\$ (770)	\$ (242,937)	\$ (323,957)	\$ (567,664)
<b>NONCASH TRANSACTIONS:</b>				
Capital Contributions	\$ -	\$ 283,835	\$ -	\$ 283,835



# CITY OF STOCKTON



**INTERNAL SERVICE FUNDS**



## INTERNAL SERVICE FUNDS

Internal service funds are a type of proprietary fund used to report any activity that provides goods and services on a cost-reimbursement basis to other funds, departments, or agencies of the primary government and its component units, or to other governments.

The City's internal service funds include:

### ***General Liability Insurance Fund***

To account for premiums and claims paid and the administration of general liability insurance provided to all City departments on a cost reimbursement basis. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions.

### ***Workers' Compensation Insurance Fund***

To account for premiums and claims paid and the administration of workers' compensation liability insurance provided to all City employees incurring injury on the job, of which health benefits and other related liability costs are funded by City department payments into the fund. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions.

### ***Employee and Retiree Health Insurance Fund***

To account for premiums and claims paid and the administration of health benefits insurance provided to qualified active and qualified retired City employees, with City departmental payments made to the Fund sought to reimburse health related expenses incurred by the Fund. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions.

### ***Retirement Benefits Fund***

To account for the accumulation and payout of resources for the purpose of providing defined retirement and disability benefits, annual cost of living adjustments and death benefits to City employee plan members and beneficiaries through the California Public Employees' Retirement System (CalPERS) on a cost reimbursement basis. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions, of which were pre-funded by bond proceeds from the 2007 Taxable Pension Obligations Bonds, Series A and B.



## **INTERNAL SERVICE FUNDS (Continued)**

### ***Other Benefits and Insurance Fund***

To account for premiums and claims paid and the administration of comparatively smaller insurance funds provided to City employees on a cost reimbursement basis. Included are long-term disability, life insurance, and termination pay benefits.

### ***Vehicle Fleet Equipment Fund***

To account for the financing, operations, servicing and maintenance of fleet vehicles and major equipment utilized by City departments, of which the services are rendered on a cost reimbursement basis.

### ***Computer Equipment Fund***

To account for the financing, service and maintenance of all computer and related equipment provided to City departments on a cost reimbursement basis.

### ***Radio Equipment Fund***

To account for the financing, service and maintenance of radio equipment provided to City departments on a cost reimbursement basis.

### ***Other Equipment Fund***

To account for the financing, operating and maintenance of other, comparatively smaller equipment funds provided to City departments on a cost reimbursement basis. Included are telephone, office, and printing and mailing equipment.

**CITY OF STOCKTON**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**JUNE 30, 2011**

	General Liability Insurance	Workers' Compensation Insurance	Employee & Retiree Health Insurance	Retirement Benefits
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 1,671,568	\$ 6,354,206	\$ 381,992	\$ 1,595,033
Receivables, net:				
Accounts and other receivables	577,197	-	87,873	-
Due from other funds	-	7,222,543	-	-
Prepaid expenses	-	-	-	-
Total current assets	<u>2,248,765</u>	<u>13,576,749</u>	<u>469,865</u>	<u>1,595,033</u>
Noncurrent assets:				
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	4,209
Advances to other funds	609,992	-	-	-
Deferred charges	-	-	109,000	1,394,893
Net pension asset	-	-	-	128,154,052
Capital assets, net	-	-	-	-
Total noncurrent assets	<u>609,992</u>	<u>-</u>	<u>109,000</u>	<u>129,553,154</u>
Total assets	<u>2,858,757</u>	<u>13,576,749</u>	<u>578,865</u>	<u>131,148,187</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	31,273	11,863	2,067	-
Deposits and other liabilities	-	49,104	-	-
Accrued interest	-	-	-	2,275,328
Capital lease obligations - current	-	-	-	-
Compensated absences - current	23,163	3,655	11,165	-
Self-insurance claims and judgments - current	2,116,816	8,335,809	4,079,400	-
Other long-term debt - current	-	-	-	380,000
Total current liabilities	<u>2,171,252</u>	<u>8,400,431</u>	<u>4,092,632</u>	<u>2,655,328</u>
Noncurrent liabilities:				
Loans from other funds	-	500,000	-	-
Compensated absences - long-term	83,004	11,554	25,673	-
Self-insurance claims and judgments - long-term	4,370,747	44,973,099	-	-
Capital lease obligations - long term	-	-	-	-
Bonds payable	-	-	-	124,280,000
Net OPEB obligation	-	-	105,887,000	-
Total noncurrent liabilities	<u>4,453,751</u>	<u>45,484,653</u>	<u>105,912,673</u>	<u>124,280,000</u>
Total liabilities	<u>6,625,003</u>	<u>53,885,084</u>	<u>110,005,305</u>	<u>126,935,328</u>
<b>NET ASSETS (DEFICITS)</b>				
Invested in capital assets, net of related debt	-	-	-	-
Restricted for retirees	-	-	-	2,613,617
Restricted for debt service	-	-	-	4,209
Unrestricted (deficits)	<u>(3,766,246)</u>	<u>(40,308,335)</u>	<u>(109,426,440)</u>	<u>1,595,033</u>
Total net assets (deficits)	<u>\$ (3,766,246)</u>	<u>\$ (40,308,335)</u>	<u>\$ (109,426,440)</u>	<u>\$ 4,212,859</u>

<u>Other Benefits &amp; Insurance</u>	<u>Vehicle Fleet Equipment</u>	<u>Computer Equipment</u>	<u>Radio Equipment</u>	<u>Other Equipment</u>	<u>Total</u>
\$ 702,664	\$ 2,439,956	\$ 3,755,476	\$ 819,273	\$ 924,413	\$ 18,644,581
692	295	31	-	-	666,088
-	-	-	-	-	7,222,543
-	-	-	-	45,000	45,000
<u>703,356</u>	<u>2,440,251</u>	<u>3,755,507</u>	<u>819,273</u>	<u>969,413</u>	<u>26,578,212</u>
-	-	-	-	-	4,209
-	-	-	-	-	609,992
-	-	-	-	-	1,503,893
-	-	-	-	-	128,154,052
-	7,740,611	1,107,993	707,278	700,574	10,256,456
-	<u>7,740,611</u>	<u>1,107,993</u>	<u>707,278</u>	<u>700,574</u>	<u>140,528,602</u>
<u>703,356</u>	<u>10,180,862</u>	<u>4,863,500</u>	<u>1,526,551</u>	<u>1,669,987</u>	<u>167,106,814</u>
67,399	359,003	271,069	205,075	345,356	1,293,105
-	-	-	-	-	49,104
-	5,684	-	-	49,105	2,330,117
-	57,524	-	-	271,338	328,862
-	50,911	108,786	5,572	7,444	210,696
-	-	-	-	-	14,532,025
-	-	-	-	-	380,000
<u>67,399</u>	<u>473,122</u>	<u>379,855</u>	<u>210,647</u>	<u>673,243</u>	<u>19,123,909</u>
-	-	-	-	-	500,000
-	126,526	235,747	6,083	12,334	500,921
-	-	-	-	-	49,343,846
-	757,618	-	-	891,482	1,649,100
-	-	-	-	-	124,280,000
-	-	-	-	-	105,887,000
-	<u>884,144</u>	<u>235,747</u>	<u>6,083</u>	<u>903,816</u>	<u>282,160,867</u>
<u>67,399</u>	<u>1,357,266</u>	<u>615,602</u>	<u>216,730</u>	<u>1,577,059</u>	<u>301,284,776</u>
-	6,925,469	1,107,993	707,278	-	8,740,740
-	-	-	-	-	2,613,617
-	-	-	-	-	4,209
<u>635,957</u>	<u>1,898,127</u>	<u>3,139,905</u>	<u>602,543</u>	<u>92,928</u>	<u>(145,536,528)</u>
<u>\$ 635,957</u>	<u>\$ 8,823,596</u>	<u>\$ 4,247,898</u>	<u>\$ 1,309,821</u>	<u>\$ 92,928</u>	<u>\$ (134,177,962)</u>

**CITY OF STOCKTON**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Liability Insurance	Workers' Compensation Insurance	Employee & Retiree Health Insurance	Retirement Benefits
OPERATING REVENUES:				
Charges for services	\$ 4,332,737	\$ 7,025,372	\$ 37,146,945	\$ 35,685,084
OPERATING EXPENSES:				
Operation and maintenance	4,256,789	12,603,371	67,003,524	31,624,731
General and administrative	1,349,841	2,067,394	955,492	-
Depreciation and amortization	-	-	-	54,171
Total operating expenses	5,606,630	14,670,765	67,959,016	31,678,902
OPERATING INCOME (LOSS)	(1,273,893)	(7,645,393)	(30,812,071)	4,006,182
NON-OPERATING REVENUES (EXPENSES):				
Federal grants and subsidies	-	-	1,130,823	-
Investment income:				
Interest income	54,135	346,568	(40,569)	(78,928)
Interest expense and fiscal charges	-	-	-	(6,828,124)
Other non-operating revenues	-	623	2,172,567	69
Total non-operating revenues (expenses)	54,135	347,191	3,262,821	(6,906,983)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,219,758)	(7,298,202)	(27,549,250)	(2,900,801)
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	(500,000)	-	(3,731,000)
CHANGE IN NET ASSETS	(1,219,758)	(7,798,202)	(27,549,250)	(6,631,801)
NET ASSETS (DEFICITS), BEGINNING OF YEAR AS ORIGINALLY REPORTED	(3,525,553)	(32,510,103)	(81,878,551)	10,844,660
PRIOR PERIOD ADJUSTMENTS	979,065	(30)	1,361	-
NET ASSETS, BEGINNING OF YEAR, AS ADJUSTED	(2,546,488)	(32,510,133)	(81,877,190)	10,844,660
NET ASSETS (DEFICITS), END OF YEAR	\$ (3,766,246)	\$ (40,308,335)	\$ (109,426,440)	\$ 4,212,859

Other Benefits & Insurance	Vehicle Fleet Equipment	Computer Equipment	Radio Equipment	Other Equipment	Total
\$ 5,397,732	\$ 8,156,844	\$ 7,990,048	\$ 535,777	\$ 1,996,692	\$ 108,267,231
4,917,310	5,774,729	7,503,981	1,066,610	1,580,664	136,331,709
-	912,573	-	-	-	5,285,300
-	1,378,609	446,413	133,269	194,288	2,206,750
4,917,310	8,065,911	7,950,394	1,199,879	1,774,952	143,823,759
480,422	90,933	39,654	(664,102)	221,740	(35,556,528)
-	-	-	-	-	1,130,823
-	536	-	-	-	281,742
-	(32,703)	-	-	(54,680)	(6,915,507)
-	64,760	1,670	-	-	2,239,689
-	32,593	1,670	-	(54,680)	(3,263,253)
480,422	123,526	41,324	(664,102)	167,060	(38,819,781)
-	-	180,179	-	-	180,179
3,697,917	564,423	330,000	-	-	4,592,340
-	(2,286,000)	(1,200,000)	-	(330,000)	(8,047,000)
4,178,339	(1,598,051)	(648,497)	(664,102)	(162,940)	(42,094,262)
(3,542,382)	10,422,791	4,909,210	1,974,027	257,383	(93,048,518)
-	(1,144)	(12,815)	(104)	(1,515)	964,818
(3,542,382)	10,421,647	4,896,395	1,973,923	255,868	(92,083,700)
\$ 635,957	\$ 8,823,596	\$ 4,247,898	\$ 1,309,821	\$ 92,928	\$ (134,177,962)

