

CITY OF NEWMAN
NEWMAN, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2005

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 2-10 |
| Basic Financial Statements: | |
| Statement of Net Assets | 11 |
| Statement of Activities | 12 |
| Governmental Funds - Balance Sheet | 13 |
| Reconciliation of the Governmental Funds - Balance Sheet with the Governmental Activities Statement of Net Assets | 14 |
| Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances | 15 |
| Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities | 16 |
| General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual | 17 |
| Federal Grants—Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual | 18 |
| Proprietary Funds – Statement of Net Assets | 19 |
| Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Assets | 20 |
| Proprietary Funds - Statement of Cash Flows | 21 |
| Notes to Basic Financial Statements | 22-38 |
| Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 39 |

R. J. RICCIARDI, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

1000 FOURTH STREET • SUITE 400 • SAN RAFAEL, CA 94901 • TEL (415) 457-1215 • FAX (415) 457-6735 • www.rjrca.com

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Newman
Newman, California

We have audited the basic financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Newman as of and for the year ended June 30, 2005, which collectively comprise the City of Newman's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Newman's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Newman at June 30, 2005, and the respective changes in the financial position and cash flow, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis is not a required part of the basic financial statements but is 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 our report dated January 20, 2006, on our consideration of City of Newman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
January 20, 2006

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005

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, 2005. 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 2005. Revenues increased, as did the net number of residents in the City. The City's financial highlights are presented below:

FISCAL YEAR 2005 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2005 include the following:

Entity-wide:

- The City's total net assets were \$16,078,010 as of June 30, 2005. Of this total, \$10,347,362 were Governmental assets and \$5,730,648 were Business-type assets.
- Entity-wide Governmental revenues include program revenues of \$2,589,440 and general revenues and transfers of \$5,191,901 for a total of \$7,781,341.
- Entity-wide Governmental expenses were \$5,207,745.
- Entity-wide Business-type program revenues and interest revenue were \$3,615,453 while Business-type expenses and transfers were \$1,740,892.

Fund Level:

- Governmental Fund balances increased \$2,964,339 in fiscal year 2005.
- Governmental Fund revenues increased \$1,558,631 in fiscal year 2005.
- Governmental Fund expenditures increased \$544,502 in fiscal year 2005.

General Fund:

- General Fund revenues of \$3,673,987 were \$283,479 lower than the prior year.
- General Fund expenditures of \$3,770,581 represented a decrease of \$199,570 under the prior year.
- General Fund balance of \$1,716,953 as of June 30, 2005, is down from the fiscal year 2004's fund balance of \$1,813,547.

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.

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.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005

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.

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 three Major Governmental Funds in addition to the General Fund: The Debt Service Fund, Public Facility Improvement Fund and the 1997 Tax Allocation Bonds Fund. Both of the City's Enterprise Funds are reported as Major Funds.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2005

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, 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.

Governmental Activities

Table 1
Governmental Net Assets at June 30, 2005

| | <u>Governmental Activities 2005</u> | <u>Governmental Activities 2004</u> |
|---|---|---|
| Cash and investments | \$ 7,518,474 | \$ 6,012,533 |
| Other assets | 2,006,344 | 280,228 |
| Capital assets | <u>5,020,934</u> | <u>3,953,276</u> |
| Total assets | <u>14,545,752</u> | <u>10,246,037</u> |
| Long-term debt outstanding | 3,348,100 | 3,453,100 |
| Other liabilities | <u>850,290</u> | <u>582,909</u> |
| Total liabilities | <u>4,198,390</u> | <u>4,036,009</u> |
| Net assets: | | |
| Invested in capital assets, net of debt | 1,672,834 | 500,176 |
| Restricted | 6,261,275 | 1,958,768 |
| Unrestricted | <u>2,413,253</u> | <u>3,751,084</u> |
| Total net assets | <u>\$ 10,347,362</u> | <u>\$ 6,210,028</u> |

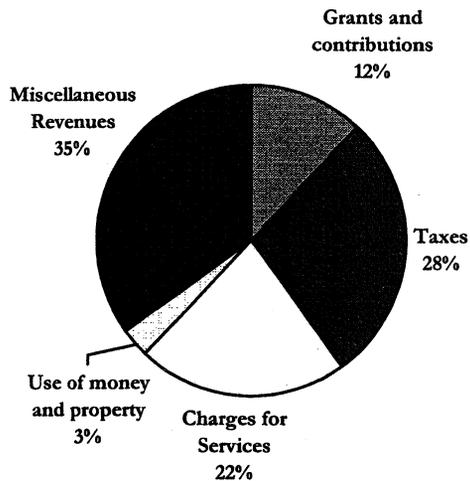
The City's governmental net assets amounted to \$10,347,362 as of June 30, 2005, an increase of \$4,137,334 over 2004. This increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2005 comprised the following:

- Cash and investments comprised \$7,228,293 in the city treasury and \$290,181 of restricted cash and investments. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 2 to the financial statements.
- Receivables comprised \$70,727 of current receivables and loans receivable for \$1,937,569.
- Capital assets of \$5,020,934, net of depreciation charges, which includes all the City's capital assets used in governmental activities.

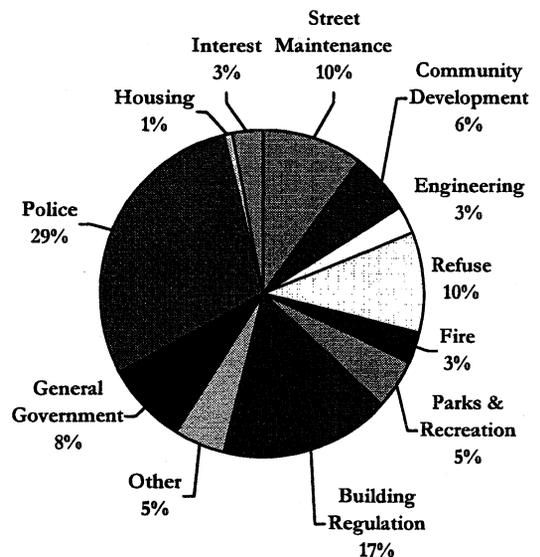
City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2005

- Current liabilities, including accounts payable, claims and other amounts due currently, totaling \$768,006.
- Accrued compensated absence liabilities payable to employees of \$82,284, as explained in Note 1G to the financial statements.
- Long-term debt of \$3,348,100 of which \$3,238,100 is due in future years and \$110,000 is due currently.
- Net assets invested in capital assets, net of related debt, of \$1,672,834, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net assets totaling \$6,261,275, 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 \$2,413,253 of unrestricted net assets as of June 30, 2005.

Sources of Revenues



Functional Expenses



As the Sources of Revenue Chart above shows, \$2,176,442, or 28%, of the City's fiscal year 2005 governmental activities revenue came from taxes, while \$914,493, or 12%, came from grants and contributions, \$1,674,947, or 22%, came from charges for services, and the remainder came from a variety of sources, as shown above.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2005

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 \$403,761, or 8%, of total government expenses, community development and planning is \$303,137, or 6%, Refuse is \$511,457, or 10%, police is \$1,519,247, or 29%, fire is \$160,643, or 3%, parks and recreation is \$254,491, or 5%, and other governmental programs and functions are the remaining 39%.

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.

