



CITY OF LODI, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004

CITY OF LODI, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2004

LARRY HANSEN, MAYOR
JOHN BECKMAN, MAYOR PRO TEMP
SUSAN HITCHCOCK, COUNCILMEMBER
EMILY HOWARD, COUNCILMEMBER
KEITH LAND, COUNCILMEMBER

H. DIXON FLYNN, CITY MANAGER

Prepared by the Finance Department
James R. Krueger, Finance Director/Treasurer
Ruby Paiste, Accounting Manager
Coriene Wadlow, Sr. Accountant
Odette Bondoc, Accountant II

INTRODUCTORY SECTION

**CITY OF LODI
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS -continued

INTRODUCTORY SECTION

Table of Contents	i
Letter of Transmittal	v
Certificate of Achievement for Excellence in Financial Reporting	xiv
Organization Chart of the City of Lodi	xv
Directory of Officials and Advisory Bodies	xvi

FINANCIAL SECTION

Independent Auditors' Report	1
------------------------------	---

MANAGEMENT DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	15
Balance Sheet – Governmental Funds	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Net Assets – Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	23
Statement of Cash Flows – Proprietary Funds	24
Statement of Fiduciary Net Assets – Fiduciary Funds	25
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	26
Notes to Basic Financial Statements	27

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Pension Plan	67
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	68
Notes to the Required Supplementary Information	69

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

**CITY OF LODI
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS -continued

Combining Balance Sheet – Nonmajor Governmental Funds	71
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	72
Nonmajor Governmental Funds - Special Revenue Funds	73
Combining Balance Sheet –Nonmajor Governmental Funds – Special Revenue Funds	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Special Revenue Funds	76
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Nonmajor Governmental Funds – Special Revenue Funds	77
Nonmajor Governmental Funds - Capital Project Funds	81
Combining Balance Sheet –Nonmajor Governmental Funds – Capital Project Funds	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Capital Project Funds	83
Combining Statement of Fiduciary Net Assets - Private-Purpose Trust Funds	84
Combining Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	85
Statement of Changes in Assets and Liabilities - Agency Funds	86

STATISTICAL TABLES (UNAUDITED)

Government-wide information:

Government-wide Expenses by Function - Last Ten Fiscal Years	87
Government-wide Revenues - Last Ten fiscal Years	88

Fund information:

General Governmental Revenues by Source - Last Ten Fiscal Years	89
General Governmental Expenditures by Function - Last Ten Fiscal Years	90
General Governmental Tax Revenues by Source - Last Ten Fiscal Years	91
Secured Tax Levies and Collections - Last Ten Fiscal Years	92
Assessed Full Cash Value of all Taxable Property - Last Ten Fiscal Years	93
Property Tax Rates - Direct & Overlapping Governments - Last Ten Fiscal Years	94
Special Assessment Billings and Collections - Last Ten Fiscal Years	95
Ratio of Net General Bonded Debt to Taxable Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years	96
Computation of Direct and Overlapping General Bonded Debt - June 30, 2004	97
Debt Ratios - June 30, 2004	97
Computation of Legal Debt Margin - June 30, 2004	98
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total Governmental Expenditures- Last Ten Fiscal Years	99
Revenue Bond Coverage - Last Ten Fiscal Years	100
Demographic Statistics - Last Ten Fiscal Years	101
Construction Activity - Last Ten Fiscal Years	102
Bank Deposits - Last Ten Fiscal Years	103
Principal Employers - June 30, 2004	104

**CITY OF LODI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS -continued

Principal Taxpayers - June 30, 2001	105
Surety Bonds of Principal Officials – June 30, 2004	106
Gann Appropriation Limitation - Last Ten Fiscal Years	107
Personnel Authorized - Last Ten Fiscal Years	108
Schedule of Taxable Sales and Permits by Category – Last Ten Fiscal Years	109
Schedule of Business Tax Receipts Issued – Year ended June 30, 2004	111
Miscellaneous Statistics - June 30, 2004	112
SINGLE AUDIT	
Schedule of Expenditures of Federal Awards	113
Notes to the Schedule of Expenditures of Federal Awards	115
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards	116
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and Schedule of Expenditures of Federal Awards in Accordance with Circular A-133	118
Schedule of Findings and Questioned Costs	121

CITY COUNCIL

LARRY HANSEN, Mayor
JOHN BECKMAN, Mayor Pro
Tempore
COUNCILMEMBERS:
SUSAN HITCHCOCK
EMILY HOWARD
KEITH LAND

CITY OF LODI
CITY HALL, 221 WEST PINE STREET
P.O. BOX 3006
LODI, CALIFORNIA 95241-1910
(209) 333-6706
FAX (209) 333-6795

JANET S. KEETER
Interim City Manager
SUSAN BLACKSTON
City Clerk
STEVE SCHWABAUER
City Attorney

November 12, 2004

**To the Honorable Mayor, Members of the City Council
and Manager of the City of Lodi:**

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004, is hereby submitted. This report is provided to present the financial position, results of operations and cash flows of the City's proprietary funds as of June 30, 2004, in conformity with generally accepted accounting principles. The report conforms to the highest standards of financial reporting as established by the Governmental Accounting Standards Board (GASB), for reporting by State and local governments. The responsibility for the accuracy, fairness and completeness of the report rests with the City.

This report consists of management's representations concerning the finances of the City of Lodi. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Lodi has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. We believe that the information is accurate in all material respects and that it is presented in a manner designed to fairly present the financial position of the City. In addition, we believe that all disclosures necessary to enable the reader to gain full understanding of the City's financial activities have been included.

The CAFR is presented in four sections: introductory, a financial section, a statistical section and single audit section. The introductory section includes the transmittal letter, the City's organization chart and a list of principal officials. The financial section includes the independent auditors' report, management discussion and analysis, the basic financial statements, notes to the financial statements, required supplementary schedules, and the combining and individual statements. The single audit section includes the schedule of expenditures of federal awards, notes to the schedule, and reports on compliance and internal control based on the audit of the basic financial statements and on compliance and internal control with requirements applicable to each major program in accordance with OMB Circular A-133. The statistical section includes selected financial and demographic information presented on a multi-year basis.

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

THE REPORTING ENTITY AND SERVICES PROVIDED

The funds and account groups included in the CAFR are those deemed dependent upon the City and controlled by the City Council and reflect the City's financial reporting entity in accordance with GASB Statement 14.

The City provides a wide range of municipal services including public safety (police, fire and graffiti abatement), public utilities services (electric, water and wastewater), transportation services (streets, flood control and transit) leisure, cultural and social services (parks and recreation, library and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

Several municipal services are provided through other government agencies, private companies or public utility companies, including:

	Number of Facilities
Elementary and Secondary Schools	15
Sanitation (solid waste) and Cable Television	2
Ambulance	1
Gas and Telephone	2

ECONOMIC CONDITION AND OUTLOOK

The City is located in the San Joaquin Valley between Stockton 10 miles to the south, and Sacramento 35 miles to the north, and adjacent to U.S. Highway 99. The City population is 60,769 and is contained in an area of 12.79 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to 70,500 people by the year 2007. The City's growth is provided for in both the General Plan and the City's growth control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

Lodi is built on a strong and broad based agricultural industry with national and industrial markets for its commodities and products. Wines, processed foods, nuts, fruit and milk are major commodities of the Lodi area and provide the basic material for food processing and packaging. These commodities support the operations of General Mills, Guild Winery and Pacific Coast Producers to name just three companies in the business of processing local agricultural commodities.

In addition, Lodi has a wide range of small, financially sound businesses that add to the economic strength of the City. These companies range in size from 10 to 150 employees and produce a wide variety of products, services and commodities.

Over the past several years, there has been an increase in industrial and residential development that has been unprecedented since the early 1980s. This new development combined with the growing strength of the wine/grape industry is a positive indicator for Lodi. The City's focus on economic development has successfully encouraged numerous big industries to move to Lodi that collectively created hundreds of new jobs.

Economic Development

Lodi continues to be committed to promoting economic development (business retention and attraction) and expanding the tax base to fund city services rather than increase taxes to pay for these services. The City developed long and short-term economic development goals in conjunction with the Chamber of Commerce that resulted in the revitalization projects for the downtown and Cherokee Lane areas. In addition to revitalization efforts, the City has adopted a number of incentives to retain and attract new businesses. These incentives included infrastructure improvements, regulatory flexibility, tax credits and utility rate incentives.

MAJOR GOALS, OBJECTIVES AND PROJECTS

To assist the citizens of Lodi in understanding where the City intends to allocate available resources, the City Council, the City Manager and Department Heads have established a hierarchy of major goals, objectives and major projects that support and re-enforce the City's mission statement.

Four major City goals were established as policy direction and focal points for the efforts of City staff. These goals include:

- Ensure a High Quality of Life and a Safe Environment for Citizens
- Ensure Efficient and Productive City Organization
- Ensure Public Trust, and
- Ensure the Development of the Lodi Economy for a Fiscally Sound City Organization

City Council, the City Manager and Department Heads established nineteen major City objectives:

- | | |
|-----------------------------------------------------------------------------|-----------------------------------------------------------|
| Maintain City's Sense of Community | Provide Employee Training and Education |
| Provide for a Balanced Community | Evaluate Telecommunications Opportunities |
| Enhance Access through Implementation of Information Systems Strategic Plan | Provide Resources to Maintain City's Infrastructure |
| Promote Urban Forestry | Promote Public Relations and Marketing Efforts |
| Attract, Retain and Invest in A Quality City Work Force | Ensure Open and Accessible Public Meetings |
| Encourage Public Arts, Cultural and Recreational Opportunities | Pursue Efforts to be Entrepreneurial |
| Provide Appropriate and Sufficient City Facilities | Improve Customer Service |
| Develop Short and Long Range Operational Plans | Continue to Use Partnerships to Advance City's Objectives |
| Develop Effective Records Management Program | Provide a Balanced Budget & Adhere to Adopted Policies |
| Promote Commercial/Industrial Base | |

Projects represent the foundation of the planning statements for the City of Lodi. These projects are designed to accomplish specific objectives and become the focus for organization wide effort.

As discussed above, economic revitalization continued to be an active focal point of the City in 2003-04. The following major City projects were planned in the 2003-05 two-year budget document: 1) the construction of a new Public Safety building; 2) remodel of the old Public Safety building and Civic Center Complex; 3) replacement of Animal Shelter Facility; 4) construction of the DeBenedetti Park/G-Basin; 5) development and construction of an indoor sports and activity center; and 6) construction of an aquatics complex.

During fiscal year 2003-04 some of these projects moved through various phases of the capital improvement project process, and some General Fund projects were put on hold until a revenue stream is identified.

The slow down in the capital development comes at a time when the cost of City services is increasing leaving less discretionary money. However, the projects identified by the City Councils in the past years remain a high priority.

New Police Building

The new Police Station was completed in January 2004. The cost of the project was approximately \$14.0 million. This building was designed to meet the needs of the Police Department for the next 20 years. The project was paid for with a grant from the State and Certificates of Participation.

The Police Building is a 54,000 square foot, two-story building designed to house police operations, including staff offices and work space, property and evidence handling areas, and storage and mechanical rooms. The facility also includes a 5,600 square foot Type 1 jail, 1,000 square foot dispatch center, and 10,000 square feet of expansion shell space for future growth. The site will also include 100 secure parking spaces for police vehicles, a sally port for prisoner transportation and a shelter for police motorcycles. Trash enclosures and an emergency generator will also be installed on the site.

The major Capital Projects that were placed on hold due to budget constraints facing the city in 2003-05 are:

Public Safety Building Remodel and Expansion

The Public Safety Building is over thirty years old and it has many mechanical and design deficiencies. Remodeling this building to provide additional workspace, parking and related site improvements, a complete retrofit of the HVAC system, replacement of jail facility, full compliance with the Americans with Disabilities Act requirements, more space for public safety officers and a Police and Civic center parking structure

Animal Shelter Facility

The Lodi Animal shelter was built in the 1960's to service a community of approximately 26,000. As most shelters built at that time, its purpose was to be a "dog pound", i.e. a place to impound stray and vicious dogs before euthanizing them. The current shelter cannot meet the newly mandated State law or fulfill the expectations of a community eager to provide more humane animal care.

The estimated cost of the project is \$4 million, which is \$1.5 greater than the original estimate made in June 2001. This will be an 18,000 square foot facility on a 3-acre site. It will include kennels, isolation kennels, community classroom, a clinic, storage areas, exercise areas and areas set aside for expansion of kennels. The project completed the design phase prior to being placed on hold pending identification of a revenue source.

DeBenedetti Park/G-Basin

This project consists of design and development of a youth sports complex (with lighted fields) and park within the "G-basin", which provides storm water storage in the park. This project is one of the highest unranked projects identified by the Parks and Recreation Commission and the City Council. The estimated cost of the project is \$11.2 million, which is approximately \$5 million greater than the estimate in June 2001. The project has gone through the schematic design and construction design phases. The General Fund portion of the project has been put on hold; however, the portions funded by other sources of revenue are expected to proceed.

Indoor Sports and Activity Center

This project consists of development and construction of a 40,000 square foot building to provide space for a gymnasium, exercise rooms, kitchen, meeting rooms and offices for community use. The estimated cost is \$10.9 million and is currently in the schematic design phase. The construction design phase has been completed.

Aquatics Complex

This project consists of design and construction of a recreation pool with water features, a 50-meter competitive pool, snack bar, changing rooms, showers, parking and picnic areas. The estimated cost of the project is \$7 million, which is a \$4 million, increase from the estimate made in June 2001. The project passed through the design phase prior to being placed on hold.

FINANCIAL INFORMATION, MANAGEMENT AND CONTROL

A detailed understanding of the financial position and operating results of the City is provided in the following sections of this report. The following is a brief description of the City's financial condition, management practices and control techniques.

Basis of Accounting

Basis of accounting refers to the policy as to when revenues, expenditures or expenses are recognized in the financial accounts and reported in the financial statements. The City's accounting records for general government operations are maintained on a modified accrual basis. Revenues are recorded when available and measurable. Expenditures are recorded when the services or goods are received and the liability incurred. For proprietary fund types, the City uses the accrual basis of accounting. As such, the measurement focus is on net income in addition to financial position and changes in financial position. Revenues are recognized when earned and expenses are recognized as the liability is incurred. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Accounting System and Budgetary Control

In developing the City's accounting system, consideration is given to the adequacy of the internal controls. The objective of the City's internal accounting controls is to provide reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; and to ensure that transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that estimates and judgments are required to be made by management in evaluating these costs and benefits.

In addition, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Although the City utilizes a two-year Financial Plan format the budget is adopted annually. The City Manager is responsible for the preparation of the budget and its implementation after adoption. The City Council has the authority to amend the budget at any time during the year. The City Manager has the authority to make adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end balances. During fiscal year 2003-04, the City Council and City Manager made several supplemental budget appropriations, the majority of which relate to capital projects.

Fund Balance

It is the City's goal to target and maintain an unreserved, undesignated fund balance in the General Fund and working capital balances in the Electric, Water and Wastewater enterprise funds of at least 15% of operating expenditures. This goal allows for variations from year-to-year to account for economic and fiscal changes. The General Fund maintained a fund balance of \$1,452,988 or 3.62% of operating expenditures at the end of fiscal year 2003-04. The fund balance is of concern to the City Council and was addressed during the fiscal year by implementing budget cuts and raising various fees.

Carryover Policy

A two-year Financial Plan and Budget format provides the City Council and staff with the opportunity to commit operating funds to services over a two-year time frame rather than the traditional one-year period. Under a one-year budget, appropriations lapse at the end of the fiscal year and favorable budget balances are no longer available for operating expenditures except when encumbered under contractual agreements. The two-year Financial Plan and Budget allows for the unexpended operating budget balances to be carried forward to the second year of the Financial Plan provided that the fund balance exceeds the required operating reserve.

Cash Management

The City has written investment policies that address a wide range of investments. These policies describe the City's investment objectives, investment authority, allowable investment vehicles, maturity terms and eligible financial institutions. They also describe the City's capital preservation and cash management objectives. As provided in the policy, investments are intended to be held until maturity and investment terms are to be consistent with the City's cash flow needs. Investment reports are issued both monthly and quarterly to the City Manager and City Council to provide detailed information regarding the City's investments and compliance with City policy and as required by state law. An important objective of the City's investment policy is to achieve a reasonable rate of return on public funds while minimizing risks and preserving capital. In evaluating the performance of the City's investment portfolio, investments are expected to yield a rate of return that regularly meets or exceeds an average rate of return on a three-month U.S. Treasury Bill.

The City received an award again this fiscal year from the Municipal Treasurer's Association of the United States and Canada (MTA) for the Investment Certification Program. This award program is designed to recognize outstanding written investment policies and to provide professional guidance and assistance in developing and improving existing investment policies in the government sector.

Appropriation Limitation

Article XIII B of the Constitution of the State of California (Proposition 4) provides for the limitation of expenditures by state and local governments. Under the provisions of this article, City appropriations funded through tax sources may not exceed Fiscal Year 1979 appropriation levels except as adjusted for increases in population and the growth in the California per capita income or non-residential assessed valuation due to new construction within the city.

Excluded from the limitation are appropriations funded through charges for services, fines and forfeitures, grants, transfers of service responsibilities between government agencies and indebtedness incurred prior to Fiscal Year 1979. Pursuant to subsequent legislation adopted after Article XIII B, the City is required to annually establish and adopt its appropriations limit by resolution. For 2003-04, the City's appropriations subject to limit were \$28,710,584 and the appropriation limit was \$59,759,913 a favorable variance of \$31,049,329.

Debt Administration

At June 30, 2004, the City had outstanding Certificates of Participation of \$167,427,477. These liabilities are discussed in Note 7 of the Basic Financial Statements and summarized below.

The City issued a \$5.0 million Certificates of Participation (1995) COP to fund its share of the improvements downtown and Cherokee Lane. These bonds were refunded by the issuance of the 2002 Certificates of Participation. The City also issued a \$1.97 million limited obligation improvement bonds for the Central City Revitalization Assessment District on July 22, 1996. The improvement bonds of the assessment district are not general obligations of the City.

The City also issued \$10.12 million for the renovation of the Performing Arts Center on August 1, 1996; the 2002 Certificates of Participation also refunded these bonds. In addition, the Electric Utility issued \$43.96 million Certificates of Participation to finance the costs of certain improvements to the distribution and transmission facilities of the City's electric system. These bonds were also refunded by the issuance of the 2002 Electric Systems Revenue Certificates of Participation. The City is also authorized to issue up to \$16 million for the Environmental Abatement Program for the clean up effort of the groundwater contamination of PCE/TCE around the downtown area.

On November 2002, the City issued the 2002 Revenue Certificates of Participation Series C for \$21,225,000 and 2002 Series D for \$22,740,000, to buy out the energy purchase agreement entered into by the City in January 2002 with Calpine.

During the fiscal year, the City of Lodi and the City of Fort Bragg issued Water and Wastewater revenue bonds (2003B) through the California Statewide Communities Development Authority ("the Authority") under its pooled financing program. Total bonds issued were \$9,855,000 of which \$5,000,000 was for the upgrade of the City of Lodi's wastewater facilities.

The City also issued a \$27,360,000 Wastewater Certificates of Participation (2004A) to finance the costs of improvements to the wastewater collection, treatment and disposal system.

The City's debt management policy includes a commitment to monitor all forms of debt annually during the preparation of the City's Financial Plan and Budget to ensure compliance. Also, the City will generally conduct financing on a competitive basis, will seek an investment grade rating on any direct debt and will obtain credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost effectiveness.

Interim Financial Reporting

Monthly financial reports are prepared to present the City's financial condition and results of operations. These executive reports are organized using the "pyramid" approach. As such, the highest level of summary data is presented first, followed by progressively greater levels of detail. The reports provide current period and year to date revenues, expenditures and encumbrances for all activities and funds, including year to date estimates and variances.

Single Audit

The City is subject to financial and compliance reporting required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, which is a requirement of all local and state governments receiving federal financial awards. As part of the Single Audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial awards, as well as to determine that the City has complied with

certain applicable laws and regulations governing federal funds. The Single Audit report is published as part of the annual financial statements for easy reference.

Competitive Bidding Policy

All required purchases for materials, equipment and services during 2003-04 were made pursuant to competitive bidding procedures as established under the City's purchasing ordinance. Contracts for construction projects were awarded pursuant to competitive bidding procedures established by the State of California for projects in excess of \$5,000.

Risk Management

The City is self-insured for dental care, workers' compensation, general liability and unemployment insurance. General liability and workers' compensation are administered by outside agencies. The City administers unemployment insurance. Self-insurance transactions are accounted for under the City's Claims and Benefits Fund. At June 30, 2004, the Claims and Benefits Fund had a deficit of \$3,577,932. The City is implementing a phased deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

INDEPENDENT AUDIT

The City Council requires an annual audit of the records and accounts of the City by an independent certified public accountant. To ensure internal control periodically the City conducts a request for proposal (RFP) process for auditing services. The accounting firm of Macias, Gini & Company LLP was selected to perform this audit. The independent auditors' report precedes the basic financial statements and concludes that the City's basic financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

CERTIFICATES OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. The City did not submit for the California Society of Municipal Finance Officers (CSMFO) award program last year.

These Certificates of Achievement are prestigious national and state awards recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGMENTS

As always the professionalism, dedication and efficiency of the Finance Department Accounting staff made it possible for the timely preparation of this report and are to be commended. I would also like to personally thank Ruby Paiste, Accounting Manager, and Cory Wadlow, Senior Accountant, Odette Bondoc, Accountant II and Tyson Mordhorst, Senior Programmer Analyst. Their work in preparing this year's CAFR was greatly appreciated.