**CITY OF STOCKTON**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Liability Insurance	Workers' Compensation Insurance	Employee & Retiree Health Insurance	Retirement Benefits
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users	\$ 4,762,539	\$ 7,127,372	\$ 37,114,072	\$ 35,706,744
Receipts for interfund services provided	-	623	2,172,567	69
Payments to suppliers	(3,686,385)	(9,083,669)	(36,877,145)	(28,894,092)
Payments to employees	(1,124,116)	(1,979,145)	(1,354,756)	(111,584)
Net cash provided by (used for) operating activities	<u>(47,962)</u>	<u>(3,934,819)</u>	<u>1,054,738</u>	<u>6,701,137</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	-	-	-	-
Transfers out	-	(500,000)	-	(3,731,000)
Federal grants and subsidies	-	-	1,130,823	-
Advance deposits	-	-	-	-
Principal paid on pension obligation debt	-	-	-	(250,000)
Interest paid on pension obligation debt	-	-	-	(6,886,967)
Due from other funds	-	6,802,457	-	-
Due to other funds	-	-	(1,763,000)	-
Advances to other funds	(19,605)	-	-	-
Advances received from other funds	-	500,000	-	-
Net cash provided by (used for) noncapital financing activities	<u>(19,605)</u>	<u>6,802,457</u>	<u>(632,177)</u>	<u>(10,867,967)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchases of capital assets	-	-	-	-
Principal paid on debt	-	-	-	-
Interest paid on debt	-	-	-	-
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment earnings	54,135	346,568	(40,569)	(78,928)
Net cash provided by (used for) investing activities	<u>54,135</u>	<u>346,568</u>	<u>(40,569)</u>	<u>(78,928)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(13,432)</b>	<b>3,214,206</b>	<b>381,992</b>	<b>(4,245,758)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,685,000</b>	<b>3,140,000</b>	<b>-</b>	<b>5,845,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,671,568</b>	<b>\$ 6,354,206</b>	<b>\$ 381,992</b>	<b>\$ 1,599,242</b>

Other Benefits & Insurance	Vehicle Fleet Equipment	Computer Equipment	Radio Equipment	Other Equipment	Total
\$ 5,397,040	\$ 8,157,877	\$ 7,990,017	\$ 535,777	\$ 1,956,692	\$ 108,748,130
-	64,760	1,670	-	-	2,239,689
229,428	(4,079,630)	(3,369,819)	(739,310)	(786,839)	(87,287,461)
(7,051,721)	(2,829,913)	(4,175,165)	(232,647)	(482,823)	(19,341,870)
(1,425,253)	1,313,094	446,703	(436,180)	687,030	4,358,488
3,697,917	564,423	330,000	-	-	4,592,340
-	(2,286,000)	(1,200,000)	-	(330,000)	(8,047,000)
-	-	-	-	-	1,130,823
-	-	30,000	-	-	30,000
-	-	-	-	-	(250,000)
-	-	-	-	-	(6,886,967)
-	-	-	-	-	6,802,457
(1,570,000)	-	-	-	-	(3,333,000)
-	-	-	-	-	(19,605)
-	-	-	-	-	500,000
2,127,917	(1,721,577)	(840,000)	-	(330,000)	(5,480,952)
-	(1,206,712)	(209,227)	(188,547)	(37,673)	(1,642,159)
-	(55,366)	-	-	(259,369)	(314,735)
-	(33,019)	-	-	(65,575)	(98,594)
-	(1,295,097)	(209,227)	(188,547)	(362,617)	(2,055,488)
-	536	-	-	-	281,742
-	536	-	-	-	281,742
702,664	(1,703,044)	(602,524)	(624,727)	(5,587)	(2,896,210)
-	4,143,000	4,358,000	1,444,000	930,000	21,545,000
\$ 702,664	\$ 2,439,956	\$ 3,755,476	\$ 819,273	\$ 924,413	\$ 18,648,790

**CITY OF STOCKTON**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Liability Insurance	Workers' Compensation Insurance	Employee Health Insurance	Retirement Benefits
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ (1,273,893)	\$ (7,645,393)	\$ (30,812,071)	\$ 4,006,182
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	-	-	-	54,171
Other non-operating revenues	-	623	2,172,567	69
Changes in assets and liabilities:				
Accounts and other receivables	429,802	102,000	(32,873)	21,660
Prepaid expenses	-	-	-	-
Deferred charges	-	-	16,000	54,107
Pension asset	-	-	-	2,564,948
Accounts payable	(8,727)	3,863	(195,933)	-
Deposits and other liabilities	(76,000)	(2,896)	(3,000)	-
Compensated absences	69,293	3,076	(6,352)	-
Self-insurance - claims and judgments	811,563	3,603,908	(116,600)	-
Net OPEB obligation	-	-	30,033,000	-
Net cash provided by (used for) operating activities	<u>\$ (47,962)</u>	<u>\$ (3,934,819)</u>	<u>\$ 1,054,738</u>	<u>\$ 6,701,137</u>
NONCASH TRANSACTIONS:				
Transfer of capital assets from other funds	-	-	-	-
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS:				
Cash and investments	\$ 1,671,568	\$ 6,354,206	\$ 381,992	\$ 1,595,033
Restricted assets:				
Cash with investments fiscal agents	-	-	-	4,209
Total cash and investments	<u>\$ 1,671,568</u>	<u>\$ 6,354,206</u>	<u>\$ 381,992</u>	<u>\$ 1,599,242</u>

<u>Other Benefits &amp; Insurance</u>	<u>Vehicle Fleet Equipment</u>	<u>Computer Equipment</u>	<u>Radio Equipment</u>	<u>Other Equipment</u>	<u>Total</u>
\$ 480,422	\$ 90,933	\$ 39,654	\$ (664,102)	\$ 221,740	\$ (35,556,528)
-	1,378,609	446,413	133,269	194,288	2,206,750
-	64,760	1,670	-	-	2,239,689
(692)	1,033	(31)	-	-	520,899
-	-	-	-	(40,000)	(40,000)
-	-	-	-	-	70,107
-	-	-	-	-	2,564,948
(29,983)	(159,997)	46,069	91,075	312,356	58,723
-	-	-	-	-	(81,896)
(1,875,000)	(62,244)	(87,072)	3,578	(1,354)	(1,956,075)
-	-	-	-	-	4,298,871
-	-	-	-	-	30,033,000
<u>\$ (1,425,253)</u>	<u>\$ 1,313,094</u>	<u>\$ 446,703</u>	<u>\$ (436,180)</u>	<u>\$ 687,030</u>	<u>\$ 4,358,488</u>
-	720	180,179	-	-	180,899
\$ 702,664	\$ 2,439,956	\$ 3,755,476	\$ 819,273	\$ 924,413	\$ 18,644,581
-	-	-	-	-	4,209
<u>\$ 702,664</u>	<u>\$ 2,439,956</u>	<u>\$ 3,755,476</u>	<u>\$ 819,273</u>	<u>\$ 924,413</u>	<u>\$ 18,648,790</u>





# CITY OF STOCKTON



**AGENCY FUNDS**



## AGENCY FUNDS

Agency funds are a type of fiduciary fund used to account for assets held in an agency capacity for parties outside the City. The resources of these funds cannot be used to support the City's own programs.

The City's agency funds include:

### *Land Secured Financing Agency Fund*

To account for special taxes or assessment collections from property owners that are authorized under various public improvement acts of the State of California. The City acts only as an agent and forwards collections to bondholders and initiated foreclosure proceedings when necessary.

### *Employee Withholdings Agency Fund*

To account for the collection and reimbursement of construction costs required as a condition of development or subdivision for approved public improvements within established areas of benefit.

### *Area of Benefit Fees Agency Fund*

To account for the collection of developer fees, proportionate share fees, and reimbursement of construction costs required as a condition of a development or subdivision for approved public improvements within established areas of benefit.

### *Public Facilities Fees Agency Fund*

To account for fees collected on behalf of other governments and agencies related to community new development impacts.

### *Miscellaneous Agency Fund*

To account for deposits held by the City as security for construction improvements and development, unified utility bill collections on behalf of other entities, and for other deposits held in a fiduciary capacity.

### *All Other Agency Funds*

To account for various cultural, recreational and educational programs that the City administers on behalf of other governmental and private sector entities and organizations.

**CITY OF STOCKTON**  
**STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES**  
**- AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
<b><u>Land Secured Financing</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 30,333,265	\$ 32,259,525	\$ 31,551,690	\$ 31,041,100
Cash and investments with fiscal agents	27,855,951	17,668,609	28,261,393	17,263,167
Receivables:				
Interest	158,796	102,011	159,023	101,784
Accounts and other receivables	140,754	18,463,857	18,469,428	135,183
Total assets	<u>\$ 58,488,766</u>	<u>\$ 68,494,002</u>	<u>\$ 78,441,534</u>	<u>\$ 48,541,234</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 38,938	\$ 797,973	\$ 790,821	\$ 46,090
Deposits and other liabilities	58,449,828	19,291,905	29,246,589	48,495,144
Total liabilities	<u>\$ 58,488,766</u>	<u>\$ 20,089,878</u>	<u>\$ 30,037,410</u>	<u>\$ 48,541,234</u>
<b><u>Employee Withholdings</u></b>				
<b>ASSETS</b>				
Cash and investments	<u>\$ 379,950</u>	<u>\$ 62,614</u>	<u>\$ 442,564</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Due to other governments	\$ (672)	\$ 672	-	\$ -
Deposits and other liabilities	380,622	62,614	443,236	-
Total liabilities	<u>\$ 379,950</u>	<u>\$ 63,286</u>	<u>\$ 443,236</u>	<u>\$ -</u>
<b><u>Area of Benefit Fees</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 12,254,384	\$ 748,777	\$ 985,030	\$ 12,018,131
Receivables:				
Interest	80,704	-	80,704	-
Total assets	<u>\$ 12,335,088</u>	<u>\$ 748,777</u>	<u>\$ 1,065,734</u>	<u>\$ 12,018,131</u>
<b>LIABILITIES</b>				
Deposits and other liabilities	\$ 12,335,088	\$ 663,135	\$ 980,092	\$ 12,018,131
Total liabilities	<u>\$ 12,335,088</u>	<u>\$ 663,135</u>	<u>\$ 980,092</u>	<u>\$ 12,018,131</u>

**CITY OF STOCKTON**  
**STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES**  
**- AGENCY FUNDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
<b><u>Public Facilities Fees</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 1,118,344	\$ 903,118	\$ 834,429	\$ 1,187,033
Receivables:				
Interest	6,957	-	6,957	-
Accounts and other receivables	21,672	12,612	24,413	9,871
Total assets	<u>\$ 1,146,973</u>	<u>\$ 915,730</u>	<u>\$ 865,799</u>	<u>\$ 1,196,904</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 332,846	\$ 851,754	\$ 805,887	\$ 378,713
Due to other governments	814,127	936,142	932,078	818,191
Total liabilities	<u>\$ 1,146,973</u>	<u>\$ 1,787,896</u>	<u>\$ 1,737,965</u>	<u>\$ 1,196,904</u>
<b><u>Miscellaneous</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 5,761,918	\$ 22,057,748	\$ 21,951,073	\$ 5,868,593
Receivables:				
Interest	37,126	-	37,126	-
Accounts and other receivables	970,833	13,366,132	13,270,860	1,066,105
Total assets	<u>\$ 6,769,877</u>	<u>\$ 35,423,880</u>	<u>\$ 35,259,059</u>	<u>\$ 6,934,698</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 741,028	\$ 747,356	\$ (6,328)
Due to other governments	13,966	358,577	339,056	33,487
Deposits and other liabilities	6,755,911	25,278,620	25,126,992	6,907,539
Total liabilities	<u>\$ 6,769,877</u>	<u>\$ 26,378,225</u>	<u>\$ 26,213,404</u>	<u>\$ 6,934,698</u>
<b><u>All Other</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 436,039	\$ 185,997	\$ 192,841	\$ 429,195
Receivables:				
Interest	1,923	71	1,994	-
Due from other governments	-	955	-	955
Total assets	<u>\$ 437,962</u>	<u>\$ 187,023</u>	<u>\$ 194,835</u>	<u>\$ 430,150</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 22,329	\$ 150,018	\$ 158,154	\$ 14,193
Deposits and other liabilities	415,633	178,954	178,630	415,957
Total liabilities	<u>\$ 437,962</u>	<u>\$ 328,972</u>	<u>\$ 336,784</u>	<u>\$ 430,150</u>

**CITY OF STOCKTON**  
**STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES**  
**- AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
<b><u>Total</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 50,283,900	\$ 56,217,779	\$ 55,957,627	\$ 50,544,052
Cash and investments with fiscal agents	27,855,951	17,668,609	28,261,393	17,263,167
Receivables:				
Interest	285,506	102,082	285,804	101,784
Accounts and other receivables	1,133,259	31,842,601	31,764,701	1,211,159
Due from other governments	-	955	-	955
Total assets	<u>\$ 79,558,616</u>	<u>\$ 105,832,026</u>	<u>\$ 116,269,525</u>	<u>\$ 69,121,117</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 394,113	\$ 2,540,773	\$ 2,502,218	\$ 432,668
Due to other governments	827,421	1,295,391	1,271,134	851,678
Deposits and other liabilities	78,337,082	45,475,228	55,975,539	67,836,771
Total liabilities	<u>\$ 79,558,616</u>	<u>\$ 49,311,392</u>	<u>\$ 59,748,891</u>	<u>\$ 69,121,117</u>



# CITY OF STOCKTON



**STATISTICAL SECTION**



## STATISTICAL SECTION

The Statistical Section provides financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.