Table 2
Changes in Governmental Net Assets

| | Governmental Activities 2005 | Governmental Activities 2004 |
|-------------------------------------|------------------------------------|------------------------------------|
| <u>Expenses</u> | | |
| General government | \$ 403,761 | \$ 469,506 |
| Community development and planning | 303,137 | 455,262 |
| Building regulation and engineering | 883,848 | 837,143 |
| Police | 1,519,247 | 1,252,749 |
| Fire | 160,643 | 97,208 |
| Engineering | 144,519 | - |
| Other | 297,181 | 377,918 |
| Parks and recreation | 254,491 | 262,529 |
| Street maintenance | 508,982 | 386,097 |
| Refuse | 511,457 | 473,528 |
| Housing | 58,663 | 11,578 |
| Interest on long term debt | 161,816 | 312,913 |
| Total expenses | 5,207,745 | 4,936,431 |
| <u>Revenues</u> | | |
| Program Revenues: | | |
| Charges for services | 1,674,947 | 1,689,717 |
| Operating grants and contributions | 914,493 | 1,007,351 |
| Total program revenues | 2,589,440 | 2,697,068 |
| General revenues: | | |
| Taxes | 2,176,442 | 1,960,822 |
| Use of money and property | 309,106 | 457,021 |
| Other | 2,706,353 | 1,107,799 |
| Total general revenues | 5,191,901 | 3,525,642 |
| Total revenues | 7,781,341 | 6,222,710 |
| <u>Change in net assets</u> | \$ 2,573,596 | \$ 1,286,279 |

As the Sources of Revenue Chart and Table 2 above show, \$2,589,440, or 33%, of the City's fiscal year 2005 governmental revenue, came from program revenues and \$5,191,901, or 67%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$1,674,947, which include permit revenues, fees and charges used to fund expenses incurred in providing services; \$914,493 of operating grants and contributions which include gas tax revenues and housing and police grants.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005

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.

Table 3
Governmental Activities

| | Net (Expense) Revenue From Services 2005 | Net (Expense) Revenue From Services 2004 |
|-------------------------------------|---|---|
| General government | \$ (403,761) | \$ (469,506) |
| Community development and planning | 209,822 | 26,779 |
| Building regulation and engineering | 82,032 | (318,100) |
| Police | (1,463,908) | (1,156,821) |
| Fire | (158,640) | (94,811) |
| Engineering | (142,138) | - |
| Other | (297,181) | (377,918) |
| Parks and recreation | (214,024) | (215,830) |
| Street maintenance | (107,448) | 110,183 |
| Refuse | 97,420 | 85,455 |
| Housing | (58,663) | (11,578) |
| Interest on long-term debt | (161,816) | (312,913) |
| Totals | <u>\$ (2,618,305)</u> | <u>\$ (2,735,060)</u> |

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 2005 | Business-Type 2004 |
|---|-----------------------|-----------------------|
| Cash and investments | \$ 5,248,445 | \$ 3,407,104 |
| Other assets | 220,077 | 204,249 |
| Capital assets | <u>3,958,605</u> | <u>4,096,848</u> |
| Total assets | <u>9,427,127</u> | <u>7,708,201</u> |
| Long-term debt outstanding | 3,563,000 | 3,743,000 |
| Other liabilities | <u>133,479</u> | <u>109,114</u> |
| Total liabilities | <u>3,696,479</u> | <u>3,852,114</u> |
| Net assets: | | |
| Invested in capital assets, net of debt | 395,605 | 353,848 |
| Unrestricted | <u>5,335,043</u> | <u>3,502,239</u> |
| Total net assets | <u>\$ 5,730,648</u> | <u>\$ 3,856,087</u> |

The net assets of business-type activities increased to \$1,874,561 in fiscal year 2005.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2005

Table 5
Changes in Business-Type Net Assets

| | Net (Expense) Revenue From Services 2005 | Net (Expense) Revenue From Services 2004 |
|------------|---|---|
| Water Fund | \$ 516,383 | \$ 236,843 |
| Sewer Fund | 1,358,178 | 516,527 |
| Totals | \$ 1,874,561 | \$ 753,370 |

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues decreased \$283,479 this fiscal year due primarily to decreases in sales taxes and charges for current services. Budgeted revenues exceeded actual amounts by \$22,536. 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 \$3,770,581, a decrease of \$199,570 from the prior year. Expenditures were \$440,023 greater than budgeted, including an increase in costs associated with development, building regulation, engineering and street maintenance.

As of June 30, 2005, the General Fund's fund balance totaled \$1,716,953. The unreserved portion of fund balance represents available liquid resources.

Debt Service Fund

This fund is used to account for principal and interest cost on the general debt service of the City. In fiscal year 2005, the fund received \$591,745 in property tax increment revenue. Tax increment revenue increased \$105,375, or 18%, from the previous year. The increase is attributable to an increase in assessed valuations in the redevelopment project area.

The fund's fiscal year end fund balance of \$405,200 represents tax increment revenues that have not yet been expended on the associated financing costs of redevelopment projects.

Public Facility Improvement Fund

This fund accounts for the improvement of public facilities funded by developer fees. In fiscal year 2005, the fund received \$1,445,843 in developer fees. Developer fee revenue increased \$946,550, or 190%, driven by new construction.

The fund's fiscal year end fund balance of \$2,422,998 represents developer fees that have not yet been expended on public facility projects and improvements.

1997 Tax Allocation Bonds Fund

This fund accounts for the use of the proceeds from the issuance of housing bonds on June 30, 1997. Expenditures on projects decreased 63%, or \$262,668 from the previous year.

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2005

The fund's fiscal year end fund balance of \$714,413 represents bond proceeds that have not yet been expended on housing projects.

Federal Grant Funds

This fund accounts for the use of proceeds from federal grant money. Expenditures on projects increased 13%, or \$31,076 from the previous year.

Other Governmental Funds

These funds are not presented separately in the basic financial statements.

Proprietary Funds

Water Fund

Revenues increased \$319,620 to a total of \$1,166,392 in fiscal year 2005, while expenses also increased \$22,576 to a total of \$650,009. There was a resulting operating income of \$538,815. As a result the fund's net assets increased \$516,383, to a new total of \$1,427,080. Of this amount, \$58,148 was invested in capital assets net of related debt.

Sewer Fund

Net assets of the Sewer Fund increased \$1,358,178 in fiscal year 2005 to a total of \$4,303,568. This increase came from an increase in the customer base due to new development. Operating revenues increased \$660,808 to \$2,400,979. Operating expenses decreased \$124,953 to \$955,177.

As of June 30, 2005, the fund's net assets were \$4,303,568, of which \$337,457 was invested in capital assets, net of related debt, and \$3,966,111 was unrestricted.

CAPITAL ASSETS

GASB Statement 34 requires the City to record all its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2005, the City reported the cost of all its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2005 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, 2005 | Balance at June 30, 2004 |
|---|-----------------------------|-----------------------------|
| <u>Governmental Activities</u> | | |
| Land | \$ 1,391,530 | \$ 1,184,274 |
| Streets and Roads | 1,580,340 | 767,789 |
| Buildings | 1,433,030 | 1,433,030 |
| Improvements | 214,190 | 139,359 |
| Equipment | 1,659,711 | 1,458,082 |
| Accumulated depreciation | (1,257,867) | (1,029,258) |
| Governmental activity capital assets, net | \$ 5,020,934 | \$ 3,953,276 |

City of Newman
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2005

Business-type Activities

| | | |
|--|---------------------|---------------------|
| Land | \$ 1,460,000 | \$ 1,460,000 |
| Buildings | 94,931 | 94,931 |
| Plant and Equipment | 5,302,459 | 5,280,327 |
| Accumulated depreciation | <u>(2,898,785)</u> | <u>(2,738,410)</u> |
| Business-type activity capital assets, net | <u>\$ 3,958,605</u> | <u>\$ 4,096,848</u> |

Detail on capital assets, current year additions and construction in progress can be found in Note 4.

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 4 to the financial statements.

