

**CITY OF STOCKTON**

**SINGLE AUDIT REPORTS**

**FOR THE YEAR ENDED JUNE 30, 2004**

# CITY OF STOCKTON

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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, 2004, 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, 2004, 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 October 25, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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.

*Macios, Grini & Company LLP*

Certified Public Accountants

Sacramento, California  
October 25, 2004

## 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, 2004. Please consider the information presented here in conjunction with the 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

- At the close of the 2004 fiscal year, the City's assets exceeded its liabilities by \$840,944 (net assets). Of this amount, \$136,084 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors, \$112,856 is restricted for specific purposes (restricted net assets), and \$592,004 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$86,275. Governmental activities accounted for \$62,502 of this increase and business-type activities accounted for the remaining \$23,773. Contributions of capital assets from developers and development related fees were the key drivers of the increase in net assets.
- Overall investment earnings decreased by \$7,311, primarily due to the recognition at June 30 of a \$6,082 net decrease in fair value of investments. In addition, the average rate of return on the City's general investment pool dropped from 3.23% in fiscal year 2003 to 2.56% in fiscal year 2004, resulting in a decrease of \$1,860 in interest income.
- The City's long-term liabilities related to governmental activities increased by \$72,926 (26%) at fiscal year end. The key factors in this increase were the issuance of \$24,645 of 1915 Act Special Assessment Bonds, \$3,250 of Mello-Roos Special Tax Bonds, \$47,000 of Revenue Bonds for the Events Center-Arena project, and an increase of \$1,774 in the allowance for workers' compensation self-insurance claims and judgments.
- Long-term liabilities related to enterprise funds increased by \$22,700, primarily due to the issuance of \$32,785 of Lease Revenue Bonds for parking and capital projects.
- As of June 30, 2004, 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 \$297,939.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. In addition to the basic financial statements, this report includes other supplementary information. **Government-wide Financial Statements** are designed to provide readers with a broad overview of the City's finances and information about the activities of the City as a whole.

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. The difference between the two is reported as net assets. Over time, increases or decreases in net assets and liabilities may serve as a useful indicator of whether the City's financial position 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 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 15-17 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 legal reporting 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 fund financial statements focus on how financial assets can readily be converted to available resources and 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 (the General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund). 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 22-31 of this report.

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

- **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Water Utility, Sanitary Wastewater Utility, Stormwater Utility and Central Parking District, 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, 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 32-39 of this report.

**Fiduciary Fund.** The fiduciary fund is used to account for resources held for the benefit of parties outside the government. The City's only fiduciary fund, the Agency Fund, is not reflected in the government-wide financial statements since the resources of the fund are not available to support the City's own programs. The basic fiduciary fund financial statement can be found on page 40 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 41-76 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 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

As noted earlier, net assets may serve as a useful indicator of a government's financial position. City assets exceeded liabilities by \$840,944 at the close of the fiscal year, which is an \$86,275 (11%) increase from fiscal year 2003.

The largest component of the City's net assets is its investment of \$592,004 (70%) in capital assets (e.g., land and easements, buildings and improvements, infrastructure, and equipment), less any related outstanding debt used to acquire these assets. Capital assets contributed by developers traditionally account for significant growth in the City's net 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 to reduce these liabilities.

### City of Stockton's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets:</b>						
Current and other assets	\$362,058	\$295,373	\$154,508	\$137,730	\$ 516,566	\$433,103
Capital assets	461,743	386,754	410,329	375,115	872,072	761,869
Total assets	823,801	682,127	564,837	512,845	1,388,638	1,194,972
<b>Liabilities:</b>						
Long-term liabilities	356,375	283,449	149,908	127,208	506,283	410,657
Other liabilities	29,417	23,171	11,994	6,475	41,411	29,646
Total liabilities	385,792	306,620	161,902	133,683	547,694	440,303
<b>Net assets:</b>						
Invested in capital assets, net of related debt	289,507	215,070	302,497	265,548	592,004	480,618
Restricted	112,791	117,385	65	73	112,856	117,458
Unrestricted	35,711	43,052	100,373	113,541	136,084	156,593
Total net assets	\$438,009	\$375,507	\$402,935	\$379,162	\$ 840,944	\$754,669

An additional portion of the City's net assets, \$112,856 (14%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$136,084 (16%), may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net assets decreased by \$20,509 (13%) from fiscal year 2003.

Governmental activities accounted for \$7,341 of the decrease in unrestricted net assets. This decrease was largely due to the funding of significant construction costs related to the Stockton Events Center from unrestricted net assets. In addition, expenses exceeded revenues during

the close out of the Solid Waste and Recycling Fund, as well as during the start-up of the Emergency Medical Transportation Fund. Unrestricted net assets in the Internal Service Funds increased by \$2,281 during the fiscal year.

Business-type activities accounted for \$13,168 of the decrease in unrestricted net assets. The major decreases occurred in the Water Utility (\$7,056), Sanitary Wastewater Utility (\$3,433), and the Stormwater Utility (\$2,153).

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program revenues:						
Charges for service	\$71,514	\$ 67,549	\$60,971	\$ 56,827	\$132,485	\$124,376
Operating grants and contributions	7,924	8,741	-	-	7,924	8,741
Capital grants and contributions	47,789	48,914	31,535	37,765	79,324	86,679
General revenues:						
Property taxes	28,365	23,449	-	-	28,365	23,449
Utility taxes	33,322	32,157	-	-	33,322	32,157
Sales and use taxes	40,333	36,628	-	-	40,333	36,628
Other taxes	35,685	35,378	675	596	36,360	35,974
Grants and contributions not restricted to specific programs	13,338	16,693	-	1,909	13,338	18,602
Investment earnings	1,243	5,310	808	4,052	2,051	9,362
Gain on sale of capital assets	496	449	76	-	572	449
Other	1,652	2,896	-	-	1,652	2,896
Total revenues	281,661	278,164	94,065	101,149	375,726	379,313
<b>Expenses</b>						
General government	17,562	15,454	-	-	17,562	15,454
Public safety	125,837	126,815	-	-	125,837	126,815
Public works	42,848	46,031	-	-	42,848	46,031
Library	11,530	11,594	-	-	11,530	11,594
Parks and recreation	15,854	15,397	-	-	15,854	15,397
Interest and fiscal charges	13,081	11,954	-	-	13,081	11,954
Water utility	-	-	15,548	14,672	15,548	14,672
Sanitary wastewater utility	-	-	32,674	29,427	32,674	29,427
Stormwater utility	-	-	6,910	5,657	6,910	5,657
Central parking district	-	-	2,585	2,260	2,585	2,260
Other	-	-	5,022	4,991	5,022	4,991
Total expenses	226,712	227,245	62,739	57,007	289,451	284,252
Increase in net assets before transfers	54,949	50,919	31,326	44,142	86,275	95,061
Transfers	7,553	6,477	(7,553)	(6,477)	-	-
Increase in net assets	62,502	57,396	23,773	37,665	86,275	95,061
Net assets, beginning of year, as restated	375,507	318,111	379,162	341,497	754,669	659,608
Net assets, end of year	\$438,009	\$375,507	\$402,935	\$379,162	\$840,944	\$754,669

**Governmental Activities.** Governmental activities accounted for \$62,502 or 72% of the total increase in the City's net assets. The increase reflects the continuing boom in both residential and commercial development activities. The key factors impacting the change in net assets are:

- Continued high levels of development
- An increase in the rates of public facilities fees

Over 80% of the increase in net assets can be attributed to contributions of capital assets from developers and public facilities fees, \$22,419 and \$28,122 respectively.

As a result of new development the City's governmental activities also realized:

- Increased property tax revenues of \$4,916
- Increased sales tax revenues of \$3,705

The openings of Park West Place located in Spanos Park West, Golden State Lumber in South Stockton, and a mini power center at Hammer Lane and Lower Sacramento Road in North Stockton contributed to the growth in sales tax revenue.

Investment earnings in governmental activities decreased by \$4,067 as discussed in the Financial Highlights section.

**Business-type Activities.** Business-type activities increased the City's net assets by \$23,773 or approximately 28%. The key elements of this increase are:

- Contributions of capital assets from developers:
  - Water Utility: \$5,242
  - Sanitary Wastewater Utility: \$4,054
  - Stormwater Utility: \$4,694
- Connection fees:
  - Water Utility: \$1,381
  - Sanitary Wastewater Utility: \$16,164

In fiscal year 2004 water connection fees increased approximately 2.5% on July 1, 2003 and an additional 2.5% on January 1, 2004. These increases are the first since 1995 and are based on an automatic annual inflation factor included in the fee schedule.

Investment earnings in business-type activities decreased by \$3,244 as discussed in the Financial Highlights section.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

**Governmental Funds.** The focus of the City's governmental funds is providing 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, 2004 the City's governmental funds reported combined ending fund balances of \$297,939, an increase of \$56,751 from the prior fiscal year.

Revenues for governmental functions overall totaled \$265,884 in fiscal year 2004, which represents an increase of \$5,647 from fiscal year 2003. Expenditures for governmental functions totaled \$294,942, an increase of \$25,197 from the prior fiscal year. During fiscal year ended June 30, 2004 expenditures for governmental functions exceeded revenues by \$29,058, or approximately 10.9%.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the General Fund's unreserved fund balance was \$11,730 and has been designated as follows: \$662 for termination pay, \$2,470 for infrastructure, \$3,419 for economic uncertainties, and \$5,179 for state initiated revenue reductions. As a measure of the General Fund's liquidity, it is useful to compare the unreserved fund balance designated for economic uncertainties to total fund expenditures. Unreserved fund balance designated for economic uncertainties represents approximately 2.4% of the General Fund's total expenditures of \$141,569. The total fund balance for the General Fund is \$17,847, which includes the designated unreserved fund balances of \$11,730, as mentioned above, and reserved fund balance in the amount of \$6,117.

General Fund revenues exceeded expenditures by \$5,253; however, other financing uses exceeded other financing sources by \$5,426. The net result was to decrease fund balance by \$173.

The Public Facilities Impact Fees Fund accounts for the collection and expenditure of fees imposed as a condition of new development within the City. At the end of the fiscal year, the Public Facilities Impact Fees Fund's total fund balance of \$49,618 was reported as reserved. This represents a \$2,321 increase from the prior fiscal year. Revenues which consist primarily of development related fees exceeded expenditures by \$2,520. Capital outlay expenditures totaling \$22,096 funded the construction of the North Police Substation, site preparation for the Stockton Events Center, and multiple street widening and other traffic related projects.

The Capital Improvement Fund accounts for the acquisition, construction, and improvement of capital facilities financed by grants and operating transfers from other City funds. The Capital Improvement Fund reported a reserved fund balance of \$51,045 at fiscal year end. Expenditures exceeded revenues by \$17,563; however, other financing sources exceeded other financing uses by \$14,659, resulting in a net decrease in fund balance of \$2,904. The Stockton Events Center and the Bob Hope Theatre are two of the major projects that were funded by \$20,506 in capital outlay expenditures.

The Redevelopment Agency Fund reported reserved fund balance of \$10,635 at the end of the fiscal year, an increase of \$35,641 from the prior year. The increase is attributed to the \$47,000 revenue bond issuance by the Redevelopment Agency for the City's Events Center-Arena Project, offset by expenditures which exceeded revenues by \$8,678. In addition to the Events Center-Arena Project, the Redevelopment Agency incurred capital outlay expenditures for various redevelopment projects including the Bob Hope Theatre, City Center Cinema and the Stockton Record projects.

**Proprietary Funds.** At the end of the fiscal year, the unrestricted net assets for the Water Utility were \$16,441, the Sanitary Wastewater Utility were \$78,217, the Stormwater Utility were \$6,078, and the Central Parking District were \$551. The Solid Waste and Golf Courses are combined for financial reporting purposes and together had deficit unrestricted net assets of \$914. The internal service funds had a deficit in unrestricted net assets of \$19,155.

The total growth in net assets for the proprietary funds was \$23,773. 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 an increase in net assets of \$638. This was primarily due to the increase in net assets of \$572 in the Workers' Compensation Insurance Fund, \$1,817 in the Health Benefits Insurance Fund, and \$1,628 in the Other Insurance Fund, offset by decreases of \$1,471 in the Computer Equipment Fund and \$1,366 in the Radio Equipment Fund.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an increase in appropriations of \$1,545. The majority of the increase can be attributed to increases in appropriations relating to public safety of \$357 and general government activities of \$703.

During the year, actual revenues exceeded budgetary estimates by \$869.

Some key revenues that exceeded budgetary estimates are as follows:

- An additional \$2,219 in property taxes, reflecting the continued growth in new homes and assessed valuations
- \$2,483 in sales and use tax due to the economy gaining strength and the growth in commercial development discussed earlier
- \$1,274 in other taxes (including business licenses and documentary transfer tax) because of the healthy business climate and strong re-sale market

The above increases were offset by a revenue shortfall of \$4,074 in intergovernmental revenues, as a result of the decrease in motor vehicle license fees (VLF), due to State reductions.

## 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, 2004 amounts to \$872,072. 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 fiscal year was 14.5% (a 19.4% increase for governmental activities and a 9.4% increase for business-type activities) as shown in the table below.

### Changes in Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 28,498	\$ 27,142	\$ 12,370	\$ 7,248	\$ 40,868	\$ 34,390
Buildings & Improvements	21,319	15,871	368,815	358,218	390,134	374,089
Machinery & Equipment	11,561	12,345	3,205	3,345	14,766	15,690
Infrastructure	214,738	186,111	-	-	214,738	186,111
Construction in Progress, as restated	185,627	145,285	25,939	6,304	211,566	151,589
<b>Total</b>	<b>\$461,743</b>	<b>\$386,754</b>	<b>\$410,329</b>	<b>\$375,115</b>	<b>\$872,072</b>	<b>\$761,869</b>

Additional information on the City's capital assets can be found in Note 5 on pages 56-57 of this report.

