

CITY OF NEWMAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

CITY OF NEWMAN, CALIFORNIA

Table of Contents

	Page
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion And Analysis (unaudited)	3-14
 Basic Financial Statements:	
Government-wide Financial Statements:	
Statement Of Net Assets	15
Statement Of Activities	16-17
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18-19
Reconciliation Of The Governmental Funds Balance Sheet To Statement Of Net Assets	20
Statement Of Revenues, Expenditures, And Changes In Fund Balances – Governmental Funds	21-22
Reconciliation Of The Statement Of Revenues, Expenditures, And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities	23
Statement Of Revenues, Expenses, And Changes In Fund Balances – Budget And Actual – General Fund	24-25
Statement Of Revenues, Expenses, And Changes In Fund Balances – Budget And Actual – CDBG Fund	26
Statement Of Revenues, Expenses, And Changes In Fund Balances – Budget And Actual – Public Facility Improvement	27
Statement Of Net Assets – Proprietary Funds	28
Statement Of Revenues, Expenses, And Changes In Net Assets – Proprietary Funds	29
Statement Of Cash Flows – Proprietary Funds	30-31
Notes To The Basic Financial Statements	32-53
Required Supplementary Information:	
Schedule Of Funding Progress – Public Employees Retirement System	54
Combining And Individual Fund Statements And Schedules:	
Definitions	55-56
Combining Balance Sheet – Nonmajor Governmental Funds	57-59
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances – Nonmajor Governmental Funds	60-62

CITY OF NEWMAN CALIFORNIA

Table of Contents

	Page
OTHER REPORTS	
Schedule Of Federal Awards	63
Schedule Of Findings And Questioned Costs	64
Independent Auditor's Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of General Purpose Financial Statements Performed In Accordance With Government Auditing Standards	65-66
Independent Auditor's Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.	67-68
Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of General Purpose Financial Statements Performed In Accordance With The California Transportation Development Act	69

INDEPENDENT AUDITOR'S REPORT

To The City Council
City Of Newman
State of California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newman, State of California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Newman, State of California's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 aggregate remaining fund information of the City of Newman, State of California, as of June 30, 2006, and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Schedule of Funding Progress on Pages 3 through 13 and 58 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 8, 2006 on our consideration of the City of Newman's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Clendenin Bird & Company, LLP

CLENDENIN BIRD & COMPANY, LLP

Modesto, California
September 8, 2006

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The following discussion provides readers of the City of Newman's financial statements a narrative overview and analysis of the financial activities of the City of Newman for the fiscal year ended June 30, 2006. Please read this document in conjunction with the accompanying Basic Financial Statements.

The City of Newman (the City) was not seriously impacted by the weakness in the economy in Northern California in fiscal year 2006. Revenues increased, as did the net number of residents in the City. The City's financial highlights are presented below:

FISCAL YEAR 2006 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2006 include the following:

Entity-wide:

- The City's total net assets were \$20,848,121 as of June 30, 2006. Of this total, \$14,331,853 were Governmental assets and \$6,516,268 were Business-type assets.
- Entity-wide Governmental revenues include program revenues of \$4,896,774 and general revenues and transfers of \$3,399,593 for a total of \$8,296,367.
- Entity-wide Governmental expenses were \$4,684,126.
- Entity-wide Business-type program revenues and interest revenue were \$2,989,012 while Business-type expenses and transfers were \$2,029,444.

Fund Level:

- Governmental Fund balances increased \$6,182,856 in fiscal year 2006 (including prior year adjustments).
- Governmental Fund revenues increased \$617,847 in fiscal year 2006.
- Governmental Fund expenditures decreased \$2,295,963 in fiscal year 2006.

General Fund:

- General Fund revenues of \$3,915,605 were \$242,009 greater than the prior year.
- General Fund expenditures of \$3,668,018 represented a decrease of \$102,563 under the prior year.
- General Fund had a fund balance of \$2,185,600 as of June 30, 2006, is up from the fiscal year 2005's fund balance of \$1,716,953.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is divided into two parts:

- 1) Management's Discussion and Analysis (MD&A);
- 2) The Basic Financial Statements, which include the Entity-wide and the Fund Financial Statements, along with the Notes to these financial statements.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations.

The Statement of Activities provides information about all of the City's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into Government Activities and Business-type Activities, as explained below. The amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities for the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the Entity-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Entity-wide Financial Statements

Entity-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental Activities – All of the City's basic services are considered to be governmental activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as user fees and charges.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The City's governmental activities also include the activities of another separate legal entity, the Redevelopment Agency of the City of Newman. The City is financially accountable for this entity. Please refer to the separately issued financial statements.

- Business-type Activities – The City's enterprise activities of water and wastewater are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by Governmental Accounting Standards Board (GASB) Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

In the City's case, there are two Major Governmental Funds in addition to the General Fund: The CDBG Fund, and the Public Facility Improvement Fund. Both of the City's Enterprise Funds are reported as Major Funds.

Fund Financial Statements include governmental and proprietary funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Proprietary Funds Financial Statements are prepared on the full accrual basis, as in the past, and include all of their assets and liabilities, current and long-term.

Comparisons of Budget and Actual financial information are presented only for the General Fund, and all other major funds as required by GASB Statement 34.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1, 2 and 3 focus on the City's Governmental Statement of Net Assets and Statement of Activities, while Tables 4 and 5 focus on the City's Business-type Statement of Net Assets and Statement of Activities.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Governmental Activities

Table 1
Governmental Net Assets at June 30, 2006

	Governmental Activities 2006	Governmental Activities 2005
Cash and investments	\$ 10,197,128	\$ 7,518,474
Other assets	4,477,541	2,006,344
Capital assets	<u>4,145,958</u>	<u>5,020,934</u>
Total assets	<u>18,820,627</u>	<u>14,545,752</u>
Long-term debt outstanding	3,324,813	3,348,100
Other liabilities	<u>1,163,961</u>	<u>850,290</u>
Total liabilities	<u>4,488,774</u>	<u>4,198,390</u>
Net assets:		
Invested in capital assets, net of debt	821,145	1,672,834
Restricted	10,584,222	6,261,275
Unrestricted	<u>2,926,486</u>	<u>2,413,253</u>
Total net assets	<u>\$ 14,331,853</u>	<u>\$ 10,347,362</u>

The City's governmental net assets amounted to \$14,331,853 as of June 30, 2006, an increase of \$3,984,491 over 2005. This increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2006 comprised the following:

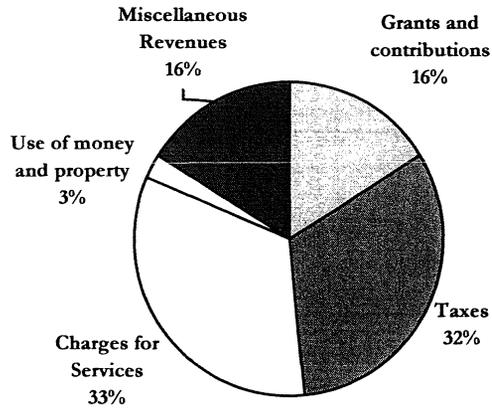
- Cash and investments comprised \$9,902,837 in the city treasury and \$294,291 of restricted cash and investments. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note III A to the financial statements.
- Receivables comprised \$338,082 of current receivables and loans receivable for \$4,084,052.
- Capital assets of \$4,145,958, net of depreciation charges, which includes all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims and other amounts due currently, totaling \$1,062,938.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

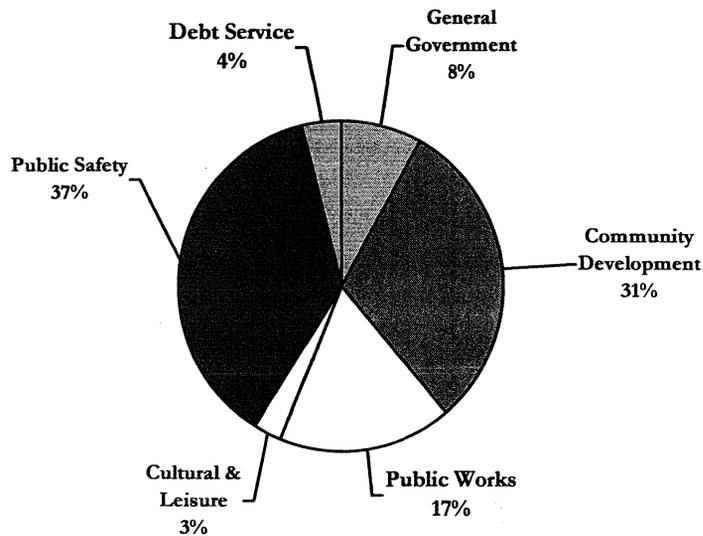
- Accrued compensated absence liabilities payable to employees of \$101,023, as explained in Note III G to the financial statements.
- Long-term debt of \$3,324,813 of which \$3,055,905 is due in future years and \$268,908 is due currently.
- Net assets invested in capital assets, net of related debt, of \$821,145, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net assets totaling \$10,584,222, which may be used only to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds were placed there by outsiders and cannot be changed by the City.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had \$2,926,486 of unrestricted net assets as of June 30, 2006.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Sources of Revenues



Functional Expenses



CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

As the Sources of Revenue Chart above shows, \$3,421,725, or 32%, of the City's fiscal year 2006 governmental activities revenue came from taxes, while \$1,600,163, or 16%, came from grants and contributions, \$3,296,611, or 33%, came from charges for services, and the remainder came from a variety of sources, as shown above.

The Functional Expenses Chart above includes only current year expenses; it does not include capital outlays, which are now added to the City's capital assets. As the Chart shows, general government is \$397,645, or 8%, of total government expenses, community development and planning is \$1,473,380, or 31%, Public Safety is \$1,727,097, or 37%, Culture & Leisure is \$129,617, or 3%, Public Works is \$779,234 or 17% and Debt Service is \$181,153, or 4%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets summarized below.

