

**CITY OF STOCKTON**

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2003

# CITY OF STOCKTON

FOR THE YEAR ENDED JUNE 30, 2003

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To the City Council  
City of Stockton, California

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California (the City), as of and for the fiscal year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City management. Our responsibility is to express opinions on these financial statements based on our audit

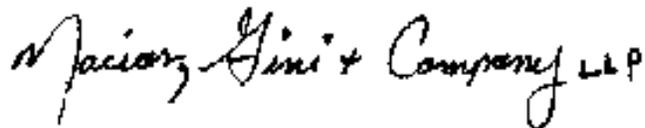
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2003 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.

The management's discussion and analysis, schedules of defined benefit pension plans funded status and schedule of revenues, expenditures and changes in fund balance – budget and actual – on a budgetary basis – General Fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Macioro, Gini & Company LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants

Fresno, California  
November 5, 2003

## Management's Discussion and Analysis

The following is presented as discussion and analysis of the financial performance of the City of Stockton (City) for the fiscal year ended June 30, 2003. Please consider the information presented here in conjunction with additional information furnished in the Letter of Transmittal, which can be found at the beginning of the Comprehensive Annual Financial Report. All dollar amounts are expressed in thousands unless otherwise indicated.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Stockton exceeded its liabilities at the close of the 2003 fiscal year by \$793,441 (net assets). Of this amount, \$230,762 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors, \$100,068 is restricted for specific purposes (restricted net assets), and \$462,613 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$95,061.
- The City's long-term liabilities related to governmental funds increased by \$23,385 (9%) at fiscal year end. The key factors in this increase were the issuance of \$8,045 of 1915 Act Special Assessment Bonds, \$13,300 of Certificates of Participation for redevelopment housing projects, and an increase of \$14,127 in the estimate of workers' compensation self-insurance claims and judgments.
- As of June 30, 2003, the City's governmental funds (General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund) reported combined ending fund balances of \$241,188. \$5,867 is unreserved fund balance or 2% of the total fund balance.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. In addition to the basic financial statements, this report includes other supplementary information.

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

The government-wide financial statements include the statement of net assets and the statement of activities. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, library, parks and recreation, and general government services. The business-type activities of the City include water utility, sanitary wastewater utility, stormwater utility, solid waste operations, golf courses, and the parking district.

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

The **Statement of Net Assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets and liabilities may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide financial statements can be found on pages 13-15 of this report.

**Fund Financial Statements** are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **Governmental Funds, Proprietary Funds, and Fiduciary Funds.**

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds financial statements focus on how cash and other financial assets can readily be converted to available resources, as well as the balances left at year end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

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

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects, and permanent funds). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Facilities Impact Fees Fund, Capital Improvement Fund, and Redevelopment Agency Fund which are considered to be major funds. Data from the remaining nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental funds financial statements can be found on pages 20-29 of this report.

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

- **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Water Utility, Sanitary Wastewater Utility, and Stormwater Utility, which are considered major funds. Data for the remaining nonmajor enterprise funds are combined into a single, aggregated presentation.
- **Internal Service Funds** are used to report activities that provide goods and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, its information technology systems, radio and other equipment, and the City's self insurance programs. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 30-37 of this report.

**Fiduciary Fund.** The fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statements because the resources of the fund are not available to support the City's own programs. As the City's only fiduciary fund, the Agency Fund is custodial in nature and, therefore, the accounting used does not involve the measurement of the results of operations. The basic fiduciary fund financial statement can be found on page 38 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-76 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This information provides a budgetary comparison schedule for the City's General Fund, as well as information about the City's participation in the California Public Employees' Retirement System (CalPERS) defined benefit pension plan. Required supplementary information can be found on pages 77-81 of this report.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management’s Discussion and Analysis (MD&A) – for State and Local Governments. Because this reporting model changed significantly both the recording and presentation of financial data, the City’s CAFR for fiscal year 2002 did not provide comparative information in its MD&A. This year marks the first time that two years of financial information is available in the GASB 34 format.

As noted earlier, net assets may serve as a useful indicator of a government’s financial position. For the City, assets exceeded liabilities by \$793,441 at the close of the current fiscal year.

The largest portion of the City’s net assets (58%) reflects its investment of \$462,613 in capital assets (e.g., land and construction in progress, buildings and improvements, infrastructure, and machinery and equipment), less any related outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be liquidated for these liabilities.

### City of Stockton’s Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Assets:</b>						
Current and other assets	\$ 295,373	\$ 276,029	\$ 137,730	\$ 129,152	\$ 433,103	\$ 405,181
Capital assets	425,526	367,215	375,115	347,822	800,641	715,037
Total assets	720,899	643,244	512,845	476,974	1,233,744	1,120,218
<b>Liabilities:</b>						
Long-term liabilities outstanding	283,449	260,064	127,208	129,405	410,657	389,469
Other liabilities	23,171	26,297	6,475	6,072	29,646	32,369
Total liabilities	306,620	286,361	133,683	135,477	440,303	421,838
<b>Net assets:</b>						
Invested in capital assets, net of related debt	211,033	217,640	251,580	221,398	462,613	439,038
Restricted	86,025	105,846	14,041	17,204	100,066	123,050
Unrestricted	117,221	33,397	113,541	102,895	230,762	136,292
Total net assets	\$ 414,279	\$ 356,883	\$ 379,162	\$ 341,497	\$ 793,441	\$ 698,380

An additional portion of the City’s net assets, \$100,068 (13%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$230,762 (29%), may be used to meet the City’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. This is also the case in both the governmental activities as well as the business-type activities.

### City of Stockton's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Revenues</b>						
Program revenues:						
Charges for service	\$ 67,549	\$ 43,488	\$ 56,827	\$ 53,976	\$ 124,376	\$ 97,464
Operating grants and contributions	8,741	8,950	-	-	8,741	8,950
Capital grants and contributions	48,914	27,654	37,765	15,824	86,679	43,478
General revenues:						
Property taxes	23,449	20,742	-	-	23,449	20,742
Utility taxes	32,157	31,462	-	-	32,157	31,462
Sales and use taxes	36,628	35,812	-	-	36,628	35,812
Other taxes	35,378	33,226	596	580	35,974	33,806
Grants and contributions not restricted to specific programs	16,693	15,454	1,909	6,974	18,602	22,428
Investment earnings	5,310	7,944	4,052	5,864	9,362	13,808
Gain on sale of capital assets	449	99	-	-	449	99
Other	2,896	4,047	-	-	2,896	4,047
Total revenues	<u>278,164</u>	<u>228,878</u>	<u>101,149</u>	<u>83,218</u>	<u>379,313</u>	<u>312,096</u>
<b>Expenses</b>						
General government	15,454	16,844	-	-	15,454	16,844
Public safety	126,815	106,062	-	-	126,815	106,062
Public works	46,031	37,260	-	-	46,031	37,260
Library	11,594	11,475	-	-	11,594	11,475
Parks and recreation	15,397	16,203	-	-	15,397	16,203
Interest and fiscal charges	11,954	11,186	-	-	11,954	11,186
Water utility	-	-	14,672	13,742	14,672	13,742
Sanitary wastewater utility	-	-	29,427	25,743	29,427	25,743
Stormwater utility	-	-	5,657	4,612	5,657	4,612
Other	-	-	7,251	6,876	7,251	6,876
Total expenses	<u>227,245</u>	<u>199,030</u>	<u>57,007</u>	<u>50,973</u>	<u>284,252</u>	<u>250,003</u>
Increase in net assets before transfers	50,919	29,848	44,142	32,245	95,061	62,093
Transfers	6,477	5,627	(6,477)	(5,627)	-	-
Increase in net assets	<u>57,396</u>	<u>35,475</u>	<u>37,665</u>	<u>26,618</u>	<u>95,061</u>	<u>62,093</u>
Net assets, beginning of year, as restated	356,883	321,408	341,497	314,879	698,380	636,287
Net assets, end of year	<u>\$ 414,279</u>	<u>\$ 356,883</u>	<u>\$ 379,162</u>	<u>\$ 341,497</u>	<u>\$ 793,441</u>	<u>\$ 698,380</u>

**Governmental Activities.** Governmental activities increased the City's net assets by \$57,396 thereby accounting for 60% of the total growth in net assets of the City. The following key factors in this increase reflect the recent boom in the local housing market, which resulted in more than a 50% increase in new residential building permits issued during fiscal year 2003:

- Contributions of capital assets from developers: \$18,159;
- Public facilities fees: \$21,041;
- Building permits: \$11,013; plan check fees \$6,982;
- Increase in property tax revenues: \$2,707 (13%); and business license taxes: \$1,188 (17%).

**Business-type Activities.** Business-type activities increased the City's net assets by \$37,665 or approximately 40% of the total growth in the net assets of the City. The following key factors of this increase also reflect the increased building activity mentioned above:

- Contributions of capital assets from developers:
  - Water Utility \$5,729;
  - Sanitary Wastewater Utility \$7,914;
  - Stormwater Utility \$4,332;
- Connection fees:
  - Water Utility \$1,470;
  - Sanitary Wastewater Utility \$18,320.

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

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

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund.

As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$241,188, an increase of \$16,986 in comparison with the prior fiscal year.

Revenues for governmental functions overall totaled \$260,237 in fiscal year 2003, which represents an increase of \$29,011 in comparison with the prior fiscal year. Expenditures for governmental functions, totaling \$269,745, increased by \$32,673 from the prior fiscal year. In the fiscal year ended June 30, 2003, expenditures for governmental functions exceeded revenues by \$9,508, or approximately 4%.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$11,765 and has been designated as follows: \$1,166 for termination pay, \$2,470 for infrastructure, and \$8,129 for economic uncertainties. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance designated for economic uncertainties to total fund expenditures. Unreserved fund balance designated for economic uncertainties represents approximately 6% of total General Fund expenditures of \$134,524. The total fund balance for the General Fund is \$18,020, which consists of the designated unreserved fund balances of \$11,765, as mentioned above, and reserved fund balance in the amount of \$6,255.

General Fund revenues exceeded expenditures by \$8,708 and fund balance increased by \$2,951, even though Recreation Services and Development Services were moved from the General Fund to special revenue funds. Fund balances as of June 30, 2003 in these two new funds were \$59 and \$2,819 respectively.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for the Water Utility were \$24,452, the Sanitary Wastewater Utility \$81,664, and the Stormwater Utility \$8,231. The Solid Waste, Golf Courses, and Central Parking District are combined for financial reporting purposes and together had unrestricted net assets of \$343. The internal service funds had a deficit in unrestricted net assets of \$21,436.

The total growth in net assets for the enterprise funds was \$37,665. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

The internal service funds had a decrease in net assets of \$15,313. This was primarily due to the decrease in net assets of \$15,889 in the Workers' Compensation Insurance Fund and \$1,548 in the Health Benefits Insurance Fund. Both funds experienced increased expenses for actual and estimated claims and judgments.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an increase in appropriations of \$1,853 and can be briefly summarized as follows:

- The majority of the increase can be attributed to increases in appropriations relating to public safety of \$1,122 and general government activities of \$436. Of these increases \$453 was budgeted from normal operating revenues, and the balance was budgeted from existing fund balances.