**Long-term debt.** At the end of the fiscal year, the City's total outstanding bonded debt was \$428,268. Of this amount, \$148,374 is revenue bonds and certificates of participation backed by the City's water and wastewater utilities, and the central parking district. The remainder is land-secured bond issues including \$98,015 of revenue bonds, \$54,004 of Mello-Roos bonds, and \$51,783 of special assessment bonds for various community facilities districts (CFD) and local improvement districts. In addition, there are \$48,637 of lease revenue bonds for the Events-Center Arena Project and certificates of participation with balances totaling \$27,455 for the City's Essential Services Building / Parking Structure and redevelopment housing projects.

During fiscal year 2004, the City's net bonded indebtedness increased by \$93,395. Key factors were the issuance of three new 1915 Act special assessment bonds related to three different developments within the City, \$18,014 for Mosher Estates, \$3,360 for Waterford Estates Phase II, and \$3,082 for March Lane/Holman Road; lease revenue bonds for \$32,712 for parking and capital projects along with \$48,637 to finance the Events-Center Arena Project; and \$3,220 of Mello-Roos special tax bonds related to Camera Estates development. These bond issuances totaling \$109,025 are offset by \$15,630 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.

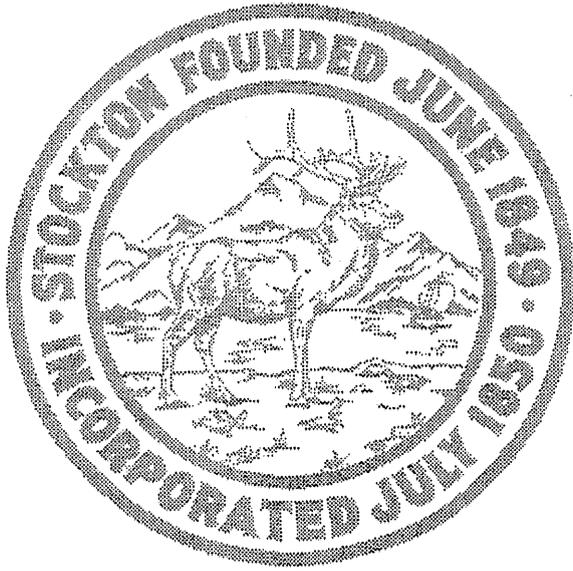
## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The current year continues to be one of economic uncertainty, in part because the State has an estimated accumulated deficit of \$20 billion. The State often resolves its budget crisis by reducing the local government's share of revenue. As a result the City will experience a \$5,413 revenue reduction over the next two fiscal years. Also, as of June 30, 2004 state mandated costs reimbursement (SB-90) claims totaling \$3,936 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 (UUT), property tax, and the motor vehicle license fee (VLF). With the exception of UUT, the proportion the City receives from each source is determined by the State. The VLF has been permanently reduced from 2% to 0.65% by the State, and while the backfill has been eliminated, it will be replaced with a like amount of property taxes.
- The City Council approved a reduction in UUT of from 8.0% to 7.75% beginning July 1, 2004. Additional reductions of .75% and 1% will commence in July 2005 and July 2006 respectively.
- The passage of Proposition 1A on the November 2, 2004 ballot restricts the State's ability to reduce local property tax and sales tax revenues thereby safeguarding funding for public safety, public works, libraries, parks and recreation, and other local services. The provisions of Proposition 1A can only be suspended if the Governor declares a fiscal necessity and two-thirds of the State Legislature approves the suspension. Suspended funds must be repaid within three years; the State is also required to fund legislative mandates on local governments or suspend their operation. The passage of proposition 1A is expected to restore some predictability and certainty to the funding needed for essential local services.
- Measure W, which was also approved on the November ballot, will increase the local sales and use tax by one-quarter of one percent beginning in the fourth quarter of the 2005 fiscal year. Revenues will be used solely to address Stockton's critical public safety needs by funding forty additional police officers to prevent gang and drug-related crimes and forty additional firefighters to improve response times to medical emergencies and fires.
- The unemployment rate for the City was 11.6% as of June 2004. Although the local unemployment rate is 5.2 percentage points higher than the State unemployment rate of 6.4%, it has remained stable since June 2003.

- The fiscal year 2005 Budget and Fee Schedule contains a number of increases in fees for services provided to the public, including cost recovery fees for development, as well as 9-1-1 and emergency services calls. A new Technology Fee will help fund equipment and programming that is required because of new development. The monies from this fee will help fund the expansion of e-government programs and cover the costs of the City's Geographical Information System (GIS) program, including the on-going maintenance for these programs. Moreover, all existing fees contain an automatic inflation adjustment.
- Sales tax revenue is expected to increase by \$3 to \$4 million per year due to the continued build out of the Park West Place power center, the opening of a Super WalMart in October 2004, and the construction of another Super WalMart in Spanos Park West.
- As of June 2004, the City executed exclusive residential and commercial solid waste, recycling, green waste and food waste agreements with two contractors. The contracts contain provisions that will increase the percentage of franchise tax revenues remitted to the City. Additionally, they are paying an AB 939 fee, which is 3.5% of their gross revenue.

## **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, 2004

(With comparative totals as of June 30, 2003)

(Dollar amounts in thousands)

	Governmental Activities	Business-Type Activities	Total	
			2004	2003
<b>ASSETS</b>				
Cash and investments	\$ 280,685	\$ 106,339	\$ 387,024	\$ 335,284
Restricted cash and investments	3,161	39,207	42,368	18,540
Interest receivable	1,024	564	1,588	1,788
Taxes receivable	514	-	514	553
Accounts receivable, net	11,605	5,930	17,535	16,981
Internal balances	1,377	(1,377)	-	-
Due from other governments	16,973	-	16,973	16,437
Inventory of supplies	163	1,209	1,372	1,377
Other assets	406	-	406	550
Advances to property owners	42,363	-	42,363	38,526
Deferred charges	3,787	2,636	6,423	3,067
Capital assets, net:				
Nondepreciable	214,125	38,309	252,434	185,979
Depreciable, net	247,618	372,020	619,638	575,890
<b>Total assets</b>	<b>823,801</b>	<b>564,837</b>	<b>1,388,638</b>	<b>1,194,972</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	15,226	8,753	23,979	12,719
Accrued payroll and benefits	3,535	-	3,535	3,614
Accrued interest	4,583	1,897	6,480	6,264
Due to other governments	359	53	412	572
Deposits and other liabilities	587	1,291	1,878	1,565
Deferred revenue	5,127	-	5,127	4,912
Long-term liabilities:				
Due within one year	28,881	2,601	31,482	36,578
Due in more than one year	327,494	147,307	474,801	374,079
<b>Total liabilities</b>	<b>385,792</b>	<b>161,902</b>	<b>547,694</b>	<b>440,303</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	289,507	302,497	592,004	480,618
Restricted for:				
Capital projects	23,478	-	23,478	23,687
Debt service	20,826	65	20,891	19,315
Other purposes	68,487	-	68,487	74,456
Unrestricted	35,711	100,373	136,084	156,593
<b>Total net assets</b>	<b>\$ 438,009</b>	<b>\$ 402,935</b>	<b>\$ 840,944</b>	<b>\$ 754,669</b>

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, 2004

(With comparative totals 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	\$ 17,562	\$ 7,962	\$ 185	\$ 308
Public safety	125,837	29,960	2,920	12
Public works	42,848	21,683	225	46,582
Library	11,530	1,859	4,097	-
Parks and recreation	15,854	10,050	497	887
Interest and fiscal charges	13,081	-	-	-
<b>Total governmental activities</b>	<b>226,712</b>	<b>71,514</b>	<b>7,924</b>	<b>47,789</b>
Business-type activities:				
Water utility	15,548	18,328	-	6,623
Sanitary wastewater utility	32,674	30,483	-	20,218
Stormwater utility	6,910	4,827	-	4,694
Central parking district	2,585	2,694	-	-
Other	5,022	4,639	-	-
<b>Total business-type activities</b>	<b>62,739</b>	<b>60,971</b>	<b>-</b>	<b>31,535</b>
<b>Total</b>	<b>\$ 289,451</b>	<b>\$ 132,485</b>	<b>\$ 7,924</b>	<b>\$ 79,324</b>

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

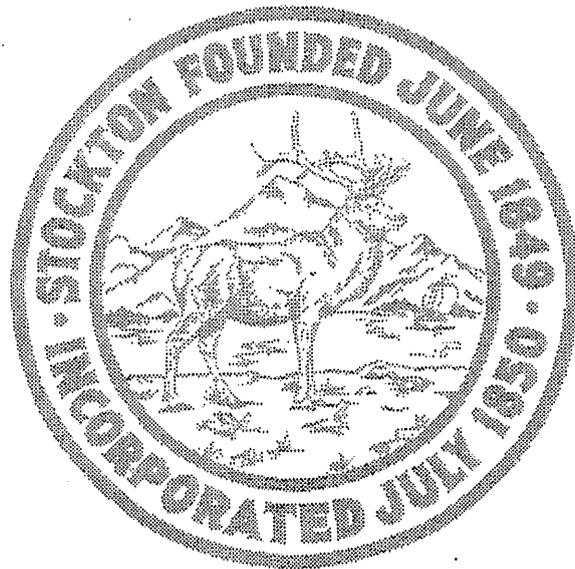
Net assets, beginning of year, restated

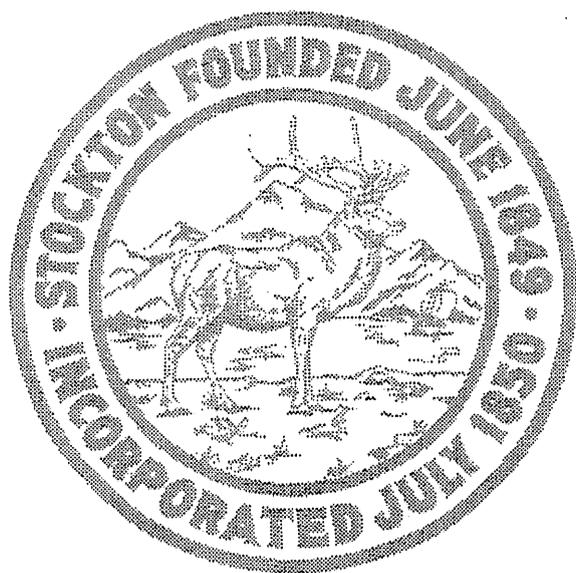
Net assets, end of year

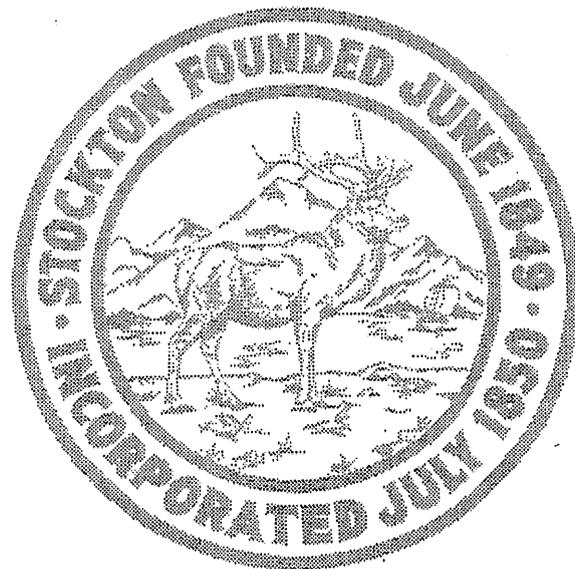
The notes to the financial statements are an integral part of this statement.