	Governmental Activities 2006
<u>Expenses</u>	
General government	393,645
Public Safety	1,727,097
Public Works	779,234
Community Development	1,473,380
Culture and Leisure	129,617
Interest on long term debt	181,153
Total expenses	4,684,126
<u>Revenues</u>	
Program Revenues:	
Charges for services	3,296,611
Operating/Capital grants and contributions	1,600,163
Total program revenues	4,896,774
General revenues:	
Taxes	3,165,231
Use of money and property	256,494
Other	(22,132)
Total general revenues	3,399,593
Total revenues	8,296,367

As the Sources of Revenue Chart and Table 2 above show, \$4,896,774, or 59%, of the City's fiscal year 2006 governmental revenue, came from program revenues and \$3,399,593, or 41%, came from general revenues such as taxes and interest and transfers.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Program revenues were composed of charges for services of \$3,296,611, which include permit revenues, fees and charges used to fund expenses incurred in providing services; \$1,429,983 of operating grants and contributions which include gas tax revenues and housing and police grants.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Table 3 presents the net (expense) or revenue of each of the City's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

	Net (Expense) Revenue From Services 2006
General government	\$ 2,112,181
Public Safety	(1,696,839)
Public Works	52,369
Community Development	55,707
Culture and Leisure	(129,617)
Interest on Long-Term Debt	(181,153)
Totals	\$ 212,648

Business-type Activities

The Statement of Net Assets and Statement of Activities present a summary of the City's Business-type Activities that are composed of the City's enterprise funds.

Table 4
Business-Type Net Assets

	Business-Type 2006	Business-Type 2005
Cash and investments	\$ 6,253,837	\$ 5,248,445
Other assets	174,922	220,077
Capital assets	3,607,361	3,958,605
Total assets	10,036,120	9,427,127
Long-term debt outstanding	3,376,000	3,563,000
Other liabilities	143,852	133,479
Total liabilities	3,519,852	3,696,479
Net assets:		
Invested in capital assets, net of debt	231,361	395,605
Restricted	287,845	0
Unrestricted	5,997,062	5,335,043
Total net assets	\$ 6,516,268	\$ 5,730,648

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The net assets of business-type activities increased to \$785,621 in fiscal year 2006.

Table 5
Changes in Business-Type Net Assets

	Net (Expense) Revenue From Services 2006	Net (Expense) Revenue From Services 2005
Water Fund	\$ 272,198	\$ 516,383
Sewer Fund	\$ 508,655	\$ 1,358,178
Totals	\$ 780,853	\$ 1,874,561

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues increased \$241,618 this fiscal year due primarily to increases in charges for current services. Budgeted revenues exceeded actual amounts by \$191,011. Property taxes increased \$321,119 as assessed valuations rose driven by new construction. Charges for services were down \$375,875, due to decreases in plan check fees, parks and recreation program fees and franchise fees.

General Fund expenditures were \$3,668,018, a decrease of \$102,563 from the prior year. Expenditures were \$648,906 less than budgeted, including savings in costs associated with General Government, Public Works, and Community Development.

As of June 30, 2006, the General Fund's unreserved fund balance totaled \$2,185,600. The unreserved portion of fund balance represents available liquid resources.

CDBG Fund

This fund is used to account for grants received to loan funds to low income citizens for first time home purchases and/or housing rehabilitation projects. Also included in this fund are grant funds for the Valley Manor Housing project. Those funds were loaned out and are now reflected on our books as a long term loan receivable.

Public Facility Improvement Fund

This fund accounts for the improvement of public facilities funded by developer fees. In fiscal year 2006, the fund received \$799,941 in developer fees. Developer fee revenue decreased \$645,902 from the prior year due to a decrease in construction projects.

The fund's fiscal year end fund balance of \$3,155,252 represents developer fees that have not yet been expended on public facility projects and improvements.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Proprietary Funds

Water Fund

Revenues decreased \$220,964 to a total of \$945,428 in fiscal year 2006 due to a slow down in construction. Expenses also decreased \$15,924 to a total of \$634,085. There was a resulting operating income of \$188,757. As a result the fund's net assets increased \$322,409, to a new total of \$1,676,482 after a decrease of \$73,007 relating to a prior period adjustment.

Sewer Fund

Net assets of the Sewer Fund increased \$637,159 in fiscal year 2006 to a total of \$4,839,787 after a decrease of \$100,940 relating to a prior period adjustment. This increase came from an increase in the customer base due to new development although new development was less than in 2005.

As of June 30, 2006, the fund's net assets were \$4,839,787, of which \$266,651 was invested in capital assets, net of related debt, \$287,845 is restricted for Debt Service and \$4,285,290 was unrestricted.

CAPITAL ASSETS

GASB Statement 34 requires the City to record all its capital assets including infrastructure. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

At the end of fiscal year 2006 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 6 below:

Table 6
Capital Assets at Year-end

	Balance at June 30, 2006	Balance at June 30, 2005
<u>Governmental Activities</u>		
Land	\$ 1,310,841	\$ 1,391,530
Streets and Roads	1,599,877	1,580,340
Buildings	1,467,133	1,433,030
Improvements	323,765	214,190
Equipment	1,817,864	1,659,711
Accumulated depreciation	(2,373,522)	(1,257,867)
Governmental activity capital assets, net	\$ 4,145,958	\$ 5,020,934
<u>Business-type Activities</u>		
Land	\$ 1,460,000	\$ 1,460,000
Buildings	107,565	94,931
Plant and Equipment	5,333,212	5,302,459
Accumulated depreciation	(3,293,416)	(2,898,785)
Business-type activity capital assets, net	\$ 3,607,361	\$ 3,958,605

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Detail on capital assets, current year additions and construction in progress can be found in Note I.D.6.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB Statement 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note I.D.6 to the financial statements.

DEBT ADMINISTRATION

The City issued no new bonded debt in fiscal year 2006. The City made all scheduled repayments of existing debt. Each of the City's debt issues is discussed in detail in Note III G to the financial statements. As of June 30, 2006, the City's debt comprised:

<u>Table 7</u> <u>Outstanding Debt</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>Governmental Activity Debt:</u>		
<u>Certificates of Participation:</u>		
1997 Tax allocation and housing, 5.375%-6.200%, due 8/1/27	\$ 3,095,000	\$ 3,205,000
<u>Other Long Term Obligations:</u>		
Note, 7.00%, due 12/1/12	86,840	0
Note, 6.50%, no fixed payment schedule, due 12/26/06	<u>142,973</u>	<u>143,100</u>
Total Governmental Activity Debt	<u>\$ 3,324,813</u>	<u>\$ 3,348,100</u>
<u>Business-type Activity Debt:</u>		
<u>Certificates of Participation:</u>		
1991 Sewer treatment facility, 4.50%-6.74%, due 5/1/18	<u>\$ 2,470,000</u>	<u>\$ 2,620,000</u>
<u>Revenue Bonds:</u>		
1978 Sewer Revenue Bonds, 5.00%, due in 2018	217,000	229,000
1982 Water Revenue Bonds, Series B, 5.00%, due in 2022	<u>689,000</u>	<u>714,000</u>
Total Revenue Bonds	<u>906,000</u>	<u>943,000</u>
Total Business-type Activity Debt:	<u>\$ 3,376,000</u>	<u>\$ 3,563,000</u>

Fiscal Year 2007 Economic Factors:

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Newman, at 1162 Main Street, Newman, CA 95360.

CITY OF NEWMAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for the 2006/2007 fiscal year, City management has taken into consideration the following economic factors:

- Property tax revenue continues to grow, despite a slow down in existing home sales. Housing prices are being reduced, but had been somewhat over-inflated. The pricing correction is still promoting higher property assessed values.
- An overall strong economy continues to increase the City's Sales Tax Revenue. Sales tax remains a major source of City Revenue.
- The City's allocation of motor vehicle license fees will be administered consistent with adopted legislation that exchanges a portion of the City's vehicle license fee revenue for property tax revenue. Different distribution dates of these two types of revenue will adversely affect the City's cash flow and interest earnings. Future increases to this portion of vehicle license fee revenue will be tied to increases in assessed property values instead of population growth as in the past. Overall, property values continue to increase as the economy remains healthy.
- Due to a reduction in development, the city is expecting a decrease in the number of building permits to be issued.
- The City is expecting a decrease in Capital and Impact Fees, due to a decline in development.
- A new position was approved Mid-year, by the City Council, for one additional police officer.
- The city anticipates an increase in energy costs, because of rate increases and the utilization of the new well.
- The Education Reform Augmentation Fund (ERAF) is no longer required. The State suspended the transfer of a portion of Redevelopment Agency property tax revenue to fund education. There is discussion in the legislature that the transfer of Redevelopment Agency property tax revenue may again be suspended in fiscal year 2008.

For fiscal year 2007, the City's General Fund recurring revenues are projected to increase by \$348,641. General Fund expenditures are budgeted to decrease by \$444,707. Total projected revenues and expenses for the upcoming fiscal year are budgeted at \$11,196,566 and \$8,860,815 respectively.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Newman, at 1162 Main Street, Newman, CA 95360.