DEBT ADMINISTRATION

The City issued no new bonded debt in fiscal year 2005. The City made all scheduled repayments of existing debt. Each of the City's debt issues is discussed in detail in Note 5 to the financial statements. As of June 30, 2005, the City's debt comprised:

Table 7
Outstanding Debt

| | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|--|----------------------|----------------------|
| <u>Governmental Activity Debt:</u> | | |
| <u>Certificates of Participation:</u> | | |
| 1997 Tax allocation and housing, 5.375%-6.200%, due 8/1/27 | \$ 3,205,000 | \$ 3,310,000 |
| <u>Other Long Term Obligations:</u> | | |
| Note, 6.50%, no fixed payment schedule | <u>143,100</u> | <u>143,100</u> |
| Total Governmental Activity Debt | <u>\$ 3,348,100</u> | <u>\$ 3,453,100</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>\$ 2,620,000</u> | <u>\$ 2,765,000</u> |
| <u>Revenue Bonds:</u> | | |
| 1978 Sewer Revenue Bonds, 5.00%, due in 2018 | 229,000 | 240,000 |
| 1982 Water Revenue Bonds, Series B, 5.00%, due in 2022 | <u>714,000</u> | <u>738,000</u> |
| Total Revenue Bonds | <u>943,000</u> | <u>978,000</u> |
| Total Business-type Activity Debt: | <u>\$ 3,563,000</u> | <u>\$ 3,743,000</u> |

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
STATEMENT OF NET ASSETS
June 30, 2005

| | <u>Governmental</u> <u>Activities</u> | <u>Business-Type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|--------------------------|
| ASSETS | | | |
| Cash and investments | \$ 7,228,293 | \$ 4,963,462 | \$ 12,191,755 |
| Restricted cash and investments with fiscal agent | 290,181 | 284,983 | 575,164 |
| Receivables: | | | |
| Accounts receivable | 62,980 | 217,208 | 280,188 |
| Interest receivable | 7,747 | - | 7,747 |
| Loan receivable | 1,937,569 | - | 1,937,569 |
| Internal balances | (2,869) | 2,869 | - |
| Prepaid items | 917 | - | 917 |
| Capital assets, net of accumulated depreciation | <u>5,020,934</u> | <u>3,958,605</u> | <u>8,979,539</u> |
| Total assets | <u>14,545,752</u> | <u>9,427,127</u> | <u>23,972,879</u> |
| LIABILITIES | | | |
| Accounts payable | - | 22,132 | 22,132 |
| Deposits | 695,342 | 13,762 | 709,104 |
| Accrued interest | 72,664 | 61,548 | 134,212 |
| Compensated absences | 82,284 | 36,037 | 118,321 |
| Long-term debt: | | | |
| Due within one year | 110,000 | 187,000 | 297,000 |
| Due in more than one year | <u>3,238,100</u> | <u>3,376,000</u> | <u>6,614,100</u> |
| Total liabilities | <u>4,198,390</u> | <u>3,696,479</u> | <u>7,894,869</u> |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | <u>1,672,834</u> | <u>395,605</u> | <u>2,068,439</u> |
| Restricted for: | | | |
| Capital projects | 3,627,446 | - | 3,627,446 |
| Loans receivable | 1,937,569 | - | 1,937,569 |
| Low and moderate income housing | 291,060 | - | 291,060 |
| Debt Service | <u>405,200</u> | <u>-</u> | <u>405,200</u> |
| Total restricted net assets | <u>6,261,275</u> | <u>-</u> | <u>6,261,275</u> |
| Unrestricted net assets | <u>2,413,253</u> | <u>5,335,043</u> | <u>7,748,296</u> |
| Total net assets | <u>\$ 10,347,362</u> | <u>\$ 5,730,648</u> | <u>\$ 16,078,010</u> |

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

City of Newman
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | <u>Total</u> |
|--|-------------------------|---------------------------------|---|--|-------------------------------------|----------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | |
| Governmental Activities: | | | | | | |
| General government | \$ 403,761 | \$ - | \$ - | \$ (403,761) | \$ - | \$ (403,761) |
| Police | 1,519,247 | 55,339 | - | (1,463,908) | - | (1,463,908) |
| Fire | 160,643 | 2,003 | - | (158,640) | - | (158,640) |
| Building regulation | 883,848 | 965,880 | - | 82,032 | - | 82,032 |
| Engineering | 144,519 | 2,381 | - | (142,138) | - | (142,138) |
| Street maintenance | 508,982 | - | 401,534 | (107,448) | - | (107,448) |
| Refuse | 511,457 | 608,877 | - | 97,420 | - | 97,420 |
| Community development | 303,137 | - | 512,959 | 209,822 | - | 209,822 |
| Parks and recreation | 254,491 | 40,467 | - | (214,024) | - | (214,024) |
| Housing | 58,663 | - | - | (58,663) | - | (58,663) |
| Other | 297,181 | - | - | (297,181) | - | (297,181) |
| Interest on long term debt | 161,816 | - | - | (161,816) | - | (161,816) |
| Total Governmental Activities | 5,207,745 | 1,674,947 | 914,493 | (2,618,305) | - | (2,618,305) |
| Business-type Activities: | | | | | | |
| Water | 650,009 | 1,152,524 | - | - | 502,515 | 502,515 |
| Sewer | 1,090,883 | 2,400,979 | - | - | 1,310,096 | 1,310,096 |
| Total Business-type Activities | 1,740,892 | 3,553,503 | - | - | 1,812,611 | 1,812,611 |
| Total | \$ 6,948,637 | \$ 5,228,450 | \$ 914,493 | (2,618,305) | 1,812,611 | (805,694) |
| General revenues: | | | | | | |
| Taxes | | | | 2,176,442 | - | 2,176,442 |
| Use of money and property | | | | 309,106 | 61,950 | 371,056 |
| Other revenues | | | | 2,706,353 | - | 2,706,353 |
| Total general revenues | | | | 5,191,901 | 61,950 | 5,253,851 |
| Change in net assets | | | | 2,573,596 | 1,874,561 | 4,448,157 |
| Net assets beginning of period | | | | 6,210,028 | 3,856,087 | 10,066,115 |
| Prior period adjustment | | | | 1,563,738 | - | 1,563,738 |
| Net assets, beginning of period restated | | | | 7,773,766 | 3,856,087 | 11,629,853 |
| Net assets ending of period | | | | \$ 10,347,362 | \$ 5,730,648 | \$ 16,078,010 |

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

City of Newman
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

| | General Fund | Debt Service Fund | Public Facility Improvement | 1997 Tax Allocation Bonds | Federal Grants | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------|--------------------------------|---------------------------------|---------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | | |
| Cash and investments | \$ 2,414,097 | \$ 115,019 | \$ 2,422,998 | \$ 653,638 | \$ 626 | 1,621,915 | \$ 7,228,293 |
| Restricted cash and investments with fiscal agents | - | 290,181 | - | - | - | - | 290,181 |
| Accounts receivable | 150 | - | - | - | - | 62,830 | 62,980 |
| Interest receivable | - | - | - | 7,747 | - | - | 7,747 |
| Loan receivable | - | - | - | 53,028 | 1,645,858 | 238,683 | 1,937,569 |
| Prepaid expenses | 917 | - | - | - | - | - | 917 |
| Total Assets | \$ 2,415,164 | \$ 405,200 | \$ 2,422,998 | \$ 714,413 | \$ 1,646,484 | 1,923,428 | \$ 9,527,687 |
| LIABILITIES | | | | | | | |
| Due to other funds | \$ 2,869 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,869 |
| Deposits | 695,342 | - | - | - | - | - | 695,342 |
| Total Liabilities | 698,211 | - | - | - | - | - | 698,211 |
| FUND BALANCES | | | | | | | |
| Reserved for: | | | | | | | |
| Capital projects | - | - | 2,422,998 | 661,385 | - | 543,063 | 3,627,446 |
| Loans receivable | - | - | - | 53,028 | 1,646,484 | 238,057 | 1,937,569 |
| Low and moderate income housing | - | - | - | - | - | 291,060 | 291,060 |
| Debt service | - | 405,200 | - | - | - | - | 405,200 |
| Unreserved and undesignated | 1,716,953 | - | - | - | - | 851,248 | 2,568,201 |
| Total Fund Balances | 1,716,953 | 405,200 | 2,422,998 | 714,413 | 1,646,484 | 1,923,428 | 8,829,476 |
| Total Liabilities and Fund Balances | \$ 2,415,164 | \$ 405,200 | \$ 2,422,998 | \$ 714,413 | \$ 1,646,484 | 1,923,428 | \$ 9,527,687 |