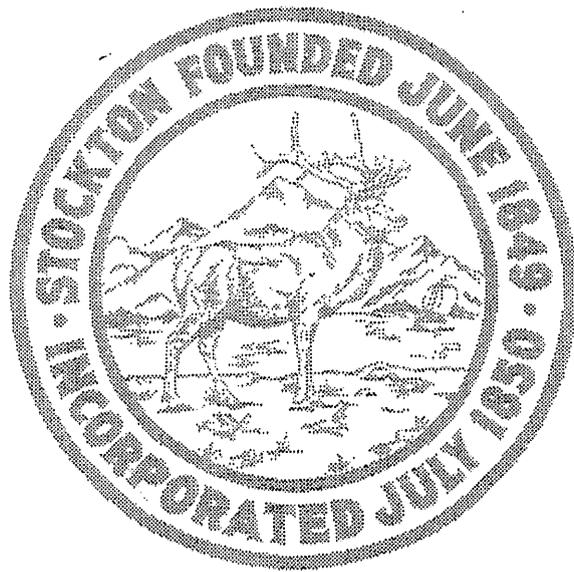
Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total	
		2004	2003
\$ (9,107)		\$ (9,107)	\$ (3,030)
(92,945)		(92,945)	(96,761)
25,642		25,642	20,955
(5,574)		(5,574)	(5,721)
(4,420)		(4,420)	(5,530)
(13,081)		(13,081)	(11,954)
<u>(99,485)</u>		<u>(99,485)</u>	<u>(102,041)</u>
	\$ 9,403	9,403	8,103
	18,027	18,027	26,239
	2,611	2,611	3,066
	109	109	385
	<u>(383)</u>	<u>(383)</u>	<u>(208)</u>
	<u>29,767</u>	<u>29,767</u>	<u>37,585</u>
<u>(99,485)</u>	<u>29,767</u>	<u>(69,718)</u>	<u>(64,456)</u>
28,365	-	28,365	23,449
33,322	-	33,322	32,157
40,333	-	40,333	36,628
35,685	675	36,360	35,974
13,338	-	13,338	18,602
1,243	808	2,051	9,362
1,652	-	1,652	2,896
496	76	572	449
<u>7,553</u>	<u>(7,553)</u>	<u>-</u>	<u>-</u>
<u>161,987</u>	<u>(5,994)</u>	<u>155,993</u>	<u>159,517</u>
62,502	23,773	86,275	95,061
<u>375,507</u>	<u>379,162</u>	<u>754,669</u>	<u>659,608</u>
<u>\$ 438,009</u>	<u>\$ 402,935</u>	<u>\$ 840,944</u>	<u>\$ 754,669</u>









# CITY OF STOCKTON

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2004

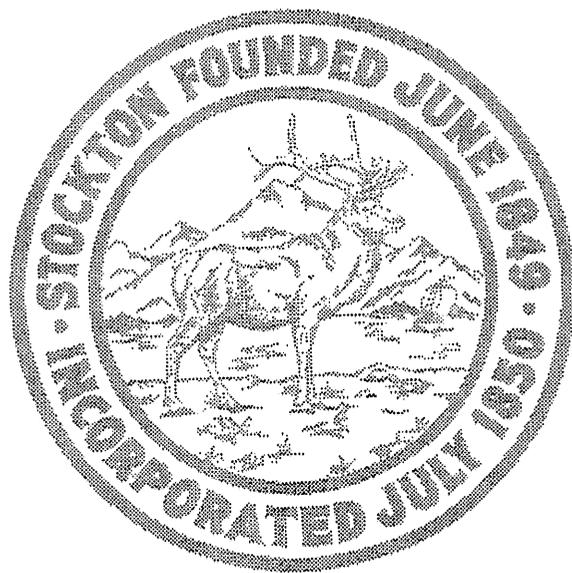
(With comparative totals as of June 30, 2003)

(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
<b>ASSETS</b>			
Cash and investments	\$ 6,278	\$ 57,681	\$ 29,635
Cash and investments with fiscal agents	1,042	-	179
Restricted cash and investments	-	-	-
Receivables:			
Interest	168	325	149
Taxes and special assessments	9	-	-
Accounts and other receivables	11,599	943	36
Allowance for uncollectibles	(2,469)	-	-
Due from other funds	2,200	1,000	-
Due from other governments:	7,412	30	3,997
Allowance for uncollectibles	(16)	-	-
Due from other agencies	260	-	-
Inventory of supplies	163	-	-
Deposits	-	-	-
Advances to other funds	3,561	143	22,274
Advances to property owners	-	406	-
Property held for resale	-	-	-
<b>Total assets</b>	<b>\$ 30,207</b>	<b>\$ 60,528</b>	<b>\$ 56,270</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 2,299	\$ 3,932	\$ 3,615
Accrued payroll and benefits	3,535	-	-
Due to other funds	-	-	-
Due to other governments	-	-	30
Due to other agencies	48	-	-
Deposits and other liabilities	203	-	-
Deferred revenue	6,275	1,042	1,230
Advances from other funds	-	5,936	350
<b>Total liabilities</b>	<b>12,360</b>	<b>10,910</b>	<b>5,225</b>
<b>FUND BALANCES (DEFICIT):</b>			
<b>Reserved:</b>			
Encumbrances	1,185	792	1,027
Advances	3,561	549	22,274
Debt service	-	-	-
Capital projects	1,042	48,277	26,856
Loan commitment	-	-	888
Low- and moderate-income housing	-	-	-
Endowments	-	-	-
Other items	329	-	-
<b>Unreserved, reported in:</b>			
<b>General Fund:</b>			
Designated for termination pay	662	-	-
Designated for infrastructure	2,470	-	-
Designated for economic uncertainties	3,419	-	-
Designated for state initiated revenue reductions	5,179	-	-
<b>Special revenue funds:</b>			
Designated for termination pay	-	-	-
Undesignated	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
Permanent fund	-	-	-
<b>Total fund balances</b>	<b>17,847</b>	<b>49,618</b>	<b>51,045</b>
<b>Total liabilities and fund balances</b>	<b>\$ 30,207</b>	<b>\$ 60,528</b>	<b>\$ 56,270</b>

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

Redevelopment Agency	Other Governmental	Total Governmental	
		2004	2003
\$ 3,941	\$ 77,897	\$ 175,432	\$ 160,544
39,139	35,992	76,352	32,911
-	3,161	3,161	4,621
25	357	1,024	869
-	505	514	553
23	1,432	14,033	15,006
-	-	(2,469)	(3,478)
-	-	3,200	697
164	5,386	16,989	16,451
-	-	(16)	(14)
-	-	260	392
-	-	163	230
38	-	38	38
-	15,623	41,601	37,869
-	41,957	42,363	38,526
-	108	108	108
<u>\$ 43,330</u>	<u>\$ 182,418</u>	<u>\$ 372,753</u>	<u>\$ 305,323</u>
\$ 240	\$ 3,874	\$ 13,960	\$ 8,255
-	-	3,535	3,614
-	2,037	2,037	480
-	329	359	556
-	-	48	179
3	333	539	164
-	4,402	12,949	14,211
32,452	2,649	41,387	36,676
<u>32,695</u>	<u>13,624</u>	<u>74,814</u>	<u>64,135</u>
220	3,998	7,222	10,848
-	57,601	83,985	76,395
-	46,456	46,456	35,120
39,139	41,634	156,948	100,562
-	-	888	1,517
1,120	640	1,760	1,543
-	1,383	1,383	1,383
40	3,732	4,101	7,953
-	-	662	1,166
-	-	2,470	2,470
-	-	3,419	8,129
-	-	5,179	-
-	132	132	132
-	13,190	13,190	20,083
-	(179)	(179)	20
(29,884)	-	(29,884)	(26,363)
-	207	207	230
<u>10,635</u>	<u>168,794</u>	<u>297,939</u>	<u>241,188</u>
<u>\$ 43,330</u>	<u>\$ 182,418</u>	<u>\$ 372,753</u>	<u>\$ 305,323</u>



# CITY OF STOCKTON

## RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2004 (With comparative totals as of June 30, 2003) (Dollar amounts in thousands)

	2004	2003
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances - total governmental	\$ 297,939	\$ 241,188
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Nondepreciable capital assets	214,125	172,427
Depreciable capital assets, net	237,299	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 in the statement of net assets.	(8,836)	(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	(16,663)	(17,840)
Bonds payable and other long-term debt	(292,229)	(220,872)
Unamortized bond discounts	(357)	1,109
Accrued interest	(4,583)	(4,095)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:		
deferred in the governmental funds, or	7,822	9,299
not recorded in the governmental funds.	<u>3,492</u>	<u>1,400</u>
Net assets of governmental activities	<u>\$ 438,009</u>	<u>\$ 375,507</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, 2004

(With comparative totals for the year ended June 30, 2003)

(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
<b>REVENUES:</b>			
Taxes:			
Property	\$ 24,349	\$ -	\$ -
Utility	33,322	-	-
Sales and use	36,723	-	-
Other	17,214	-	18
Licenses and permits	517	-	-
Federal grants and subsidies	-	-	106
Other governmental	13,384	-	3,752
Charges for services	11,005	28,122	-
Fines and forfeitures	1,905	-	-
Use of money and property	607	47	173
Investment income:			
Interest income	734	1,373	737
Net decrease in fair value of investments	(686)	(1,111)	(424)
Refunds and reimbursements	2,569	-	17
Miscellaneous	5,179	-	151
<b>Total revenues</b>	<b>146,822</b>	<b>28,431</b>	<b>4,530</b>
<b>EXPENDITURES:</b>			
Current:			
General government	12,345	1,292	598
Public safety	110,387	152	747
Public works	11,464	1,761	120
Library	-	255	-
Parks and recreation	7,298	355	122
Capital outlay	34	22,096	20,506
Debt service:			
Principal retirement	-	-	-
Cost of issuance	41	-	-
Interest and fiscal charges	-	-	-
<b>Total expenditures</b>	<b>141,569</b>	<b>25,911</b>	<b>22,093</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>5,253</b>	<b>2,520</b>	<b>(17,563)</b>

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

Redevelopment Agency	Other Governmental	Total Governmental	
		2004	2003
\$ 4,016	\$ -	\$ 28,365	\$ 23,449
-	-	33,322	32,157
-	3,610	40,333	36,628
-	18,460	35,692	35,544
-	9,460	9,977	11,444
28	11,167	11,301	15,598
-	18,194	35,330	40,025
-	18,189	57,316	43,181
-	-	1,905	1,490
172	641	1,640	2,011
183	1,973	5,000	5,422
(92)	(1,511)	(3,824)	(367)
-	627	3,213	4,864
153	831	6,314	8,791
<u>4,460</u>	<u>81,641</u>	<u>265,884</u>	<u>260,237</u>
2,673	5,904	22,812	21,220
-	12,662	123,948	113,599
7,832	16,945	38,122	41,454
-	11,048	11,303	10,787
-	7,162	14,937	13,884
1,229	16,962	60,827	46,227
21	8,335	8,356	9,654
1,346	790	2,177	983
37	12,423	12,460	11,937
<u>13,138</u>	<u>92,231</u>	<u>294,942</u>	<u>269,745</u>
<u>(8,678)</u>	<u>(10,590)</u>	<u>(29,058)</u>	<u>(9,508)</u>

(Continued)

# CITY OF STOCKTON

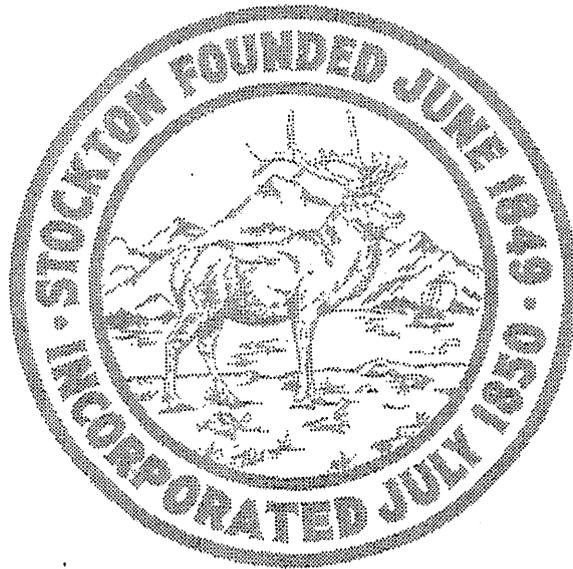
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (Continued)

FOR THE YEAR ENDED JUNE 30, 2004  
(With comparative totals for June 30, 2003)  
(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>5,253</u>	<u>2,520</u>	<u>(17,563)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	7,482	-	21,174
Transfers out	(12,913)	(199)	(6,540)
Issuance of long-term debt	-	-	25
Sales of capital assets	5	-	-
Bond refundings	-	-	-
Premiums on debt issuances	-	-	-
Discounts on debt issuances	-	-	-
Total other financing sources (uses)	<u>(5,426)</u>	<u>(199)</u>	<u>14,659</u>
NET CHANGE IN FUND BALANCES	(173)	2,321	(2,904)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>18,020</u>	<u>47,297</u>	<u>53,949</u>
FUND BALANCES, END OF YEAR	<u>\$ 17,847</u>	<u>\$ 49,618</u>	<u>\$ 51,045</u>

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

Redevelopment Agency	Other Governmental	Total Governmental	
		2004	2003
<u>(8,678)</u>	<u>(10,590)</u>	<u>(29,058)</u>	<u>(9,508)</u>
4,525	30,951	64,132	71,393
(8,843)	(30,964)	(59,459)	(65,969)
47,000	32,688	79,713	38,110
-	-	5	719
-	-	-	(17,205)
1,637	-	1,637	-
-	(219)	(219)	(554)
<u>44,319</u>	<u>32,456</u>	<u>85,809</u>	<u>26,494</u>
35,641	21,866	56,751	16,986
<u>(25,006)</u>	<u>146,928</u>	<u>241,188</u>	<u>224,202</u>
<u>\$ 10,635</u>	<u>\$ 168,794</u>	<u>\$ 297,939</u>	<u>\$ 241,188</u>



# CITY OF STOCKTON

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

(With comparative totals for the year ended June 30, 2003)

(Dollar amounts in thousands)

	2004	2003
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental	\$ 56,751	\$ 16,986
Governmental funds report capital outlays as expenditures. And as donated capital assets don't create or use financial resources, they are not reported in governmental funds. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays, donated capital assets and depreciation expense are as follows:		
Capitalized capital outlays	60,827	46,227
Donated capital assets	22,420	18,159
Depreciation expense	(6,590)	(5,647)
Long-term debt (including refunding debt), net of bond premiums and discounts, provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal (including bond refundings) and costs of issuance are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets, and the costs of issuance increase deferred changes in the statement of net assets. Long-term debt proceeds, bond premiums, discounts, repayment of principal, costs of issuance and bond refundings are as follows:		
Long-term debt proceeds	(79,713)	(38,110)
Premiums on debt issuances	(1,637)	-
Discounts on debt issuances	219	554
Repayment of principal	8,356	9,654
Costs of issuance	2,177	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.	638	(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	(1,477)	5,647
Gain on sale of capital assets	(25)	(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	1,177	1,148
Amortization of bond discounts and costs of issuance	(133)	(80)
Change in accrued interest	(488)	63
Change in net assets of governmental activities	<u>\$ 62,502</u>	<u>\$ 57,396</u>