I would also like to thank you for your continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

James R. Krueger
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lodi,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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

XIV

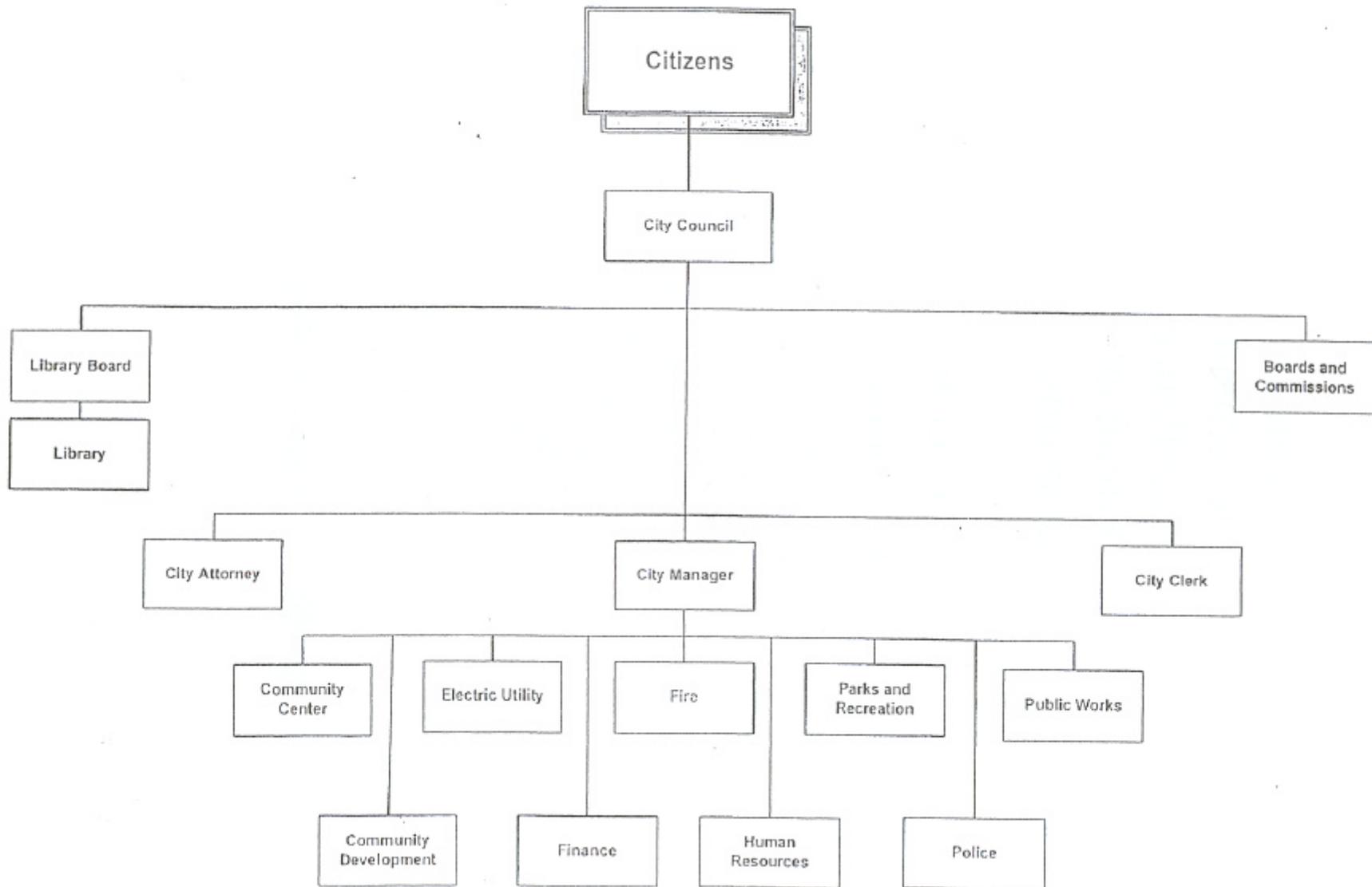


Nancy L. Zielle

President

Jeffrey R. Emery

Executive Director



DIRECTORY OF OFFICIALS AND ADVISORY BODIES

CITY COUNCIL

Larry Hansen
John Beckman
Susan Hitchcock
Emily Howard
Keith Land

Mayor
Mayor Pro Temp
Council Member
Council Member
Council Member

ADVISORY BODIES

Planning Commission
Library Board
Recreation Commission
Site Plan and Architectural Review Committee

Eastside Improvement Committee
Lodi Arts Commission
Youth Commission
Lodi Senior Citizens' Commission

PRINCIPAL ADMINISTRATIVE OFFICERS

H. Dixon Flynn
D. Stephen Schwabauer
Susan Blackston
Nancy Martinez
James Krueger
Mike Pretz
Tea Silvestre
Joanne Narloch
Richard Prima
Alan Vallow
Konradt Bartlam
Jerry Adams
Tony Goehring

City Manager
City Attorney
City Clerk
Library Services Director
Finance Director/Treasurer
Fire Chief
Community Center Director
Human Resources Director
Public Works Director
Electric Utility Director
Community Development Director
Police Chief
Parks & Recreation Director

FINANCIAL SECTION

The Financial Section is comprised of the Independent Auditors' Report, Management Discussion and Analysis, Basic Financial Statements, including the notes, required Supplementary Information, and Supplementary Information which includes Combining and Individual Fund Statements and Schedules.



MACIAS GINI & COMPANY_{LLP}

3000 S Street, Ste. 300
Sacramento, California 95816

916.928.4600 PHONE
916.928.2755 FAX

The Honorable Members of City Council
City of Lodi, 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 Lodi, California (City), as of and for the 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's 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 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 December 10, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on pages 3 through 12, the schedule of funding progress – pension plan on page 67, and schedule of revenues, expenditures and changes in fund balance – budget and actual – General Fund on page 68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Certified Public Accountants

Sacramento, California
December 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comprehensive Annual Financial Report is presented as discussion and analysis of the financial performance of the City of Lodi (the City) for the fiscal year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

- The assets of the City of Lodi exceeded its liabilities at the close of the 2004 fiscal year by \$161,798,491 (net assets). Of this amount, \$16,948,388 is a deficit (unrestricted net assets), needed to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$8,919,010.
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$11,484,747, a decrease of \$6,464,020 in comparison with the prior year. Of this amount, \$6,410,972 is available for spending at the City's discretion (unreserved fund balance).
- At the close of the fiscal year, fund balance for the general fund was \$1,452,988 or 3.62 % of total general fund expenditures of \$40,171,604.
- The City's total long-term debt increased by \$35,437,984 (23.4%) during the current fiscal year. The key factors in this increase were the issuance of \$32,360,000 in certificates of participation in the Wastewater Fund and \$1,125,000 in the Water Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the Financial Statements. This report also includes other **supplementary information** in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

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 all or a significant portion of their costs through users fees and charges (business-type activities). The governmental activities of the City include general government, public protection, public works, library, and parks and recreation. The business-type activities of the City include electric operations, wastewater system, water operations and public transit system.

Fund Financial Statements

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end 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 between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects and debt service). 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, which is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts a two-year budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with this budget.

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Electric, Wastewater, Water, all of which are considered to be major funds and the Transit system, which is considered to be a nonmajor proprietary fund.
- **Internal Service fund** is used to report activities that account for various employee benefits and self-insurance activities of the City. Because these activities predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The activities of the Downtown and Cherokee Lane and the Industrial Way-Beckman special assessment districts are accounted for and reported under the fiduciary funds. The activities of the private sector trust and the Holz bequest are also accounted for under the fiduciary funds. Since the resources of this fund are not available to support the City's own programs, it is not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees, and a schedule comparing budget to actual in the General Fund.

Combining Statements

The combining statements in connection with non-major governmental funds and fiduciary funds are presented immediately following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lodi, assets exceeded liabilities by \$161,798,491 at the close of the current fiscal year.

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

City of Lodi's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets:						
Current and other assets	\$ 18,935,593	24,253,428	109,272,639	80,895,348	\$ 128,208,232	105,148,776
Capital assets	<u>128,334,732</u>	<u>117,334,991</u>	<u>113,895,765</u>	<u>99,101,161</u>	<u>242,230,497</u>	<u>216,436,152</u>
Total assets	<u>147,270,325</u>	<u>141,588,419</u>	<u>223,168,404</u>	<u>179,996,509</u>	<u>370,438,729</u>	<u>321,584,928</u>
Liabilities:						
Long-term liabilities outstanding	41,002,293	37,475,374	146,180,690	114,269,625	187,182,983	151,744,999
Other liabilities	<u>3,750,597</u>	<u>3,955,379</u>	<u>17,706,658</u>	<u>13,005,069</u>	<u>21,457,255</u>	<u>16,960,448</u>
Total liabilities	<u>44,752,890</u>	<u>41,430,753</u>	<u>163,887,348</u>	<u>127,274,694</u>	<u>208,640,238</u>	<u>168,705,447</u>
Net assets:						
Invested in capital assets, net of related debt	100,749,086	94,680,680	64,214,183	62,751,969	164,963,269	157,432,649
Restricted	11,205,788	12,810,536	2,577,822	239,354	13,783,610	13,049,890
Unrestricted	<u>(9,437,439)</u>	<u>(7,333,550)</u>	<u>(7,510,949)</u>	<u>(10,269,508)</u>	<u>(16,948,388)</u>	<u>(17,603,058)</u>
Total net assets	<u>\$ 102,517,435</u>	<u>100,157,666</u>	<u>59,281,056</u>	<u>52,721,815</u>	<u>\$ 161,798,491</u>	<u>152,879,481</u>

An additional portion of the City's net assets, \$13,783,610 (8.52%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets represents a deficit of \$16,948,388. At the end of the current fiscal year, the City is able to report positive balances in two of the three categories of net assets for the government as a whole. Unrestricted net assets are negative for both the governmental activities and the business-type activities. The deficit in unrestricted net assets in the governmental activities at the end of the year was \$9,437,439 caused primarily by the accrual of compensated absences of \$7,908,647 and the inclusion of the internal service fund in the governmental activities that had negative net assets of \$3,577,932.

Refer to pages 8-9 for analysis of the business-type activities and internal service fund negative unrestricted net assets.

City of Lodi's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program revenues:						
Charges for services	\$ 4,828,330	3,873,478	65,709,989	61,457,486	\$ 70,538,319	65,330,964
Operating grants and contributions	2,321,453	3,315,488	2,547,266	1,772,069	4,868,719	5,087,557
Capital grants and contributions	13,893,743	6,814,312	8,268,229	6,565,948	22,161,972	13,380,260
General revenues:						
Property taxes	7,187,535	6,398,164			7,187,535	6,398,164
Other taxes	9,571,855	8,846,168			9,571,855	8,846,168
Grants and contributions not restricted to specific programs	8,532,897	8,639,582			8,532,897	8,639,582
Other	<u>4,077,732</u>	<u>3,835,412</u>	<u>4,876,811</u>	<u>8,051,096</u>	<u>8,954,543</u>	<u>11,886,508</u>
Total revenues	<u>50,413,545</u>	<u>41,722,604</u>	<u>81,402,295</u>	<u>77,846,599</u>	<u>131,815,840</u>	<u>119,569,203</u>
Expenses						
General government	13,166,925	12,237,616			13,166,925	12,237,616
Public protection	19,162,270	16,631,944			19,162,270	16,631,944
Public works	11,867,698	10,946,025			11,867,698	10,946,025
Library	1,409,413	1,453,769			1,409,413	1,453,769
Parks and recreation	4,095,367	3,989,438			4,095,367	3,989,438
Interest on long-term debt	1,267,017	1,214,565			1,267,017	1,214,565
Electric			55,942,822	51,387,848	55,942,822	51,387,848
Wastewater			6,297,010	6,141,172	6,297,010	6,141,172
Water			7,488,844	12,879,363	7,488,844	12,879,363
Transit			<u>3,064,298</u>	<u>5,388,541</u>	<u>3,064,298</u>	<u>5,388,541</u>
Total expenses	<u>50,968,690</u>	<u>46,473,357</u>	<u>72,792,974</u>	<u>75,796,924</u>	<u>123,761,664</u>	<u>122,270,281</u>
Changes in net assets before special items and transfers	(555,145)	(4,750,753)	8,609,321	2,049,675	8,054,176	(2,701,078)
Litigation settlements			864,834	2,727,811	864,834	2,727,811

Transfers	2,914,914	2,980,631	(2,914,914)	(2,980,631)		
Changes in net assets	2,359,769	(1,770,122)	6,559,241	1,796,855	8,919,010	26,733
Net assets at beginning of year	<u>100,157,666</u>	<u>101,927,788</u>	<u>52,721,815</u>	<u>50,924,960</u>	<u>152,879,481</u>	<u>152,852,748</u>
Net assets at end of year	\$ <u>102,517,435</u>	<u>100,157,666</u>	<u>59,281,056</u>	<u>52,721,815</u>	\$ <u>161,798,491</u>	<u>152,879,481</u>

ANALYSIS OF CHANGES IN NET ASSETS

Governmental activities.

Governmental activities increased the City's net assets by \$2,359,769. This reflects primarily the increase in capital grants and contributions from infrastructure donated to the City from the new residential subdivisions and new commercial areas.

Business-type activities.

Business-type activities increased the City's net assets by \$6,559,241. This reflects primarily the increase in utility rates combined with the decrease in expenditures related to the environmental abatement program (PCE/TCE).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds.

The focus of the City of Lodi's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. 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.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,484,747, a decrease of \$6,464,020 in comparison to the prior year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$156,650, while total fund balance was \$1,452,988 a decrease of \$113,720 from prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Fund balance represents 3.62% of total general fund expenditures.

Proprietary Funds

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

Unrestricted net assets for the Electric Fund and the Wastewater Fund at the end of the year amounted to \$7,757,442 and \$4,607,817 respectively. The deficit in unrestricted net assets in the Water Fund amounted to \$19,572,353 as a result of primarily legal expenses and interest accrued related to the Environmental Abatement Program bonds issued to finance the groundwater contamination (PCE-TCE) litigation.

The deficit in unrestricted net assets in the Transit Fund was due to the decrease in federal transit revenues as a result of the new allocation for urbanized areas which now makes Lodi's apportionment shared by the City of Galt. Another factor was the cost of services charged to Transit that are not covered by TDA and or FTA until the City submits an approved cost allocation plan.

The Internal Service Fund is reporting a deficit in unrestricted net assets as a result of the City not fully funding its self-insurance activities. The City plans to implement the deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

Other factors concerning the finances of these funds are discussed in the City of Lodi's business-type activities.

General Fund Budgetary Highlights

Differences between the original operating budget and the final amended operating budget in the General Fund were a net increase in appropriation of \$197,560 and can be briefly summarized as follows:

- \$78,792 in miscellaneous decreases in general government activities
- \$142,683 in increases allocated to public protection
- \$969 net decrease in public works
- \$7,415 net increase in library
- \$127,223 net increase in parks and recreation

The various increases and decreases in appropriation were the net effect of budget cuts implemented during the fiscal year amounting to \$957,730 offset by the increase of \$ 370,130 from carry-over of encumbered purchase orders and contracts, \$564,090 from various special allocations, \$175,800 from grants primarily for after school programs and \$45,270 offset by revenues.

The \$883,037 in the capital outlay was for the lease purchase of two Pierce Quantum fire apparatus and equipment approved in mid-year.

Significant differences between the final budget and the actual revenues and expenditures can be briefly summarized as follows:

- Licenses and permits - a favorable variance of \$465,329 was the result of increased building permit fees, plumbing, mechanical and electrical fees as well.
- Intergovernmental revenues – a variance of \$1,043,108 was primarily the decrease in vehicle license fees (VLF) (\$169,798) and the VLF backfill gap, which was three months of the VLF backfill for August through October 2003, withheld by the State to cover its budget deficit (\$596,152) and is expected to be repaid in 2006; sales tax came in lower than expected (\$222,103); and, certain grants and after school programs funded by grants were not funded in the current year (\$55,055).
- Charges for services exceeded estimated revenues by \$763,694 as a result of new and increased police fees, fire fees, engineering fees, community center, and parks and recreation fees implemented during the year.
- Fines, forfeits and penalties- the implementation of increased fees for returned checks and late fees resulted in a positive variance of \$214,410.
- Under the expenditures, favorable variance between the final budget and actual expenditures was \$1,019,892. Factors contributing to this difference are the following: Full time salaries budgeted at E (top) step, employee participation in the voluntary time off program, vacancies, the suspension of conferences, travel and training; and the overall effort to hold the line on spending and reduce costs.

Capital Assets and Debt Administration

Capital assets.

The City of Lodi's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$242,230,497 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in the City of Lodi's investment in capital assets for the current fiscal year was 11.92% (a 9.37% increase in governmental activities and a 14.93% increase in 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	\$ 23,798,811	\$ 23,799,732	\$ 5,247,806	\$ 5,306,754	\$ 29,046,617	\$ 29,106,486
Buildings and Improvements	41,026,803	27,870,536	24,902,110	25,550,704	65,928,913	53,421,240
Machinery and Equipment	1,797,112	2,012,782	62,823,423	55,254,723	66,044,623	57,267,505
Vehicles	2,487,373	2,120,683	2,403,851	2,862,302	3,467,135	4,982,985
Infrastructure	55,464,893	49,068,135			55,674,098	49,068,135
Work of Art	62,024	62,024			62,024	62,024
Construction in Progress	3,697,716	12,401,099	18,518,575	10,126,678	22,007,087	22,527,777
Total	<u>\$ 128,334,732</u>	<u>\$ 117,334,991</u>	<u>\$ 113,895,765</u>	<u>\$ 99,101,161</u>	<u>\$ 242,230,497</u>	<u>\$ 216,436,152</u>

A significant increase in buildings and improvements compared to prior year was due to the completion of the new police building. Construction cost was approximately \$13.3 million. Increase in machinery and equipment was due primarily to additions in electric, water and wastewater connections, taps, lines and mains for new developments. Increase in infrastructure was primarily due to increase in streets from new residential developments.

Additional information on the City of Lodi's capital assets can be found in note 6 on pages 40-42 of this report.

Long-term debt.

At the end of the current fiscal year, the City of Lodi had total bonded debt outstanding of \$167,427,477. Of this amount, \$25,530,000 is the outstanding balance of the bonds issued to fund the new public safety building, the performing arts center and the downtown and Cherokee Lane improvements. The total of \$141,897,477 from the business-type activities consists of \$41,934,121 for the Wastewater Fund, \$15,625,000 for the Environmental Abatement program of the Water Fund, and \$84,338,356 for the Electric Fund.

City of Lodi's Outstanding Debt

	<u>Governmental</u> <u>activities</u>	<u>Business-type</u> <u>activities</u>	<u>Total</u>
Certificates of Participation	\$ 25,530,000	141,897,477	167,427,477

The City of Lodi's total bonded debt increased by \$31,420,353(23.1%) during the current fiscal year. The key factors in this increase were the issuance of \$32,360,000 in certificates of participation in the Wastewater Fund and \$1,125,000 in the Water Fund.

The City maintains an "AAA" rating from Standard & Poor's and Fitch, Inc. The revenue bonds of the Electric Systems have been rated by these two rating agencies and given an "AAA."

Additional information on the City of Lodi's long-term debt can be found in note 8 on pages 43-54 of this report.

Economic factors and next year's budget.

The City faces significant budget challenges in the next two fiscal years. As a result of downward economic trends and personnel expenditures, which are increasing at a pace that outstrips the resources available to fund these expenditures, the City faces an operating deficit in the General Fund for fiscal year 2004-05. In order to eliminate this projected deficit, planned expenditures have been reduced by approximately \$1.9 million and property tax revenues of approximately \$1.9 million (originally planned to be used for repayment of debt service) have been shifted to the General Fund.

In spite of continuing efforts to work through this challenge, the City General Fund will be in a deficit condition in fiscal year 2005-06 as well. The shifting of property tax revenues was a one time measure to offset the impact of rising expenditures. Consequently, further steps are needed in order to resolve this structural deficit. It is estimated that the deficit will range between approximately \$1.3 and \$3.1 million in fiscal year 2005-06. Expenditures will be reduced in order to resolve this anticipated deficit. Reductions will need to be made in the range of 5% to 15% across all departments in the General Fund. A survey of citizens was completed in the winter of 2004, which identified public safety as being the highest priority services for the City of Lodi. Based on results from that survey, expenditures will be reduced by less in departments that provide services of the highest priority and to a greater extent in departments that do not provide those services identified as the highest priority services.

As the local and state economies continue to show signs of economic recovery, the City of Lodi may choose to return to operations levels of 2003-04 and earlier years. However, the likely scenario is that the City will work towards building its General Fund balance to a level that will allow for weathering economic downturns without having severe effects on service levels.

REQUEST 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' accountability for the money it receives. If you have any questions about this report or need additional information, contact the Accounting Division of the Finance Department of the City of Lodi at 300 W. Pine Street, Lodi, California, 95240.

BASIC FINANCIAL STATEMENTS

The Government-wide Financial Statements provide a broad overview of the City's financial position and operating results. Information is grouped by governmental activities or business-type activities.

The Fund Financial Statements report information about the City's Governmental Funds, Proprietary Funds, and the Fiduciary Fund.

The notes have an integral role in disclosing information essential to the fair presentation of the Basic Financial Statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LODI
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 11,356,581	12,358,243	\$ 23,714,824
Restricted assets	1,729,169	40,515,546	42,244,715
Accounts receivable, net	4,775,980	11,165,565	15,941,545
Property tax receivable	1,298,480		1,298,480
Interest receivable	37,100	42,203	79,303
Internal balances	(3,796,763)	3,796,763	
Due from other governmental agencies	1,950,350	1,858,867	3,809,217
Loan receivables	1,084,000		1,084,000
Advance receivables		1,070,959	1,070,959
Inventory	113,538	2,017,857	2,131,395
Other assets	387,158	16,759	403,917
Deferred charges		36,429,877	36,429,877
Capital assets, net:			
Nondepreciable	27,558,551	23,766,381	51,324,932
Depreciable, net	100,776,181	90,129,384	190,905,565
TOTAL ASSETS	147,270,325	223,168,404	370,438,729
LIABILITIES			
Accounts payable and accrued liabilities	2,457,715	9,785,076	12,242,791
Accrued salaries and wages	972,911		972,911
Accrued interest	319,971	6,516,743	6,836,714
Unearned revenue		1,404,839	1,404,839
Long-term liabilities:			
Due within one year	4,715,007	6,904,453	11,619,460
Due in more than one year	36,287,286	139,276,237	175,563,523
TOTAL LIABILITIES	44,752,890	163,887,348	208,640,238
NET ASSETS			
Invested in capital assets, net of related debt	100,749,086	64,214,183	164,963,269
Restricted for:			
Capital projects	9,406,992		9,406,992
Debt service	1,409,198	2,372,302	3,781,500
Other purposes	389,598	205,520	595,118
Unrestricted (deficit)	(9,437,439)	(7,510,949)	(16,948,388)
TOTAL NET ASSETS	\$ 102,517,435	59,281,056	\$ 161,798,491

**CITY OF LODI
STATEMENT OF ACTIVITIES
Year ended June 30, 2004**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 13,166,925	3,144,267	177,270	385,817	(9,459,571)		\$ (9,459,571)
Public protection	19,162,270	524,277	731,101	279,437	(17,627,455)		(17,627,455)
Public works	11,867,698	430,127	1,247,165	12,685,581	2,495,175		2,495,175
Library	1,409,413	50,228	115,937	-	(1,243,248)		(1,243,248)
Parks & Recreation	4,095,367	679,431	49,980	542,908	(2,823,048)		(2,823,048)
Interest on long-term debt	1,267,017				(1,267,017)		(1,267,017)
Total governmental activities	<u>50,968,690</u>	<u>4,828,330</u>	<u>2,321,453</u>	<u>13,893,743</u>	<u>(29,925,164)</u>		<u>(29,925,164)</u>
Business-type activities:							
Electric	55,942,822	52,898,902	-	450,615		(2,593,305)	(2,593,305)
Wastewater	6,297,010	6,560,013	24,909	4,239,887		4,527,799	4,527,799
Water	7,488,844	6,007,137	-	3,105,393		1,623,686	1,623,686
Transit	3,064,298	243,937	2,522,357	472,334		174,330	174,330
Total business-type activities	<u>72,792,974</u>	<u>65,709,989</u>	<u>2,547,266</u>	<u>8,268,229</u>		<u>3,732,510</u>	<u>3,732,510</u>
Total primary government	\$ <u>123,761,664</u>	<u>70,538,319</u>	<u>4,868,719</u>	<u>22,161,972</u>	<u>(29,925,164)</u>	<u>3,732,510</u>	\$ <u>(26,192,654)</u>
General revenues:							
Taxes:							
Property taxes					7,187,535	-	7,187,535
Franchise taxes					8,381,401	-	8,381,401
Business license tax					873,657	-	873,657
Transient occupancy tax					316,797	-	316,797
Motor vehicle-in lieu					3,362,792	-	3,362,792
Investment earnings					125,411	2,242,227	2,367,638
Grants and contributions not restricted to specific programs					8,532,897		8,532,897
Other					589,529	2,634,584	3,224,113
Special item-litigation settlement						864,834	864,834
Transfers					2,914,914	(2,914,914)	
Total general revenues, special items and transfers					<u>32,284,933</u>	<u>2,826,731</u>	<u>35,111,664</u>
Change in net assets					2,359,769	6,559,241	8,919,010
Net assets, beginning of year					100,157,666	52,721,815	152,879,481
Net assets, end of year					<u>102,517,435</u>	<u>59,281,056</u>	\$ <u>161,798,491</u>

FUND FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

Governmental Fund Types

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

Major Governmental Fund:

General Fund

This fund is maintained to account for all financial resources that are not restricted as to their use. This includes property and sales taxes, business tax, receipts, franchise taxes and various subventions such as Motor Vehicle In-Lieu fees received from the State of California. With the exception of grant programs, General Fund resources can be utilized for any legitimate governmental purpose.

Proprietary Fund Types

Proprietary funds consist of the enterprise funds and the internal service funds.

Major Enterprise Funds include:

Electric Fund

The City established this fund in order to account for the provision of electric services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, capital improvements maintenance and debt service.

Wastewater Fund

This fund was established by the City in order to account for the provision of waste water collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

Water Fund

This fund was established by the City in order to account for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund, including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

Nonmajor Enterprise Fund:

Transit Fund

This fund is used to account for the operations of the Dial-A-Ride and the Grapeline bus system.

Internal Service Fund

Internal Service Funds are maintained to account for the internal transfer of services between operating units of the City. The purpose of an Internal Service Fund is to achieve a level of operating efficiency that may not be available if the same activities were performed by multiple organizations.

