

CITY OF STOCKTON

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2001

CITY OF STOCKTON

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City of Stockton, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general-purpose financial statements of the City of Stockton, California (City), as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Stockton, California, as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City adopted the provisions of the Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of July 1, 2000.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2001 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.

The statistical section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, accordingly, we express no opinion thereon.

Macias, Meiri & Company LLP

Certified Public Accountants

Sacramento, California
October 26, 2001

CITY OF STOCKTON

COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS JUNE 30, 2001

(With comparative totals for June 30, 2000)

(Dollar amounts in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
ASSETS:				
Cash and temporary investments	\$ 11,777	\$ 16,761	\$ 15,018	\$ 76,285
Cash with fiscal agents	-	-	11,655	4,857
Receivables:				
Interest	476	199	-	1,088
Taxes and special assessments	3,813	165	3,951	338
Accounts and other receivables	11,643	114	198	2,125
Allowance for uncollectibles	(2,824)	-	-	-
Prepaid expenses	-	-	-	-
Due from other funds	1,464	-	-	19
Due from other governments	2,428	7,863	-	6,986
Due from other agencies	583	-	-	1,797
Inventory of supplies	330	-	-	-
Restricted assets:				
Cash and temporary investments	-	-	-	-
Cash and temporary investments with fiscal agents	-	-	-	-
Interest receivable	-	-	-	38
Deposits	-	-	-	-
Loans receivable	-	-	-	-
Advances to other funds	644	15,576	-	23,771
Advances to other agencies	38	-	-	-
Advances to property owners	-	35,599	-	406
Property held for resale	-	108	-	-
Net fixed assets	-	-	-	-
Deferred charges	-	-	-	-
OTHER DEBITS:				
Amounts available in the debt service funds	-	-	-	-
Amounts to be provided for retirement of long-term debt	-	-	-	-
Total assets and other debits	\$ 30,372	\$ 76,385	\$ 30,822	\$ 117,710

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	2001	2000
\$ 95,766	\$ 23,959	\$ 10,197	\$ -	\$ -	\$ 249,763	\$ 203,311
220	-	-	-	-	16,732	24,214
1,305	-	91	-	-	3,159	2,905
295	-	83	-	-	8,645	927
6,814	570	108	-	-	21,572	20,928
(2,148)	(374)	-	-	-	(5,346)	(2,461)
-	-	-	-	-	-	36
-	-	-	-	-	1,483	4,791
-	396	-	-	-	17,673	16,082
-	-	-	-	-	2,380	620
1,244	-	-	-	-	1,574	1,536
1,101	-	-	-	-	1,101	8,026
17,894	-	-	-	-	17,894	21,016
255	-	-	-	-	255	549
-	-	-	-	-	38	38
63	-	-	-	-	63	85
-	-	-	-	-	39,991	39,728
-	-	-	-	-	38	-
-	-	-	-	-	36,005	34,291
-	-	-	-	-	108	108
-	-	-	98,315	-	446,564	414,590
333,027	15,222	-	-	-	1,829	1,905
1,768	61	-	-	-	-	-
-	-	-	-	29,863	29,863	28,158
-	-	-	-	201,085	201,085	203,851
<u>\$ 457,604</u>	<u>\$ 39,834</u>	<u>\$ 10,479</u>	<u>\$ 98,315</u>	<u>\$ 230,948</u>	<u>\$ 1,092,469</u>	<u>\$ 1,025,234</u>

(continues)

CITY OF STOCKTON

COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS (Continued) JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 1,534	\$ 2,307	\$ 14	\$ 5,105
Accrued payroll and benefits	3,199	-	-	-
Due to other funds	-	1,112	-	371
Due to other governments	-	104	52	30
Due to other agencies	143	-	-	-
Deposits and other liabilities	66	2,361	-	60
Matured bonds and interest payable	-	-	8	-
Accrued interest	-	-	-	-
Long-term debt - current	-	-	-	-
Compensated absences - current	-	-	-	-
Self-insurance claims and judgments - current	-	-	-	-
Deferred revenue	2,640	3,207	885	449
Compensated absences - long-term	-	-	-	-
Advances from other funds	-	-	-	3,572
Advances from other governments	-	-	-	-
Certificates of participation	-	-	-	-
Bonds payable	-	-	-	-
Self-insurance claims and judgments - long-term	-	-	-	-
Landfill closure/postclosure	-	-	-	-
Total liabilities	<u>7,582</u>	<u>9,091</u>	<u>959</u>	<u>9,587</u>
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings - unreserved	-	-	-	-
Fund balances (deficits):				
Reserved	2,444	63,855	29,863	111,592
Unreserved:				
Designated	20,346	4,497	-	-
Undesignated	-	(1,058)	-	(3,469)
Total equity and other credits	<u>22,790</u>	<u>67,294</u>	<u>29,863</u>	<u>108,123</u>
Total liabilities, equity and other credits	<u>\$ 30,372</u>	<u>\$ 76,385</u>	<u>\$ 30,822</u>	<u>\$ 117,710</u>

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

Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service		General Fixed Assets	General Long-Term Debt	2001	2000
\$ 3,324	\$ 2,193	\$ 236	\$ -	\$ -	\$ 14,713	\$ 14,190
-	761	-	-	-	3,960	3,581
-	-	-	-	-	1,483	4,791
100	-	2,105	-	-	2,391	2,783
-	-	-	-	-	143	278
719	-	5,913	-	-	9,119	7,482
65	-	-	-	-	73	73
2,526	-	-	-	-	2,526	2,593
2,973	-	-	-	-	2,973	3,391
916	295	-	-	-	1,211	1,212
-	6,790	-	-	-	6,790	5,645
17	-	-	-	-	7,198	5,142
1,594	515	-	-	18,402	20,511	20,311
1,224	-	-	-	35,195	39,991	39,728
1,665	-	-	-	-	1,665	1,855
120,280	-	-	-	14,860	135,140	137,003
6,415	-	-	-	162,491	168,906	169,972
-	19,251	-	-	-	19,251	15,826
-	-	-	-	-	-	10,011
<u>141,818</u>	<u>29,805</u>	<u>8,254</u>	<u>-</u>	<u>230,948</u>	<u>438,044</u>	<u>445,867</u>
-	-	-	98,315	-	98,315	83,517
213,949	12,668	-	-	-	226,617	226,617
101,837	(2,639)	-	-	-	99,198	67,761
-	-	2,225	-	-	209,979	195,196
-	-	-	-	-	24,843	17,765
-	-	-	-	-	(4,527)	(11,489)
<u>315,786</u>	<u>10,029</u>	<u>2,225</u>	<u>98,315</u>	<u>-</u>	<u>654,425</u>	<u>579,367</u>
<u>\$ 457,604</u>	<u>\$ 39,834</u>	<u>\$ 10,479</u>	<u>\$ 98,315</u>	<u>\$ 230,948</u>	<u>\$ 1,092,469</u>	<u>\$ 1,025,234</u>

CITY OF STOCKTON

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND FOR THE YEAR ENDED JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Governmental Fund Types				Fiduciary
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Expendable Trust
REVENUES:					
Taxes:					
Property	\$ 17,238	\$ -	\$ -	\$ 1,797	\$ -
Utility	31,188	-	-	-	-
Sales and use	32,338	3,985	-	-	-
Other	14,584	235	15,796	20	-
Licenses and permits	3,758	-	-	-	-
Federal grants and subsidies	20	17,890	-	163	-
Intergovernmental	16,112	19,460	-	5,134	-
Charges for services	12,990	1,344	130	12,093	-
Fines and forfeitures	1,444	-	-	1	-
Use of money and property	709	238	-	469	-
Investment income:					
Interest income	1,408	1,006	1,404	5,224	27
Net increase (decrease) in fair value of investments	732	254	310	1,555	15
Refunds and reimbursements	1,873	28	-	921	-
Miscellaneous	4,754	3	89	336	702
Total revenues	<u>139,148</u>	<u>44,443</u>	<u>17,729</u>	<u>27,713</u>	<u>744</u>
EXPENDITURES:					
Current:					
General government	13,475	513	452	-	151
Public safety	89,487	1,739	-	-	82
Public works	12,096	625	-	-	-
Library	-	9,358	-	-	278
Parks and recreation	11,220	678	-	-	136
Capital outlay	-	19,399	-	46,558	-
Debt service:					
Principal retirement	-	-	7,085	-	-
Interest and fiscal charges	-	-	10,430	-	-
Current refunding	-	-	-	680	-
Repayment of advances from other funds	-	-	-	867	-
Total expenditures	<u>126,278</u>	<u>32,312</u>	<u>17,967</u>	<u>48,105</u>	<u>647</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>12,870</u>	<u>12,131</u>	<u>(238)</u>	<u>(20,392)</u>	<u>97</u>

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

Totals
(Memorandum Only)

<u>2001</u>	<u>2000</u>
\$ 19,035	\$ 17,584
31,188	25,468
36,323	31,722
30,635	28,226
3,758	3,333
18,073	8,535
40,706	38,588
26,557	26,044
1,445	1,115
1,416	1,467
9,069	6,422
2,866	(908)
2,822	1,250
<u>5,884</u>	<u>7,521</u>
<u>229,777</u>	<u>196,367</u>
14,591	13,185
91,308	85,462
12,721	12,183
9,636	8,800
12,034	10,653
65,957	49,950
7,085	5,198
10,430	9,479
680	3,000
<u>867</u>	<u>374</u>
<u>225,309</u>	<u>198,284</u>
<u>4,468</u>	<u>(1,917)</u>

(continues)

CITY OF STOCKTON

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (Continued) ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND FOR THE YEAR ENDED JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Governmental Fund Types				Fiduciary
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
OTHER FINANCING SOURCES (USES):					
Operating transfers in	5,070	6,900	2,788	13,803	-
Operating transfers out	(11,065)	(12,119)	(845)	(3,594)	(20)
Operating transfers out to component unit	-	-	-	-	-
Sale of fixed assets	171	-	-	-	-
Proceeds of long-term debt	-	-	-	6,275	-
Proceeds of current refunding bonds	-	-	-	2,744	-
Payment to refunding bond escrow agent - current refunding	-	-	-	(1,879)	-
Total other financing sources (uses)	<u>(5,824)</u>	<u>(5,219)</u>	<u>1,943</u>	<u>17,349</u>	<u>(20)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	7,046	6,912	1,705	(3,043)	77
FUND BALANCES, BEGINNING OF YEAR	15,744	61,616	28,158	95,215	599
Residual equity transfers in	-	-	-	15,951	-
Residual equity transfers out	-	(1,234)	-	-	-
FUND BALANCES, END OF YEAR	<u>\$ 22,790</u>	<u>\$ 67,294</u>	<u>\$ 29,863</u>	<u>\$ 108,123</u>	<u>\$ 676</u>

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

Totals (Memorandum Only)	
2001	2000
28,561	20,609
(27,643)	(20,609)
-	(98)
171	104
6,275	16,945
2,744	11,610
<u>(1,879)</u>	<u>(10,320)</u>
<u>8,229</u>	<u>18,241</u>
12,697	16,324
201,332	185,383
15,951	-
<u>(1,234)</u>	<u>(375)</u>
<u>\$ 228,746</u>	<u>\$ 201,332</u>

CITY OF STOCKTON

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL ON A BUDGETARY BASIS GENERAL AND ANNUALLY BUDGETED SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

	General Fund			Annually Budgeted Special Revenue Funds		
	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Taxes:						
Property	\$ 16,760	\$ 17,238	\$ 478	\$ -	\$ -	\$ -
Utility	25,880	31,188	5,308	-	-	-
Sales and use	28,590	32,338	3,748	2,666	3,985	1,319
Other	13,274	14,584	1,310	226	235	9
Licenses and permits	2,622	3,758	1,136	-	-	-
Federal grants and subsidies	57	20	(37)	5,496	2,606	(2,890)
Intergovernmental	14,795	16,112	1,317	31,649	16,981	(14,668)
Charges for services	11,050	12,990	1,940	1,246	1,163	(83)
Fines and forfeitures	935	1,444	509	-	-	-
Use of money and property	688	709	21	-	-	-
Investment income:						
Interest income	1,050	1,408	358	14	423	409
Net increase in fair value of investments	-	732	732	-	112	112
Refunds and reimbursements	561	1,873	1,312	20	28	8
Miscellaneous	6,244	4,754	(1,490)	-	2	2
Total revenues	<u>122,506</u>	<u>139,148</u>	<u>16,642</u>	<u>41,317</u>	<u>25,535</u>	<u>(15,782)</u>
EXPENDITURES:						
Current:						
General government	14,133	13,909	224	146	79	67
Public safety	89,728	89,654	74	78	74	4
Public works	12,432	12,429	3	1,148	643	505
Library	-	-	-	9,377	9,102	275
Parks and recreation	11,639	11,637	2	155	155	-
Capital outlay	4	3	1	40,734	14,278	26,456
Debt service:						
Repayment of advances from other funds	-	-	-	-	-	-
Total expenditures	<u>127,936</u>	<u>127,632</u>	<u>304</u>	<u>51,638</u>	<u>24,331</u>	<u>27,307</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,430)</u>	<u>11,516</u>	<u>16,946</u>	<u>(10,321)</u>	<u>1,204</u>	<u>11,525</u>