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

# CITY OF STOCKTON

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2004

(With comparative totals as of June 30, 2003)

(Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
<b>ASSETS</b>			
Current assets:	\$ 18,306	\$ 80,580	\$ 5,978
Cash and investments	-	53	-
Cash and investments with fiscal agents	-	-	-
Receivables:			
Interest	98	425	35
Accounts and other receivables	1,960	4,849	849
Allowance for uncollectibles	(180)	(1,525)	(331)
Inventory of supplies	-	1,173	-
Total current assets	<u>20,184</u>	<u>85,555</u>	<u>6,531</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments	-	-	-
Cash and investments with fiscal agents	5	14,380	-
Interest receivable	-	103	-
Advances to other funds	-	-	-
Loans receivable	169	1,331	-
Deferred charges	-	-	-
Capital assets, net:			
Nondepreciable	9,039	21,846	852
Depreciable, net	<u>70,095</u>	<u>252,129</u>	<u>40,338</u>
Total noncurrent assets	<u>79,308</u>	<u>289,789</u>	<u>41,190</u>
Total assets	<u>99,492</u>	<u>375,344</u>	<u>47,721</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	1,630	6,455	257
Due to other funds	-	-	-
Due to other governments	53	-	-
Deposits and other liabilities	1,160	25	-
Accrued interest	165	1,722	10
Compensated absences - current	7	65	11
Self-insurance claims and judgments - current	-	-	-
Other long-term debt - current	<u>427</u>	<u>1,880</u>	<u>161</u>
Total current liabilities	<u>3,442</u>	<u>10,147</u>	<u>439</u>
Noncurrent liabilities:			
Advances from other funds	-	-	-
Compensated absences - long-term	6	80	8
Self-insurance claims and judgments - long-term	-	-	-
Advances from other governments	891	-	167
Certificates of participation	-	100,527	-
Bonds payable	<u>12,828</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>13,725</u>	<u>100,607</u>	<u>175</u>
Total liabilities	<u>17,167</u>	<u>110,754</u>	<u>614</u>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	65,879	186,358	41,029
Restricted for debt service	5	15	-
Unrestricted (deficit)	<u>16,441</u>	<u>78,217</u>	<u>6,078</u>
Total net assets (deficit)	<u>\$ 82,325</u>	<u>\$ 264,590</u>	<u>\$ 47,107</u>

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

Enterprise					
Central Parking District	Other	Total		Internal Service	
		2004	2003	2004	2003
\$ 1,079	\$ 343	\$ 106,286	\$ 115,939	\$ 28,901	\$ 25,838
-	-	53	52	-	-
6	-	564	647	-	-
160	264	8,082	7,363	166	276
(44)	(72)	(2,152)	(2,034)	(125)	(152)
-	36	1,209	1,147	-	-
<u>1,201</u>	<u>571</u>	<u>114,042</u>	<u>123,114</u>	<u>28,942</u>	<u>25,962</u>
-	-	-	158	-	-
24,822	-	39,207	13,761	-	-
-	-	-	272	-	-
847	-	950	731	-	-
-	-	-	12	-	-
1,136	-	2,636	1,606	295	61
6,212	360	38,309	13,552	-	-
7,745	1,713	372,020	361,563	10,319	11,962
<u>40,762</u>	<u>2,073</u>	<u>453,122</u>	<u>391,655</u>	<u>10,614</u>	<u>12,023</u>
<u>41,963</u>	<u>2,644</u>	<u>567,164</u>	<u>514,769</u>	<u>39,556</u>	<u>37,985</u>
360	51	8,753	3,068	1,266	1,396
1,000	163	1,163	-	-	217
-	-	53	16	-	-
106	-	1,291	1,222	-	-
-	-	1,897	2,169	-	-
6	44	133	1,015	365	346
-	-	-	-	10,258	10,090
-	-	2,468	7,922	-	-
<u>1,472</u>	<u>258</u>	<u>15,758</u>	<u>15,412</u>	<u>11,889</u>	<u>12,049</u>
-	1,164	1,164	1,924	-	-
25	63	182	1,392	417	444
-	-	-	-	36,086	34,966
-	-	1,058	1,266	-	-
-	-	100,527	102,397	-	-
32,712	-	45,540	13,216	-	-
<u>32,737</u>	<u>1,227</u>	<u>148,471</u>	<u>120,195</u>	<u>36,503</u>	<u>35,410</u>
<u>34,209</u>	<u>1,485</u>	<u>164,229</u>	<u>135,607</u>	<u>48,392</u>	<u>47,459</u>
7,158	2,073	302,497	265,548	10,319	11,962
45	-	65	73	-	-
551	(914)	100,373	113,541	(19,155)	(21,436)
<u>\$ 7,754</u>	<u>\$ 1,159</u>	<u>\$ 402,935</u>	<u>\$ 379,162</u>	<u>\$ (8,836)</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, 2004 (With comparative totals for the year ended June 30, 2003) (Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 17,749	\$ 29,000	\$ 4,415
Miscellaneous	578	1,471	412
Total operating revenues	<u>18,327</u>	<u>30,471</u>	<u>4,827</u>
<b>OPERATING EXPENSES:</b>			
Operation and maintenance	8,107	19,790	3,521
General and administrative	2,624	2,628	2,270
Depreciation and amortization	1,504	4,954	1,119
Purchased water	2,593	-	-
Total operating expenses	<u>14,828</u>	<u>27,372</u>	<u>6,910</u>
<b>OPERATING INCOME (LOSS)</b>	<u>3,499</u>	<u>3,099</u>	<u>(2,083)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Taxes	-	-	-
Federal grants and subsidies	-	-	-
Other governmental	-	-	-
Investment income:			
Interest income	473	2,296	159
Net decrease in fair value of investments	(409)	(1,545)	(133)
Gain (loss) from disposal of property	-	-	-
Interest expense and fiscal charges	(720)	(5,302)	-
Other non-operating revenues	1	12	-
Total non-operating revenues (expenses)	<u>(655)</u>	<u>(4,539)</u>	<u>26</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>2,844</u>	<u>(1,440)</u>	<u>(2,057)</u>
Capital contributions	6,623	20,218	4,694
Transfers in	-	-	-
Transfers out	(1,565)	(4,403)	(756)
<b>CHANGE IN NET ASSETS</b>	<u>7,902</u>	<u>14,375</u>	<u>1,881</u>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<u>74,423</u>	<u>250,215</u>	<u>45,226</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$ 82,325</u>	<u>\$ 264,590</u>	<u>\$ 47,107</u>

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

Enterprise					
Central Parking District	Other	Total		Internal Service	
		2004	2003	2004	2003
\$ 2,693	\$ 3,722	\$ 57,579	\$ 55,103	\$ 73,404	\$ 63,795
1	917	3,379	1,714	-	-
<u>2,694</u>	<u>4,639</u>	<u>60,958</u>	<u>56,817</u>	<u>73,404</u>	<u>63,795</u>
1,861	4,846	38,125	33,410	70,931	75,050
-	-	7,522	9,631	3,970	4,730
332	176	8,085	8,383	3,002	2,733
-	-	2,593	2,935	-	-
<u>2,193</u>	<u>5,022</u>	<u>56,325</u>	<u>54,359</u>	<u>77,903</u>	<u>82,513</u>
501	(383)	4,633	2,458	(4,499)	(18,718)
675	-	675	596	-	-
-	-	-	-	-	560
-	-	-	1,909	-	6
(9)	6	2,925	4,297	208	274
(23)	(7)	(2,117)	(245)	(141)	(19)
76	-	76	(66)	516	(190)
(392)	-	(6,414)	(2,582)	-	-
-	-	13	10	1,674	1,721
<u>327</u>	<u>(1)</u>	<u>(4,842)</u>	<u>3,919</u>	<u>2,257</u>	<u>2,352</u>
828	(384)	(209)	6,377	(2,242)	(16,366)
-	-	31,535	37,765	-	-
6,315	-	6,315	-	7,980	4,353
(7,144)	-	(13,868)	(6,477)	(5,100)	(3,300)
(1)	(384)	23,773	37,665	638	(15,313)
<u>7,755</u>	<u>1,543</u>	<u>379,162</u>	<u>341,497</u>	<u>(9,474)</u>	<u>5,839</u>
<u>\$ 7,754</u>	<u>\$ 1,159</u>	<u>\$ 402,935</u>	<u>\$ 379,162</u>	<u>\$ (8,836)</u>	<u>\$ (9,474)</u>

# CITY OF STOCKTON

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004 (With comparative totals 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	\$ 18,251	\$ 29,660	\$ 4,606
Receipts from interfund service providers	-	232	256
Payments to suppliers	(10,963)	(13,351)	(4,161)
Payments to employees	(1,753)	(5,202)	(1,400)
Payments for interfund services used	(154)	(687)	(104)
Net cash provided by (used for) operating activities	<u>5,381</u>	<u>10,652</u>	<u>(798)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	-	-	-
Transfers out	(1,565)	(4,403)	(756)
Due to other funds	-	-	-
Advances from other funds	-	(44)	-
Advances to other funds	(48)	-	(155)
Advances from other governments	1	12	-
Other non-operating revenues	-	-	-
Proceeds from taxes	-	-	-
Other governmental	-	-	-
Federal grants and subsidies	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>(1,612)</u>	<u>(4,435)</u>	<u>(911)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from sale of capital assets	2,668	237	-
Proceeds from capital debt	-	-	-
Principal paid on capital debt	(440)	(1,640)	-
Issuance discounts	-	-	-
Purchases of capital assets	(13,451)	(16,772)	(464)
Interest paid on capital debt	(709)	(5,085)	(5)
Capital contributions	1,381	16,164	-
Net cash provided by (used for) capital and related financing activities	<u>(10,551)</u>	<u>(7,096)</u>	<u>(469)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment earnings	107	1,046	37
Proceeds from sale of investments	-	13,445	-
Net cash provided by investing activities	<u>107</u>	<u>14,491</u>	<u>37</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(6,675)</u>	<u>13,612</u>	<u>(2,141)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>24,986</u>	<u>81,401</u>	<u>8,119</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 18,311</u>	<u>\$ 95,013</u>	<u>\$ 5,978</u>

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

Enterprise					
Central Parking District	Other	Total		Internal Service	
		2004	2003	2004	2003
\$ 2,676	\$ 4,741	\$ 59,934	\$ 56,811	\$ 1,476	\$ 1,138
-	-	488	128	72,009	62,733
(2,259)	(1,552)	(32,286)	(29,511)	(61,801)	(41,787)
(974)	(3,238)	(12,567)	(14,640)	(12,182)	(24,532)
(222)	(566)	(1,733)	(1,950)	-	-
10	(615)	14,630	10,838	(498)	(2,448)
6,315	-	6,315	-	7,980	4,353
(7,144)	-	(13,868)	(6,477)	(5,100)	(3,300)
1,000	163	1,163	-	-	-
(700)	-	(700)	(672)	(217)	217
(175)	(60)	(279)	(59)	-	-
-	-	(203)	(201)	-	-
-	-	13	10	1,674	1,721
675	-	675	596	-	-
-	-	-	1,909	-	330
-	-	-	-	-	560
(29)	103	(6,884)	(4,894)	4,337	3,881
175	-	3,080	806	1,411	152
32,712	-	32,712	14,135	-	-
(6,180)	-	(8,260)	(16,191)	-	-
-	-	-	(214)	-	-
(1,472)	(7)	(32,166)	(18,346)	(2,254)	(2,727)
(385)	-	(6,184)	(2,018)	-	-
-	-	17,545	19,790	-	-
24,850	(7)	6,727	(2,038)	(843)	(2,575)
(29)	2	1,163	4,536	67	255
-	-	13,445	2,244	-	-
(29)	2	14,608	6,780	67	255
24,802	(517)	29,081	10,686	3,063	(887)
1,099	860	116,465	105,779	25,838	26,725
<u>\$ 25,901</u>	<u>\$ 343</u>	<u>\$ 145,546</u>	<u>\$ 116,465</u>	<u>\$ 28,901</u>	<u>\$ 25,838</u>

(Continued)

# CITY OF STOCKTON

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (With comparative totals for 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)	\$ 3,499	\$ 3,099	\$ (2,083)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,504	4,954	1,119
Provision for uncollectible accounts	17	(8)	96
Self-insurance	-	-	-
Changes in assets and liabilities:			
Accounts and other receivables	(178)	(552)	(60)
Deferred charges	-	-	-
Inventory of supplies	-	(62)	-
Loans receivable	3	9	-
Accounts payable	713	4,444	184
Due to other governments	37	-	-
Deposits and other liabilities	86	(18)	-
Compensated absences	(300)	(1,214)	(54)
Deferred revenue	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 5,381</u>	<u>\$ 10,652</u>	<u>\$ (798)</u>
<b>NONCASH TRANSACTIONS:</b>			
Net decrease in fair value of investments	\$ (409)	\$ (1,545)	\$ (133)
Unamortized cost of issuance on defeased debt removed	14	27	-
Refunding debt added	-	-	-
Cost of issuance on refunding debt added	-	-	-
Loss on defeased debt	17	343	-
Donation of capital assets	5,242	4,054	4,694
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS:</b>			
Cash and investments	\$ 18,306	\$ 80,580	\$ 5,978
Cash with investments fiscal agents	-	53	-
Restricted assets:			
Cash and investments	-	-	-
Cash and investments with fiscal agents	5	14,380	-
Total cash and investments	<u>18,311</u>	<u>95,013</u>	<u>5,978</u>
Less long term investments reported as:			
Cash and investments with fiscal agents	-	-	-
Net cash and cash equivalents	<u>\$ 18,311</u>	<u>\$ 95,013</u>	<u>\$ 5,978</u>