During the year, actual revenues exceeded budgetary estimates by \$4,868. The majority of the revenue that exceeded budgetary amounts is an additional \$1,691 in property taxes, \$1,466 in other taxes (including business licenses), \$1,421 in refunds & reimbursements (including workers' compensation and federal reimbursements), and \$3,188 in miscellaneous (including indirect cost reimbursements).

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2003 amounts to \$800,641. This investment in capital assets includes land and easements, buildings and improvements, machinery and equipment, park facilities, roads, street, and bridges. The total increase in the City's capital assets for the current fiscal year was 12% (a 16% increase for governmental activities and an 8% increase for business-type activities) as shown in the table below.

### Changes in Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 27,142	\$ 22,243	\$ 7,248	\$ 7,289	\$ 34,390	\$ 29,532
Buildings & Improvements	15,871	14,472	358,218	240,081	374,089	254,553
Machinery & Equipment	12,345	12,560	3,345	2,527	15,690	15,087
Infrastructure	186,111	153,696	-	-	186,111	153,696
Construction in Progress	184,057	164,244	6,304	97,925	190,361	262,169
<b>Total</b>	<b>\$ 425,526</b>	<b>\$ 367,215</b>	<b>\$ 375,115</b>	<b>\$ 347,822</b>	<b>\$ 800,641</b>	<b>\$ 715,037</b>

Additional information on the City's capital assets can be found in Note 5 on pages 55-56 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$334,873. Of this amount, \$117,341 is revenue bonds and certificates of participation backed by the City's water and wastewater utilities and \$6,039 is Mello-Roos bonds of the Central Parking District. The remainder includes \$102,671 of revenue bonds, \$52,254 of Mello-Roos bonds, and \$28,906 of special assessment bonds for various Community Facilities Districts (CFD) and Local Improvement Districts. In addition, there are Certificates of Participation with balances totaling \$27,662 for the City's Essential Services Building / Parking Structure and redevelopment housing projects.

During fiscal year 2003, the City's net bonded indebtedness increased by \$9,456. Key factors were the issuance of two new 1915 Act Special Assessment Bonds related to two different developments within the City, \$3,946 for Morada North and \$3,903 for Waterford Estates; Certificates of Participation for \$1,139 and \$12,063 to finance redevelopment housing projects; \$6,169 of Mello-Roos special tax bonds to refund an existing Mello-Roos bond; and \$10,317 of revenue bonds to refund existing Special Assessment Bonds. In addition, the business-type activities issued \$13,921 of refunding Certificates of Participation to refund the 1993 Wastewater Certificates. These bond issuances totaling \$51,458 are offset by \$42,002 of bond calls and principal payments made during the fiscal year. Additional information on the City's long-term debt can be found in Note 6 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The unemployment rate for the City as of June 2003 was 11.7%. This is a slight increase from the June 2002 rate of 11.0%. The local unemployment rate is 3.9% higher than the State unemployment rate of 6.8%; however, the difference between the local and state rates has remained constant during the fiscal year.
- The current year has been a year of economic uncertainty. The State budget has an estimated accumulated deficit of \$28 to \$38 billion. The State often resolves its budget crisis by taking local revenue. During 2003, the City filed \$5,260 in State mandated costs reimbursement (SB-90) claims. All claims are reported as deferred revenue in the General Fund because the State has not appropriated funds for this reimbursement.

The City's largest General Fund revenue sources are sales tax, utility user's tax, property tax and the motor vehicle license fee. Of these, the proportion the City receives from each source is determined by the State, with the exception of the utility user's tax. The City Council has committed to gradually reduce the utility user's tax rate by ¼% per year for eight years, beginning in July 2004.

The VLF was reduced by the State on June 19, 2003, and the full VLF was reinstated effective October 1, 2003, leaving the City with approximately a third of normal VLF revenue for about three months. The three-month shortfall for the City is approximately \$2.6 million. There is sufficient fund balance to cover the estimated three months shortfall. The new Governor rescinded the VLF reinstatement retroactive to October 1, 2003 after he took office in November. The City could potentially lose another \$7 million in VLF revenue. The City is drafting a budget reduction plan, should it be necessary. However, no reduction plan has been brought before the City Council at this time. On December 18, 2003 the Governor announced he would make the full VLF payment and backfill to cities and counties, using emergency provision.

- The first retail "Power Center" is scheduled to be in operation in 2004 and is expected to improve sales tax revenue.
- The fiscal year 2004 budget and the Fee Schedule contain a number of increases in fees for services provided to the public, including cost covering fees for permits and inspections, funeral escort services, animal pound services, etc. In addition, all fees contain an automatic cost of living increase.

- In May 2003 *Forbes* ranked Stockton 14<sup>th</sup> in the nation in “Job Growth.” *California CEO* magazine ranked Stockton 7<sup>th</sup> as one of the “Best Cities for Business” out of over 400 California cities (February 2003).

#### **REQUESTS FOR INFORMATION**

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

# CITY OF STOCKTON

## STATEMENT OF NET ASSETS

JUNE 30, 2003

(Dollar amounts in thousands)

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 219,293	\$ 115,991	\$ 335,284
Restricted assets - cash and investments	4,621	13,919	18,540
Interest receivable	869	919	1,788
Taxes receivable	553	-	553
Accounts receivable, net	11,652	5,329	16,981
Internal balances	1,193	(1,193)	-
Due from other governments	16,451	-	16,451
Due from other agencies	392	-	392
Inventory of supplies	230	1,147	1,377
Deposits	38	-	38
Advances to property owners	38,526	-	38,526
Property held for resale	108	-	108
Loans receivable	-	12	12
Deferred charges	1,461	1,606	3,067
Capital assets, net:			
Nondepreciable	211,199	13,552	224,751
Depreciable, net	214,327	361,563	575,890
	<u>720,913</u>	<u>512,845</u>	<u>1,233,758</u>
Total assets			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	9,651	3,068	12,719
Accrued payroll and benefits	3,614	-	3,614
Accrued interest	4,095	2,169	6,264
Due to other governments	556	16	572
Due to other agencies	179	-	179
Deposits and other liabilities	164	1,222	1,386
Deferred revenue	4,912	-	4,912
Long-term liabilities:			
Due within one year	27,641	8,937	36,578
Due in more than one year	255,808	118,271	374,079
	<u>306,620</u>	<u>133,683</u>	<u>440,303</u>
Total liabilities			
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	211,033	251,580	462,613
Restricted for:			
Capital projects	49,522	-	49,522
Debt service	35,120	14,041	49,161
Other purposes	1,383	-	1,383
Unrestricted	117,221	113,541	230,762
	<u>\$ 414,279</u>	<u>\$ 379,162</u>	<u>\$ 793,441</u>
Total net assets			

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

# CITY OF STOCKTON

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government	\$ 15,454	\$ 9,928	\$ 248	\$ 195
Public safety	126,815	46,677	2,784	-
Public works	46,031	8,693	147	47,263
Library	11,594	515	4,346	-
Parks and recreation	15,397	1,736	1,216	1,456
Interest and fiscal charges	11,954	-	-	-
Total governmental activities	<u>227,245</u>	<u>67,549</u>	<u>8,741</u>	<u>48,914</u>
Business-type activities:				
Water utility	14,672	15,576	-	7,199
Sanitary wastewater utility	29,427	29,432	-	26,234
Stormwater utility	5,657	4,391	-	4,332
Other	7,251	7,428	-	-
Total business-type activities	<u>57,007</u>	<u>56,827</u>	<u>-</u>	<u>37,765</u>
Total	<u>\$ 284,252</u>	<u>\$ 124,376</u>	<u>\$ 8,741</u>	<u>\$ 86,679</u>

General revenues:

Taxes:

Property

Utility

Sales and use

Other

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning of year, as restated

Net assets, end of year

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

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (5,083)		\$ (5,083)
(77,354)		(77,354)
10,072		10,072
(6,733)		(6,733)
(10,989)		(10,989)
<u>(11,954)</u>		<u>(11,954)</u>
<u>(102,041)</u>		<u>(102,041)</u>
	\$ 8,103	8,103
	26,239	26,239
	3,066	3,066
	<u>177</u>	<u>177</u>
	<u>37,585</u>	<u>37,585</u>
<u>(102,041)</u>	<u>37,585</u>	<u>(64,456)</u>
23,449	-	23,449
32,157	-	32,157
36,628	-	36,628
35,378	596	35,974
16,693	1,909	18,602
5,310	4,052	9,362
2,896	-	2,896
449	-	449
<u>6,477</u>	<u>(6,477)</u>	<u>-</u>
<u>159,437</u>	<u>80</u>	<u>159,517</u>
57,396	37,665	95,061
<u>356,883</u>	<u>341,497</u>	<u>698,380</u>
<u>\$ 414,279</u>	<u>\$ 379,162</u>	<u>\$ 793,441</u>

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# CITY OF STOCKTON

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2003

(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
<b>ASSETS</b>			
Cash and investments	\$ 8,035	\$ 55,391	\$ 35,698
Cash and investments with fiscal agents	1,074	-	179
Restricted assets - cash and investments	-	-	-
Receivables:			
Interest	204	313	99
Taxes and special assessments	41	-	-
Accounts and other receivables	12,641	1,134	14
Allowance for uncollectibles	(3,478)	-	-
Due from other funds	697	-	-
Due from other governments	8,660	9	1,981
Allowance for uncollectibles	(14)	-	-
Due from other agencies	392	-	-
Inventory of supplies	230	-	-
Deposits	-	-	-
Advances to other funds	3,039	43	19,287
Advances to property owners	-	406	-
Property held for resale	-	-	-
Total assets	<u>\$ 31,521</u>	<u>\$ 57,296</u>	<u>\$ 57,258</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 1,917	\$ 2,253	\$ 1,557
Accrued payroll and benefits	3,614	-	-
Due to other funds	-	-	-
Due to other governments	-	-	30
Due to other agencies	179	-	-
Deposits and other liabilities	31	-	-
Deferred revenue	7,760	1,027	1,722
Advances from other funds	-	6,719	-
Total liabilities	<u>13,501</u>	<u>9,999</u>	<u>3,309</u>
<b>FUND BALANCES (DEFICIT):</b>			
Reserved for:			
Encumbrances	977	2,400	3,665
Advances	3,039	449	19,287
Debt service	-	-	-
Capital projects	-	44,171	29,672
Loan commitment	324	-	1,193
Low- and moderate-income housing	-	-	-
Endowments	-	-	-
Other items	1,915	277	132
Unreserved, reported in:			
General Fund:			
Designated for termination pay	1,166	-	-
Designated for infrastructure	2,470	-	-
Designated for economic uncertainties	8,129	-	-
Special revenue funds:			
Designated for termination pay	-	-	-
Undesignated	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
Permanent fund	-	-	-
Total fund balances (deficit)	<u>18,020</u>	<u>47,297</u>	<u>53,949</u>
Total liabilities and fund balances (deficit)	<u>\$ 31,521</u>	<u>\$ 57,296</u>	<u>\$ 57,258</u>