The Statistical Section is required by the Governmental Accounting Standards Board (GASB) to be reported in the following sections:

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends Information</b> .....	172
Helps readers understand how the City's financial position and well-being have changed over time.	
<b>Revenue Capacity Information</b> .....	184
Helps readers understand and assess the City's ability to generate its own sources of revenue, the most significant local revenue source being property tax.	
<b>Debt Capacity Information</b> .....	193
Helps readers understand and assess the City's current level of outstanding debt and its ability to issue additional debt.	
<b>Demographic and Economic Information</b> .....	201
Helps readers understand the socioeconomic environment within which the City's financial activities take place, and provides information to facilitate comparisons of financial statement information over time and among other governments.	
<b>Operating Information</b> .....	203
Information about the City's operations and resources to help readers use financial information to understand and assess the related services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**CITY OF STOCKTON**

**TABLE 1**

**NET ASSETS BY COMPONENT**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

	Fiscal Year				
	2011	2010	2009	2008	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 645,249	\$ 612,914	\$ 611,775	\$ 594,070	\$ 636,838
Restricted	122,730	188,655	162,363	172,088	161,995
Unrestricted	(169,356)	(139,549)	(66,091)	(21,053)	(338)
Total governmental activities net assets	\$ 598,623	\$ 662,020	\$ 708,047	\$ 745,105	\$ 798,495
Business-type activities:					
Invested in capital assets, net of related debt	\$ 414,066	\$ 402,215	\$ 400,551	\$ 399,813	\$ 387,198
Restricted	33,558	30,751	35,408	39,568	46,850
Unrestricted	61,172	41,442	42,449	39,138	32,645
Total business-type activities net assets	\$ 508,796	\$ 474,408	\$ 478,408	\$ 478,519	\$ 466,693
Primary government:					
Invested in capital assets, net of related debt	\$ 1,059,315	\$ 1,015,129	\$ 1,012,326	\$ 993,883	\$ 1,024,036
Restricted	156,288	219,406	197,771	211,656	208,845
Unrestricted	(108,184)	(98,107)	(23,642)	18,085	32,307
Total primary government net assets	\$ 1,107,419	\$ 1,136,428	\$ 1,186,455	\$ 1,223,624	\$ 1,265,188

Note: Some prior year balances may have been restated from previous CAFRs to reflect new GASB implementations or prior period adjustments.

Beginning with fiscal year 2006, land secured financings were removed from government-wide financial statements. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year				
2006	2005	2004	2003	2002
\$ 603,068	\$ 529,250	\$ 289,507	\$ 215,070	\$ 217,640
154,758	134,804	143,431	144,275	132,692
(8,497)	(19,407)	5,071	16,162	6,551
<u>\$ 749,329</u>	<u>\$ 644,647</u>	<u>\$ 438,009</u>	<u>\$ 375,507</u>	<u>\$ 356,883</u>
\$ 368,222	\$ 348,229	\$ 302,497	\$ 265,548	\$ 221,398
48,454	55,386	52,415	29,799	24,830
30,465	30,282	48,023	83,815	95,269
<u>\$ 447,141</u>	<u>\$ 433,897</u>	<u>\$ 402,935</u>	<u>\$ 379,162</u>	<u>\$ 341,497</u>
\$ 971,290	\$ 877,479	\$ 592,004	\$ 480,618	\$ 439,038
203,212	190,190	195,846	174,074	157,522
21,968	10,875	53,094	99,977	101,820
<u>\$ 1,196,470</u>	<u>\$ 1,078,544</u>	<u>\$ 840,944</u>	<u>\$ 754,669</u>	<u>\$ 698,380</u>

**CITY OF STOCKTON**

**TABLE 2**

**CHANGES IN NET ASSETS**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

	Fiscal Year				
	2011	2010	2009	2008	2007
<b>Expenses</b>					
Governmental activities:					
General government	\$ 40,873	\$ 30,765	\$ 33,923	\$ 27,819	\$ 26,517
Public safety	182,582	187,647	190,692	181,187	161,895
Public works	48,826	56,416	43,985	134,737	59,897
Library	11,589	12,767	14,852	14,723	13,261
Parks and recreation	24,435	22,309	26,038	33,138	27,429
Interest and fiscal charges	19,274	20,430	19,620	17,921	11,746
Total governmental activities	\$ 327,579	\$ 330,334	\$ 329,110	\$ 409,525	\$ 300,745
Business-type activities:					
Water utility	\$ 35,909	\$ 28,856	\$ 24,146	\$ 22,070	\$ 21,750
Wastewater utility	49,234	45,958	49,414	40,045	42,084
Stormwater utility	7,406	7,842	8,129	6,696	7,219
Central parking district	4,264	4,616	4,810	5,002	4,238
Other	3,517	2,394	2,237	2,093	2,057
Total business-type activities	100,330	89,666	88,736	75,906	77,348
Total expenses	\$ 427,909	\$ 420,000	\$ 417,846	\$ 485,431	\$ 378,093
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
General government	\$ 17,079	\$ 11,387	\$ 13,180	\$ 12,141	\$ 8,429
Public safety	16,765	18,812	22,131	30,738	32,447
Public works	15,005	17,755	19,750	30,429	21,140
Library	593	504	4,800	1,462	1,105
Parks and recreation	7,353	6,464	2,104	9,741	9,957
Operating grants and contributions	22,355	17,251	16,051	10,352	11,065
Capital grants and contributions	50,112	40,661	33,112	43,874	83,238
Total governmental activities	\$ 129,262	\$ 112,834	\$ 111,128	\$ 138,737	\$ 167,381
Business-type activities:					
Charges for services:					
Water utility	\$ 30,056	\$ 25,775	\$ 24,258	\$ 22,882	\$ 23,092
Wastewater utility	42,598	37,271	35,607	33,661	33,099
Stormwater utility	5,879	5,655	5,498	6,160	5,088
Central parking district	3,585	3,672	3,934	3,815	3,474
Other	1,852	1,701	-	-	-
Operating grants and contributions	4,175	2,482	1,845	2,065	1,988
Capital grants and contributions	15,960	4,917	4,409	13,251	23,721
Total business-type activities	104,105	81,473	75,551	81,834	90,462
Total program revenues	\$ 233,367	\$ 194,307	\$ 186,679	\$ 220,571	\$ 257,843
<b>Net (Expense)/Revenue</b>					
Governmental activities	\$ (198,317)	\$ (217,500)	\$ (217,982)	\$ (270,788)	\$ (133,364)
Business-type activities	3,775	(8,193)	(13,185)	5,928	13,114
Total net expense	\$ (194,542)	\$ (225,693)	\$ (231,167)	\$ (264,860)	\$ (120,250)

					Fiscal Year				
2006		2005		2004		2003		2002	
\$	20,171	\$	19,894	\$	17,569	\$	15,454	\$	16,844
	149,512		145,703		125,837		126,815		106,062
	36,481		33,328		42,848		46,031		30,895
	13,545		13,190		11,530		11,594		11,475
	26,352		19,365		15,854		15,397		16,203
	4,136		4,346		13,081		11,954		11,186
\$	250,197	\$	235,826	\$	226,719	\$	227,245	\$	192,665
\$	19,063	\$	14,809	\$	15,548	\$	14,672	\$	13,742
	36,458		31,607		32,674		29,427		25,743
	6,009		5,653		6,910		5,657		4,612
	3,162		2,487		2,585		2,260		1,978
	2,460		2,448		5,022		4,991		4,898
	67,152		57,004		62,739		57,007		50,973
\$	317,349	\$	292,830	\$	289,458	\$	284,252	\$	243,638
\$	10,154	\$	11,264	\$	7,962	\$	9,928	\$	6,429
	37,603		39,329		29,960		46,677		29,272
	35,054		23,733		21,683		8,693		5,675
	1,489		1,920		1,859		515		387
	12,407		9,988		10,050		1,736		1,725
	12,388		9,715		7,924		8,741		8,950
	45,745		44,309		47,789		48,914		27,654
\$	154,840	\$	140,258	\$	127,227	\$	125,204	\$	80,092
\$	20,268	\$	20,125	\$	18,328	\$	15,576	\$	15,720
	32,746		31,926		30,483		29,432		27,298
	5,063		4,751		4,827		4,391		4,288
	3,502		2,696		2,694		2,645		2,273
	-		-		-		-		-
	2,284		2,433		4,639		7,428		6,670
	20,324		28,655		31,535		37,765		15,824
	84,187		90,586		92,506		97,237		72,073
\$	239,027	\$	230,844	\$	219,733	\$	222,441	\$	152,165
\$	(95,357)	\$	(95,568)	\$	(99,492)	\$	(102,041)	\$	(112,573)
	17,035		33,582		29,767		40,230		21,100
\$	(78,322)	\$	(61,986)	\$	(69,725)	\$	(61,811)	\$	(91,473)

(Continued)

**CITY OF STOCKTON**  
**TABLE 2 (Continued)**  
**CHANGES IN NET ASSETS**  
**LAST TEN FISCAL YEARS**  
**(Dollar amounts in thousands)**

	Fiscal Year				
	2011	2010	2009	2008	2007
<b>General Revenues and Other</b>					
<b>Changes in Net Assets:</b>					
Governmental activities:					
Taxes:					
Property	\$ 41,051	\$ 45,549	\$ 58,640	\$ 63,998	\$ 60,015
In lieu of sales tax	8,118	7,087	9,823	10,164	11,070
Utility user	30,994	30,717	30,854	30,861	30,101
Sales - levied by City (1)	7,875	7,652	7,921	9,409	9,249
Franchise fees	11,503	11,354	11,608	11,537	10,817
Business licenses	9,855	9,717	9,699	10,772	10,285
Hotel/motel room	1,799	1,749	1,962	2,287	2,180
Document transfer	583	559	702	686	1,187
Special assessments	-	-	-	-	-
Other	155	203	234	246	257
Shared revenue:					
Vehicle license fees	20,014	20,468	23,459	24,051	22,661
Sales and use tax levied by state	30,061	28,856	31,245	36,098	36,745
Other	352	361	370	389	384
Investment earnings	1,620	5,927	13,104	15,007	11,436
Gain on sale of capital assets	-	8	127	88	-
Miscellaneous	1,083	172	722	756	786
Special item	3,270	(288)	(8,736)	-	-
Transfers	542	1,382	803	1,049	516
<b>Total governmental activities</b>	<b>\$ 168,875</b>	<b>\$ 171,473</b>	<b>\$ 192,537</b>	<b>\$ 217,398</b>	<b>\$ 207,689</b>
Business-type activities:					
Other taxes	\$ 1,152	\$ 1,095	\$ 1,066	\$ 1,055	\$ 981
Grants and contributions not restricted to specific programs	-	-	-	-	-
Investment earnings	3,176	4,192	4,075	5,892	5,973
Gain on sale of capital assets	-	-	-	-	-
Special item	-	288	8,736	-	-
Transfers	(542)	(1,382)	(803)	(1,049)	(516)
<b>Total business-type activities</b>	<b>3,786</b>	<b>4,193</b>	<b>13,074</b>	<b>5,898</b>	<b>6,438</b>
<b>Total general revenues and other changes in net assets</b>	<b>\$ 172,661</b>	<b>\$ 175,666</b>	<b>\$ 205,611</b>	<b>\$ 223,296</b>	<b>\$ 214,127</b>
<b>Change in Net Assets</b>					
Governmental activities	\$ (29,442)	\$ (46,027)	\$ (25,445)	\$ (53,390)	\$ 74,325
Business-type activities	7,561	(4,000)	(111)	11,826	19,552
<b>Total primary government</b>	<b>\$ (21,881)</b>	<b>\$ (50,027)</b>	<b>\$ (25,556)</b>	<b>\$ (41,564)</b>	<b>\$ 93,877</b>

Note: Beginning with fiscal year 2006, land secured financings were removed from government-wide financial statements. For comparative purposes, 2005 balances have been restated to reflect this change.