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

Enterprise					
Central Parking District	Other	Total		Internal Service	
		2004	2003	2004	2003
\$ 501	\$ (383)	\$ 4,633	\$ 2,458	\$ (4,499)	\$ (18,718)
332	176	8,085	8,383	3,002	2,733
44	(31)	118	51	(27)	6
-	-	-	-	1,288	13,878
(62)	133	(719)	36	110	70
(1,136)	-	(1,136)	(205)	(234)	-
-	-	(62)	(26)	-	-
-	-	12	57	-	-
330	14	5,685	146	(130)	(335)
-	-	37	(159)	-	-
1	-	69	411	-	-
-	(524)	(2,092)	(292)	(8)	(82)
-	-	-	(22)	-	-
<u>\$ 10</u>	<u>\$ (615)</u>	<u>\$ 14,630</u>	<u>\$ 10,838</u>	<u>\$ (498)</u>	<u>\$ (2,448)</u>
\$ (23)	\$ (7)	\$ (2,117)	\$ (245)	(141)	(19)
-	-	41	31	-	-
-	-	-	14,135	-	-
-	-	-	(214)	-	-
-	-	360	361	-	-
-	-	13,990	17,975	-	-
\$ 1,079	\$ 343	\$ 106,286	\$ 115,939	\$ 28,901	\$ 25,838
-	-	53	52	-	-
-	-	-	158	-	-
<u>24,822</u>	<u>-</u>	<u>39,207</u>	<u>13,761</u>	<u>-</u>	<u>-</u>
25,901	343	145,546	129,910	28,901	25,838
-	-	-	13,445	-	-
<u>\$ 25,901</u>	<u>\$ 343</u>	<u>\$ 145,546</u>	<u>\$ 116,465</u>	<u>\$ 28,901</u>	<u>\$ 25,838</u>

# CITY OF STOCKTON

## STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND

JUNE 30, 2004

(With comparative totals as of June 30, 2003)

(Dollar amounts in thousands)

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	2004	2003
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,461	\$ 13,533
Accounts and other receivables	494	181
Due from other governments	<u>1,064</u>	<u>-</u>
Total assets	<u>\$ 17,019</u>	<u>\$ 13,714</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 367	\$ 101
Due to other governments	3,339	3,647
Deposits and other liabilities	<u>13,313</u>	<u>9,966</u>
Total liabilities	<u>\$ 17,019</u>	<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, 2004**

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# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004 (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 (SJAFCA) 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 SJAFCA.

**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 concurrent sessions 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, debt service 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, Central Parking District, General Fund, Redevelopment Agency, 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 Central Parking District enterprise funds report the capital assets and related certificates of participation and lease revenue bonds issued by the SPFA and leased to these two enterprise funds under capital leases.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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 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 FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 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. 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. Under the Teeter Plan, the County pays the City 100% of the tax that is levied and assumes responsibility for collecting any delinquent amounts plus penalties and interest.

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

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

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 FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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 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.

**Central Parking District Fund** accounts for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities.

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 FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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 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. The State of California has regulatory oversight of LAIF. 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 FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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 consist of expendable supplies held on a consumption basis, wherein the cost is determined using the weighted average method and 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 FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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 capital assets in the proprietary fund types. For the year ended June 30, 2004, there was no capitalized interest cost in connection with the construction in progress.

Property, plant, equipment and infrastructure of the City are 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.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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 subject to escheatment 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 FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

**Comparative data** – The 2003 comparative data amounts are presented only to facilitate financial analysis. These columns do not present information that reflects financial position, changes in financial position or cash flows in accordance with generally accepted accounting principles. Certain amounts in the 2003 comparative data have been reclassified to conform to the 2004 financial statements presentation.

### 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 investments."

**Deposits** – At June 30, 2004, the recorded amount of the City's deposits was \$12,734; and the bank balance was \$5,538. The bank balance and carrying amount differ due to deposits in transit of \$12,027 and outstanding checks of \$4,831.

The bank balances were entirely insured or collateralized at June 30, 2004. 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 \$5,538 in Category 1 deposits at June 30, 2004.

**Investments** – California statutes and the City's investment policy authorize the investment of 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)

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 2. CASH AND INVESTMENTS (Continued)

- Demand accounts - insured/collateralized
- Money market mutual funds
- Medium term notes
- Guaranteed investment contracts

The City has entered into nonparticipating guaranteed investment contracts which are in compliance with the City's investment policy. All of the investment contracts bear interest ranging from 5.58% to 6.57% of which \$5,862 is collateralized 100% to 103% by investments.

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 \$13,948. The total amount invested by all public agencies in LAIF is \$57,600,699, of which 1.603% 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 position 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, 2004, the City did not utilize investment types different from those categorized below.

A summary of cash and investments by such categories at June 30, 2004 is as follows:

Investment Type	Category 1	Non Categorized	Fair Value
U.S. Government securities	\$ 293,680	\$ -	\$ 293,680
Commercial paper	2,952	-	2,952
LAIF	-	13,948	13,948
Money market funds	-	113,831	113,831
Guaranteed investment contracts	-	7,708	7,708
Total investments	<u>\$ 296,632</u>	<u>\$ 135,487</u>	<u>\$ 432,119</u>

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 2. CASH AND INVESTMENTS (Continued)

Summary of GASB Statement No. 3 disclosure carrying amounts:

Deposits	\$ 12,734
Investments	432,119
Total cash and investments	<u>\$ 444,853</u>
Presented in the government-wide statement of net assets:	
Cash and investments	\$ 387,024
Restricted cash and investments	42,368
Presented in the statement of fiduciary net assets	15,461
Total cash and investments	<u>\$ 444,853</u>

**Restricted Cash and Investments** – Certain proceeds of governmental and enterprise funds certificates of participation (COP), revenue bonds and bonds payable are classified as restricted cash and investments on the statement of net assets and governmental funds balance sheet because their use is limited by applicable indentures or covenants. These covenants provide that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates or leases, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments, not permitted by the City's general investment policy, been authorized. The major part of this restriction is for the construction or acquisition of facilities, but also includes reserves for payment of debt service as required by the bond indentures.

At June 30, 2004, restricted cash and cash equivalents/investments are as follows:

<b>Governmental Activities</b>	
Redevelopment Agency Loan	\$ 593
Community Development Loan	1,230
HOME Program	1,338
Total	<u>\$ 3,161</u>
<b>Business-Type Activities</b>	
Water Utility	\$ 5
Sanitary Wastewater Utility	14,380
Central Parking District	24,822
Total	<u>\$ 39,207</u>

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 3. INTERFUND RECEIVABLES / PAYABLES

Interfund receivables and payables are as follows at June 30, 2004:

Due to/from other funds:			<b>Amount</b>
<b>Receivable Fund</b>	<b>Payable Fund</b>		
General	Other Governmental	\$	2,037
	Other Enterprise		163
Public Facilities Impact Fees	Central Parking District		<u>1,000</u>
Total		\$	<u><u>3,200</u></u>
Advances from/to other funds:			<b>Amount</b>
<b>Receivable Fund</b>	<b>Payable Fund</b>		
General	Redevelopment Agency	\$	905
	Capital Improvement		350
	Other Governmental		2,306
Public Facilities Impact Fees	Redevelopment Agency		143
Capital Improvement	Public Facilities Impact Fees		5,936
	Redevelopment Agency		14,831
	Other Governmental		343
	Other Enterprise		1,164
Other Governmental	Redevelopment Agency		15,623
Sanitary Wastewater Utility	Redevelopment Agency		103
Central Parking District	Redevelopment Agency		847
Total		\$	<u><u>42,551</u></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 \$905 is primarily loans from the General Fund to the Redevelopment Agency for various project areas. The \$2,306 is primarily a loan from the General Fund to the new Emergency Medical Transportation fund to help establish the fund. The \$5,936 loan from Capital Improvement to Public Facilities Impact Fees is for architectural and construction costs for Police and Fire Stations. The \$14,831 from Capital Improvement to the Redevelopment Agency represents loans for various project areas. The \$1,164 is for loans from Capital Improvement to the Golf Courses funds. Finally, the \$15,623 represents loans in the amount of \$4,686 from the Urban Development Action Grant, \$10,373 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 FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 4. TRANSFERS

Transfers for the year ended June 30, 2004 are summarized as follows:

Transfers out:	Transfers In						Total
	General	Capital Improvement	Redevelopment Agency	Other Governmental	Central Parking District	Internal Service	
General	\$ -	\$ 7	\$ -	\$ 10,267	\$ -	\$ 2,639	\$ 12,913
Public Facilities Impact Fees	-	-	-	147	-	52	199
Capital Improvement	-	-	-	225	6,315	-	6,540
Redevelopment Agency	-	2	-	8,841	-	-	8,843
Other Governmental	3,746	11,053	4,525	11,471	-	169	30,964
Water Utility	562	994	-	-	-	9	1,565
Sanitary Wastewater Utility	2,038	2,354	-	-	-	11	4,403
Stormwater Utility	307	449	-	-	-	-	756
Central Parking District	829	6,315	-	-	-	-	7,144
Internal Service	-	-	-	-	-	5,100	5,100
<b>Total</b>	<b>\$ 7,482</b>	<b>\$ 21,174</b>	<b>\$ 4,525</b>	<b>\$ 30,951</b>	<b>\$ 6,315</b>	<b>\$ 7,980</b>	<b>\$ 78,427</b>

During the year various interfund transfers were made to finance expenditures, subsidize operating losses, and service debt. The \$12,913 General Fund transfer out includes primarily transfers of \$5,878 to the City-County Library, \$3,522 to Recreation Services, \$829 to Debt Service, and \$2,639 to Internal Service Funds. The transfer to the internal service funds includes transfers in the amount of \$2,504 to provide for compensated absences.

The General Fund received transfers in of \$3,746 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 \$562 from the Water Utility Fund and \$2,038 from the Sanitary Wastewater Utility fund for the in-lieu tax and \$829 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 \$11,471 are primarily transfers for the purpose of establishing debt service reserves and the principal payment of bond debt.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003 As Restated	Acquisitions	Dispositions	Balance June 30, 2004
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 27,142	\$ 1,357	\$ (1)	\$ 28,498
Construction in progress	145,285	58,184	(17,842)	185,627
Total capital assets, not being depreciated	<u>172,427</u>	<u>59,541</u>	<u>(17,843)</u>	<u>214,125</u>
Capital assets, being depreciated:				
Infrastructure	230,171	33,235	288	263,694
Buildings and improvements	51,920	7,292	(288)	58,924
Machinery and equipment	35,528	3,236	(4,010)	34,754
Total capital assets, being depreciated	<u>317,619</u>	<u>43,763</u>	<u>(4,010)</u>	<u>357,372</u>
Less accumulated depreciation for:				
Infrastructure	(44,060)	(4,896)	-	(48,956)
Buildings and improvements	(36,049)	(1,556)	-	(37,605)
Machinery and equipment	(23,183)	(3,140)	3,130	(23,193)
Total accumulated depreciation	<u>(103,292)</u>	<u>(9,592)</u>	<u>3,130</u>	<u>(109,754)</u>
Total capital assets, being depreciated, net	<u>214,327</u>	<u>34,171</u>	<u>(880)</u>	<u>247,618</u>
Governmental activities capital assets, net	<u>\$ 386,754</u>	<u>\$ 93,712</u>	<u>\$ (18,723)</u>	<u>\$ 461,743</u>
	Balance July 1, 2003	Acquisitions	Dispositions	Balance June 30, 2004
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,248	\$ 5,211	\$ (89)	\$ 12,370
Construction in progress	6,304	20,106	(471)	25,939
Total capital assets, not being depreciated	<u>13,552</u>	<u>25,317</u>	<u>(560)</u>	<u>38,309</u>
Capital assets, being depreciated:				
Buildings and improvements	468,916	20,732	(2,520)	487,128
Machinery and equipment	8,961	106	(64)	9,003
Total capital assets, being depreciated	<u>477,877</u>	<u>20,838</u>	<u>(2,584)</u>	<u>496,131</u>
Less accumulated depreciation for:				
Buildings and improvements	(110,698)	(7,691)	76	(118,313)
Machinery and equipment	(5,616)	(246)	64	(5,798)
Total accumulated depreciation	<u>(116,314)</u>	<u>(7,937)</u>	<u>140</u>	<u>(124,111)</u>
Total capital assets, being depreciated, net	<u>361,563</u>	<u>12,901</u>	<u>(2,444)</u>	<u>372,020</u>
Business-type activities capital assets, net	<u>\$ 375,115</u>	<u>\$ 38,218</u>	<u>\$ (3,004)</u>	<u>\$ 410,329</u>

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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	\$ 128
Public safety	337
Public works	4,980
Library	245
Parks & Recreation	900
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	3,002
Total depreciation expense - governmental activities	<u>\$ 9,592</u>
Business-type activities:	
Water Utility	\$ 1,481
Sanitary Wastewater Utility	4,867
Stormwater Utility	1,119
Central Parking District	294
Golf Courses	176
Total depreciation expense - business-type activities	<u>\$ 7,937</u>

### 6. LONG-TERM DEBT

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

#### Special Assessment Bonds

Governmental activities – During the year, three new 1915 Act Special Assessment Bonds were authorized and issued for \$18,185, \$3,360 and \$3,100 to finance the improvements of special districts located within the City. There are currently thirteen bonds authorized and issued with interest rates ranging from 2.15% to 8.1% and final maturity in September 2034. Remaining debt service will be paid from assessments to property owners.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 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
2005	\$ 1,235	\$ 3,550
2006	1,850	2,947
2007	1,950	2,855
2008	1,960	2,756
2009	2,060	2,651
2010-2014	8,450	11,832
2015-2019	7,445	9,643
2020-2024	8,900	7,127
2025-2029	9,650	4,167
2030-2034	8,530	1,404
2035	237	6
Total	<u>\$ 52,267</u>	<u>\$ 48,938</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 eight bonds authorized and issued, six of which have interest rates ranging from 1.75% to 6.91% and two at a variable interest rate, and final maturity in September 1, 2033. 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. During the year, the City issued \$3,250 of Mello-Roos Special Tax Bonds through its Camera Estates Community Facilities District. Remaining debt service will be paid from assessments to property owners.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 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 Principal	Activities Interest
2005	\$ 1,610	\$ 2,683
2006	1,925	2,601
2007	2,020	2,504
2008	2,115	2,399
2009	2,220	2,285
2010-2014	12,705	9,374
2015-2019	7,715	5,973
2020-2024	12,155	4,552
2025-2029	5,940	2,956
2030-2034	6,255	819
Total	<u>\$ 54,660</u>	<u>\$ 36,146</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 ten bonds authorized and issued with interest rates ranging from 3.0% to 8.1% and final maturity on September 1, 2034. 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 \$47,000 of revenue bonds to finance a portion of the costs of an indoor arena for the Stockton Events Center Arena Project. The interest rates for this bond ranges from 2.0% to 5.250% and the final maturity is September 1, 2036.