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

City of Newman
 Reconciliation of the
GOVERNMENTAL FUNDS - BALANCE SHEET
 with the Governmental Activities
STATEMENT OF NET ASSETS
 For the Fiscal Year Ended June 30, 2005

| | | |
|--|----|-----------|
| TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ | 8,829,476 |
|--|----|-----------|

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

| | | |
|--|--|-----------|
| Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. | | 5,020,934 |
|--|--|-----------|

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

| | | |
|---|--|-----------------|
| Long-term debt | | (3,348,100) |
| Interest payable, included in accrued liabilities | | (72,664) |
| Non-current portion of compensated absences | | <u>(82,284)</u> |

| | | |
|---------------------------------------|----|-------------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ | <u>10,347,362</u> |
|---------------------------------------|----|-------------------|

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

City of Newman
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the year ended June 30, 2005

| | General Fund | Debt Service Fund | Public Facility Improvement | 1997 Tax Allocation Bonds | Federal Grants | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|-----------------------------|---------------------------|---------------------|--------------------------|--------------------------|
| Revenues: | | | | | | | |
| Property taxes | \$ 754,785 | \$ 591,745 | \$ - | \$ - | \$ - | \$ 147,936 | \$ 1,494,466 |
| Other taxes | 681,976 | - | - | - | - | - | 681,976 |
| Intergovernmental | 153,328 | - | - | - | 359,631 | 401,534 | 914,493 |
| Licenses and permits | 857,457 | - | - | - | - | 12,489 | 869,946 |
| Fines | 46,010 | - | - | - | - | - | 46,010 |
| From uses of money and property | 58,347 | 2,491 | 21,000 | 29,016 | 2 | 198,250 | 309,106 |
| Charges for current services | 758,991 | - | - | - | - | - | 758,991 |
| Other revenues | 363,093 | - | 1,445,843 | - | - | 897,417 | 2,706,353 |
| Total revenues | <u>3,673,987</u> | <u>594,236</u> | <u>1,466,843</u> | <u>29,016</u> | <u>359,633</u> | <u>1,657,626</u> | <u>7,781,341</u> |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 343,184 | 12,272 | - | - | - | 2,275 | 357,731 |
| Police | 1,385,350 | - | - | - | - | - | 1,385,350 |
| Fire | 122,714 | - | - | - | - | - | 122,714 |
| Building regulation | 791,430 | - | 92,418 | - | - | - | 883,848 |
| Engineering | 144,519 | - | - | - | - | - | 144,519 |
| Street maintenance | 63,102 | - | - | - | - | 445,880 | 508,982 |
| Refuse | 511,457 | - | - | - | - | - | 511,457 |
| Community development | - | - | - | 46,556 | 277,865 | 530,351 | 854,772 |
| Parks and recreation | 218,809 | - | - | - | - | 22,532 | 241,341 |
| Housing | - | - | - | - | - | 58,663 | 58,663 |
| Other | 190,016 | - | - | - | - | 107,165 | 297,181 |
| Capital outlay | - | - | 26,821 | 104,069 | - | 613,742 | 744,632 |
| Debt service: | | | | | | | |
| Principal retirement | - | 884,000 | - | - | - | 21,000 | 905,000 |
| Interest and fiscal charges | - | 131,640 | - | - | - | 32,910 | 164,550 |
| Total expenditures | <u>3,770,581</u> | <u>1,027,912</u> | <u>119,239</u> | <u>150,625</u> | <u>277,865</u> | <u>1,834,518</u> | <u>7,180,740</u> |
| Excess of revenues over (under) expenditures | <u>(96,594)</u> | <u>(433,676)</u> | <u>1,347,604</u> | <u>(121,609)</u> | <u>81,768</u> | <u>(176,892)</u> | <u>600,601</u> |
| Other financing sources (uses): | | | | | | | |
| Loan Proceeds | - | - | - | - | - | 800,000 | 800,000 |
| Operating transfers in | - | - | - | - | - | 477,000 | 477,000 |
| Operating transfers out | - | - | - | (477,000) | - | - | (477,000) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(477,000)</u> | <u>-</u> | <u>1,277,000</u> | <u>800,000</u> |
| Net Changes in fund balances | (96,594) | (433,676) | 1,347,604 | (598,609) | 81,768 | 1,100,108 | 1,400,601 |
| Fund balances, beginning of period | 1,813,547 | 838,876 | 1,075,394 | 1,313,022 | 978 | 823,320 | 5,865,137 |
| Prior period adjustment | - | - | - | - | 1,563,738 | - | 1,563,738 |
| Fund balances, beginning of period restated | <u>1,813,547</u> | <u>838,876</u> | <u>1,075,394</u> | <u>1,313,022</u> | <u>1,564,716</u> | <u>823,320</u> | <u>7,428,875</u> |
| Fund balances, end of period | <u>\$ 1,716,953</u> | <u>\$ 405,200</u> | <u>\$ 2,422,998</u> | <u>\$ 714,413</u> | <u>\$ 1,646,484</u> | <u>\$ 1,923,428</u> | <u>\$ 8,829,476</u> |

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

City of Newman
 Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2005

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

| | |
|--|--------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 1,400,601 |
|--|--------------|

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

| | |
|---|-----------|
| The capital outlay expenditures are therefore added back to fund balance. | 1,296,267 |
|---|-----------|

| | |
|--|-----------|
| Depreciation expense is deducted from the fund balance | (228,609) |
|--|-----------|

LONG TERM DEBT PROCEEDS AND PAYMENT

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities

| | |
|---|---------|
| Repayment of debt principal is added back to fund balance | 105,000 |
|---|---------|

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

| | |
|--|--------------|
| Long-term compensated absences | (2,397) |
| Interest payable, including in accrued liabilities | <u>2,734</u> |

| | |
|---|---------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 2,573,596</u> |
|---|---------------------|