Claims and Benefits Funds

The City of Lodi maintains an internal service fund to account for the following insurance and certain employee benefits:

- | | |
|---------------------------|------------------------------|
| General Liability | Employee assistance program |
| Workers' Compensation | Employee recognition program |
| Dental | Unemployment insurance |
| Chiropractic | Flexible spending program |
| Life/accidental insurance | Long Term Disability |
| Medical | Vision |

Fiduciary Fund Type

Private-purpose Trust Fund

This fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

Agency Fund

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the Industrial Way Beckman Districts and the Downtown and Cherokee Lane Districts.

**CITY OF LODI
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$	9,792,599	\$ 9,792,599
Restricted assets		1,729,169	1,729,169
Receivables:			
Accounts	4,348,522	285,563	4,634,085
Property taxes	908,936	389,544	1,298,480
Interest		33,238	33,238
Due from other funds		1,486,350	1,486,350
Due from other governmental agencies	68,206	1,882,144	1,950,350
Loan receivables		1,084,000	1,084,000
Inventory	113,538		113,538
Advances to other funds	240,040	716,770	956,810
Other assets	96,802		96,802
Total assets	<u>\$ 5,776,044</u>	<u>17,399,377</u>	<u>\$ 23,175,421</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other liabilities	\$ 1,744,831	642,857	\$ 2,387,688
Accrued salaries and wages	972,911		972,911
Due to other funds	1,009,162	477,188	1,486,350
Advances from other funds		4,753,573	4,753,573
Deferred revenue	596,152	1,494,000	2,090,152
Total liabilities	<u>4,323,056</u>	<u>7,367,618</u>	<u>11,690,674</u>
Fund balances :			
Reserved	1,296,338	3,777,437	5,073,775
Unreserved reported in:			
General Fund	156,650		156,650
Special revenue funds		534,108	534,108
Capital projects funds		5,720,214	5,720,214
Total fund balances	<u>1,452,988</u>	<u>10,031,759</u>	<u>11,484,747</u>
Total liabilities and fund balances	<u>\$ 5,776,044</u>	<u>17,399,377</u>	<u>\$ 23,175,421</u>

CITY OF LODI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

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

Fund balances - total governmental funds	\$	11,484,747
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		
Nondepreciable capital assets		27,558,551
Depreciable capital assets, net		100,776,181
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		(7,908,647)
Bonds payable and other long-term debt		(27,585,646)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.		
		(319,971)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		
		2,090,152
Internal service funds are used by management to charge the costs of general liability insurance, workers' compensation insurance, health benefits insurance and other insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net assets.		
		(3,577,932)
Net assets of governmental activities	\$	<u><u>102,517,435</u></u>

CITY OF LODI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 14,065,774	2,842,574	\$ 16,908,348
Licenses and permits	2,021,234		2,021,234
Intergovernmental revenues	11,964,723	4,692,324	16,657,047
Charges for services	2,410,024	2,068,288	4,478,312
Fines, forfeits and penalties	1,084,500		1,084,500
Investment and rental income	258,874	278,375	537,249
Miscellaneous revenue	166,710	306,392	473,102
Total revenues	<u>31,971,839</u>	<u>10,187,953</u>	<u>42,159,792</u>
Expenditures:			
Current:			
General government	10,815,208		10,815,208
Public protection	17,263,236	227,304	17,490,540
Public works	6,224,844	1,078,380	7,303,224
Library	1,356,213		1,356,213
Parks and recreation	3,411,552		3,411,552
Capital outlay	883,037	9,157,718	10,040,755
Debt service:			
Principal payments	187,190	571,605	758,795
Interest and fiscal charges	30,324	1,215,152	1,245,476
Total expenditures	<u>40,171,604</u>	<u>12,250,159</u>	<u>52,421,763</u>
Deficiency of expenditures under revenues	<u>(8,199,765)</u>	<u>(2,062,206)</u>	<u>(10,261,971)</u>
Other financing sources (uses):			
Transfers in	7,203,008	2,571,167	9,774,175
Transfers out		(6,859,261)	(6,859,261)
Capital lease proceeds	883,037		883,037
Total other financing sources (uses)	<u>8,086,045</u>	<u>(4,288,094)</u>	<u>3,797,951</u>
Net change in fund balances	<u>(113,720)</u>	<u>(6,350,300)</u>	<u>(6,464,020)</u>
Fund balances, beginning of year	<u>1,566,708</u>	<u>16,382,059</u>	<u>17,948,767</u>
Fund balances, end of year	<u>\$ 1,452,988</u>	<u>10,031,759</u>	<u>\$ 11,484,747</u>

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

CITY OF LODI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Amounts reported for governmental activities are different because:

Net change in fund balances - total governmental funds	\$	(6,464,020)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> <p>Capital outlays, capital contributions and depreciation expense are as follows:</p>		
Capitalized capital outlays		10,040,755
Capital contributions		7,734,845
Depreciation expense		(6,738,615)
Proceeds from disposition of capital assets		(37,244)
<p>Long-term debt proceeds, net of discounts, provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of the principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.</p>		
Proceeds from capital lease		(883,037)
<p>Repayments of principal are as follows:</p>		
Capital leases		187,190
Certificates of participation principal		485,000
Loan principal		86,605
<p>Internal service funds are used by management to charge the costs of certain activities, such as health benefits and self-insurance, to individual funds. The net revenue (expenses) of internal service funds is reported with governmental activities.</p>		
		(1,401,063)
<p>Deferred revenues recognized in the funds that were previously recognized in the statement of activities</p>		
		556,152
<p>Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.</p>		
Change in compensated absences		(1,185,258)
Change in accrued interest		(21,541)
Change in net assets of governmental activities	\$	2,359,769

**CITY OF LODI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004**

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
ASSETS						
Current assets:						
Cash and Investments	\$ 6,347,087	4,568,925	1,442,231		\$ 12,358,243	\$ 1,563,982
Restricted assets	16,199,580	24,015,274	300,692		40,515,546	
Receivables:						
Accounts	4,958,392	3,738,141	538,502	1,930,530	11,165,565	141,895
Interest	30,768	6,874	4,561		42,203	3,862
Due from other funds	3,579,002				3,579,002	
Due from other governmental agencies		33,142	16,188	1,809,537	1,858,867	
Advance receivables	1,070,959				1,070,959	
Inventory	1,842,969	12,510	162,378		2,017,857	
Other assets	1,445	8,757	5,727	830	16,759	290,356
Total current assets	<u>34,030,202</u>	<u>32,383,623</u>	<u>2,470,279</u>	<u>3,740,897</u>	<u>72,625,001</u>	<u>2,000,095</u>
Noncurrent assets:						
Advances to other funds	2,400,000		1,396,763		3,796,763	
Deferred charges and other assets	35,691,166	738,711			36,429,877	
Capital assets, net:						
Nondepreciable	8,699,871	12,720,483	588,838	1,757,189	23,766,381	
Depreciable, net	26,043,333	33,707,055	20,208,204	10,170,792	90,129,384	
Total capital assets	<u>34,743,204</u>	<u>46,427,538</u>	<u>20,797,042</u>	<u>11,927,981</u>	<u>113,895,765</u>	
Total noncurrent assets	<u>72,834,370</u>	<u>47,166,249</u>	<u>22,193,805</u>	<u>11,927,981</u>	<u>154,122,405</u>	
TOTAL ASSETS	<u>106,864,572</u>	<u>79,549,872</u>	<u>24,664,084</u>	<u>15,668,878</u>	<u>226,747,406</u>	<u>2,000,095</u>
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	5,115,809	3,444,514	918,125	306,628	9,785,076	70,027
Accrued interest	522,705	311,656	20,276	10,398	865,035	
Due to other funds				3,579,002	3,579,002	
Unearned revenue		93,009	1,168,218	143,612	1,404,839	
Self-insurance liability						1,643,214
Accrued compensated absences	343,798	168,786	13,620	5,112	531,316	
Certificates of participation payable	5,673,947	550,904			6,224,851	
Water note payable			148,286		148,286	
Noncurrent liabilities:						
Accrued interest			5,651,708		5,651,708	
Self-insurance liability						3,864,786
Accrued compensated absences	849,760	481,278	42,448		1,373,486	
Certificates of participation payable	78,664,409	41,383,217	15,625,000		135,672,626	
Water note payable			2,230,125		2,230,125	
TOTAL LIABILITIES	<u>91,170,428</u>	<u>46,433,364</u>	<u>25,817,806</u>	<u>4,044,752</u>	<u>167,466,350</u>	<u>5,578,027</u>
NET ASSETS						
Invested in capital assets, net of related debt	7,715,368	26,152,203	18,418,631	11,927,981	64,214,183	
Restricted:						
Debt service	15,814	2,356,488			2,372,302	
Other purposes	205,520				205,520	
Unrestricted (deficit)	7,757,442	4,607,817	(19,572,353)	(303,855)	(7,510,949)	(3,577,932)
TOTAL NET ASSETS (DEFICIT)	<u>\$ 15,694,144</u>	<u>33,116,508</u>	<u>(1,153,722)</u>	<u>11,624,126</u>	<u>\$ 59,281,056</u>	<u>\$ (3,577,932)</u>

CITY OF LODI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2004

	Business-type Activities - Enterprise Funds				Total	Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit		
OPERATING REVENUES						
Charges for services	\$ 52,898,902	6,560,013	6,007,137	243,937	\$ 65,709,989	\$ 7,610,130
OPERATING EXPENSES						
Personnel services	4,962,929	1,904,055	1,023,000	88,488	7,978,472	346,202
Supplies, materials and services	11,230,869	1,956,715	4,844,716	2,407,550	20,439,850	4,998,568
Utilities	30,664,580	524,899	766,787	58,634	32,014,900	
Claims						3,860,633
Depreciation and amortization	5,823,765	1,196,809	770,671	509,626	8,300,871	
TOTAL OPERATING EXPENSES	52,682,143	5,582,478	7,405,174	3,064,298	68,734,093	9,205,403
OPERATING INCOME (LOSS)	216,759	977,535	(1,398,037)	(2,820,361)	(3,024,104)	(1,595,273)
NONOPERATING REVENUES (EXPENSES)						
Investment income	2,174,839	75,151	28,305	(36,068)	2,242,227	7,579
Interest expense	(3,260,679)	(714,532)	(83,670)	-	(4,058,881)	
Rent	1,000	37,301	9,891	10,056	58,248	
Operating grants	-	24,909	-	2,522,357	2,547,266	
Other revenues	1,272,406	538,902	431,358	333,670	2,576,336	186,631
TOTAL NONOPERATING REVENUES (EXPENSES)	187,566	(38,269)	385,884	2,830,015	3,365,196	194,210
INCOME (LOSS) BEFORE SPECIAL ITEM, CAPITAL CONTRIBUTIONS AND TRANSFERS	404,325	939,266	(1,012,153)	9,654	341,092	(1,401,063)
Special item-litigation settlement			864,834		864,834	
Capital contributions	450,615	4,239,887	3,105,393	472,334	8,268,229	
Transfers in				1,605,915	1,605,915	
Transfers out	(2,943,703)	(670,450)	(685,477)	(221,199)	(4,520,829)	
Net Special item, Capital Contributions and Transfers	(2,493,088)	3,569,437	3,284,750	1,857,050	6,218,149	
Change in net assets	(2,088,763)	4,508,703	2,272,597	1,866,704	6,559,241	(1,401,063)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	17,782,907	28,607,805	(3,426,319)	9,757,422	52,721,815	(2,176,869)
NET ASSETS (DEFICIT) - END OF YEAR	\$ 15,694,144	33,116,508	(1,153,722)	11,624,126	\$ 59,281,056	\$ (3,577,932)

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

**CITY OF LODI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2004**

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
Cash flows from operating activities:						
Receipts from customers and users	\$ 49,390,281	5,890,005	9,516,254	387,367	\$ 65,183,907	\$ 7,716,679
Receipts from interfund services provided	386,226				386,226	
Cash paid to suppliers for goods & services	(38,297,679)	(1,874,109)	(5,566,197)	(1,619,326)	(47,357,311)	(6,571,755)
Payments to employees	(4,809,681)	(1,957,115)	(977,263)	(85,671)	(7,829,730)	(346,202)
Payments for interfund services provided	(1,358)	(498,548)	(739,273)	(41,745)	(1,280,924)	
Net cash provided by (used in) operating activities	6,667,789	1,560,233	2,233,521	(1,359,375)	9,102,168	798,722
Cash flows from noncapital financing activities:						
Special Item-litigation settlement			864,834		864,834	
Transfers in				1,605,915	1,605,915	
Transfers out	(2,943,703)	(670,450)	(685,477)	(221,199)	(4,520,829)	
Net cash provided by (used in) noncapital financing activities	(2,943,703)	(670,450)	179,357	1,384,716	(2,050,080)	
Cash flows from capital and related financing activities:						
Proceeds from Certificates of Participation			1,125,000		1,125,000	
Acquisition and construction of capital assets	(2,526,498)	(4,635,408)	(300,657)		(7,462,563)	
Proceeds from sales of capital assets	500,000	5,005			505,005	
Fees received from developers		14,984	72,491		87,475	
Capital grants received		22,495	22,495		44,990	
Principal payments on debt	(2,150,000)	(175,000)	(143,030)		(2,468,030)	
Interest payments on debt	(3,202,696)	(714,523)	(2,075,909)		(5,993,128)	
Net cash provided by (used in) capital and related financing activities	(7,379,194)	(5,482,447)	(1,299,610)		(14,161,251)	
Cash flows from investing activities:						
Rent of City property	1,000	37,301	9,891	10,056	58,248	
Proceeds from sales and maturities of investments	2,156,238	8,278,339			10,434,577	
Interest on investments	7,073,369	76,179	26,771	(35,397)	7,140,922	4,146
Net cash provided by (used in) investing activities	9,230,607	8,391,819	36,662	(25,341)	17,633,747	4,146
Net increase in cash and cash equivalents	5,575,499	3,799,155	1,149,930		10,524,584	802,868
Cash and cash equivalents at beginning of year	771,588	769,770	292,301		1,833,659	761,114
Cash and cash equivalents at end of year	\$ 6,347,087	4,568,925	1,442,231		\$ 12,358,243	\$ 1,563,982
Cash flows from operating activities:						
Operating income (loss)	\$ 216,759	977,535	(1,398,037)	(2,820,361)	\$ (3,024,104)	\$ (1,595,273)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	5,823,765	1,196,809	770,671	509,626	8,300,871	
Operating grants		24,909		2,522,357	2,547,266	
Other revenues	831,354	558,504	431,358	365,408	2,186,624	186,631
Change in assets and liabilities:						
Decrease (increase) in accounts receivable	572,143	(3,109,467)	2,185,464	(1,874,730)	(2,226,590)	(31,065)
Increase in advance receivables	(539,173)				(539,173)	
Increase in restricted deposit		(472)	(426)		(898)	
Decrease (increase) in due from other funds	(1,529,002)	1,822,081	2,310,124		2,603,203	
Increase in due from other governmental agencies		(22,106)	(16,188)	(980,649)	(1,018,943)	
Increase in advances to other funds	(2,400,000)		(1,396,763)		(3,796,763)	
Decrease (increase) in inventory	(498,375)	(379)	52,839		(445,915)	
Decrease (increase) in other assets	1,231	(1,644)	(4,452)	(830)	(5,695)	(49,017)
Increase (decrease) in accounts payable and other liabilities	4,035,839	90,762	(746,806)	(136,665)	3,243,130	70,027
(Decrease) increase in accrued salaries and wages						
Increase (decrease) in accrued interest						
Increase in due to other funds				910,040	910,040	
Increase (decrease) in compensated absences	153,248	(53,060)	45,737	2,817	148,742	
Increase in deferred revenue		76,761		143,612	220,373	
Net cash provided by (used in) operating activities	\$ 6,667,789	1,560,233	2,233,521	(1,359,375)	\$ 9,102,168	\$ 798,722
Noncash Investing, Capital and Financing Activities						
Donated capital assets	\$ 450,615	4,202,408	3,010,407		\$ 7,663,430	\$
Certificates of participation proceeds invested		32,876,445			32,876,445	
Acquisition and construction of capital assets via accounts payable and other liabilities		3,113,881			3,113,881	
Cost of issuance paid from debt proceeds		583,419			583,419	

CITY OF LODI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	Private-Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Investments	\$ 643,889	\$ 378,650
Receivables:		
Special assessments		39,963
Interest		1,149
TOTAL ASSETS	643,889	419,762
 LIABILITIES		
Agency obligations		419,762
TOTAL LIABILITIES		419,762
 NET ASSETS	\$ 643,889	\$

CITY OF LODI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2004

		Private-Purpose Trust Funds
ADDITIONS		
Investment and rental income	\$	99,265
Total additions		99,265
NET ASSETS, BEGINNING OF YEAR		544,624
NET ASSETS, END OF YEAR	\$	643,889

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) THE FINANCIAL REPORTING ENTITY

The City of Lodi (City) was incorporated on December 6, 1906, as a municipal corporation under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: general government, public works, public protection (police and fire), public utilities, library, parks and recreation.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles.

An elected five-member council governs the City of Lodi. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units, although legally separate entities, are, in substance, part of the City's operations and therefore, their activities are blended with data of the City.

Blended Component Units

The blended component units of the City are as follows:

The Lodi Public Improvement Corporation (LPIC) was formed on April 26, 1988, for the purpose of rendering financial assistance to the City in the issuance of the 1988 Certificates of Participation (refunded by the issuance of the 1991 Certificates of Participation) to finance the expansion of the City's White Slough Pollution Control Facility, the 1995 and 1996 Certificates of Participation to finance the Central City Revitalization Projects and the Performing Arts/ Conference Center, (refunded by the issuance of the 2002 Certificates of Participation) and the issuance of the 1999 Certificates of Participation to finance the Electric Systems improvements (refunded by the 2002 Certificates of Participation Series A).

On May 12, 2004, LPIC also issued the 2004 Wastewater System Revenue Certificates of Participation Series A to provide funds to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City.

The City Council constitutes the Board of Directors of LPIC. The funds of LPIC have been included in the Enterprise (Electric and Wastewater) Funds and in the other governmental funds in the accompanying basic financial statements.

The Lodi Financing Corporation (LFC) was formed on October 12, 1999, for the purpose of assisting the City with the financing of the costs of its environmental abatement program and enhancing the water supply of the City for the use, benefit and enjoyment of the citizens served by the City.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

On June 29, 2000, the Lodi Financing Corporation was authorized to issue Variable rate Certificates of Participation quarterly on each January 1, April 1, July 1 and October 1, beginning October 2000; provided however, that the aggregate principal amount shall not exceed Sixteen Million Dollars (\$16,000,000). Total bonds issued as of June 30, 2004, were \$15,625,000. These issues were intended to fund the continued commitment of the City as the lead agency in initiating and prosecuting environmental enforcement actions to compel responsible parties to investigate and clean up all actual or potential dangers to public health and the environment arising from or related to hazardous substance contamination of portions of the City's groundwater and soil located within an area approximately 600 acres and encompassing the City's central business area. The City Council is the Board of Directors of LFC. The funds of LFC are included in the Water Fund in the accompanying basic financial statements.

(b) 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 non-fiduciary activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities that 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 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

(c) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus and 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 revenues in the year for which they are levied. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal year. All other revenues are considered to be

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

available if they are generally collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses, intergovernmental revenues, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues are considered to be measurable and available when the City receives cash.

The City reports the following major governmental fund:

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

The City reports the following major proprietary (enterprise) funds:

The **Electric Fund** accounts for the provision of electric services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, capital improvements, and maintenance and debt service.

The **Wastewater Fund** accounts for the provision of wastewater collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

The **Water Fund** accounts for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund, including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

Additionally, the City reports the following fund types:

The **Internal Service Fund** accounts for the City's claims and benefits.

The **fiduciary funds** account for assets held in trust for other agencies.

Private-purpose trust fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Agency fund accounts for assets held by the City as a trustee or as an agent for individuals, private organizations, related organizations and/or other governmental units.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of the 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.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City departments from the Electric, Wastewater, Water and Transit Funds. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund and internal service fund are charges for customer services including: electric, wastewater, water and public transportation fees. Operating expenses for enterprise funds and internal service fund include the cost of 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.

(d) Cash and Investments

The City maintains a cash and investment pool that is available for all funds of the City for the purpose of increasing interest earnings through investment activities. Investments are generally stated at fair value with the exception of guaranteed investment contracts, which are stated at cost. Income earned or losses arising from the investment of pooled cash are allocated to various funds based on month-end cash balances in accordance with California Government Code Section 53647. Changes in fair value of investments are recognized as a component of interest and investment income.

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

(e) Restricted Assets

In the Enterprise (Electric) Fund, restricted assets represent the proceeds of the 1999 Certificates of Participation held by the trustee for the planned improvements of the city electric systems. In the Capital Outlay Reserve Fund, the restricted assets represent the proceeds of the 2002 Improvement bonds reserved for debt service. In the Wastewater fund, the restricted assets represent the proceeds of the 2003B and the

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

2004A Certificates of Participation issued for improvements to the City's wastewater collection, treatment and disposal system. In the Water Fund, the restricted assets represent funds held by the attorneys in connection with the PCE/TCE litigation.

(f) Property Taxes

San Joaquin County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the provisions of Proposition 13 plus a percentage of the increase in market value in specific areas. The City's property tax is liened based on the assessed value listed as of the prior January 1st for all real and personal property located in the City. Property sold after the assessment date (January 1st) is reassessed and the amount of property tax assessed is prorated. The assessed value at January 1, 2002, upon which the 2003 levy was based, was \$3,825,793,000.

Secured property taxes are levied on October 1 and are due in two installments on November 1 and February 1. The tax becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is levied on July 1, due on July 31 and becomes delinquent after August 31.

Property taxes levied for the year ended June 30, 2004, are recorded as receivables, net of estimated uncollectible amounts. Property taxes paid to the City by the County within 60 days of the fiscal year end are considered "available" and are, therefore, recognized as revenue.

In 1993, the City made an agreement with the San Joaquin County to participate in the Teeter Plan. The Teeter plan is an alternative method of apportioning property tax money. The cities receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the County keeps the penalties and interest on the delinquent taxes.

(g) Due From/Due To Other Funds and Internal Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds."

In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Receivables and payables between the governmental activities and the business-type activities are classified as internal balances.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(h) Transfers

In the fund financial statements, interfund transfers are recorded as transfers in (out) except for transactions that are described below:

Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund at the end of fiscal year.

Reimbursements for expenditures, initially made by one fund that is properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as other revenue in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

(i) Long-term obligations

In the government-wide financial statements and in the proprietary fund type 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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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. Gains or losses occurring from advance refunding, are deferred and amortized into expense for both governmental and business-type activities.

(j) Loan receivables

Loan receivables reported in the HOME Program & Community Development Block Grant Special Revenue Fund represent funds the City loaned to a developer for a low-income housing project. The City will receive principal and interest from the original loan in thirty years and can use it for allowable projects or to make new loans.

(k) Advance receivables

Advance receivables reported in the Enterprise Fund (Electric) represent the City's portion of the NCPA's General Operating reserve that is refundable upon demand by the City. (See Note 13.)

(l) Inventory

General fund inventories are recorded at cost and are recognized as expenditures when consumed rather than when purchased. For the Proprietary fund types, inventories are recorded at cost using the weighted average cost method, which approximates market, and expense is recognized when inventories are consumed in operations.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(m) Deferred Charges

Deferred charges reported in the Electric Fund include costs incurred in connection with the issuance of the 2002 Certificates of Participation Series A and B amortized over 30 years. It also includes the buyout cost of the Calpine energy purchase contract amortized over 9.5 years. The deferred charges reported in the Wastewater Fund include costs incurred on the issuance of the 1991 Certificates of Participation amortized over 32.5 years and the costs incurred on the issuance of the 2003B and 2004A Certificates of Participation amortized over 20 years.