Business-type activities – The City issued \$32,785 of Lease Revenue Bonds to finance the construction of the Edward S. Coy Parking Garage and the Stockton Events Center Parking Structure. The interest rates for this bond ranges from 4.0% to 5.375% the final maturity is September 1, 2034.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 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
2005	\$ 4,995	\$ 7,382	\$ 460	\$ 648
2006	5,275	8,924	485	2,276
2007	5,580	6,990	595	2,249
2008	6,100	6,685	665	2,219
2009	6,530	6,354	730	2,185
2010-2014	40,125	25,644	4,760	10,392
2015-2019	28,730	14,495	7,045	9,117
2020-2024	12,025	10,209	9,110	7,051
2025-2029	10,285	7,587	7,975	4,950
2030-2034	14,045	4,684	11,850	2,419
2035-2037	11,370	873	2,950	77
Total	<u>\$ 145,060</u>	<u>\$ 99,827</u>	<u>\$ 46,625</u>	<u>\$ 43,583</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 4.10% to 6.00% 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.

In addition, Certificates of Participation were issued on June 17, 2003 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.

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.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

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 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 \$14,380 cash with fiscal agent held by a fiscal agent (trustee) in charge of investment of 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
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	270	1,436	2,605	4,770
2010-2014	2,605	6,886	14,835	22,045
2015-2019	4,130	6,000	18,710	18,170
2020-2024	5,385	4,528	23,815	13,072
2025-2029	7,065	3,009	31,420	6,159
2030-2034	7,140	844	7,325	190
Total	\$ 27,550	\$ 28,568	\$ 108,215	\$ 84,401

### Loans Payable

The City entered into a loan with the California Department of Boating and Waterways to complete a planning report for 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, 2004. Accumulated interest calculated at 4.5% per annum totals \$9 through June 30, 2004, and will be recognized as an expenditure when paid.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

Repayment of the loan began on August 1, 2003, and the term of the agreement is for ten years commencing on September 3, 2001. Principal of \$21 was paid on this loan during fiscal year 2004.

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. The City has drawn all funds as of June 30, 2004. Accumulated interest per annum totals \$284 through June 30, 2004, 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 \$375 was paid on these loans during fiscal year 2004; \$85 and \$290 respectively.

The City also entered into a loan agreement with the California Housing Finance Agency for the purposes of the operation of a local housing program. The loan amount is for a maximum of \$500, of which the City has drawn down \$485 as of June 30, 2004. Interest is calculated at 3.0% simple per annum. The term of the loan is 10 years from the date of the agreement and will be due on June 24, 2013.

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2005	\$ 424	\$ 687
2006	455	666
2007	486	643
2008	517	617
2009	553	587
2010-2014	3,809	2,412
2015-2019	4,460	1,294
2020-2021	1,988	132
Total	<u>\$ 12,692</u>	<u>\$ 7,038</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 FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2004  
(Dollar amounts in thousands)**

**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 is 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 discount rates of 2.65% and 3.0%, respectively. See Notes 10 and 11 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	\$ 1,845	\$ 1,073	\$ 2,918
Workers' compensation	34,241	6,606	40,847
Health insurance	-	2,579	2,579
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 36,086</u>	<u>\$ 10,258</u>	<u>\$ 46,344</u>

***Advances From Other Governments***

	<b>Water Utility</b>	<b>Stormwater Utility</b>	<b>Total</b>
Federal Drought Relief Act	\$ 891	\$ -	\$ 891
Federal Clean Water Act	-	328	328
	<u>          </u>	<u>          </u>	<u>          </u>
Total	891	328	1,219
Less current portion	-	161	161
	<u>          </u>	<u>          </u>	<u>          </u>
Long-term portion	<u>\$ 891</u>	<u>\$ 167</u>	<u>\$ 1,058</u>

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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, 2004 advances totaled \$891. 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, 2004.

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, 2004 advances totaled \$328. 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, 2004 was \$10.

Long-term debt activity for the year ended June 30, 2004 was as follows:

<b>Governmental activities:</b>	<b>Balance July 1, 2003</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2004</b>	<b>Due Within One Year</b>
<b>Bonds payable:</b>					
Special Assessment Debt with Government Commitment (1915 Act Special Assessment Bonds)	\$ 29,222	\$ 24,645	\$ (1,600)	\$ 52,267	\$ 1,235
Mello-Roos Special Tax Bonds	52,900	3,250	(1,490)	54,660	1,610
Revenue Bonds	102,720	47,000	(4,660)	145,060	4,995
Less deferred amounts:					
For issuance premiums	-	1,637	-	1,637	49
For issuance discounts	(1,011)	(219)	45	(1,185)	(105)
<b>Total bonds payable</b>	<b>183,831</b>	<b>76,313</b>	<b>(7,705)</b>	<b>252,439</b>	<b>7,784</b>
Certificates of participation	27,760	-	(210)	27,550	220
Less deferred amounts:					
For issuance discounts	(98)	-	3	(95)	(3)
<b>Total certificates of participation</b>	<b>27,662</b>	<b>-</b>	<b>(207)</b>	<b>27,455</b>	<b>217</b>
Loans payable	8,270	4,818	(396)	12,692	424
Compensated absences	18,630	46	(1,231)	17,445	10,198
Claims and judgments	45,056	30,424	(29,136)	46,344	10,258
<b>Governmental activities - long-term debt</b>	<b>\$ 283,449</b>	<b>\$ 111,601</b>	<b>\$ (38,675)</b>	<b>\$ 356,375</b>	<b>\$ 28,881</b>

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (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, \$782 of internal service funds compensated absences and \$46,344 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.

Business-type activities	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Bonds payable:					
Mello-Roos Special Tax Bonds	\$ 6,180	\$ -	\$ (6,180)	\$ -	\$ -
Revenue Bonds	14,280	32,785	(440)	46,625	460
Less deferred amounts:					
For issuance discounts	(282)	(73)	14	(341)	(16)
Deferred amount for refunding	(475)	-	158	(317)	(17)
Total bonds payable	<u>19,703</u>	<u>32,712</u>	<u>(6,448)</u>	<u>45,967</u>	<u>427</u>
Certificates of participation	109,855	-	(1,640)	108,215	2,250
Less deferred amounts:					
For issuance discounts	(623)	-	27	(596)	(27)
Deferred amount for refunding	(5,555)	-	343	(5,212)	(343)
Total certificates of participation	<u>103,677</u>	<u>-</u>	<u>(1,270)</u>	<u>102,407</u>	<u>1,880</u>
Compensated absences	2,407	2,198	(4,290)	315	133
Advances from other governments	1,421	-	(202)	1,219	161
Business-type activities - long-term debt	<u>\$ 127,208</u>	<u>\$ 34,910</u>	<u>\$ (12,210)</u>	<u>\$ 149,908</u>	<u>\$ 2,601</u>

#### **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, 2004, 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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# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

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, 2004, the outstanding balance considered defeased is:

1995 Certificates of Participation - Sanitary Wastewater Utility Fund	\$	38,575
1993 Certificates of Participation - Water Utility Fund	\$	14,515
1993 Certificates of Participation - Wastewater Utility Fund	\$	13,660

### 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, 2004, there were seven series of revenue bonds outstanding, with an aggregate principal amount payable of \$126,646.

### 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.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

A summary of reported reserves and designations by fund at June 30, 2004 follows:

	Governmental Activities					Total
	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other	
Reserves:						
Encumbrances	\$ 1,185	\$ 792	\$ 1,027	\$ 220	\$ 3,998	\$ 7,222
Advances	3,561	549	22,274	-	57,601	83,985
Debt service	-	-	-	-	46,456	46,456
Capital projects	1,042	48,277	26,856	39,139	41,634	156,948
Loan commitment	-	-	888	-	-	888
Low- and moderate- income housing	-	-	-	1,120	640	1,760
Endowments	-	-	-	-	1,383	1,383
Other items	329	-	-	40	3,732	4,101
Total reserves	<u>\$ 6,117</u>	<u>\$ 49,618</u>	<u>\$ 51,045</u>	<u>\$40,519</u>	<u>\$ 155,444</u>	<u>\$ 302,743</u>
Designations:						
Termination pay	\$ 662	\$ -	\$ -	\$ -	\$ 132	\$ 794
Infrastructure	2,470	-	-	-	-	2,470
State initiated revenue reductions	5,179	-	-	-	-	5,179
Economic uncertainties	3,419	-	-	-	-	3,419
Total designations	<u>\$ 11,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132</u>	<u>\$ 11,862</u>

**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 to the new Emergency Medical Transportation fund to assist with start-up costs.

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

**Capital Projects** – The construction and improvement of capital facilities.

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

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

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

**Endowments** – Set aside for various endowments, the majority is for the arts.

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

**Termination Pay** – To cover the employee separation pay and vacation sellback 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.

**State Initiated Revenue Reductions** – Foreseen cuts in funds provided by the State due to State budget shortfalls.

### 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 full-time 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 at 400 P Street, Sacramento, California, 95814.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 9. PENSION PLAN (Continued)

**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 21.403% of annual covered payroll. The rate for Miscellaneous members was 3.689% of annual covered payroll. 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, 2004, the City's annual pension cost of \$9,513 for the Safety Plan and \$1,896 for the Miscellaneous Plan were equal to the City's required contributions. The required contributions were determined as part of the June 30, 2001 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, 2003 was 22 years for the Safety Plan and 20 years for the Miscellaneous Plan.

#### SAFETY PLAN

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$ 9,513	100 %	\$ -
6/30/03	6,826	100	-
6/30/02	3,940	100	-

#### MISCELLANEOUS PLAN

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$ 1,896	100 %	\$ -
6/30/03	-	100	-
6/30/02	-	100	-

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 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, \$750 for each workers' 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 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 22 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.

In an effort to obtain a lower self-insured retention level for workers' compensation, effective July 1, 2003, the City joined California Public Entity Insurance Authority (CPEIA), a public entity risk pool, which has provided excess insurance programs to California public entities since 2001. CPEIA members include a variety of cities, counties, school districts and special districts. The pool is structured to provide coverage as follows: after the member's self-insured retention level (\$750 for the City), the CPEIA pool layer is \$5,000. Reinsurance is in place in layers above the \$5,000 to \$50,000.

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

At June 30, 2004, \$2,918, \$40,847 and \$2,579 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 2.65% and 3.0%, respectively, to reflect anticipated future investment earnings.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### 10. RISK MANAGEMENT (Continued)

The claims liabilities above, reported in the respective internal service funds at June 30, 2004, 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, 2004 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, CJPRMA or CPEIA 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, 2002	\$ 3,809	\$ 24,946	\$ 2,423	\$ 31,178
Claims incurred	357	22,089	19,997	42,443
Claims paid	<u>(924)</u>	<u>(7,962)</u>	<u>(19,679)</u>	<u>(28,565)</u>
Balance, June 30, 2003	3,242	39,073	2,741	45,056
Claims incurred	206	8,580	21,638	30,424
Claims paid	<u>(530)</u>	<u>(6,806)</u>	<u>(21,800)</u>	<u>(29,136)</u>
Balance, June 30, 2004	<u>\$ 2,918</u>	<u>\$ 40,847</u>	<u>\$ 2,579</u>	<u>\$ 46,344</u>

### 11. RISK POOLS

The City is a member of the California Joint Powers Risk Management Authority and the California Public Entity Insurance Authority. Both authorities are organized under Joint Powers Agreements pursuant to the California Government Code. The purpose of each is to arrange and administer programs of insurance for the pooling of self-insured losses, as described below.

**California Joint Powers Risk Management Authority** - The CJPRMA is comprised of 22 California member entities and 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.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 11. RISK POOLS (Continued)

#### ***Self-Insurance Programs of the CJPRMA***

*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 \$14,000. These deposits are subject to retrospective adjustments.