(1) Measure W-Public Safety Tax, approved an additional .25% sales tax which was effective April 1, 2005 to hire up to 40 additional police officers and 40 additional firefighters. Fiscal 2006 included two additional months of sales tax revenue to align revenues to the month they were earned.

(2) In fiscal year 2010-11 Net Assets were restated for prior period adjustments for the Government activities and Business-type activities. See financial statement footnote #15 prior period adjustments for more information.

Source: City of Stockton Department of Administrative Services

Fiscal Year					
2006	2005	2004	2003	2002	
\$ 47,495	\$ 33,723	\$ 28,365	\$ 23,449	\$ 20,742	
9,274	8,750	-	-	-	
34,313	34,908	33,322	32,157	31,462	
9,941	1,047	-	-	-	
10,333	9,812	5,725	5,623	5,364	
11,222	8,960	8,014	7,899	6,691	
2,171	2,160	2,030	2,048	2,005	
2,010	2,036	1,525	1,043	777	
-	-	18,211	18,591	18,135	
218	373	187	174	254	
18,173	14,548	11,633	15,008	13,847	
42,063	37,198	40,333	36,628	35,812	
456	1,589	1,705	1,685	1,607	
3,457	5,554	1,243	5,310	7,944	
-	-	496	449	99	
1,010	6,603	1,652	2,896	4,047	
-	-	-	-	-	
7,903	8,076	7,553	6,477	5,627	
<u>\$ 200,039</u>	<u>\$ 175,337</u>	<u>\$ 161,994</u>	<u>\$ 159,437</u>	<u>\$ 154,413</u>	
\$ 713	\$ 733	\$ 675	\$ 596	\$ 580	
-	881	-	1,909	6,974	
3,399	3,842	808	4,052	5,864	
-	-	76	-	-	
-	-	-	-	-	
(7,903)	(8,076)	(7,553)	(6,477)	(5,627)	
<u>(3,791)</u>	<u>(2,620)</u>	<u>(5,994)</u>	<u>80</u>	<u>7,791</u>	
<u>\$ 196,248</u>	<u>\$ 172,717</u>	<u>\$ 156,000</u>	<u>\$ 159,517</u>	<u>\$ 162,204</u>	
\$ 104,682	\$ 79,769	\$ 62,502	\$ 57,396	\$ 41,840	
13,244	30,962	23,773	40,310	28,891	
<u>\$ 117,926</u>	<u>\$ 110,731</u>	<u>\$ 86,275</u>	<u>\$ 97,706</u>	<u>\$ 70,731</u>	

**CITY OF STOCKTON**

**TABLE 3**

**FUND BALANCES, GOVERNMENTAL FUNDS**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

	Fiscal Year				
	2011	2010	2009	2008	2007
General Fund					
Nonspendable	\$ 317	\$ 13,466	\$ -	\$ -	\$ -
Restricted	2,100	2,100	-	-	-
Committed	5,081	1,851	-	-	-
Assigned	4,758	5,730	-	-	-
Unassigned	-	-	-	-	-
Total General Fund	\$ 12,256	\$ 23,147	\$ -	\$ -	\$ -
All other governmental funds					
Nonspendable	\$ 304	\$ 1,604	\$ -	\$ -	\$ -
Restricted	115,700	228,190	-	-	-
Committed	-	67,466	-	-	-
Assigned	-	1,815	-	-	-
Unassigned	(15,017)	(63,475)	-	-	-
Total all other governmental funds	\$ 100,987	\$ 235,600	\$ -	\$ -	\$ -
Total Fund Balances	\$ 113,243	\$ 258,747	\$ -	\$ -	\$ -

	Fiscal Year				
	2011	2010	2009	2008	2007
General Fund					
Reserved	\$ -	\$ -	\$ 14,175	\$ 13,498	\$ 13,231
Unreserved	-	-	8,607	9,627	15,761
Total General Fund	\$ -	\$ -	\$ 22,782	\$ 23,125	\$ 28,992
All other governmental funds					
Reserved	\$ -	\$ -	\$ 285,941	\$ 289,368	\$ 298,541
Unreserved, reported in:					
Special revenue funds	-	-	6,417	24,677	3,986
Debt service funds	-	-	-	38	(196)
Capital projects funds	-	-	(53,248)	(25,307)	(27,899)
Permanent Fund	-	-	358	333	297
Total all other governmental funds	\$ -	\$ -	\$ 239,468	\$ 289,109	\$ 274,729
Total Fund Balances	\$ -	\$ -	\$ 262,250	\$ 312,234	\$ 303,721

Notes:

The City implemented the provisions of GASB Statement #54 in fiscal year 2010 which changed the fund balance classifications. The implementation was implemented prospectively. Other prior year balances were changed based on prior period adjustments.

Beginning with fiscal year 2006 land secured financing activity was removed from the capital projects funds and debt service funds and reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances were restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year				
2006	2005	2004	2003	2002
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -

Fiscal Year				
2006	2005	2004	2003	2002
\$ 8,352	\$ 6,958	\$ 6,117	\$ 6,255	\$ 6,427
23,116	16,506	11,730	11,765	8,642
\$ 31,468	\$ 23,464	\$ 17,847	\$ 18,020	\$ 15,069
\$ 197,170	\$ 246,051	\$ 317,874	\$ 243,715	\$ 127,453
(20,727)	(57,435)	8,627	14,151	9,585
(213)	(42)	(179)	20	(22)
(26,296)	(27,487)	(46,437)	(34,948)	71,859
252	265	207	230	258
\$ 150,186	\$ 161,352	\$ 280,092	\$ 223,168	\$ 209,133
\$ 181,654	\$ 184,816	\$ 297,939	\$ 241,188	\$ 224,202

**CITY OF STOCKTON**

**TABLE 4**

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

	Fiscal Year		
	2011	2010	2009
<b>Revenues:</b>			
Taxes:			
Property	\$ 41,051	\$ 45,549	\$ 58,640
In lieu of sales tax	8,118	7,087	9,823
Utility user	30,994	30,717	30,854
Sales (levied by City) (1)	7,875	7,652	7,921
Franchise fees	11,503	11,354	11,608
Business license	9,855	9,717	9,699
Hotel/motel room	1,799	1,749	1,962
Document transfer	583	559	702
Special assessments	-	-	-
Other	155	203	234
Licenses and permits	3,584	4,257	4,335
Federal grants and subsidies	33,244	26,034	12,976
Other shared revenue (sales and use tax levied by state) (1)	30,061	28,856	31,245
Other governmental	47,929	47,779	53,498
Charges for services	21,262	26,174	31,462
Fines and forfeitures	3,538	5,090	4,499
Use of money and property	14,966	11,962	13,234
Investment income:			
Interest income	1,339	5,352	11,375
Refunds and reimbursements	9,790	5,186	4,113
Miscellaneous	7,594	8,449	13,429
Total revenues	<u>\$ 285,240</u>	<u>\$ 283,726</u>	<u>\$ 311,609</u>
<b>Expenditures:</b>			
Current:			
General government	\$ 30,900	\$ 21,818	\$ 24,272
Public safety	152,527	152,714	163,339
Public works	13,528	14,029	16,113
Library	10,252	11,041	12,485
Parks and recreation	19,669	17,948	22,376
Capital outlay	66,975	84,194	105,384
Debt service:			
Principal retirement	22,661	11,739	3,973
Cost of issuance	-	846	99
Interest and fiscal charges	12,706	12,523	11,938
Total expenditures	<u>\$ 329,218</u>	<u>\$ 326,852</u>	<u>\$ 359,979</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (43,978)</u>	<u>\$ (43,126)</u>	<u>\$ (48,370)</u>

							Fiscal Year						
							2008	2007	2006	2005	2004	2003	2002
\$	63,998	\$	60,015	\$	47,495	\$	33,723	\$	28,365	\$	23,449	\$	20,742
	10,164		11,070		9,274		8,750		-		-		-
	30,861		30,101		34,313		34,908		33,322		32,157		31,462
	9,409		9,249		9,941		1,047		-		-		-
	11,537		10,817		10,333		9,812		5,725		5,623		5,364
	10,772		10,285		11,222		8,960		8,014		8,065		6,897
	2,287		2,180		2,171		2,160		2,030		2,048		2,005
	686		1,187		2,010		2,036		1,525		1,043		777
	-		-		-		-		18,211		18,591		18,135
	246		257		218		193		187		174		254
	5,273		6,777		8,960		11,112		9,977		11,444		5,493
	13,617		26,532		21,529		10,465		11,301		15,598		9,188
	36,098		36,745		42,063		35,904		40,333		36,628		35,812
	59,976		63,064		52,402		44,737		35,330		40,025		42,250
	55,244		51,739		66,443		61,903		57,316		43,181		32,117
	3,321		3,323		3,933		3,250		1,905		1,490		1,552
	12,922		9,709		6,274		3,370		1,640		2,011		1,806
	13,100		9,789		2,831		5,019		1,176		5,055		7,401
	4,253		8,199		8,284		5,524		3,213		4,864		3,310
	8,515		9,163		8,707		11,662		6,314		8,791		6,661
\$	352,279	\$	360,201	\$	348,403	\$	294,535	\$	265,884	\$	260,237	\$	231,226
\$	22,285	\$	20,030	\$	23,935	\$	23,520	\$	22,812	\$	16,321	\$	16,182
	168,372		163,479		157,299		142,211		123,948		112,668		102,626
	18,464		19,478		30,959		27,346		38,122		33,987		15,206
	13,432		12,648		13,283		12,391		11,303		10,475		10,403
	27,185		25,747		25,637		17,931		14,937		13,330		13,433
	135,071		98,819		101,399		108,560		60,827		60,390		60,652
	1,017		591		689		669		8,356		9,654		7,290
	777		2,069		341		22		2,177		983		466
	10,771		7,892		4,314		4,183		12,460		11,937		10,814
\$	397,374	\$	350,753	\$	357,856	\$	336,833	\$	294,942	\$	269,745	\$	237,072
\$	(45,095)	\$	9,448	\$	(9,453)	\$	(42,298)	\$	(29,058)	\$	(9,508)	\$	(5,846)

(Continued)

**CITY OF STOCKTON**

**TABLE 4 (Continued)**

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

	Fiscal Year		
	2011	2010	2009
<b>Other financing sources (uses):</b>			
Capital contributions	\$ (284)	\$ -	\$ -
Transfers in	78,125	35,341	46,051
Transfers out	(74,128)	(34,357)	(45,381)
Operating transfers out to a component unit	-	-	-
Issuance of long-term debt	30	39,702	6,343
Sales of capital assets	1,127	-	109
Payment to refunded bond escrow agent	-	-	-
Premiums on debt issuances	-	-	-
Discounts on debt issuances	-	(775)	-
Total other financing sources (uses)	<u>\$ 4,870</u>	<u>\$ 39,911</u>	<u>\$ 7,122</u>
Special items	3,270	(288)	(8,736)
Net change in fund balances	(35,838)	(3,503)	(49,984)
Fund balances, beginning of year, as restated	258,748	262,250	312,234
Prior period adjustments	(109,666)	-	-
Fund balances, end of year, as restated	<u>\$ 113,244</u>	<u>\$ 258,747</u>	<u>\$ 262,250</u>
Debt service as a percentage of noncapital expenditures	13.4%	9.9%	5.9%

(1) Measure W, Public Safety Tax, an additional .25% sales tax approved by voters, effective April 1, 2005 allowed for adding up to 40 police officers and 40 firefighters. Fiscal 2006 included two additional months of sales tax revenue to align revenues to the month they were earned.