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

Redevelopment Agency	Other Governmental	Total Governmental
\$ 3,059	\$ 58,361	\$ 160,544
-	31,658	32,911
-	4,621	4,621
5	248	869
-	512	553
34	1,183	15,006
-	-	(3,478)
-	-	697
139	5,662	16,451
-	-	(14)
-	-	392
-	-	230
38	-	38
-	15,500	37,869
-	38,120	38,526
-	108	108
<u>\$ 3,275</u>	<u>\$ 155,973</u>	<u>\$ 305,323</u>
\$ 270	\$ 2,258	\$ 8,255
-	-	3,614
-	480	480
71	455	556
-	-	179
3	130	164
-	3,702	14,211
<u>27,937</u>	<u>2,020</u>	<u>36,676</u>
<u>28,281</u>	<u>9,045</u>	<u>64,135</u>
270	3,536	10,848
-	53,620	76,395
-	35,120	35,120
-	26,719	100,562
-	-	1,517
1,047	496	1,543
-	1,383	1,383
40	5,589	7,953
-	-	1,166
-	-	2,470
-	-	8,129
-	132	132
-	20,083	20,083
-	20	20
(26,363)	-	(26,363)
-	230	230
<u>(25,006)</u>	<u>146,928</u>	<u>241,188</u>
<u>\$ 3,275</u>	<u>\$ 155,973</u>	<u>\$ 305,323</u>

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# CITY OF STOCKTON

## RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2003 (Dollar amounts in thousands)

---

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

Total fund balances - total governmental	\$ 241,188
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Nondepreciable capital assets	211,199
Depreciable capital assets, net	202,365
Internal service funds are used by management to charge the costs of central garage, computer equipment, radio equipment, other equipment, general insurance, workers' compensation insurance, health benefits insurance, and other insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities	(9,474)
Various long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:	
Compensated absences	(17,840)
Bonds payable and other long-term debt	(220,872)
Unamortized bond discounts	1,109
Accrued interest	(4,095)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:	
deferred in the governmental funds, or	9,299
not recorded in the governmental funds.	<u>1,400</u>
Net assets of governmental activities	<u><u>\$ 414,279</u></u>

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

# CITY OF STOCKTON

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
<b>REVENUES:</b>			
Taxes:			
Property	\$ 21,091	\$ -	\$ -
Utility	32,157	-	-
Sales and use	33,250	-	-
Other	16,716	-	15
Licenses and permits	431	-	-
Federal grants and subsidies	-	-	195
Other governmental	16,831	-	4,792
Charges for services	10,210	21,041	-
Fines and forfeitures	1,461	-	29
Use of money and property	629	314	395
Investment income:			
Interest income	894	1,784	764
Net decrease in fair value of investments	(87)	(122)	(41)
Refunds and reimbursements	2,645	-	91
Miscellaneous	7,004	-	832
	<u>143,232</u>	<u>23,017</u>	<u>7,072</u>
<b>Total revenues</b>			
<b>EXPENDITURES:</b>			
Current:			
General government	12,241	-	-
Public safety	104,145	-	-
Public works	10,582	-	-
Library	-	-	-
Parks and recreation	7,167	-	-
Capital outlay	102	18,740	12,068
Debt service:			
Principal retirement	-	-	-
Cost of issuance	287	-	-
Interest and fiscal charges	-	-	-
	<u>134,524</u>	<u>18,740</u>	<u>12,068</u>
<b>Total expenditures</b>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	<u>8,708</u>	<u>4,277</u>	<u>(4,996)</u>

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

Redevelopment Agency	Other Governmental	Total Governmental
\$ 2,358	\$ -	\$ 23,449
-	-	32,157
-	3,378	36,628
-	18,813	35,544
-	11,013	11,444
103	15,300	15,598
-	18,402	40,025
-	11,930	43,181
-	-	1,490
120	553	2,011
39	1,941	5,422
(1)	(116)	(367)
-	2,128	4,864
122	833	8,791
<u>2,741</u>	<u>84,175</u>	<u>260,237</u>
-	4,080	16,321
-	8,523	112,668
-	23,405	33,987
-	10,475	10,475
-	6,163	13,330
8,097	21,383	60,390
-	9,654	9,654
-	696	983
20	11,917	11,937
<u>8,117</u>	<u>96,296</u>	<u>269,745</u>
<u>(5,376)</u>	<u>(12,121)</u>	<u>(9,508)</u>

(Continued)

# CITY OF STOCKTON

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (Continued)

FOR THE YEAR ENDED JUNE 30, 2003

(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>8,708</u>	<u>4,277</u>	<u>(4,996)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	8,374	-	16,132
Transfers out	(27,348)	(151)	(85)
Proceeds of long-term debt	13,300	-	-
Sales of fixed assets	15	-	704
Bond refundings	-	-	-
Discounts on debt issuances	<u>(98)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(5,757)</u>	<u>(151)</u>	<u>16,751</u>
NET CHANGE IN FUND BALANCES	2,951	4,126	11,755
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>15,069</u>	<u>43,171</u>	<u>42,194</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 18,020</u>	<u>\$ 47,297</u>	<u>\$ 53,949</u>

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

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Redevelopment Agency	Other Governmental	Total Governmental
<u>(5,376)</u>	<u>(12,121)</u>	<u>(9,508)</u>
10,837	36,050	71,393
(6,500)	(31,885)	(65,969)
20	24,790	38,110
-	-	719
-	(17,205)	(17,205)
<u>-</u>	<u>(456)</u>	<u>(554)</u>
<u>4,357</u>	<u>11,294</u>	<u>26,494</u>
(1,019)	(827)	16,986
<u>(23,987)</u>	<u>147,755</u>	<u>224,202</u>
<u>\$ (25,006)</u>	<u>\$ 146,928</u>	<u>\$ 241,188</u>

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# CITY OF STOCKTON

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

---

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

Net change in fund balances - total governmental \$ 16,986

Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays and depreciation expense are as follows:

Capitalized capital outlays	46,227
Donated capital assets	18,159
Depreciation expense	(5,647)

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

Long-term debt proceeds	(38,110)
Discounts on debt issuances	554
Repayment of principal	9,654
Costs of issuance	983
Bond refundings	17,205

Internal service funds are used by management to charge the costs of certain activities, such as central garage, equipment, and insurance, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities. (15,313)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Deferred revenue	5,647
Gain on sale of capital assets	(80)

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

Change in compensated absences	1,148
Amortization of bond discounts and costs of issuance	(80)
Change in accrued interest	63

Change in net assets of governmental activities \$ 57,396

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

# CITY OF STOCKTON

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2003

(Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 24,986	\$ 81,078	\$ 8,119
Cash and cash equivalents with fiscal agents	-	52	-
Receivables:			
Interest	141	448	46
Accounts and other receivables	1,782	4,297	789
Allowance for uncollectibles	(163)	(1,533)	(235)
Inventory of supplies	-	1,111	-
Total current assets	<u>26,746</u>	<u>85,453</u>	<u>8,719</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	-	-	-
Cash and cash equivalents with fiscal agents	-	13,716	-
Interest receivable	-	272	-
Advances to other funds	-	59	-
Loans receivable	3	9	-
Deferred charges	178	1,390	-
Capital assets, net:			
Nondepreciable	3,981	3,993	389
Depreciable, net	60,609	254,261	36,762
Total noncurrent assets	<u>64,771</u>	<u>273,700</u>	<u>37,151</u>
Total assets	<u>91,517</u>	<u>359,153</u>	<u>45,870</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	917	2,011	73
Due to other funds	-	-	-
Due to other governments	16	-	-
Deposits and other liabilities	1,074	43	-
Accrued interest	171	1,848	15
Compensated absences - current	162	609	43
Self-insurance claims and judgments - current	-	-	-
Other long-term debt - current	448	1,280	156
Total current liabilities	<u>2,788</u>	<u>5,791</u>	<u>287</u>
Noncurrent liabilities:			
Advances from other funds	-	-	-
Compensated absences - long-term	151	750	30
Self-insurance claims and judgments - long-term	-	-	-
Advances from other governments	939	-	327
Certificates of participation	-	102,397	-
Bonds payable	13,216	-	-
Total noncurrent liabilities	<u>14,306</u>	<u>103,147</u>	<u>357</u>
Total liabilities	<u>17,094</u>	<u>108,938</u>	<u>644</u>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	50,926	154,577	36,995
Restricted for debt service	-	13,988	-
Unrestricted (deficit)	23,497	81,650	8,231
Total net assets (deficit)	<u>\$ 74,423</u>	<u>\$ 250,215</u>	<u>\$ 45,226</u>

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

<u>Enterprise</u>		
Other	Total	Internal Service
\$ 1,756	\$ 115,939	\$ 25,838
-	52	-
12	647	-
495	7,363	276
(103)	(2,034)	(152)
36	1,147	-
<u>2,196</u>	<u>123,114</u>	<u>25,962</u>
158	158	-
45	13,761	-
-	272	-
672	731	-
-	12	-
38	1,606	61
5,189	13,552	-
9,931	361,563	11,962
<u>16,033</u>	<u>391,655</u>	<u>12,023</u>
<u>18,229</u>	<u>514,769</u>	<u>37,985</u>
67	3,068	1,396
-	-	217
-	16	-
105	1,222	-
135	2,169	-
201	1,015	346
-	-	10,090
6,038	7,922	-
<u>6,546</u>	<u>15,412</u>	<u>12,049</u>
1,924	1,924	-
461	1,392	444
-	-	34,966
-	1,266	-
-	102,397	-
-	13,216	-
<u>2,385</u>	<u>120,195</u>	<u>35,410</u>
<u>8,931</u>	<u>135,607</u>	<u>47,459</u>
9,082	251,580	11,962
53	14,041	-
163	113,541	(21,436)
<u>\$ 9,298</u>	<u>\$ 379,162</u>	<u>\$ (9,474)</u>

# CITY OF STOCKTON

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
OPERATING REVENUES:			
Charges for services	\$ 15,238	\$ 28,936	\$ 4,293
Miscellaneous	337	487	98
Total operating revenues	<u>15,575</u>	<u>29,423</u>	<u>4,391</u>
OPERATING EXPENSES:			
Operation and maintenance	6,160	18,898	2,180
General and administrative	3,225	4,051	2,355
Depreciation and amortization	1,611	5,104	1,128
Purchased water	2,935	-	-
Total operating expenses	<u>13,931</u>	<u>28,053</u>	<u>5,663</u>
OPERATING INCOME (LOSS)	<u>1,644</u>	<u>1,370</u>	<u>(1,272)</u>
NON-OPERATING REVENUES (EXPENSES):			
Taxes	-	-	-
Federal grants and subsidies	-	-	-
Other governmental	-	1,909	-
Investment income:			
Interest income	813	3,157	258
Net decrease in fair value of investments	(56)	(167)	(18)
Gain (loss) from disposal of property	-	-	-
Interest expense and fiscal charges	(741)	(1,374)	6
Other non-operating revenues	1	9	-
Total non-operating revenues (expenses)	<u>17</u>	<u>3,534</u>	<u>246</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,661	4,904	(1,026)
Capital contributions	7,199	26,234	4,332
Transfers in	-	-	-
Transfers out	(1,813)	(3,486)	(320)
CHANGE IN NET ASSETS	7,047	27,652	2,986
NET ASSETS, BEGINNING OF YEAR	<u>67,376</u>	<u>222,563</u>	<u>42,240</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 74,423</u>	<u>\$ 250,215</u>	<u>\$ 45,226</u>