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

City of Newman
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Budget and Actual

| | <u>Original and Final</u> | | |
|--|---------------------------|------------------------|----------------------|
| | <u>Budgeted</u> | <u>Actual Amounts</u> | <u>Variance with</u> |
| | <u>Amounts</u> | <u>Budgetary Basis</u> | <u>Final Budget</u> |
| Revenues: | | | |
| Property taxes | \$ 727,349 | \$ 754,785 | \$ 27,436 |
| Other Taxes | 940,400 | 681,976 | (258,424) |
| Intergovernmental | 281,499 | 153,328 | (128,171) |
| Licenses and permits | 574,424 | 857,457 | 283,033 |
| Fines | 49,000 | 46,010 | (2,990) |
| From uses of money and property | 69,000 | 58,347 | (10,653) |
| Charges for current services | 836,200 | 758,991 | (77,209) |
| Other revenues | 221,651 | 363,093 | 141,442 |
| Total revenues | 3,699,523 | 3,673,987 | (25,536) |
| Expenditures: | | | |
| Current: | | | |
| General government | 401,959 | 343,184 | 58,775 |
| Police | 1,501,828 | 1,385,350 | 116,478 |
| Fire | 118,350 | 122,714 | (4,364) |
| Building regulation | 431,250 | 791,430 | (360,180) |
| Engineering | 100,750 | 144,519 | (43,769) |
| Street maintenance | 40,100 | 63,102 | (23,002) |
| Refuse | 455,000 | 511,457 | (56,457) |
| Parks and recreation | 247,918 | 218,809 | 29,109 |
| Other | 33,403 | 190,016 | (156,613) |
| Total expenditures | 3,330,558 | 3,770,581 | (440,023) |
| Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses | \$ 368,965 | (96,594) | \$ (465,559) |
| Fund balance, beginning of period | | 1,813,547 | |
| Fund balance, end of period | | \$ 1,716,953 | |

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

City of Newman
FEDERAL GRANTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Budget and Actual

| | Original and Final Budgeted Amounts | Actual Amounts Budgetary Basis | Variance with Final Budget |
|---|---|-----------------------------------|-------------------------------|
| Revenues: | | | |
| Intergovernmental | \$ 359,633 | \$ 359,631 | \$ (2) |
| From uses of money and property | - | 2 | 2 |
| Total revenues | 359,633 | 359,633 | - |
| Expenditures: | | | |
| Current: | | | |
| Community development | 359,690 | 277,865 | 81,825 |
| Total expenditures | 359,690 | 277,865 | 81,825 |
| Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses | \$ (57) | 81,768 | \$ 81,825 |
| Fund balance, beginning of period | | 978 | |
| Prior period adjustment | | 1,563,738 | |
| Fund balance, beginning of period restated | | 1,564,716 | |
| Fund balance, end of period | | \$ 1,646,484 | |

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

City of Newman
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2005

| | Business-type Activities | | Total |
|---|--------------------------|-------------------------|-------------------------|
| | Enterprise Funds | | |
| | Sewer | Water | |
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 3,676,973 | \$ 1,286,489 | \$ 4,963,462 |
| Cash with fiscal agent | 284,983 | - | 284,983 |
| Receivables: | | | |
| Accounts receivable | - | 217,208 | 217,208 |
| Due from other funds | 79,461 | - | 79,461 |
| Capital assets, net of accumulated depreciation | <u>3,186,457</u> | <u>772,148</u> | <u>3,958,605</u> |
| Total Assets | <u>\$ 7,227,874</u> | <u>\$ 2,275,845</u> | <u>\$ 9,503,719</u> |
| <u>LIABILITIES</u> | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 11,066 | \$ 11,066 | 22,132 |
| Deposits | - | 13,762 | 13,762 |
| Due to other funds | - | 76,592 | 76,592 |
| Accrued interest | 45,694 | 15,854 | 61,548 |
| Compensated absences | 18,546 | 17,491 | 36,037 |
| Current maturities of long term debt: | | | - |
| 1991 certificates of participation | 150,000 | - | 150,000 |
| Revenue Bonds | <u>12,000</u> | <u>25,000</u> | <u>37,000</u> |
| Total Current Liabilities | <u>237,306</u> | <u>159,765</u> | <u>397,071</u> |
| Long-term Liabilities | | | |
| 1991 certificates of participation | 2,470,000 | - | 2,470,000 |
| Revenue Bonds | <u>217,000</u> | <u>689,000</u> | <u>906,000</u> |
| Total Liabilities | <u>2,924,306</u> | <u>848,765</u> | <u>3,773,071</u> |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | 337,457 | 58,148 | 395,605 |
| Unrestricted | <u>3,966,111</u> | <u>1,368,932</u> | <u>5,335,043</u> |
| Total Net Assets | <u>\$ 4,303,568</u> | <u>\$ 1,427,080</u> | <u>\$ 5,730,648</u> |

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

City of Newman
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
June 30, 2005

| | Business-type Activities Enterprise Funds | | Total |
|--|--|---------------------|---------------------|
| | Sewer | Water | |
| Operating revenues: | | | |
| Fees for service | \$ 2,400,850 | \$ 1,147,405 | \$ 3,548,255 |
| Other | 129 | 5,119 | 5,248 |
| Total operating revenues | <u>2,400,979</u> | <u>1,152,524</u> | <u>3,553,503</u> |
| Operating expenses: | | | |
| Salaries | 251,585 | 158,579 | 410,164 |
| Fringe benefits | 117,530 | 80,573 | 198,103 |
| Operating | 226,302 | 208,957 | 435,259 |
| Insurance | 28,751 | 26,834 | 55,585 |
| Utilities | 175,421 | 88,652 | 264,073 |
| Other | 31,160 | 14,107 | 45,267 |
| Depreciation | <u>124,368</u> | <u>36,007</u> | <u>160,375</u> |
| Total operating expenses | <u>955,117</u> | <u>613,709</u> | <u>1,568,826</u> |
| Operating income (loss) | <u>1,445,862</u> | <u>538,815</u> | <u>1,984,677</u> |
| Non-operating revenues (expenses) | | | |
| Interest income | 48,082 | 13,868 | 61,950 |
| Interest expense | <u>(135,766)</u> | <u>(36,300)</u> | <u>(172,066)</u> |
| Total non-operating revenues (expenses) | <u>(87,684)</u> | <u>(22,432)</u> | <u>(110,116)</u> |
| Changes in Net Assets | 1,358,178 | 516,383 | 1,874,561 |
| Total Net Assets - beginning of the period | <u>2,945,390</u> | <u>910,697</u> | <u>3,856,087</u> |
| Total Net Assets - end of the period | <u>\$ 4,303,568</u> | <u>\$ 1,427,080</u> | <u>\$ 5,730,648</u> |

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

City of Newman
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

| | Business-type Activities | | Total |
|--|--------------------------|---------------------|---------------------|
| | Enterprise Funds | | |
| | Sewer | Water | |
| Cash flows from operating activities: | | | |
| Receipts from customers | \$ 2,400,979 | \$ 1,136,696 | \$ 3,537,675 |
| Payments to suppliers | (450,568) | (325,375) | (775,943) |
| Payments to employees | (368,078) | (235,895) | (603,973) |
| Net cash provided (used) by operating activities | <u>1,582,333</u> | <u>575,426</u> | <u>2,157,759</u> |
| Cash flows from capital and related financing activities: | | | |
| Principal payments on capital debt | (160,170) | (24,000) | (184,170) |
| Interest paid on capital debt | (135,766) | (36,300) | (172,066) |
| Purchase of fixed assets | (11,066) | (11,066) | (22,132) |
| Net cash provided (used) by capital and related financing activities | <u>(307,002)</u> | <u>(71,366)</u> | <u>(378,368)</u> |
| Cash flows from investing activities: | | | |
| Interest earned | 48,082 | 13,868 | 61,950 |
| Net cash provided by investing activities | <u>48,082</u> | <u>13,868</u> | <u>61,950</u> |
| Net increase (decrease) in cash and cash equivalents | 1,323,413 | 517,928 | 1,841,341 |
| Cash and cash equivalents - beginning of period | <u>2,638,543</u> | <u>768,561</u> | <u>3,407,104</u> |
| Cash and cash equivalents - end of period | <u>\$ 3,961,956</u> | <u>\$ 1,286,489</u> | <u>\$ 5,248,445</u> |
| Reconciliation of operating income (loss) to net cash provided (used in) operating activities: | | | |
| Operating income (loss) | \$ 1,445,862 | \$ 538,815 | \$ 1,984,677 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 124,368 | 36,007 | 160,375 |
| Changes in certain assets and liabilities: | | | |
| Accounts receivable | - | (15,828) | (15,828) |
| Compensated absences | 1,037 | 3,257 | 4,294 |
| Accounts payable | 11,066 | 13,175 | 24,241 |
| Total adjustments | <u>136,471</u> | <u>36,611</u> | <u>173,082</u> |
| Net cash provided (used) by operating activities | <u>\$ 1,582,333</u> | <u>\$ 575,426</u> | <u>\$ 2,157,759</u> |
| Cash and investments | | | \$ 4,963,462 |
| Restricted cash and investments with fiscal agent | | | <u>284,983</u> |
| Total cash and cash equivalents | | | <u>\$ 5,248,445</u> |

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

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Newman (the City) was incorporated June 10, 1908 under the general laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City operates under a Council-Manager form of government and provides the following services as authorized: Public Safety (police, fire and civil defense), highways and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services. The City also provides Water and Sewer services.