(n) Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, infrastructure (e.g., streets, streetlights, traffic signals, sidewalks, and bridges), and electric lines, wastewater lines and storm drains 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 individual cost of \$3,000 or more and have an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the General and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

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

As required by the Governmental Accounting Standards Board Statement No. 34, beginning July 1, 2002, the City has capitalized infrastructure, primarily its network of streets, as part of the capital assets shown in the governmental activities column on the government-wide statement of net assets. This capitalization included infrastructure that could be identified and has been acquired since July 1, 1980.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3 - 40
Machinery and equipment	2 - 40
Vehicles	5 - 15
Infrastructure	10 - 50

(o) Compensated Absences/Vacation and Sick Leave

Accumulated vacation and vested sick leave benefits are accrued when incurred in the government-wide financial statements and the proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(p) Self-Insurance

The City is self-insured for general liability, workers' compensation, dental benefits, unemployment and long-term disability. Various City funds are charged premiums for the City's self-insurance liability, which is accounted for as an internal service fund. The accrued liability for estimated self-insured claims represents an estimate of the eventual loss on claims arising prior to year-end including claims incurred but not reported.

(q) 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.

(r) Statement of Cash Flows

A statement of cash flows is presented for proprietary fund types. For purposes of reporting cash flows, the City considers all highly liquid investments with maturities of three months or less when purchased and investments maintained in the pool to be cash equivalents.

(s) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(2) Cash and Investments and Restricted Cash with Fiscal Agent

The following is a detailed summary of cash and investments and restricted cash with fiscal agent at June 30, 2004:

Pooled cash and investments:	
Cash on hand	\$ 1,753
Demand deposits	5,395,826
Certificates of deposit	1,549,008
Investments	<u>17,420,824</u>
Total pooled cash and investments	24,367,411
Private Sector Fund:	
Mutual funds	<u>369,952</u>
Total cash and investments	24,737,363
Restricted cash with fiscal agent	42,244,715
Total cash and investments and restricted cash with fiscal agent	<u><u>\$ 66,982,078</u></u>
Presented in the government-wide statement of net assets	\$ 23,714,824
Presented in the statement of fiduciary net assets:	
Private-purpose trust funds	643,889
Agency Fund	<u>378,650</u>
Total cash and investments	24,737,363
Restricted assets	<u>42,244,715</u>
Total	<u><u>\$ 66,982,078</u></u>

(a) Cash

The City's demand deposits and certificates of deposit at year-end are covered by either federal depository insurance or by collateral held by the custodial bank. The collateral pool of the custodial bank is equal to 110% of the uninsured deposits.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(b) Investments

The City has adopted an investment policy pursuant to Government Code Section 53601 which authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, mutual funds as permitted by the Government Code, and the State of California Local Agency Investment Fund (LAIF). The City is not authorized to enter into reverse repurchase agreements. The City selects its investments based on safety, liquidity and yield.

The value of the pool shares in the State of California Local Agency Investment Fund (LAIF), which maybe withdrawn is determined on an amortized cost basis, which is different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF on June 30, 2004, is \$57,600,699,158. LAIF is managed by the State Treasurer. Included in LAIF's investment portfolio are asset-backed securities totaling \$923,459,000. The Local Investment Advisory Board (LAIB) has oversight responsibility for LAIF. The LAIB consists of five members as designated by State Statute.

(c) Restricted Cash with Fiscal Agent

This represents the balance of the 2002 Public Improvement Certificates of Participation held by US Bank and proceeds of the 1999 Electric Utility Certificates of Participation held by Bank of New York and funds held by the attorneys related to the PCE/TCE litigation. It also includes bond proceeds held by Union Bank of California from the issuance of the 2003B Water and Wastewater revenue bonds through the pooled financing program of the California Statewide Communities Development Authority and the proceeds of the 2004A Wastewater Certificates of Participation.

(d) Custodial Credit Risk

In accordance with GASB 3, deposits and investments are classified as to custodial credit risk by three categories as follows:

Deposits:

Category 1

Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2

Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3

Uncollateralized. (Includes any bank balance that is collateralized with securities held by the pledging financial

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

institution, or by its trust department or agent but not in the City's name.)

At year-end, the City's carrying amount of deposits was \$6,944,834 and the bank balance was \$7,609,475. Of the bank balance, \$676,341 was covered by federal depository insurance or by collateral held by the City's agent in the City's name. The remaining balance of \$6,933,134 was collateralized with securities held by the pledging financial institution or by its trust department or agent in the City's name.

Investments:

Category 1

Insured or registered, or securities held by the City or its agent in the City's name;

Category 2

Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name;

Category 3

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

Investments and restricted cash with fiscal agent of the City as of June 30, 2004 are summarized below:

	<u>Not Subject to Categorization</u>	<u>Carrying Amount</u>
Pooled investments:		
State of California		
Local Agency Investment Fund (LAIF)	17,420,824	17,420,824
Total pooled investments	17,420,824	17,420,824
Investments held in trust:		
Mutual funds	369,952	369,952
Restricted cash with fiscal agent, primarily		
Guaranteed Investment Certificates (GICs)	42,244,715	42,244,715
Total investments	<u>\$ 60,035,491</u>	<u>\$ 60,035,491</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(3) ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Revenues of the General Fund, Electric, Wastewater and Water funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to late charges and services	\$	16,800
Uncollectibles related to electric sales and services		188,100
Uncollectibles related to wastewater services		30,700
Uncollectibles related to water sales and services		34,700
Total uncollectibles of the current fiscal year	\$	270,300

(4) INTERFUND RECEIVABLES/PAYABLES

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

Due from	Due to	Amount
Other governmental	General	\$ 1,009,162
Other governmental	Other governmental	477,188
Electric	Nonmajor fund - Transit	3,579,002
		\$ 5,065,352

“Due to” and “due from” balances are recorded primarily when funds overdraw their share of pooled cash or when there are short-term loans between funds. The \$1,009,162 and the \$477,188 represent cash deficits in the governmental funds. The \$3,579,002 represents the cash deficit in the Transit Fund.

Advances from	Advances to	Amount
Other governmental	General	\$ 240,040
Other governmental	Other governmental	716,770
Other governmental	Electric	2,400,000
Other governmental	Water	1,396,763
		\$ 4,753,573

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

The \$240,040 from the General Fund to the Other Governmental is an advance used for the start up costs of a redevelopment agency. The \$716,770 advance from Other Governmental was used for the Lower Sacramento Road expansion project. The \$2,400,000 from the Electric Fund to the Other Governmental Fund represents advance for capital improvements. The \$1,396,763 advanced from the Water Fund was used for the construction of Fire Station #4.

(5) TRANSFERS

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

<u>Transfers out:</u>	<u>Transfers in</u>			
	General	Governmental	Transit	Total
Other governmental	\$ 2,707,332	2,546,014	1,605,915	\$ 6,859,261
Electric	2,918,550	25,153		2,943,703
Wastewater	670,450			670,450
Water	685,477			685,477
Transit	221,199			221,199
Total	<u>\$ 7,203,008</u>	<u>2,571,167</u>	<u>1,605,915</u>	<u>\$ 11,380,090</u>

During the year, various interfund transfers were made to finance expenditures, subsidize operating losses and service debt.

The total transfers out of \$2,707,332 from Other Governmental to the General Fund include transfers of \$1,116,000 to reimburse for capital transfers per Phase II budget adjustments, the transfer of \$985,000 gas tax revenues to fund the Public Works Street Maintenance Division; and \$50,000 to reimburse the General Fund for the costs associated with the administration of the IMF program; \$105,446 for the lease payment of the new fire truck, \$426,276 for Engineering cost of services and \$24,610 for operations.

The \$2,546,014 transfers out from Other Governmental to the Other Governmental represent transfers of \$1,775,837 to the Debt Service Fund for the principal, interest and fiscal charges required to pay the 2002 Certificates of Participation; transfer of \$175,000 to Lodi Lake Fund and \$330,000 to the Vehicle and Equipment Fund; and impact fee transfers of \$265,177 for the DeBenedetti Park design.

The \$1,605,915 transfer to the Transit Fund includes reimbursements of \$718,677 from impact fees for the Lower Sacramento Road project, Guild/Thurman project and the Lodi Lake Westside trail project. It also includes a transfer of \$887,238 from the General Capital Outlay Reserve to cover the deficit in the Transit Fund.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

The \$2,918,550 transfer out from the Electric Fund, \$670,450 from Wastewater, \$685,477 from Water and the \$221,199 from Transit represent primarily the cost of services reimbursement to the General Fund.

(6) CAPITAL ASSETS

Capital assets activity of the primary government for the year-ended June 30, 2004, was as follows:

<u>Governmental activities</u>	<u>Balance</u> June 30, 2003	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 23,799,732	36,323	(37,244)	\$ 23,798,811
Work of art	62,024			62,024
Construction in progress	12,401,099	6,245,322	(14,948,705)	3,697,716
Total capital assets, not being depreciated	<u>36,262,855</u>	<u>6,281,645</u>	<u>(14,985,949)</u>	<u>27,558,551</u>
Capital assets, being depreciated:				
Buildings and improvements	41,002,027	14,580,072		55,582,099
Machinery and equipment	7,112,401	393,241		7,505,642
Vehicles	7,708,788	992,081	(193,500)	8,507,369
Infrastructure	74,791,443	10,477,266		85,268,709
Total capital assets, being depreciated	<u>130,614,659</u>	<u>26,442,660</u>	<u>(193,500)</u>	<u>156,863,819</u>
Less accumulated depreciation for:				
Buildings and improvements	13,131,491	1,423,805		14,555,296
Machinery and equipment	5,099,619	608,911		5,708,530
Vehicles	5,588,105	625,391	(193,500)	6,019,996
Infrastructure	25,723,308	4,080,508		29,803,816
Total accumulated depreciation	<u>49,542,523</u>	<u>6,738,615</u>	<u>(193,500)</u>	<u>56,087,638</u>
Total capital assets, being depreciated, net	<u>81,072,136</u>	<u>19,704,045</u>		<u>100,776,181</u>
Governmental activities capital assets, net	<u>\$ 117,334,991</u>	<u>25,985,690</u>	<u>(14,985,949)</u>	<u>\$ 128,334,732</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

<u>Business-type activities</u>	Balance			Balance
	June 30, 2003	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 5,306,754		(58,948)	\$ 5,247,806
Construction in progress	10,126,678	8,824,788	(432,891)	18,518,575
Total capital assets, not being depreciated	<u>15,433,432</u>	<u>8,824,788</u>	<u>(491,839)</u>	<u>23,766,381</u>
Capital assets, being depreciated:				
Buildings and improvements	32,473,453	174,291		32,647,744
Machinery and equipment	80,989,023	9,615,255		90,604,278
Vehicles	6,605,524	26,693	(31,130)	6,601,087
Total capital assets, being depreciated	<u>120,068,000</u>	<u>9,816,239</u>	<u>(31,130)</u>	<u>129,853,109</u>
Less accumulated depreciation for:				
Buildings and improvements	6,922,749	822,885		7,745,634
Machinery and equipment	25,734,300	2,046,555		27,780,855
Vehicles	3,743,222	460,537	(6,523)	4,197,236
Total accumulated depreciation	<u>36,400,271</u>	<u>3,329,977</u>	<u>(6,523)</u>	<u>39,723,725</u>
Total capital assets, being depreciated, net	<u>83,667,729</u>	<u>6,486,262</u>	<u>(24,607)</u>	<u>90,129,384</u>
Business-type activities capital assets, net	<u>\$ 99,101,161</u>	<u>15,311,050</u>	<u>(516,446)</u>	<u>\$ 113,895,765</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

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

Governmental activities:	
General government	\$ 720,422
Public protection	1,141,783
Public works	4,220,109
Library	35,420
Parks and recreation	<u>620,881</u>
Total depreciation expense - governmental activities	<u>\$ 6,738,615</u>
Business-type activities:	
Electric	\$ 883,675
Wastewater	1,166,005
Water	770,671
Transit	<u>509,626</u>
Total depreciation expense - business-type activities	<u>\$ 3,329,977</u>

(7) Operating Leases

The City is obligated under various operating leases for the use of buildings and office space. Total costs for such leases were \$158,616 for the year ended June 30, 2004.

Future minimum lease payments required by lease agreements that have initial or remaining noncancellable lease terms of one year or more as of June 30, 2004, are as follows:

<u>Fiscal Years Ending</u>	
2005	\$ 142,400
2006	142,400
2007	<u>71,400</u>
Total minimum lease payments required under operating leases	<u>\$ 356,200</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(8) Long-Term Obligations

The following is a summary of debt transactions of the City for the year ended June 30, 2004:

	<u>Interest Rates</u>	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Amounts Due Within One Year</u>
Governmental activities:						
Compensated absences		\$ 6,723,389	2,252,800	(1,067,542)	\$ 7,908,647	\$ 2,252,800
2002 Certificates of Participation	3.0-5.0%	26,015,000		(485,000)	25,530,000	500,000
Note payable	5.0%	245,000			245,000	
Loan payable	4.0%	542,900		(86,605)	456,295	88,120
Capital leases	5.3-5.39%	658,504	883,037	(187,190)	1,354,351	230,873
Self-insurance liability		3,290,581	3,860,633	(1,643,214)	5,508,000	1,643,214
Governmental activity long-term liabilities		<u>\$ 37,475,374</u>	<u>6,996,470</u>	<u>(3,469,551)</u>	<u>\$ 41,002,293</u>	<u>\$ 4,715,007</u>
Business-type activities:						
Compensated absences		\$ 1,756,060	531,316	(382,574)	\$ 1,904,802	\$ 531,316
California Safe Drinking Water Note Payable	3.41%	2,521,441		(143,030)	2,378,411	148,286
Certificates of Participation:						
1991 Certificates of Participation	4.5-6.6%	9,565,000		(175,000)	9,390,000	185,000
Less deferred amounts:						
For issuance discounts		(340,177)		14,475	(325,702)	(14,475)
Net		<u>9,224,823</u>		<u>(160,525)</u>	<u>9,064,298</u>	<u>170,525</u>
2000 Environmental Abatement Certificates of Participation –variable		14,500,000	1,125,000		15,625,000	
2002 Certificates of Participation A & B	Variable	50,460,000			50,460,000	3,700,000
Less deferred amounts:						
From refunding		(7,740,609)		286,689	(7,453,920)	(286,689)
Net		<u>42,719,391</u>		<u>286,689</u>	<u>43,006,080</u>	<u>3,413,311</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

2002 Certificates of Participation C & D	1.54-5.25%	42,990,000		(2,150,000)	40,840,000	2,195,000
Add deferred amounts:						
For issuance premium		<u>557,910</u>		<u>(65,634)</u>	<u>492,276</u>	<u>65,636</u>
Total		<u>43,547,910</u>		<u>(2,215,634)</u>	<u>41,332,276</u>	<u>2,260,636</u>
2003 Certificates of Participation B	2.0-5.0%		5,000,000		5,000,000	185,000
Add deferred amounts:						
For issuance premium			<u>82,041</u>	<u>(3,078)</u>	<u>78,963</u>	<u>4,102</u>
Total			<u>5,082,041</u>	<u>(3,078)</u>	<u>5,078,963</u>	<u>189,102</u>
2004 Certificates of Participation A	2.0-5.5%		27,360,000		27,360,000	170,000
Add deferred amounts:						
For issuance premium			<u>434,404</u>	<u>(3,544)</u>	<u>430,860</u>	<u>21,277</u>
Total			<u>27,794,404</u>	<u>(3,544)</u>	<u>27,790,860</u>	<u>191,277</u>
Total Certificates of Participation		<u>109,992,124</u>	<u>34,001,445</u>	<u>(2,096,092)</u>	<u>141,897,477</u>	<u>6,224,851</u>
Business-type activity long-term liabilities		<u>\$ 114,269,625</u>	<u>34,532,761</u>	<u>(2,621,696)</u>	<u>\$ 146,180,690</u>	<u>\$ 6,904,453</u>

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 \$ 5,508,000 of internal service funds self-insurance liability was included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

Long-term debt payable at June 30, 2004, comprised of the following individual issues:

California Safe Drinking Water Note Payable

The City entered into a contract on October 16, 1991, with the State of California Department of Water Resources to assist the City in financing the construction of water wells enabling the City to meet safe drinking water standards established by the State. The original amount of the note was \$3,129,828 and is secured by the project and a pledge of user fees collected by the Water Enterprise Fund. Semiannual payments of \$114,006, are payable each October 1 and April 1 through 2016.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

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

Fiscal Year Ending June 30,	Business-type Activities	
	Principal	Interest
2005	\$ 148,286	\$ 79,690
2006	153,220	74,758
2007	158,488	69,488
2008	163,810	64,166
2009	169,695	58,281
2010-2014	939,470	200,417
2015-2017	645,442	39,112
Total	\$ <u>2,378,411</u>	\$ <u>585,912</u>

Note Payable

The City issued \$245,000 promissory note to James E. Dean and Carol Dean, as trustees of the James E. Dean Family Trust, for the purchase of 307 W. Elm Street property, which is the site of the new Public Safety Building. Interest is payable quarterly and principal is due on April 1, 2007.

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

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2005	\$	\$ 12,250
2006		12,250
2007	245,000	9,188
Total	\$ <u>245,000</u>	\$ <u>33,688</u>

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Loan Payable

The City entered into an agreement and issued a promissory note to San Joaquin County Council of Governments, a joint powers agency acting as the San Joaquin County Transportation Authority, in the amount of \$840,000 on February 5, 1999 for the purpose of funding the Kettleman Lane/SR 99 Interchange project. The balance remaining as of June 30, 2004, is \$456,295. Interest and principal is due and payable annually and matures on July 1, 2009.

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

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2005	\$ 88,120	\$ 7,985
2006	89,662	6,443
2007	91,232	4,874
2008	92,828	3,277
2009	94,453	1,653
Total	\$ <u>456,295</u>	\$ <u>24,232</u>

Certificates of Participation

\$11,170,000 Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) were sold in December 1991 for the repayment of the 1988 Wastewater Treatment Plant Expansion Project at a lower interest rate with approximately \$1,400,000 of additional proceeds. Principal is payable annually on August 1 in amounts from \$100,000 to \$760,000 with final payment due August 1, 2026.

\$5,000,000 California Statewide Communities Development Authority Water and Wastewater Revenue Bonds were issued on October 7, 2003. The City of Lodi along with the City of Fort Bragg issued \$9.855 million 2003 Series B revenue bonds through the California Statewide Communities Development Authority (the "Authority") pooled financing program. The City of Lodi's portion is \$5.0 million for the upgrade of its wastewater facilities. Principal is payable annually on October 1 in amounts from \$185,000 to \$365,000 with final payment due October 1, 2023.

The Authority's Water and Wastewater Pooled Financing Program is available to California water and wastewater agencies to facilitate the financing or refinancing of capital improvements. The program is available to California cities and special districts that operate water or wastewater enterprises. The Authority is authorized pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code to issue bonds to finance and refinance water and wastewater public capital improvements of local agencies located throughout California.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

\$27,360,000 Certificates of Participation (2004A COP) were issued on May 12, 2004 to provide funds to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City. Principal is payable annually on October 1 in amounts from \$170,000 to \$2,070,000 with final payment due October 1, 2024.

\$26,745,000 Certificates of Participation (2002 COP) were issued in January 2002 to provide funds to finance the costs of constructing, furnishing and equipping a new police building and jail for the City; to finance portions of certain other projects and to refund the outstanding 1995 and 1996 Certificates of Participation. The 1995 Certificates of Participation (1995 COP) were sold in October 1995 to finance the City Downtown Revitalization and the Cherokee Lane Beautification projects. The 1996 Certificates of Participation (1996 COP) were sold in August 1996 to finance the construction of the Hutchins Street Square Conference and Performing Arts Center. Principal is payable annually on October 1 in amounts from \$730,000 to \$1,600,000 with final payment due October 1, 2031.

\$46,760,000 2002 Variable Rate Demand Series A and **\$8,400,000** 2002 Taxable Series B Electric System Revenue Certificates of Participation were sold in January 2002. The proceeds of the 2002A Certificates of Participation were used to advance refund the 1999 Electric System Certificates of Participation Series A and the 1999 Series B Capital Appreciation certificates. The 1999 Series A and Series B Revenue Certificates of Participation were sold on August 18, 1999, to provide funds to finance the costs of certain improvements to the distribution and transmission facilities of the City's Electric System. As of June 30, 2004, the outstanding balance of the advanced refunded certificates is \$43,957,682. The proceeds of the 2002B Certificates were deposited in the Rate Stabilization Fund and applied to certain power purchase costs of the City. Principal for Series A is payable annually beginning 2011 to 2032 in amounts ranging from \$1,175,000 to \$ 3,460,000. Series B is payable annually beginning 2002 to 2006 in amounts ranging from \$1,100,000 to \$3,600,000.

The interest rate on the 2002A Certificates is determined based on the "Weekly Rate Index" for weekly interest rate periods. "Weekly Rate Index " is defined as The Bond Market Association Municipal Index as of the most recent date for which such index is published.

\$15,625,000 Variable rate Certificates of Participation were issued for the Environmental Abatement Program of which \$1,125,000 were issued during the 2004 fiscal year. Interest on the Certificates accrue at a variable rate determined by a per annum interest rate equal to the three-month LIBOR RATE (London InterBank Offered Rate) plus 20 percentage points, but in no event shall the variable rate exceed 30 percent per annum. There is no set repayment schedule for both principal and interest for this issue; therefore this issue has not been included in the debt service schedule on page 53.

\$21,225,000 Revenue Certificates of Participation 2002 Series C and **\$22,740,000** Revenue Certificates of Participation Series D were issued to buy out the energy purchase agreement with Calpine.

In February 2001, the City entered into an energy purchase agreement (the Original Agreement) with Calpine Energy Services L.P. (Calpine) to purchase 25 MW of energy at \$65/mwh for a ten-year period beginning January 1, 2002. Since the execution of the Original Agreement, actions of the State in connection with the energy market conditions, including the initiation of conservation programs, and other factors, have resulted in lower electric load requirements and reduced energy costs throughout the State. As a result, the City's need for the energy purchased under the Original Agreement to serve its load has been reduced. The Original Agreement was amended on September 4, 2002,

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

and was divided into three parts. The City sold its interests in the energy purchased under the Original Agreement to Calpine and nets the payments due from the City with respect to its purchase of such energy against the payments due from Calpine with respect to its purchase of the City's rights to such energy. On November 21, 2002, the City issued \$21,225,000 Revenue Certificates of Participation 2002 Series C and \$22,740,000 Revenue Certificates of Participation 2002 Taxable Series D to buy out the amended contract in the amount of \$42,406,175.

The various indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted accounts and minimum revenue bond coverage. The City is in compliance with all such significant limitations and restrictions.

Interest Rate Swaps

1999 \$42 Million Forward Basis Swap

Objective:

As a means to lower its borrowing costs, the City executed a forward floating-to-floating ("Basis") swap in connection with its existing \$42,000,000 Electric System Revenue Certificates of Participation, 1999 Series A and B. The intention of the swap was to provide protection against rising short-term interest rates since the City's net payment increases as rates rise.

Terms:

Under the swap, the City pays Citigroup (previously Salomon) a variable payment computed as The Bond Market Association Municipal Swap Index™ (BMA) and received a variable payment computed as 74.25% of the London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$42 million and the associated fixed rate bonds had a \$42 million principal amount at the time the swap was executed. The swap began on July 15, 2003 and matures on September 29, 2014. As of June 30, 2004, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Variable payment to counterparty	BMA	1.050%
Fixed payment from counterparty	74.25% of LIBOR	(1.016%)
Net interest rate swap payments		(0.034%)

Fair Value:

As of June 30, 2004, the swap had a fair value of (\$213,400). The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Credit Risk:

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

As of June 30, 2004, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

As noted above, the swap exposes the City to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

2002 \$46.8 Million Step-Up Coupon Swap

Objective:

In connection with its issuance of \$46,760,000 of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A, the City entered into a swap transaction with Salomon Smith Barney on January 2002. The intention of the swap was to change the City's variable interest rate on the bonds to a synthetic fixed rate that steps up over time. The swap was structured with step-up coupons in order to provide the City with lower debt service in the earlier years of the transaction.