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

<u>Enterprise</u>		
<u>Other</u>	<u>Total</u>	<u>Internal Service</u>
\$ 6,636	\$ 55,103	\$ 63,795
792	1,714	-
<u>7,428</u>	<u>56,817</u>	<u>63,795</u>
6,172	33,410	75,050
-	9,631	4,730
540	8,383	2,733
-	2,935	-
<u>6,712</u>	<u>54,359</u>	<u>82,513</u>
<u>716</u>	<u>2,458</u>	<u>(18,718)</u>
596	596	-
-	-	560
-	1,909	6
69	4,297	274
(4)	(245)	(19)
(66)	(66)	(190)
(473)	(2,582)	-
-	10	1,721
<u>122</u>	<u>3,919</u>	<u>2,352</u>
838	6,377	(16,366)
-	37,765	-
-	-	4,353
<u>(858)</u>	<u>(6,477)</u>	<u>(3,300)</u>
(20)	37,665	(15,313)
<u>9,318</u>	<u>341,497</u>	<u>5,839</u>
<u>\$ 9,298</u>	<u>\$ 379,162</u>	<u>\$ (9,474)</u>

# CITY OF STOCKTON

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 15,599	\$ 29,619	\$ 4,291
Receipts from interfund service providers	-	32	96
Payments to suppliers	(8,964)	(15,223)	(3,250)
Payments to employees	(2,421)	(7,709)	(1,198)
Payments for interfund services used	(162)	(677)	(105)
Net cash provided by (used for) operating activities	<u>4,052</u>	<u>6,042</u>	<u>(166)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	-	-	-
Transfers out	(1,813)	(3,486)	(320)
Advances from other funds	-	-	-
Advances to other funds	-	(59)	-
Advances from other governments	(47)	-	(154)
Other non-operating revenues	1	9	-
Proceeds from taxes	-	-	-
Other governmental	-	1,909	-
Federal grants and subsidies	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>(1,859)</u>	<u>(1,627)</u>	<u>(474)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from sale of capital assets	-	-	70
Proceeds from capital debt	-	14,135	-
Principal paid on capital debt	(11)	(15,970)	-
Issuance discounts	-	(214)	-
Purchases of capital assets	(2,961)	(14,685)	-
Interest paid on capital debt	(661)	(1,057)	1
Capital contributions	1,470	18,320	-
Net cash provided by (used for) capital and related financing activities	<u>(2,163)</u>	<u>529</u>	<u>71</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment earnings	876	3,303	285
Proceeds from sale of investments	-	2,244	-
Net cash provided by investing activities	<u>876</u>	<u>5,547</u>	<u>285</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>906</b>	<b>10,491</b>	<b>(284)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>24,080</b>	<b>70,910</b>	<b>8,403</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 24,986</b>	<b>\$ 81,401</b>	<b>\$ 8,119</b>

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

<u>Enterprise</u>		
<u>Other</u>	<u>Total</u>	<u>Internal Service</u>
\$ 7,302	\$ 56,811	\$ 1,138
-	128	62,733
(2,074)	(29,511)	(41,787)
(3,312)	(14,640)	(24,532)
<u>(1,006)</u>	<u>(1,950)</u>	<u>-</u>
910	10,838	(2,448)
-	-	4,353
(858)	(6,477)	(3,300)
(672)	(672)	217
-	(59)	-
-	(201)	-
-	10	1,721
596	596	-
-	1,909	330
-	-	560
<u>(934)</u>	<u>(4,894)</u>	<u>3,881</u>
736	806	152
-	14,135	-
(210)	(16,191)	-
-	(214)	-
(700)	(18,346)	(2,727)
(301)	(2,018)	-
-	19,790	-
<u>(475)</u>	<u>(2,038)</u>	<u>(2,575)</u>
72	4,536	255
-	2,244	-
<u>72</u>	<u>6,780</u>	<u>255</u>
(427)	10,686	(887)
<u>2,386</u>	<u>105,779</u>	<u>26,725</u>
<u>\$ 1,959</u>	<u>\$ 116,465</u>	<u>\$ 25,838</u>

(Continued)

# CITY OF STOCKTON

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 1,644	\$ 1,370	\$ (1,272)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,611	5,104	1,128
Provision for uncollectible accounts	(40)	16	88
Self-insurance	-	-	-
Changes in assets and liabilities:			
Accounts and other receivables	28	213	(92)
Deferred charges	(33)	(108)	-
Inventory of supplies	-	10	-
Loans receivable	37	20	-
Accounts payable	658	(401)	1
Due to other governments	(159)	-	-
Deposits and other liabilities	376	28	-
Compensated absences	(69)	(189)	(19)
Deferred revenue	(1)	(21)	-
Net cash provided by (used for) operating activities	<u>\$ 4,052</u>	<u>\$ 6,042</u>	<u>\$ (166)</u>
<b>NONCASH TRANSACTIONS:</b>			
Net increase in fair value of investments	\$ (56)	\$ (167)	\$ (18)
Unamortized cost of issuance on defeased debt removed	14	17	-
Refunding debt added	-	14,135	-
Cost of issuance on refunding debt added	-	(214)	-
Loss on defeased debt	18	343	-
Donation of capital assets	5,729	7,914	4,332
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS:</b>			
Cash and cash equivalents	\$ 24,986	\$ 81,078	\$ 8,119
Cash with cash equivalents fiscal agents	-	52	-
Restricted assets:			
Cash and cash equivalents	-	-	-
Cash and investments with fiscal agents	-	13,716	-
Total cash and investments	<u>24,986</u>	<u>94,846</u>	<u>8,119</u>
Less long term investments reported as:			
Cash and investments with fiscal agents	<u>-</u>	<u>13,445</u>	<u>-</u>
Net cash and cash equivalents	<u>\$ 24,986</u>	<u>\$ 81,401</u>	<u>\$ 8,119</u>

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

<u>Enterprise</u>		
Other	Total	Internal Service
\$ 716	\$ 2,458	(18,718)
540	8,383	2,733
(13)	51	6
-	-	13,878
(113)	36	70
(64)	(205)	-
(36)	(26)	-
-	57	-
(112)	146	(335)
-	(159)	-
7	411	-
(15)	(292)	(82)
-	(22)	-
<u>\$ 910</u>	<u>\$ 10,838</u>	<u>\$ (2,448)</u>
\$ (4)	\$ (245)	(19)
-	31	-
-	14,135	-
-	(214)	-
-	361	-
	17,975	
\$ 1,756	\$ 115,939	\$ 25,838
-	52	-
158	158	-
45	13,761	-
1,959	129,910	25,838
-	13,445	-
<u>\$ 1,959</u>	<u>\$ 116,465</u>	<u>\$ 25,838</u>

# CITY OF STOCKTON

## STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND

JUNE 30, 2003

(Dollar amounts in thousands)

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### ASSETS

Cash and cash equivalents	\$ 13,533
Accounts and other receivables	<u>181</u>
Total assets	<u>\$ 13,714</u>

### LIABILITIES

Accounts payable	\$ 101
Due to other governments	3,647
Deposits and other liabilities	<u>9,966</u>
Total liabilities	<u>\$ 13,714</u>

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

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

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# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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### 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 accounting principles generally accepted in the United States of America 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 30th year-end.

The San Joaquin Area Flood Control Agency (SJAFCFA) was established by Council resolution in May 1995 and is jointly governed by the City and San Joaquin County. The City retains neither on-going financial interest in nor obligation to SJAFCFA.

**Blended Component Units** – The Redevelopment Agency of the City of Stockton (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 fund financial statements as a special revenue fund and capital projects fund, as well as in the City's government-wide financial statements.

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 fund financial statements as a debt service fund and capital projects fund, as well as in the City's government-wide financial statements. 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 capital assets and related certificates of participation and bonds issued by the SPFA and leased to these two enterprise funds under capital leases.

# CITY OF STOCKTON

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

---

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

For this purpose, the government considers intergovernmental revenues, which are primarily grants and subventions, received as reimbursement for specific purposes or projects to be available 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. Other major revenues in accordance with GASB Statement No. 22, "Accounting For Taxpayer Assessed Tax Revenues in Governmental Funds" are considered to be available if they are collected within 60 days of the end of the current fiscal period. Revenues considered to be available include sales, transient occupancy, gas, and utility user taxes, franchise fees, interest, and intergovernmental revenues, which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance requirements. All other revenue items, such as business licenses and fines and penalties, are considered to be measurable and available only when received by the City.

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 January 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.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

The City reports the following major governmental funds:

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.

**Public Facilities Impact Fees Capital Projects Fund** accounts for the collection of and expenditure of fees imposed as a condition of new development within the City. Impact fees have been established for each of the following types of public facilities:

traffic signals, street improvements, community recreation centers, city office space, fire stations, libraries, police stations, parkland and street tree/street signs, street light in-lieu, air quality mitigation, habitat and open space conservation, infrastructure financing district 92-1 administration, and public facilities fees administration.

**Capital Improvement Capital Projects Fund** accounts for the acquisition, construction and improvement of capital facilities financed by grants and operating transfers from other City funds.

**Redevelopment Agency Capital Projects Fund** accounts for the acquisition, relocation, demolition, and sale of land for those portions of the City earmarked for redevelopment. Projects are financed from bond proceeds, loans from other city funds, and property tax increment revenue.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major enterprise funds:

**Water Utility Fund** accounts for activities associated with the acquisition or construction of water facilities, production, distribution and transmission of potable water to users.

**Sanitary Wastewater Utility Fund** accounts for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for drainage, treatment, and disposal of sanitary wastewater.

**Stormwater Utility Fund** accounts for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater wastewater.

Additionally, the City reports the following fund types:

**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.

**Agency Fund** accounts for assets held by the City as an agent for individuals, private organizations and/or other governmental units. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

**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 Fund, Sanitary Wastewater Utility Fund, Stormwater Utility Fund, Solid Waste Fund, Central Parking District Fund, internal service self-insurance funds, and the Agency Fund, 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.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 LAIF 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. Cash held with fiscal agents is included as cash and cash equivalents. Investments that are held with fiscal agents with a maturity of three months or greater are not included as cash and cash equivalents.

**Receivables/Payables** – Short-term interfund 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 to other funds” and are offset equally by fund balance reservations that indicate they do not constitute expendable available resources and, therefore, are not available for appropriation. The corresponding long-term interfund loan payables are reported as “advances from other funds.”

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

“Advances to property owners” represent loans for repairs to low-income owner- and tenant-occupied households throughout the City. These loans are to be repaid over an extended period of time; therefore, the vast majority of the year-end balance will not be repaid within the next year.

**Inventory of Supplies** – 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.

**Capital Assets** –Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5 for equipment and works of art; \$10 for land, buildings and improvements; \$50 for infrastructure and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

# CITY OF STOCKTON

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. In accordance with accounting principles generally accepted in the United States of America, 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, 2003, capitalized interest costs equaled \$5,200 in connection with the construction in progress.

Property, plant, equipment, and infrastructure of the City is depreciated using the straight line method over the following estimated useful lives:

Building and structures	30 - 50 years
Improvements other than buildings	20 - 30 years
Machinery and equipment	5 - 30 years
Roads and streets infrastructure	50 - 65 years
Curb and gutter infrastructure	65 years
Streetlight and traffic control devices infrastructure	30 years
Transmission and distribution plant (including infrastructure such as water, sanitary wastewater and stormwater mains and laterals)	50 - 100 years

***Vacation and Sick 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 utilize their remaining 50% of accrued sick leave hours for additional California Public Employees' Retirement System (PERS) service credit upon retirement. In addition, upon retirement, Fire department safety employees are eligible for pay-off of 100% of accumulated longevity vacation allowance, based on years of service (up to 20 days plus the current year's accrual).