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

Annually Budgeted Capital Projects Funds			Totals (Memorandum Only)		
Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 16,760	\$ 17,238	\$ 478
-	-	-	25,880	31,188	5,308
-	-	-	31,256	36,323	5,067
21	20	(1)	13,521	14,839	1,318
-	-	-	2,622	3,758	1,136
598	161	(437)	6,151	2,787	(3,364)
12,935	5,134	(7,801)	59,379	38,227	(21,152)
8,290	12,093	3,803	20,586	26,246	5,660
-	1	1	935	1,445	510
-	416	416	688	1,125	437
1,628	4,122	2,494	2,692	5,953	3,261
-	1,259	1,259	-	2,103	2,103
418	600	182	999	2,501	1,502
5	36	31	6,249	4,792	(1,457)
<u>23,895</u>	<u>23,842</u>	<u>(53)</u>	<u>187,718</u>	<u>188,525</u>	<u>807</u>
-	-	-	14,279	13,988	291
-	-	-	89,806	89,728	78
-	-	-	13,580	13,072	508
-	-	-	9,377	9,102	275
-	-	-	11,794	11,792	2
87,873	31,804	56,069	128,611	46,085	82,526
<u>1,137</u>	<u>783</u>	<u>354</u>	<u>1,137</u>	<u>783</u>	<u>354</u>
<u>89,010</u>	<u>32,587</u>	<u>56,423</u>	<u>268,584</u>	<u>184,550</u>	<u>84,034</u>
<u>(65,115)</u>	<u>(8,745)</u>	<u>56,370</u>	<u>(80,866)</u>	<u>3,975</u>	<u>84,841</u>

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CITY OF STOCKTON

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL ON A BUDGETARY BASIS GENERAL AND ANNUALLY BUDGETED SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

	General Fund			Annually Budgeted Special Revenue Funds		
	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES):						
Operating transfers in	5,115	5,070	(45)	5,522	5,522	-
Operating transfers out	(11,109)	(11,065)	44	(4,394)	(4,385)	9
Sale of fixed assets	-	171	171	-	-	-
Total other financing sources (uses)	<u>(5,994)</u>	<u>(5,824)</u>	<u>170</u>	<u>1,128</u>	<u>1,137</u>	<u>9</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES (BUDGETARY BASIS)	(11,424)	5,692	17,116	(9,193)	2,341	11,534
BASIS ADJUSTMENT: Encumbrances	<u>-</u>	<u>1,354</u>	<u>1,354</u>	<u>-</u>	<u>672</u>	<u>672</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES (GAAP BASIS)	(11,424)	7,046	18,470	(9,193)	3,013	12,206
FUND BALANCES, BEGINNING OF YEAR	15,744	15,744	-	10,504	10,504	-
Residual equity transfers in	-	-	-	-	-	-
Residual equity transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(201)</u>	<u>-</u>	<u>201</u>
FUND BALANCES, END OF YEAR	<u>\$ 4,320</u>	<u>\$ 22,790</u>	<u>\$ 18,470</u>	<u>\$ 1,110</u>	<u>\$ 13,517</u>	<u>\$ 12,407</u>

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

Annually Budgeted Capital Projects Funds			Totals (Memorandum Only)		
Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
4,775 (629)	4,775 (623)	- 6	15,412 (16,132)	15,367 (16,073)	(45) 59
-	-	-	-	171	171
<u>4,146</u>	<u>4,152</u>	<u>6</u>	<u>(720)</u>	<u>(535)</u>	<u>185</u>
(60,969)	(4,593)	56,376	(81,586)	3,440	85,026
-	978	978	-	3,004	3,004
(60,969)	(3,615)	57,354	(81,586)	6,444	88,030
78,256	78,256	-	104,504	104,504	-
15,951	15,951	-	15,951	15,951	-
-	-	-	(201)	-	201
<u>\$ 33,238</u>	<u>\$ 90,592</u>	<u>\$ 57,354</u>	<u>\$ 38,668</u>	<u>\$ 126,899</u>	<u>\$ 88,231</u>

CITY OF STOCKTON

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND FOR THE YEAR ENDED JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust	2001	2000
OPERATING REVENUES:					
Charges for services	\$ 52,733	\$ 48,845	\$ -	\$ 101,578	\$ 86,106
Miscellaneous	1,539	-	-	1,539	1,001
Total operating revenues	54,272	48,845	-	103,117	87,107
OPERATING EXPENSES:					
Operation and maintenance	28,015	45,527	1,015	74,557	62,872
General and administrative	9,467	4,030	-	13,497	11,948
Depreciation and amortization	6,953	3,506	-	10,459	10,895
Purchased water	3,665	-	-	3,665	3,189
Total operating expenses	48,100	53,063	1,015	102,178	88,904
OPERATING INCOME (LOSS)	6,172	(4,218)	(1,015)	939	(1,797)
NONOPERATING REVENUES (EXPENSES):					
Taxes	601	-	-	601	600
Federal grants and subsidies	3	777	-	780	1,467
Intergovernmental	1	17	-	18	159
Loans and mortgage interest	34	-	-	34	43
Investment income:					
Interest income	5,951	423	92	6,466	6,997
Net increase (decrease) in fair value of investments	1,988	181	32	2,201	(919)
Gain (loss) from disposal of property	23,926	(1)	-	23,925	5
Interest expense and fiscal charges	(2,093)	(10)	-	(2,103)	(2,926)
Other nonoperating revenues	-	321	-	321	289
Total nonoperating revenues (expenses)	30,411	1,708	124	32,243	5,715
CAPITAL CONTRIBUTIONS	15,216	83	-	15,299	-

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

(continues)

CITY OF STOCKTON

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust	2001	2000
INCOME (LOSS) BEFORE OPERATING TRANSFERS	51,799	(2,427)	(891)	48,481	3,918
Operating transfers in	8,694	1,800	-	10,494	8,754
Operating transfers out	<u>(9,612)</u>	<u>(1,800)</u>	<u>-</u>	<u>(11,412)</u>	<u>(8,656)</u>
NET INCOME (LOSS)	50,881	(2,427)	(891)	47,563	4,016
FUND EQUITY, BEGINNING OF YEAR, AS RESTATED	283,402	10,976	140	294,518	274,970
Residual equity transfers in	-	1,480	2,300	3,780	-
Residual equity transfers out	(18,497)	-	-	(18,497)	(75)
Increase in contributed capital	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,607</u>
FUND EQUITY, END OF YEAR	<u>\$ 315,786</u>	<u>\$ 10,029</u>	<u>\$ 1,549</u>	<u>\$ 327,364</u>	<u>\$ 294,518</u>

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

CITY OF STOCKTON

COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND FOR THE YEAR ENDED JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Proprietary Fund Types		Fiduciary	Totals	
	Enterprise	Internal Service	Fund Type Nonexpendable Trust	(Memorandum Only) 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ 6,172	\$ (4,218)	\$ (1,015)	\$ 939	\$ (1,797)
Noncash adjustment to operating income:					
Depreciation and amortization	6,953	3,506	-	10,459	10,895
Provision for uncollectible accounts	1,233	19	-	1,252	207
Landfill closure/postclosure	-	-	-	-	253
Self-insurance	-	4,570	-	4,570	4,143
Changes in assets and liabilities:					
Accounts and other receivables	(303)	29	(19)	(293)	706
Prepaid expenses	-	36	-	36	-
Due from other governments	(295)	(275)	-	(570)	231
Inventory of supplies	(16)	-	-	(16)	73
Loans receivable	22	-	-	22	22
Accounts payable	(1,756)	591	-	(1,165)	(841)
Accrued payroll and benefits	-	279	-	279	482
Due to other governments	46	(235)	-	(189)	(4)
Deposits and other liabilities	98	-	-	98	(1,879)
Compensated absences	(18)	(64)	-	(82)	128
Deferred revenue	(1)	-	-	(1)	(1)
Advances from other governments	(186)	-	-	(186)	(179)
Net cash provided (used) by operating activities	<u>11,949</u>	<u>4,238</u>	<u>(1,034)</u>	<u>15,153</u>	<u>12,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment earnings	8,343	604	124	9,071	6,080
Investment purchases	-	-	-	-	(50)
Proceeds from sale of investments	<u>5,275</u>	<u>-</u>	<u>-</u>	<u>5,275</u>	<u>14,373</u>
Net cash provided by investing activities	<u>13,618</u>	<u>604</u>	<u>124</u>	<u>14,346</u>	<u>20,403</u>

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

(continues)

CITY OF STOCKTON

COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Proprietary Fund Types		Fiduciary	Totals	
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	
				2001	2000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from sale of property and equipment	14,999	137	-	15,136	2,998
Repayment of debt	(2,738)	(137)	-	(2,875)	(2,853)
Purchases of property and equipment	(18,462)	(5,259)	-	(23,721)	(36,631)
Interest paid on capital debt	(2,160)	(10)	-	(2,170)	(2,993)
Capital contributions	10,239	-	-	10,239	7,570
Residual equity transfer out	(18,497)	-	-	(18,497)	-
Residual equity transfer in	-	1,480	2,300	3,780	780
Net cash provided (used) by capital and related financing activities	<u>(16,619)</u>	<u>(3,789)</u>	<u>2,300</u>	<u>(18,108)</u>	<u>(31,129)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in	8,694	1,800	-	10,494	8,754
Operating transfers out	(9,612)	(1,800)	-	(11,412)	(8,656)
Advances from other funds	1,224	-	-	1,224	-
Other nonoperating revenues	-	321	-	321	289
Proceeds from taxes	601	-	-	601	600
Intergovernmental	1	17	-	18	159
Federal grants and subsidies	3	777	-	780	1,510
Net cash (used) by noncapital financing activities	<u>911</u>	<u>1,115</u>	<u>-</u>	<u>2,026</u>	<u>2,656</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,859	2,168	1,390	13,417	4,369
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>89,433</u>	<u>21,791</u>	<u>140</u>	<u>111,364</u>	<u>106,995</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 99,292</u>	<u>\$ 23,959</u>	<u>\$ 1,530</u>	<u>\$ 124,781</u>	<u>\$ 111,364</u>
NONCASH TRANSACTIONS:					
Contributions of fixed assets	<u>\$ 4,977</u>	<u>\$ 83</u>	<u>\$ -</u>	<u>\$ 5,060</u>	<u>\$ 7,183</u>

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

(continues)

CITY OF STOCKTON

COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (With comparative totals for June 30, 2000) (Dollar amounts in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Primary Government Totals
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
Reconciliation of cash and cash equivalents to the combined balance sheet:				
Unrestricted cash and investments on the combined balance sheet:				
Cash and temporary investments	\$ 95,766	\$ 23,959	\$ 1,530	\$ 121,255
Cash with fiscal agents	220	-	-	220
Restricted cash and investments on the combined balance sheet:				
Cash and temporary investments	1,101	-	-	1,101
Cash and temporary investments with fiscal agents	<u>17,894</u>	<u>-</u>	<u>-</u>	<u>17,894</u>
Total cash and investments	114,981	23,959	1,530	140,470
Less investments:				
Cash and temporary investments with fiscal agents	<u>15,689</u>	<u>-</u>	<u>-</u>	<u>15,689</u>
Net cash and cash equivalents	<u>\$ 99,292</u>	<u>\$ 23,959</u>	<u>\$ 1,530</u>	<u>\$ 124,781</u>

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

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2001

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CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001

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CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The City of Stockton (City) was incorporated on July 25, 1850 under the general laws of the State of California. The City's original charter was adopted on January 15, 1889. The City operates under a Council-Manager form of government consisting of seven elected council members including the mayor and a council appointed City Manager. The City provides the following services as authorized by its charter: public safety (police, fire, paramedics, and building), sanitation (solid waste disposal, sanitary wastewater, and stormwater utilities), water utility, community development, library, parks and recreation, and general administrative services.

As required by generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement 14, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit has a June 30 year-end.

The San Joaquin Area Flood Control Agency (SJAFC) was established by City Council resolution on May 15, 1995 and is jointly governed by the City and San Joaquin County. The City retains no on-going financial interest or obligation of SJAFC.

Blended Component Units - The Redevelopment Agency (Agency) was formed to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. City Council members in separate session serve as the governing board of the Agency, and all accounting and administrative functions are performed by the City. The Agency is reported in the City's financial statements in the Special Revenue Funds, Capital Projects Funds, and General Long-Term Debt Account Group.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Stockton Public Financing Authority (SPFA) was created in June 1990 and carries out lease financing for the City Sanitary Wastewater Utility, Water Utility, General Fund, Mello-Roos, and Marks-Roos districts. The SPFA governing board is the same as the City Council members. The SPFA is reported in the City's financial statements in the Debt Service Funds, Capital Projects Funds, General Fixed Account Group and General Long-Term Debt Account Group. Consistent with the National Council on Governmental Accounting (NCGA) Statement No. 5 and GASB Statement 14, capital leases between the primary government and blended component units are eliminated. The debt and assets are reported in the primary government. Accordingly, the Sanitary Wastewater Utility and Water Utility enterprise funds report the fixed assets and related certificates of participation issued by the SPFA and leased to these two enterprise funds under capital leases.