Note: Some prior year balances may have been restated from previous CAFRs to reflect new GASB implementations or prior period adjustments.

Beginning fiscal year 2006, land secured financings were removed from capital projects and debt service funds and are reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year						
2008	2007	2006	2005	2004	2003	2002
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
59,991	78,825	45,192	46,449	64,132	71,393	38,960
(59,839)	(80,506)	(38,821)	(39,845)	(59,459)	(65,969)	(35,648)
-	-	-	-	-	-	-
53,436	110,509	14,608	592	79,713	38,110	32,946
44	5	2	2	5	719	-
-	-	(14,604)	-	-	(17,205)	-
-	2,377	-	-	1,637	-	-
(24)	-	(86)	-	(219)	(554)	(604)
<u>\$ 53,608</u>	<u>\$ 111,210</u>	<u>\$ 6,291</u>	<u>\$ 7,198</u>	<u>\$ 85,809</u>	<u>\$ 26,494</u>	<u>\$ 35,654</u>
-	-	-	-	-	-	-
8,513	120,658	(3,162)	(35,100)	56,751	16,986	29,808
303,721	183,063	184,816	219,916	241,188	224,202	194,394
-	-	-	-	-	-	-
<u>\$ 312,234</u>	<u>\$ 303,721</u>	<u>\$ 181,654</u>	<u>\$ 184,816</u>	<u>\$ 297,939</u>	<u>\$ 241,188</u>	<u>\$ 224,202</u>
4.2%	3.7%	2.1%	2.2%	10.9%	12.1%	11.8%

**CITY OF STOCKTON**

**TABLE 5**

**TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

	Fiscal Year					
	2011	2010	2009	2008	2007	2006
Property (1)	\$ 41,051	\$ 45,549	\$ 58,640	\$ 63,998	\$ 60,015	\$ 47,495
In lieu of sales tax (2)	8,118	7,087	9,823	10,164	11,070	9,274
Utility user (3)	30,994	30,717	30,854	30,861	30,101	34,313
Sales (levied by city) (4)	7,875	7,652	7,921	9,409	9,249	9,941
Franchise fees (5)	11,503	11,354	11,608	11,537	10,817	10,333
Business licenses (6)	9,855	9,717	9,699	10,772	10,285	11,222
Hotel/motel room	1,799	1,749	1,962	2,287	2,180	2,171
Document transfer (7)	583	559	702	686	1,187	2,010
Special assessments (8)	-	-	-	-	-	-
Other	155	203	234	246	257	218
<b>Totals</b>	<b>\$ 111,933</b>	<b>\$ 114,587</b>	<b>\$ 131,443</b>	<b>\$ 139,960</b>	<b>\$ 135,161</b>	<b>\$ 126,977</b>

(1) Property taxes decreased beginning in 2009 due to declining residential home values and foreclosures, resulting in a devaluation of City’s assessed valuation performed by San Joaquin County.

(2) Effective with fiscal year 2005, the City began receiving property tax in-lieu of sales tax under provisions of Proposition 1A approved by the voters of the State of California. Fluctuations are due to the value of property when sold.

(3) The City Council approved a resolution in fiscal year 2005 to reduce the utility user tax rate from 8% to 6%, with the final reduction from 7% to 6% effective July 1, 2006. Mild winter weather combined with lower prices for natural gas to PG & E customers added to the overall reduction in revenues since 2006.

(4) Measure W, Public Safety Tax, approved an additional .25% sales tax which was effective April 1, 2005 to hire up to 40 additional police officers and 40 additional firefighters. Fiscal 2006 included two additional months of sales tax revenue to align revenues to the month they were earned.

(5) Contracts effective June 1, 2004 increased garbage haulers franchise fees.

(6) Business license revenue increased in 2006 based on the revenue generated through the Voluntary Compliance (amnesty) Program.

(7) Document transfer fees are charged when property changes ownership. Home and other property sales have slowed considerably since 2006.

(8) Beginning with fiscal year 2006, land secured financings were removed from the debt service funds and reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year					% Change 2002 (or inception) to 2011
2005	2004	2003	2002		
\$ 33,723	\$ 28,365	\$ 23,449	\$ 20,742		98%
8,750	-	-	-		0%
34,908	33,322	32,157	31,462		-1%
1,047	-	-	-		0%
9,812	5,725	5,623	5,364		114%
8,960	8,014	8,065	6,897		43%
2,160	2,030	2,048	2,005		-10%
2,036	1,525	1,043	777		-25%
-	18,211	18,591	18,135		-100%
193	187	174	254		-39%
<u>\$ 101,589</u>	<u>\$ 97,379</u>	<u>\$ 91,150</u>	<u>\$ 85,636</u>		<u>31%</u>

**CITY OF STOCKTON**

**TABLE 6**

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS  
(Dollar amounts in thousands)**

	Fiscal Year			
	2011	2010	2009	2008
Secured roll	\$ 17,388,579	\$ 18,339,819	\$ 20,988,391	\$ 21,520,451
Utility roll	7,119	7,081	5,633	5,652
Unsecured roll	1,606,951	1,628,749	1,588,293	1,234,912
Gross assessed value	\$ 19,002,649	\$ 19,975,649	\$ 22,582,317	\$ 22,761,015
Less exemptions (1)	1,584,109	1,514,454	1,398,902	1,302,249
Net assessed value	\$ 17,418,540	\$ 18,461,195	\$ 21,183,415	\$ 21,458,766
Land	\$ 4,461,053	\$ 4,817,327	\$ 6,387,373	\$ 6,661,962
Improvements	13,284,209	13,910,082	14,984,980	15,092,621
Personal property	1,257,387	1,248,240	1,209,964	1,006,432
Gross assessed value	\$ 19,002,649	\$ 19,975,649	\$ 22,582,317	\$ 22,761,015
Less exemptions (1)	1,584,109	1,514,454	1,398,902	1,302,249
Net assessed value	\$ 17,418,540	\$ 18,461,195	\$ 21,183,415	\$ 21,458,766
Total Direct Tax Rate	1.00%	1.00%	1.00%	1.00%

(1) For FY 2011, all exemptions (secured, utility, and unsecured rolls) are: homeowners - \$250,091,777 and other - \$1,334,017,534 = \$1,584,109,311

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the property being sold is reassessed at the purchase price. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Auditor-Controller's Office

Fiscal Year					
2007	2006	2005	2004	2003	2002
\$ 19,823,995	\$ 16,860,177	\$ 14,398,725	\$ 12,567,832	\$ 11,300,938	\$ 10,201,671
14,092	15,883	16,316	15,054	12,683	13,536
1,195,948	1,127,627	1,015,499	951,164	904,354	834,424
\$ 21,034,035	\$ 18,003,687	\$ 15,430,540	\$ 13,534,050	\$ 12,217,975	\$ 11,049,631
1,238,271	1,185,310	1,111,509	1,061,968	1,003,662	952,815
\$ 19,795,764	\$ 16,818,377	\$ 14,319,031	\$ 12,472,082	\$ 11,214,313	\$ 10,096,816
\$ 5,992,555	\$ 4,811,339	\$ 4,104,660	\$ 3,532,906	\$ 3,132,565	\$ 2,756,278
14,034,608	12,251,910	10,509,572	9,220,951	8,350,637	7,579,417
1,006,872	940,438	816,308	780,193	734,773	713,936
\$ 21,034,035	\$ 18,003,687	\$ 15,430,540	\$ 13,534,050	\$ 12,217,975	\$ 11,049,631
1,238,271	1,185,310	1,111,509	1,061,968	1,003,662	952,815
\$ 19,795,764	\$ 16,818,377	\$ 14,319,031	\$ 12,472,082	\$ 11,214,313	\$ 10,096,816
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**CITY OF STOCKTON**

**TABLE 7**

**DIRECT AND OVERLAPPING PROPERTY TAX RATES**

**LAST TEN FISCAL YEARS**

**(Rate per \$100 of assessed value)**

<b>Fiscal Year</b>	<b>Basic Countywide Levy</b>	<b>City</b>	<b>Total Direct</b>	<b>Stockton Unified School District (1)</b>	<b>San Joaquin Delta College District</b>	<b>Total</b>
2011	\$ 1.0000	\$ -	\$ 1.0000	\$ 0.1730	\$ 0.0194	\$ 1.1924
2010	1.0000	-	1.0000	0.1273	0.0180	1.1453
2009	1.0000	-	1.0000	0.1497	0.0160	1.1657
2008	1.0000	-	1.0000	0.1514	0.0015	1.1529
2007	1.0000	-	1.0000	0.0929	0.0183	1.1112
2006	1.0000	-	1.0000	0.0545	0.0134	1.0679
2005	1.0000	-	1.0000	0.0545	0.0134	1.0679
2004	1.0000	-	1.0000	0.0571	-	1.0571
2003	1.0000	-	1.0000	0.0206	-	1.0206
2002	1.0000	-	1.0000	0.0277	-	1.0277

(1) Stockton Unified School District Building Loan Repayment.

Note: On June 6, 1978, California voters approved an amendment to the Article XIII A of the California Constitution. The amendment, commonly known as Proposition 13, limits the taxing power of California public agencies. The California Legislature enacted legislation to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) providing that local agencies may not levy any property tax except to pay debt service on indebtedness approved by voters prior to July 1, 1978, and that each county will levy the maximum tax permitted of \$1.00 per \$100.00 of full assessed value.

Source: San Joaquin County Tax Rate Book

**CITY OF STOCKTON**

**TABLE 8**

**PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND NINE YEARS AGO  
(Dollar amounts in thousands)**

Taxpayer	Fiscal Year					
	2011			2002		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Levine Investments LP	\$ 103,503	1	0.653 %	\$ -	-	- %
Buzz Oates LLC	95,652	2	0.604	-	-	-
Simpson Manufacturing Co. Inc.	83,167	3	0.525	-	-	-
Kyoho Manufacturing California	81,950	4	0.517	-	-	-
Diamond Walnut Growers Inc.	67,098	5	0.423	49,347	2	0.528
Corn Products International Inc.	62,872	6	0.397	77,385	1	0.828
Arch Road LP	57,500	7	0.363	-	-	-
Inland Western STKN Airport Way	50,657	8	0.320	-	-	-
Stonecreek Village Shopping Center	46,631	9	0.294	-	-	-
Fresh and Easy Neighborhood Market Inc.	46,457	10	0.293	-	-	-
POSDEF Power Co.	-	-	-	31,300	3	0.335
TRU Properties, Inc.	-	-	-	30,177	4	0.323
Washington Mutual Bank	-	-	-	28,090	5	0.300
Cargill Incorporated	-	-	-	23,065	6	0.247
Mewark Group Industrial	-	-	-	19,516	7	0.209
American Honda Motor Corp.	-	-	-	19,053	8	0.204
Campbell Soup	-	-	-	17,862	9	0.191
Southern Pacific Properties	-	-	-	17,258	10	0.185
Principal Secured Property Valuation	\$ 695,487		4.389 %	\$ 313,053		3.349 %
Other Secured Taxpayers	16,693,092		105.344	10,017,883		107.163
Total Secured Property Valuation Before Exemptions	\$ 17,388,579		109.733 %	10,330,936		110.512 %
Less Exemptions relative to secured tax roll (1)	1,542,344		9.733	982,685		10.512
Total Secured Property Valuation	\$ 15,846,235		100.000 %	\$ 9,348,251		100.000 %

(1) Exemptions relative to secured tax roll:

FY 2011 - homeowners - \$249,960 and other - \$1,292,384= \$1,542,344  
 FY 2002 - homeowners - \$255,537 and other - \$727,148 = \$982,685

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold. At that point, the purchase price becomes the new assessed value. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Assessor's Office  
 San Joaquin County Auditor-Controller's Office

**CITY OF STOCKTON**

**TABLE 9**

**SECURED PROPERTY TAX LEVIES AND COLLECTIONS**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

Fiscal Year	Secured Taxes Levied for the Fiscal Year		Collected Within the Fiscal Year of the Levy		Total Collections to Date		
			Amount	Percent of Levy (1)	Collections in Subsequent Years	Amount	Percent of Levy
2011	\$	26,519	\$ 26,519	100 %	-	\$ 26,519	100 %
2010		22,150	22,150	100	-	22,150	100
2009		31,134	31,134	100	-	31,134	100
2008		33,633	33,633	100	-	33,633	100
2007		33,891	33,891	100	-	33,891	100
2006		30,661	30,661	100	-	30,661	100
2005		26,685	26,685	100	-	26,685	100
2004		23,498	23,498	100	-	23,498	100
2003		20,176	20,176	100	-	20,176	100
2002		18,056	18,056	100	-	18,056	100

(1) Per agreement with San Joaquin County; the County provides the City of Stockton with 100% of the amount owed to the City of Stockton for secured properties, regardless of collection status. In exchange, the County is entitled to 100% of delinquency and penalty revenues collected.