Terms:

Under the swap, the City pays Citigroup (previously Salomon) a fixed rate with an initial coupon of 2.503%. Beginning July 1, 2005 the swap coupon steps up to 3.749% and then to 4.945% on July 1, 2010 until maturity. In exchange, the City receives an initial variable rate equal to 59.65% of the 1-month London Interbank Offered Rate (LIBOR). Beginning January 1, 2004 the percent of LIBOR received by the City stepped up to 60.56% and then steps up to 62.92% of LIBOR on January 1, 2006 until maturity. The 4.945% coupon in the final period reflects the above-market fixed rate required to offset the first two periods' below-market fixed rates of 2.503% and 3.749% respectively. The effective at-market fixed rate for the entire swap term equals 3.85% or approximately 61.71% of LIBOR. The notional amount of the swap matches the notional amount of the bonds outstanding in each year. The bonds' variable-rate coupons are assumed to be based on The Bond Market Association Municipal Swap Index™ (BMA). The bonds and related swap mature on July 1, 2032. As of June 30, 2004, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Fixed payment to counterparty	Fixed	2.503%
Variable payment from counterparty	60.56% of LIBOR	(0.829%)
Net interest rate swap payments		1.674%
Variable rate bond payments	BMA	1.040%
Synthetic interest rate on bonds		2.714%

Fair Value:

As of June 30, 2004, the swap had a fair value of (\$4,708,300). The negative fair value of the swap is a result of the decline in interest rates since the inception date of the swap. The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Credit Risk:

As of June 30, 2004, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

As noted above, the swap exposes the City to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below Baa3 as determined by Moody's Investor Service or BBB- as determined by Standard & Poor's. If the swap is terminated, the bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

**2003 \$42 Million Fixed-to-Floating Swap Termination
2003 \$42 Million Fixed-to-Floating Swap**

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Objective:

On April 16, 2003 the City executed two transactions with Citibank, which comprised 1) the termination of an existing \$42 million fixed-to-floating swap maturing 2014 and 2) the execution of a new \$42 million fixed-to-floating swap maturing 2009. The City initially entered into a swap in September 1999 in order to covert its fixed-rate Bonds, into synthetic variable-rate debt. The fixed-receiver rate on the swap was 5.11%. Since interest rates had declined substantially since the City entered into the swap, the City received a net payment from Citibank to terminate the swap in the amount of \$4,743,000. The City executed a new \$42 million fixed-to-floating swap to manage interest rate volatility in its liability portfolio.

Terms:

Under the swap, the City receives a fixed rate of 4.00% and pays The Bond Market Association Municipal Swap Index™ (BMA) +100 bps. The swap has a notional amount of \$42 million and matures on January 15, 2009. As of June 30, 2004, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Variable payment to counterparty	BMA + 100 bps	2.050%
Fixed payment from counterparty	Fixed	(4.000%)
Net interest rate swap payments		(1.950%)

Fair Value:

As of June 30, 2004, the swap had a fair value of (\$113,500). The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Credit Risk:

As of June 30, 2004, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

The swap does not expose the City to basis risk since the swap is not based on the LIBOR index. If a change occurs that results in BMA increasing, the expected savings of the swap may not be realized.

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

terminated by the City if the counterparty's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. If the swap is terminated, the bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt.

Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	2002 Electric Certificates of Participation Series A			
	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2005	\$	486,304	684,099	\$ 1,170,403
2006		486,304	684,099	1,170,403
2007		486,304	1,266,728	1,753,032
2008		486,304	1,266,728	1,753,032
2009		486,304	1,266,728	1,753,032
2010-2014	3,720,000	2,374,840	7,798,567	13,893,407
2015-2019	7,620,000	2,047,916	7,689,531	17,357,447
2020-2024	9,865,000	1,596,062	5,992,907	17,453,969
2025-2029	12,725,000	1,011,634	3,798,491	17,535,125
2030-2032	12,830,000	275,444	1,034,240	14,139,684
	<u>\$ 46,760,000</u>	<u>9,737,416</u>	<u>31,482,118</u>	<u>\$ 87,979,534</u>

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

Fiscal

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 500,000	1,171,672	\$ 6,435,000	\$ 5,061,897
2006	520,000	1,156,372	3,625,000	4,931,071
2007	535,000	1,140,547	3,620,000	5,405,065
2008	555,000	1,123,642	6,595,000	5,291,577
2009	565,000	1,104,874	4,320,000	5,052,923
2010-2014	3,175,000	5,172,243	26,125,000	22,889,447
2015-2019	3,905,000	4,390,064	27,675,000	16,763,921
2020-2024	4,925,000	3,340,594	22,710,000	10,633,585
2025-2029	6,280,000	1,958,000	16,300,000	5,008,697
2030-2032	4,570,000	350,250	15,645,000	1,309,684
Total	<u>\$ 25,530,000</u>	<u>\$ 20,908,258</u>	<u>\$ 133,050,000</u>	<u>\$ 82,347,867</u>

Capital Leases

The City has entered into lease agreements for financing the acquisition of two fire trucks. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles	\$2,307,123
Less accumulated depreciation	(701,239)
Total	<u>\$ 1,605,884</u>

The present values of future minimum capital lease payments as of June 30, 2004, are as follows:

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Fiscal Years Ending		
2005	\$	279,348
2006		279,348
2007		279,348
2008		279,348
2009		148,003
2010-2011		296,006
Total minimum lease payments		1,561,401
Less amounts representing interest		(207,050)
Present value of minimum capital lease payments	\$	1,354,351

Special Assessment District Debt

The City issued limited obligation improvement bonds on July 22, 1996, for the "Lodi Central City Revitalization Assessment District." These bonds have no governmental commitment and debt service is recorded in an Agency Fund. These bonds were issued under the Improvement Act of 1915 and will mature in the year 2011. The City's liability in the event of delinquent assessment shall not exceed the balance of the established Reserve Fund. The amount outstanding as of June 30, 2004, is \$1,130,000.

Industrial Development Bonds

The City of Lodi has lent its name to the City of Lodi Industrial Development Authority for the purpose of issuing the following industrial development bonds: Minton Corporation \$5,000,000; Dart Corporation \$8,000,000; Wallace Computer Services \$3,000,000; and Luster-Cal Nameplate Corporation \$3,000,000. These bonds are special obligation bonds only, payable solely out of the bond revenues or other sources of the above companies and are not a pledge of the general credit of the City. The City is not obligated for the redemption or administration of these industrial development bonds.

Woodbridge Irrigation District Bonds

On October 8, 2003, the City lent its name to the Woodbridge Irrigation District (the "District") in the procurement of \$11.745 million 2003 Revenue Certificates of Participation, to provide funds to finance the costs of construction of a new diversion dam on the Mokelumne River and related facilities of the water district. A significant portion of the District's sources of payment for the 2003 Certificates are expected to be derived from amounts to be received by the District from the City of Lodi pursuant to an Agreement for purchase of water from the Woodbridge Irrigation District by the City of Lodi, dated May 13, 2003 (the "Lodi Water Sales Agreement"). Under the agreement, the City will purchase 6,000 acre feet of water per annum from the District for 40 years.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(9) Nature and Purpose of Reported Fund Equity

The following is a summary of reserved, unreserved-designated and unreserved-undesignated fund balances at June 30, 2004:

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Reserved for:			
Library	\$ 629,506		\$ 629,506
Encumbrances	313,254	3,060,667	3,373,921
Advances to other funds	240,040	716,770	956,810
Inventory	<u>113,538</u>		<u>113,538</u>
Total Reserved	1,296,338	<u>3,777,437</u>	5,073,775
Unreserved-designated for:			
Specific projects and programs		<u>6,254,322</u>	<u>6,254,322</u>
Total Designated		6,254,322	6,254,322
Unreserved - undesignated	<u>156,650</u>		<u>156,650</u>
Total Fund Balances	<u>\$ 1,452,988</u>	<u>10,031,759</u>	<u>\$ 11,484,747</u>

Reserved Fund Balance

Reserved represents that portion that is legally segregated for specific purposes and is not available for discretionary appropriation.

Unreserved-Designated Fund Balance

Designated represents that portion for which the City has made tentative plans.

Unreserved-Undesignated Fund Balance

Undesignated represents that portion which is available for budgeting in future periods.

(10) Defined Benefit Pension Plan

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

(a) Plan Description

The City of Lodi contributes to the California Public Employees' Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office- 400 P Street, Sacramento, CA 95814.

(b) Funding policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 0.0% for miscellaneous employees, 17.399% for fire employees and 17.386% for police employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

(c) Annual Pension Cost

For fiscal 2004, the City's annual pension cost of \$1,383,892 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses) (b) projected annual salary increases that vary by age, length of service, and type of employment (c) 3.75% payroll growth, and (d) 3.50% inflation. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. Amortization of the remaining period varies: (a) safety police plan over 20 years (b) safety fire plan over 20 years, and (c) miscellaneous plan over 19 years as of the valuation date.

d) Trend Information

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Three-Year Trend information (\$ Amounts in Thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	569	100%	\$0
6/30/03	543	100%	\$0
6/30/04	1,384	100%	\$0

(11) Post-Retirement Health Care Benefits

The City provides no post-employment benefits for its employees. However, employees hired prior to July 1, 1994, who retire after ten years of service, may elect to convert accumulated sick leave time to establish an individual medical insurance account. Depending on the bargaining unit of the employee, the value of the insurance account shall be determined by the following options:

a) Option I- "Bank"

The number of accumulated hours shall be reduced by 16-2/3% and the remaining balance converted into days. The days are then multiplied by the current monthly premium being paid for the employee and, if applicable, his/her dependents. Fifty percent of that amount will be placed into an account to be used by the City to pay medical insurance premiums for the employee and, if applicable, his/her dependents. For each year of employment over ten years, 2.5% will be added to the 50% used in determining the account amount. Total premiums shall be paid from the account until its depletion, at which time the benefit ceases.

b) Option II – "Conversion"

The number of accumulated hours is multiplied by 50% and converted into days. The City pays one month's premium for employee and dependents for each day. For each year of employment in excess of ten years, 2.5% is added to the 50%. The employee must pay any increase in premiums.

c) Option III – "Cash-Out"

A retiring employee will be able to choose a cash pay-off of accumulated sick leave at the rate of 30% of base pay per hour.

d) Option IV – "Service Credit"

A retiring employee will be able to convert unused sick leave to service credit for CALPERS retirement purposes.

(12) Claims and Benefits

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

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 is self-insured as discussed in the following paragraphs for which liabilities are recorded in the Internal Service Fund.

The City is self-insured for general liability up to the first \$500,000 per occurrence with claims from \$500,000 to \$25,000,000 per occurrence and in the aggregate insured through the California Joint Powers Risk Management Authority. (See note 14)

The City is self-insured for workers' compensation up to the first \$250,000 per claim. Any claims of \$250,000 up to California statutory limits are covered under a purchased policy through the membership with the Local Agency Workers' Compensation Excess Joint Powers Authority. (See note 14).

The City is fully self-insured for dental, unemployment and long-term disability for its employees.

General liability and workers' compensation claims are administered by an outside agency and all other claims are administered by the City. The City has accrued a liability of \$5,508,000 at June 30, 2004, for all self-insured claims in the Internal Service Fund that includes an amount for incurred but not reported claims. The liability amount is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires 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 the loss can be reasonably estimated. In the opinion of the City, the amounts accrued are adequate to cover claims incurred but not reported in addition to known claims.

Changes in the self-insurance liability for fiscal years ended June 30, 2004 and 2003 are as follows:

	<u>Beginning</u>	Current-Year Claims and Changes <u>in Estimates</u>	Claim <u>Payments</u>	<u>Ending</u>
FY 02-03	\$ 2,733,000	2,141,383	(1,583,802)	\$ 3,290,581
FY 03-04	\$ 3,290,581	3,860,633	(1,643,214)	\$ 5,508,000

(13) Participation in Joint Ventures

Northern California Power Agency

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

The City, along with fourteen other public agencies, is a member of the Northern California Power Agency (NCPA) that was formed in 1968 as a joint powers agency. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority and four other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. A commission comprising of one representative from each member organization governs NCPA. The commission is responsible for the general management of the affairs, property and business of NCPA. Under the direction of the general manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each Project Participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

General Operating Reserve with NCPA

Members of NCPA established a general operating reserve in 1992 for the purposes of providing a vehicle to fund reasonably foreseeable contingent liabilities. It was set up primarily to provide the following advantages: minimizes the number and dollar amount of reserve that might otherwise be funded separately in connection with NCPA's individually financed operating plants, projects and programs; provides each member with flexibility and unilateral control over the determination of what they will fund, how they will fund it and what expenditures from the reserve will be made on their individual behalf. It provides funding for contingent liabilities that are not budgeted but that may require significant future expenditures. The reserve is segregated by participant and is refundable on demand by the participant.

As of June 30, 2004, the City's balance in the NCPA General Operating Reserve, which has been credited with annual interest earnings and settlements, is approximately \$1,071,000.

Project Participation

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

The NCPA members and their percentage share at June 30, 2003, which is the most recent available data, are as follows:

	<u>Geothermal Project</u>	<u>Hydro Electric Project</u>	<u>Combustion Turbine Project #1</u>	<u>Multiple Capital Facilities</u>	<u>Transmission Project</u>
Alameda	16.8825	10.00	13.092	19.00	30.3590
Biggs	0.2270				0.4082
Gridley	0.3360				0.7103
Healdsburg	3.6740	1.66	3.500		6.6068
Lodi	10.2800	10.37	34.780	39.50	18.4861
Lompoc	3.6810	2.30	3.500	5.00	6.6194
Palo Alto		22.92			11.0736
Plumas-Sierra Rural Electric Cooperative	0.7010	1.69	1.090		1.4647
Roseville	7.8830	12.00	13.584	36.50	14.1756
Santa Clara	44.3905	37.02	25.000		
Turlock Irrigation District	6.3305				
Ukiah	5.6145	2.04	5.454		10.0963

Bulk power purchased by the City through NCPA amounted to \$30,138,915 during the year ended June 30, 2004 and is reflected in utilities expense in the electric enterprise fund.

NCPA Geothermal Project

A purchase power agreement with NCPA obligates the City for a 10.28% share of the operating costs and debt service of two of NCPA's 110-megawatt steam powered plants, Project Number 2 and Project Number 3. Outstanding long-term debt related to this project was approximately \$261 million at June 30, 2003.

In addition to federal geothermal leasehold, steam wells, gathering system and related facilities, the project consists of two electric generating stations (Plant 1 and Plant 2). Each plant has two 55MW turbine generator units utilizing low temperature geothermal steam; associated electrical, mechanical and control facilities; a heat dissipation system; a steam gathering system; a transmission tapline; and, other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes wellpads, access roads, steam wells and reinjection wells.

Calaveras Hydroelectric Project

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

NCPA contracted to finance, manage, construct and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District. In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA has also the option to purchase power from the project in excess of the District's requirements for the subsequent 50 years, subject to regulatory approval.

Under a power purchase agreement the City is obligated to pay 10.37% of the debt service and operating costs. At June 30, 2003, approximately \$506 million in long-term debt used to finance this project was outstanding.

NCPA Combustion Turbine Project

The project consists of five combustion turbine units, each nominally rated at 25 megawatts. Two such units are located in Roseville, two in Alameda and one in Lodi. The project provides capacity during peak load periods and emergency capacity reserves. Excess capacity and energy from the project are also sold to other entities from time to time. Under the NCPA power agreement, the City is obligated to pay 34.78% of the debt service and operating costs. At June 30, 2003 approximately \$28 million in long-term debt was outstanding.

Transmission Project

The project was undertaken to meet certain obligations of NCPA under the NCPA/PG & E Interconnection Agreement. The project includes an ownership interest in PG & E's 230kv Castle Rock to Lakeville Substation Transmission Line in Sonoma County, additional firm transmission rights in that Transmission Line, and a central scheduling and dispatch facility in service at the NCPA headquarters in Roseville, California. Under a power purchase agreement, the City is obligated to pay 18.4861% of the debt service and operating costs. At June 30, 2003, approximately \$6 million in long-term debt was outstanding.

Capital Facilities Project

The Project consists of one 49.9 megawatt natural gas-fired steam injected combustion turbine generator unit located in Lodi, California. Wastewater is reclaimed from the City of Lodi's White Slough water pollution control facility, processed to eliminate contaminants, and used in the turbine to produce steam for power enhancement and emissions control.

Under a power purchase agreement, the City is obligated to pay 39.5% of the debt service and operating costs. At June 30, 2003, approximately \$68 million in long-term debt was outstanding.

The following are the most recent available audited condensed financial statements of NCPA:

		Combined Balance Sheet			
		June 30, 2003			
Assets		Liabilities and Capitalization			
Current assets	\$	69,596,000		Current portion of long-term debt	\$ 52,935,000

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Restricted assets	203,121,000	Other current liabilities	44,396,000
Electric plant, net	500,396,000	Other liabilities and deferred credits	117,260,000
Other assets and deferred charges	<u>271,743,000</u>	Long-term debt	811,767,000
		Accumulated net revenues	<u>18,498,000</u>
Total assets	\$ <u>1,044,856,000</u>	Total liabilities and capitalization	\$ <u>1,044,856,000</u>

Combined Statement of Revenue and Expenses
Year ended June 30, 2003

Sales to participants for resale	\$ 192,563,000
Operating expenses	(139,940,000)
Other revenues (expenses)	(62,292,000)
Future recoverable costs	<u>22,342,000</u>
Net revenues before refunds	12,673,000
Refunds to participants	<u>(12,490,000)</u>
Net revenues	183,000
Accumulated net revenues, beginning of year	<u>18,315,000</u>
Accumulated net revenues, end of year	\$ <u>18,498,000</u>

Combined Statement of Cash Flow
Year ended June 30, 2003

Net cash provided by operating activities	\$ 98,019,000
Net cash provided by investing activities	125,167,000
Net cash used in capital and related financing activities	(175,162,000)
Net cash provided by noncapital and related financing activities	<u>3,136,000</u>
Increase in cash and cash equivalents	51,160,000
Cash and cash equivalents, beginning of year	<u>68,037,000</u>
Cash and cash equivalents end of year	\$ <u>119,197,000</u>

At June 30, 2003, NCPA's total outstanding long-term debt was \$864,702,000 at an average interest rate of 5%. The current portion of long-term debt at June 30, 2003, was \$52,935,000.

Complete financial information for NCPA may be obtained at the following administration office:

Northern California Power Agency
180 Cirby Way
Roseville, CA 95678

Transmission Agency of Northern California

The Transmission Agency of Northern California (TANC) was organized under the California Government Code pursuant to a joint powers agreement entered into by fifteen Northern California utilities including the City of Lodi. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to acquire, construct, finance, operate and maintain facilities for electric power

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro rata share of the costs to operate TANC and has the right to participate in future project agreements. The joint power agreement remains in effect until debt obligations and interest thereon have been paid, unless otherwise extended by the members.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

California-Oregon Transmission Project

The project is a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. The project is operated in coordination with the Pacific AC Intertie as a part of the California-Oregon Intertie (COI) within the Western System Coordinating Council (WSCC) region. The WSCC approved rating of the COI is 4,800 MW and the Pacific Direct Current Intertie (PDCI) is 3,100 MW for a combined total of 7,900 MW of transfer capability. Depending on the time of year, operational transfer capability of the combined COI and PDCI is between 6,900 MW and 7,900MW.

TANC, California Department of Water Resources (CDWR), Western, and five other parties have agreed to an Interim Participation Agreement (IPA) under which project participant is granted a percentage entitlement in project transfer capability and is required to pay a percentage of the costs. Pursuant to the IPA and a subsequent agreement with Western, TANC is entitled to use approximately 1,242 MW, and is obligated to pay an average of approximately 73 percent of the operating costs associated with the project.

In 2005, CDWR has an option to purchase, at the project participants' original cost, approximately 6 percent of entitlement in the project's transfer capability. If this option is exercised, TANC's percentage of entitlement in project transfer capability may be reduced pro-rata.

Under the TANC joint powers agreement, the City is obligated to pay 1.89% of its debt service and operating costs. At June 30, 2003, approximately \$402 million in long-term debt was outstanding of which \$21 million is considered current.

Complete financial information for TANC may be obtained at the following administration office:

Transmission Agency of Northern California
3100 Zinfandel Drive, Suite 600
Sacramento, CA 95670

(14) Membership in Insurance Pools

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

California Joint Powers Risk Management Authority

The City is a member, along with twenty-three other public agencies, of California Joint Powers Risk Management Authority (CJPRMA) organized under a Joint Powers Agreement pursuant to the California Government Code for the purpose of sharing the risk of catastrophic general liability, automobile liability and public officials' errors and omissions losses because adequate insurance is not available in the commercial insurance market. CJPRMA has a twenty-one member Board of Directors, including a director from the City of Lodi. The Board members elect officers of CJPRMA every two years.

The ultimate cost of the program to the City depends on the catastrophic losses of all members, as well as the City's own loss experience and will be determined retrospectively five years after the end of the current program year. The City periodically pays deposits to the CJPRMA. These deposits are recorded as expenditures in the year paid, as they are a reasonable estimate of the actual cost of the program. During the year ended June 30, 2004, deposits of \$248,474 were paid to CJPRMA.

The participants and their percentage shares at June 30, 2004, are as follows: City of Alameda 3.57%, CCCMRMIA 9.20%, Chico 1.65%, Central San Joaquin Valley Risk Management Authority 10.51%, Fairfield 2.80%, Fremont 5.97%, Livermore 2.43%, Lodi 2.18%, Manteca .53%, NCCSIF 7.71%, Petaluma 1.78%, Pomona (.63%), PERMA (.71%), Redding 3.79%, Redwood Empire Municipal Insurance Fund 6.46%, Roseville 3.81%, San Leandro 1.91%, San Rafael 2.48%, Santa Rosa 5.95%, Small Cities Organized Risk Effort 1.51%, Stockton 6.07%, Sunnyvale 5.83%, Vacaville 2.08%, Vallejo 2.51%, and Yolo County Public Agencies Risk Management Insurance Authority 10.61%.

Local Agency Workers' Compensation Excess Joint Powers Authority

The City, along with twenty-five other public agencies, is a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which was formed July 1992, for the purpose of sharing the risk of workers' compensation losses. All members are self-insured up to \$250,000 per occurrence. LAWCX members pool resources to pay claims from \$250,000 to \$500,000 per occurrence and then use group purchasing power to obtain excess coverage through a commercial insurance company up to statutory limits. The City paid \$237,346 in deposits to LAWCX during the fiscal year ended June 30, 2004.

The participants at June 30, 2003, are as follows: Alameda, ABAG, BCJPIA, Benicia, CCCSIF, CCCTA, Central San Joaquin Valley Risk Mgmt Authority (CSJVRMA), City of Clovis, East Bay Regional Park District, Fremont, City of Gilroy, Livermore, Lodi, Los Gatos, Merced, Morgan Hill, Newark, PARSAC, Placentia, Roseville, Small Cities Org. Risk Effort (SCORE), SDWCA, South Lake Tahoe, Suisun City, Vacaville, Vallejo and Vector Control JPA.

California Transit Insurance Pool

The City, along with thirty other public agencies is a member of California Transit Insurance Pool (CalTIP), a joint powers insurance authority which was formed for the purpose of sharing the risk of property damage, bodily injury, personal injury and public officials errors and omissions losses for public transit systems.

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Liability protection coverage is provided under two programs:

Program I applies to members who choose to utilize CalTIP's adjuster and /or those with a \$0 deductible.

Program II applies to members with self-insured retentions who choose to provide their own adjusting services.

CalTIP purchases excess insurance over its \$500,000 retention up to \$20 million per occurrence. Each member is provided with \$5 million in excess of the pooled retention and has the option to choose one or both of two additional layers for the full \$20 million.

CalTIP also provides physical damage coverage to its members. This coverage program is optional for all members and offers damage or loss protection for transit, staff and maintenance vehicles to transit operators. CalTIP self-insures to \$100,000, under which members have the option of five levels of deductible ranging from \$500 to \$10,000 per vehicle. Claims are administered by the CalTIP's adjuster.

The City paid \$108,807 in deposits to CalTIP during the fiscal year ended June 30, 2004. There have been no reductions in insurance coverage from the prior year and there were no insurance settlements in excess of insurance coverage in any of the last three years.