Financial statements for the Agency and SPFA may be obtained at the entities' respective administration offices as follows:

Redevelopment Agency
City of Stockton
425 North El Dorado Street
Stockton, CA 95202-1997

Stockton Public Financing Authority
City of Stockton
425 North El Dorado Street
Stockton, CA 95202-1997

In previous years, the Central Parking District (CPD) was reported as a discretely presented component unit in the City's financial statements. However, upon further analysis performed by City management, it was determined that the CPD is not a legally separate entity. Therefore, the CPD is not considered a component unit and is presented as an enterprise fund of the City. See Note 22 for the effects of this change on equity.

Implementation of New Accounting Pronouncement - In December 1998, the GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This standard established accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). The City has adopted this standard for its fiscal year ended June 30, 2001 financial statements. The effect of implementing this standard is that capital contributions in the amount of \$15,299, which prior to this standard were accounted for as additions to contributed capital, are now recognized as capital contribution revenue.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting - The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The various funds and account groups are summarized by type in the General-purpose Financial Statements. Fund types and account groups used by the City are described below:

Governmental Fund Types:

The **General Fund** is the primary operating fund of the City. It accounts for normal recurring activities traditionally associated with government, which are not required to be accounted for in another fund. These activities are funded primarily by property taxes, sales and use taxes, business and utility taxes, interest and rental income, charges for services, and state grants.

Special Revenue Funds account for certain revenue sources that are legally restricted to be spent for specified purposes. Other restricted resources are accounted for in trust, debt service, and capital projects funds.

Debt Service Funds account for the accumulation of resources to be used for the payment of general long-term debt principal and interest as well as related costs.

Capital Projects Funds account for financial resources to be used for the acquisition, construction or improvement of major capital facilities (other than those financed through the proprietary fund types).

Proprietary Fund Types:

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds account for the financing of goods, services, or facilities provided by one City department to other City departments on a cost-reimbursement basis.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types:

Trust and Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include the non-expendable trust, expendable trust, and agency funds. Operations of the non-expendable trust funds are accounted for and reported in the same manner as the proprietary fund types. Operations of expendable trust funds are accounted for in essentially the same manner as governmental fund types. Agency funds are custodial in nature and do not involve measurement of results of operations.

Account Groups:

The **General Fixed Assets Account Group** accounts for recorded fixed assets of the City, other than those accounted for in the proprietary fund types.

The **General Long-Term Debt Account Group** accounts for all long-term obligations, including vested compensation and sick leave of the City, except for those obligations accounted for in the proprietary fund types.

Basis of Accounting - Measurement Focus - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. Only current assets and liabilities are generally included on their balance sheets. Operating statements for these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary fund types and non-expendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Reported fund equity is segregated into contributed capital and retained earnings components.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modified Accrual Basis of Accounting - The modified accrual basis of accounting is followed in the governmental fund types, and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on general long-term obligations, are recorded when the fund liability is incurred and is expected to be liquidated with expendable available resources. The exception to the general modified accrual expenditure recognition criteria is that principal and interest on general long-term obligations are recorded when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Intergovernmental revenues, which are primarily grants and subventions, received as reimbursement for specific purposes or projects are recognized if they are expected to be received within the upcoming year to repay interfund liabilities incurred as a result of borrowing the cash in order to pay the expenditures. Intergovernmental revenues, which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance requirements, are reflected as revenues at the time of receipt or earlier if they meet the availability criterion. Major revenues are susceptible to accrual in accordance with GASB Statement 22 "Accounting For Taxpayer Assessed Tax Revenues in Governmental Funds" and are recognized as revenue when they are collected within 60 days of fiscal year-end. These include sales, transient occupancy, gas, utility user, and property taxes, franchise fees, interest, federal and state grants. Business licenses, fines and penalties are recorded as income when received because they are generally not measurable until actually received.

Accrual Basis of Accounting - The accrual basis of accounting is utilized in all proprietary fund types and non-expendable trust funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Deferred Revenue - Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records deferred revenue related to uncollected estimated special assessments not yet payable and intergovernmental revenues (primarily grants and subventions) received but not earned.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes - Property taxes receivable are recorded in the fiscal year for which the tax is levied. Revenue is recognized when measurable and available. Property taxes collected in advance are recorded as deferred revenue and recognized as revenue in the year they become available. The County of San Joaquin levies, bills and collects property taxes for the City of Stockton. Property taxes paid to the City by the County within 60 days after the end of the fiscal year are "available" and are, therefore, recognized as revenue.

Secured and unsecured property taxes are levied based on the assessed value as of March 1, the lien date, of the preceding fiscal year. Secured property tax is levied on October 1 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10, which are also the delinquent dates. At that time, delinquent accounts are assessed a penalty of 10 percent. Accounts that remain unpaid on June 30 are charged an additional 1 1/2 percent per month. Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31 which is also the delinquent date. The penalty percentage rates are the same as secured property tax.

Revenue Recognition For Utility Funds and Developers Fees - Revenues are recognized for utility funds based on billings rendered to customers. The City accrues revenues for services provided but not yet billed, at the end of a fiscal period.

On July 6, 1988, the City Council adopted (Ordinance No. 56-88C.S.) Stockton Municipal Code Sections 16-175 et seq. creating and establishing the authority for imposing and charging Public Facilities Fees. These funds are to provide for the mitigation of the impact of contemplated future development on existing public facilities and to provide for new public facilities and improvements as needed. On September 12, 1988, the City Council adopted Resolution No. 88-0616 imposing Public Facilities Fees to be paid at the time of issuance of a building permit for development. The revenue is recognized when the building permits are paid. The building division began collecting these fees on November 14, 1988.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data

Budgetary 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. The General Fund, certain Special Revenue Funds (Gas Tax, Measure K Sales Tax, City-County Library, Special Assessments, 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 manager's budget is in force until a budget is adopted by the City Council. The level of legal budgetary control by the City Council is established at the department level.
- Enterprise Funds, Internal Service Funds, and Nonexpendable Trust 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 budget comparison basis; therefore, budgetary data related to these funds has not been presented.
- If expenditures exceed appropriations, the City Manager is authorized to transfer budgeted amounts between line items within any department in the General Fund, and within any function in the Special Revenue and Capital Projects Funds, however, any revisions that alter the total appropriations of any department or function, respectively, must be approved by the City Council. Supplemental appropriations are made during the year and are considered immaterial. Budgeted amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on a Budgetary Basis include amendments for these supplemental appropriations.
- 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 GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Basis of Accounting - The City adopts budgets each fiscal year on a basis of accounting, which is different from generally accepted accounting principles (GAAP). The variations from GAAP are discussed in Note 19.

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.

Because not all Special Revenue and Capital Projects Funds have annual budgets, the actual amounts that appear in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -- All Governmental Fund Types and Expendable Trust Funds and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual on a Budgetary Basis, General, Annually Budgeted Special Revenue and Capital Projects Funds do not agree. A reconciliation follows:

	Special Revenue Funds	Capital Projects Funds
Excess (deficit) of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis) - Budgeted Funds	\$ 3,013	\$ (3,615)
Unbudgeted Funds:		
Special Grants	1,147	-
Revenue Sharing	(21)	-
Redevelopment Agency Loan	995	-
Community Development Block Grant	432	-
Community Development Loan	(233)	-
Special Grant and Loan Programs	266	-
Home Program	1,313	-
Redevelopment Agency	-	(962)
Mello-Roos Districts	-	(817)
1915 Act Assessment Districts	-	2,188
Stockton Public Financing Authority	-	163
	<u> </u>	<u> </u>
Excess (deficit) of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis) - All Funds	<u>\$ 6,912</u>	<u>\$ (3,043)</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances - The City utilizes an encumbrance system to assist in controlling expenditures. Under this system, all fund types are encumbered when purchase orders, contracts and other commitments are signed or approved. In the governmental funds, encumbrances at year end are reported as reservations of fund balances. Unencumbered balances in all fund types at year end are closed back to fund balance/retained earnings. Encumbrances are combined with expenditures for budgetary comparison purposes.

Cash and Investments - Except as described below, the City pools idle cash from all funds for the purpose of maximizing interest through investment activities. Pooled investments do not include certain bond proceeds. Investments are carried at fair value with the exception of money market investments and certain nonparticipating guaranteed investment contracts, which are carried at cost. The fair value of investments is based on published market prices and quotations from major investment brokers.

The Local Agency Investment Fund (LAIF) is an external investment pool established under California State statutes. LAIF is not registered with the Securities and Exchange Commission. LAIF falls under the regulatory oversight of the State of California. Based on information obtained from the State of California, the investment in LAIF has been recorded at fair value.

Interest income on pooled investments is allocated on the basis of average daily cash balances in the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Water Utility Enterprise Fund, Sanitary Wastewater Utility Enterprise Fund, Stormwater Utility Enterprise Fund, Solid Waste Enterprise Fund, Central Parking District Enterprise Fund, Internal Service Self-Insurance Funds, and Trust and Agency Funds, as required by law or as directed by the City Council adopted budget. The remainder of interest income is credited to the General Fund as required by California Government Code.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents. The Local Agency Investment Fund and money market investments are determined to be included as cash and cash equivalents. Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets in the proprietary funds.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Receivables/Payables - Short-term loan receivables and payables are reported as "due from other funds" and "due to other funds" respectively.

Long-term interfund loan receivables are reported as advances and are offset equally by fund balance reservations that indicate they do not constitute expendable available resources and, therefore, are not available for appropriation. In the proprietary funds the payables are classified as "advances from". In the governmental funds, liabilities incurred prior to fiscal year 2000 are reported in the General Long-Term Debt Account Group, and liabilities incurred after fiscal year 1999 are reported as "advances from" in the appropriate government fund.

Discount/Premium/Issuance Cost - The City's bond or debt premium/discount and issuance costs are recorded as expenditures in the year they are incurred for governmental fund debt and are amortized over the life of the bond for proprietary fund debt.

Inventories - Inventories are physically counted annually and valued at cost, on the weighted average method, which approximates market. Inventories consist of expendable supplies held on a consumption basis, wherein the cost is recorded as an expenditure at the time an item is consumed.

Fixed Assets - Fixed assets are recorded at historical cost. Donated fixed assets are valued at estimated fair market value on the date received. Approximately 5% of property, plant and equipment are carried at estimated historical cost. Gains or losses on assets at retirement or disposal are recorded in the same fiscal year the asset is retired.

General Fixed Assets - General fixed assets are those acquired for general governmental purposes. Such assets currently purchased or constructed are recorded as expenditures in the governmental fund types and are capitalized at cost in the General Fixed Assets Account Group. The City does not capitalize infrastructure fixed assets such as: roads, bridges, curbs, gutters, streets and sidewalks, street lights, and traffic signals, nor does it record depreciation in the General Fixed Assets Account Group.

Proprietary Fund Types - Fixed assets in the proprietary fund types are generally stated at cost. Renewals and betterments are capitalized when purchased. Maintenance and repairs are charged to expense when the services are rendered. Assets acquired under capital lease obligations are depreciated over their estimated useful lives. Depreciation is provided using the straight-line method based on the estimated useful life of the asset as follows:

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Building and structures	30 - 50 years
Improvements other than buildings	25 - 30 years
Machinery and equipment	5 - 30 years
Transmission and distribution plant (including infrastructure such as water, sanitary wastewater and stormwater mains and laterals)	50 - 100 years

In accordance with generally accepted accounting principles, the City capitalizes net interest cost of funds borrowed to finance the construction of fixed assets in the proprietary fund types. For the year ended June 30, 2001, capitalized interest costs equaled \$5,447 in connection with the construction in progress.

Vacation, Sick, and Earned Time Leave Pay - 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 based upon terms negotiated with individual bargaining units. 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. All bargaining unit employees may sell back their remaining 50% of accrued sick leave hours for additional California Public Employees' Retirement System (PERS) service credit upon retirement. Police and Fire department safety employees are eligible for pay-off of 100% of accumulated earned time (or overtime) up to one year's accrual upon retirement based on years of service. Pay-off of accumulated earned time is reportable PERS compensation.

The value of accumulated vacation, sick, and earned time is accrued, as appropriate, for all funds. With respect to obligations of the governmental fund types, the amounts are recorded in the General Long-Term Debt Account Group.

Capital Contributions - Water and wastewater connection fees are recorded as revenue in the Water Utility and Sanitary Wastewater Utility Enterprise Funds.

Fund Equity - Reservations of fund balances indicate those portions of fund equity which are not available for appropriation or expenditure or which have been legally restricted to a specific use.