Source: San Joaquin County Auditor-Controller's Office

**CITY OF STOCKTON**

**TABLE 10**

**WATER SOLD BY CUSTOMER TYPE**

**LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2011	2010	2009	2008	2007
<b><u>Type of Customer</u></b>					
Residential	9,151,563 cf	9,666,100 cf	10,246,248 cf	10,771,115 cf	11,995,309 cf
Institutional	629,802	607,127	734,394	788,914	914,345
Commercial/Industrial	1,620,597	1,521,663	1,624,864	1,624,218	1,704,698
Irrigation	<u>1,352,387</u>	<u>1,767,675</u>	<u>1,697,051</u>	<u>1,832,861</u>	<u>1,786,611</u>
Total	<u><u>12,754,349</u></u> cf	<u><u>13,562,565</u></u> cf	<u><u>14,302,557</u></u> cf	<u><u>15,017,108</u></u> cf	<u><u>16,400,963</u></u> cf

1 cubic foot (cf) = 7.481 gallons

Source: City of Stockton Department of Administrative Services



**CITY OF STOCKTON**

**TABLE 11**

**WATER AND WASTEWATER UTILITY RATES**

**LAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>Water</b>		<b>Wastewater</b>
	<b>Monthly Base Rate</b>	<b>Additional Per 100 cf**</b>	<b>Monthly Base Rate</b>
2011	\$18.80	\$1.21	\$24.69
2010	17.65	1.02	20.75
2009	16.75	0.82	20.00
2008	15.90	0.78	21.10
2007	15.60	0.77	20.70
2006	15.10	0.74	20.00
2005	14.55	0.71	19.30
2004	14.20	0.69	18.80
2003	13.79	0.67	18.33
2002	13.79	0.67	18.33

100 cf = 100 cubic feet (748 gallons)

Rates are based on 3/4" meter, which is the standard household meter size.

\*\*The Utility charges an excess use rate above normal demand.

Source: City of Stockton Department of Administrative Services

**CITY OF STOCKTON**

**TABLE 12**

**RATIOS OF OUTSTANDING DEBT BY TYPE**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands, except per capita)**

<b>Governmental Activities</b>							
<b>Fiscal Year</b>	<b>Revenue Bonds (1)</b>	<b>Certificates of Participation</b>	<b>Redevelopment Agency Revenue Bonds</b>	<b>Notes Payable / Equip. Leases / Settlements</b>	<b>Special Assessment/ Mello-Roos Bonds (1)</b>	<b>Pension Bonds</b>	<b>Total Governmental Activities</b>
2011	\$ 88,050	\$ 13,300	\$ 127,200	\$ 29,353	\$ -	\$ 124,660	\$ 382,563
2010	88,560	13,300	145,855	42,881	-	124,910	415,506
2009	53,965	13,300	155,020	38,800	-	125,040	386,125
2008	54,305	13,300	157,010	32,528	-	125,060	382,203
2007	13,860	13,300	157,185	19,405	-	125,310	329,060
2006	13,965	13,300	47,000	19,567	-	-	93,832
2005	-	27,330	47,000	19,378	-	-	93,708
2004	98,060	27,550	47,000	19,235	106,927	-	298,772
2003	102,720	27,760	-	14,813	82,122	-	227,415
2002	109,415	14,665	-	8,680	76,861	-	209,621

Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements, Note 6-Long-Term Debt and Note 7-Short-Term Debt of these financial statements.

(1) Beginning with fiscal year 2006, land-secured financings were removed from the City's government-wide financial statements and are no longer reported as governmental activities debt. For comparative purposes, 2005 balances were restated to reflect this change. For fiscal years 2004 and prior, the balances of land-secured financings are reflected in the balances reported above as revenue bonds, special assessment bonds, and Mello-Roos bonds of the governmental activities.

(2) These ratios are calculated using the latest available data, personal income for fiscal year 2010 and population for fiscal year 2011.

Sources: City of Stockton Department of Administrative Services  
 US Dept. of Commerce, Bureau of Economic Analysis  
 State of California, Department of Finance

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**Business-type Activities**

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Revenue Bonds	Certificates of Participation	Notes Payable	Mello- Roos Bonds(1)	Special Assessment Bonds(1)	Total Business- type Activities	Total	Percent of Personal Income (2)	Per Capita (2)
\$ 294,370	\$ 90,545	\$ 11,600	\$ -	\$ -	\$ 396,515	\$ 779,078	3.69 %	\$ 2,654
240,245	90,545	545	-	-	331,335	746,841	3.87	2,557
67,920	96,105	610	-	-	164,635	550,760	2.86	1,896
68,650	98,710	672	-	-	168,032	550,235	2.85	1,898
69,315	101,220	731	-	-	171,266	500,326	2.59	1,727
69,910	103,635	787	-	-	174,332	268,164	1.47	938
46,166	105,965	1,007	-	-	153,138	246,846	1.42	883
46,625	108,215	1,219	-	-	156,059	454,831	2.74	1,690
14,280	109,855	1,421	6,180	-	131,736	359,151	2.31	1,374
14,280	111,690	1,634	6,180	210	133,994	343,615	2.33	1,354

**CITY OF STOCKTON**

**TABLE 13**

**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**

**LAST TEN FISCAL YEARS**

(Dollar amounts in thousands, except per capita)

General Bonded Debt Outstanding								
Fiscal Year	Lease Revenue Bonds	Certificates of Participation	Pension Obligation Bonds	Redevelopment Agency Bonds	Total	Percent of Assessed Property Value		Per Capita
2011	\$ 88,050	\$ 13,300	\$ 124,660	\$ 127,200	\$ 353,210	0.020	%	\$ 1.203
2010	88,560	13,300	124,910	145,855	372,625	0.020		1.276
2009	53,965	13,300	125,040	155,020	347,325	0.016		1.196
2008	54,305	13,300	125,060	157,010	349,675	0.016		1.206
2007	13,860	13,300	125,310	157,185	309,655	0.016		1.069
2006	13,965	13,300	-	47,000	74,265	0.004		0.260
2005	-	27,330	-	47,000	74,330	0.005		0.266
2004	-	27,550	-	47,000	74,550	0.006		0.277
2003	-	27,760	-	-	27,760	0.002		0.106
2002	-	14,665	-	-	14,665	0.001		0.058

General bonded debt is payable with governmental fund resources. General obligation bonds (of which the City has none) are backed by the taxing authority of the City (taxes may be raised to provide resources for debt service payments.)

Source: City of Stockton Department of Administrative Services  
 San Joaquin County Auditor-Controller's Office  
 State of California, Department of Finance

# CITY OF STOCKTON

## TABLE 14

### DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

	Total Debt 6/30/2011	Percentage Applicable (1)	City's share of Debt 6/30/2011
<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
San Joaquin Delta Community College District	\$ 143,540,615	29.550 %	\$ 42,416,252
Stockton Unified School District	327,806,497	83.130	272,505,541
Lodi Unified School District	101,265,000	32.409	32,818,974
Lodi Unified School District School Facilities Improvement District No. 1	44,815,000	83.883	37,592,166
Lincoln Unified School District	46,861,417	87.454	40,982,184
Lincoln Unified School District Community Facilities District No. 1	31,267,605	85.239	26,652,194
Manteca Unified School District	60,631,108	19.037	11,542,344
Manteca Unified School District Community Facilities District No. 1989-1	33,106,013	100.000	33,106,013
Tracy Joint Unified School District and School Facilities Improvement Dist. No.3	65,609,637	0.006 & 0.011	4,826
City of Stockton Community Facilities District No. 1	18,305,000	100.000	18,305,000
City of Stockton Community Facilities District No. 90-1	3,005,000	100.000	3,005,000
City of Stockton Community Facilities District No. 90-2	15,375,000	100.000	15,375,000
City of Stockton Community Facilities District No. 90-4	6,836,000	100.000	6,836,000
City of Stockton Community Facilities District No. 96-1	255,000	100.000	255,000
City of Stockton Community Facilities District No. 99-02	19,035,000	100.000	19,035,000
City of Stockton Community Facilities District No. 2001-1 (Spanos Park West)	19,115,000	100.000	19,115,000
City of Stockton Community Facilities District No. 2003-1	2,885,000	100.000	2,885,000
City of Stockton Community Facilities District No. 2006-1	3,810,000	100.000	3,810,000
City of Stockton Community Facilities District No. 2006-3	6,090,000	100.000	6,090,000
City of Stockton 1915 Act Bonds	52,434,000	100.000	52,434,000
Reclamation District No. 2042 Community Facilities District No. 2001-1	6,805,000	18.211	1,239,259
San Joaquin Area Flood Control Assessment District	4,110,000	81.412	3,346,033
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>649,350,785</b>
<b>OVERLAPPING GENERAL FUND DEBT:</b>			
San Joaquin County Certificates of Participation	183,520,000	32.773 %	60,145,010
Lincoln Unified School District Certificates of Participation	2,890,000	87.454	2,527,421
Lodi Unified School District Certificates of Participation	49,255,000	32.409	15,963,053
Stockton Unified School District Certificates of Participation	39,790,935	83.130	33,078,204
South San Joaquin Irrigation District Certificates of Participation	2,140,000	0.738	15,793
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>			<b>111,729,481</b>
<b>TOTAL OVERLAPPING DEBT</b>			<b>761,080,266</b>
<b>DIRECT GENERAL FUND DEBT:</b>			
City of Stockton General Fund Obligations	179,280,000	100.000	179,280,000
City of Stockton Pension Obligations	124,660,000	100.000	124,660,000
			<b>303,940,000</b>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>415,669,481</b>
Less: South San Joaquin Irrigation District (100% self-supporting)			15,793
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>415,653,687</b>
<b>GROSS COMBINED TOTAL DEBT (2)</b>			<b>1,065,020,266</b>
<b>NET COMBINED TOTAL DEBT</b>			<b>\$ 1,065,004,473</b>
<b>2010-11 Assessed Valuation:</b>	\$ 16,340,562,124		
(after deducting \$1,328,069,282 Redevelopment Incremental Valuation)			
<b>2010-11 Population</b>	293,515		
<b>Debt Ratios</b>		<b>Per Capita</b>	<b>Value</b>
Total Gross Debt	\$ 1,065,020,266	\$ 3,629	6.52 %
Total Net Debt	1,065,004,473	3,628	6.52
Ratios to 2010-11 Assessed Valuation: Total Overlapping Tax and Assessment Debt			3.68
Ratios to Adjusted Assessed Valuation: Combined Direct Debt	303,940,000		1.86

(1) Percent of overlapping agency's assessed valuation located within boundaries of the City.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Sources: California Municipal Statistics, Inc., San Francisco, CA

**CITY OF STOCKTON**

**TABLE 15**

**LEGAL DEBT MARGIN INFORMATION**

**LAST TEN FISCAL YEARS**

**(Dollar amounts in thousands)**

	Fiscal Year				
	2011	2010	2009	2008	2007
Assessed valuation (1)	\$16,340,562	\$16,957,547	\$18,903,286	\$19,281,142	\$ 18,043,181
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 4,085,141	\$ 4,239,387	\$ 4,725,822	\$ 4,820,286	\$ 4,510,795
Debt limit percentage	15%	15%	15%	15%	15%
Debt Limit	\$ 612,771	\$ 635,908	\$ 708,873	\$ 723,043	\$ 676,619
Total net debt applicable to limit	-	-	-	-	-
Legal debt margin	<u>\$ 612,771</u>	<u>\$ 635,908</u>	<u>\$ 708,873</u>	<u>\$ 723,043</u>	<u>\$ 676,619</u>
Legal debt margin/debt limit	100%	100%	100%	100%	100%

(1) Reflects City assessed valuation excluding Redevelopment tax increments of \$1,328,069,282 and other exemptions of \$1,334,017,534 deducted.

