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COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2012
STOCKTON, CALIFORNIA**



CITY OF STOCKTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012
CITY OF STOCKTON, CALIFORNIA

Prepared and Issued by
Administrative Services Department

VANESSA BURKE
Chief Financial Officer





CITY OF STOCKTON



INTRODUCTORY SECTION

City of Stockton
Comprehensive Annual Financial Report
For the year ended June 30, 2012

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CITY OF STOCKTON

CITY HALL • 425 N. El Dorado Street • Stockton, CA 95202 • 209/937-8499
www.stocktongov.com

December 9, 2013

Honorable Mayor,
City Council Members and
Citizens of the City of Stockton, California

The Stockton City Charter, federal grant regulations and agreements with investors require the City of Stockton, California (“City”) to publish a complete set of financial statements presented in conformance with Generally Accepted Accounting Principles (“GAAP”) and audited by a firm of licensed certified public accountants. Pursuant to that requirement, we respectfully submit the Comprehensive Annual Financial Report (“CAFR”) of the City of Stockton for the fiscal year ended June 30, 2012.

The status of the City’s annual financial reporting has been the subject of much discussion with the bankruptcy court, municipal financial markets, Audit Committee, City Council and citizens of Stockton. This report has been delayed in order to undertake a major effort to review and correct the City’s accounting records following fiscal year 2010-2011. Correcting entries in last year’s CAFR across all City funds resulted in addressing nearly \$100 million in restatements.

The Finance team has engaged in several efforts concurrently, including: supporting the City’s June 28, 2012 petition for protection under chapter 9 of the United States Bankruptcy Code; preparing documentation to address subsequent legal challenges from creditors; and support of mediation to reach tentative agreements with creditors following the April 1, 2013, confirmation of the City’s bankruptcy eligibility. In addition, the Finance team and the new Internal Auditor have been engaged in an extensive review of the City’s internal controls, financial information and operations. This important work has resulted in an internal audit plan and risk assessment that will help the City as it emerges from bankruptcy.

The City of Stockton has undergone eighteen audits in two years, delivered thousands of records to the bankruptcy courts, defended itself against its creditors, negotiated with the majority of creditors to a proposed plan of adjustment, and received a “clean” or unqualified audit opinion in both its fiscal year 2012 and 2011 CAFRs.

Reports in prior years were timely but due to errors in financial reporting may have resulted in producing information that was not useful or meaningful in the City’s critical decision making. Under City Council’s fiscal sustainability goal to “Get Our Fiscal House in Order,” we have significantly improved the accuracy, usefulness and reliability of our financial reports. In fiscal year 2012, we are pleased to report that restatements have decreased substantially. Our goal is to provide transparent financial reporting on a timely basis.

The Governmental Accounting Standards Board (“GASB”) establishes GAAP for local and state governments in the United States and Canada. Its counterpart for private-sector entities is the Financial Accounting Standard Board (“FASB”). The American Institute of Certified Public Accountants and state and federal regulators require that financial reports follow Generally Accepted Accounting Principles, referred to as GAAP, in order to receive an unqualified audit opinion. Additional standards that govern disclosures in the CAFR are derived from the Government Finance Officers Association of the United States and Canada (“GFOA”) and the California Committee on Municipal Accounting (“CCMA”).

GAAP requires management to provide a narrative overview and analysis discussing the City’s financial position to accompany the basic financial statements. This narrative overview is called Management’s Discussion and Analysis (“MD&A”) and provides an analytical overview of the City’s financial position for its major funds, as defined by GAAP, on a government-wide basis. This letter of transmittal is intended to complement the MD&A and not duplicate the MD&A. It provides additional qualitative information to improve the reader’s understanding of the information presented in the CAFR. This year, the transmittal letter presents the progress of events and conditions discussed in the transmittal of the 2011 CAFR and a brief summary of history making events, including conditions leading up to the City of Stockton as the then largest City in the United States to seek bankruptcy protection in June 2012.