Portions of unreserved fund balances have been designated to indicate that portion of fund equity for which the City has tentative plans for financial resource utilization in a future period. These amounts may not result in actual expenditures.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Accounting - The City has made an election in accordance with GASB Statement 20, to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Principles Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

Accounting for Escheat Property - The City is in compliance with the GASB Statement 21, *Accounting for Escheat Property*, and accounts for these assets in the ultimate fund (General Fund) when the assets are deemed to be escheat in accordance with California state law.

Use of Estimates - In preparing general-purpose financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and revenues, expenditures and expenses during the reporting period at the date of the general-purpose financial statements. Actual results could differ from those estimates.

Total Columns on Combined Financial Statements - Total columns on the accompanying General-purpose Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations, or cash flows of the City in conformity with GAAP. Such data is not comparable to a consolidation.

New Accounting Pronouncement - In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The statement establishes financial reporting standards for certain governmental entities, which will require expanded financial information, management discussion and analysis and required supplemental information in their financial reporting. This statement will be effective for the City for the year ending June 30, 2002. The City is in the process of determining the effect adopting GASB Statement 34 will have on its financial statements.

Reclassification - Certain 2000 amounts have been reclassified to conform to the financial statement presentation for the 2001 fiscal year.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and temporary investments."

Deposits - At June 30, 2001, the recorded amount of the City's deposits were \$3,732; and the bank balance was \$5,347. The bank balance and carrying amount differ due to deposits in transit of \$1,480 and outstanding checks of \$3,095.

The bank balances were entirely insured or collateralized at June 30, 2001. The California Government Code requires financial institutions to secure a city's deposits, in excess of insured amounts, by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure a city's deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

The City's deposits are categorized to give an indication of the level of custodial credit risk at year-end:

Category 1 - Insured or collateralized with securities held by the City or its agent in the City's name. The City held \$688 in Category 1 deposits at June 30, 2001.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. The City held \$4,659 Category 2 deposits at June 30, 2001.

Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the City's name. The City did not hold any Category 3 deposits at June 30, 2001.

Investments - California statutes and the City's investment policy authorize the investment of idle or surplus funds in the following instruments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration loans
- Certificates of deposit
- Negotiable certificates of deposit
- Bankers acceptances
- Commercial paper
- Local Agency Investment Fund (LAIF) demand deposits - State pool
- Repurchase agreements (repos)
- Demand accounts - insured/collateralized

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

2. CASH AND INVESTMENTS (Continued)

- Mutual funds
- Guaranteed investment contracts

The City has entered into nonparticipating guaranteed investment contracts, which bear interest ranging from 5.39% to 6.57%. The investment contracts are collateralized 100% to 104% by investments, which are in compliance with the City's investment policy.

Although the City did not participate in any securities lending transactions or enter into any reverse repurchase agreements during the year, the City does have an investment in LAIF in the amount of \$31,101. The total amount invested by all public agencies in LAIF is \$54,496,268, of which 4.5% is invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's portion in the pool.

The City's investments are categorized to give an indication of the level of custodial credit risk at year-end:

Category 1 - Insured or registered or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered investments with the securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments with securities held by the counterparty or by its trust department or agent but not in the City's name.

During the year ended June 30, 2001, the City did not utilize investment types different from those categorized below.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

2. CASH AND INVESTMENTS (Continued)

A summary of cash and investments by such categories at June 30, 2001 is as follows:

Investment Type	Category 1	Non Categorized	Fair Value
U.S. Government securities	\$ 182,295	\$ -	\$ 182,295
Commercial paper	6,088	-	6,088
LAIF	-	31,101	31,101
Money market funds	-	38,415	38,415
Guaranteed investment contracts	<u>-</u>	<u>23,859</u>	<u>23,859</u>
 Total investments	 <u>\$ 188,383</u>	 <u>\$ 93,375</u>	 <u>\$ 281,758</u>
Summary of GASB 3 disclosure carrying amounts:			
Deposits			\$ 3,732
Investments			<u>281,758</u>
 Total cash and investments			 <u>\$ 285,490</u>
Cash and investments are reported on the combined balance sheet as follows:			
Cash and temporary investments			\$ 249,763
Cash with fiscal agents			16,732
Restricted cash and temporary investments			1,101
Restricted cash and temporary investments with fiscal agents			<u>17,894</u>
 Total cash and investments			 <u>\$ 285,490</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

2. CASH AND INVESTMENTS (Continued)

Restricted Cash and Investments - Certain proceeds of Enterprise Funds and certificates of participation (COP) are classified as restricted cash and investments on the balance sheet because their use is limited by applicable indentures or covenants. These covenants provide that these monies, 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 make. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments, not permitted by the City's general investment policy, been authorized. 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.

At June 30, 2001, restricted cash and investments are as follows for the Enterprise Funds:

Water Utility	\$ 1,492
Sanitary Wastewater Utility	16,108
Solid Waste	69
Central Parking District	<u>1,326</u>
Total	<u>\$ 18,995</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

3. INTERFUND ASSETS / LIABILITIES

Interfund receivables and payables are as follows at June 30, 2001:

	Due From	Due To	Advances To	Advances From
General Fund	\$ 1,464	\$ -	\$ 644	\$ -
Special Revenue Funds:				
Special Grants	-	8	-	-
Urban Development Action Grant	-	-	4,686	-
Community Development Block Grant	-	1,034	10,304	-
Community Development Loan	-	-	586	-
Other Special Revenue	-	70	-	-
Capital Projects Funds:				
Public Facilities Impact Fees	-	-	8,947	3,134
Capital Improvement	-	-	12,994	-
Redevelopment Agency	19	371	1,830	438
Enterprise Fund:				
Golf Courses	-	-	-	1,224
General Long-Term Debt Account Group:				
Other Special Revenue	-	-	-	71
Redevelopment Agency	-	-	-	23,619
Public Facilities Impact Fees	-	-	-	11,505
Total	<u>\$ 1,483</u>	<u>\$ 1,483</u>	<u>\$ 39,991</u>	<u>\$ 39,991</u>

4. OPERATING / RESIDUAL EQUITY TRANSFERS

During the year various interfund transfers were made to finance expenditures, subsidize operating losses and service debt. These transfers are reflected as operating or residual equity transfers. The transfers are recorded in the fiscal period in which the transactions are approved.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

4. OPERATING / RESIDUAL EQUITY TRANSFERS (Continued)

Operating transfers for the year ended June 30, 2001 are summarized as follows:

	<u>Operating Transfers</u>	
	In	Out
General Fund	\$ 5,070	\$ 11,065
Special Revenue Funds:		
Special Grants	247	212
Gas Tax	-	4,385
City-County Library	5,522	-
Redevelopment Agency Loan	995	-
Community Development Block Grant	136	-
Community Development Loan	-	218
Special Grant and Loan Programs	-	7,304
Debt Service Funds:		
1915 Act Assessment District	1,983	687
Stockton Public Financing Authority	805	158
Capital Projects Funds:		
Public Facilities Impact Fees	20	121
Capital Improvement	4,755	502
Redevelopment Agency	8,255	995
1915 Act Assessment Districts	680	1,976
Stockton Public Financing Authority	93	-
Expendable Trust Fund:		
Miscellaneous	-	20
Enterprise Funds:		
Water Utility	1,145	1,158
Sanitary Wastewater Utility	7,451	7,733
Golf Courses	-	37
Central Parking District	98	684
Internal Service Funds:		
Radio Equipment	-	600
Other Equipment	600	-
General Insurance	-	900
Workers' Compensation Insurance	300	-
Health Benefits Insurance	900	-
Other Insurance	-	300
Total	<u>\$ 39,055</u>	<u>\$ 39,055</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

4. OPERATING / RESIDUAL EQUITY TRANSFERS (Continued)

Residual equity transfers for the year ended June 30, 2001 were as follows:

	Residual Equity Transfers	
	In	Out
Special revenue funds:		
Special grants	\$ -	\$ 1,234
Capital projects funds:		
Capital improvement	15,951	-
Enterprise funds:		
Sanitary wastewater utility	-	247
Solid waste	-	18,250
Internal service funds:		
Central garage	632	-
Computer equipment	240	-
Radio equipment	592	-
Other equipment	16	-
Nonexpendable trust fund:		
Miscellaneous	<u>2,300</u>	<u>-</u>
Total	<u>\$ 19,731</u>	<u>\$ 19,731</u>

5. FIXED ASSETS

Fixed assets at June 30, 2001 are as follows:

	Enterprise Funds	Internal Service Funds	General Fixed Assets	Total
Land	\$ 6,320	\$ -	\$ 13,920	\$ 20,240
Buildings and improvements	312,742	129	48,778	361,649
Machinery and equipment	8,985	40,554	1,765	51,304
Construction in progress	<u>108,721</u>	<u>-</u>	<u>33,852</u>	<u>142,573</u>
Total fixed assets	436,768	40,683	98,315	575,766
Accumulated depreciation	<u>(103,741)</u>	<u>(25,461)</u>	<u>-</u>	<u>(129,202)</u>
Net fixed assets	<u>\$ 333,027</u>	<u>\$ 15,222</u>	<u>\$ 98,315</u>	<u>\$ 446,564</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

5. FIXED ASSETS (Continued)

General Fixed Assets - A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 13,890	\$ 30	\$ -	\$ 13,920
Buildings and improvements	48,357	1,401	980	48,778
Machinery and equipment	1,693	202	130	1,765
Construction in progress	<u>19,577</u>	<u>14,279</u>	<u>4</u>	<u>33,852</u>
Total	<u>\$ 83,517</u>	<u>\$ 15,912</u>	<u>\$ 1,114</u>	<u>\$ 98,315</u>

6. GENERAL LONG-TERM DEBT

A summary of the changes in the City's general long-term debt obligations during the year is as follows:

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
Special Assessment Debt with Government Commitment (1915 Act Special Assessment Bonds)	\$ 19,557	\$ 9,019	\$ 4,570	\$ 24,006
Mello-Roos Special Tax Bonds	28,265	-	785	27,480
Revenue Bonds	115,145	-	4,140	111,005
Certificates of participation	14,860	-	-	14,860
Compensated absences	18,121	281	-	18,402
Advance from other funds:				
Other Special Revenue Fund	71	-	-	71
Redevelopment Agency	23,702	-	83	23,619
Public Facilities Impact Fees Fund	<u>12,288</u>	<u>-</u>	<u>783</u>	<u>11,505</u>
Total	<u>\$ 232,009</u>	<u>\$ 9,300</u>	<u>\$ 10,361</u>	<u>\$ 230,948</u>

In July 1998, the Special Review Executive Committee of the Government Finance Officers Association issued a program policy decision related to the general long-term debt account group (GLTDAG). The effect of this policy decision is that all governments reporting long-term interfund liabilities in the GLTDAG may continue to report those specific liabilities incurred before fiscal year 2001 in the GLTDAG. However, all such liabilities incurred after fiscal year 1999 need to be reported in the appropriate governmental fund. The City has adopted this reporting policy and it is effective for the year ended June 30, 2000.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

6. GENERAL LONG-TERM DEBT (Continued)

During the year, the City issued two new 1915 Act Special Assessment Bonds for \$7,030 and \$1,989. Of the \$1,989, \$1,879 was deposited into an escrow account along with \$680 from three other 1915 Act Special Assessment Bonds to currently refund \$2,410 of those three 1915 Act Special Assessment Bonds. Of the \$7,030, \$755 currently refunded another 1915 Act Special Assessment Bond. The remaining \$6,275 was issued to finance the construction and acquisition of certain public improvements.

A description of each item included in the general long-term debt account group is as follows:

1915 Act Special Assessment Bonds were authorized and issued to finance the improvements of special districts located within the City. There are currently eight bonds authorized and issued with interest rates ranging from 4.1% to 8.1% and final maturity in September 2023. Remaining debt service will be paid from assessments to property owners.

\$ 24,006

Community Facilities Districts Special Tax Bonds were authorized pursuant to the Mello-Roos Community Facilities Act of 1982, to provide funds to: 1) pay costs of the acquisition and construction of new roads, sewer and water facilities to serve property located within the City of Stockton, 2) pay certain public facilities impact fees charged by the City. There are currently five bonds authorized and issued, four of which have interest rates ranging from 4.5% to 7.75% and one issue at a variable interest rate not to exceed 12%. The final maturity for those bonds is December 2024. Remaining debt service will be paid from assessments to property owners.

\$ 27,480

Refunding Revenue Bonds were issued by the SPFA to purchase two series of location obligation refunding bonds and three limited obligation improvement bonds. Additionally, the City issued Mello-Roos Revenue Bonds to purchase special tax bonds and to finance the acquisition and construction of stormwater lines and pumping plants. On August 5, 1999, the SPFA issued assessment Revenue Bonds (West Eighth Street Series 1999) in the amount of \$11,610 to refund two prior issues of limited obligation improvement bonds. There are currently eight bonds authorized and issued with interest rates ranging from 3.48% to 8.1% and final maturity on September 1, 2024. Remaining debt service will be paid from revenues of the SPFA or City consisting primarily of payments received by the Authority and City as payments of assessments on the local obligation or special tax bonds.