	Program	Self-Insured Retention	Limit (in millions)	Physical Damage
City of Lodi Transit System	I	Prefunded	5	X

(15) Deficit in Fund Equity

Internal Service Fund - Claims and Benefits - A deficit in fund equity at June 30, 2004, in the amount of \$3,577,932 in the Internal Service Fund is due to the self-insurance liability to cover both incurred and incurred-but-not-reported (IBNR) claims. The City plans to implement the deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

Water Fund - A deficit in fund equity at June 30, 2004, in the amount of \$1,153,722 in the Water Fund is primarily due to the accrued interest on the Environmental Abatement Certificates of Participation. The City increased its water rates in 2004 not only to eliminate this deficit but also to replace and upgrade water lines in the older sections of the City.

(16) Commitments and Contingencies

CITY OF LODI
Notes to Basic Financial Statements (continued)
June 30, 2004

Litigation and claims - The City is a defendant in various lawsuits and is a party to various claims including environmental exposure. The City Attorney estimates that the potential claims against the City resulting from such litigation would not materially affect the financial condition of the City.

Last year the City was advised that its former outside counsel, Envision Law Group, believed the City owed approximately \$6 million in attorney fees. However, the statute of limitations on any such claim has now expired and there is no potential liability on the part of the City.

Environmental Forensic Investigations (EFI) was hired by the City's former outside counsel, Envision Law Group. City rejected EFI's claim on April 22, 2004. City received service of EFI's lawsuit on October 7, 2004, claiming \$894,773.25 in monetary damages. City's outside counsel, Folger, Levin & Kahn has answered the Complaint and filed a Cross-Complaint for fraud, False Claims Act and restitution. Although the City is confident it will prevail in the action, it is too early to assess the outcome with certainty.

The City received and rejected claims for a traffic accident that occurred at a crosswalk involving two students in front of Tokay High School. The City anticipates that lawsuits will be filed for a wrongful death and severe injuries based on allegation of a dangerous condition of public property and although it is too early to assess liability, maximum exposure is estimated by the City Attorney at \$1-3 million. There is also reasonable possibility the City may prevail in the litigation based on the comparative fault of the minor and the fault of the driver.

Arbitrage Earnings Rebate Liability - Arbitrage earnings are defined as income earned on the unexpended tax-exempt certificate proceeds in excess of that which would have been earned had the moneys been invested in securities with a yield of the effective rate of the certificates. Currently, arbitrage earnings must be rebated to the United States Treasury every five years from the date of August 18, 1999, for the Electric System Certificates of Participation. The City has recorded an arbitrage liability of \$205,520 as of June 30, 2004 that is included in the Electric Fund's accounts payable and other liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lodi
Required Supplementary Information
Schedule of Funding Progress - Pension Plan
June 30, 2004
(in thousands of dollars)

Actuarial Valuation Date	Actuarial Asset Value (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability [(B) - (A)]	Funded Ratio [(A) / (B)]	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll {[(B) - (A)]/(C)}
6/30/01	140,463	125,752	(14,711)	112%	21,446	(68.60%)
6/30/02	130,903	134,344	3,441	97%	23,361	14.73%
6/30/03	132,001	149,935	17,934	88%	24,978	71.80%

CITY OF LODI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 13,690,735	13,690,735	14,065,774	\$ 375,039
Licenses and permits	1,555,905	1,555,905	2,021,234	465,329
Intergovernmental revenues	13,007,831	13,007,831	11,964,723	(1,043,108)
Charges for services	1,794,930	1,646,330	2,410,024	763,694
Fines, forfeits and penalties	870,090	870,090	1,084,500	214,410
Investment and rental income	776,260	331,880	258,874	(73,006)
Miscellaneous revenue	143,280	143,280	166,710	23,430
Total revenues	<u>31,839,031</u>	<u>31,246,051</u>	<u>31,971,839</u>	<u>725,788</u>
EXPENDITURES				
Current				
General government	11,314,588	11,235,796	10,815,208	420,588
Public protection	17,135,212	17,277,895	17,263,236	14,659
Public works	6,446,056	6,445,087	6,224,844	220,243
Library	1,383,085	1,390,500	1,356,213	34,287
Parks and recreation	3,614,444	3,741,667	3,411,552	330,115
Capital outlay		883,037	883,037	
Debt service				
Principal payments	187,190	187,190	187,190	
Interest and fiscal charges	30,324	30,324	30,324	
Total expenditures	<u>40,110,899</u>	<u>41,191,496</u>	<u>40,171,604</u>	<u>1,019,892</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(8,271,868)</u>	<u>(9,945,445)</u>	<u>(8,199,765)</u>	<u>1,745,680</u>
OTHER FINANCING SOURCES				
Transfers in	6,326,577	7,203,008	7,203,008	
Capital lease proceeds		883,037	883,037	
Other sources and uses	2,530,001	1,375,588		(1,375,588)
Total other financing sources	<u>8,856,578</u>	<u>9,461,633</u>	<u>8,086,045</u>	<u>(1,375,588)</u>
NET CHANGE IN FUND BALANCE	584,710	(483,812)	(113,720)	370,092
FUND BALANCE, beginning of year	<u>3,109,967</u>	<u>1,566,708</u>	<u>1,566,708</u>	
FUND BALANCE, end of year	<u>\$ 3,694,677</u>	<u>1,082,896</u>	<u>1,452,988</u>	<u>\$ 370,092</u>

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

CITY OF LODI
Notes to the Required Supplementary Information
June 30, 2004

Budgetary Data

The City adopts an annual budget for the general and special revenue funds. These budgets are prepared in accordance with generally accepted accounting principles. As part of the City's internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the City Council. The accompanying financial statements present budget and actual data only of funds for which an annual budget was adopted. The budgets of capital projects are primarily "long-term" budgets that emphasize the major programs and capital project plans extending over a number of years. Due to the long-term nature of these projects, "annual" budget and actual comparisons are not considered meaningful. Formal budgetary integration is not employed for debt service funds since effective budgetary control is alternatively achieved through the bond indenture provisions. Accordingly, no budgetary information is included in the accompanying financial statements for capital projects and debt service funds.

The City Council follows the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

Original Budget

On or prior to the first regular Council meeting in June of each year, the City Manager submits to the City Council a proposed Two-year Financial Plan and Budget for two fiscal years commencing July 1. The budget includes proposed expenditures and the means of financing them.

Budgeted revenues are adopted by the City Council at the time the budget is approved. Budgeted revenues are modified when the tax base changes, when fees are modified or when new revenue sources are identified.

Public hearings are conducted during meetings of the City Council to obtain citizens' comments. Prior to July 1, the budget is legally enacted through passage of a resolution.

Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

- Budgeted expenditures represent original appropriations adjusted by budget transfers and appropriation amendments. The legal level of budgetary control (that is, the level at which expenditures can not legally exceed the appropriated

CITY OF LODI
Notes to the Required Supplementary Information (continued)
June 30, 2004

- amount) is at the department level. The operating budget is prepared and controlled at the department level (e.g., city clerk, city manager, etc.) for the General Fund. Special revenue fund expenditures, including transfers out, are approved by Council at the fund level.
- The City Manager may transfer appropriations from one activity to another within a department without approval from the City Council. All other appropriation adjustments during the year, whether transfers, increases or decreases, require City Council approval.

Under a two-year budget, all operating appropriations lapse at the end of the second year except for funds that are encumbered.

COMBINING AND INDIVIDUAL FUND STATEMENTS
AND SCHEDULES

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004**

<u>Assets</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and investments	\$ 2,639,879	7,152,720	\$ 9,792,599
Restricted assets		1,729,169	1,729,169
Receivables:			
Accounts	272,974	12,589	285,563
Property taxes		389,544	389,544
Interest	9,832	23,406	33,238
Due from other funds	477,188	1,009,162	1,486,350
Due from other governmental agencies	1,441,034	441,110	1,882,144
Loan receivables	1,084,000		1,084,000
Advances to other funds		716,770	716,770
Total assets	<u>\$ 5,924,907</u>	<u>11,474,470</u>	<u>\$ 17,399,377</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and other liabilities	\$ 537,378	105,479	\$ 642,857
Due to other funds	477,188		477,188
Advances from other funds	716,770	4,036,803	4,753,573
Deferred revenue	1,084,000	410,000	1,494,000
Total liabilities	<u>2,815,336</u>	<u>4,552,282</u>	<u>7,367,618</u>
Fund Balances :			
Reserved for encumbrances	2,575,463	485,204	3,060,667
Reserved for advances to other funds		716,770	716,770
Unreserved-designated	534,108	5,720,214	6,254,322
Total fund balances	<u>3,109,571</u>	<u>6,922,188</u>	<u>10,031,759</u>
Total liabilities and fund balances	<u>\$ 5,924,907</u>	<u>11,474,470</u>	<u>\$ 17,399,377</u>

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2004

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Taxes	\$ 758,242		2,084,332	\$ 2,842,574
Intergovernmental revenues	4,563,180		129,144	4,692,324
Charges for services	870,982		1,197,306	2,068,288
Investment and rental income	54,785		223,590	278,375
Miscellaneous revenue	92,462		213,930	306,392
Total revenues	<u>6,339,651</u>		<u>3,848,302</u>	<u>10,187,953</u>
Expenditures:				
Current:				
Public protection	227,304			227,304
Public works	1,077,190		1,190	1,078,380
Capital outlay	3,126,094		6,031,624	9,157,718
Debt service:				
Principal payments		571,605		571,605
Interest and fiscal charges		1,204,232	10,920	1,215,152
Total expenditures	<u>4,430,588</u>	<u>1,775,837</u>	<u>6,043,734</u>	<u>12,250,159</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,909,063</u>	<u>(1,775,837)</u>	<u>(2,195,432)</u>	<u>(2,062,206)</u>
Other financing sources (uses):				
Transfers in	25,153	1,775,837	770,177	2,571,167
Transfers out	<u>(2,231,392)</u>		<u>(4,627,869)</u>	<u>(6,859,261)</u>
Total other financing sources (uses)	<u>(2,206,239)</u>	<u>1,775,837</u>	<u>(3,857,692)</u>	<u>(4,288,094)</u>
Net change in fund balances	<u>(297,176)</u>		<u>(6,053,124)</u>	<u>(6,350,300)</u>
Fund balances, beginning of year	<u>3,406,747</u>		<u>12,975,312</u>	<u>16,382,059</u>
Fund balances, end of year	<u>\$ 3,109,571</u>		<u>\$ 6,922,188</u>	<u>\$ 10,031,759</u>

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor Governmental Funds include:

Special Revenue Funds account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes, other than those for major capital projects;

Debt Service Fund account for the accumulation of resources for the repayment of principal and interest on general long-term debt;

Capital Project Funds account for the financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

SPECIAL REVENUE FUNDS

Public Safety

This fund was established to account for the revenues and expenditures related to the City's share of property forfeited by persons convicted of possession and selling illegal drugs and the State of California auto theft prosecution moneys.

Streets Fund

This fund was established to account for the following:

Gas Tax

To account for revenues and expenditures apportioned to the City under the Streets and Highway Code. Portions of the tax rate levied by the State of California on all gasoline purchases are allocated to cities throughout the State on a population basis. These funds are restricted for expenditure by the State of California for street related purposes only.

Development Impact Mitigation Fees

To account for impact fees charged to provide for the building of various storm drains and street improvements needed to serve new development. The fees are calculated on a per acre basis and are collected at subdivision final map approval or with building permit stage effective November 4, 1991.

Master Storm Drain

To account for the funding of construction or modification of the City's storm drain system.

Measure K Sales Tax

To account for revenues and expenditures apportioned to the City for sales tax collections under Measure K. Expenditures for administration, maintenance and construction must be for street-related projects.

Intermodal Surface Transportation Efficiency Act (ISTEA)

To account for revenues from the federal highway administration for programs including surface transportation program (STP) for streets and roads, congestion mitigation and air quality program (CMAQ) and hazard elimination safety (HES) for street lighting projects.

Transportation Fund

This fund was established to account for the receipt of moneys from the State of California apportioned to the City for transportation purposes. The State has designated 1/4% of the 6% sales tax levied statewide for local transportation purposes. Funding for this program was provided during the 1971 legislative session with the enactment of the Transportation Development Act, which extended the 6% sales tax to include

purchases of gasoline. Revenues allocated to the City of Lodi under this program are divided into two categories: Article 8 funds, which are restricted for the improvement and maintenance of street systems; and Article 4 funds, which are restricted for public transit systems.

HOME Program/Community Development Block Grants

and moderate-income residents to develop a suitable living environment and expand economic opportunities; and account for moneys provided for adequate and affordable housing for low and very low-income residents.

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
June 30, 2004**

		Public Safety	Streets	Transportation	HOME Program & Community Development Block Grants	Total
ASSETS						
Cash and Investments	\$	318,506	2,321,209	164		\$ 2,639,879
Receivables:						
Accounts		7,765	225,575	39,634		272,974
Interest		918	8,914			9,832
Due from other funds			477,188			477,188
Due from other governmental agencies		30,255	907,841		502,938	1,441,034
Loan receivables					1,084,000	1,084,000
TOTAL ASSETS	\$	357,444	3,940,727	39,798	1,586,938	\$ 5,924,907
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and other liabilities	\$	7,644	503,984		25,750	\$ 537,378
Due to other funds					477,188	477,188
Advances from other funds			716,770			716,770
Unearned revenue					1,084,000	1,084,000
TOTAL LIABILITIES		7,644	1,220,754		1,586,938	2,815,336
FUND BALANCES						
Fund balances:						
Reserved for encumbrances		16,616	2,558,847			2,575,463
Unreserved-designated for specific projects and programs		333,184	161,126	39,798		534,108
TOTAL FUND BALANCES		349,800	2,719,973	39,798		3,109,571
TOTAL LIABILITIES AND FUND BALANCES	\$	357,444	3,940,727	39,798	1,586,938	\$ 5,924,907

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2004

	Public Safety	Streets	Transportation	HOME Program & Community Development Block Grants	Total
REVENUES					
Taxes	\$	758,242			\$ 758,242
Intergovernmental revenues	186,083	3,260,540	39,367	1,077,190	4,563,180
Charges for services		870,982			870,982
Investment and rental income	2,454	51,833	498		54,785
Miscellaneous revenue		92,462			92,462
Total revenues	<u>188,537</u>	<u>5,034,059</u>	<u>39,865</u>	<u>1,077,190</u>	<u>6,339,651</u>
EXPENDITURES					
Current					
Public protection	227,304				227,304
Public works				1,077,190	1,077,190
Capital outlay		3,119,643	6,451		3,126,094
Total expenditures	<u>227,304</u>	<u>3,119,643</u>	<u>6,451</u>	<u>1,077,190</u>	<u>4,430,588</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(38,767)</u>	<u>1,914,416</u>	<u>33,414</u>		<u>1,909,063</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		25,153			25,153
Transfers out		(2,231,392)			(2,231,392)
Total other financing sources (uses)		<u>(2,206,239)</u>			<u>(2,206,239)</u>
NET CHANGE IN FUND BALANCES	<u>(38,767)</u>	<u>(291,823)</u>	<u>33,414</u>		<u>(297,176)</u>
FUND BALANCES , beginning of year	<u>388,567</u>	<u>3,011,796</u>	<u>6,384</u>		<u>3,406,747</u>
FUND BALANCES, end of year	<u>\$ 349,800</u>	<u>2,719,973</u>	<u>39,798</u>		<u>\$ 3,109,571</u>

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2004

	PUBLIC SAFETY		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 186,083	186,083	
Investment and rental income		2,454	2,454
Total Revenue	186,083	188,537	2,454
EXPENDITURES			
Current			
Public protection	425,145	227,304	197,841
Total Expenditures	425,145	227,304	197,841
NET CHANGE IN FUND BALANCE	(239,062)	(38,767)	200,295
FUND BALANCE, BEGINNING OF YEAR	388,567	388,567	
FUND BALANCE, END OF YEAR	\$ 149,505	349,800	200,295

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2004

	STREETS		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes	\$ 838,370	758,242	(80,128)
Intergovernmental revenues	5,217,000	3,260,540	(1,956,460)
Charges for services	1,144,000	870,982	(273,018)
Investment and rental income		51,833	51,833
Miscellaneous revenue	20,000	92,462	72,462
Total Revenue	7,219,370	5,034,059	(2,185,311)
EXPENDITURES			
Capital outlay	7,145,932	3,119,643	4,026,289
Total Expenditures	7,145,932	3,119,643	4,026,289
EXCESS OF REVENUE OVER EXPENDITURES	73,438	1,914,416	1,840,978
OTHER FINANCING SOURCES (USES)			
Transfers in	25,153	25,153	
Transfers out	(2,231,392)	(2,231,392)	
Total other financing sources (uses)	(2,206,239)	(2,206,239)	
NET CHANGE IN FUND BALANCE	(2,132,801)	(291,823)	1,840,978
FUND BALANCE, BEGINNING OF YEAR	3,011,796	3,011,796	
FUND BALANCE, END OF YEAR	\$ 878,995	2,719,973	1,840,978

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2004

	TRANSPORTATION		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 39,367	39,367	
Investment and rental income		498	498
Total Revenue	39,367	39,865	498
EXPENDITURES			
Capital outlay	45,751	6,451	39,300
Total Expenditures	45,751	6,451	39,300
NET CHANGE IN FUND BALANCE	(6,384)	33,414	39,798
FUND BALANCE, BEGINNING OF YEAR	6,384	6,384	
FUND BALANCE, END OF YEAR	\$ 6,384	39,798	39,798

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year-ended June 30, 2004

HOME PROGRAM and COMMUNITY DEVELOPMENT BLOCK GRANTS			
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 3,321,038	1,077,190	(2,243,848)
Total Revenue	3,321,038	1,077,190	(2,243,848)
EXPENDITURES			
Current			
Public works	3,321,038	1,077,190	2,243,848
Total Expenditures	3,321,038	1,077,190	2,243,848
NET CHANGE IN FUND BALANCE			
FUND BALANCE, BEGINNING OF YEAR	_____	_____	_____
FUND BALANCE, END OF YEAR	_____	_____	_____

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

CAPITAL PROJECT FUNDS

Vehicle and Equipment Fund

This fund was established to account for the financing and replacement of vehicles and equipment for all funds of the City with the exception of the Enterprise Funds. Financing is primarily provided through operating transfers from other funds, interest earnings and sales of surplus property.

Library Fund

This fund is used to account for the acquisition, construction and installation of capital facilities for the Library.

Subdivision Fund

This fund is used to account for construction and installation projects dealing with subdivision work for others.

Hutchins Street Square Fund

When the old Lodi High School burned down, the City purchased the property and renamed it Hutchins Street Square. The Old Lodi High Site Foundation was established and this organization organizes events to raise money for the capital restoration of Hutchins Street Square.

Capital Outlay Reserve Fund

This fund was established to account for the entire City's construction projects and capital purchases in excess of \$10,000 with the exception of those funded through Enterprise Funds. Financing is provided primarily by operating transfers from other funds and from State and Federal grants

Lodi Lake Fund

This fund was established to account for moneys charged for activities held at Lodi Lake. The Council designated the moneys to be used for Lodi Lake capital projects.

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
June 30, 2004**

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
ASSETS							
Cash and investments	\$ 349,450	23,578	300,339	3,577	6,338,292	137,484	\$ 7,152,720
Restricted assets					1,729,169		1,729,169
Receivables:							
Accounts					12,589		12,589
Property taxes					389,544		389,544
Interest		74			22,957	375	23,406
Due from other funds					1,009,162		1,009,162
Due from other governmental agencies	31,110				410,000		441,110
Advances to other funds					716,770		716,770
TOTAL ASSETS	\$ 380,560	23,652	300,339	3,577	10,628,483	137,859	\$ 11,474,470
LIABILITIES							
Accounts payable and other liabilities	\$ 8,492	2,875			66,538	27,574	\$ 105,479
Advances from other funds					4,036,803		4,036,803
Unearned revenue					410,000		410,000
TOTAL LIABILITIES	8,492	2,875			4,513,341	27,574	4,552,282
FUND BALANCES							
Fund balances:							
Reserved for encumbrances	1,284				470,678	13,242	485,204
Reserved for advances to other funds					716,770		716,770
Unreserved-designated for specific projects and programs	370,784	20,777	300,339	3,577	4,927,694	97,043	5,720,214
TOTAL FUND BALANCES	372,068	20,777	300,339	3,577	6,115,142	110,285	6,922,188
TOTAL LIABILITIES AND FUND BALANCES	\$ 380,560	23,652	300,339	3,577	10,628,483	137,859	\$ 11,474,470

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
Year ended June 30, 2004

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
REVENUES							
Taxes	\$				2,084,332		\$ 2,084,332
Intergovernmental revenues	36,313				92,831		129,144
Charges for services					1,197,306		1,197,306
Investment and rental income					222,420	1,170	223,590
Miscellaneous revenue	7,890	1,067			190,158	14,815	213,930
Total revenues	<u>44,203</u>	<u>1,067</u>			<u>3,787,047</u>	<u>15,985</u>	<u>3,848,302</u>
EXPENDITURES							
Current							
Public works					1,190		1,190
Capital outlay	172,156	142,322			5,470,858	246,288	6,031,624
Debt service:							
Interest and fiscal charges					10,920		10,920
Total expenditures	<u>172,156</u>	<u>142,322</u>			<u>5,482,968</u>	<u>246,288</u>	<u>6,043,734</u>
DEFICIENCY OF REVENUE UNDER EXPENDITURES	<u>(127,953)</u>	<u>(141,255)</u>			<u>(1,695,921)</u>	<u>(230,303)</u>	<u>(2,195,432)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	330,000				265,177	175,000	770,177
Transfers out					(4,627,869)		(4,627,869)
Total other financing sources (uses)	<u>330,000</u>				<u>(4,362,692)</u>	<u>175,000</u>	<u>(3,857,692)</u>
NET CHANGE IN FUND BALANCES	202,047	(141,255)			(6,058,613)	(55,303)	(6,053,124)
FUND BALANCES , BEGINNING OF YEAR	<u>170,021</u>	<u>162,032</u>	<u>300,339</u>	<u>3,577</u>	<u>12,173,755</u>	<u>165,588</u>	<u>12,975,312</u>
FUND BALANCES, END OF YEAR	<u>\$ 372,068</u>	<u>20,777</u>	<u>300,339</u>	<u>3,577</u>	<u>6,115,142</u>	<u>110,285</u>	<u>\$ 6,922,188</u>

FIDUCIARY FUNDS

Private-purpose Trust Fund

This fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

Agency Fund

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the Industrial Way Beckman Districts and the Downtown and Cherokee Lane Districts.

**CITY OF LODI
 COMBINING STATEMENT OF FUDUCIARY NET ASSETS
 PRIVATE-PURPOSE TRUST FUNDS
 June 30, 2004**

	Private-Purpose Trust Funds		
	Private Sector	Hutchins Street Square Bequest	Total
ASSETS			
Cash and Investments	\$ 643,486	403	643,889
TOTAL ASSETS	643,486	403	643,889
NET ASSETS	\$ 643,486	403	643,889

CITY OF LODI
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2004

	<u>Private-Purpose Trust Funds</u>		<u>Total</u>
	<u>Private Sector</u>	<u>Hutchins Street Square Bequest</u>	
ADDITIONS			
Investment and rental income	\$ 99,262	3 \$	99,265
Total additions	<u>99,262</u>	<u>3</u>	<u>99,265</u>
NET ASSETS, BEGINNING OF YEAR	<u>544,224</u>	<u>400</u>	<u>544,624</u>
NET ASSETS, END OF YEAR	<u>\$ 643,486</u>	<u>403 \$</u>	<u>643,889</u>

CITY OF LODI
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year ended June 30, 2004

	Special Assessments			
	Balance 7/1/03	Additions	Deductions	
ASSETS				
Cash and investments	\$ 366,733	324,620	312,703	\$ 378,650
Special assessment receivable	40,463	39,963	40,463	39,963
Interest receivable	1,256	1,149	1,256	1,149
TOTAL ASSETS	\$ <u>408,452</u>	<u>365,732</u>	<u>354,422</u>	\$ <u>419,762</u>
LIABILITIES				
Agency obligations	\$ <u>408,452</u>	<u>11,310</u>		\$ <u>419,762</u>
TOTAL LIABILITIES	\$ <u>408,452</u>	<u>11,310</u>		\$ <u>419,762</u>

STATISTICAL TABLES

UNAUDITED

**CITY OF LODI
GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS
(Amounts in Thousands)**

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Protection</u>	<u>Public Works</u>	<u>Library</u>	<u>Parks & Recreation</u>	<u>Interest On Long-term Debt</u>	<u>Electric</u>	<u>Wastewater</u>	<u>Water</u>	<u>Transit</u>	<u>Total</u>
2002-03	\$ 12,238	\$ 16,632	\$ 10,946	\$ 1,454	\$ 3,989	\$ 1,215	\$ 51,388	\$ 6,141	\$ 12,879	\$ 5,389	\$ 120,585
2003-04	13,167	19,163	11,868	1,409	4,095	1,267	55,943	6,297	7,489	3,064	123,762

Note: Information is available beginning in fiscal year 2003, when the City implemented GASB 34 "Basic Financial Statements - and Management Discussions and Analysis - for State and Local Governments."