This CAFR conforms to the requirements established by the City’s Charter, GFOA and agreements with investors. It includes basic financial statements, footnotes, supplemental information required by GASB for GAAP financial reports, MD&A of the financial statements, the City’s independent auditor’s opinion regarding the conformance of the financial statements with GAAP, and other information required to conform to GFOA standards.

INDEPENDENT AUDIT

The City Charter, Article XIX, Section 1911, requires that an independent audit be made of all City accounts each fiscal year by certified public accountants. For a period of ten years, the City’s financial statements were audited by Macias, Gini & O’Connell LLP. Consistent with the City Council’s goal to improve accounting and financial reporting, management concluded that a change in auditors would bring a new perspective regarding the City’s systems and financial condition. Maze & Associates performed the 2011 audit and issued an unqualified opinion for the fiscal year 2011. After the monumental effort by City staff and Maze & Associates, to clean up nearly \$100 million in restatements, the firm determined that they were not able to meet the scheduled timing for each of the next fiscal year audits. The City issued a formal request for proposal and selected Pun and McGeady LLP, an independent firm of licensed certified public accountants, to complete the audit for fiscal years 2012 and 2013.

City management acknowledges that it is responsible for this CAFR and has completed the analysis required to assure that the financial statements are materially

correct and in conformance with GAAP. The City's comprehensive system of internal controls is the subject of ongoing efforts to improve the timeliness and accuracy of the CAFR and management reporting. The purpose of the independent audit is to provide reasonable assurance that the financial statements of the City of Stockton as of, and for, the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Based on the audit, the independent auditors concluded that there was reasonable basis for rendering an unqualified opinion which states that the City's financial statements as of, and for, the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. Important information was also included in the opinion commenting on the City's ability to continue as a going concern, the subsequent filing for chapter 9 bankruptcy, and the dissolution of the Redevelopment Agency.

The independent auditor's report begins on page 1 of the financial section of this report.

SINGLE AUDIT REPORT TO FEDERAL GRANTOR AGENCIES

The independent audit of the City's CAFR for the fiscal year ended June 30, 2012, is part of a broader, federally mandated "Single Audit" designed to meet the needs of federal granting agencies. The standards governing Single Audit engagements require the independent auditor to report on the fair presentation of the financial statements and on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. Additional federal grant reporting requirements and Single Audit review is required of grant awards received under Office of Management and Budget Circular A-133 and the American Recovery and Reinvestment Act ("ARRA"). Information relating to the Single Audit is available in the separately issued Single Audit Report.

There have been delays in the timely completion of the fiscal year 2012 and 2011 Single Audits, which have resulted in threats of sanctions against the City. To date, no funding has been lost as a result of the sanctions. Authorizations for federally funded projects were frozen, then lifted, then frozen again in October 2013. The City expects to submit the 2012 Single Audit report in time so that impacts to its federally funded projects are not anticipated. There is no effect from these sanctions on the financial statements at June 30, 2012.

PROFILE OF THE GOVERNMENT

The City of Stockton is located in the center of California's agriculturally robust San Joaquin Valley and is the seat of San Joaquin County. Stockton is located about 80 miles east of the San Francisco Bay Area ("Bay Area") and 40 miles south of Sacramento, the capitol of California. It is connected to the Bay Area by the ACE commuter train and several major freeways. Driving time to the Bay Area ranges from 45 minutes to 90 minutes, depending on the destination.

The City encompasses nearly 65 square miles and has an estimated population in January 2013 of approximately 296,344, making it the 13th largest city in California. Stockton is surrounded by the rich and fertile lands of the California Central Valley and is home to the furthest inland deep water seaport in California. The City has a diversified economic base as a regional center for commerce, both in agricultural and manufacturing export trade activities. Its distribution of sales tax producing businesses mirrors the diversity of the average of all California cities. The University of the Pacific, California State University-Stanislaus, Stockton campus and San Joaquin Delta Community College are all located in Stockton. Four school districts serve K-12 students within the City limits.