Under State law, the City has a legal debt limitation not to exceed 15% of the total assessed valuation of taxable property within the City boundaries, adjusted for subsequent legislative actions. In accordance with California Government Code Section 43605, only the City's general obligation bonds are subject to the legal limit. The City of Stockton does carry bonded debt secured by special assessments and other revenue sources, but at this time, doesn't have any outstanding general obligation bonds. The City is not at risk of exceeding its legal debt limit of \$612,771.

Sources: City of Stockton Department of Administrative Services  
 California Municipal Statistics, Inc., San Francisco, CA  
 San Joaquin County Auditor-Controller's Office

Fiscal Year				
2006	2005	2004	2003	2002
\$ 15,761,940	\$ 14,037,055	\$ 12,313,597	\$ 11,246,185	\$ 10,192,890
25%	25%	25%	25%	25%
\$ 3,940,485	\$ 3,509,264	\$ 3,078,399	\$ 2,811,546	\$ 2,548,223
15%	15%	15%	15%	15%
\$ 591,073	\$ 526,390	\$ 461,760	\$ 421,732	\$ 382,233
-	-	-	-	-
\$ 591,073	\$ 526,390	\$ 461,760	\$ 421,732	\$ 382,233
100%	100%	100%	100%	100%

**CITY OF STOCKTON**

**TABLE 16**

**PLEDGED-REVENUE COVERAGE**

**LAST TEN FISCAL YEARS**

**(Dollars amounts in thousands)**

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service			Debt Coverage Ratio
				Principal	Interest	Total	
<b>Water Revenue Bonds</b>							
2011	\$ 34,245	\$ 19,987	\$ 14,258	\$ 688	\$ 8,839	\$ 9,527	1.50
2010	29,131	17,546	11,585	655	3,199	3,854	3.01
2009	26,080	20,123	5,957	627	1,728	2,355	2.53
2008	26,352	18,010	8,342	599	1,758	2,357	3.54
2007	26,787	17,687	9,100	566	1,788	2,354	3.87
2006	22,986	15,631	7,355	538	1,092	1,630	4.51
2005	21,942	12,158	9,784	511	691	1,202	8.14
2004	20,181	13,324	6,857	489	717	1,206	5.69
2003	17,858	12,320	5,538	46	663	709	7.81
2002	17,616	11,295	6,321	414	938	1,352	4.68
<b>Wastewater Certificates of Participation (3)</b>							
2011	\$ 45,152	\$ 33,325	\$ 11,827	\$ -	\$ 4,480	\$ 4,480	2.64
2010	39,716	30,094	9,622	2,720	4,659	7,379	1.30
2009	38,298	35,002	3,296	2,605	4,770	7,375	0.45
2008	39,602	25,633	13,969	2,510	4,867	7,377	1.89
2007	41,068	27,791	13,277	2,415	4,959	7,374	1.80
2006	44,609	22,357	22,252	2,330	5,044	7,374	3.02
2005	49,519	17,526	31,993	2,250	5,126	7,376	4.34
2004	48,932	22,418	26,514	1,640	5,079	6,719	3.95
2003	50,901	22,949	27,952	1,935	5,583	7,518	3.72
2002	39,372	20,859	18,513	1,855	5,661	7,516	2.46

(Continued)

**CITY OF STOCKTON**

**TABLE 16 (Continued)**

**PLEDGED-REVENUE COVERAGE**

**LAST TEN FISCAL YEARS**

**(Dollars amounts in thousands)**

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service			Debt Coverage Ratio
				Principal	Interest	Total	
<b>Central Parking District Lease Revenue Bonds</b>							
2011	\$ 4,890	\$ 1,797	\$ 3,093	\$ 255	\$ 1,625	\$ 1,880	1.65
2010	4,907	2,193	2,714	210	1,634	1,844	1.47
2009	5,056	2,320	2,736	165	1,641	1,806	1.51
2008	5,033	2,562	2,471	125	1,647	1,772	1.39
2007	4,667	2,205	2,462	85	1,652	1,737	1.42
2006	4,632	2,021	2,611	-	1,653	1,653	1.58
2005	3,864	1,957	1,907	-	1,130	1,130	1.69
2004	3,360	1,861	1,499	6,180	390	6,570	0.23
2003	3,286	1,359	1,927	210	301	511	3.77
2002	2,950	1,245	1,705	590	268	858	1.99

\*\*\*\* Central Parking District revenues are not explicitly pledged in official statements for repayment of these bonds.

Includes all nongeneral obligation long term debt backed by pledged revenues.

Details regarding the City's outstanding debt can be found in the Note 6 - Long-Term Debt of these financial statements.

(1) Total revenues including investment earnings. Also includes connection fees in Water & Wastewater funds. In 2008 CAFR, statistical section did not include connection fees in Water & Wastewater funds - included in 2009. Also, net increase/decrease in fair value of investments and other non - operating revenues were reported in gross revenues - removed in 2009.

(2) Total operating expenses exclusive of depreciation and amortization.

(3) The FY 2008-09 Wastewater Certificates of Participation debt coverage ratio fell below the 1.25 times net revenues required by the bond covenants.

Source: City of Stockton Department of Administrative Services

# CITY OF STOCKTON

TABLE 17

## DEMOGRAPHIC AND ECONOMIC STATISTICS

### LAST TEN FISCAL YEARS

Fiscal Year	Population	Personal Income (millions of dollars)	Per Capita Personal Income	Unemployment Rate	Labor Force	Total Housing Units	Household Average Size	Median Family Income	School Enrollment
2011	293,515	\$ 9,020	\$ 30,732	20.0 %	128,400	99,637	3.16	\$ 47,797	88,258
2010	292,133	9,105	31,166	19.8	131,000	97,085	3.09	63,100	88,185
2009	290,409	N/A	N/A	18.1	130,800	96,854	3.08	63,600	87,446
2008	289,927	8,459	29,178	10.0	127,200	96,553	3.09	61,300	91,744
2007	289,789	8,329	28,743	9.3	120,800	95,864	3.11	60,300	83,440
2006	286,041	7,801	27,272	7.2	120,000	94,409	3.05	57,100	77,982
2005	279,513	7,334	26,239	9.4	119,214	91,725	3.13	55,300	72,097
2004	269,100	6,869	25,527	9.6	118,127	88,826	3.11	55,100	67,674
2003	261,300	6,433	24,620	11.0	121,133	85,988	3.12	50,600	61,853
2002	253,800	6,129	24,150	10.2	116,126	84,303	3.08	47,500	61,006

Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and personal current transfer receipts.

Per capita personal income is calculated as the personal income of residents of a given area divided by the resident population of the area. In computing per capita personal income, Bureau of Economic Analysis uses the Census Bureau's annual midyear population estimates.

Sources: City of Stockton Department of Administrative Services & Community Development Department  
 CA Dept. of Finance and Employment Development Department  
 US Dept. of Commerce, Bureau of Economic Analysis  
 CLRsearch  
 US Census Bureau  
 CA Dept. of Education

CITY OF STOCKTON

TABLE 18

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

<u>Employer</u>	Fiscal Year					
	2011			2003 (1)		
	<u>Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>
San Joaquin County	6,500	1	5.06 %	-	-	- %
Stockton Unified School District	3,893	2	3.03	4,099	2	3.52
St. Joseph's Medical Center	2,500	3	1.95	4,600	1	3.95
O-G Packing Company	2,001	4	1.56	-	-	-
Diamond Walnut	1,797	5	1.40	-	-	-
City of Stockton	1,683	6	1.31	1,683	3	1.45
Dameron Hospital	1,200	7	0.93	-	-	-
Pacific Gas and Electric	1,100	8	0.86	1,100	4	0.95
Kaiser Permanente	1,065	9	0.83	1,065	5	0.91
University of the Pacific	1,000	10	0.78	900	9	0.77
Washington Mutual	-	-	-	1,000	6	0.86
San Joaquin Delta College	-	-	-	1,000	6	0.86
Unilever	-	-	-	1,000	6	0.86
SBC	-	-	-	800	10	0.69
Total	<u>22,739</u>		<u>17.71 %</u>	<u>17,247</u>		<u>14.13 %</u>

(1) Principle employer numbers from 2003 were used for comparison as 2002 numbers were not available.

Note: Principal employers are based on best available information.

Sources: San Joaquin Partnership Survey, September 2010  
SJP Membership Directory 2010

**CITY OF STOCKTON**

**TABLE 19**

**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES  
BY FUNCTION/PROGRAM/DEPARTMENT  
LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2011	2010	2009	2008	2007
<b>Function/Program/Department:</b>					
Admin Svcs (4)	94	87	90	100	92
City Attorney	8	11	14	16	17
City Auditor	4	3	4	7	6
City Clerk	6	5	6	8	8
City Council/Mayor	2	2	2	2	2
City Manager	19	22	24	28	26
Community Development	41	42	50	51	53
Community Services (1)	84	89	103	128	132
Human Resources	27	23	25	26	24
Police:					
Sworn	337	342	389	410	408
Non-sworn	161	173	194	215	201
Animal control	12	13	16	16	15
Total Police	<u>510</u>	<u>528</u>	<u>599</u>	<u>641</u>	<u>624</u>
Fire:					
Firefighters-sworn	220	229	244	257	266
Firefighters-auxiliary	17	24	27	45	35
Non-sworn personnel	24	25	27	28	28
Paramedic teams (2 per team)	-	-	-	-	-
Total Fire	<u>261</u>	<u>278</u>	<u>298</u>	<u>330</u>	<u>329</u>
Public Works (5)	136	139	196	234	228
Economic Development (2)	20	23	28	36	32
Water Utility (3)	37	37	35	33	5
Wastewater Utility (3)	132	133	105	107	17
Stormwater Utility (3)	4	3	6	7	-
Central Parking District (2)	-	-	-	3	2
Total	<u>1,385</u>	<u>1,425</u>	<u>1,585</u>	<u>1,757</u>	<u>1,597</u>

(1) Recreation and Library were combined in 2008/09 and reported as Community Services.

(2) Housing, Redevelopment, Central Parking, and Economic Development were combined in 2008/09 and reported as Revitalization. Revitalization Dept. was abolished and the Economic Development Dept. was established in 2010.

(3) Municipal Utility functions were returned to the City from private contract March 1, 2008.

(4) Information Technology was combined with Administrative Service in 2008-2009.

(5) Parks was combined with Public Works in 2008/09.