SOURCE: City Finance Department

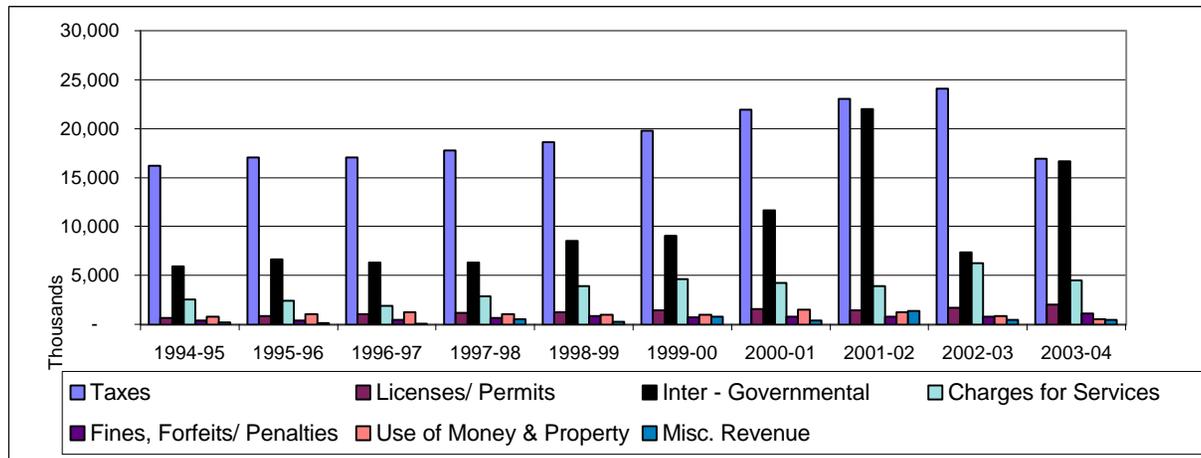
**CITY OF LODI
GOVERNMENT-WIDE REVENUES
LAST TEN FISCAL YEARS
(Amounts in Thousands)**

<u>Fiscal Year</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Taxes</u>	<u>Motor Vehicle In-Lieu</u>	<u>Investment Earnings</u>	<u>Other</u>	<u>Special Item Litigation Settlement</u>	<u>Total</u>
2002-03 \$	65,331 \$	13,727 \$	13,380 \$	15,244 \$	3,430 \$	6,726 \$	1,761 \$	2,728 \$	122,327
2003-04	70,538	13,402	22,162	16,759	3,363	2,368	3,224	865	132,681

Note: Information is available beginning in fiscal year 2003, when the City implemented GASB 34 "Basic Financial Statements and Mananagement's Discussion and Analysis for State and Local Governments."

SOURCE City Finance Department

**CITY OF LODI
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Amounts in Thousands)**

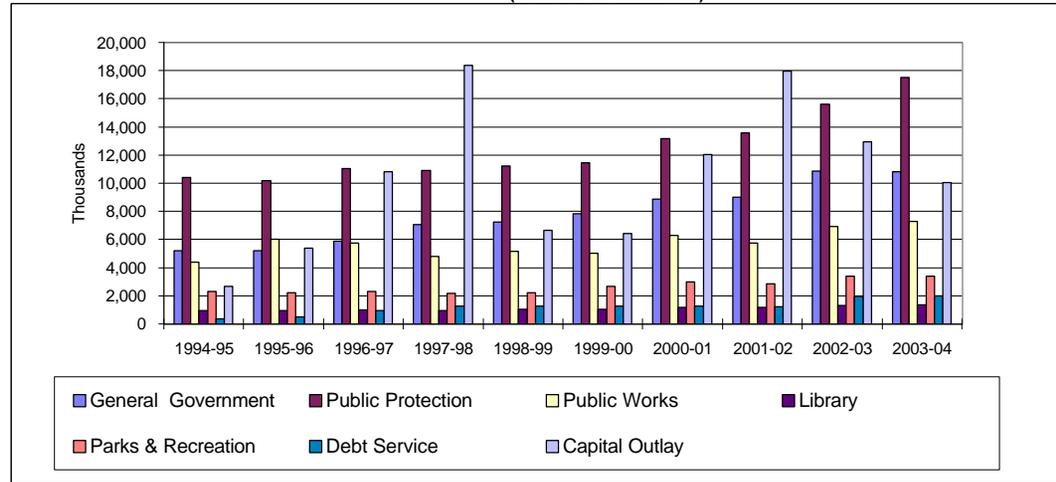


Fiscal Year	Taxes	Licenses/Permits	Inter - Governmental	Charges for Services	Fines, Forfeits/ Penalties	Use of Money & Property	Misc. Revenue	Total
1994-95	\$ 16,209	\$ 634	\$ 5,928	\$ 2,517	\$ 406	\$ 808	\$ 201	\$ 26,703
1995-96	17,070	842	6,642	2,428	421	1,063	140	28,606
1996-97	17,029	1,012	6,316	1,908	453	1,216	80	28,014
1997-98	17,790	1,183	6,291	2,871	662	1,060	524	30,381
1998-99	18,594	1,267	8,493	3,874	878	982	243	34,331
1999-00	19,801	1,406	9,054	4,611	714	982	764	37,332
2000-01	21,909	1,592	11,641	4,249	765	1,509	383	42,048
2001-02	23,043	1,464	22,000	3,888	806	1,234	1,349	53,784
2002-03	24,100	1,669	7,385	6,272	803	832	453	41,514
2003-04	16,909 *	2,021	16,657 *	4,478	1,085	537	473	42,160

General Governmental Revenues include General, Special Revenue, Debt Service and Capital Projects Funds. Excludes Expendable Trusts.
SOURCE: City Finance Department

*reclassified sales tax into intergovernmental revenue

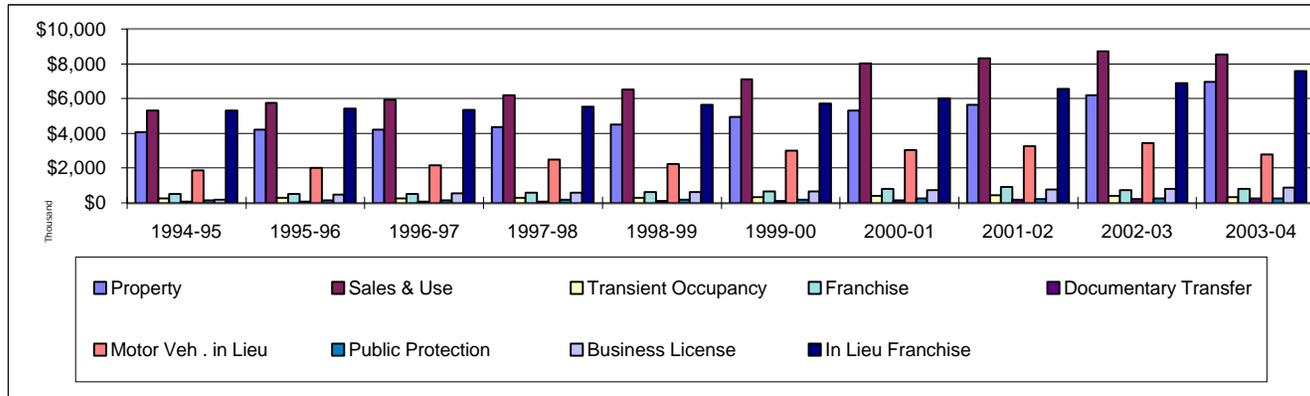
**CITY OF LODI
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS
(Amounts in Thousands)**



Fiscal Year	General Government	Public Protection	Public Works	Library	Parks & Recreation	Debt Service	Capital Outlay	Total
1994-95	\$ 5,211	\$ 10,401	\$ 4,382	\$ 956	\$ 2,299	\$ 345	\$ 2,652	\$ 26,246
1995-96	5,217	10,172	6,012	954	2,198	500	5,378	30,431
1996-97	5,882	11,059	5,749	1,012	2,312	939	10,810	37,763
1997-98	7,068	10,896	4,810	966	2,174	1,288	18,383	45,585
1998-99	7,239	11,225	5,151	1,030	2,230	1,282	6,640	34,797
1999-00	7,813	11,430	5,039	1,040	2,670	1,282	6,420	35,694
2000-01	8,862	13,190	6,312	1,184	2,999	1,285	12,045	45,877
2001-02	8,987	13,562	5,741	1,158	2,860	1,233	17,948	51,489
2002-03	10,874	15,597	6,926	1,316	3,385	1,950	12,942	52,990
2003-04	10,815	17,491	7,303	1,356	3,412	2,004	10,041	52,422

General Governmental Expenditures includes General, Special Revenue, Debt Service and Capital Projects Funds.
Excludes Expendable Trusts.
SOURCE: City Finance Department

**CITY OF LODI
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Amounts in Thousands)**

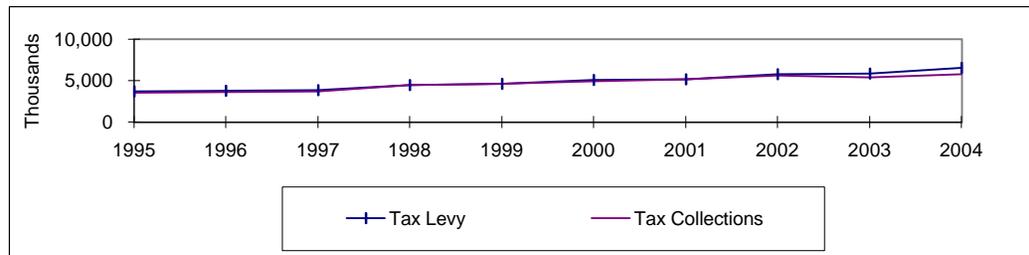


Fiscal Year	Property	Sales & Use	Transient Occupancy	Franchise	Documentary Transfer	Motor Veh . in Lieu	Public Protection	Business License	In Lieu Franchise	Total (1)
1994-95	\$ 4,077	\$ 5,320	\$ 248	\$ 506	\$ 68	\$ 1,885	\$ 149	\$ 169	\$ 5,300	\$ 17,722
1995-96	4,206	5,763	278	503	75	2,023	154	470	5,413	18,885
1996-97	4,225	5,950	249	524	66	2,144	154	541	5,348	19,201
1997-98	4,374	6,205	278	586	77	2,478	180	593	5,546	20,317
1998-99	4,517	6,523	305	618	119	2,221	180	612	5,627	20,722
1999-00	4,932	7,095	318	675	116	3,008	196	658	5,721	22,719
2000-01	5,322	8,028	390	820	158	3,051	242	736	6,015	24,762
2001-02	5,641	8,300	439	931	172	3,276	231	787	6,569	26,346
2002-03	6,191	8,709	400	730	207	3,430	247	822	6,895	27,631
2003-04	6,948	8,533	317	800	240	2,767	264	874	7,580	28,323

(1) General governmental tax revenues are included in taxes, licenses and permits, intergovernmental revenues and miscellaneous revenue of the City's General F

SOURCE: City Finance Department

**CITY OF LODI
SECURED TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Amounts in Thousands)**



Fiscal Year	Total Tax Levy	Current Year's Tax Collections	Percent of Collections to Tax Levy	Delinquent Tax Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1995	\$ 3,670	\$ 3,516	95.8%	\$ 9	\$ 3,525	96.0%
1996	3,781	3,615	95.6%	-	3,615	95.6%
1997	3,827	3,682	96.2%	-	3,682	96.2%
1998	4,444	4,433	99.8%	-	4,433	99.8%
1999	4,653	4,578	98.4%	-	4,578	98.4%
2000	5,056	4,917	97.3%	-	4,917	97.3%
2001	5,182	5,118	98.8%	-	5,118	98.8%
2002	5,757	5,640	98.0%	-	5,640	98.0%
2003	5,832	5,408	92.7%	-	5,408	92.7%
2004	6,570	5,764	87.7%	-	5,764	87.7%

SOURCE: County Auditor-Controller

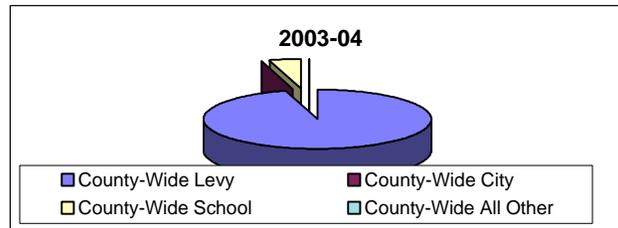
**CITY OF LODI
 ASSESSED FULL CASH VALUE OF ALL TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (Amounts in Thousands)**

<u>Fiscal Year</u>	<u>Secured Roll</u>	<u>Utility Roll</u>	<u>Unsecured Roll</u>	<u>Tax Roll</u>	<u>Less Exemptions</u>	<u>Net Tax Roll</u>
1994-95	\$ 2,353,069	\$ 3,504	\$ 115,180	\$ 2,471,753	\$ 164,592	\$ 2,307,161
1995-96	2,427,757	3,560	125,011	2,556,328	170,899	2,385,429
1996-97	2,463,536	3,557	125,907	2,593,000	172,945	2,420,055
1997-98	2,515,478	3,699	129,396	2,648,573	176,500	2,472,073
1998-99	2,574,622	3,826	146,345	2,724,793	179,835	2,544,958
1999-00	2,707,343	3,525	163,299	2,874,167	183,294	2,690,873
2000-01	2,880,201	3,484	177,040	3,060,725	185,473	2,875,252
2001-02	3,096,937	3,379	198,678	3,298,994	190,252	3,108,742
2002-03	3,381,945	3,352	207,095	3,592,392	200,957	3,391,435
2003-04	3,619,116	3,893	202,785	3,825,794	212,102	3,613,692

<u>Fiscal Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Total</u>	<u>Less Exemptions</u>	<u>Net Assessed Value</u>
1994-95	\$ 663,227	\$ 1,608,564	\$ 199,962	\$ 2,471,753	\$ 164,592	\$ 2,307,161
1995-96	691,116	1,654,842	210,370	2,556,328	170,899	2,385,429
1996-97	709,296	1,673,877	209,827	2,593,000	172,945	2,420,055
1997-98	728,900	1,705,635	214,038	2,648,573	176,500	2,472,073
1998-99	756,166	1,748,387	220,240	2,724,793	179,835	2,544,958
1999-00	787,249	1,847,800	239,118	2,874,167	183,294	2,690,873
2000-01	832,788	1,982,668	245,269	3,060,725	185,473	2,875,252
2001-02	889,262	2,164,121	245,611	3,298,994	190,252	3,108,742
2002-03	960,166	2,366,887	265,339	3,592,392	200,957	3,391,435
2003-04	1,027,462	2,549,860	248,472	3,825,794	212,102	3,613,692

Source: San Joaquin County Assessor's Office

**CITY OF LODI
PROPERTY TAX RATES -- DIRECT & OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
Per \$100.00 of Assessed Value**



Fiscal Year	Basic County-Wide Levy	City	School	All Other	Total
1994-95	1.0000	0.0126	0.0140	0.0034	1.0300
1995-96	1.0000	0.0123	0.0028	0.0034	1.0185
1996-97	1.0000	0.0000	0.0022	0.0034	1.0056
1997-98	1.0000	0.0000	0.0019	0.0034	1.0053
1998-99	1.0000	0.0000	0.0001	0.0034	1.0035
1999-00	1.0000	0.0000	0.0002	0.0034	1.0036
2000-01	1.0000	0.0000	0.0002	0.0000	1.0002
2001-02	1.0000	0.0000	0.0002	0.0000	1.0002
2002-03	1.0000	0.0000	0.0487	0.0000	1.0487
2003-04	1.0000	0.0000	0.0475	0.0000	1.0475

SOURCE: San Joaquin County Auditor/Controller's Office

**CITY OF LODI
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS
(Amounts in Thousands)**

<u>Fiscal Year</u>	<u>Current Assessments Due</u>	<u>Current Assessments Collected</u>	<u>Total Collection As Percent of Current Assessments Due</u>	<u>Total Outstanding Current and Delinquent Assessments</u>
1994-95	49	48	98.0%	1
1995-96	51	50	98.0%	1
1996-97	125	125	100.0%	-
1997-98	-	-	0.0%	-
1998-99	-	-	0.0%	-
1999-00	-	-	0.0%	-
2000-01	-	-	0.0%	-
2001-02	-	-	0.0%	-
2002-03	-	-	0.0%	-
2003-04	-	-	0.0%	-

SOURCE: City Finance Department

**CITY OF LODI
 RATIO OF NET GENERAL BONDED DEBT
 TO TAXABLE ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
 LAST TEN FISCAL YEARS
 (Amounts in Thousands)**

<u>Fiscal Year</u>	<u>Population</u>	<u>Gross Assessed Value</u>	<u>Gross Bonded Debt</u>	<u>Debt Payable From Enterprise Revenue</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1994-95	55	2,471,754	11,379	10,174	1,205	0.0488%	21.91
1995-96	54	2,556,328	15,078	10,078	5,000	0.1956%	92.59
1996-97	55	2,593,001	24,948	9,978	14,970	0.5773%	272.18
1997-98	56	2,648,573	24,372	9,872	14,500	0.5475%	258.93
1998-99	57	2,724,793	23,776	9,762	14,014	0.5143%	245.86
1999-00	58	2,874,167	23,146	9,636	13,510	0.4700%	232.93
2000-01	59	3,060,725	72,911	59,930	12,981	0.4241%	220.02
2001-02	59	3,298,994	101,675	74,930	26,745	0.8107%	453.31
2002-03	60	3,592,392	143,748	117,733	26,015	0.7242%	433.58
2003-04	60	3,825,793	174,205	148,675	25,530	0.6673%	425.50

SOURCE: City Finance Department

**CITY OF LODI
COMPUTATION OF DIRECT AND OVERLAPPING GENERAL BONDED DEBT
June 30, 2004**

		<u>Total COP</u>	<u>Percent Applicable</u>	<u>City's Share of Debt</u>
DIRECT DEBT: CERTIFICATE OF PARTICIPATION	\$	25,530,000	100.00%	\$ 25,530,000
OVERLAPPING DEBT: NONE		<u>0</u>		<u>0</u>
Total	\$	<u>25,530,000</u>		\$ <u>25,530,000</u>

**DEBT RATIOS
June 30, 2004**

Ratio of Direct Overlapping Debt to Assessed Full Cash Value = 25,530,000 / 3,825,793,000	0.67%
Direct and Overlapping Debt Per Capita = 25,530,000 / 60,769	\$ 420
Taxable Assessed Full Cash Values Per Capita = 3,825,793,000 / 60,769	\$ 62,956

SOURCE: City Finance Department

**CITY OF LODI
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2004**

Assessed Full Cash Value as of June 30, 2003 (1)	\$ <u>3,825,793,000</u>
Debt Limit - 15 Percent of Assessed Full Cash Value (2)	\$ 573,868,950
Amount of Debt Applicable to Debt Limit	<u>0</u>
LEGAL DEBT MARGIN	\$ <u>573,868,950</u>

- (1) Assessed Value before exemptions applicable to 2003-04 Tax Roll
(2) Section 43605 California Government Code

SOURCE: San Joaquin County Auditor/Controller's Office
City Finance Department

CITY OF LODI
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS
(Amounts in Thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures</u>	<u>Percent of Debt Service to Governmental Expenditures</u>
1994-95	\$ 114	\$ 8	\$ 122	\$ 26,246	0.46%
1995-96	118	4	122	30,431	0.40%
1996-97	*	*	*	37,763	*
1997-98	470	818	1,288	45,585	2.83%
1998-99	485	797	1,282	34,797	3.68%
1999-00	505	777	1,282	35,694	3.59%
2000-01	530	755	1,285	45,877	2.80%
2001-02	555	679	1,234	51,489	2.40%
2002-03	730	1,220	1,950	52,991	3.68%
2003-04	485	1,186	1,671	52,422	3.19%

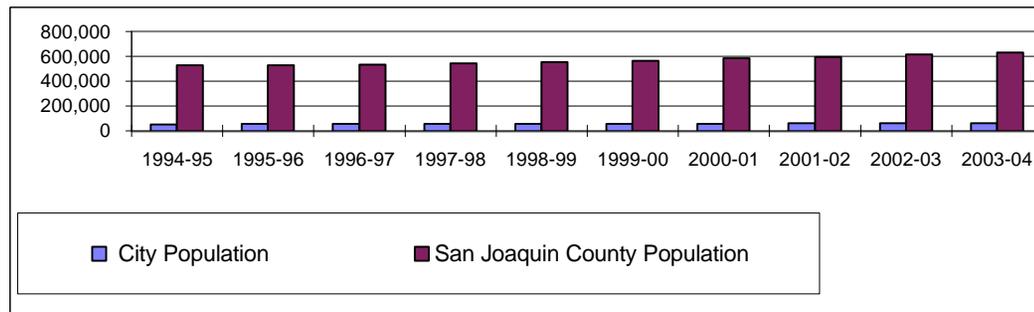
*Zero balances occurred in 1996-97 due to general obligation bonds paid off in 1995-96.
 SOURCE: City Finance Department

**CITY OF LODI
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Current Fiscal Year's Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1994-95	3,596,313	2,489,307	1,107,006	110,000	700,355	810,355	1.37
1995-96	3,339,315	3,301,761	37,554	110,000	696,357	806,357	0.05
1996-97	3,444,597	2,863,017	581,580	115,000	688,818	803,818	0.72
1997-98	3,946,058	2,913,969	1,032,089	120,000	682,218	802,218	1.29
1998-99	3,935,006	2,957,162	977,844	125,000	675,030	800,030	1.22
1999-00	3,874,750	3,146,931	727,819	140,000	666,770	806,770	0.90
2000-01	4,697,052	4,336,384	360,668	145,000	658,070	803,070	0.45
2001-02	4,138,729	4,807,716	(668,987)	150,000	648,920	798,920	(0.84)
2002-03	6,760,379	4,380,114	2,380,265	160,000	639,000	799,000	2.98
2003-04	59,458,915	51,244,047	8,214,868	#####	#####	6,300,209	1.30

SOURCE: City of Lodi Finance Department

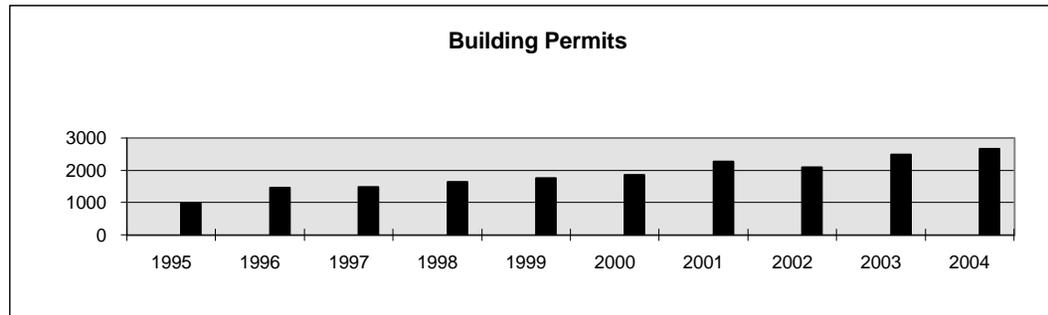
**CITY OF LODI
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**



<u>Fiscal Year</u>	<u>Square Miles</u>	<u>City Population</u>	<u>Population Percent Change</u>	<u>San Joaquin County Population</u>	<u>Population Percent of County</u>	<u>Rank in Size of California Cities</u>
1994-95	12.32	53,575	1.1%	530,700	10.1%	121
1995-96	12.32	54,473	1.7%	529,300	10.3%	81
1996-97	12.32	54,800	0.6%	535,420	10.2%	123
1997-98	12.32	55,700	1.6%	545,200	10.2%	124
1998-99	12.32	56,900	2.2%	554,400	10.3%	124
1999-00	12.50	57,900	1.8%	566,600	10.2%	125
2000-01	12.60	58,600	1.2%	583,700	10.0%	126
2001-02	12.62	59,431	1.4%	596,000	10.0%	129
2002-03	12.69	60,500	1.8%	613,500	9.9%	179
2003-04	12.79	60,769	0.4%	630,600	9.6%	130

SOURCE: State of California, Department of Finance, Demographic Research Unit.
City Finance Department Budget

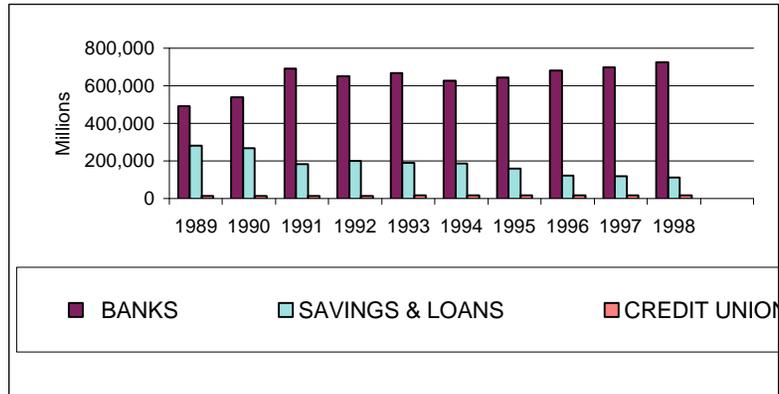
**CITY OF LODI
CONSTRUCTION ACTIVITY
LAST TEN FISCAL YEARS**



<u>Fiscal Year</u>	<u>Number of Building Permits Issued</u>	<u>Percent Change</u>	<u>Estimated Valuation (in thousands)</u>	<u>Percent Change</u>
1995	994	- .10%	44,881	42.40%
1996	1464	47.28%	29,019	-35.34%
1997	1486	1.50%	57,452	97.98%
1998	1632	9.83%	59,790	4.07%
1999	1749	7.17%	74,012	23.79%
2000	1856	6.12%	77,613	4.87%
2001	2275	22.58%	104,380	34.49%
2002	2090	-8.13%	69,693	-33.23%
2003	2492	19.23%	92,815	33.18%
2004	2659	6.70%	109,565	18.05%

SOURCE: City Community Development Department

**CITY OF LODI
BANK DEPOSITS
LAST TEN FISCAL YEARS*
(Amounts in Millions)**



Fiscal Year	BANKS	SAVINGS & LOANS	CREDIT UNIONS
1989	\$ 492,636	\$ 282,339	\$ 14,111
1990	540,545	267,501	12,813
1991	691,677	183,936	12,465
1992	649,252	198,756	13,993
1993	666,342	191,014	15,405
1994	627,132	186,159	15,689
1995	643,109	159,276	16,036
1996	682,223	121,183	15,721
1997	698,080	118,200	16,894
1998	725,210	113,431	17,729

Source: California State Department of Banking-Licensing & Statistics Section

*Information on this page is the most recent data available.