***California Public Entity Insurance Authority*** - The CPEIA provides excess insurance programs to its members, which include a variety of California public entities, including cities, counties, school districts and special districts.

#### ***Self-Insurance Programs of the CPEIA***

*Workers' Compensation Insurance* - The pool is structured to provide coverage in excess of the member's self-insured retention level. The City's self-insured retention level is \$750. The CPEIA pool layer is \$5,000. Reinsurance is in place in layers above the \$5,000 to \$50,000.

#### ***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.

### 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, or a maximum of 15 years whichever occurs first. 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.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 12. POST-RETIREMENT HEALTH CARE BENEFITS (Continued)

The City's contributions are financed on a pay-as-you-go basis. During the year, expenditures of approximately \$7,303 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.

### 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.

**Construction Commitments** - The City is undertaking a number of capital improvement projects, the most significant of which include the following at June 30, 2004:

• Street Improvements	\$ 15,196
• Wastewater Utility	8,392
• Event Center	3,550
• Water Utility	2,630
• Youth Center	2,432
• Traffic Signals	1,857

### 14. DEFICIT FUND BALANCE AND UNFUNDED LIABILITIES

- The Cooperative Library had a deficit balance of \$2 at June 30, 2004 primarily as a result of expenditures incurred in advance of receipt of revenues. It is the intent of the Library to fund this deficit from future revenues.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 14. DEFICIT FUND BALANCE AND UNFUNDED LIABILITIES (Continued)

- The Emergency Medical Transportation Fund has a deficit fund balance of \$2,731 at June 30, 2004 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 \$1,845 and a deficit in net assets of \$1,022. The cash balance of the fund at June 30, 2004 is \$1,945. 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 fund's cash flows. On an accrual basis of accounting, the Workers' Compensation Insurance Fund has a long-term liability of \$34,241 and a deficit in net assets of \$34,275. The cash balance of the fund at June 30, 2004 is \$6,633. 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 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 \$2,579 and a deficit in net assets of \$1,383. The cash balance of the fund at June 30, 2004 is \$1,271. 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, but other lease obligations are included. Total expenditures for leases were \$233 for the year ended June 30, 2004. The future minimum lease payments required for those operating leases are as follows:

June 30,	Amount
2005	\$ 327
2006	335
2007	205
2008	187
2009	196
2010-2014	1,136
2015-2019	1,457
Total	<u>\$ 3,843</u>

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 16. RESTATEMENT OF BEGINNING NET ASSETS

Governmental activities' beginning net assets have been restated as follows:

#### Prior period adjustment:

The City overstated construction in progress for infrastructure incurred in prior years during the conversion and implementation of GASB 34.

	<b>Governmental Activities</b>
Net asset, beginning of year, as originally reported	\$ 414,279
Infrastructure CIP	<u>(38,772)</u>
Net assets, beginning of year, restated	<u>\$ 375,507</u>

### 17. FUTURE GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) recently released several new accounting and financial reporting standards. Four of the new standards, GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions (OPEB)*, may have a significant impact on the City's financial reporting process.

GASB Statement No. 40 modifies previous custodial credit risk disclosure requirements and establishes more comprehensive disclosure requirements relating to other common risks of investments such as credit risk, concentration of credit risk and interest rate risk. GASB Statement No. 40 will be implemented in the financial statements for the year ending June 30, 2005.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB No. 42 will be effective for the fiscal year ending June 30, 2006.

GASB Statement No. 44 guides the preparation of supplementary information included in the statistical section. This new statement provides specific requirements for the information presented in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and will enhance comparability among governments presenting a statistical section. GASB No. 44 will be effective for the fiscal year ending June 30, 2006.

# CITY OF STOCKTON

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 17. FUTURE GASB PRONOUNCEMENTS (Continued)

GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expenses/expenditures, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB No. 45 will be effective for the fiscal year ending June 30, 2008.

The City is currently analyzing the impact of the required implementation of these new statements in fiscal year 2005.

# CITY OF STOCKTON

## SCHEDULES OF DEFINED BENEFIT PENSION PLANS FUNDED STATUS FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

### MISCELLANEOUS PLAN

Valuation Date	Entry Age Normal Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (Excess Assets) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/03	\$ 344,933	\$ 305,879	\$ 39,054	88.7%	\$ 54,241	72.0%
6/30/02	304,791	302,384	2,408	99.2%	53,151	4.5%
6/30/01	282,136	324,340	(42,204)	115.0%	50,843	-83.0%

### SAFETY PLAN

Valuation Date	Entry Age Normal Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (Excess Assets) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/03	\$ 473,038	\$ 380,682	\$ 92,356	80.5%	\$ 43,816	210.8%
6/30/02	447,098	375,902	71,196	84.1%	42,400	167.9%
6/30/01	401,016	402,288	(1,272)	100.3%	37,359	-3.4%

The notes to the required supplementary information are an integral part of this schedule.

# CITY OF STOCKTON

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property	\$ 22,130	\$ 22,130	\$ 24,349	\$ 2,219
Utility	33,300	33,300	33,322	22
Sales and use	34,240	34,240	36,723	2,483
Other	15,940	15,940	17,214	1,274
Licenses and permits	423	423	517	94
Other governmental	17,458	17,458	13,384	(4,074)
Charges for services	10,117	10,410	11,005	595
Fines and forfeitures	1,398	1,613	1,905	292
Use of money and property	615	720	607	(113)
Investment income:				
Interest income	750	750	734	(16)
Net decrease in fair value of investments	-	-	(686)	(686)
Refunds and reimbursements	2,793	2,793	2,569	(224)
Miscellaneous	5,078	6,176	5,179	(997)
<b>Total revenues</b>	<b>144,242</b>	<b>145,953</b>	<b>146,822</b>	<b>869</b>
<b>EXPENDITURES:</b>				
Current:				
General government:				
City council	517	457	457	-
City manager	2,032	2,361	2,360	1
City attorney	1,046	1,046	996	50
City clerk	951	985	985	-
City auditor	498	513	512	1
Administrative services	4,718	5,157	4,838	319
Personnel	1,799	1,800	1,711	89
Housing and redevelopment	63	63	63	-
Non-departmental	1,179	1,124	1,099	25
<b>Total general government</b>	<b>12,803</b>	<b>13,506</b>	<b>13,021</b>	<b>485</b>
Public safety:				
Police	69,322	68,974	68,834	140
Fire	38,593	39,456	39,457	(1)
Housing and redevelopment	2,489	2,331	2,282	49
<b>Total public safety</b>	<b>110,404</b>	<b>110,761</b>	<b>110,573</b>	<b>188</b>

The note to the required supplementary information is an integral part of this schedule.

# CITY OF STOCKTON

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS GENERAL FUND (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public works:				
Administrative services	2,627	1,215	1,371	(156)
Public works	8,774	10,328	10,186	142
Total public works	11,401	11,543	11,557	(14)
Parks and recreation	7,294	7,456	7,456	-
Capital outlay	-	107	106	1
Debt service:				
Cost of issuance	-	74	41	33
Total expenditures	141,902	143,447	142,754	693
EXCESS OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	2,340	2,506	4,068	1,562
OTHER FINANCING SOURCES (USES):				
Transfers in	6,875	6,967	7,482	515
Transfers out	(9,400)	(11,409)	(10,409)	1,000
Sale of fixed assets	-	-	5	5
Total other financing sources (uses)	(2,525)	(4,442)	(2,922)	1,520
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	(185)	(1,936)	1,146	3,082
BASIS ADJUSTMENTS:				
Compensated absences	-	(2,504)	(2,504)	-
Encumbrances	-	-	1,185	1,185
NET CHANGE IN FUND BALANCE (GAAP BASIS)	(185)	(4,440)	(173)	4,267
FUND BALANCE, BEGINNING OF YEAR	13,853	9,109	18,020	8,911
FUND BALANCE, END OF YEAR	\$ 13,668	\$ 4,669	\$ 17,847	\$ 13,178

The note to the required supplementary information is an integral part of this schedule.

# CITY OF STOCKTON

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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### 1. DEFINED BENEFIT PENSION PLANS

The schedules of defined benefit pension plan funded status display a historical summary of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Actuarial Accrued Liability ("UAAL") or Excess Assets, the Funded Ratio, the estimated annual covered payroll and the UAAL as a percentage of covered payroll for each of the City's defined benefit pension plans.

### 2. BUDGET

#### Budgetary Process

- In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. Total appropriations shall not exceed the total of estimated revenues, estimated unencumbered balances of funds to be carried over from the preceding year and unencumbered available fund balances. The General Fund, certain special revenue funds (Solid Waste and Recycling, Gas Tax, Measure K Sales Tax, City-County Library, Special Assessments, Other Special Revenue, Emergency Medical Transportation, Recreation Services, Development Services and Special Projects) and certain capital projects funds (Public Facilities Impact Fees and Capital Improvement) have legally adopted annual budgets. Prior to July 1, the original adopted budget is legally enacted through the passage of a resolution by the City Council. In the event this does not occur, the City Manager's draft budget is in force until a budget is adopted by the City Council.
- Enterprise and internal service funds are accounted for on a cost of service (net income) or capital maintenance measurement focus. The City is not legally mandated to report the results of operations for these fund types on a budget comparison basis; therefore, budgetary data related to these funds has not been presented.
- If expenditures exceed appropriations, the City Manager is authorized to transfer budgeted amounts between line items within any fund. During the year, the City Council approves supplemental appropriations and, by resolution, has also authorized the City Manager to transfer fund balances to applicable appropriation accounts, or to transfer between funds, when necessary to continue purposes approved by the City Council in the current year, adopted budget, or subsequent action. Amounts reported as final budget in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – On a Budgetary Basis include amendments authorized throughout the year.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(Dollar amounts in thousands)**

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**2. BUDGET (Continued)**

- Formal budgetary integration is employed as a management control device during the year for the General Fund and certain special revenue and capital projects funds. Formal budgetary integration is not employed for the debt service funds because effective budgetary control is alternatively achieved through bond indenture provisions.
- All unencumbered appropriations lapse at year-end, with the exception of some capital improvement projects and miscellaneous grants in the respective funds. Encumbered appropriations are re-appropriated in the following year's budget.

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting, which is different from accounting principles generally accepted in the United States of America (GAAP).

The statements of revenues, expenditures and changes in fund balances have been prepared on the modified accrual basis of accounting in accordance with GAAP. The schedules of revenues, expenditures and changes in fund balances – budget and actual – on a budgetary basis have been prepared on the budgetary basis, which is different from GAAP.

The variations from GAAP are that for budgetary purposes:

- Outstanding commitments relating to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under GAAP, these obligations are recognized when goods are received or services are rendered.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year or project length basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds are excluded from budgetary reporting.



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City Council  
City of Stockton  
Stockton, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE 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, 2004. 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.

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, 2004.

### *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 reportable 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 caused by error or fraud 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.

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  
October 25, 2004



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City Council  
City of Stockton  
Stockton, California

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California (City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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.

*Compliance and Other Matters*

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

This report is intended solely for the information and use of 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.

*Macías Gini & Company LLP*

Certified Public Accountants

Sacramento, California  
October 25, 2004

**CITY OF STOCKTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(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 Commerce</b>							
Direct							
Duck Creek Railroad Project	11.300	3/11/04-3/11/09	07-01-05485	\$ -	\$ -	\$ 88	\$ -
<b>Department of Housing and Urban Development</b>							
Direct							
Community Development Block Grants/ Entitlement Grants	14.218	07/01/03-06/30/04	B-02-MC-06-0026 and B-03-MC-06-0026	4,145	-	4,485	-
Community Development Block Grants/ Entitlement Grants	14.218		program income	1,203	-	858	-
Total Community Development Block Grants Entitlement Grants				5,348	-	5,343	-
Emergency Shelter Grants Program	14.231	07/01/03-06/30/04	S-02-MC-06-0026 and S-03-MC-06-0026	75	-	133	-
HOME Investment Partnerships Program	14.239	07/01/03-06/30/04	M-01-MC-06-0221 and M-02-MC-06-0221 and M-03-MC-06-0221	1,129	993	1,533	568
Special Economic Development Block Grant	14.246	01/01/01-	B-99-SP-CA-0051	40	-	40	-
Economic Development Block Grant (ED)	14.246	01/01/01-	B-98-ED-06-0050	147	-	147	-
Total Community Development Block Grants/ Brownfield Economic Development Initiative				187	-	187	-
Community Development Block Grants - Section 108 Loan Guarantees	14.248	01/01/01	B-98-MC-09-0026	4,308	-	4,308	-
Housing Authority of the County of San Joaquin							
Public Housing Drug Elimination Program P.D.	14.854	01/01/03-12/31/04	CA-024	200	-	160	-
Public Housing Drug Elimination Program P & R	14.854	01/01/01-12/31/01	CA-024	10	-	3	-
Total Public and Indian Housing Drug Elimination Program				210	-	163	-
<b>Total Department of Housing and Urban Development</b>				<b>11,257</b>	<b>993</b>	<b>11,667</b>	<b>568</b>
<b>Department of Interior</b>							
Direct							
Historic Preservation Fund Grants-In-Aid	15.904	06/01/03-12/31/05	06-02-ML-1305	-	-	-	3,940
Urban Parks and Recreation Recovery Grant	15.919	10/29/02-10/29/05	06CTY37700201	-	-	10	-
<b>Total Department of Interior</b>				<b>-</b>	<b>-</b>	<b>10</b>	<b>3,940</b>
<b>Department of Justice</b>							
Direct							
Youth Enrichment Services (YES) Program	16.xxx			-	-	258	-
Nunn-Lugar-Domenici Preparedness Equipment	16.006	03/01/02-02/28/05	2002-TE-CX-0052	243	-	78	-
Local Law Enforcement Block Grants	16.592	11/01/02-10/31/04	2002-LB-BX-2694	-	-	212	-
Local Law Enforcement Block Grants	16.592	10/01/00-09/30/02	2001-LB-VX-2730	206	-	-	-
Total Local Law Enforcement Block Grants Program				206	-	212	-
Gang Resistance Education and Training	16.737	01/16/03-01/15/04	ATC0300258	32	-	33	-
State of California Board of Corrections							
Safe School Grant	16.548	10/01/03	JC01031709	-	-	96	-
Peacekeeper Enhancements	16.523	10/01/03-06/30/04	IP03018019	90	11	142	15
State of California Office of Criminal Justice Planning							
Peacekeeper Enhancements	16.523	04/01/02-03/31/03	IP02018019	37	-	-	-
Peacekeeper Enhancements	16.523	07/01/03-09/30/03	IP03018019	44	-	44	5
Total Juvenile Accountability Incentive Block Grants				171	11	186	20

See notes to the schedule of expenditures of federal awards.