\$ 111,005

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

6. GENERAL LONG-TERM DEBT (Continued)

1999 Certificates of Participation were authorized and issued to finance a portion of the acquisition and construction of an essentials services building and an adjacent public parking facility located within the City. The certificates have interest rates ranging from 4.6% to 6.0% and final maturity on August 1, 2031. The City will lease the essential services building and adjacent parking facility from the SPFA. Lease payments will be used to repay the certificates. Under the lease agreement, the City covenanted to make all rental payments to the SPFA. These rental payments will be used to service the indebtedness when it becomes due and payable. Consistent with NCGA Statement No. 5 and GASB Statement No. 14, capital leases between the primary government and blended component units are eliminated. The debt and assets are reported in the General Fixed Asset Account Group and General Long-Term Debt Account Group

\$ 14,860

Compensated absences. It is City policy to permit employees to accumulate a limited amount of earned but unused vacation benefits and unlimited sick leave. A portion of these benefits are paid to the employee upon separation of employment from the City.

\$ 18,402

The advance to the Other Special Revenue Fund represents a loan from the General Fund to the Buckley Cove Marina which will be repaid from user fees.

\$ 71

The advances to the Redevelopment Agency represent loans from: 1) the Urban Development Action Grant Fund - \$4,686, to provide funds for the West End (Waterfront) Redevelopment Project. Funds were advanced to the Agency pursuant to the Development Agreement (Waterfront Project) authorized by the City and the Redevelopment Agency in December 1980. The interest rate on this loan is 10% and the loan will be repaid to the Urban Development Action Grant Funds from excess tax increment allocations as they become available. Accumulated interest that totals \$24,020 through June 30, 2001 will be recognized as an expenditure when repaid; 2) the General Fund - \$220, Community Development Block Grant Fund - \$10,304, Community Development Loan Fund - \$564, and Capital Improvement Fund - \$6,015, to provide funds for the McKinley, Sharps Lane Villa, Eastland and West End Redevelopment Projects. Except for the Eastland Redevelopment Project, these loans are non-interest bearing loans. Accumulated interest on the Eastland loan calculated at 10% per annum totals \$243 through June 30, 2001, and will be recognized as an expenditure when due. These funds will be repaid to the respective funds from excess tax increment allocations as they become available; 3) the Redevelopment Agency McKinley Redevelopment Project Area to the West End Redevelopment Project Area - \$1,830. Interest accumulates at the Eleventh District's Cost of Funds rate. Accumulated interest, which totals \$442 through June 30, 2001, will be recognized as an expenditure when due. This loan plus interest is to be repaid to the McKinley Project Area from excess tax increment allocations as they become available.

\$ 23,619

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

6. GENERAL LONG-TERM DEBT (Continued)

The advances to Public Facilities Impact Fees Fund represent loans from: 1) the Capital Improvement fund for construction costs related to the southeast branch library, fire stations 1, 5 and 14, and expansion of city office space; 2) Street Improvements Fee Area #6 to Street Improvements Fee Area #1 for the I-5/March Lane interchange and Davis Road/Bear Creek Bridge, the March Lane - Southern Pacific Railroad crossing, and the Hammer Lane - Union Pacific Railroad crossing; 3) Parkland Fee Area #1 to the Parkland City Wide account for Weber Point Events Center improvements. These loans are interest bearing based on the average annual interest earned by the City of Stockton. The loans will be repaid as excess public facilities impact fees become available.

\$ 11,505

Prior Year Defeasance of Debt

In prior years, the City and the SPFA defeased certain General Long-Term Debt Account Group debt by placing the proceeds of new debt in irrevocable trusts to provide for all future debt service payments on the old debt until called. Accordingly, the trust account assets and liabilities for the following defeased debt issues are not included in the City's financial statements. At June 30, 2001, the outstanding balances of the bonds considered defeased were as follows:

City of Stockton Community Facilities District No. 1, Series 307 (Weston Ranch Special Tax Bonds)	\$ 5,550
City of Stockton Community Facilities District No. 1, Series 308 (Weston Ranch Special Tax Bonds)	\$ 3,050

Stockton Public Financing Authority Community Facilities District 90-4 (Spanos Park Mello-Roos Bonds), City of Stockton Community Facilities District 90-2 and Series 305 (Brookside Estates Special Tax Bonds), and Weber/Sperry 88-1 Series 213 and 88-2 Series 215 were called prior to June 30, 2001.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

6. GENERAL LONG-TERM DEBT (Continued)

At June 30, 2001, special assessment, Mello-Roos, revenue bonds, and certificates of participation debt service requirements to maturity are as follows:

	Principal				Total
	Special Assessment	Mello-Roos	Revenue Bonds	Certificates of Participation	
2001-2002	\$ 945	\$ 835	\$ 4,195	\$ 195	\$ 6,170
2002-2003	1,129	1,030	4,445	205	6,809
2003-2004	1,305	1,095	4,710	210	7,320
2004-2005	1,350	3,245	5,025	220	9,840
2005-2006	1,450	1,475	5,325	235	8,485
Thereafter	<u>17,827</u>	<u>19,800</u>	<u>87,305</u>	<u>13,795</u>	<u>138,727</u>
Total	<u>\$ 24,006</u>	<u>\$ 27,480</u>	<u>\$ 111,005</u>	<u>\$ 14,860</u>	<u>\$ 177,351</u>

	Interest				Total
	Special Assessment	Mello-Roos	Revenue Bonds	Certificates of Participation	
2001-2002	\$ 1,477	\$ 1,607	\$ 6,266	\$ 844	\$ 10,194
2002-2003	1,393	1,551	6,050	835	9,829
2003-2004	1,330	1,487	5,816	825	9,458
2004-2005	1,260	1,418	5,561	815	9,054
2005-2006	1,183	1,338	5,286	805	8,612
Thereafter	<u>13,024</u>	<u>7,018</u>	<u>34,961</u>	<u>13,183</u>	<u>68,186</u>
Total	<u>\$ 19,667</u>	<u>\$ 14,419</u>	<u>\$ 63,940</u>	<u>\$ 17,307</u>	<u>\$ 115,333</u>

	Principal and Interest				Total
	Special Assessment	Mello-Roos	Revenue Bonds	Certificates of Participation	
2001-2002	\$ 2,422	\$ 2,442	\$ 10,461	\$ 1,039	\$ 16,364
2002-2003	2,522	2,581	10,495	1,040	16,638
2003-2004	2,635	2,582	10,526	1,035	16,778
2004-2005	2,610	4,663	10,586	1,035	18,894
2005-2006	2,633	2,813	10,611	1,040	17,097
Thereafter	<u>30,851</u>	<u>26,818</u>	<u>122,266</u>	<u>26,978</u>	<u>206,913</u>
Total	<u>\$ 43,673</u>	<u>\$ 41,899</u>	<u>\$ 174,945</u>	<u>\$ 32,167</u>	<u>\$ 292,684</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

7. LONG-TERM DEBT - ENTERPRISE FUNDS

The following is a summary of all long-term debt in the Enterprise Funds at June 30, 2001:

	Long-Term	Current	Total
Compensated absences	\$ 1,594	\$ 916	\$ 2,510
Advances from other funds	1,224	-	1,224
Advances from other governments	1,665	147	1,812
Certificates of participation	120,280	2,225	122,505
Bonds payable	6,415	590	7,005
Water extension agreements	-	11	11
Total	<u>\$ 131,178</u>	<u>\$ 3,889</u>	<u>\$ 135,067</u>

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits and unlimited sick leave. A portion of these benefits is paid to the employee upon separation of employment from the City. Both the current and long-term portion of the liability have been recorded.

Advances From Other Governments

	Water Utility	Stormwater Utility	Total
Federal Drought Relief Act	\$ 1,029	\$ -	\$ 1,029
Federal Clean Water Act	-	783	783
Total	1,029	783	1,812
Less current portion	-	147	147
Long-term portion	<u>\$ 1,029</u>	<u>\$ 636</u>	<u>\$ 1,665</u>

- In August 1977, the City accepted a Federal Drought Relief Act grant of \$1,934 (which was later reduced by \$313) and a loan not to exceed \$1,834 for drought relief projects for the Water Utility (Enterprise Fund). As of June 30, 2001, advances totaled \$1,029. The loan will bear interest at 5% per annum and shall be for a term not to exceed 40 years.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

7. LONG-TERM DEBT - ENTERPRISE FUNDS (Continued)

- In September 1992, the City accepted a Federal Clean Water Act loan not to exceed \$1,900 for programs to reduce pollutant loading from urban runoff, which will enable the City to comply with the Clean Water Act of 1987 (Stormwater Enterprise Fund). As of June 30, 2001 advances totaled \$783. The loan will bear interest at 3.1% per annum and shall be for a term not to exceed 10 years after completion of the City's three-year program.

Certificates of Participation

	Water Utility	Sanitary Wastewater Utility	Total
Principal amount outstanding at June 30, 2001	\$ 15,690	\$ 113,545	\$ 129,235
Less issue discount	47	442	489
Less unamortized loss on defeasance	<u>-</u>	<u>6,241</u>	<u>6,241</u>
Total	15,643	106,862	122,505
Less current portion	<u>370</u>	<u>1,855</u>	<u>2,225</u>
Long-term portion	<u>\$ 15,273</u>	<u>\$ 105,007</u>	<u>\$ 120,280</u>

Annual debt service requirements to maturity for the Certificates of Participation are as follows:

	Principal	Interest	Total
2001-2002	\$ 2,225	\$ 6,549	\$ 8,774
2002-2003	2,325	6,451	8,776
2003-2004	2,430	6,347	8,777
2004-2005	2,535	6,238	8,773
2005-2006	2,655	6,122	8,777
Thereafter	<u>117,065</u>	<u>84,724</u>	<u>201,789</u>
Total	<u>\$ 129,235</u>	<u>\$ 116,431</u>	<u>\$ 245,666</u>

Water Utility - The SPFA (lessor) issued Certificates of Participation on June 1, 1993, in the amount of \$17,860, with interest rates ranging from 3.0% - 5.8%, the full amount maturing serially through August 1, 2022, in annual principal installments ranging from \$275 to \$1,225.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

7. LONG-TERM DEBT - ENTERPRISE FUNDS (Continued)

Principal amount outstanding at June 30, 2001	\$ 15,690
Less issue discount	47
Less current portion of debt	<u>370</u>
Total long-term portion of debt	<u>\$ 15,273</u>

The proceeds were used to defease the 1986 Water Certificates of Participation, and the remainder of the unused debt was used to fund new construction and a fund reserve. The proceeds were used to improve a water delivery system serving the City of Stockton. The system is leased to the City and operated by the City's Municipal Utilities Department. Lease payments are made from net revenues of the Water Utility Fund and are used to repay the Certificates. Interest on the Certificates began accruing on the date of issuance. The first interest payment was due February 1, 1994. The City (lessee) agreed to pay its financial obligations equal to the debt service related to the Certificates. Restrictive covenants include the requirement of a reserve for debt service equal to \$1,262 funded from bond proceeds.

Under the Lease Agreement, the City covenanted to make all rental payments to the SPFA. These rental payments will be used to service the indebtedness when they become due and payable. In the event of default, the City of Stockton would be held contingently liable. Consistent with NCGA Statement No. 5 and GASB Statement No. 14 capital leases between the primary government and blended component units are eliminated. The debt and assets are reported in the Water Utility Enterprise Fund.

Cash with fiscal agents of \$1,492 shown on the balance sheet, Enterprise-Water Utility Fund (restricted assets) is held by a fiscal agent (trustee) in charge of investment of idle funds and disbursements for the construction of the project.

Sanitary Wastewater Utility - SPFA (lessor) issued Certificates of Participation on August 1, 1993, in the amount of \$16,715, with interest rates ranging from 2.75% - 5.75%, the full amount maturing serially through September 1, 2023, in annual principal installments ranging from \$190 to \$1,095.

Principal amount outstanding at June 30, 2001	\$ 14,740
Less unamortized loss on defeasance	650
Less current portion of debt	<u>345</u>
Total long-term portion of debt	<u>\$ 13,745</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

7. LONG-TERM DEBT - ENTERPRISE FUNDS (Continued)

The City issued Certificates of Participation on February 1, 1998, in the amount of \$101,650, with interest rates ranging from 4.0% to 5.2%, the full amount maturing serially through September 1, 2029, in annual principal installments ranging from \$1,395 to \$7,325.