**CITY OF LODI
PRINCIPAL EMPLOYERS
JUNE 30, 2004**

<u>Employer</u>	<u>Activity</u>	<u>Employees</u>
Lodi Unified School Dist.	Education	2,940
Lodi Memorial Hospital	Health Care	1,121
General Mills	Cereals and Food Mixes	500
Pacific Coast Producers	Cannery	800
City of Lodi	Government	428
Wal-Mart	General Merchant	340
CertainTeed	PVC Pipe Manufacturer	106
Target	General Merchant	189
Valley Industries	Trailer Hitches	360
Farmers and Merchants Bank	Banking	310

SOURCE: City of Lodi Community Development Department

**CITY OF LODI
PRINCIPAL TAXPAYERS
JUNE 30, 2001***

<u>Property Owner</u>	<u>Land Use</u>	<u>Assessed Valuation</u>	<u>Percent of Total (1)</u>
General Mills, Inc.	Food Processing	\$ 171,116,463	5.94%
Pacific Coast Producers	Manufacturing	59,325,814	2.06%
Certainteed Corporation	Manufacturing	15,531,735	0.54%
Dart Container Corporation	Warehousing	13,486,205	0.47%
King Video Cable Company	Communications	12,363,403	0.43%
Edmund N. Richmond	Industrial	11,852,374	0.41%
Wal Mart Stores	Department Store	10,893,893	0.38%
Wallace Computer Service	Warehousing	10,854,802	0.38%
Interlake Material Handling, Inc	Industrial	10,837,238	0.38%
Dayton Hudson Corporation	Department Store	<u>10,504,048</u>	<u>0.36%</u>
		<u>\$ 326,765,975</u>	<u>11.35%</u>

(1) Local Secured Assessed Valuation: 2,880,201,262

Source: San Joaquin County Assessor's Office

* Information on this page is the most recent data available.

**CITY OF LODI
SURETY BONDS OF PRINCIPAL OFFICIALS
JUNE 30, 2004**

City Manager	\$500,000
Deputy City Manager	500,000
City Attorney	500,000
City Clerk	500,000
Public Works Director	500,000
Police Chief	500,000
Fire Chief	500,000
Finance Director	500,000
Community Development Director	500,000
Electric Utilities Director	500,000
Community Center Director	500,000
Parks and Recreation Director	500,000
Human Resources Director	500,000

City employees are covered by a commercial fidelity bond amounting to a maximum of \$500,000 per loss.

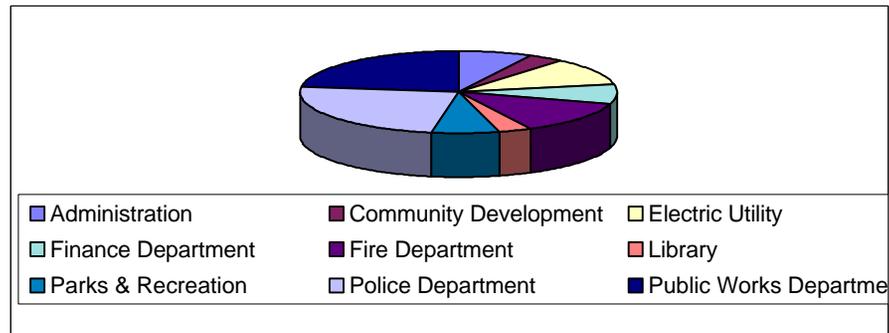
SOURCE: City of Lodi

**CITY OF LODI
GANN APPROPRIATION LIMITATION
Last Ten Fiscal Years**

<u>FISCAL YEAR</u>	<u>LIMIT BASE</u>	<u>CPI or INCOME</u>	<u>POPULATION GROWTH</u>	<u>GROWTH FACTOR</u>	<u>APPROPRIATION LIMITATION</u>	<u>BUDGET SUBJECT TO LIMIT</u>	<u>VARIANCE</u>
1994-95	\$ 35,697,755	1.0071	1.0157	1.0229	\$ 36,515,234	\$17,292,960	#####
1995-96	36,515,234	1.0470	1.0131	1.0609	38,739,012	18,583,360	20,155,652
1996-97	38,739,012	1.0467	1.0168	1.0643	41,229,332	19,243,568	21,985,764
1997-98	41,229,332	1.0467	1.0070	1.0540	43,456,825	20,096,975	23,359,850
1998-99	43,456,825	1.0536	1.0120	1.0420	45,785,303	20,491,809	25,293,494
1999-00	45,785,303	1.0453	1.0194	1.0656	48,787,849	20,907,397	27,880,452
2000-01	48,787,849	1.0491	1.0129	1.0626	51,843,597	22,482,923	29,360,674
2001-02	51,843,597	1.0782	1.0190	1.0987	56,959,824	25,610,753	31,349,071
2002-03	56,959,824	0.9873	1.0214	1.0084	57,439,894	28,013,113	29,426,781
2003-04	57,439,894	1.0231	1.0169	1.0404	59,759,913	28,710,584	31,049,329

SOURCE: City Finance Department

**CITY OF LODI
PERSONNEL AUTHORIZED LAST TEN YEARS
JUNE 2004**



DEPARTMENT	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Administration	17	21	24	26	30	32	34	34	37	36
Community Development	11	13	14	14	15	15	17	17	18	17
Electric Utility	38	39	43	44	44	46	47	50	52	52
Finance Department	35	35	34	34	32	34	34	35	38	38
Fire Department	47	48	48	48	49	50	52	55	68	61
Library	15	15	14	14	14	14	14	14	15	15
Parks & Recreation	26	27	26	27	26	26	29	29	34	34
Police Department	104	106	112	112	113	113	114	115	117	116
Public Works Department	86	87	92	94	95	99	103	108	110	110
Total	379	391	407	413	418	429	444	457	489	479

SOURCE: City of Lodi Finance Department

**CITY OF LODI
SCHEDULE OF TAXABLE SALES AND PERMITS BY CATEGORY
LAST TEN YEARS
(Amounts in Thousands)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
SALES (IN THOUSANDS OF DOLLARS):										
Apparel Stores	\$ 5,970	\$ 5,651	\$ 5,633	\$ 5,020	\$ 4,778	\$ 4,458	\$ 4,702	\$ 5,417	5,696	8,534
General Merchandise Stores	79,420	84,977	105,423	111,930	120,952	120,263	132,747	131,371	#####	#####
Drug Stores	13,295	13,411								
Food Stores	33,237	34,029	34,247	34,344	37,328	42,977	42,600	43,271	#####	45,666
Packaged Liquor Stores	5,664	6,150								
Eating & Drinking Places	43,770	44,598	45,349	46,316	49,803	52,860	52,952	59,594	#####	67,326
Home Furnishings & Appliances	12,396	12,808	12,136	17,319	22,254	17,908	18,055	15,886	#####	19,780
Building Materials & Farm Tools	31,801	31,858	29,865	32,424	39,369	47,467	45,722	46,048	#####	42,524
Auto Dealers & Supplies	103,241	102,788	101,933	106,531	123,667	141,640	137,830	166,102	#####	#####
Service Stations	34,348	35,095	35,746	29,203	36,491	46,794	45,675	45,130	#####	45,754
Other Retail Stores	29,261	30,502	39,759	45,689	47,022	48,759	49,862	49,262	#####	53,306
Total Retail Stores	392,403	401,867	410,091	428,776	481,664	523,126	530,145	562,081	#####	#####
All Other Outlets	94,440	116,000	130,660	133,453	143,207	154,590	153,314	148,736	#####	#####
TOTAL	\$ 486,843	\$ 517,867	\$ 540,751	\$ 562,229	\$ 624,871	\$ 677,716	\$ 683,459	\$ 710,817	#####	#####
PERMITS:										
Apparel Stores	23	22	28	28	28	28	31	19	23	26
General Merchandise Stores	13	13	22	21	23	24	24	21	20	22
Drug Stores	9	8								
Food Stores	45	45	47	51	53	59	56	61	60	61
Packaged Liquor Stores	7	7								
Eating & Drinking Places	144	146	146	151	151	148	153	160	165	181
Home Furnishings & Appliances	46	41	47	43	53	55	53	63	64	72
Building Materials & Farm Tools	29	30	25	22	22	23	23	24	26	24
Auto Dealers & Supplies	62	66	78	81	77	83	81	83	80	86
Service Stations	20	19	17	16	15	15	16	16	15	18
Other Retail Stores	201	197	205	229	258	268	268	296	303	347
Total Retail Stores	599	594	615	642	680	703	705	743	756	837
All Other Outlets	912	918	900	869	875	882	869	912	894	837
TOTAL	1511	1512	1515	1511	1555	1585	1574	1655	1650	1,674

* First three quarters are actual, the fourth quarter is an estimate.

SOURCE: State Board of Equalization, State of California

**CITY OF LODI
SCHEDULE OF TAXABLE SALES
LAST TEN YEARS**



State Board of Equalization
 916-445-3192 Jeff Reynolds or Dave Hayes
 916-455-6188

**CITY OF LODI
SCHEDULE OF BUSINESS TAX RECEIPTS ISSUED
YEAR ENDED JUNE 30, 2004**

<u>TYPE OF BUSINESS</u>	<u>NO. OF BUSINESSES</u>	<u>PERCENT</u>
Located in Lodi:		
Agriculture, Forestry and Fishing	16	0.48%
Mining	0	0.00%
Construction	354	10.53%
Manufacturing	30	0.89%
Transportation and Public Utilities	37	1.10%
Wholesale trade	86	2.56%
Retail trade	544	16.18%
Finance, Insurance and Real Estate	290	8.62%
Services	2,006	59.66%
Total	<u>3,363</u>	<u>100.00%</u>
Located outside Lodi:		
Agriculture, Forestry and Fishing	4	0.38%
Mining	0	0.00%
Construction	674	63.89%
Manufacturing	2	0.19%
Transportation and Public Utilities	12	1.14%
Wholesale trade	36	3.41%
Retail trade	42	3.98%
Finance, Insurance and Real Estate	35	3.31%
Services	250	23.70%
Total	<u>1055</u>	<u>100.00%</u>
Grand Total	<u>4,418</u>	

SOURCE: City Finance Records

SINGLE AUDIT REPORTS

CITY OF LODI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor Pass-through Grantor or Direct Program Title	CFDA Number	Grant/Project Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through San Joaquin County Department of Planning and Building Inspection			
Community Development Block Grant/Entitlement Grants:			
2003-2004 Program Year	14.228	N/A	\$ 207,757
2002-2003 Program Year	14.228	N/A	494,004
2001-2002 Program Year	14.228	N/A	56,723
2000-2001 Program Year	14.228	N/A	6,971
1999-2000 Program Year	14.228	N/A	37,148
1998-1999 Program Year	14.228	N/A	12,505
1997-1998 Program Year	14.228	N/A	508
Total Community Development Block Grant/Entitlement Grants			<u>815,616</u>
Passed through San Joaquin County Community Development Department:			
Home Investment Partnership Program			
2003-2004 Program Year	14.239	M03-UC-06-0009	261,572
Total U.S. Department of Housing and Urban Development			<u>1,077,188</u>
U.S. Department of Justice			
Direct:			
Local Law Enforcement Block Grant	16.592	2002-LB-BX-0591	75,799
Local Law Enforcement Block Grant	16.592	2003-LB-BX-00301	9,355
Total Local Law Enforcement Block Grant			<u>85,154</u>
Passed through State Office of Criminal Justice Planning:			
Byrne Formula Grant Program			
	16.579	DC97080390	87,402
Total U.S. Department of Justice			<u>172,556</u>

See accompanying notes to the schedule of expenditures of federal awards.

(Continued)

CITY OF LODI
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor Pass-through Grantor or Direct Program Title	CFDA Number	Grant/Project Number	Expenditures
U.S. Department of Transportation			
Direct:			
Federal Transit Formula Grant:			
2003-2004 Program Year	20.507	N/A	701,462
2002-2003 Program Year	20.507	N/A	653,500
Total Federal Transit Formula Grant			<u>1,354,962</u>
Passed through California Department of Transportation:			
Highway Planning and Construction	20.205	STPLNH-5154(015)	131,533
Highway Planning and Construction	20.205	CML-5154(028)	155,105
Highway Planning and Construction	20.205	CML-5154(021)	448,966
Total Highway Planning and Construction			<u>735,604</u>
Total U.S. Department of Transportation			<u>2,090,566</u>
Total federal awards			<u>\$ 3,340,310</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF LODI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2004, presents the activity of all federal award programs of the City of Lodi, California (City). The City reporting entity is defined in Note 1 of the City’s basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the SEFA.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in governmental fund types and the full accrual basis of accounting for grants accounted for in proprietary fund types, as described in Note 1 of the City’s basic financial statements.

NOTE 3 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information and Office of Management and Budget’s Catalog of Federal Domestic Assistance.

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant/Entitlement Grant	14.228	\$ 186,998
Home Investment Partnership Program	14.239	261,572



MACIAS GINI & COMPANY_{LLP}

3000 S Street, Ste. 300
Sacramento, California 95816

916.928.4600 PHONE
916.928.2755 FAX

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

The Honorable Members of City Council
City of Lodi, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the fiscal year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 10, 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 would not necessarily disclose all matters in the internal control over financial reporting 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.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated December 10, 2004.

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, federal and state grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Sacramento, California
December 10, 2004



MACIAS GINI & COMPANY_{LLP}

3000 S Street, Ste. 300
Sacramento, California 95816

916.928.4600 PHONE
916.928.2755 FAX

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

The Honorable Members of City Council
City of Lodi, California

Compliance

We have audited the compliance of the City of Lodi, 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 fiscal 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, 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.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. This reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-01.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated December 10, 2004. Our audit was performed 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 OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Certified Public Accountants

Sacramento, California
December 10, 2004

**CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

CITY OF LODI

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

Identification of major programs:

Highway Planning and Construction CFDA #20.205
Federal Transit Formula Grant CFDA #20.507

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

Finding No. 04-01

***Federal Transit Formula Grant
CFDA No. 20.507
U.S. Department of Transportation – Federal Transit Administration
Special Tests and Provisions – Charter Service***

Criteria

The City is required to comply with title 49 CFR part 604 with regard to its use of equipment for charter services funded with FTA funds.

CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Condition

The City used FTA funded equipment for charter services and did not follow the following procedures specified by the FTA under title 49 CFR part 604.11.

Procedures:

(a) To determine if there is at least one private charter operator willing and able to provide the charter service that the recipient desires, the recipient must complete a public participation process:

- (1) At least 60 days before it desires to begin to provide charter service if it is not doing so on May 13, 1987; or
- (2) Not more than 90 days after May 13, 1987 if the recipient is providing charter service on May 13, 1987 and desires to continue to provide charter service.

(b) The public participation process must at a minimum include:

- (1) Placing a notice in a newspaper, or newspapers, of general circulation within the proposed geographic charter service area;
- (2) Sending a copy of the notice to all private charter service operators in the proposed geographic charter service area and to any private charter service operator that requests notice;
- (3) Sending a copy of the notice to the United Bus Owners of America , 1300 L Street, NW., suite 1050, Washington, DC 20005, and the American Bus Association, 1100 New York Avenue, NW, Suite 1050, Washington, DC 20005-3934.

(c) The notice must:

- (1) State the recipient's name;
- (2) Describe the charter service that the recipient proposes to provide limited to the days, times of day, geographic area, and categories of revenue vehicle, but not the capacity or the duration of the charter service.

CITY OF LODI

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

- (3) Include a statement providing any private charter operator desiring to be considered willing and able with at least 30 days from the date of the notice to submit written evidence to prove that it is willing and able;
 - (4) State the address to which the evidence must be sent.
 - (5) Include a statement that the evidence necessary for the recipient to determine if a private charter operator is willing and able includes only the following:
 - (i) A statement that the private operator has the desire and the physical capability to actually provide the categories of revenue vehicle specified; and
 - (ii) A copy of the documents to show that the private charter operator has the requisite legal authority to provide the proposed charter service and that it meets all necessary safety certification, licensing and other legal requirements to provide the proposed charter service.
 - (6) Include a statement that the recipient shall review only that evidence submitted by the deadline, shall complete its review within 30 days of the deadline, and within 60 days of the deadline shall inform each private operator that submitted evidence what the results of the review are.
 - (7) Include a statement that the recipient shall not provide any charter service using equipment or facilities funded under the Acts to the extent that there is at least one willing and able private charter operator unless the recipient qualifies for one or more of the exceptions in 49 CFR 604.9(b).
- (d) Any recipient that desires to continue to provide charter service using FTA funded equipment or facilities shall follow the procedures in 49 CFR 604.11 (b) and (c) annually during the month in which it published its first newspaper notice to re-determine the extent to which there is at least one willing and able private charter operator.

Cause

The City was unaware of the compliance requirements of the FTA.

**CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Effect

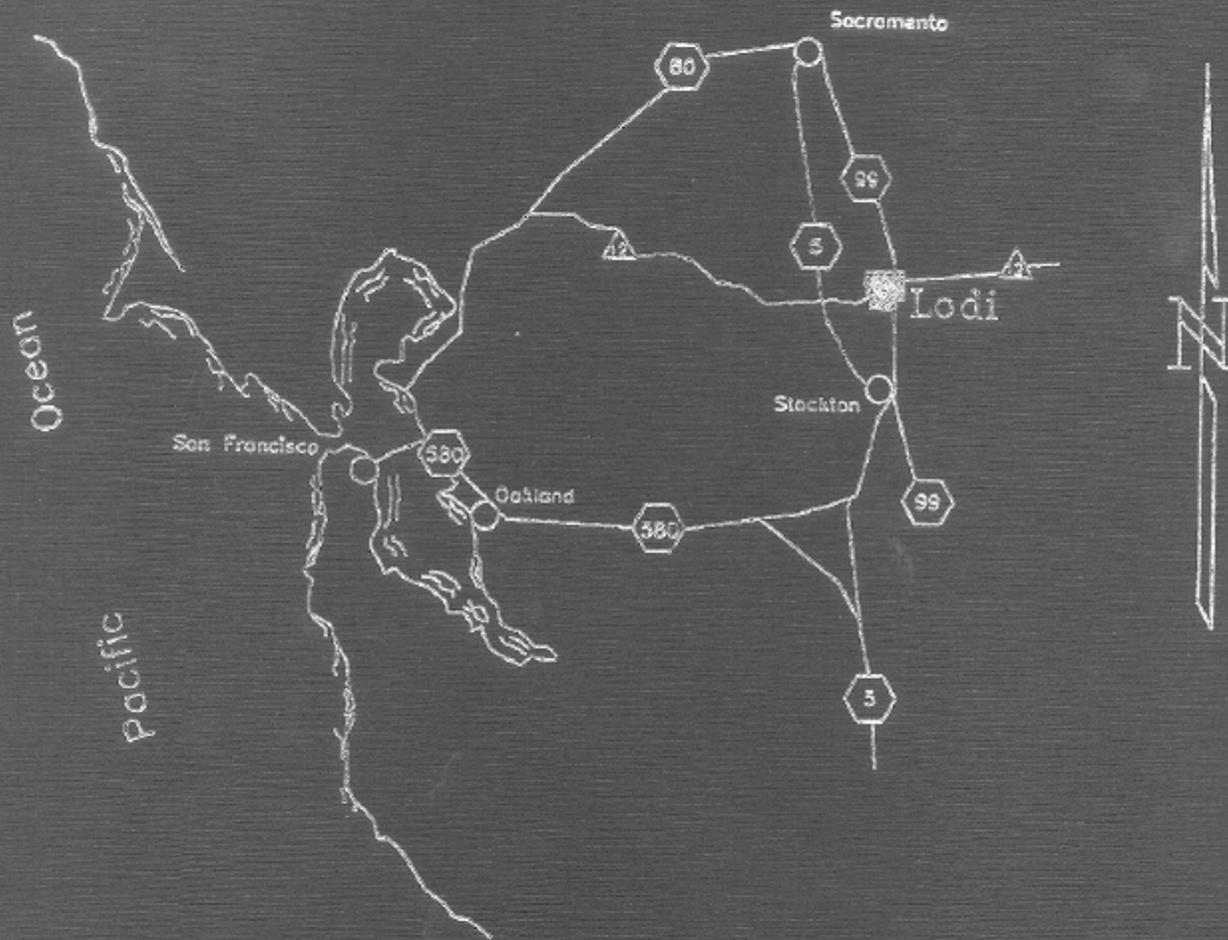
The City could be liable to sanctioning by these grantor agencies.

Recommendation

The City should review FTA guidelines as they relate to charter services using FTA funded equipment and incorporate those guidelines into their policy on providing charter services.

Management's Response

The City transportation department is implementing procedures as required by the FTA to ensure compliance in the use of equipment funded by the FTA in charter services.



LOCATION MAP

No Scale