GOVERNMENT STRUCTURE AND TYPES OF SERVICES

One of the oldest cities in the State of California, Stockton was founded in 1849 and incorporated in 1850. Stockton's first local Charter under the 1879 State Constitution was approved by the voters in 1888 and ratified by the State Legislature in 1889. The current Charter, under which the City operates, was approved by the voters in November 1922 and became effective in 1923. This Charter changed the City from a commission form of government to the current City Council – City Manager form of government. The City Charter has been amended over 100 times since its approval in 1922.

Under the Council-Manager form of government, policy-making and legislative authority are entrusted to the City Council. The Mayor and representatives from six districts are chosen by city-wide election for staggered four year terms, with a two term limit. The City Manager is responsible for carrying out the policies and ordinances of the City Council, appointing department heads and overseeing the operation of the City. The City Manager, City Attorney, City Auditor, and City Clerk are appointed by the City Council.

The City provides a full range of municipal services. As provided by City Charter these services include: public safety (police and fire), community development, economic development and affordable housing, public works and street maintenance, parks, recreational services, libraries, utilities providing water, wastewater, stormwater and drainage and, through contracts and franchises, solid waste disposal and recycling. The City serves approximately 55% of water and 100% of wastewater accounts in the City. California Water Service Company ("Cal Water"), an investor-owned company, provides water service to 42% of the accounts, and San Joaquin County provides water service to the remaining 3% of accounts within the City. Under contract with the City, Cal Water provides unified billing services for the City's utilities for the water accounts that Cal Water serves. San Joaquin Regional Transit District provides fixed-route and paratransit bus service in the City and throughout San Joaquin County.

Certain community development, revitalization activities and infrastructure construction were previously provided through the Stockton Redevelopment Agency ("Agency"), a legally separate entity. Effective February 1, 2012, all city and county redevelopment agencies in California were dissolved as a result of State legislation that was upheld by the State Supreme Court. Actions required to wrap-up the affairs of the Agency have been transferred to the Successor Agency of the City of

Stockton ("Successor Agency"). The City Council also sits as the Successor Agency's Board; however, all actions pertaining to the Successor Agency's obligations are made by the Successor Agency Oversight Board, which is comprised of members representing the interests of local jurisdictions affected by redevelopment activities and revenue claims, including the City. The City receives revenues from the Successor Agency for administrative support provided to the Agency by the City's Economic Development Department.

This report includes the financial activity of separate legal entities controlled by the City. These entities include:

- Stockton Redevelopment Agency from July 1, 2011 to January 31, 2012, and
- Stockton Public Financing Authority.

The Successor Agency's financial statements are reported as a private-purpose trust fund in these financial statements.

FACTORS AFFECTING FINANCIAL CONDITION

The financial information presented in the financial statements is best understood when it is considered from the broader perspective of the environment within which the City of Stockton operates.

PAST YEAR ACCOMPLISHMENTS AND CHALLENGES

The City of Stockton's advantages in location, markets and access made Stockton a magnet for real estate development from 2000 to 2007. These attributes attracted residents who commuted to high-paying jobs in the Bay Area, exposing the local economy and the City to financial risks when the housing and financial markets collapsed. In 2008, the City recorded the highest revenue levels in its history. In the preceding five years, permits for single-family dwellings had swelled to nearly 3,000 per year when the historical 10 year average was 800. This signaled anticipated future population growth of nearly 10,000 people per year. During this same period, the City issued an additional \$268.9 million of debt for governmental activities with a pledge from the general fund.

During the next three years, General Fund revenues dropped by 25%, tax increment revenues dropped by 65% and sales tax revenues fell by 22%, prompting the City to aggressively and continuously cut programs, services, staffing levels and the costs of compensation and benefits. Police staffing was reduced by 25%, Fire staffing by 30% and non-safety staffing by 43%, while reducing the City contribution to health benefits by 16%. This led to dangerously low service levels in a city with one of the highest crime rates in the nation and the second highest homicide rate in California.

Major investment losses in equity markets impacted the California Public Employees Retirement System ("CalPERS") that, before the decade began, was essentially fully funded with contribution rates far below the normal cost of the City's safety and non-safety plans. The combination of investment losses and shrinking payrolls caused by the Great Recession, and pension benefits improvements granted when funding levels were high, increased the City's required retirement contribution rates, offsetting the savings from aggressive and continuous cost cutting. Ultimately, the

City's costs for pensions swelled to levels beyond what it was paying to employ its active workforce; this was unsustainable.