The value of accumulated vacation, sick, and longevity vacation allowance is accrued, as appropriate, for all funds. With respect to obligations of the governmental fund types, the amounts are presented in the government-wide financial statements.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Long-Term Obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Capital Contributions** – Capital contributions are comprised of cash and assets donated from developers. Connection fees are recorded as revenue in the Water Utility, Sanitary Wastewater Utility, and Stormwater Utility enterprise funds.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**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** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 2. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of the pool is displayed on the balance sheet (governmental funds) and the statement of net assets (proprietary funds) as "cash and cash equivalents."

**Deposits** – At June 30, 2003, the recorded amount of the City's deposits was \$14,032; and the bank balance was \$7,652. The bank balance and carrying amount differ due to deposits in transit of \$10,403 and outstanding checks of \$4,035.

The bank balances were entirely insured or collateralized at June 30, 2003. 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 \$189 in Category 1 deposits at June 30, 2003.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. The City held \$7,463 Category 2 deposits at June 30, 2003.

**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
- Money market mutual funds
- Guaranteed investment contracts

# CITY OF STOCKTON

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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### 2. CASH AND INVESTMENTS (Continued)

The City has entered into nonparticipating guaranteed investment contracts, which bear interest ranging from 4.80% 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 \$43,600. The total amount invested by all public agencies in LAIF is \$55,422,506, of which 2.327% 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.

During the year ended June 30, 2003, the City did not utilize investment types different from those categorized below.

A summary of cash and investments by such categories at June 30, 2003 is as follows:

<b>Investment Type</b>	<b>Category 1</b>	<b>Non Categorized</b>	<b>Fair Value</b>
U.S. Government securities	\$ 223,971	\$ -	\$ 223,971
LAIF	-	43,600	43,600
Money market funds	-	64,439	64,439
Guaranteed investment contracts	-	21,315	21,315
Total investments	<u>\$ 223,971</u>	<u>\$ 129,354</u>	<u>\$ 353,325</u>

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**2. CASH AND INVESTMENTS (Continued)**

Summary of GASB Statement No. 3 disclosure carrying amounts:

Deposits	\$ 14,032
Investments	353,325
Total cash and investments	\$ 367,357
Presented in the government-wide statement of net assets	\$ 353,824
Presented in the statement of fiduciary net assets	13,533
Total cash and investments	\$ 367,357

**Restricted Cash and Investments** – Certain proceeds of governmental and enterprise funds certificates of participation (COP) and bonds payable are classified as restricted cash and investments on the statement of net assets 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, 2003, restricted cash and cash equivalents/investments are as follows:

<b>Governmental Activities</b>	
Redevelopment Agency Loan	\$ 3,047
Community Development Loan	1,157
HOME Program	417
	\$ 4,621
<b>Business-Type Activities</b>	
Sanitary Wastewater Utility	\$ 13,716
Central Parking District	203
Total	\$ 13,919

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**3. INTERFUND RECEIVABLES / PAYABLES**

Interfund receivables and payables are as follows at June 30, 2003:

Due to/from other funds:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General	Other Governmental	\$ 480
	Internal Service	217
Total		<u>\$ 697</u>

Advances from/to other funds:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General	Redevelopment Agency	\$ 1,057
	Other Governmental	1,982
Public Facilities Impact Fees	Redevelopment Agency	43
Capital Improvement	Public Facilities Impact Fees	6,719
	Redevelopment Agency	10,606
	Other Governmental	38
	Other Enterprise	1,924
Other Governmental	Redevelopment Agency	15,500
Sanitary Wastewater Utility	Redevelopment Agency	59
Other Enterprise	Redevelopment Agency	672
Total		<u>\$ 38,600</u>

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash or when there are short-term loans between funds.

“Advances to” and “advances from” balances represent loan activity between various funds. The \$1,057 is primarily loans from the General Fund to the Redevelopment Agency for various project areas. The \$1,982 is primarily a loan from the General Fund to the new Emergency Medical Transport fund to help establish the fund. The \$6,719 loan from Capital Improvement to Public Facilities Impact Fees is for architectural and construction costs for Police and Fire Stations. The \$10,606 from Capital Improvement to the Redevelopment Agency represents loans for various project areas. The \$1,924 is for loans from Capital Improvement to the Central Parking District and Golf Courses funds. Finally, the \$15,500 represents loans in the amount of \$4,686 from the Urban Development Action Grant, \$10,250 from the Community Development Block Grant, and \$564 from the Community Development Loan to the Redevelopment Agency to provide funds for various project areas.

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

**4. TRANSFERS**

Transfers for the year ended June 30, 2003 are summarized as follows:

	Transfers In					
	General	Capital Improvement	Redevelopment Agency	Other Governmental	Internal Service	Total
<b>Transfers out:</b>						
General	\$ -	\$ 4,182	\$ 10,500	\$ 12,142	\$ 524	\$ 27,348
Public Facilities Impact Fees	-			151		151
Capital Improvement	85	-				85
Redevelopment Agency				6,500		6,500
Other Governmental	5,577	8,185	337	17,257	529	31,885
Water Utility	477	1,336		-		1,813
Sanitary Wastewater Utility	1,377	2,109		-		3,486
Stormwater Utility		320				320
Other Enterprise	858			-		858
Internal Service					3,300	3,300
<b>Total</b>	<u>\$ 8,374</u>	<u>\$ 16,132</u>	<u>\$ 10,837</u>	<u>\$ 36,050</u>	<u>\$ 4,353</u>	<u>\$ 75,746</u>

During the year various interfund transfers were made to finance expenditures, subsidize operating losses, and service debt. The \$27,348 General Fund transfer out includes primarily transfers of \$4,182 to Capital Improvement for capital improvements for infrastructure reinvestment, and \$10,500 to Redevelopment Agency for redevelopment improvements and \$5,720 to the City / County Library. The transfer to the internal service funds includes transfers in the amount of \$524 to provide for compensated absences.

The General Fund received transfers in of \$5,577 from the Gas Tax Fund primarily for the reimbursement of qualified street repair and maintenance expenditures. In addition, the General Fund received transfers in of \$477 from the Water Utility Fund and \$1,377 from the Sanitary Wastewater Utility fund for the in-lieu tax and \$858 from the Central Parking District for the payment of debt service on the Stewart Eberhardt Building / Parking Structure.

Transfers between various Other Governmental Funds in the amount of \$17,257 are primarily transfers for the purpose of establishing debt service reserves and the principal payment of bond debt.

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003 was as follows:

	<b>Balance July 1, 2002</b>	<b>Acquisitions</b>	<b>Dispositions</b>	<b>Balance June 30, 2003</b>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 22,243	\$ 4,974	\$ (75)	\$ 27,142
Construction in progress	164,244	42,846	(23,033)	184,057
Total capital assets, not being depreciated	<u>186,487</u>	<u>47,820</u>	<u>(23,108)</u>	<u>211,199</u>
Capital assets, being depreciated:				
Infrastructure	193,485	36,686	-	230,171
Buildings and improvements	49,224	2,696	-	51,920
Machinery and equipment	35,970	2,942	(3,384)	35,528
Total capital assets, being depreciated	<u>278,679</u>	<u>42,324</u>	<u>(3,384)</u>	<u>317,619</u>
Less accumulated depreciation for:				
Infrastructure	(39,789)	(4,271)	-	(44,060)
Buildings and improvements	(34,752)	(1,297)	-	(36,049)
Machinery and equipment	(23,410)	(2,812)	3,039	(23,183)
Total accumulated depreciation	<u>(97,951)</u>	<u>(8,380)</u>	<u>3,039</u>	<u>(103,292)</u>
Total capital assets, being depreciated, net	<u>180,728</u>	<u>33,944</u>	<u>(345)</u>	<u>214,327</u>
Governmental activities capital assets, net	<u>\$ 367,215</u>	<u>\$ 81,764</u>	<u>\$ (23,453)</u>	<u>\$ 425,526</u>
	<b>Balance July 1, 2002</b>	<b>Acquisitions</b>	<b>Dispositions</b>	<b>Balance June 30, 2003</b>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,289	\$ 675	\$ (716)	\$ 7,248
Construction in progress	97,925	11,042	(102,663)	6,304
Total capital assets, not being depreciated	<u>105,214</u>	<u>11,717</u>	<u>(103,379)</u>	<u>13,552</u>
Capital assets, being depreciated:				
Buildings and improvements	342,869	126,135	(88)	468,916
Machinery and equipment	7,896	1,065	-	8,961
Total capital assets, being depreciated	<u>350,765</u>	<u>127,200</u>	<u>(88)</u>	<u>477,877</u>
Less accumulated depreciation for:				
Buildings and improvements	(102,788)	(7,975)	65	(110,698)
Machinery and equipment	(5,369)	(247)	-	(5,616)
Total accumulated depreciation	<u>(108,157)</u>	<u>(8,222)</u>	<u>65</u>	<u>(116,314)</u>
Total capital assets, being depreciated, net	<u>242,608</u>	<u>118,978</u>	<u>(23)</u>	<u>361,563</u>
Business-type activities capital assets, net	<u>\$ 347,822</u>	<u>\$ 130,695</u>	<u>\$ (103,402)</u>	<u>\$ 375,115</u>

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 70
Public safety	337
Public works	4,318
Library	255
Parks & Recreation	667
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	2,733
Total depreciation expense - governmental activities	<u>\$ 8,380</u>
Business-type activities:	
Water Utility	\$ 1,587
Sanitary Wastewater Utility	5,031
Stormwater Utility	1,128
Other business-type	476
Total depreciation expense - business-type activities	<u>\$ 8,222</u>

#### 6. LONG-TERM DEBT

##### ***Bonds Payable***

##### Special Assessment Bonds

Governmental activities – During the year, two new 1915 Act Special Assessment Bonds were authorized and issued for \$4,045 and \$4,000 to finance the improvements of special districts located within the City. There are currently ten bonds authorized and issued with interest rates ranging from 2.85% to 8.1% and final maturity in September 2032. Remaining debt service will be paid from assessments to property owners.

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**6. LONG-TERM DEBT (Continued)**

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Governmental Principal	Activities Interest
2004	\$ 1,287	\$ 1,749
2005	1,315	1,680
2006	1,575	1,602
2007	1,670	1,515
2008	1,670	1,422
2009-2013	6,760	5,800
2014-2018	4,090	4,142
2019-2023	4,800	2,695
2024-2028	4,805	1,183
2029-2033	1,250	203
Total	<u>\$ 29,222</u>	<u>\$ 21,991</u>

Mello-Roos Special Tax Bonds

Governmental activities – 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 seven bonds authorized and issued, five of which have interest rates ranging from 2.7% to 7.75% and two at a variable interest rate, and final maturity in September 1, 2032. The interest rate for the variable-rate bonds is determined on a weekly basis by the Remarketing Agent as stated in the official statement using the California Municipal Market Data (Cal MMD) 7-day non-amortized interest rate not to exceed 12% per annum. Remaining debt service will be paid from assessments to property owners.

During the year, the City issued \$6,300 of Mello-Roos special tax bonds to refund an existing Mello-Roos bond.

Business-type activities – The City issued \$6,180 of community facilities district special tax bond anticipation notes for the purposes of refunding the City’s outstanding Central Parking District Refunding Bonds of 1991 and the Central Parking District Bonds of 1967, Division 4.