Principal amount outstanding at June 30, 2001	\$ 98,805
Less issue discount	442
Less unamortized loss on defeasance	5,591
Less current portion of debt	<u>1,510</u>
Total long-term portion of debt	<u>\$ 91,262</u>

The proceeds of the 1998 issue were used to finance the design and construction of a sewer interceptor and to make improvements and modifications to the southern industrial sewer trunk line, and to defease the 1995 Certificates of Participation issue that was to finance the design, improvements and modifications to the regional wastewater control facilities serving the citizens of the City of Stockton. The defeasance resulted in an unamortized extraordinary loss of \$6,432, which will be amortized over the life of the 1995 Certificates. Interest with respect to the 1998 Certificates of Participation began on the date of issuance. Restrictive covenants include the requirement of a reserve for debt service by providing a reserve policy provided by an outside insurer. The reserve policy is in the amount of the maximum annual debt service on the 1998 and 1993 Certificates. The Certificates will be prepaid from the net revenues of the Sanitary Wastewater Utility Fund.

The balance sheet, Enterprise-Sanitary Wastewater Utility Fund (restricted assets) includes \$16,108 cash with fiscal agent held by a fiscal agent (trustee) in charge of investment of idle funds and disbursements for the improvements and modifications of the project being financed.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

7. LONG-TERM DEBT - ENTERPRISE FUNDS (Continued)

Bonds Payable

Special assessment bonds of the Central Parking District currently outstanding at June 30, 2001 are as follows:

Enterprise Fund	Series	Principal Interest Rate %	Date Issued	Date of Maturity	Authorized and Issued	Amount Outstanding
Central Parking District:						
Division 1	148 A	4.93	11/2/1966	7/2/2002	\$ 2,000	\$ 220
Division 2	148 B	5.35	2/2/1968	7/2/2002	1,000	100
Division 3	148 C	5.47	11/2/1968	7/2/2005	1,000	100
Division 4	148 D	7.00	4/2/1970	7/2/2005	583	515
District Bonds of 1991	148 E	5.5 - 7.9	8/1/1991	8/1/2011	8,475	<u>6,070</u>
Total						<u>\$ 7,005</u>

Annual debt service requirements to maturity for the Central Parking District special assessment bonds are as follows:

	Principal	Interest	Total
2001-2002	\$ 590	\$ 516	\$ 1,106
2002-2003	615	475	1,090
2003-2004	450	436	886
2004-2005	675	393	1,068
2005-2006	750	339	1,089
Thereafter	<u>3,925</u>	<u>998</u>	<u>4,923</u>
Total	<u>\$ 7,005</u>	<u>\$ 3,157</u>	<u>\$ 10,162</u>

Water Extension Agreements

These agreements represent City water lines installed by property owners and dedicated to the City. Upon connection to the City of Stockton water system, the cost of installation is to be reimbursed to the property owners by the City.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

7. LONG-TERM DEBT - ENTERPRISE FUNDS (Continued)

Prior Year Defeasance of Debt

In prior years, the City defeased certain proprietary fund debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt until called. Accordingly, the trust account assets and liabilities for the following defeased debt issues are not included in the City's financial statements. At June 30, 2001, the outstanding balances considered defeased are as follows:

1995 Certificates of Participation - Sanitary Wastewater Utility Fund	<u>\$ 40,920</u>
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8. LONG-TERM DEBT - INTERNAL SERVICE FUNDS

The following is a summary of all long-term debt included in the Internal Service Funds as of June 30, 2001:

	Long-Term	Current	Total
Self-insurance liabilities	\$ 19,251	\$ 6,790	\$ 26,041
Compensated absences	<u>515</u>	<u>295</u>	<u>810</u>
Total	<u>\$ 19,766</u>	<u>\$ 7,085</u>	<u>\$ 26,851</u>

Self-Insurance Liabilities - In accordance with GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and GASB No. 30 *Risk Financing Omnibus* liabilities have been accrued representing estimates of amounts to be paid for reported, as well as incurred but not reported claims. The City contracts with independent actuaries to compute the estimated liabilities of the City's self-insurance programs. The estimated liabilities include allocated loss adjustment expenses and exclude unallocated loss adjustment expenses. The effect of specific incremental claim adjustment expenses is included in the allocated loss adjustment expenses and is not specifically identifiable. The effect of salvage and subrogation are minimal. The liability for unpaid claims for general liability and workers' compensation is discounted to reflect the City's settlement rate and anticipated future investment earnings, using a discount rate of 5%. See Notes 14 and 15 for additional disclosures regarding risk management and risk pool, respectively. Based on information from the City Attorney, actuaries, and others involved with self-insurance programs, City Management believes that the aggregate accrual is adequate to cover such losses. Self-insurance liabilities are broken down as follows:

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

8. LONG-TERM DEBT - INTERNAL SERVICE FUNDS (Continued)

	Long-Term	Current	Total
General liability	\$ 3,650	\$ 1,462	\$ 5,112
Workers' compensation	15,601	3,396	18,997
Health insurance	<u>-</u>	<u>1,932</u>	<u>1,932</u>
Total	<u>\$ 19,251</u>	<u>\$ 6,790</u>	<u>\$ 26,041</u>

9. CONDUIT DEBT OBLIGATIONS

From time-to-time, the City has issued revenue bonds 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 bonds are secured by the property financed and are payable solely from payments received on the underlying assets. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2001, there were six series of revenue bonds outstanding, with an aggregate principal amount payable of \$76,795.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

10. NATURE AND PURPOSE OF REPORTED RESERVES AND DESIGNATIONS

A summary of reported reserves and designations by fund at June 30, 2001 follows:

	Governmental Fund Types				Fiduciary
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency
Reserves:					
Special district maintenance	\$ -	\$ 1,342	\$ -	\$ -	\$ -
Capital projects	-	8,070	-	73,322	-
Debt service	-	-	29,863	-	-
Encumbrances	1,355	2,619	-	13,550	27
Advances to other funds	644	15,576	-	23,771	-
Advances to property owners	-	35,599	-	406	-
Other items	445	649	-	40	2,198
Total reserves	<u>\$ 2,444</u>	<u>\$ 63,855</u>	<u>\$ 29,863</u>	<u>\$ 111,089</u>	<u>\$ 2,225</u>
Designations:					
Termination pay	\$ 3,963	\$ -			
Uncollectible receivables	1,170	-			
Administrative contingency	15,213	-			
Library	-	1,216			
Loans	-	3,132			
Compensated absences contingency	-	149			
Total designations	<u>\$ 20,346</u>	<u>\$ 4,497</u>			

Reserves are portions of the fund balance not appropriable for expenditures under the flow of current financial resources measurement focus or those portions of the fund balance/retained earnings legally segregated for specific future use. Designations are portions of the fund balance, which have been identified by management to reflect tentative plans or commitments of governmental resources.

Special District Maintenance – For special district maintenance services.

Capital Projects – For current and future infrastructure projects.

Debt Service – For payment of long-term debt principal, interest and related fiscal charges.

Encumbrances – Represent approved purchase orders, contracts, and other commitments not completed at the end of the fiscal year.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

10. NATURE AND PURPOSE OF REPORTED RESERVES AND DESIGNATIONS (Continued)

Advances to Other Funds – Council approved loans made for the following purposes: 1) loan to the Redevelopment Agency for redevelopment of blighted areas; 2) administer the public facilities fees program and to begin the construction of planned infrastructure; 3) advance for construction of facilities at Buckley Cove Marina.

Advances to Property Owners – Outstanding balance of loans approved and disbursed as of fiscal year end.

Other Items – To offset miscellaneous assets that do not represent expendable available financial resources.

Termination Pay – To cover the employee separation pay and vacation sellback of all the General Fund departments.

Uncollectible Receivables – Set aside for delinquent solid waste receivables that the City expects to receive from the garbage companies during the year ending June 30, 2002.

Administrative Contingency – Set aside for unforeseen budgetary requirements of the City.

Loans – Set aside for future loan activities.

Library – Set aside for the City-County Library expenditures.

Compensated Absences Contingency – Set aside for unused vacation, sick leave, and earned time pay-off.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintained six active enterprise funds effective this fiscal year. Segment information for the year ended June 30, 2001 is as follows:

	Water Utility	Sanitary Wastewater Utility	Stormwater Utility	Solid Waste	Golf Courses	Central Parking District
Operating revenue	\$ 14,391	\$ 28,093	\$ 4,226	\$ 3,623	\$ 2,151	\$ 1,788
Depreciation and amortization expense	1,356	4,149	1,042	9	78	319
Operating income (loss)	1,730	5,514	(362)	(989)	2	277
Operating transfers in	1,145	7,451	-	-	-	98
Operating transfers (out)	(1,158)	(7,733)	-	-	(37)	(684)
Net income (loss)	5,378	21,154	1,278	23,289	(37)	(181)
Fixed assets:						
Additions	4,759	16,106	1,074	-	1,280	202
Deletions	-	48	-	1,455	6	6
Net working capital	21,769	58,951	8,045	4,470	399	(778)
Total assets	81,197	313,320	41,476	4,669	2,853	14,089
Bonds and other long-term liabilities payable from operating revenue	16,683	106,862	783	-	1,224	7,005
Total equity	62,256	200,836	40,536	4,258	1,187	6,713

Types of Goods and Services

Water Utility - Provides water service primarily in the north Stockton area to residential and commercial users.

Sanitary Wastewater Utility - Operates a regional wastewater facility for the Stockton metropolitan area. This entails operation of the treatment plant, collection system and pump stations.

Stormwater Utility - Operates a regional storm drainage system for the Stockton metropolitan area. This entails operating and maintaining the system.

Solid Waste - Operates landfill operations and maintenance, closure and postclosure costs at the Austin Road and French Camp landfill disposal sites, and garden refuse collection.

Golf Courses - The City operates three municipal golf courses, Swenson Park, Van Buskirk, and Lyons. Both Swenson Park and Van Buskirk courses are 18 holes with Swenson also offering a 9-hole executive course. Lyons is a 9-hole course.

Central Parking District - The Central Parking District operates parking lots in the downtown area with spaces available at hourly and monthly rates.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

12. DEFERRED COMPENSATION

The City offers its employees a deferred compensation plan. The City makes contributions up to 5.5% of the employees' base salary. The employee may contribute up to a combined City and employee total of 25% of their gross pay, not to exceed a total of \$8 annually.

Management of the City has determined that the City does not have fiduciary accountability since amounts accumulated by the City, under the plan, have been invested at the direction of the employees in several investment options. Accordingly, assets and activity related to the plan are excluded from the City's financial statements.

13. PENSION PLAN

Plan Description - The City contributes to the Safety Plan of the City of Stockton and the Miscellaneous Plan of the City of Stockton (Plans) which are part of the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for governmental entities in the State of California. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

All City employees are eligible to participate in PERS. Part-time employees must meet specific criteria for participation. City employees are eligible for retirement at age 50 or older with five years of service. Benefits are payable monthly for life in an amount equal to a certain percent of their average salary during their highest year of employment. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' comprehensive annual financial report may be obtained from their executive office of 400 P Street, Sacramento, California, 95814.

Funding Policy - Safety Plan participants are required to contribute 9% of their annual covered salary. 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 rates for Safety members for the period June 30, 2000 through October 31, 2000 was 9.170% and for the period November 1, 2000 through June 30, 2001 was 13.172% of annual covered payroll. There were no required contributions for Miscellaneous members. The contribution requirements of the Plans' members and the City are established and may be amended by PERS.

CITY OF STOCKTON

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2001
(Dollar amounts in thousands)**

13. PENSION PLAN (Continued)

Annual Pension Cost - For the year ended June 30, 2001, the City's annual pension cost of \$4,312 for the Safety Plan and \$0 for the Miscellaneous Plan were equal to the City's required contributions. However, the City only contributed \$3,551 of the \$4,312 for the Safety Plan, leaving a liability of \$761 as of June 30, 2001. The City has set aside the funds for payment pending receipt of billing notices as required by PERS. The required contributions were determined as part of the June 30, 1998 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.75% to 14.20%; (c) inflation of 3.50%; and (d) payroll growth of 3.75%. The actuarial value of the Plans' assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Plans' initial unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period for the year ended June 30, 2001 (based on the June 30, 1998 actuarial valuations) was 8 years for the Safety Plan and 25 years for the Miscellaneous Plan.

SAFETY PLAN

Three-Year Trend Information for (Dollar Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	\$ 4,312	82 %	\$ 761
6/30/00	4,513	100	-
6/30/99	5,380	100	-

MISCELLANEOUS PLAN

Three-Year Trend Information for (Dollar Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	\$ -	100 %	\$ -
6/30/00	1,167	100	-
6/30/99	4,464	100	-

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City established three internal service funds to account for its uninsured risk of loss that relate to general liability, workers' compensation, and health benefits. These funds provide coverage up to a maximum of \$1,000 for each general liability claim, \$250 for each worker's compensation claim and \$190 for each medical plan member under the health benefits program. The City purchases commercial insurance for claims in excess of the coverage provided by the fund and for all other risks of loss for worker's compensation and health benefit claims. The City joined together with other cities in 1987 to form the California Joint Powers Risk Management Authority (CJPRMA), a public entity risk pool currently operating as a risk management and insurance program for 20 member entities, which represents 80 cities and special districts. The City pays an annual premium to CJPRMA for its general liability excess insurance coverage for claims over the City's \$1,000 self-insured retention level.