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units that are described below are all blended.

The Redevelopment Agency of the City of Newman (the Agency) is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency have been included in these financial statements in the Redevelopment Agency of the City of Newman Special Revenue Fund. The Agency was established February 6, 1990. A separate Annual Financial Report of the Agency is published and is available with the Agency Finance Director at the Agency's administrative office located at 1162 Main Street, Newman, CA 95360.

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (concluded)

Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

C. Major Funds

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund: This fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit that are not accounted for in another fund.

Public Facility Improvement Fund: This fund accounts for the improvement of public facilities funded by developer fees.

1997 Tax Allocation Bonds Fund: This fund accounts for the use of the proceeds from the June 30, 1997 housing bonds.

Debt Service Fund: This fund is used to account for principal and interest costs on the general debt service of the City.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Major Funds (concluded)

Federal Grants Fund: This fund accounts for activity relating to federal grants received by the City.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Fund: This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Newman.

Sewer Fund: This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Newman.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when "measurable" and "available". The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, certain charges for services and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (concluded)

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with GASB pronouncements.

E. Revenue Recognition for Water and Sewer Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There is one billing cycle per month that includes all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

F. Property Tax

The County of Stanislaus assesses properties, bills for, collects, and distributes property taxes for the City per the following schedule:

| | <u>Secured</u> | <u>Unsecured</u> |
|------------------|--|------------------|
| Valuation dates | March 1 | March 1 |
| Lien/levy dates | July 1 | July 1 |
| Due dates | 50% on November 1 50% on February 1 | July 1 |
| Delinquent as of | December 10, April 10 | August 31 |

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

G. Compensated Absences

Compensated absences comprise unused vacation leave and certain compensated time off, which are accrued as earned. The City's liability for compensated absences is recorded in various governmental funds or proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long term portion is recorded in the Statement of Net Assets. The amount of accrued sick pay is not due upon termination and therefore is not recorded as a liability of the City.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Compensated Absences (concluded)

The net changes of the compensated absences are allocated to departments on the Statement of Activities as follows:

| <u>Table 8</u> | |
|--|----------------------------------|
| <u>Changes in Business-Type Net Assets</u> | |
| | <u>Total Current Portion</u> |
| Police | <u>\$ 2,397</u> |

The General Fund has been used to liquidate compensated absences.

H. Budgets and Budgetary Accounting

The City Council annually adopts a preliminary budget by June 30 of the fiscal year for all governmental fund types. A final budget is usually adopted prior to September 30. The budgeted expenditures become the appropriations to the various departments. The budget includes estimates for revenue that, along with the appropriations, compute the budgetary fund balance. The appropriated budget covers substantially all governmental fund type expenditures with the exception of capital improvement projects (capital projects funds) carried forward from prior years, which constitute a legally authorized non-appropriated budget. The City Council may amend the budget at any time.

The City Manager may transfer funds from one object purpose (personnel services, operating expenditures or capital outlay expenditures) to another within the same department without changing the total budget of a department. A department head may transfer funds from like object categories of the same department with the Finance Director's approval. The City Council must approve changes to departmental level. All unused appropriations lapse at year-end.

The City Council adopts governmental fund budgets consistent with U.S. generally accepted accounting principles as legally required. There are no significant non-budgeted financial activities. Revenues for special revenue funds are budgeted by entitlements, grants and estimates of future development and economic growth. Expenditures and transfers are budgeted based upon available financial resources. Expenditures may not legally exceed budget appropriations at the fund type level.

On or before April 1 of each year, each department submits data to the City Finance Manager for budget preparation. Staff prepares the budget by fund, function, and activity. The budget includes information on past years, current year estimates, and requested appropriations for the next fiscal year. Before June 30, the City Council receives the proposed budget. The City Council holds public hearings and may amend the budget by a majority vote. Any changes to the budget must be within the available revenues and reserves.

The City uses an encumbrance system as an aid in controlling expenditures. When the City issues a purchase order for goods or services, it records an encumbrance until the vendor delivers the goods or performs the service. Encumbrances outstanding at year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

I. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

J. Excess of Expenditures or Expenses over Appropriations

The funds below incurred expenditures in excess of their budgets in the amounts below. Sufficient resources were available within each fund to finance their excesses.

| Fund/Department | Amount |
|----------------------------|------------|
| General Fund | \$ 440,023 |
| Special Revenue Funds: | |
| Business License Surcharge | 264 |
| Equipment Replacement | 111 |
| Redevelopment | 24,649 |
| General Fund | 440,023 |

NOTE 2 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

Investments are carried at fair value and are categorized as follows at June 30, 2005:

| | |
|--|----------------------|
| Cash with fiscal agent | \$ 575,164 |
| State of California Local Agency Investment Fund | 9,105,509 |
| Cash deposits with banks | <u>3,086,246</u> |
| Total cash and investments | <u>\$ 12,766,919</u> |

The City's total cash and investments consist of:

| | |
|---|----------------------|
| Cash and investments in City Treasury | \$ 12,191,755 |
| Restricted cash and investments with fiscal agent | <u>575,164</u> |
| Total City cash and investments | <u>\$ 12,766,919</u> |

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (continued)

A. Categorization of Credit Risk of Securities Instruments (concluded)

Cash and investments are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of bank failures, the City's deposits may not be returned. The City's policy is that deposits will be made in institutions in California; they will be insured or collateralized in accordance with State Law. At June 30, 2005, \$3,743,380 of the City's bank balances of \$3,943,380 was exposed to credit risk as follows:

| | |
|--|--------------|
| Uninsured and collateral held by the pledging bank's agent but not in the City's name: | \$ 3,743,380 |
|--|--------------|

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments in LAIF and the fiscal agent money market funds are not evidenced by specific securities and therefore, are not subject to custodial credit risk.

B. Authorized Investments

The City's investment policy and section 53601 of the California Government Code allows the following investments:

- A) Certificates of Deposit
- B) Obligations of the State of California.

The City does not enter into reverse repurchase agreements.

The City's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material, and it includes the effects of these adjustments in income for that fiscal year.

The City places certain funds with the State of California's Local Agency Investment Fund (LAIF). The City is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the City's investment in this pool is reported in the accompanying financial statements 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).

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (concluded)

B. Authorized Investments (concluded)

The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours notice. Financial statements for LAIF can be obtained from the California State Treasurer's Office: State Treasurer's Office, 915 Capitol Mall, Suite 110, Sacramento, CA 95814.