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

**6. LONG-TERM DEBT (Continued)**

Annual debt service requirements to maturity for Mello-Roos special tax bonds are as follows:

Year Ending June 30	Governmental		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 1,490	\$ 2,579	\$ 6,180	\$ 270
2005	1,555	2,511	-	-
2006	1,865	2,429	-	-
2007	1,960	2,334	-	-
2008	2,055	2,230	-	-
2009-2013	11,825	9,276	-	-
2014-2018	9,315	5,570	-	-
2019-2023	3,595	4,233	-	-
2024-2028	12,620	4,913	-	-
2029-2033	6,620	1,107	-	-
2034-2038	0	0	-	-
Total	<u>\$ 52,900</u>	<u>\$ 37,182</u>	<u>\$ 6,180</u>	<u>\$ 270</u>

Revenue Bonds

Governmental activities – Refunding Revenue Bonds were issued by the SPFA to purchase two series of local 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. The SPFA, also 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 nine bonds authorized and issued with interest rates ranging from 3.0% 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. During the year, the City issued \$10,445 of revenue bonds to refund West Eighth Street Series 1999.

Business-type activities – The City issued \$14,280 of revenue bonds to advance refund certificates of participation. The interest rates range from 3.9% to 5.5% and the final maturity is October 1, 2022.

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**6. LONG-TERM DEBT (Continued)**

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 4,775	\$ 5,768	\$ 440	\$ 671
2005	5,105	5,515	460	648
2006	5,400	5,246	485	623
2007	5,720	4,957	510	598
2008	6,075	4,646	540	572
2009-2013	36,680	17,553	3,085	2,468
2014-2018	30,340	6,122	3,845	1,717
2019-2023	6,895	1,352	4,915	653
2024-2028	1,730	105	-	-
Total	<u>\$ 102,720</u>	<u>\$ 51,264</u>	<u>\$ 14,280</u>	<u>\$ 7,950</u>

***Certificates of Participation***

Governmental activities – 1999 Certificates of Participation were authorized and issued to finance a portion of the acquisition and construction of an essential 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 leases the essential services building and adjacent parking facility from the SPFA. Lease payments are used to repay the certificates. Under the lease agreement, the City covenanted to make all rental payments to the SPFA. These rental payments are 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. During the year, Certificates of Participation were issued for \$1,160 and \$12,140 to finance redevelopment housing projects. The interest rates range from 3.0% to 5.28% and final maturity is September 1, 2033.

Business-type activities - SPFA (lessor) issued Certificates of Participation on June 3, 2003 in the amount of \$14,135, with interest rates ranging from 2.00% - 4.25%, the full amount maturing serially through September 1, 2023, in annual principal installments ranging from \$545 to \$965. Certificates of Participation were issued to advance refund other certificates of participation

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**6. LONG-TERM DEBT (Continued)**

In addition, 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.

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 is being 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 repaid from the net revenues of the Sanitary Wastewater Utility Fund.

The statement of net assets, Enterprise-Sanitary Wastewater Utility Fund (restricted assets) includes \$13,716 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.

Annual debt service requirements to maturity for certificates of participation are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 210	\$ 1,277	\$ 1,640	\$ 5,078
2005	220	1,483	2,250	5,126
2006	235	1,472	2,330	5,044
2007	245	1,461	2,415	4,958
2008	255	1,449	2,510	4,867
2009-2013	2,165	7,004	14,210	22,672
2014-2018	3,930	6,206	17,825	19,052
2019-2023	5,100	5,016	22,695	14,193
2024-2028	6,685	3,395	29,700	7,738
2029-2033	7,770	1,259	14,280	751
2034	945	25	-	-
Total	<u>\$ 27,760</u>	<u>\$ 30,047</u>	<u>\$ 109,855</u>	<u>\$ 89,479</u>

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**6. LONG-TERM DEBT (Continued)**

***Loans Payable***

The City entered into a loan with the California Department of Boating and Waterways to complete a planning report of the anticipated development of a small craft harbor facility. The loan amount is for a maximum of \$280, of which the City had drawn down \$275 as of June 30, 2003. Accumulated interest calculated at 4.5% per annum totals \$9 through June 30, 2003, and will be recognized as an expenditure when paid. Repayment of the loan is to begin on August 1, 2003, and the term of the agreement is for ten years commencing on September 3, 2001.

The City entered into two loan guarantee agreements with the U.S. Department of Housing and Urban Development to complete redevelopment projects. The loan amounts are for a maximum of \$3,000 and \$10,000 each, of which the City has drawn down \$3,000 and \$5,425, respectively, as of June 30, 2003. Accumulated interest per annum totals \$185 through June 30, 2003, and will be recognized as an expenditure when paid. Repayment of these loans began on January 23, 2001, and the terms of these agreements are for 19 and 13 years, respectively, commencing on January 3, 2001. Principal of \$430 was paid on these loans during Fiscal Year 2003; \$155 and \$275 respectively.

Annual debt service requirements to maturity of loans payable are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$ 397	\$ 462
2005	424	443
2006	455	422
2007	486	398
2008	517	372
2009 - 2013	3,147	1,372
2014 - 2018	2,110	488
2019 - 2020	734	73
Total	<u>\$ 8,270</u>	<u>\$ 4,030</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 portions of the liability have been recorded.

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**6. LONG-TERM DEBT (Continued)**

***Claims and Judgments***

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 3%. See Notes 11 and 12 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:

	<b>Long-Term</b>	<b>Current</b>	<b>Total</b>
General liability	\$ 2,117	\$ 1,125	\$ 3,242
Workers' compensation	32,849	6,224	39,073
Health insurance	-	2,741	2,741
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 34,966</u>	<u>\$ 10,090</u>	<u>\$ 45,056</u>

***Advances From Other Governments***

	<b>Water Utility</b>	<b>Stormwater Utility</b>	<b>Total</b>
Federal Drought Relief Act	\$ 938	\$ -	\$ 938
Federal Clean Water Act	-	483	483
	<hr/>	<hr/>	<hr/>
Total	938	483	1,421
Less current portion	-	155	155
	<hr/>	<hr/>	<hr/>
Long-term portion	<u>\$ 938</u>	<u>\$ 328</u>	<u>\$ 1,266</u>

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

**6. LONG-TERM DEBT (Continued)**

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, 2003 advances totaled \$938. The loan will bear interest at 5% per annum and shall be for a term not to exceed 40 years. There was no interest accruing at June 30, 2003.

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, 2003 advances totaled \$483. 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. Accrued interest at June 30, 2003 was \$15.

Long-term debt activity for the year ended June 30, 2003 was as follows:

<b>Governmental activities:</b>	<b>Balance July 1, 2002</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2003</b>	<b>Due Within One Year</b>
Bonds payable:					
Special Assessment Debt with Government Commitment (1915 Act Special Assessment Bonds)	\$ 23,086	\$ 8,045	\$ (1,909)	\$ 29,222	\$ 1,287
Mello-Roos Special Tax Bonds	53,775	6,300	(7,175)	52,900	1,490
Revenue Bonds	109,415	10,445	(17,140)	102,720	4,775
Less deferred amounts:					
For issuance discounts	(596)	(455)	40	(1,011)	(47)
Total bonds payable	185,680	24,335	(26,184)	183,831	7,505
Certificates of participation	14,665	13,300	(205)	27,760	210
Less deferred amounts:					
For issuance discounts	-	(98)	-	(98)	(3)
Total certificates of participation	14,665	13,202	(205)	27,662	207
Loans payable	8,680	20	(430)	8,270	397
Compensated absences	19,861	473	(1,704)	18,630	9,442
Claims and judgments	31,178	14,445	(567)	45,056	10,090
Governmental activities - long-term debt	<u>\$ 260,064</u>	<u>\$52,475</u>	<u>\$ (29,090)</u>	<u>\$ 283,449</u>	<u>\$ 27,641</u>

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

**6. LONG-TERM DEBT (Continued)**

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$789 of internal service funds compensated absences and \$45,056 of internal service fund claims and judgments are included in the above amounts. The remaining amounts are related to governmental funds, of which the compensated absences are generally liquidated by the General Fund.

<b>Business-type activities</b>	<b>Balance July 1, 2002</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2003</b>	<b>Due Within One Year</b>
Bonds payable:					
Special Assessment Debt with Government Commitment (Central Parking District)	\$ 210	\$ -	\$ (210)	\$ -	\$ -
Mello-Roos Special Tax Bonds	6,180	-	-	6,180	6,180
Revenue Bonds	14,280	-	-	14,280	440
Less deferred amounts:					
For issuance discounts	(296)	-	14	(282)	(14)
Deferred amount for refunding	(668)	-	193	(475)	(119)
Total bonds payable	<u>19,706</u>	<u>-</u>	<u>(3)</u>	<u>19,703</u>	<u>6,487</u>
Certificates of participation	111,690	14,135	(15,970)	109,855	1,640
Less deferred amounts:					
For issuance discounts	(426)	(214)	17	(623)	(17)
Deferred amount for refunding	(5,898)	-	343	(5,555)	(343)
Total certificates of participation	<u>105,366</u>	<u>13,921</u>	<u>(15,610)</u>	<u>103,677</u>	<u>1,280</u>
Compensated absences	2,699	184	(476)	2,407	1,015
Advances from other governments	1,623	-	(202)	1,421	155
Water extension agreements	11	-	(11)	-	-
Business-type activities - long-term debt	<u>\$ 129,405</u>	<u>\$ 14,105</u>	<u>\$ (16,302)</u>	<u>\$ 127,208</u>	<u>\$ 8,937</u>

**Advance and Current Refundings**

Governmental Activities – The City issued \$10,445 of SPFA refunding revenue bonds for a current refunding of \$10,790 of special assessment debt. The refunding was undertaken to reduce total future debt service payments. The transaction resulted in an economic gain of \$111 and a reduction of \$6,086 in future debt service payments.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 6. LONG-TERM DEBT (Continued)

In addition, the City issued \$6,300 of refunding special tax bonds for a current refunding of \$6,415 of Mello-Roos special assessment debt. The transaction resulted in an economic loss of (\$1,839) and a reduction of \$2,123 in future debt service payments.

Business-type activities – The City and the Stockton Public Financing Authority issued \$14,135 of Certificates of Participation to advance refund all of the outstanding 1993 Wastewater Certificates amounting to \$14,035. As a result, the refunded certificates are considered to be defeased and the liability has been removed from the business-type activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by \$13,907 and resulted in an economic gain of \$6,776.

#### ***Prior Year Defeasance of Debt***

In prior years, the City and the SPFA defeased certain long-term 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, 2003, the outstanding balances of the bonds considered defeased were as follows:

City of Stockton Community Facilities District No. 1, Series 308 (Weston Ranch Special Tax Bonds)	\$ 3,050
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In addition, 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, 2003, the outstanding balance considered defeased is as follows:

1995 Certificates of Participation - Sanitary Wastewater Utility Fund	\$ 39,405
1993 Certificates of Participation - Water Utility Fund	\$ 14,930
1993 Certificates of Participation - Wastewater Utility Fund	\$ 14,035

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

**7. 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, nor 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, 2003, there were seven series of revenue bonds outstanding, with an aggregate principal amount payable of \$126,345.