**CITY OF NEWMAN
STATEMENTS OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

	Primary Government		Totals
	Governmental Activities	Proprietary Activities	
ASSETS			
Cash And Investments	9,902,837	5,965,992	15,868,829
Cash With Fiscal Agent	294,291	287,845	582,136
Accounts Receivable	338,082	174,922	513,004
Loans Receivable	4,084,052	0	4,084,052
Prepaid Expenses	55,407	0	55,407
Capital Assets (Net Of Accumulated Depreciation):			
Land	1,310,841	1,460,000	2,770,841
Buildings And Improvements	443,577	41,254	484,831
Equipment And Vehicles	682,121	122,329	804,450
Infrastructure	1,709,419	1,983,778	3,693,197
Total Assets	<u>18,820,627</u>	<u>10,036,120</u>	<u>28,856,747</u>
LIABILITIES			
Accounts Payable And Other			
Current Liabilities	1,062,938	102,692	1,165,630
Compensated Absences	101,023	41,160	142,183
Long-Term Liabilities:			
Due Within One Year	268,908	195,000	463,908
Due In More Than One Year	3,055,905	3,181,000	6,236,905
Total Liabilities	<u>4,488,774</u>	<u>3,519,852</u>	<u>8,008,626</u>
NET ASSETS			
Invested In Capital Assets			
Net Of Related Debt	821,145	231,361	1,052,506
Restricted For:			
Capital Projects	6,083,184	0	6,083,184
Community Development Projects	4,206,747	0	4,206,747
Debt Service	294,291	287,845	582,136
Unrestricted	2,926,486	5,997,062	8,923,548
Total Net Assets	<u><u>14,331,853</u></u>	<u><u>6,516,268</u></u>	<u><u>20,848,121</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

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**CITY OF NEWMAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Fines, Fees And Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions
Primary Government:				
Governmental Activities:				
General Government	393,645	2,335,646	0	170,180
Public Safety	1,727,097	13,127	17,131	0
Public Works	779,234	641,058	190,545	0
Community Development	1,473,380	306,780	1,222,307	0
Culture And Leisure	129,617	0	0	0
Interest on Long-Term Debt	181,153	0	0	0
Total Governmental Activities	<u>4,684,126</u>	<u>3,296,611</u>	<u>1,429,983</u>	<u>170,180</u>
Business-Type Activities				
Water Services	634,085	906,283	0	0
Sewer Services	1,395,359	1,904,014	0	0
Total Business-Type Activities	<u>2,029,444</u>	<u>2,810,297</u>	<u>0</u>	<u>0</u>
Total Primary Government	<u>2,029,444</u>	<u>2,810,297</u>	<u>0</u>	<u>0</u>

General Revenues:

Taxes:

Property Tax

Sales Tax

Motor Vehicle Tax

Franchise Tax

Other Taxes

Investment Earnings

Intergovernmental

Transfers

Total General Revenues And Transfers

Change In Net Assets

Net Assets - Beginning

Prior Period Adjustment

Net Assets - Ending

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue And
Changes In Net Assets
Primary Government**

Governmental Activities	Proprietary Activities	Total
2,112,181	0	2,112,181
(1,696,839)	0	(1,696,839)
52,369	0	52,369
55,707	0	55,707
(129,617)	0	(129,617)
(181,153)	0	(181,153)
<u>212,648</u>	<u>0</u>	<u>212,648</u>
0	272,198	272,198
0	508,655	508,655
0	780,853	780,853
<u>212,648</u>	<u>780,853</u>	<u>993,501</u>
1,357,675	0	1,357,675
462,511	0	462,511
814,981	0	814,981
235,943	0	235,943
294,122	0	294,122
256,494	156,583	413,077
0	0	0
(22,132)	22,132	0
<u>3,399,594</u>	<u>178,715</u>	<u>3,578,309</u>
3,612,241	959,568	4,571,809
10,347,362	5,730,648	16,078,010
372,249	(173,947)	198,302
<u>14,331,853</u>	<u>6,516,268</u>	<u>20,848,121</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
GOVERNMENTAL FUNDS
BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2006**

	General	CDBG	Public Facility Improvement Fund
Assets			
Cash And Investments	2,962,394	569,418	3,186,282
Cash with Fiscal Agent	0	0	0
Accounts Receivable	184,863	13,453	0
Loans Receivable	0	3,504,685	0
Prepaid Expenses	55,407	0	0
Due From Other Funds	0	0	0
Total Assets	<u>3,202,664</u>	<u>4,087,556</u>	<u>3,186,282</u>
Liabilities			
Accounts Payable	232,248	9,435	31,030
Compensated Absences	0	0	0
Other Liabilities	784,816	0	0
Due To Other Funds	0	0	0
Total Liabilities	<u>1,017,064</u>	<u>9,435</u>	<u>31,030</u>
Fund Balances			
Reserved	0	0	0
Unreserved	2,185,600	4,078,121	3,155,252
Total Fund Balances	<u>2,185,600</u>	<u>4,078,121</u>	<u>3,155,252</u>
Total Liabilities And Fund Balances	<u>3,202,664</u>	<u>4,087,556</u>	<u>3,186,282</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

Other Funds	Total Governmental Funds 2006
3,184,743	9,902,837
294,291	294,291
139,766	338,082
579,367	4,084,052
0	55,407
0	0
<u>4,198,167</u>	<u>14,674,669</u>
5,409	278,122
0	0
0	784,816
0	0
<u>5,409</u>	<u>1,062,938</u>
0	0
<u>4,192,758</u>	<u>13,611,731</u>
<u>4,192,758</u>	<u>13,611,731</u>
<u>4,198,167</u>	<u>14,674,669</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

Total fund balances - governmental funds 13,611,731

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	1,310,841	
Infrastructure net of \$214,224 accumulated depreciation	1,709,419	
Buildings and Improvements, net of \$1,023,556 accumulated depreciation	443,577	
Equipment and Vehicles, net of \$1,135,743 accumulated depreciation	<u>682,121</u>	
Total capital assets		4,145,958

Long-term liabilities applicable to the City's governmental activities are due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Notes payable	(3,324,813)	
Compensated absences	<u>(101,023)</u>	
Total long-term liabilities		<u>(3,425,836)</u>

Total net assets - governmental activities 14,331,853

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**CITY OF NEWMAN
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>CDBG</u>
Revenues		
Property Tax	545,061	0
Sales Tax	462,510	0
Other Tax And Franchises	1,050,924	0
Licenses And Permits	251,137	0
Fines And Forfeitures	93,013	0
Investment Earnings	72,910	13,163
Intergovernmental	170,180	1,222,307
Impact Fees	0	0
Service Charges And Miscellaneous	1,269,870	0
Total Revenues	<u>3,915,605</u>	<u>1,235,470</u>
Expenditures		
Current		
General Government	319,013	0
Public Safety	1,595,201	0
Public Works	563,041	0
Community Development	997,517	115,449
Culture And Leisure	113,684	0
Debt Service		
Principal	0	0
Interest & Other Charges	0	0
Capital Outlay	79,562	0
Total Expenditures	<u>3,668,018</u>	<u>115,449</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>247,587</u>	<u>1,120,021</u>
Other Financing Sources (Uses)		
Operating Transfers In	149,619	0
Operating Transfers Out	0	0
Total Other Financing Sources (Uses)	<u>149,619</u>	<u>0</u>
Net Change In Fund Balances	397,206	1,120,021
Fund Balance - Beginning	1,788,394	2,045,911
Prior Period Adjustment	0	912,189
Fund Balance- Ending	<u><u>2,185,600</u></u>	<u><u>4,078,121</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

Public Facility Improvement Fund	Other Funds	Total Governmental Funds 2006
0	812,614	1,357,675
0	0	462,510
0	294,122	1,345,046
0	28,275	279,412
0	0	93,013
74,429	95,992	256,494
0	589,335	1,981,822
799,941	311,572	1,111,513
0	241,833	1,511,703
<u>874,370</u>	<u>2,373,743</u>	<u>8,399,188</u>
0	33,527	352,540
16,766	29,578	1,641,545
116,786	4,989	684,816
0	351,812	1,464,778
0	8,423	122,107
0	116,470	116,470
0	181,153	181,153
8,564	233,242	321,368
<u>142,116</u>	<u>959,194</u>	<u>4,884,777</u>
<u>732,254</u>	<u>1,414,549</u>	<u>3,514,411</u>
0	364,823	514,441
0	(536,574)	(536,574)
0	(171,751)	(22,132)
732,254	1,242,798	3,492,279
2,422,998	2,572,170	8,829,473
0	377,790	1,289,979
<u>3,155,252</u>	<u>4,192,758</u>	<u>13,611,731</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds 3,492,279

The changes in net assets reported for governmental activities in the statement of activities is different because:

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. This is the amount by which capital outlays (\$321,368) exceeded depreciation (\$219,566) in the current period 101,802

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and contributions) is to decrease net assets. (79,571)

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds. These transactions do not have any affect on net assets. 116,470

The recording of accrued compensated absences does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds. The liability is included in the statement of activities. (18,739)