Source: City of Stockton Human Resources Department

CITY OF STOCKTON

TABLE 20

OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT

LAST FIVE FISCAL YEARS

	Fiscal Year				
	2011	2010	2009	2008	2007
General government:					
Building permits issued	4,020	4,463	4,418	4,726	6,564
Business tax certificates:					
Retail sales and service	5,797	5,924	7,170	7,822	9,567
Rental Properties - Commercial and Residential	4,469	4,255	4,346	4,713	Included in retail sales and service
Wholesale	327	349	351	295	Included in retail sales and service
Manufacturers and processors	178	182	186	183	179
Professions	2,018	2,057	2,150	2,127	2,087
Miscellaneous contractors, peddlers, delivery vehicles, etc.	4,259	4,170	3,665	3,794	3,491
Improvement district and hotel/motel room tax	90	90	106	282	267
Utility billing/customer service:					
Utility bills issued	630,879	623,513	603,209	617,847	620,373
Utility accounts opened and closed	23,318	26,878	29,722	22,737	19,227
New service locations (water) added	142	208	231	443	798
Delinquency Notices Sent - Active Accounts	74,742	67,073	63,834	60,872	N/A
Water Service Terminated for Non-Payment	4,729	4,533	4,389	5,618	N/A
Utility customer service calls received	102,700	107,091	127,099	141,732	186,450
Utility customers using automated voice response (2)	130,719	125,295	N/A	69,866	68,688
Utility Customers Using Online Pmt/Account Access	22,397	13,032	9,854	5,214	N/A
Miscellaneous accounts receivable bills issued	26,071	29,592	26,895	22,084	19,693
Public safety:					
Police:					
Major reported crimes	19,752	19,712	20,310	23,182	23,193
Total arrests	11,322	15,892	20,986	22,595	23,778
Dispatched calls for service	134,368	150,705	150,429	155,372	165,896
Fire:					
Interior structure fire calls	422	412	382	383	413
Non-structural fire calls	1,145	1,193	783	1,374	1,493
Hazardous materials calls	249	253	289	720	699
Emergency medical calls	22,704	22,249	22,796	23,904	23,314
Total emergency calls	38,234	36,785	36,103	36,559	35,487
Total number of units dispatched	42,136	43,460	43,320	48,360	47,447
Public works:					
Miles of streets resurfaced	42	22	48	44	46
Fleet job orders completed	9,622	11,548	13,382	13,443	13,379

(Continued)

**CITY OF STOCKTON**

**TABLE 20 (Continued)**

**OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT**

**LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2011	2010	2009	2008	2007
<b>Library:</b>					
Registered borrowers	286,600	268,128	331,356	307,991	280,028
Circulation of library materials	1,686,245	1,644,752	1,926,616	2,084,611	2,003,983
Reference, research and informational questions answered	228,119	248,692	827,851	415,195	461,328
Annual attendance at libraries	1,091,999	1,140,832	1,510,802	1,524,719	1,946,347
Number of programs offered	2,200	1,889	2,380	2,930	2,140
Annual attendance at programs	59,513	55,883	53,523	90,216	51,184
<b>Parks and Recreation:</b>					
Golf rounds:					
Swenson Park golf course	53,450	57,637	55,864	57,731	57,976
Van Buskirk golf course	23,400	29,830	27,095	24,655	27,371
Trees planted	24	1	50	660	1,133
Heritage tree removal-permits issued	420	3	24	19	10
After school program registration (number of participants) (2)	44,379	44,856	55,860	90,074	2,700
Day camps in winter (number of participants)	17	N/A	77	177	187
Day camps in summer (number of participants)	789	1,090	1,277	1,434	1,467
Day camps at Children's Museum (number of participants)	N/A	842	314	202	417
Day camps in spring (number of participants)	32	103	66	217	283
Day camps in fall (number of participants)	64	114	175	453	243
Mobile recreation programs (number of participants) (1)	-	-	-	304	765
Instructional classes	1,259	1,525	3,823	4,064	3,142
Softball/baseball diamonds bookings	2,780	2,959	3,372	2,794	2,909
Showmobile (Mobile Stage) bookings	26	11	32	23	33
Community center bookings	552	405	224	59	222
Picnic facility bookings	504	265	501	668	669
Adult sports (number of teams):					
Softball	324	358	548	573	701
Basketball	46	74	67	110	139
Volleyball	4	-	-	-	8
Youth sports (basketball, track, soccer, baseball, volleyball, flag football) (number of participants) (1)	5,340	7,146	7,399	6,652	2,889

(Continued)

**CITY OF STOCKTON**

**TABLE 20 (Continued)**

**OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT**

**LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2011	2010	2009	2008	2007
<b>Parks and Recreation (cont.):</b>					
Admissions to:					
Pixie Woods	20,020	20,632	26,558	32,614	34,037
Swimming pools	N/A	5,143	17,028	19,816	9,697
Teen Center	N/A	18,119	13,708	15,661	15,141
Silver Lake	N/A	N/A	1,250	1,652	1,832
Children's Museum	N/A	40,636	49,274	54,388	58,432
Oak Park Tennis	N/A	N/A	19,329	18,098	19,395
Senior Center memberships	813	1,410	991	1,779	790
Civic Auditorium bookings	41	46	270	231	164
Parks and Recreation sponsored events	-	2	9	28	31
Philomathean Club bookings	-	-	-	-	-
Weber Point Events Center bookings	15	12	16	25	23
<b>Economic Development: (3)</b>					
Rental Housing Units	-	65	-	91	42
Owner Housing (Emergency Repair or Rehabilitation)	7	12	12	11	25
Down Payment Assistance	17	13	2	21	20
Special Needs (Homes Repaired or Rehabilitated)	5	3	4	9	18
Public Facilities (Rehabilitated or Constructed)	5	2	4	1	3
Façade Program (Commercial Façade Repair/Rehabilitated)	1	-	5	9	10
Public Services Provided	75,572	5,661	41,973	18,060	22,865
Homeless Services Provided	5,078	4,177	4,887	10,658	4,744
Meals Provided to Homeless	537,361	567,767	430,790	388,061	330,814
Jobs Created and/or Retained	18	-	-	-	-
<b>Water utility:</b>					
New connections (DUE's) (4)	654	232	209	450	798
Water main breaks	16	14	26	22	17
<b>Wastewater utility:</b>					
Average daily influent (million gallons per day)	29 mgd	31 mgd	33 mgd	35 mgd	35 mgd

(1) Parks & Recreation figures for 2006 were based on units of service while 2007 figures are based on number of participants or registrants.

(2) Information not yet available for 2009. Call center information servers were replaced and data from former server was not yet retrievable.

(3) Housing Dept. was abolished and Economic Development Dept. was established in FY 2010.

(4) Changed reporting to Dwelling Unit Equivalent (DUE) in 2011 to more accurately reflect our new connections. Not all single water connections are equal to one dwelling unit equivalent (DUE), or single family residence. For example, a 12" meter is equal to 209 single family residential connections. In 2011, there were 115 new connections which were equal to 654 DUE's.

Source: City of Stockton Departments

CITY OF STOCKTON

TABLE 21

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT

LAST SIX FISCAL YEARS

	Fiscal Year			Fiscal Year		
	2011	2010	2009	2008	2007	2006
General government:						
Land use-square miles:						
Residential	33.53	33.69	33.04	33.04	33.31	33.29
Mixed use	4.68	4.68	4.74	1.61	1.62	1.62
Commercial	5.51	5.50	5.56	5.46	6.05	5.92
Industrial	11.42	11.28	10.56	10.56	11.01	10.99
Institutional	5.54	5.32	5.29	5.29	4.86	4.86
All other uses	3.60	3.41	3.22	3.22	3.63	3.71
Total square miles	64.28	63.88	62.41	59.18	60.48	60.39
Public safety:						
Police:						
Facilities:						
Stations and substations	2	3	5	5	5	5
Animal control facility	1	1	1	1	1	1
Police training facility (pistol range)	1	1	1	1	1	1
Vehicles:						
Marked patrol cars	138	162	160	175	140	119
Motorcycles and scooters	33	39	37	42	42	30
Animal control vehicles	9	9	9	9	9	9
VIPS vehicles	7	6	7	7	5	5
Other automobiles	158	221	217	131	131	125
Other mobile units (all others)	15	13	43	40	37	37
Public area security cameras	76	76	76	76	34	32
Fire:						
Fire stations	13	13	13	13	13	13
Training facilities	1	1	1	1	1	1
Fire hydrants (2)	8,558	8,505	8,458	8,508	8,503	8,338
Public works:						
Miles of streets	760	776	757	754	750	734
Traffic signals	303	303	301	291	290	284
Street light fixtures	19,188	20,186	20,095	20,095	19,682	19,164

(Continued)

CITY OF STOCKTON

TABLE 21 (Continued)

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT

LAST SIX FISCAL YEARS

	Fiscal Year			Fiscal Year		
	2011	2010	2009	2008	2007	2006
Parks and recreation:						
Arena	1	1	1	1	1	1
Ballpark	1	1	1	1	1	1
Baseball/softball diamonds	54	54	54	54	49	43
Bike/jogging paths (miles)	20	20	20	20	20	20
Boating facilities - launch lanes	10	10	10	10	10	10
Children's Museum	1	1	1	1	1	1
Civic Auditorium (2,800 capacity)	1	1	1	1	1	1
Community centers	5	5	6	6	6	6
Dog Areas	1	1	1	1	1	n/a
Family camps	1	1	1	1	1	1
Golf course acreage	371	371	371	371	371	408
Group picnic areas	31	31	31	30	26	26
Gymnasium	5	5	1	1	1	1
Ice rink	1	1	1	1	1	1
Municipal golf courses	3	3	3	3	3	4
Park acreage	625	625	643	639	619	619
Parks and squares	67	67	67	66	62	62
Philomathean Club	1	1	1	1	1	1
Playgrounds	71	71	71	71	66	66
Senior center	1	1	1	1	1	1
Showmobile (Mobile Stage)	1	1	1	1	1	2
Skateboard park	1	1	1	1	1	1
Swimming pools	4	4	4	4	4	5
Teen Center	1	1	1	1	1	1
Tennis courts	67	67	67	67	67	67
Theater (Bob Hope)	1	1	1	1	1	1
Weber Point Events Center	1	1	1	1	1	1
Consolidated landscape maintenance districts:						
Streetscaping (square feet)	2.2 million	1.9 million				
Public open spaces (acreage)	68	68	68	68	68	63

(Continued)

**CITY OF STOCKTON**

**TABLE 21 (Continued)**

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT  
LAST SIX FISCAL YEARS**

	Fiscal Year			Fiscal Year		
	2011	2010	2009	2008	2007	2006
Library:						
Central library	1	1	1	1	1	1
City branches	3	4	4	4	4	3
Library mobile units	2	2	2	2	2	2
San Joaquin County branches	8	8	8	8	8	7
Total items in collection	954,044	1,030,157	1,099,966	1,109,819	1,097,783	1,055,726
Cargo delivery van	2	2	2	2	2	1
Cargo van	1	1	1	1	1	1
Undeveloped land for branch library	2	2	2	2	5	2
Integrated library system	1	1	1	1	1	1
Microform readers	5	2	2	5	5	5
Microform readers/printers	7	5	6	3	3	3
Self check out machines	15	14	15	14	14	13
Water utility:						
Water main lines (miles)	612	612	612	612	586	520
Storage capacity (thousand gallons)	22,200	19,200	19,200	18,800	15,800	15,800
Water wells (active)	22	32	33	40	40	39
Water reservoirs	7	6	6	6	5	5
Wastewater utility:						
Wastewater main lines (miles) (1)	923	922	920	920	920	875
Treatment capacity (million gals/day)	55	55	55	48	48	42
Wastewater pump stations	24	25	25	25	24	24
Stormwater utility:						
Stormwater main drain lines (miles) (3)	488	863	1,072	802	650	584
Stormwater pump stations	72	75	75	73	73	72
Central parking district:						
Parking spaces	5,568	5,535	5,535	5,262	4,745	4,745
Parking lots & garages	22	22	22	20	19	19

Note: The City of Stockton implemented GASB Statement No. 44 for the fiscal year ended June 30, 2006. Information for 2005 was presented where applicable.

(1) Collections main line data prior to 2008 was determined by actual and estimated distances via a manual system. In 2008/09, a geographic information system interface was made available to more accurately determine the size of the collections system. The system size for 2008 and 2007 have been reduced to not exceed the actual current system size.

(2) Port of Stockton fire hydrants retired or inactivated in 2008/09

(3) Years prior to 2011 reflected "all" stormwater drain lines instead of just the "main" stormwater drain lines.

Source: City of Stockton Departments