The workers' compensation and health benefits programs are administered by third-party administrators who are experts in their respective fields. The general liability is self-administered by the City of Stockton.

At June 30, 2001, \$5,112, \$18,997, and \$1,932 have been accrued for general liability, workers' compensation, and health benefits insurance, respectively. All funds of the City participate in the program and make payments to the respective internal service funds based on actuarial estimates of the amounts needed to pay prior and current year claims. The City contracts with independent actuaries to compute the estimated liabilities of the City's self-insurance programs. The liability for unpaid claims for general liability and workers' compensation is discounted to reflect anticipated future investment earnings, assuming a five percent interest rate.

The claims liabilities above, reported in the fund at June 30, 2001, are based on requirements of GASB 10 and GASB 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. These accruals represent estimates of amounts to be paid for reported claims, and incurred but unreported claims based upon past experience, modified for current trends and information. While the ultimate amounts of losses incurred through June 30, 2001 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 cover such losses. There have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial or CJPRMA insurance coverage each of the past three years.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

14. RISK MANAGEMENT (Continued)

Reconciliation of the changes in the City's aggregate liabilities for the current and prior fiscal year:

	Liability	Workers' Compensation	Health	Total
Balance, June 30, 1999	\$ 3,718	\$ 11,858	\$ 1,752	\$ 17,328
Claims provision	674	8,976	10,636	20,286
Claims paid	<u>(1,626)</u>	<u>(3,835)</u>	<u>(10,682)</u>	<u>(16,143)</u>
Balance, June 30, 2000	2,766	16,999	1,706	21,471
Claims provision	2,733	6,656	12,907	22,296
Claims paid	<u>(387)</u>	<u>(4,658)</u>	<u>(12,681)</u>	<u>(17,726)</u>
Balance, June 30, 2001	<u>\$ 5,112</u>	<u>\$ 18,997</u>	<u>\$ 1,932</u>	<u>\$ 26,041</u>

15. RISK POOL

The City is a member of the California Joint Powers Risk Management Authority, a risk pool, described as follows:

Description of Joint Powers Authority - The Authority is comprised of 20 California member entities and is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses.

The Authority is dedicated to maintaining a commitment to excellence in the protection of its member entities from catastrophic liability and other financial losses through a stable, high quality, comprehensive, cost effective, long-term risk management program.

Self-Insurance Programs of the Authority

General Liability Insurance - Annual deposits are paid by member entities and are adjusted retrospectively to cover costs. Members can participate with self-funded retention levels of either \$500 or \$1,000. The City's self-funded retention is currently set at \$1,000. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions and certain other coverage. Separate deposits are collected from the member cities to cover claims between \$500 and \$15,000. These deposits are subject to retrospective adjustments.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

15. RISK POOL (Continued)

Property Protection - The City of Stockton participates in the All Risks Property Protection Program, which is primarily underwritten by a casualty insurance company. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments.

16. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits through the Public Employees' Retirement System, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and various employee bargaining units. All City management and public safety employees who receive a PERS retirement allowance upon separation are eligible for coverage under the Retiree Medical Plan at age 50. Some management/safety employees retired for disability may qualify at a younger age. All other employees who receive a PERS retirement allowance and have 15 or more years of service are eligible at age 55. Full medical benefits are continued until age 65. Such coverage includes the retiree and one dependent. At age 65, eligible retirees are covered under a Medicare Supplemental Plan, which pays secondary to Medicare. This is a lifetime benefit provided to the retired employee and his or her eligible spouse. Currently, 439 retirees meet these eligibility requirements and participate in the Plan.

The City's contributions are financed on a pay-as-you-go basis. During the year, expenditures of approximately \$2,617 were recognized for post-employment health care.

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 Plan. During the year, retirees contributed \$91 toward their own coverage or to cover their dependents.

17. CONTINGENT LIABILITIES

General Liability - There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

17. CONTINGENT LIABILITIES (Continued)

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

The City is self-insured and participates in a Public Entity Risk Pool. Details of this are covered in Notes 14 and 15.

Construction Commitments - The City is undertaking a number of capital improvement projects, the most significant of which include the following at June 30, 2001:

• Street improvements	\$ 13,835
• Regional Wastewater Control Facility	9,899
• Traffic signals	2,697
• Water utility	1,147
• Parking structure & Essential Services Building	575

18. ACCUMULATED DEFICIT AND UNFUNDED LIABILITIES

- The Stormwater Utility Fund (Enterprise) had a deficit retained earnings of \$1,751 at June 30, 2001. The Stormwater Utility Fund's net operations have resulted in a deficit retained earnings at June 30, 2001 partly due to depreciation of \$8,809 charged to earnings since inception of the Fund. However, at June 30, 2001, this fund had a positive net working capital of \$8,045, taking into consideration other components such as contributions from other sources and loans that have an affect on total fund equity.
- The City budgets revenues and projects expenses in the General Liability Insurance Fund (Internal Service) based upon an analysis of the cash flows with the fund. On an accrual basis of accounting, the General Liability Insurance Fund has a long-term liability of \$3,650 and an unfunded liability of \$1,603. The cash balance of the fund at June 30, 2001 is \$3,441. The City will fund the unfunded liability over time by adjusting the rates paid by city funds.
- The City budgets revenues and projects expenses in the Workers' Compensation Insurance Fund (Internal Service) based upon an analysis of the cash flows with the fund. On an accrual basis of accounting, the Workers' Compensation Insurance Fund has a long-term liability of \$15,601 and an unfunded liability of \$14,564. The cash balance of the fund at June 30, 2001 is \$4,447. The City will fund the unfunded liability over time by adjusting the rates paid by city funds.

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

18. ACCUMULATED DEFICIT AND UNFUNDED LIABILITIES (Continued)

- The City budgets revenues and projects expenses in the Health Benefits Fund (Internal Service) based upon an analysis of the cash flows with the fund. On an accrual basis of accounting, the Workers' Compensation Insurance Fund has a current liability for claims of \$1,932 and an unfunded liability of \$1,889. The cash balance of the fund at June 30, 2001 is \$302. The City will fund the unfunded liability over time by adjusting the rates paid by city funds.

19. RECONCILIATION OF OPERATIONS ON A BUDGETARY BASIS TO MODIFIED ACCRUAL BASIS

The "All Governmental Fund Types and Expendable Trust Funds Combined Statement of Revenues, Expenditures and Changes in Fund Balances" has been prepared on the modified accrual basis of accounting in accordance with GAAP. The "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on a Budgetary Basis General, Special Revenue, and Capital Projects Funds" has been prepared on the budgetary basis, which is different from GAAP.

The variation from GAAP is that for budgetary purposes, 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. See the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on a Budgetary Basis - General and Annually Budgeted Special Revenue and Capital Projects Funds for the reconciliation of GAAP basis to budgetary basis. See the Budgetary Basis of Accounting section of Note 1 for a reconciliation of unbudgeted funds to budgeted funds.

20. OPERATING LEASES

Operating lease obligations are primarily for rental of parking facilities space. The future minimum lease payments required for those operating leases are as follows:

	Amount
June 30,	
2002	\$ 184
2003	100
2004	103
2005	88
2006	90
Thereafter	<u>925</u>
Total	<u>\$ 1,490</u>

CITY OF STOCKTON

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

21. SUBSEQUENT EVENTS

On July 12, 2001, the City authorized the issuance of Community Facilities District Special Tax Bonds for Weston Ranch, Series 2001. The new bonds are being issued to finance the construction and acquisition of certain public facilities of benefit to Weston Ranch. The bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Section 53311, *et seq.* of the California Government Code. The bonds were issued in the par amount of \$3,220 with interest rates ranging from 5.4% to 5.5% and mature September 1, 2016.

22. RESTATEMENT OF BEGINNING FUND EQUITY

As disclosed in Note 1, upon further analysis performed by City management, it was determined that the CPD is not a legally separate entity. Therefore, the CPD is not a component unit and should be presented as an enterprise fund of the City. This change affects the beginning balance of combined enterprise fund equity as follows:

Fund Equity, Beginning of Year, as previously reported	\$ 276,508
Fund Equity, Beginning of Year, Central Parking District	<u>6,894</u>
Fund Equity, Beginning of Year, as restated	<u>\$ 283,402</u>

CITY OF STOCKTON

REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2001 (Dollar amounts in thousands)

The following tables display a historical summary of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Actuarial Accrued Liability ("UAAL") or Excess Assets, 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.

FUNDED STATUS OF MISCELLANEOUS PLAN

Valuation Date	Entry Age Normal Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (Excess Assets) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/00	\$ 259,997	\$ 316,601	\$ (56,604)	121.8%	\$ 46,734	-121.120%
6/30/99	212,062	277,787	(65,725)	131.0%	42,209	-155.713%
6/30/98	197,803	244,397	(46,594)	123.6%	41,112	-113.334%

FUNDED STATUS OF SAFETY PLAN

Valuation Date	Entry Age Normal Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (Excess Assets) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/00	\$ 297,436	\$ 308,176	\$ (10,740)	103.6%	\$ 35,083	-30.613%
6/30/99	337,597	359,288	(21,691)	106.4%	35,870	-60.471%
6/30/98	297,436	308,176	(10,740)	103.6%	35,083	-30.613%



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City Council
 City of Stockton, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
 REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM,
 INTERNAL CONTROL OVER COMPLIANCE, SCHEDULE OF
 EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE
 WITH OMB CIRCULAR A-133 AND SCHEDULE OF
 EXPENDITURES OF SELECTED STATE AWARDS**

Compliance

We have audited the compliance of the City of Stockton, California (City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 01-1.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the City, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 26, 2001, which contained an explanatory paragraph describing the change in accounting for nonexchange transactions. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. The accompanying Schedule of Expenditures of Selected State Awards is presented for the purpose of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, and officials of applicable federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macion, Mini & Company LLP

Certified Public Accountants

Sacramento, California
October 26, 2001



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Certified Public Accountants and
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City Council
City of Stockton, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the general-purpose financial statements of the City of Stockton, California (City), as of and for the year ended June 30, 2001, and have issued our report thereon dated October 26, 2001, which contained an explanatory paragraph describing the change in accounting for nonexchange transactions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material

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weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate report dated October 26, 2001.

This report is intended solely for the information and use of the City Council, management, and officials of applicable federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macior, Meiri & Company LLP

Certified Public Accountants

Sacramento, California
October 26, 2001

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2001
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Grantor (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Department of Housing and Urban Development							
Direct							
Community Development Block Grants	14.218	07/01/85-06/30/01		\$ 4,960	\$ 755	\$ 5,359	\$ 409
Emergency Shelter Grants Program	14.231	03/06/90-06/30/01		248	-	178	-
HOME Investment Partnerships Program	14.239	07/08/92-06/30/01		1,537	818	2,504	221
Economic Development Initiatives	14.246	01/01/01-06/30/02		-	-	190	-
Brownsfield Economic Development Initiatives	14.246	01/01/01-06/30/02		-	-	500	-
Total Community Development Block Grants/ Economic Development Initiative				-	-	690	-
Section 108 Loan Guarantees	14.248	01/01/01-06/30/02		8,425	-	6,614	-
Passed Through Housing Authority of the County of San Joaquin							
Public Housing Drug Elimination Program P.D.	14.854	12/10/98-12/09/01	CA-024	39	-	10	-
Public Housing Drug Elimination Program P & R	14.854	01/01/01-12/31/01	CA-024	23	-	39	-
Public Housing Drug Elimination Program P & R	14.854	12/10/97-12/08/01	CA-024	131	-	161	-
Total Public and Indian Housing Drug Elimination Program				193	-	210	-
Total Department of Housing and Urban Development				15,363	1,573	15,555	630
Department of Justice							
Direct							
COPS Universal Hiring Grant	16.710	04/01/95-07/31/00	95CCWX0439	77	173	84	173
COPS MORE 98	16.710	09/01/00-08/31/01	2000CCWX0015	503	-	777	-
Total Public Safety Partnership and Community Policing Grants				580	173	861	173

See notes to the schedule of expenditures of federal and selected state awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Grantor (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Department of Justice (Continued)							
Direct							
Local Law Enforcement Block Grants	16.592	10/01/98-09/30/00	98-LB-VX-2730	-	-	22	2
Local Law Enforcement Block Grants	16.592	10/01/99-09/30/01	99-LB-VX-2730	-	-	309	34
Local Law Enforcement Block Grants	16.592	10/01/00-09/30/02	00-LB-VX-2730	356	40	38	4
Passed Through San Joaquin County							
Local Law Enforcement Block Grant 98 Supplement	16.592	08/09/00-09/30/00	98-LB-VX-4003	16	-	16	-
Total Local Law Enforcement Block Grants Program				372	40	385	40
Passed Through State of California Office of Criminal Justice Planning							
Peacekeeper Enhancements	16.523	04/01/99-03/31/00	IP98018019	29	-	-	-
Peacekeeper Enhancements	16.523	04/01/00-03/31/01	IP99018019	215	-	153	17
Total Juvenile Accountability Incentive Block Grants				244	-	153	17
Special Unit Combating Violence Against Women	16.588	06/29/98-06/30/00	LE97018019	150	35	133	35
Passed Through San Joaquin County District Attorney's Office							
Cracnet Grant	16.579	07/01/84-06/30/00	DC94020390	153	-	140	-
Total Department of Justice				1,499	248	1,672	265