Changes in net assets of governmental activities 3,612,241

**CITY OF NEWMAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance
	Original	Final		With Final Budget Over (Under)
REVENUES				
Property Tax	557,317	633,338	545,061	(88,277)
Sales Tax	456,290	455,290	462,510	7,220
Other Tax And Franchise Fees	772,561	911,805	1,050,924	139,119
Licenses And Permits	708,219	428,556	251,137	(177,419)
Intergovernmental	100,000	100,000	170,180	70,180
Fines And Forfeitures	51,750	61,850	93,013	31,163
Investment Earnings	32,000	60,000	72,910	12,910
Service Charges And Miscellaneous	<u>1,038,569</u>	<u>1,073,755</u>	<u>1,269,870</u>	<u>196,115</u>
Total Revenues	<u>3,716,706</u>	<u>3,724,594</u>	<u>3,915,605</u>	<u>191,011</u>
EXPENDITURES				
General Government	297,313	570,074	319,013	(251,061)
Public Safety	1,685,306	1,685,306	1,595,201	(90,105)
Public Works	383,948	742,130	563,041	(179,089)
Community Development	1,182,575	1,164,313	997,517	(166,796)
Recreation And Leisure	155,229	155,101	113,684	(41,417)
Capital Outlay	<u>0</u>	<u>0</u>	<u>79,562</u>	<u>79,562</u>
Total Expenditures	<u>3,704,371</u>	<u>4,316,924</u>	<u>3,668,018</u>	<u>(648,906)</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>12,335</u>	<u>(592,330)</u>	<u>247,587</u>	<u>839,917</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	0	50,582	149,619	99,037
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources And (Uses)	<u>0</u>	<u>50,582</u>	<u>149,619</u>	<u>99,037</u>
Net Change In Fund Balance	12,335	(541,748)	397,206	938,954
Fund Balance - Beginning	<u>1,788,394</u>	<u>1,788,394</u>	<u>1,788,394</u>	<u>0</u>
Fund Balance - Ending	<u>1,800,729</u>	<u>1,246,646</u>	<u>2,185,600</u>	<u>938,954</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
General Government				
City Council	40,376	47,823	38,548	(9,275)
City Manager	110,242	110,242	93,743	(16,499)
City Clerk	34,229	37,229	35,942	(1,287)
Finance And Treasurer	112,466	374,780	150,780	(224,000)
Total General Government	<u>297,313</u>	<u>570,074</u>	<u>319,013</u>	<u>(251,061)</u>
Public Safety				
Police	1,589,896	1,589,896	1,492,679	(97,217)
Fire	95,410	95,410	102,522	7,112
Total Public Safety	<u>1,685,306</u>	<u>1,685,306</u>	<u>1,595,201</u>	<u>(90,105)</u>
Public Works				
Government Buildings	36,613	28,000	25,204	(2,796)
Government Auxiliary	148,587	150,152	128,111	(22,041)
Street Maintenance	0	297,287	250,886	(46,401)
Parks	198,748	266,691	233,016	(33,675)
Total Public Works	<u>383,948</u>	<u>742,130</u>	<u>637,217</u>	<u>(104,913)</u>
Community Development				
Planning	119,979	113,604	116,476	2,872
Building Regulation	505,436	493,549	301,676	(191,873)
Refuse Disposal	507,360	507,360	571,632	64,272
Corporation Yard	3,800	3,800	3,564	(236)
Engineering	46,000	46,000	9,555	(36,445)
Total Community Development	<u>1,182,575</u>	<u>1,164,313</u>	<u>1,002,903</u>	<u>(161,410)</u>
Recreation And Leisure				
Recreation	155,229	155,101	113,684	(41,417)
Total Culture And Leisure	<u>155,229</u>	<u>155,101</u>	<u>113,684</u>	<u>(41,417)</u>
Total General Fund	<u>3,704,371</u>	<u>4,316,924</u>	<u>3,668,018</u>	<u>(648,906)</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
CDBG SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)
	Original	Final		
REVENUES				
Interest Income	2,900	5,950	13,163	7,213
Intergovernmental	<u>897,000</u>	<u>1,386,287</u>	<u>1,222,307</u>	(163,980)
Total Revenues	<u>899,900</u>	<u>1,392,237</u>	<u>1,235,470</u>	(156,767)
EXPENDITURES				
Salaries And Benefits	0	0	0	0
Supplies And Services	115,449	115,449	115,449	0
Capital Outlay	<u>1,536,951</u>	<u>1,536,951</u>	<u>0</u>	(1,536,951)
Total Expenditures	<u>1,652,400</u>	<u>1,652,400</u>	<u>115,449</u>	(1,536,951)
Excess (Deficiency) Of Revenues Over Expenditures	(<u>752,500</u>)	(<u>260,163</u>)	<u>1,120,021</u>	<u>1,380,184</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources And (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balance	(752,500)	(260,163)	1,120,021	1,380,184
Fund Balance - Beginning	2,045,911	2,045,911	2,045,911	0
Prior Period Adjustment	<u>0</u>	<u>0</u>	<u>912,189</u>	<u>912,189</u>
Fund Balance - Ending	<u>1,293,411</u>	<u>1,785,748</u>	<u>4,078,121</u>	<u>2,292,373</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
PUBLIC FACILITY IMPROVEMENT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)
	Original	Final		
REVENUES				
Interest Income	17,500	50,500	74,429	23,929
Impact Fees	946,359	854,388	799,941	(54,447)
Total Revenues	<u>963,859</u>	<u>904,888</u>	<u>874,370</u>	<u>(30,518)</u>
EXPENDITURES				
Salaries And Benefits	0	0	0	0
Supplies And Services	303,261	320,624	133,552	(187,072)
Capital Outlay	34,500	17,850	8,564	(9,286)
Total Expenditures	<u>337,761</u>	<u>338,474</u>	<u>142,116</u>	<u>(196,358)</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>626,098</u>	<u>566,414</u>	<u>732,254</u>	<u>165,840</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources And (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balance	626,098	566,414	732,254	165,840
Fund Balance - Beginning	2,422,998	2,422,998	2,422,998	0
Prior Period Adjustment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance - Ending	<u>3,049,096</u>	<u>2,989,412</u>	<u>3,155,252</u>	<u>165,840</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006**

Business-Type Activities-Enterprise Funds

	Sewer Fund	Water Fund	Totals
Assets			
Cash And Investments	4,265,768	1,700,224	5,965,992
Cash With Fiscal Agent	287,845	0	287,845
Accounts Receivable	109,884	65,038	174,922
Fixed Assets	5,632,632	1,268,145	6,900,777
Accumulated Depreciation	(2,678,981)	(614,435)	(3,293,416)
Due From Other Funds	0	0	0
Total Assets	<u>7,617,148</u>	<u>2,418,972</u>	<u>10,036,120</u>
Liabilities			
Accounts Payable	66,726	20,257	86,983
Customer Deposits	0	15,709	15,709
Compensated Absences	23,636	17,524	41,160
Due to Other Funds	0	0	0
Loan Payable	2,470,000	0	2,470,000
Bond Payable	217,000	689,000	906,000
Total Liabilities	<u>2,777,362</u>	<u>742,490</u>	<u>3,519,852</u>
Net Assets			
Invested In Capital Assets, Net Of Related Debt	266,651	(35,290)	231,361
Restricted For Debt Service	287,845	0	287,845
Unrestricted	4,285,290	1,711,772	5,997,062
Total Net Assets	<u>4,839,786</u>	<u>1,676,482</u>	<u>6,516,268</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF NEWMAN
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006**

	Business-Type Activities-Enterprise Funds		
	Sewer Fund	Water Fund	Totals
Operating Revenues			
Service Charges	1,506,809	627,735	2,134,544
Miscellaneous Revenues	138,509	160,032	298,541
Total Operating Revenues	1,645,318	787,767	2,433,085
Operating Expenses			
Employee Services	424,981	260,483	685,464
Supplies And Services	705,642	303,480	1,009,122
Depreciation	124,964	35,047	160,011
Total Operating Expenses	1,255,587	599,010	1,854,597
Operating Income (Loss)	389,731	188,757	578,488
Nonoperating Revenues (Expenses)			
Investment Earnings	117,438	39,145	156,583
Connection Fees	167,760	71,415	239,175
Development Fees	90,936	47,101	138,037
Interest Expense	(139,772)	(35,075)	(174,847)
Amortization Of Bond Issue Costs	0	0	0
Total Nonoperating Revenues (Expenses)	236,362	122,586	358,948
Income Before Transfers	626,093	311,343	937,436
Operating Transfer In	11,066	11,066	22,132
Operating Transfer Out	0	0	0
Total Other Financing Sources (Uses)	11,066	11,066	22,132
Change In Net Assets	637,159	322,409	959,568
Total Net Assets - Beginning	4,303,568	1,427,080	5,730,648
Prior Period Adjustment	(100,940)	(73,007)	(173,947)
Total Net Assets - Ending	4,839,786	1,676,482	6,516,268

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

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**CITY OF NEWMAN
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006**

Business-Type Activities-Enterprise Funds

	Sewer Fund	Water Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts From Customers And Users	1,535,433	941,883	2,477,316
Payments To Suppliers	(649,982)	(294,289)	(944,271)
Payments To Employees	(419,891)	(260,450)	(680,341)
Net Cash Provided By Operating Activities	<u>465,560</u>	<u>387,144</u>	<u>852,704</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer Ins	90,527	11,066	101,593
Transfer Out	<u>0</u>	(76,592)	(76,592)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>90,527</u>	(65,526)	<u>25,001</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Connection Fees	167,760	71,415	239,175
Development Fees	90,936	47,101	138,037
Proceeds From Bond Issue	0	0	0
Purchase Of Capital Assets	(37,917)	(5,470)	(43,387)
Principal Paid On Capital Debt	(162,000)	(25,000)	(187,000)
Interest Paid On Capital Debt	(139,772)	(35,075)	(174,847)
Net Cash Provided (Used) By Capital And Related Financing Activities	(80,993)	<u>52,971</u>	(28,022)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received	<u>116,563</u>	<u>39,145</u>	<u>155,708</u>
Net Cash Provided By Investing Activities	<u>116,563</u>	<u>39,145</u>	<u>155,708</u>
Net Increase In Cash And Cash Equivalents	591,657	413,734	1,005,391
Cash And Equivalents, July 1	<u>3,961,956</u>	<u>1,286,489</u>	<u>5,248,445</u>
Cash And Equivalents, June 30	<u>4,553,613</u>	<u>1,700,224</u>	<u>6,253,836</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**Reconciliation Of Operating Income To
Net Cash Provided (Used) By Operating
Activities**

	Sewer Fund	Water Fund	Totals
Operating Income	<u>389,731</u>	<u>188,757</u>	<u>578,488</u>
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities			
Depreciation Expense	124,964	35,047	160,011
(Increase) Decrease In Accounts Receivable	(109,884)	152,169	42,285
Increase (Decrease) In Accounts Payable	55,660	9,191	64,851
Compensated Absences	5,090	33	5,123
Customer Deposits	<u>0</u>	<u>1,947</u>	<u>1,947</u>
Net Cash Provided (Used) By Operating Activities	<u><u>465,560</u></u>	<u><u>387,144</u></u>	<u><u>852,704</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Newman, California (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management and Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- Financial statements prepared using the full accrual accounting for all of the City’s activities, except for infrastructure (roads, streets, bridges, etc.)
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The more significant of the City’s accounting policies are described below:

A. Financial Reporting Entity

The accompanying basic financial statements present the financial activity of the City of Newman (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations. Discretely presented component units represent other legally separate organizations for which the primary government is financially accountable or for which the nature and significance of their relationship to the primary government are such that exclusion would cause the City’s reporting entity to be misleading or incomplete. The City’s component units are blended; there are no discretely presented component units in the Financial Reporting Entity.