**8. NATURE AND PURPOSE OF REPORTED RESERVES AND DESIGNATIONS**

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.

A summary of reported reserves and designations by fund at June 30, 2003 follows:

	<b>Governmental Activities</b>					<b>Total</b>
	<b>General</b>	<b>Public Facilities Impact Fees</b>	<b>Capital Improvement</b>	<b>Redevelopment Agency</b>	<b>Other</b>	
<b>Reserves:</b>						
Encumbrances	\$ 977	\$ 2,400	\$ 3,665	\$ 270	\$ 3,536	\$ 10,848
Advances	3,039	449	19,287		53,620	76,395
Debt service	-	-	-		35,120	35,120
Loan commitment	324	-	1,193		-	1,517
Low- and moderate-income housing	-	-	-	1,047	496	1,543
Endowments	-	-	-		1,383	1,383
Other items	1,915	277	132	40	5,589	7,953
<b>Total reserves</b>	<b>\$ 6,255</b>	<b>\$ 3,126</b>	<b>\$ 24,277</b>	<b>\$ 1,357</b>	<b>\$ 99,744</b>	<b>\$ 134,759</b>
<b>Designations:</b>						
Termination pay	\$ 1,166	\$ -	\$ -	\$ -	\$ 132	\$ 1,298
Infrastructure	2,470	-	-		-	2,470
Economic uncertainties	8,129	-	-		-	8,129
<b>Total designations</b>	<b>\$ 11,765</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 132</b>	<b>\$ 11,897</b>

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)

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

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

**Advances**—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; and 4) Advance for new Emergency Medical Transport fund to assist with start-up costs.

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

**Loan Commitment** – For loans to new Emergency Medical Transportation Fund to assist with funding start-up costs. Fund was established July 1, 2002.

**Low- and Moderate-Income Housing** – Set aside for eligible low- and moderate-income family housing.

**Endowments** – Set aside for various endowments, of which the majority has been set aside for the arts.

**Other Items** – To offset miscellaneous assets that do not represent expendable available financial resources, including the fair value adjustment of investments.

**Termination Pay** – To cover the employee separation pay and vacation sellback for all General Fund departments and for the City-County Library Fund.

**Infrastructure** – Set aside for future downtown revitalization activities.

**Economic Uncertainties** – Set aside for unforeseen budgetary requirements of the City.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 9. 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 credits. 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 rate for Safety members was 15.744% 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.

**Annual Pension Cost** - For the year ended June 30, 2003, the City's annual pension cost of \$6,826 for the Safety Plan and \$0 for the Miscellaneous Plan were equal to the City's required contributions. The required contributions were determined as part of the June 30, 2000 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 as of June 30, 2002 was 15 years for the Safety Plan and 18 years for the Miscellaneous Plan.

# CITY OF STOCKTON

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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### 9. PENSION PLAN (Continued)

#### SAFETY PLAN

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ 6,826	100 %	\$ -
6/30/02	3,940	100	-
6/30/01	4,312	82	761

#### MISCELLANEOUS PLAN

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$ -	100 %	\$ -
6/30/02	-	100	-
6/30/01	-	100	-

### 10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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, \$1,000 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 18 member entities, which represents 74 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.

**CITY OF STOCKTON**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar amounts in thousands)**

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**10. RISK MANAGEMENT (Continued)**

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, 2003, \$3,242, \$39,073, and \$2,741 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 three percent interest rate.

The claims liabilities above, reported in the respective internal service funds at June 30, 2003, 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, 2003 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.

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

	<u>Liability</u>	<u>Workers' Compensation</u>	<u>Health</u>	<u>Total</u>
Balance, June 30, 2001	\$ 5,112	\$ 18,997	\$ 1,932	\$ 26,041
Claims incurred	199	11,013	15,923	27,135
Claims paid	(1,502)	(5,064)	(15,432)	(21,998)
Balance, June 30, 2002	3,809	24,946	2,423	31,178
Claims incurred	357	22,089	19,997	42,443
Claims paid	(924)	(7,962)	(19,679)	(28,565)
Balance, June 30, 2003	<u>\$ 3,242</u>	<u>\$ 39,073</u>	<u>\$ 2,741</u>	<u>\$ 45,056</u>

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 11. 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 18 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 \$1,000 and \$24,000. These deposits are subject to retrospective adjustments.

***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.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 12. 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 employees retired for disability may qualify at a younger age. Other miscellaneous employees receive a PERS retirement allowance with 15 or more years of service at age 50 or 55. Full medical benefits are continued until age 65, but with a maximum of 15 years. 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, 525 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 \$5,652 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 who contributed paid \$121.50 toward their own coverage or to cover their dependents.

#### 13. 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.

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 11 and 12.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 13. CONTINGENT LIABILITIES (Continued)

**Construction Commitments** - The City is undertaking a number of capital improvement projects, the most significant of which include the following at June 30, 2003:

• Wastewater Utility	\$ 6,637
• Fox Theater renovation	2,628
• Police and Fire Stations	1,513
• City Parks	825
• Water Utility	702
• Street Improvements	346

#### 14. DEFICIT FUND BALANCE AND UNFUNDED LIABILITIES

- The Redevelopment Agency Capital Projects Fund had a deficit fund balance of \$25,006 at June 30, 2003 primarily as a result of expenditures incurred in advance of receipt of revenues. It is the intent of the City's Redevelopment Agency to fund this deficit from future tax increments and other revenues.
- The Emergency Medical Transportation Fund has a deficit fund balance of \$1,201 at June 30, 2003 due to timing difference between expenditures and reimbursements from insurances yet to be received. The City's Emergency Medical Transportation Fund is expected to be self-supporting within the next five years.
- 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 \$2,117 and a deficit in net assets of \$882. The cash balance of the fund at June 30, 2003 is \$2,371. The City will fund the deficit 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 \$32,849 and a deficit in net assets of \$34,847. The cash balance of the fund at June 30, 2003 is \$4,793. The City will fund the deficit over time by adjusting the rates paid by city funds.

# CITY OF STOCKTON

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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### 14. DEFICIT FUND BALANCE 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 Health Benefits Fund has a current liability for claims of \$2,741 and a deficit in net assets of \$3,200. The City will fund the deficit over time by adjusting the rates paid by city funds.

### 15. OPERATING LEASES

Operating lease obligations are primarily for rental of parking facilities space. Total expenditures for leases were \$135 for the year ended June 30, 2003. The future minimum lease payments required for those operating leases are as follows:

June 30,	Amount
2004	\$ 123
2005	111
2006	117
2007	122
2008	128
2009-2013	591
2014-2018	<u>584</u>
Total	<u>\$ 1,776</u>

### 16. RESTATEMENT OF BEGINNING NET ASSETS

Governmental funds' beginning fund balances have been restated as follows:

#### Prior period adjustments:

1. The City's omitted construction in progress expenditures for infrastructure incurred prior to June 30, 1999 when it initially recorded its infrastructure for governmental activities under GASB 34 in the prior year.
2. Certain expenditures related to capital assets donated to the City were capitalized in error rather than being properly recorded as public works expenditures in the prior year.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 16. RESTATEMENT OF BEGINNING NET ASSETS (Continued)

	<b>Governmental Activities</b>
Net asset, beginning of year, as originally reported	\$ 342,075
Infrastructure CIP	21,173
Mello-Roos capital outlay	(6,365)
	<u>14,808</u>
Net assets, beginning of year, restated	<u>\$ 356,883</u>

#### 17. SUBSEQUENT EVENTS

On September 10, 2003, the City authorized and issued \$18,185 of Limited Obligation Improvement Bonds for the Mosher Assessment District No. 2003-02. The new bonds are being issued to finance the construction and acquisition of certain public facilities of benefit to Mosher Assessment District. The bonds are issued pursuant to the provisions of the Improvements Act of 1915, consisting of Division 10 of the Streets and Highways Code of the State of California. The interest rates range from 2.75% to 6.30% and the bonds will mature on September 2, 2033.

On November 19, 2003, the City authorized and issued \$3,250 of Camera Estates Community Facilities District No. 2003-1 Special Tax Bonds, Series 2003. The new bonds are being issued to finance the construction and acquisition of certain public facilities of benefit to Camera Estates. 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 interest rates range from 1.75% to 5.90% and the bonds will mature on September 1, 2033.

## CITY OF STOCKTON

### NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar amounts in thousands)

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#### 18. FUTURE GASB PRONOUNCEMENTS

In, May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*. An objective of Statement No. 14, *The Financial Reporting Entity*, is that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. This Statement amends Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. GASB 39 is effective for fiscal year 2003/2004; however, at this time, the City is not aware of any affiliated organization, which meets the criteria for inclusion in its reporting entity.

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. The Statement amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and addresses additional risks to which governments are exposed. The provisions of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Earlier application is encouraged.

The City is currently analyzing the impact of the required implementation of these new statements in fiscal year 2004.

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

*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, 2003. 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.

OFFICE LOCATIONS

Sacramento • Los Angeles • Fresno • San Francisco Bay Area

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, 2003. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-

#### *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 basic financial statements of the City, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 5, 2003. Our audit was performed for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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.

*Macias, Gini & Company, LLP*  
Certified Public Accountants

Sacramento, California  
November 5, 2003



Macias, Gini & Company LLP  
Certified Public Accountants and  
Management Consultants

City Council  
City of Stockton  
Stockton, California

*Partners*

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

We have audited the basic financial statements of the City of Stockton, California (City), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 5, 2003. 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 basic 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 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*, however, we noted other matters involving the compliance, which we have reported to management of the City in a separate letter dated December 18, 2003.

OFFICE LOCATIONS

Sacramento • Los Angeles • Fresno • San Francisco Bay Area

### *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 opinions on the basic 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 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 basic 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, which we have reported to management of the City in a separate letter dated December 18, 2003.

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.

*Macias, Gini & Company, LLP*  
Certified Public Accountants

Sacramento, California  
November 5, 2003

**CITY OF STOCKTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar Amounts in Thousands)**

**Federal Department**

Federal Agency

Pass-Through Agency (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
<b>Department of Housing and Urban Development</b>							
Direct							
Community Development Block Grants	14.218	07/01/85-06/30/03		\$ 4,674	\$ 1,086	\$ 4,907	\$ 120
Emergency Shelter Grants Program	14.231	03/06/90-06/30/02		200	-	202	-
HOME Investment Partnerships Program	14.239	07/08/92-06/30/02		1,090	561	724	90
Economic Development Initiatives	14.246	01/01/01-06/30/02		353	-	353	-
Housing Authority of the County of San Joaquin							
Public Housing Drug Elimination Program P & R	14.854	01/01/01-12/31/01	CA-024	57	-	49	-
Public Housing Drug Elimination Program P & R	14.854	12/10/97-12/08/01	CA-024	120	-	140	-
Total Public and Indian Housing Drug Elimination Program				177	-	189	-
<b>Total Department of Housing and Urban Development</b>				<b>6,494</b>	<b>1,647</b>	<b>6,375</b>	<b>210</b>
<b>Department of Justice</b>							
Direct							
COPS MORE 98	16.710	04/01/99-12/31/01	98CLWX0207	564	-	561	-
COPS MORE 2000	16.710	09/01/00-08/31/02	2000CLWX0015	3	8	11	-
Total Public Safety Partnership and Community Policing Grants				567	8	572	-
Direct							
Local Law Enforcement Block Grants	16.592	10/01/00-09/30/02	01-LB-VX-2730	-	-	320	35
Direct							
Nunn-Lugar-Domenici Preparedness Equipment		03/01/02-02/28/05	2002-TE-CX-0050	-	-	202	-
State of California Office of Criminal Justice Planning							
Peacekeeper Enhancements	16.523	04/01/01-03/31/02	IP99018019	140	-	11	1
Peacekeeper Enhancements	16.523	04/01/02-03/31/03	IP00018019	170	-	207	23
Total Juvenile Accountability Incentive Block Grants				310	-	218	24
Special Unit Combating Violence Against Women	16.588	06/29/98-06/30/02	LE97018019	32	-	(2)	-
Special Unit Combating Violence Against Women	16.588	06/28-98-06/30/03	LE97018019	63	-	103	30
Total Spec Unit Combating Violence Against Women				95	-	101	30
San Joaquin County District Attorney's Office							
Cracnet Grant	16.579	07/01/84-06/30/02	DC94020390	-	-	125	-
<b>Total Department of Justice</b>				<b>972</b>	<b>8</b>	<b>1,538</b>	<b>89</b>

See notes to the schedule of federal expenditures.