The management of the State of California Pooled Money Investment Account has indicated to the City that as of June 30, 2005 the carrying amount of the pool was \$60,503,473,770 and the estimated market value of the pool (including accrued interest) was \$60,635,664,345. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes, totaling \$184,320,000 and asset-backed securities totaling \$1,271,413,000. LAIF's (and the City's) exposure to risk (credit, market or legal) is not currently available.

NOTE 3 - INTER-FUND TRANSACTIONS

Due to/from Other Funds

Current inter-fund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2005 inter-fund balances comprised the following:

| | Due from Other Funds | Due to Other Funds |
|-------------------------|-------------------------|-----------------------|
| General Fund | \$ - | \$ 2,869 |
| Water (enterprise fund) | - | 76,592 |
| Sewer (enterprise fund) | 79,461 | - |
| | \$ 79,461 | \$ 79,461 |

Internal Balances: Internal balances are presented in the City-wide financial statements only. They represent the net inter-fund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 4 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. City policy has set the capitalization threshold for reporting capital assets at the following:

| | |
|-------------------------------|----------|
| General capital assets | \$ 5,000 |
| Infrastructure capital assets | 25,000 |

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 4 - CAPITAL ASSETS (continued)

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro-rata share of the cost of capital assets. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

| | |
|--|-------------|
| 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 |
| Traffic Signals | 20 years |
| Water and Sewer Lines | 40 years |

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

| | Balance 7/1/04 | Additions | Deletions | Balance 6/30/05 |
|--------------------------|---------------------|---------------------|-------------|---------------------|
| Land (not depreciated) | \$ 1,184,274 | \$ 207,256 | \$ - | \$ 1,391,530 |
| Buildings | 1,433,030 | - | - | 1,433,030 |
| Equipment | 1,458,082 | 201,629 | - | 1,659,711 |
| Streets and Roads | 767,789 | 812,551 | - | 1,580,340 |
| Improvements | 139,359 | 74,831 | - | 214,190 |
| Total Cost | 4,982,534 | <u>\$ 1,296,267</u> | <u>\$ -</u> | 6,278,801 |
| Accumulated depreciation | <u>(1,029,258)</u> | | | <u>(1,257,867)</u> |
| Net Capital Assets | <u>\$ 3,953,276</u> | | | <u>\$ 5,020,934</u> |

The changes in proprietary fund types fixed assets for the fiscal year are:

| | Balance 7/1/04 | Additions | Deletions | Balance 6/30/05 |
|---------------------------------------|---------------------|------------------|-------------|---------------------|
| Enterprise Funds | | | | |
| Land (not depreciated) | \$ 1,460,000 | \$ - | \$ - | \$ 1,460,000 |
| Buildings | 94,931 | - | - | 94,931 |
| Plant and equipment | 5,280,327 | 22,132 | - | 5,302,459 |
| Total cost | 6,835,258 | <u>\$ 22,132</u> | <u>\$ -</u> | 6,857,390 |
| Accumulated depreciation | <u>(2,738,410)</u> | | | <u>(2,898,785)</u> |
| Net book value of enterprise funds | <u>\$ 4,096,848</u> | | | <u>\$ 3,958,605</u> |

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 4 - CAPITAL ASSETS (concluded)

Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities

| | | |
|-------------------------------|----|---------|
| General government | \$ | 46,030 |
| Police | | 131,500 |
| Fire | | 37,929 |
| Parks and recreation | | 13,150 |
| Total governmental activities | \$ | 228,609 |

Business-Type Activities

| | | |
|--------------------------------|----|---------|
| Water | \$ | 124,368 |
| Sewer | | 36,007 |
| Total business-type activities | \$ | 160,375 |

NOTE 5 - LONG-TERM DEBT

A. Changes in Long-Term Debt

The following is a summary of bond transactions of the City for the year ended June 30, 2005:

| | Governmental Activity | Business Type Activity | Total |
|--------------------------------|--------------------------|------------------------------|--------------|
| Debt payable at July 1, 2004 | \$ 3,532,987 | \$ 3,774,743 | \$ 7,307,730 |
| Change in compensated absences | 2,397 | 4,294 | 6,691 |
| Debt retired | (105,000) | (180,000) | (285,000) |
| Debt payable at June 30, 2005 | \$ 3,430,384 | \$ 3,599,037 | \$ 7,029,421 |

B. Revenue Bonds

\$400,000 Sewer Revenue Bonds of 1978 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, 2005 is \$229,000.

\$1,050,000 Water Revenue Bonds of 1982 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, 2005 is \$714,000.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 5 - LONG-TERM DEBT (continued)

B. Revenue Bonds (concluded)

The annual requirements to amortize all Water and Sewer Revenue Bonds outstanding as of June 30, 2005, including interest payments, are as follows:

| <u>Sewer Revenue Bonds</u> <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|-------------------|------------------|-------------------|
| 2006 | \$ 12,000 | \$ 10,950 | \$ 22,950 |
| 2007 | 12,000 | 10,350 | 22,350 |
| 2008 | 13,000 | 9,750 | 22,750 |
| 2009 | 14,000 | 9,150 | 23,150 |
| 2010 | 15,000 | 8,550 | 23,550 |
| 2011 and thereafter | <u>163,000</u> | <u>37,250</u> | <u>200,250</u> |
| Total | <u>\$ 229,000</u> | <u>\$ 86,000</u> | <u>\$ 315,000</u> |

| <u>Water Revenue Bonds</u> <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|-------------------|-------------------|---------------------|
| 2006 | \$ 25,000 | \$ 35,075 | \$ 60,075 |
| 2007 | 27,000 | 33,775 | 60,775 |
| 2008 | 28,000 | 33,100 | 61,100 |
| 2009 | 29,000 | 31,700 | 60,700 |
| 2010 | 31,000 | 30,250 | 61,250 |
| 2011 and thereafter | <u>574,000</u> | <u>204,075</u> | <u>778,075</u> |
| Total | <u>\$ 714,000</u> | <u>\$ 367,975</u> | <u>\$ 1,081,975</u> |

C. 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 certificates mature through 2009 as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|--------------------|--------------------|--------------------|
| 2005 | \$ 150,000 | \$ 128,492 | \$ 278,492 |
| 2006 | 155,000 | 122,118 | 277,118 |
| 2007 | 165,000 | 115,298 | 280,298 |
| 2008 | 170,000 | 107,872 | 277,872 |
| 2009 | 180,000 | 100,052 | 280,052 |
| 2010 and thereafter | <u>1,800,000</u> | <u>541,025</u> | <u>2,341,025</u> |
| Total | <u>\$2,620,000</u> | <u>\$1,114,857</u> | <u>\$3,734,857</u> |

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 5 - LONG-TERM DEBT (concluded)

C. Certificates of Participation (concluded)

In the year ended June 30, 1997 the City issued tax allocation project and housing bonds. The 1997 tax allocation bonds have the following redemption schedule:

| <u>Maturity Date August 1</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|---------------------|---------------------|---------------------|
| 2005 | \$ 110,000 | \$ 170,956 | \$ 280,956 |
| 2006 | 115,000 | 163,925 | 278,925 |
| 2007 | 120,000 | 156,311 | 276,311 |
| 2008 | 125,000 | 149,800 | 274,800 |
| 2009 | 115,000 | 143,923 | 258,923 |
| 2010 and thereafter | <u>2,620,000</u> | <u>1,355,742</u> | <u>3,975,742</u> |
| Total | <u>\$ 3,205,000</u> | <u>\$ 2,140,657</u> | <u>\$ 5,345,657</u> |

D. 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 said unpaid principal balance as it declines at the rate of five and one-half percent per annum. There is no fixed payment schedule. The maturity date is December 26, 2006.

E. Compensated Absences Payable

There is no fixed payment schedule to pay the liability of \$118,321 for compensated absences through June 30, 2005.