City of Newman

The City (primary government) was incorporated on June 10, 1908 under the general laws of the State of California. The City provides the full range of municipal services as contemplated by statute. Services provided include sewer, water, public safety (police, fire and civil defense), street construction and maintenance, culture-recreation, public improvements, planning and zoning, and

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

general administrative and support services.

The City operates under a Council-Manager form of government. The City Council consists of four members elected at large for overlapping four year terms. The Mayor is elected to the City Council for a two year term. The City Council appoints a City Manager and City Attorney.

In addition to sitting as the governing board of the City, the City Council also acts as the Board of Directors of one blended component unit: the Redevelopment Agency of the City of Newman.

Blended Component Unit. The Redevelopment Agency serves all the citizens of the City of Newman. The Redevelopment Agency is reported as a capital project fund.

Complete financial statements of the Redevelopment Agency may be obtained at the offices of the City of Newman.

B. Government-wide and fund financial statements.

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

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

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

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider 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. For this purpose, the City considers revenues to be available if they are collected within 60 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 compensated absences, are recorded only when payment is due.

Property taxes and taxpayer-assessed tax revenues (e.g., franchise taxes, sales taxes, motor vehicle fees, etc.) net of estimated refunds and uncollectible amounts, 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 revenue items are considered measurable and available only when cash is received by the City. The City reports the following major governmental funds:

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

The **CDBG Fund** - To account for federal grants and other monies received and disbursed under the Housing and Community Development Act, to assist low and moderate income groups in obtaining loans to purchase their first home and rehabilitate or revitalize their homes.

The **Public Facility Improvement Fund**- To account for development impact fees collected. These fees are used for infrastructure and capital expenditure resulting from new developments.

The city reports the following major proprietary funds.

The **Water Fund** accounts for the activities of the City's water service.

The **Sewer Fund** accounts for the activities of the City's sewer service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the enterprise and internal service funds are charges for sales and services. Operating expenses for enterprise funds include salaries and employee benefits, maintenance and operation of systems and facilities, 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, then unrestricted resources, as they are needed.

D. Assets, Liabilities, Net Assets or Equity

1. Cash and Investments

In order to maximize the flexibility of its investment program and to aid in cash budgeting, the City pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of a particular fund's equity in the pool, the pool operates like a demand deposit account for the participating funds.

Interest income earned on pooled cash and investments is allocated quarterly. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

In accordance with the State of California Government Code, the City adopts an investment policy annually that, among other things, authorizes types of investments. Authorized investments include:

- Securities of the U.S. government or its agencies
- Certificates of Deposit (or time deposits) placed with commercial banks and/or savings and loan associations
- Bankers Acceptances
- State Treasurer's Local Agency Investment Fund (LAIF)
- Passbook savings account demand deposits
- Small Business Administration Loans

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

- Other products which are totally guaranteed and insured by the U.S government.

Investments for the City are reported at fair value. LAIF operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

For purposes of the statement of cash flows, the city has defined cash and cash equivalents to be change and petty cash funds, equity in the City's cash and investment pool and restricted, non-pooled investment with initial maturities of three months or less.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

3. Property Taxes

Property taxes are levied on the first day of March by the county assessor, and are payable to the county tax collector in two installments.

The first installment is due November 1st, and is delinquent on December 10th, the second installment is due February 1st and is delinquent on April 10th. Taxes become a lien on the property on March 1st, and on the date of transfer of title, and the date of new construction.

The minimum property value which is taxed is \$2,000; however, tax bills are prepared for properties valued at less than \$2,000 if there is a special assessment to be collected.

Article 13A of the California Constitution states, "The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent tax is to be collected by the counties and apportioned according to law to the districts within the counties."

**CITY OF NEWMAN
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006**

The City has elected under state law (TEETER) to receive all of the annual property assessments in three installments as follows:

December	55%
April	40%
June	<u>5%</u>
	<u>100%</u>

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets (e.g. roads, bridges, sidewalks, traffic lights and signals, street lights and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 for property, plant and equipment and \$25,000 for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is recorded in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service life using the straight-line method. Assets are depreciated as follows:

Buildings	20-40 years
Improvements	40 years
Machinery and Equipment	3-6 years
Streets and Roads	20 years
Curb, Gutter, Sidewalks, & Median Curbs	20 years
Stormdrains	75 years

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Traffic Signals	20 years
Water and Sewer Lines	40 years

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. All vacation and sick leave benefits are accrued as earned by employees. All vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for vacation pay is reported in the governmental and proprietary funds.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Net Assets and Fund Equity

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside the City (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance 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.

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council is required to adopt an annual budget resolution by July 1 of each fiscal year for the general fund, and special revenue, capital projects, debt service, and enterprise funds. These budgets are adopted and presented for reporting purposes on a basis consistent with generally accepted accounting principles.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council made several supplemental budgetary appropriations throughout the year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2006, expenditures exceeded appropriations in several departments as follows:

General Fund Departments:

Refuse Disposal	64,272
Planning	2,872
Fire Department	7,112

Explanations:

The Refuse Disposal was over the budget by \$64,272 because additional residential homes weren't factored into the budget. Planning department was over the budget due to the increase in salary for the Planning director which was not reflected in the budget. The fire department was over the budget due to the new contract with PERS for the pension benefits for Volunteer Firefighters.

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

III. DETAILED NOTES ON ALL FUNDS

A. Cash And Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	15,868,831
Cash and investments held by bond trustee	<u>582,135</u>
Total cash and investments	<u>16,450,966</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	1,000
Deposits with financial institutions	2,962,520
Investments in LAIF	<u>13,487,446</u>
Total cash and investments	<u>16,450,966</u>

Investments Authorized by the City's Investment Policy

The City's investment policy authorizes investment in the local government investment pool administered by the State of California (LAIF). The City's investment policy also authorizes cash to be invested in Certificates of Deposits, Bankers Acceptances, and Passbook Savings Demand Deposits. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 5.7 months.

		<u>Maturity Date</u>
State investment pool	<u>13,487,446</u>	5.7 months average maturity
Total	<u>13,487,446</u>	

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the City's contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

\$2,280,382 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

Investment in State Investment Pool

The City's is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Cash with Fiscal Agent

The City maintains cash and investments which are restricted under the terms of various debt agreements. The money is included in the City's pooled cash and investment program.

Restricted cash and investments as of June 30, 2006 is \$582,135 and consists of \$287,845 in the Sewer Fund and \$294,290 in the Redevelopment Agency Fund.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The City deposits deferred compensation plan assets with the California Public Employees Retirement System (PERS). Federal legislation requires that the assets of such plans be held in trust for the exclusive benefit of the plan participants and their beneficiaries. PERS act as the trustees for the plan assets and the City is considered to have limited fiduciary responsibility for the plan assets. As such, the City does not report the deferred compensation plan assets on its financial statements.

B. Accounts Receivable

Receivables at June 30, 2006 for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows. All receivables are expected to be collected within one year.

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

B. Accounts Receivable- continued

	<u>General</u>	<u>CDBG</u>	<u>Nonmajor Govern- mental</u>	<u>Total</u>
Governmental Activities:				
Interest	0	0	0	0
Taxes	111,386	0	11,157	122,543
Utility Billing	68,100	0	0	68,100
Intergovernmental	5,377	13,453	128,609	147,439
Other	0	0	0	0
Total	<u>184,863</u>	<u>13,453</u>	<u>139,766</u>	<u>338,082</u>

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Business-Type Activities:			
Utility Billings	65,038	106,629	171,667
Interest	0	0	0
Other	0	3,255	3,255
Total	<u>65,038</u>	<u>109,884</u>	<u>174,922</u>

C. Loans Receivable

The City is the recipient of Community Development Block Grant and Home Program Funds. The Funds are provided for housing and business loans to qualified recipients at various below market interest rates ranging from 0 to 4%. The terms of the loans range between fifteen and thirty eight years. All loans are secured by deeds of trust. The amount outstanding as of June 30, 2006 is \$3,504,685. Additional Loans Receivable of the Redevelopment Agency are as follows:

The Agency had the following loans receivables as of June 30, 2006:

McBride	7,002
Westside Village	377,790
Bigelow #2	149,882
Caetano Pometta	24,538
Bigelow #3	<u>20,154</u>
Total	<u>579,367</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

C. Loans Receivable – continued

A five year loan issued to Dr. Lorin McBride on September 24, 2002 at a 3.00% interest rate, with monthly payments of \$359.37. The loan receivable balance as of June 30, 2006 was \$7,002.

A five year loan was issued to Caetano Pometta Real Estate for \$32,114 on October 5, 2004 at a 5.00% interest rate, with monthly payment of \$660.49. The loan receivable balance as of June 30, 2006 was \$24,538.

A 40 year loan was issued to Westside Village Apartments L.P a California Limited Partnership for \$377,790 on June 3, 1999 at a 3.00% interest rate. The loan receivable balance as of June 30, 2006 was \$377,790.

Two loans were issued to Lloyd Bigelow. Loan terms as follows:

	Amount	Interest Rate	Date Issued	Monthly Payments	Balance 6/30/2006	Term
Bigelow #2	190,231	5.00%	1/1/2002	\$1,504.34	149,882	15 yrs
Bigelow #3	22,500	5.00%	7/1/2002	\$434.60	20,154	5 yrs

D. Transfers

Interfund transfers for the year ended June 30, 2006 consisted of the following amounts:

Fund	Transfers In	Transfers Out
General Fund	149,620	0
Grants State	48,030	0
Contingency Fund	300,293	48,030
Grants Fed	0	16,500
Capital Repairs	16,500	0
Gas Tax	0	99,038
Local Transportation	0	72,714
Redevelopment	0	300,293
Sewer	11,066	0
Water	11,066	0
Total	<u>536,575</u>	<u>536,575</u>

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

In the Fund financial statements, total transfers out are greater than transfers in by \$22,132 this is the result of transferring grant money received for the purchase of CNG vehicles, a portion of which benefited the water and sewer funds.

E. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental-type Activities					
Capital assets not being depreciated:					
Land	<u>1,391,530</u>	<u>0</u>	<u>0</u>	<u>(80,689)</u>	<u>1,310,841</u>
Total capital assets not being depreciated	<u>1,391,530</u>	<u>0</u>	<u>0</u>	<u>(80,689)</u>	<u>1,310,841</u>
Capital assets being depreciated:					
Infrastructure	<u>1,580,340</u>	<u>0</u>	<u>19,537</u>	<u>0</u>	<u>1,599,877</u>
Equipment And Vehicles	<u>1,659,711</u>	<u>0</u>	<u>158,153</u>	<u>0</u>	<u>1,817,864</u>
Building And Improvements	<u>1,647,220</u>	<u>0</u>	<u>143,678</u>	<u>0</u>	<u>1,790,898</u>
Total capital assets being depreciated	<u>4,887,271</u>	<u>0</u>	<u>321,368</u>	<u>0</u>	<u>5,208,639</u>
Less accumulated depreciation for:					
Infrastructure	<u>(110,022)</u>	<u>0</u>	<u>(74,691)</u>	<u>0</u>	<u>(184,713)</u>
Equipment And Vehicles	<u>(1,028,546)</u>	<u>0</u>	<u>(107,197)</u>	<u>0</u>	<u>(1,135,743)</u>
Building And Improvements	<u>(119,299)</u>	<u>(896,089)</u>	<u>(37,678)</u>	<u>0</u>	<u>(1,053,066)</u>
Total accumulated depreciation	<u>(1,257,867)</u>	<u>(896,089)</u>	<u>(219,566)</u>	<u>0</u>	<u>(2,373,522)</u>
Net capital assets being depreciated	<u>3,629,404</u>	<u>(896,089)</u>	<u>101,802</u>	<u>0</u>	<u>2,835,117</u>
Total net capital assets - Governmental-type activities	<u>5,020,934</u>	<u>(896,089)</u>	<u>101,802</u>	<u>(80,689)</u>	<u>4,145,958</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

E. Capital Assets - continued

	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities					
Capital assets not being depreciated:					
Land	1,460,000	0	0	0	1,460,000
Total capital assets not being depreciated	<u>1,460,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,460,000</u>
Capital assets being depreciated:					
Equipment And Vehicles	5,302,459	30,753	0	0	5,333,212
Building And Improvements	94,931	12,634	0	0	107,565
Total capital assets being depreciated	<u>5,397,390</u>	<u>43,387</u>	<u>0</u>	<u>0</u>	<u>5,440,777</u>
Less accumulated depreciation for:					
Equipment And Vehicles	(60,868)	(233,527)	(155,661)	0	(450,056)
Building And Improvements	(2,837,917)	(1,968)	(3,475)	0	(2,843,360)
Total accumulated depreciation	<u>(2,898,785)</u>	<u>(235,495)</u>	<u>(159,136)</u>	<u>0</u>	<u>(3,293,416)</u>
Net capital assets being depreciated	<u>2,498,605</u>	<u>(192,108)</u>	<u>(159,136)</u>	<u>0</u>	<u>2,147,361</u>
Total net capital assets - Business-type activities	<u>3,958,605</u>	<u>(192,108)</u>	<u>(159,136)</u>	<u>0</u>	<u>3,607,361</u>

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

Government Activities:	
General Government	22,366
Public Safety	86,670
Public Works	94,418
Community Development	8,602
Culture and Leisure	<u>7,510</u>
Total Depreciation expense – Government activities	<u>219,566</u>
Business- Type Activities:	
Water	35,047
Sewer	<u>124,964</u>
Total Depreciation expense – business-type activities	<u>160,011</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

F. Long-Term Debt

Long-term debt consists of the following:

Governmental-Type Activities:

Certificates of Participation

In the year ended June 30, 1997 the City issued tax allocation project and housing bonds. The bonds payable were \$3,095,000 as of June 30, 2006.

Year Ending June 30	Principal	Interest	Total
2007	115,000	163,925	278,925
2008	120,000	156,581	276,581
2009	125,000	149,800	274,800
2010	115,000	143,922	258,922
2011	120,000	138,046	258,046
2012-16	660,000	591,134	1,251,134
2017-21	695,000	402,825	1,097,825
2022-26	785,000	203,847	988,847
2027-28	360,000	19,619	379,619
Total	<u>3,095,000</u>	<u>1,969,700</u>	<u>5,064,700</u>

Community Park Site Purchase

The City purchased a 9.54 acre community park site in December 1996 from Delta National Bank. The City will pay Delta National Bank \$143,100 with simple interest on unpaid principal balance as it declines at the rate of 5.5% per annum. There is no fixed payment schedule. The maturity date is December 26, 2006. The principal balance was \$142,973 as of June 30, 2006.

Ventura Purchase

The City purchased parcel #128-10-13 (1361 "N" Street) in January of 2003 from John Ventura for \$119,625. Repayment will be made in monthly installments of \$1,388.95 at a 7% rate of interest. The loan matures December 1, 2012. The principal balance was \$86,840 as of June 30, 2006.

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

F. Long-Term Debt-continued

Business-Type Activities:

Revenue Bonds

The \$400,000 of Sewer Revenue Bonds of 1978 are due in annual installments of \$3,000 to \$22,000 through 2018 with interest of 5 %. This issue is being serviced, principal and interest by the Sewer Fund. The principal amount unpaid at June 30, 2006 is \$217,000.

Year Ending June 30	Principal Interest Total		
	Principal	Interest	Total
2007	13,000	10,850	23,850
2008	14,000	10,200	24,200
2009	14,000	9,500	23,500
2010	15,000	8,800	23,800
2011	16,000	8,050	24,050
2012-2016	90,000	27,750	117,750
2017-2019	55,000	5,050	60,050
Total	<u>217,000</u>	<u>80,200</u>	<u>297,200</u>

The \$1,050,000 of Water Revenue Bonds of 1982 are due in annual installments of \$9,000 to \$59,000 through 2022 with interest of 5%. This issue is being serviced, principal and interest by the Water Fund. The principal amount unpaid at June 30, 2006 is \$689,000.

Year Ending June 30	Principal Interest Total		
	Principal	Interest	Total
2007	27,000	33,775	60,775
2008	28,000	32,400	60,400
2009	29,000	30,975	59,975
2010	31,000	29,475	60,475
2011	32,000	27,900	59,900
2012-2016	188,000	94,125	282,125
2017-2021	240,000	64,775	304,775
2022-2023	114,000	12,825	126,825
Total	<u>689,000</u>	<u>326,250</u>	<u>1,015,250</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

F. Long-Term Debt-continued

Certificates of Participation

The City issued certifications of participation in May of 1991 to assist in financing the acquisition, construction, and improvement of their wastewater treatment facilities. The total amount of the issue was \$3,590,000 with interest rates ranging from 4.5% to 6.74%.

The City refunded these certificates in November 1999. The total amount of the issue was \$3,455,000 with interest rates ranging from 3.6% to 5.3%. The bonds payable as of June 30, 2006 were \$2,470,000.

Year Ending June 30	Principal	Interest	Total
2007	155,000	122,118	277,118
2008	165,000	115,298	280,298
2009	170,000	107,872	277,872
2010	180,000	100,052	280,052
2011	190,000	91,592	281,592
2012-2016	1,090,000	308,170	1,398,170
2017-2018	<u>520,000</u>	<u>41,212</u>	<u>561,212</u>
Total	<u>2,470,000</u>	<u>886,314</u>	<u>3,356,314</u>

The following is a summary of changes in the City's long-term debt and other long-term liabilities during the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Loans Payable	240,138	0	(10,325)	229,813	153,908
Certificate of Participation	3,205,000	0	(110,000)	3,095,000	115,000
Compensated Absences	<u>82,284</u>	<u>18,739</u>	<u>0</u>	<u>101,023</u>	<u>0</u>
Long-term liabilities of Governmental Activities	<u>3,527,422</u>	<u>18,739</u>	<u>(120,325)</u>	<u>3,425,836</u>	<u>268,908</u>

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

F. Long-Term Debt-continued

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds	943,000	0	(37,000)	906,000	40,000
Certificates of Participation	262,000	0	(150,000)	2,470,000	155,000
Compensated Absences	36,037	5,123	0	41,160	0
Long-term liabilities of Business-Type Activities	<u>1,241,037</u>	<u>5,123</u>	<u>(187,000)</u>	<u>3,417,160</u>	<u>195,000</u>

G. Payables And Other Liabilities

Payables at June 30, 2006 for the City's individual major funds and nonmajor funds in the aggregate are as follows:

	<u>General</u>	<u>CDBG</u>	<u>Public Facility Improvements</u>	<u>Nonmajor Govern- mental</u>	<u>Total</u>
Governmental Activities:					
Vendors	308,147	9,435	31,030	5,409	354,021
Developer Deposits	<u>708,647</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>708,647</u>
Total	<u>1,016,794</u>	<u>9,435</u>	<u>31,030</u>	<u>5,409</u>	<u>1,062,668</u>

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Business-Type Activities:			
Vendors	20,061	36,453	56,514
Customer Deposits	<u>15,905</u>	<u>30,273</u>	<u>46,178</u>
Total	<u>35,966</u>	<u>66,726</u>	<u>102,692</u>

IV. OTHER INFORMATION

A. Risk Management

The City of Newman participates with other public entities in a joint exercise of powers agreement, which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each workers' compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$10,000 and workers' compensation losses under \$10,000. The CSJVRMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$10,000,000. The CSJVRMA participates in an excess pool that provides workers' compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit. The CSJVRMA is a consortium of fifty-four (54) cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA.