**CITY OF STOCKTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2003  
(Dollar Amounts in Thousands)**

**Federal Department**

Federal Agency

Pass-Through Agency (if not direct)

Program Title

CFDA

No.

Grant

Period

Grant

Number

Receipts

Federal Local

Expenditures

Federal Local

**Department of Transportation**

State Department of Transportation

ISTEA-Fresno St. Traffic Signals

20.205

09/16/96-06/30/03

STPL-5008(019)

7

-

-

-

ISTEA-Traffic Signals Control

20.205

06/09/95-06/30/02

CML-STPL-5008(020)

357

-

473

-

ISTEA-California Street Rehab/EI Dorado St.

20.205

10/01/96-06/30/01

STPL-5008(024)

-

-

14

-

ISTEA-Fresno Ave./Harbor St. Recon

20.205

10/01/96-06/30/02

STPLN-5008(025)

495

-

42

-

ISTEA-West Lane Rehab

20.205

11/01/96-06/30/01

STPL-5008(026)

-

-

3

-

ISTEA-Charter Way Enhancements

20.205

04/03/00-06/30/02

STPL-5008(028)

8

-

-

-

ISTEA-Pershing/Smith Canal Bridge

20.205

01/13/97-06/30/02

BHLS-5008(029)

16

-

34

-

ISTEA-Pacific/Calaveras Bridge

20.205

02/13/97-06/30/03

STPLZ-5008(031)

69

-

29

-

ISTEA-Quail Lakes Traffic Signals

20.205

03/23/93-06/30/02

STPGH-5008(033)

-

-

(2)

-

ISTEA-Benjamin Holt/Herndon Traffic Signal

20.205

11/15/99-06/30/01

CML-5008(043)

192

-

34

-

ISTEA-Charter Way Improvements Phase II

20.205

05/25/00-06/30/02

STPL-5008(044)

474

-

490

-

ISTEA-Weber St. Improvements

20.205

09/06/00-06/30/02

STPLER-5008(045)

1,781

-

1,670

-

ISTEA-Pershing/Acacia Traffic Signal

20.205

07/24/01-06/30/02

STPLHG-5008(049)

25

-

13

-

ISTEA-March Ln/EI Dorado Traffic Signal

20.205

07/24/01-06/30/02

CML-5008(050)

-

-

10

-

ISTEA-Swain Rd Traffic Signal

20.205

08/10/01-06/30/02

CML-5008(051)

384

-

476

-

ISTEA-Swain/Pacific Ave UPRR Traffic Xing

20.205

07/24/01-06/30/02

STPLH-5008(052)

15

-

18

-

ISTEA-Surface Program Overlay

20.205

09/17/01-06/30/02

STPL-5008(054)

4,119

-

3,884

-

ISTEA-Sperry Rd - Perf/French Camp

20.205

08/26/02-06/30/04

NCPD-5008(059)

341

-

267

-

ISTEA-Pershing/Harding NB/SB Light

20.205

01/08/03/06/30/04

STPLH-5008(061)

1

-

56

-

ISTEA-Airport/Miner Traffic Signal Mod

20.205

01/07/03/06/30/04

STPLH-5008(062)

2

-

4

-

ISTEA-Pacific Ave Raised Median Mod

20.205

01/02/03/06/30/04

STPLH-5008(063)

1

-

15

-

ISTEA-Davis Rd/Pixley Slough Bridge

20.205

03/27/03/06/30/04

BRLS-5008(055)

-

-

9

-

Total Highway Planning and Construction

8,287

-

7,539

-

State of California Office of Traffic Safety

DUI/Speed Enforcement & Education Program

20.600

04/01/00-06/30/02

PT0061

28

-

71

-

Total Department of Transportation

8,315

-

7,610

-

**Department of Treasury**

Direct

Gang Resistance Education and Training

21.053

01/16/02-01/15/03

ATC020205

73

-

67

-

**Environmental Protection Agency**

Direct

Water Vulnerability Assessments Grant

66.

06/01/02-12/31/03

HS-82999201-2

59

-

60

-

Superfund - Brownfields Program

66.

03/15/96-03/15/02

V 9999446-01-0

107

-

103

-

Stockton Channel

66.

09/01/99-08/31/02

X-989370-01-0

403

-

195

-

Total Environmental Protection Agency

569

-

358

-

**Department of Health and Human Services**

Direct

Metro Med Response System

93.

01/04/02

220

-

76

-

Passed through Lao Khmu Association, Inc.

Lau Khmu Association Grant

10/29/02-10/29/05

06CTY37700201

55

-

64

-

Total Department of the Interior

275

-

140

-

**TOTAL FEDERAL ASSISTANCE**

\$ 16,698

\$ 1,655

\$ 16,088

\$ 299

**RECONCILIATION TO THE CITY OF STOCKTON FINANCIAL STATEMENTS:**

Governmental Funds:

Capital Improvement

\$ 15,300

Other Governmental

298

Proprietary Funds:

Internal Service

560

Total federal grants and subsidies revenue

## **CITY OF STOCKTON**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2003**

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#### **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, 2003. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on this schedule. The City's reporting entity is defined in Note 1 to the City's 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 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 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 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)  
FOR THE YEAR ENDED JUNE 30, 2003**

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**NOTE C – SUBRECIPIENTS**

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

<u>Federal Agency</u>	<u>Federal CFDA #</u>	<u>Subrecipient</u>	<u>Amt Paid in FY 02 - 03</u>
Department of Housing and Urban Development			
Community Development Block Grant (CDBG)	14.218	San Joaquin Fair Housing	\$ 88
		San Joaquin Delta College	29
		Greater Stockton Chamber of Commerce	79
		Ebenezer Economic Development	38
		African American Chamber of Commerce	4
Emergency Shelter Grant	14.231	Gospel Center Rescue Mission	35
		Women's Center	30
		Stockton Shelter for the Homeless	68
		Haven of Peace	23
		St Mary's Interfaith Dining Room	36
		Center for Positive Prevention	
		Alternatives	4
		Women's Center of SJCO	6
HOME Program	14.239	Accociacion Campesina Lazaro Cardenas, Inc. (ACLC)	28
			<hr/> <u>\$ 468</u>

# CITY OF STOCKTON

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2003

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### 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 \$31,689 at June 30, 2003. 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 financial statements.

**Grant No. IP00018019** – The City reported total cumulative expenditures for the period April 1, 2002 through June 30, 2003 Form 201 as follows (dollar amounts in thousands):

	Budget	Actual	Variance
Personal Services	\$ 230	\$ 230	\$ -
	<u>\$ 230</u>	<u>\$ 230</u>	<u>\$ -</u>

Reconciliation to the Schedule of Expenditures of Federal Awards

	Federal	Local	Total
Reported for fiscal year ended June 30, 2001	\$ 11	\$ 1	\$ 12
Reported for fiscal year ended June 30, 2002	360	40	400
Reported for fiscal year ended June 30, 2003	<u>207</u>	<u>23</u>	<u>230</u>
	<u>\$ 578</u>	<u>\$ 64</u>	<u>\$ 642</u>

**CITY OF STOCKTON**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)  
FOR THE YEAR ENDED JUNE 30, 2003**

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**NOTE E – OFFICE OF CRIMINAL JUSTICE PLANNING (Continued)**

**Grant No. LE97018019** – The City reported total cumulative expenditures for the period July 1, 2002 through June 30, 2003 Form 201 as follows (dollar amounts in thousands):

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Personal Services	\$ 101	\$ 101	\$ -
Operating Expenses	<u>44</u>	<u>44</u>	<u>-</u>
	<u>\$ 145</u>	<u>\$ 145</u>	<u>\$ -</u>

Reconciliation to the Schedule of Expenditures of Federal Awards

	<b>Federal</b>	<b>Local</b>	<b>Total</b>
Reported for fiscal year ended June 30, 2002	\$ 103	\$ 42	\$ 145
Reported for fiscal year ended June 30, 2003	<u>101</u>	<u>30</u>	<u>131</u>
	<u>\$ 204</u>	<u>\$ 72</u>	<u>\$ 276</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, 2003.

**Grant No. DC94020390** – The City reported total cumulative expenditures for the period July 1, 2002 through June 30, 2003 Form 201 as follows (dollar amounts in thousands):

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Personal Services	\$ -	\$ -	\$ -
Operating Expenses	<u>160</u>	<u>125</u>	<u>35</u>
	<u>\$ 160</u>	<u>\$ 125</u>	<u>\$ 35</u>

# CITY OF STOCKTON

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2003

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### NOTE E – OFFICE OF CRIMINAL JUSTICE PLANNING (Continued)

Reconciliation to the Schedule of Expenditures of Federal Awards

	Federal	Local	Total
Reported for fiscal year ended June 30, 2002	\$ 145	\$ -	\$ 145
Reported for fiscal year ended June 30, 2003	<u>125</u>	<u>-</u>	<u>125</u>
	<u><u>\$ 270</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 270</u></u>

# CITY OF STOCKTON

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2003 (Dollar Amounts in Thousands)

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### 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 § 510(a) of Circular A-133?	No
Identification of major programs:	
CFDA #16.710 COPS MORE	
CFDA #20.205 Highway Planning and Construction	
Dollar threshold used to distinguish between Type A and Type B programs:	\$300
Auditee qualified as low-risk auditee?	Yes

# CITY OF STOCKTON

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2003 (Dollar Amounts in Thousands)

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### Section II – Financial Statement Findings

No matters were reported.

### Section III – Federal Award Findings and Questioned Costs

No matters were reported.

## **CITY OF STOCKTON**

### **STATUS OF PRIOR YEAR FINDING AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2003**

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#### **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.

#### **Prior Year 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.

## CITY OF STOCKTON

### STATUS OF PRIOR YEAR FINDING AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2003

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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.

**Status:** *The City was not able to provide written verification during the current-year audit; therefore, this recommendation was not implemented and is still a finding in the current year.*

**Current Year Management Response** – The City established a separate bank account on December 6, 2002 to comply with the Section 108 Loan Guarantee agreement. The account includes a sweep feature that will invest excess deposits greater than \$100,000 in government securities. Accounting will forward copies of the monthly bank statement to HUD as required on a timely basis.

**Status** - *Implemented*