(Continued)

**CITY OF STOCKTON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(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 Justice (Continued)</b>							
State of California Office of Criminal Justice Planning (Continued)							
Special Unit Combating Violence Against Women	16.588	06/28/98-06/30/03	LE97018019	40	-	-	-
Special Unit Combating Violence Against Women	16.588	07/01/03-09/30/03	LE03018019	20	6	20	6
State of California Office of Emergency Services							
Special Unit Combating Violence Against Women	16.588	10/01/03-06/30/04	LE03018019	-	32	95	32
Total Violence Against Women Formula Grants				60	38	115	38
San Joaquin County District Attorney's Office							
Cracnet Grant	16.579	07/01/84-06/30/02	DC94020390	30	-	-	-
Cracnet Grant	16.579	07/01/03-06/30/04	DC03140390	116	8	135	8
Total Byrne Formula Grant Program				146	8	135	8
<b>Total Department of Justice</b>				<b>858</b>	<b>57</b>	<b>1,113</b>	<b>66</b>
<b>Department of Transportation</b>							
State Department of Transportation							
ISTEA-Traffic Signals Control	20.205	6/25/02-	CML-STPL-5008(020)/(057)	789	-	322	-
ISTEA-Fresno Ave./Harbor St. Recon	20.205	10/01/96-06/30/03	STPLN-5008(025)	127	-	130	-
ISTEA-Pershing/Smith Canal Bridge	20.205	12/27/96-	BHLS-5008(029)	78	-	53	-
ISTEA-Pacific/Calaveras Bridge	20.205	02/13/97-06/30/06	STPLZ-5008(031)	13	-	20	-
ISTEA-Benjamin Holt/Herndon Traffic Signal	20.205	11/15/99-06/30/03	CML-5008(043)	7	-	-	-
ISTEA-Charter Way Improvements Phase II	20.205	05/25/00-	STPL-5008(044)	103	-	11	-
ISTEA-Weber St. Improvements	20.205	09/06/00-06/30/03	STPLER-5008(045)	184	-	-	-
ISTEA-Pershing/Acacia Traffic Signal	20.205	07/24/01-	STPLHG-5008(049)	64	-	43	-
ISTEA-March Ln/El Dorado Traffic Signal	20.205	07/24/01-	CML-5008(050)	8	-	33	-
ISTEA-Swain Rd Traffic Signal	20.205	08/10/01-06/30/03	CML-5008(051)	149	-	-	-
ISTEA-Swain/Pacific Ave UPRR Traffic Xing	20.205	07/24/01-	STPLH-5008(052)	16	-	40	-
ISTEA-Mormon Slough/Airport Way Bridge	20.205	03/13/03-	BHLS-5008(053)	48	-	48	-
ISTEA-Davis Rd/Pixley Slough Bridge	20.205	03/27/03-	BRLS-5008(055)	19	-	31	-
ISTEA-Sperry Rd - Per/French Camp	20.205	08/26/02-	NCPD-5008(059)	359	-	439	-
ISTEA-Pacific Ave/Miracle Mile Beaut	20.205	08/26/02-	TCSP016-5008(060)	188	-	403	-
ISTEA-Pershing/Harding NB/SB Light	20.205	01/08/03-	STPLH-5008(061)	97	-	46	-
ISTEA-Airport/Miner Traffic Signal Mod	20.205	01/07/03-	STPLH-5008(062)	8	-	7	-
ISTEA-Pacific Ave Raised Median Mod	20.205	01/02/03-	STPLH-5008(063)	14	-	6	-
ISTEA-Steet Overlay - Phase 3	20.205	06/14/02-	STPL-5008(064)	392	-	473	-
ISTEA-Steet Overlay - Phase 2	20.205	06/14/02-	STPL-5008(065)	676	-	437	-
ISTEA-Pershing/March Signal Mod	20.205	01/08/04-	STPLH-5008(068)	-	-	6	-
ISTEA-Farminton/Mariposa Signal Mod	20.205	08/19/03-	STPLH-5008(069)	-	-	18	-
ISTEA-Pacific Calaveras Bridge Scour	20.205	03/30/04-06/06/06	BHLO-5008(070)	-	-	34	-
Total Highway Planning and Construction				3,339	-	2,600	-
State of California Office of Traffic Safety							
California Seat Belt Compliance Campaign	20.600	10/01/03-09/30/04	IN43904	33	-	70	-
Sobriety Checkpoint Program for Local Law Enforcement	20.600	12/01/03-09/30/04	AM04058	-	-	4	-
DUI/Speed Enforcement & Education Program	20.600	02/01/03-03/31/05	AL0367	142	-	174	-
Total State and Community Highway Safety				175	-	248	-
<b>Total Department of Transportation</b>				<b>3,514</b>	<b>-</b>	<b>2,848</b>	<b>-</b>
<b>Department of Treasury</b>							
Direct							
ATF Reimbursement of State Block Grant	21.052			-	-	16	-

See notes to the schedule of expenditures of federal awards.

(Continued)

**CITY OF STOCKTON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
**(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>Environmental Protection Agency</b>							
Direct							
Water Vulnerability Assessments Grant	66.xxx	06/01/02-12/31/03	HS-82999201-2	10	-	-	-
Superfund - Brownfields Program	66.xxx	07/01/98-	VP-98981101-0	-	-	28	-
Stockton Channel	66.xxx	09/01/99-	X-989370-01-0	38	-	8	-
<b>Total Environmental Protection Agency</b>				<b>48</b>	<b>-</b>	<b>36</b>	<b>-</b>
<b>Department of Health and Human Services</b>							
Lao Khmu Association, Inc.							
Refugee and Entrant Assistance - Discretionary Grants	93.576	12/4/02-	901RI0015/01	134	-	119	-
State of California Office of Emergency Services							
Children's Justice Grants to States	93.643	10/01/03-09/30/04	EV03018019	-	-	100	-
<b>Total Department of Health and Human Services</b>				<b>134</b>	<b>-</b>	<b>219</b>	<b>-</b>
<b>Department of Homeland Security</b>							
Direct							
Metropolitan Medical Response System	97.071	9/15/01-12/19/04	233-01-0058	59	-	337	-
<b>TOTAL FEDERAL ASSISTANCE</b>				<b>\$ 15,870</b>	<b>\$ 1,050</b>	<b>\$ 16,334</b>	<b>\$ 4,574</b>

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

## Federal grants and subsidies revenue:

Capital Improvement Fund	\$ 106	\$ 106
Redevelopment Agency Fund	28	28
Other Governmental Funds	11,167	11,167
<b>Total federal grants and subsidies revenue</b>	<b>11,301</b>	<b>11,301</b>
Items not recorded as federal grants and subsidies revenue:		
Program income - loan principal and interest	1,203	725
Loan guarantees - presented as proceeds of long-term debt	4,308	4,308
<b>Total federal expenditures</b>		<b>\$ 16,334</b>
Increase in accrued federal grants and subsidies	(942)	
<b>Total federal receipts</b>	<b>\$ 15,870</b>	

See notes to the schedule of expenditures of federal awards.

# **CITY OF STOCKTON**

## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)**

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### **NOTE A - REPORTING ENTITY**

The accompanying schedule of expenditures of federal awards (SEFA) presents the expenditures of all the federal award programs of the City of Stockton, California (City) for the year ended June 30, 2004. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the SEFA. 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 SEFA 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 SEFA 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 SEFA.

### **NOTE C - LOAN GUARANTEES**

The City entered into two loan guarantee agreements with the U.S. Department of Housing and Urban Development (CFDA No. 14.248) to complete redevelopment projects. The City has pledged current and future CDBG funds as security. The loan amounts are for a maximum of \$3,000 and \$10,000 each. The City has drawn all funds as of June 30, 2004. Accumulated interest per annum totals \$284 through June 30, 2004, and will be recognized as expenditures 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 \$375 was paid on these loans during fiscal year 2004; \$85 and \$290, respectively; leaving balances as of June 30, 2004 of \$2,760 and \$9,168, respectively.

**CITY OF STOCKTON**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)  
FOR THE YEAR ENDED JUNE 30, 2004  
(Dollar amounts in thousands)**

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**NOTE D – SUBRECIPIENTS**

Federal assistance provided to subrecipients is summarized as follows:

<u>Federal Agency</u>	<u>Federal CFDA #</u>	<u>Subrecipient</u>	<u>Amt Paid in FY 03 - 04</u>
Department of Housing and Urban Development			
Community Development Block Grant (CDBG)	14.218	San Joaquin Fair Housing	\$ 50
		San Joaquin Delta College	32
		Greater Stockton Chamber of Commerce	76
Emergency Shelter Grant	14.231	San Joaquin County Neighborhood Preservation	86
		San Joaquin County - Stockton Shelter	21
		Stockton Shelter for the Homeless	5
		Haven of Peace	7
		St Mary's Interfaith Dining Room	12
		Women's Center of SJCO	2
			<u>\$ 291</u>

**NOTE E – 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 \$33,677 at June 30, 2004. Interest earned and repayment of the loans are not refunded to the federal government, but are used to make additional loans.

**CITY OF STOCKTON**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)  
FOR THE YEAR ENDED JUNE 30, 2004  
(Dollar amounts in thousands)**

**NOTE F – OFFICE OF CRIMINAL JUSTICE PLANNING**

The following schedules present only the amounts related to the federal grants passed through the California Office of Criminal Justice Planning (OCJP) and does not include all grants passed through OCJP. These schedules reconcile the expenditures for state grant reporting purposes to the amounts presented in the SEFA. OCJP was disbanded on September 30, 2003. As a result, the Special Unit Combating Violence Against Women grant was transferred over to the California Office of Emergency Services (OES), and the Peacekeeper Enhancements grant was transferred over to the California Board of Corrections. As the Children’s Justice Grants to States did not begin until October 1, 2003, it was assigned to OES from the start.

**Grant No. LE03018019** – The City reported total cumulative expenditures for the period July 1, 2003 through June 30, 2004 on Form 201 as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Personal Services	\$ 89	\$ 89	\$ -
Operating Expenses	<u>64</u>	<u>64</u>	<u>-</u>
Total Expenditures per Form 201	<u>\$ 153</u>	<u>\$ 153</u>	<u>\$ -</u>

Reconciliation to the schedule of expenditures of federal awards

	<b>Federal</b>	<b>Local</b>	<b>Total</b>
Passed through California:			
Office of Criminal Justice Planning	\$ 20	\$ 6	\$ 26
Office of Emergency Services	<u>95</u>	<u>32</u>	<u>127</u>
Total Expenditures per SEFA as CFDA No. 16.588	<u>\$ 115</u>	<u>\$ 38</u>	<u>\$ 153</u>

# CITY OF STOCKTON

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2004 (Dollar amounts in thousands)

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

**Grant No. IP03018019** – The City reported total cumulative expenditures for the period July 1, 2003 through June 30, 2004 on Form 201 as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Personal Services per Form 201	<u>\$ 206</u>	<u>\$ 206</u>	<u>\$ -</u>
Reconciliation to the schedule of expenditures of federal awards			
	<b>Federal</b>	<b>Local</b>	<b>Total</b>
Passed through California:			
Board of Corrections	\$ 142	\$ 15	\$ 157
Office of Criminal Justice Planning	<u>44</u>	<u>5</u>	<u>49</u>
Total Expenditures per SEFA as CFDA No. 16.523	<u>\$ 186</u>	<u>\$ 20</u>	<u>\$ 206</u>

**Grant No. EV03018019** – The City reported total cumulative expenditures for the period October 1, 2003 through June 30, 2004 on Form 201 as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Personal Services	\$ 116	\$ 82	\$ 34
Operating Expenses	78	18	60
Equipment	<u>6</u>	<u>-</u>	<u>6</u>
Total Expenditures per Form 201	<u>\$ 200</u>	<u>\$ 100</u>	<u>\$ 100</u>

Reconciliation to the schedule of expenditures of federal awards

	<b>Federal</b>	<b>Local</b>	<b>Total</b>
Passed through California:			
Office of Emergency Services	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 100</u>
Total Expenditures per SEFA as CFDA No. 93.643	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 100</u>

# CITY OF STOCKTON

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004 (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 #14.218 Community Development Block Grants	
Dollar threshold used to distinguish between Type A and Type B programs:	\$361
Auditee qualified as low-risk auditee?	Yes

**CITY OF STOCKTON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2004  
(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.