See notes to the schedule of expenditures of federal and selected state awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Grantor (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Department of Transportation							
Passed Through State Department of Transportation							
ISTEA-Market St. Traffic Signals	20.205	07/15/94-06/30/01	STPLG-5008(11)	27	-	-	-
ISTEA-Weber Ave. Traffic Signals	20.205	07/15/94-06/30/01	STPLG-5008(12)	18	-	-	-
ISTEA-Benjamin Holt/Hemdon Traffic Signal	20.205	11/15/99-06/30/01	CML-5008(043)	-	-	1	-
ISTEA-Weber St. Improvements	20.205	09/06/00-06/30/01	STPLER-5008(045)	-	-	70	-
ISTEA-Traffic Signals Control	20.205	06/05/95-06/30/01	CML-STPL-5008(020)	1,328	-	435	-
ISTEA-Fresno St. Traffic Signals	20.205	12/11/95-06/30/01	STPL-5008(018)	-	-	5	-
ISTEA-EI Dorado/Charter to City Limits	20.205	06/09/94-06/30/01	STPL-5008(009)	50	-	75	-
ISTEA-California Street Rehab/EI Dorado St.	20.205	10/01/96-06/30/01	STPL-5008(024)	39	-	-	-
ISTEA-Fresno Ave./Harbor St. Recon	20.205	10/01/96-06/30/01	STPLN-5008(025)	-	-	925	-
ISTEA-West Lane Rehab	20.205	11/01/96-06/30/01	STPL-5008(026)	979	-	-	-
ISTEA-Charter Way Enhancements	20.205	04/03/00-06/30/01	STPL-5008(028)	-	-	1,076	-
ISTEA-Benjamin Holt/I-5 Interchange	20.205	08/31/99-06/30/01	STPLN-5008(037)	12	-	12	-
ISTEA-Hammer Lane/I-5 Interchange	20.205	08/31/99-06/30/01	STPLN-5008(037)	9	-	12	-
ISTEA-Pershing/Smith Canal Bridge	20.205	01/13/97-06/30/01	BHLS-5008(029)	-	-	-	-
ISTEA-Charter Way Improvements Phase II	20.205	05/25/00-06/30/01	STPL-5008(044)	-	-	42	-
Total Highway Planning and Construction				2,462	-	2,653	-
PVEA-Calaveras River Bikeway	20.	04/01/94-06/30/01	PVEA-008	176	-	-	-
Passed Through State of California Office of Traffic Safety							
Collision Monitoring System	20.600	10/01/98-09/30/00	2700-101-890(BA1998)	85	-	8	-
DUI/Speed Enforcement & Education Program	20.600	04/01/00-06/30/02	PT0061	107	-	127	-
Total State and Community Highway Safety				192	-	135	-
Total Department of Transportation				2,830	-	2,788	-

See notes to the schedule of expenditures of federal and selected state awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Grantor (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Department of Treasury							
Direct							
Revenue Sharing	21.300	10/01/85-09/30/86		1	-	-	-
Institute of Museum and Library Services							
Passed Through California State Library							
Partnership for Tomorrow	45.310	01/28/00-06/30/01	N/A	20	-	15	-
Partnership for Tomorrow	45.310	01/19/00-06/30/01	40-0493	14	-	14	-
Total Institute of Museum and Library Services				34	-	29	-
Environmental Protection Agency							
Direct							
Superfund - Brownfields Program	66.	03/15/96-03/15/01	V9999446-01-0	12	-	2	-
Stockton Channel	66.	09/01/99-08/31/01	X-989370-01-0	153	-	161	-
Total Environmental Protection Agency				165	-	163	-
Federal Emergency Management Agency							
Direct							
General Government	83.			20	-	-	-
Enterprise Funds	83.			3	-	-	-
Total Federal Emergency Management Agency				23	-	-	-
TOTAL FEDERAL ASSISTANCE				19,915	1,821	20,207	895

See notes to the schedule of expenditures of federal and selected state awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Grantor (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
RECONCILIATION TO THE CITY OF STOCKTON GENERAL-PURPOSE FINANCIAL STATEMENTS							
Governmental Funds:							
General Fund				\$	20		
Special Revenue Funds					17,890		
Capital Projects Funds					163		
Proprietary Funds:							
Enterprise Funds					3		
Internal Service Funds					<u>777</u>		
					18,853		
Total federal grants and subsidies revenue					<u>1,062</u>		
Decrease in accrued federal grants and subsidies							
Receipts of federal grants and subsidies					<u>\$ 19,915</u>		

See notes to the schedule of expenditures of federal and selected state awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF SELECTED STATE AWARDS
 FOR THE YEAR ENDED JUNE 30, 2001
 (Dollar Amounts in Thousands)**

State Department Program Title	Period	Number	Receipts		Expenditures	
			State	Local	State	Local
Office of Criminal Justice Planning Law Enforcement Technology Equipment Purchase Program	05/01/99-10/31/00	N/A	\$ -	\$ -	\$ 200	\$ -
TOTAL SELECTED STATE ASSISTANCE			\$ -	\$ -	\$ 200	\$ -

See notes to the schedule of expenditures of federal and selected state awards.

CITY OF STOCKTON

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND SELECTED STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2001

NOTE A - REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all the federal award programs of the City of Stockton, California (City) for the year ended June 30, 2001. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on this schedule. The accompanying Schedule of Expenditures of Selected State Awards presents only the amounts related to the Office of Criminal Justice Planning including the Law Enforcement Technology Equipment Purchase Program and does not include all grants from the State of California. The City's reporting entity is defined in Note 1 to the City's general-purpose financial statements.

The City administers certain federal awards through subrecipients. Those subrecipients are not considered part of the City's reporting entity.

NOTE B - BASIS OF ACCOUNTING

Expenditures as presented in the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of Selected State Awards are reported on the modified accrual basis of accounting. That is, expenditures are recognized when they become a demand on current available financial resources. Receipts as presented in the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of Selected State Awards are reported on the cash basis of accounting. That is, receipts are recognized when received. Federal receipts are reconciled to revenues as presented in the City's Comprehensive Annual Financial Report at the end of the Schedule of Expenditures of Federal Awards.

CITY OF STOCKTON

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND SELECTED STATE AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2001

NOTE C – SUBRECIPIENTS

Federal assistance provided to subrecipients is summarized as follows (dollar amounts in thousands):

<u>Program</u>	<u>CFDA#</u>	<u>Subrecipient</u>	<u>Amount</u>
Community Development Block Grant	14.218	Stockton Fair Housing	\$ 68
		Stockton – SJ Chamber of Commerce	87
Emergency Shelter Grant	14.231	Gospel Center Rescue Mission	11
		Women's Center	29
		Stockton Shelter for the Homeless	45
		Haven of Peace	39
		St. Mary's	54
HOME Investment Partnerships Grant	14.239	Stocktonians Taking Action to Neutralize Drugs	19
			\$352

NOTE D – HOUSING AND REHABILITATION PROGRAM LOANS

The City participates in Housing and Rehabilitation Programs whereby funds have been received in the current year and prior years for Housing and Rehabilitation loans. Total loans outstanding for these programs are \$31,039 at June 30, 2001. Interest earned and repayment of the loans are not refunded to the Federal Government, but are used to make additional loans.

NOTE E – OFFICE OF CRIMINAL JUSTICE PLANNING

The following schedules present only the amounts related to the Office of Criminal Justice Planning including the Peacekeepers Enhancements and the Special Unit Combating Violence Against Women and does not include all grants. These schedules reconcile the expenditures for state grant reporting purposes to the amounts recorded in the general-purpose financial statements.

CITY OF STOCKTON

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND SELECTED STATE AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2001

NOTE E – OFFICE OF CRIMINAL JUSTICE PLANNING (Continued)

Grant No. IP99018019 – The City reported total cumulative expenditures for the period July 1, 2000 through March 31, 2001 Form 201 as follows (dollar amounts in thousands):

	Budget	Actual	Variance
Personal Services	\$ 223	\$ 223	\$ --
Operating Expenses	<u>19</u>	<u>19</u>	<u>--</u>
	<u>\$ 242</u>	<u>\$ 242</u>	<u>\$ --</u>

Reconciliation to the Schedule of Expenditures of Federal Awards:	Federal	Local	Total
Reported during the year ended June 30, 2000	\$ 65	\$ 7	\$ 72
Reported during the year ended June 30, 2001	<u>153</u>	<u>17</u>	<u>170</u>
	<u>\$ 218</u>	<u>\$ 24</u>	<u>\$ 242</u>

Grant No. LE97018019 – The City reported total cumulative expenditures for the period July 1, 2000 through June 30, 2001 Form 201 as follows (dollar amounts in thousands):

	Budget	Actual	Variance
Personal Services	\$ 220	\$ 90	\$ 130
Operating Expenses	187	78	109
Equipment	<u>13</u>	<u>--</u>	<u>13</u>
	<u>\$ 420</u>	<u>\$ 168</u>	<u>\$ 252</u>

Reconciliation to the Schedule of Expenditures of Federal Awards:	Federal	Local	Total
Reported during the year ended June 30, 2001	<u>\$ 133</u>	<u>\$ 35</u>	<u>\$ 168</u>

The cumulative life to date expenditures reported on Form 201 will differ from the variance stated above due to timing differences between grant reporting periods and the fiscal year end of June 30, 2001.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2001 (Dollar Amounts in Thousands)

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Identification of major programs:	
CFDA #14.218 Community Development Block Grants	
CFDA #14.246 Community Development Block Grants/Economic Development Initiative	
CFDA #14.248 Community Development Block Grants – Section 108 Loan Guarantees	
Dollar threshold used to distinguish between Type A and Type B programs:	\$408

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2001

Auditee qualified as low-risk auditee?

Yes

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

Item No. 01-1:

Program:

Section 108 Loan Guarantees (CFDA No. 14.248) received directly from Department of Housing and Urban Development for the grant period January 1, 2001 through June 30, 2002.

Criteria:

The Section 108 Loan Guarantees agreement (the agreement) with the Housing and Urban Development (HUD) requires the City to establish separate, identifiable custodian accounts with a financial institution whose deposits or accounts are Federally insured. These custodial accounts include a loan guarantee account and a loan repayment account. Any balances in these accounts in excess of the \$100,000 FDIC insurance limit are required to be invested in government securities. In addition, copies of the monthly statements of these accounts are required to be submitted to HUD within 15 days of month end.

Condition:

The City currently does not have such custodial accounts.

Recommendation:

We recommend the City review the agreement and ensure that the requirements contained within are being met.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2001

Management Response:

Staff of the Housing and Redevelopment Department (HRD) spoke with the Washington, D.C. office of the Department of Housing and Urban Development (HUD) several months ago. They were informed that since all wires come in through the City's existing Bank of America account, that since the City's Accounting Division did establish separate account numbers with budgets for each activity for which the Section 108 funds would be used, and since interest on these funds would be kept separate from all funds, a separate account with a financial institution would not be required.

HRD staff will contact the Washington, D.C. office of HUD and seek written verification that our handling of these funds is acceptable. Should this effort prove unsuccessful, a separate account will be established in a financial institution and all amounts over \$100,000 will be invested in government securities.

Section IV – Federal Award Status of Prior Year Findings and Questioned Costs

Item No. 00-1:

Program:

Peacekeepers Enhancement Grant (CFDA No. 16.523)

Criteria:

Part L of the OMB Circular A-133 Compliance Supplement (Internal Controls, Section 6-L-1) requires reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Condition:

The quarterly JAIBG Progress Reports (Peacekeepers Enhancement Grant) for fiscal year ended June 30, 2000, which are due within 30 days of quarter end, were not submitted within the required time period. The reports were filed and sent to the State OCJP Office in August of 2000.

Cause:

The cause of the above condition was a miscommunication between the City and the State OCJP Office regarding the delegation of authority for compiling the reports.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2001

Effect:

The effect of the above condition is the potential for noncompliance with federal requirements.

Questioned Costs:

There were no questioned costs associated with this finding.

Recommendation:

The City of Stockton should review internal control procedures for periodic monitoring, verification, and reporting of program process and accomplishments.

Management Response:

The City will ensure that the JAIBG Progress Reports are filed on schedule after receipt of the Grant Award Face Sheet from OCJP.

Status:

The City of Stockton received the Grant Face Sheet from OCJP on January 19, 2001. All quarterly reports beginning April 1, 2000 through December 31, 2000 were filed with OCJP on March 8, 2001. The final quarterly report ending March 31, 2001 was filed timely.