The financial position and results of operations for the CSJVRMA, as of June 30, 2005, are presented below:

Total Assets	<u>50,251,543</u>
Total Liabilities	40,959,835
Total Net Assets	<u>9,291,708</u>
Total Liabilities & Retained Earnings	<u>50,251,543</u>
Total Revenues for Year	20,750,646
Total Expenses for Year	<u>23,508,217</u>
Net Income for Year	<u>(2,757,571)</u>

At the termination of the joint powers agreement and after all claims have been settled, any excess deficit will be divided among the cities in accordance with its governing documents.

B. Commitments and Contingencies

The City of Newman is a party in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

**CITY OF NEWMAN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

C. Employee Retirement Systems and Plans

The City 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.

Participants are required to contribute 7% (9% for public-safety employees) of their annual covered salary. The City makes the contributions required of the City employees on their behalf and for their account. The contribution requirements of plan members and the City are established and may be amended by PERS. The City is required to contribute at an actuarially determined rate. The current rate is 11.226% for non-safety employees, 28.932% of police employees, of annual covered payroll. PERS has determined that because of past funding and investment earnings, current employer contributions are not required for miscellaneous employees and public-safety employees of the city

For June 30, 2006, the City's annual pension cost was \$409,326 due to excess PERS funds determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of PERS assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006, was five years for prior service unfunded, and 15 years for remaining unfunded.

THREE-YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/04	\$ 0	100%	0
06/30/05	\$308,522	100%	0
06/30/06	\$409,326	100%	0

**CITY OF NEWMAN
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006**

E. Prior Period Adjustments

Several prior period adjustments were made to the June 30, 2006 financial statements as follows:

Governmental- Type Activities:

Record Westside Village low-income housing project loan receivable that was not previously recorded in the CDBG or Redevelopment Agency funds	1,189,790
Correction to beginning balances of low-income housing loans in the CDBG fund	100,189
Correction to beginning accumulated depreciation balance for Governmental fixed assets	(896,089)
Write-off of incorrect accrued interest payable in the general long-term debt account group	75,398
Record Ventura note payable in the general long-term debt account group. This loan was not previously recorded on the City's books.	(<u>97,039</u>)
Total governmental-type activities prior period adjustment	<u>372,249</u>

Business-Type Activities:

Write-off of incorrect accrued interest payable	61,548
Correction to beginning accumulated depreciation balances	(<u>235,495</u>)
Total business-type activities prior period adjustment	(<u>173,947</u>)

**CITY OF NEWMAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2006**

DEFINED BENEFIT PENSION PLAN

The schedules of funding progress below show the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll for the City's two defined benefit pension plans. The following schedules are a consolidation of cities that have the same retirement system; 2 percent at age 55.

FUNDED STATUS OF THE SAFETY PLAN

Valuation Date (June 30)	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets) (UAAL)	Funded Status	Annual Covered Payroll	UAAL as a Percentage of Payroll
2005	6,367,049,264	5,295,150,375	1,071,898,889	83.2%	664,147,796	161.4%
2004	5,383,921,942	4,424,586,846	959,335,096	82.2%	575,296,434	166.8%
2003	4,270,573,982	3,577,742,166	692,831,816	83.8%	476,090,674	145.5%

FUNDED STATUS OF THE MISCELLANEOUS PLAN

Valuation Date (June 30)	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets) (UAAL)	Funded Status	Annual Covered Payroll	UAAL as a Percentage of Payroll
2005	872,346,612	729,556,809	142,789,803	83.6%	203,995,039	70.0%
2004	2,746,095,668	2,460,944,656	285,151,012	89.6%	743,691,970	38.3%
2003	2,596,966,545	2,372,879,034	(224,087,511)	91.4%	725,020,458	30.9%

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COMBINING FINANCIAL STATEMENTS
NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Program Income Miscellaneous- To account for miscellaneous income.

Park Facility Fee- To account for developer fees related to parks.

State Grants- To account for various grants received from the State of California. Funds are used for community development.

Safety Grants- To account for Federal grants. Historically most of the grants are police related but could include other departments.

Gas Tax- To account for state gas tax revenues collected based on population. The revenues may be expended for street and road repair, maintenance, design, construction and traffic signal design and installation.

Local Transportation- To account for Local Transportation Funds received from STANCOG as a pass thru of gas and sales tax funds to be used for improvements to transportation related areas.

Asset Forfeiture- To account for money received by the Police Department as a result of Asset Forfeiture. The funds are used to augment the SLENET Task Force which is currently run by the State Department of Justice.

Volunteer Fund- To account for fundraising and donated income raised to support the City's Police Department.

Business License Surcharge- To account for revenues generated by a portion of the business licenses collected.

Lighting and Landscaping District- To account for the money received from residences in certain districts who pay an assessment based on the benefit they receive. These funds are used to cover the costs of street lighting and landscape maintenance in their specific zones.

Contingency Fund- To account for funds reserved for emergency or contingent needs. These funds are only to be used at the direction of the City Council for emergencies or unplanned needs.

Capital Repair & Replacement- To account for internally derived depreciation expense used to establish a capital reserve fund.

COMBINING FINANCIAL STATEMENTS
NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Gifts & Trust Fund- To account for donations made to the City with various specified purposes.

Capital Project Funds

Storm Drain- To account for impact fees charged to development to pay for facilities impacted by the development project.

Redevelopment Agency- To account for the collection of property tax revenues used for the administration of the agency and development within the designated redevelopment area.

Redevelopment Housing- To account for 20% of the property tax revenues collected for the Redevelopment Agency, these funds are restricted for low and moderate income housing projects within the designated redevelopment area.

**CITY OF NEWMAN
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006**

Special Revenue

	Program Income Misc. Fund	Park Facility Fee Fund	State Grants Fund	Safety Grants Fund	Gas Tax Fund	Local Transportation Fund
Assets						
Cash And Investments	1,402	697,853	(4,583)	0	0	210,098
Cash with Fiscal Agent	0	0	0	0	0	0
Accounts Receivable	0	0	5,000	0	0	123,609
Loans Receivable	0	0	0	0	0	0
Due From Other Funds	0	0	0	0	0	0
Total Assets	<u>1,402</u>	<u>697,853</u>	<u>417</u>	<u>0</u>	<u>0</u>	<u>333,707</u>
Liabilities And Fund Balances						
Liabilities						
Accounts Payable	0	0	0	0	0	0
Compensated Absences	0	0	0	0	0	0
Other Liabilities	0	0	0	0	0	0
Due To Other Funds	0	0	0	0	0	0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances						
Reserved	0	0	0	0	0	0
Unreserved	<u>1,402</u>	<u>697,853</u>	<u>417</u>	<u>0</u>	<u>0</u>	<u>333,707</u>
Total Fund Balances	<u>1,402</u>	<u>697,853</u>	<u>417</u>	<u>0</u>	<u>0</u>	<u>333,707</u>
Total Liabilities And Fund Balances	<u>1,402</u>	<u>697,853</u>	<u>417</u>	<u>0</u>	<u>0</u>	<u>333,707</u>

Special Revenue

Asset Forfeit Fund	Volunteer Fund	Business License Surcharge Fund	Lighting Landscape District Fund	Contingency Fund	Capital Repair Replacement Fund	Gifts & Trusts Fund	Non-Major Special Revenue Total
513	0	20,651	121,765	174,878	644,929	0	1,867,506
0	0	0	0	0	0	0	0
0	0	0	11,157	0	0	0	139,766
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
<u>513</u>	<u>0</u>	<u>20,651</u>	<u>132,922</u>	<u>174,878</u>	<u>644,929</u>	<u>0</u>	<u>2,007,272</u>
0	0	0	4,296	627	254	0	5,177
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>4,296</u>	<u>627</u>	<u>254</u>	<u>0</u>	<u>5,177</u>
0	0	0	0	0		0	0
<u>513</u>	<u>0</u>	<u>20,651</u>	<u>128,626</u>	<u>174,251</u>	<u>644,675</u>	<u>0</u>	<u>2,002,095</u>
<u>513</u>	<u>0</u>	<u>20,651</u>	<u>128,626</u>	<u>174,251</u>	<u>644,675</u>	<u>0</u>	<u>2,002,095</u>
<u>513</u>	<u>0</u>	<u>20,651</u>	<u>132,922</u>	<u>174,878</u>	<u>644,929</u>	<u>0</u>	<u>2,007,272</u>

**CITY OF NEWMAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

Capital Projects

	Storm Drain Fund	Redevelop- ment Agency	Redevelop- ment Housing	Non-Major Capital Projects Total	Totals
Assets					
Cash And Investments	156,009	749,589	411,639	1,317,237	3,184,743
Cash with Fiscal Agent	0	294,291	0	294,291	294,291
Accounts Receivable	0	0	0	0	139,766
Loans Receivable	0	579,367	0	579,367	579,367
Due From Other Funds	0	0	0	0	0
Total Assets	<u>156,009</u>	<u>1,623,247</u>	<u>411,639</u>	<u>2,190,895</u>	<u>4,198,167</u>
Liabilities And Fund Balances					
Liabilities					
Accounts Payable	0	232	0	232	5,409
Compensated Absences	0	0	0	0	0
Other Liabilities	0	0	0	0	0
Due To Other Funds	0	0	0	0	0
Total Liabilities	<u>0</u>	<u>232</u>	<u>0</u>	<u>232</u>	<u>5,409</u>
Fund Balances					
Reserved	0	0	0	0	0
Unreserved	<u>156,009</u>	<u>1,623,015</u>	<u>411,639</u>	<u>2,190,663</u>	<u>4,192,758</u>
Total Fund Balances	<u>156,009</u>	<u>1,623,015</u>	<u>411,639</u>	<u>2,190,663</u>	<u>4,192,758</u>
Total Liabilities And Fund Balances	<u>156,009</u>	<u>1,623,247</u>	<u>411,639</u>	<u>2,190,895</u>	<u>4,198,167</u>

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**CITY OF NEWMAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