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN

Plan Description:

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.

Funding Policy:

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 0.0% for non-safety employees, 11.821% for police employees, of annual covered payroll. The contribution requirements of plan members and the City are established, and may be amended, by PERS.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN (concluded)

Annual Pension Cost:

For 2005, the City's annual pension cost of \$308,522 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (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) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level % of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

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> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/01 | \$ 141,275 | 100% | \$ -0- |
| 6/30/02 | \$ 145,806 | 100% | \$ -0- |
| 6/30/03 | \$ 208,920 | 100% | \$ -0- |

Required Supplementary Information - Miscellaneous Plan (in hundreds)

| | (A) | (B) | (C) | (D) | (E) | (F) |
|----------------|------------------------------------|---------------------------|--|-------------------------|------------------------|---------------------------------------|
| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Liability (Excess Assets) [(A)-(B)] | Funded Status [(B)/(A)] | Annual Covered Payroll | UAAL as a % of Payroll {(A)-(B)}/(E)} |
| 6/30/01 | \$2,245,437 | \$2,770,330 | \$(524,899) | 123.4% | \$706,575 | (74.3)% |
| 6/30/02 | \$2,477,109 | \$2,639,460 | \$(162,351) | 106.6% | \$809,950 | (20.0)% |
| 6/30/03 | \$2,596,967 | \$2,372,879 | \$(224,088) | 91.4% | \$725,021 | (30.9)% |

Required Supplementary Information - Safety Plan (in hundreds)

| | (A) | (B) | (C) | (D) | (E) | (F) |
|----------------|------------------------------------|---------------------------|--|-------------------------|------------------------|---------------------------------------|
| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Liability (Excess Assets) [(A)-(B)] | Funded Status [(B)/(A)] | Annual Covered Payroll | UAAL as a % of Payroll {(A)-(B)}/(E)} |
| 6/30/01 | \$1,684,375 | \$1,802,244 | \$(117,869) | 107.0% | \$472,266 | (25.0)% |
| 6/30/02 | \$2,135,436 | \$1,751,383 | \$384,053 | 82.0% | \$511,821 | 75.0% |
| 6/30/03 | \$4,270,574 | \$3,577,742 | \$692,832 | 83.8% | \$476,090 | 145.5% |

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City obtains insurance coverage.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

Since 1986, the City has joined together with other cities to form a public entity risk pool known as the Central San Joaquin Valley Risk Management Authority - CSJVRMA (the Authority), which covers general liability claims up to \$14,000,000, property damage up to \$750,000,000, and boiler and machinery up to \$100,000,000. The City has a self-insured retention or deductible of various amounts per claim. Once the City's self-insured retention for general liability claims is met, CSJVRMA becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2005 the City contributed \$83,620 for coverage during the current year.

The Authority covers workers' compensation claims up to \$3,000,000 and provides additional coverage up to \$98,000,000. The City has self-insured retention of up to \$500,000 per claim. During the fiscal year ended June 30, 2005, the City contributed \$76,860 for current year coverage.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Financial statements for the risk pools may be obtained from CSJVRMA, 1831 K Street, Sacramento, CA 95814.

NOTE 8 - NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 - NET ASSETS AND FUND BALANCES (continued)

A. Net Assets (concluded)

Invested in Capital, net of related debt describes the portion of Net Assets that is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets that is not restricted to use.

B. Fund Balances, Reserves and Designations

In the Fund Financial Statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

C. Reserves

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity that provided the funds. The City cannot modify or remove these restrictions or reserves. At June 30, 2005, reservations included:

Reserves for advances, inventories, deferred receivables and notes receivable, and prepaid expenses are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for encumbrances represents the portion of fund balance set aside for open purchase orders.

Reserve for capital projects is the portion of fund balance to be used for construction within the various community facilities districts of the City.

Reserve for low and moderate income housing is the portion of redevelopment fund balance legally required to be set-aside for low and moderate income housing expenditures.

Reserve for debt service is the portion of fund balance legally restricted for the payment of principal and interest on long-term liabilities.

Unreserved fund balance in the General Fund represents the resources available at June 30, 2005 to meet the financial needs of the City through approximately December 10, 2005 when the next property tax payment is due from the County. Unreserved fund balance in the Special Revenue and Capital Projects funds are not available for general expenditures as they are reserved for the particular purposes of the funds in which they reside.

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 8 - NET ASSETS AND FUND BALANCES (concluded)

D. Designations

A portion of the unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period. Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

E. Fund Balance and Net Assets Deficits

The following funds had deficit fund balances at June 30, 2005:

Special Revenue Funds
 State grants
 Gas Tax
 Local Transportation

F. Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain difference between the governmental funds balance sheet and the government-wide statement of net assets: The governmental funds balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term debt, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$3,348,100) difference are as follows:

| | |
|--|-----------------------|
| Long-term debt: | |
| Certificates of Participation | \$ (3,205,000) |
| Community Perk Loan | <u>(143,100)</u> |
| Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental assets | <u>\$ (3,348,100)</u> |

NOTE 9 - CONTINGENT LIABILITIES

The City is a defendant 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 government.

NOTE 10 - LOANS RECEIVABLE

The Agency had the following loans receivable at June 30, 2005:

| | |
|-----------------------------------|---------------------|
| McBride | \$ 9,375 |
| Home Investment Partnership Loans | 1,645,858 |
| Bigelow #2 | 159,309 |
| Hernandez | 70,000 |
| Caetano Pometta | 30,527 |
| Bigelow #3 | <u>22,500</u> |
| Total | <u>\$ 1,937,569</u> |

City of Newman
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 10 - LOANS RECEIVABLE (concluded)

A five year loan was 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 at June 30, 2005 was \$9,375.

The City has provided loans to various homeowners and businesses for rehabilitation. The management of the loan process has been subcontracted to Self-Help Enterprises, a not-for-profit corporation located in Visalia, California. The maximum loan amount is \$140,000 carrying various interest rates and payment dates. Although these notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance. The balance of these notes at June 30, 2005 was \$1,645,858.

A loan was issued to Mr. Javier Hernandez for \$70,000 on July 22, 2004 as a deferred payment loan; payment is made when the home sells or the title transfers. The loan receivable balance at June 30, 2005 was \$70,000.

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 at June 30, 2005 was \$30,527.

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

| | <u>Amount</u> | <u>Interest Rate</u> | <u>Date Issued</u> | <u>Monthly Payments</u> | <u>Balance 6/30/05</u> | <u>Term</u> |
|------------|---------------|--------------------------|------------------------|-----------------------------|----------------------------|-------------|
| Bigelow #2 | \$190,231 | 5% | 1/1/02 | \$1,504.34 | \$159,309 | 15 yrs |
| Bigelow #3 | 22,500 | 5% | 7/1/02 | 434.60 | 22,500 | 5 yrs |

NOTE 11 - PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$1,563,738 relates to Home Investment Partnerships loans that were not recorded at June 30, 2004.

R. J. RICCIARDI, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

1000 FOURTH STREET • SUITE 400 • SAN RAFAEL, CA 94901 • TEL (415) 457-1215 • FAX (415) 457-6735 • www.rjrca.com

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

To the City Council
City of Newman
Newman, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Newman, CA as of and for the year ended June 30, 2005, which collectively comprise City of Newman, CA's basic financial statements and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

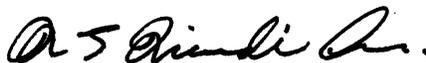
Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Newman, CA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of City of Newman, CA in a separate letter dated January 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Newman, CA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of City of Newman, CA in a separate letter dated January 20, 2006.

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



R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
January 20, 2006