Special Revenue

	Program Income Misc. Fund	Park Facility Fee Fund	State Grants Fund	Safety Grants Fund	Gas Tax Fund
Revenues					
Investment Earnings	455	18,197	0	0	(1,617)
Intergovernmental	0	0	63,064	17,131	0
Property Taxes	0	0	0	0	0
Other Taxes	0	0	0	0	172,036
Impact Fees	0	261,688	0	0	0
Licenses And Permits	0	0	0	0	0
Service Charges And Miscellaneous	0	0	0	0	1,524
Total Revenues	455	279,885	63,064	17,131	171,943
Expenditures					
General Government	17,949	0	0	0	0
Public Safety	0	0	0	322	0
Public Works	0	0	4,989	0	0
Community Development	0	15,518	0	0	0
Culture And Leisure	0	0	0	0	0
Debt Service					
Principal	0	0	0	0	0
Interest & Other Charges	0	0	0	0	0
Capital Outlay	0	109,575	0	0	0
Total Expenditures	17,949	125,093	4,989	322	0
Excess(Deficiency) Of Revenues Over Expenditures	(17,494)	154,792	58,075	16,809	171,943
Other Financing Sources (Uses)					
Operating Transfers In	0	0	48,030	0	0
Operating Transfers Out	0	0	0	(16,500)	(99,038)
Total Other Financing Sources (Uses)	0	0	48,030	(16,500)	(99,038)
Net Change In Fund Balances	(17,494)	154,792	106,105	309	72,905
Fund Balance - Beginning	18,896	543,061	(105,688)	(309)	(72,905)
Prior Period Adjustment	0	0	0	0	0
Fund Balance - Ending	1,402	697,853	417	0	0

Special Revenue

Local Transportation Fund	Asset Forfeit Fund	Volunteer Fund	Business License Surcharge Fund	Lighting Landscape District Fund	Contingency Fund	Capital Repair Replacement Fund	Gifts & Trust Fund	Non-Major Special Revenue Total
2,147	11	0	596	2,304	1,851	15,820	110	39,874
509,140	0	0	0	0	0	0	0	589,335
0	0	0	0	0	0	0	0	0
0	0	0	0	122,086	0	0	0	294,122
0	0	0	0	0	0	0	0	261,688
0	0	0	28,275	0	0	0	0	28,275
14,500	0	13,127	0	0	0	144,547	244	173,942
<u>525,787</u>	<u>11</u>	<u>13,127</u>	<u>28,871</u>	<u>124,390</u>	<u>1,851</u>	<u>160,367</u>	<u>354</u>	<u>1,387,236</u>
0	0	0	13,293	0	0	2,285	0	33,527
0	0	13,127	0	0	0	9,728	6,401	29,578
0	0	0	0	0	0	0	0	4,989
0	0	0	0	83,075	0	0	0	98,593
0	0	0	0	0	8,423	0	0	8,423
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
<u>70,367</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>53,300</u>	<u>0</u>	<u>233,242</u>
<u>70,367</u>	<u>0</u>	<u>13,127</u>	<u>13,293</u>	<u>83,075</u>	<u>8,423</u>	<u>65,313</u>	<u>6,401</u>	<u>414,753</u>
<u>455,420</u>	<u>11</u>	<u>0</u>	<u>15,578</u>	<u>41,315</u>	<u>(6,572)</u>	<u>95,054</u>	<u>(6,047)</u>	<u>972,483</u>
0	0	0	0	0	300,293	16,500	0	364,823
<u>(72,714)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(48,030)</u>	<u>0</u>	<u>0</u>	<u>(236,282)</u>
<u>(72,714)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>252,263</u>	<u>16,500</u>	<u>0</u>	<u>128,541</u>
382,706	11	0	15,578	41,315	245,691	111,554	(6,047)	1,107,425
<u>(48,999)</u>	<u>502</u>	<u>0</u>	<u>5,073</u>	<u>87,311</u>	<u>(71,440)</u>	<u>533,121</u>	<u>6,047</u>	<u>894,670</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>333,707</u>	<u>513</u>	<u>0</u>	<u>20,651</u>	<u>128,626</u>	<u>174,251</u>	<u>644,675</u>	<u>0</u>	<u>2,002,095</u>

**CITY OF NEWMAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

Capital Projects

	Storm Drain Fund	Redevelop- ment Agency	Redevelop- ment Housing	Non-Major Capital Projects Total	Totals
Revenues					
Investment Earnings	3,032	46,144	6,942	56,118	95,992
Intergovernmental	0	0	0	0	589,335
Property Taxes	0	650,091	162,523	812,614	812,614
Other Taxes	0	0	0	0	294,122
Impact Fees	49,884	0	0	49,884	311,572
Licenses And Permits	0	0	0	0	28,275
Service Charges And Miscellaneous	5,418	62,473	0	67,891	241,833
Total Revenues	58,334	758,708	169,465	986,507	2,373,743
Expenditures					
General Government	0	0	0	0	33,527
Public Safety	0	0	0	0	29,578
Public Works	0	0	0	0	4,989
Community Development	0	260,524	(7,305)	253,219	351,812
Culture And Leisure	0	0	0	0	8,423
Debt Service					
Principal	0	94,470	22,000	116,470	116,470
Interest & Other Charges	0	146,962	34,191	181,153	181,153
Capital Outlay	0	0	0	0	233,242
Total Expenditures	0	501,956	48,886	550,842	959,194
Excess(Deficiency) Of Revenues Over Expenditures	58,334	256,752	120,579	435,665	1,414,549
Other Financing Sources (Uses)					
Operating Transfers In	0	0	0	0	364,823
Operating Transfers Out	0	(300,292)	0	(300,292)	(536,574)
Total Other Financing Sources (Uses)	0	(300,292)	0	(300,292)	(171,751)
Net Change In Fund Balances	58,334	(43,540)	120,579	135,373	1,242,798
Fund Balance - Beginning	97,675	1,288,765	291,060	1,677,500	2,572,170
Prior Period Adjustment	0	377,790	0	377,790	377,790
Fund Balance - Ending	156,009	1,623,015	411,639	2,190,663	4,192,758

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CITY OF NEWMAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
WITH COMPARATIVE ACTUAL AMOUNTS FOR JUNE 30, 2006

FEDERAL GRANTOR/PASS- THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development				
Passed Through State of California:				
Department Of Housing & Community Development				
Planning And Technical Assistance	14.228	02-STBG-1762	500,000	229,201
First Time Home Buyer	14.239	03-HOME-0655	1,000,000	<u>995,000</u>
Total U.S. Department of Housing and Urban Development				<u>1,224,201</u>
U.S. Department of Transportation				
Passed Through State of California:				
Department Of Housing & Community Development				
Local Transportation	20.205	10-STA-0NEWM	317,351	<u>143,081</u>
Total U.S. Department of Transportation				<u>143,081</u>
Total Expenditures of Federal Awards				<u><u>1,367,282</u></u>

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**CITY OF NEWMAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

SUMMARY OF AUDITOR'S RESULTS

1. Type of report issued on the financial statements – Unqualified
2. Reportable conditions in internal control disclosed by the audit of the financial statements and any such conditions that are material weaknesses – None
3. Disclosure of any noncompliance which are material to the financial statements - None
4. Disclosure of any reportable conditions in internal control over major programs and any such conditions that are material weaknesses – None
5. Type of report issued on compliance for major programs – Unqualified
6. Audit findings relative to the major federal programs – None
7. Major programs are as follows: Department of Housing and Community Development, and Home Investment Partnerships Program. CFDA numbers 14.239 and 20.205, respectively.
8. Expenses in excess of \$300,000 was used as the threshold to distinguish between Type A and Type B programs
9. The City of Newman was determined to be a high-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

Findings relating to financial statements which are required to be reported – None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS

Findings relating to major federal award programs which are required to be reported – None

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1300 10th Street, Ste C
Modesto, Ca 95354
209-526-3091
209-526-2287 fax
cbcpas.com

Gerald L. Clendenin, CPA
Constance Hillas Bird, CPA
Wendy L. Prathier, CPA

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

To The City Council
City of Newman
State of California

We have audited the general-purpose financial statements of the City of Newman, State of California, as of and for the year ended June 30, 2006 and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

In planning and performing our audit, we considered the City of Newman's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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.

This report is intended for the information of the audit committee, management and the Newman City Council. However, this report is a matter of public record and its distribution is not limited.

Cledenin Bird & Company, LLP

CLENDENIN BIRD & COMPANY, LLP

Modesto, California

September 8, 2006

1300 10th Street, Ste C
Modesto, Ca 95354
209-526-3091
209-526-2287 fax
cbcpcas.com

Gerald L. Clendenin, CPA
Constance Hiles Bird, CPA
Wendy L. Prahter, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To The City Council
City of Newman
State of California

We have audited the compliance of the City of Newman with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Newman'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 of Newman's management. Our responsibility is to express an opinion on the City of Newman's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 of Newman'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 of the City of Newman's compliance with those requirements.

In our opinion, the City of Newman complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year then ended June 30, 2006.

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

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

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

Clendenin Bird & Company, LLP

CLENDENIN, BIRD & COMPANY, LLP

Modesto, California
September 8, 2006

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1300 North Lake Street
Modesto, CA 95354
209-529-3000
209-529-3000
clb@clbcpa.com

General Accounting
Compliance and Internal Control
Warranty and Construction

**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
BASED ON AN EXAMINATION OF GENERAL-PURPOSE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH THE
CALIFORNIA TRANSPORTATION DEVELOPMENT ACT**

To The City Council
City of Newman
State of California

We have audited the general-purpose financial statements of the City of Newman, State of California for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the California Administrative Code Section 6664 of the Transportation Development Act and the allocation instructions of the Stanislaus Area Association of Governments, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of Newman is responsible for the City's compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the City's compliance with laws and regulations, noncompliance with which could have a material effect on the general-purpose financial statements of the City.

In our opinion the City of Newman Transportation Development Act funds were accounted for in conformance with the applicable laws, rules and regulations of the Transportation Development Act and the allocation instructions of the Stanislaus Council of Governments.

Clendenin Bird & Company, LLP

CLENDENIN BIRD & COMPANY, LLP

Modesto, California
September 8, 2006