The unfunded liability for the City's retiree medical insurance program exceeded \$540 million and was projected to increase rapidly. Liability and Workers' Compensation funds were also underfunded and balances had dropped below prudent levels. Rising payments on employee benefits and back loaded debt payments, issued years before to build infrastructure and amenities, had exhausted the City's financial reserves despite draconian efforts to reduce costs. Rather than spiraling into an uncontrolled bankruptcy, the City sought to mediate with its creditors under a state-mandated, pre-bankruptcy mediation process under Assembly Bill 506. Absent settlements that could fix the \$26 million budget deficit anticipated for 2012-13, the City sought the protection of bankruptcy as a last resort in June 2012.

While the chapter 9 petition was pending, the City adopted a Pendency Plan budget for Fiscal 2012-2013, which could only be balanced by eliminating \$26 million in expenditures, allowing the City to continue to provide a minimum level of public safety and community service levels. These reductions fell heavily on employees, retirees, bond insurers and others with long-term contractual obligations with the City.

Because of the size and scope of the concessions and reductions sought by the City, its creditors immediately challenged the City's contention that it was eligible for bankruptcy. This resulted in a nine month long, expensive legal battle where the City had the burden of proof to show it was insolvent. On April 1, 2013, Judge Christopher Klein ruled the City had negotiated in good faith, was insolvent and that it was eligible for chapter 9 bankruptcy protection. Prior to the Judge's ruling, the City had reached agreements with its nine labor unions, one bond insurer and its retirees with the help of Court-appointed mediator, Judge Elizabeth Perris. Judge Perris has continued to work with the City and its creditors. As of the date of this letter, tentative agreements have been reached with the majority of the City's major creditors and have been incorporated into the proposed plan of adjustment, which was filed October 10, 2013. A status conference is scheduled for November 18, 2013, and the City anticipates the plan will be set for trial in spring 2014. A copy of the proposed plan of adjustment and schedule is available on the City's web site.

Without more revenue and progress toward rebuilding the City's reputation as a safe place to live, work and invest, the community's long term viability would be at risk. Voter approval of a ¾ cent sales tax increase initiative was essential and the City's proposed plan of adjustment was predicated on its success. On November 5, 2013, voters approved Measures A and B, which will generate an estimated \$6.7 million in revenues in the first partial year and a projected \$28 million in future full fiscal years.

Reporting a bankruptcy filing as a major accomplishment in Fiscal 2011-2012 seems contrary to the normal measurements of a government's success. However, it was the only chance the City had to restore services and ensure fiscal sustainability for generations to come.

Since filing for protection under chapter 9, the City Council has maintained its strategic focus on the Council's four primary goals:

1. Fiscal Sustainability – “Getting our fiscal house in order” – by securing confirmation of our financial restructuring plan and submitting a ¾ per cent sales tax increase for voter approval.
2. Increasing Public Safety – both real and perceived - by implementing a community-wide violence reduction strategy with the Marshall Plan on Crime.
3. Economic Development – by facilitating investment and job creation.
4. Increasing Organizational Capacity - by assembling a highly experienced management team, working closely with employees and labor organizations, and focusing on restoring service to the community.

In recent months violent crime has dropped dramatically, financial issues are clearly in focus and being resolved, and the City is beginning to address many strategic initiatives to improve efficiencies. The progress made in improved agreements with employees, retirees, labor groups and creditors will create a foundation for future successes that will move Stockton forward as the country emerges from the Great Recession.

For detailed information about the City Council's actions taken subsequent from the end of Fiscal 2011 to the present, please refer to the City's website for:

- AB506 mediation - www.stocktongov.com/ab506publicrecords
- Chapter 9 bankruptcy - www.stocktongov.com/bankruptcy, and
- Budget – www.stocktongov.com/budget.

The City's financial disclosures are available on the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") website at <http://emma.msrb.org>.

For more detailed analysis of financial performance of the City, refer to the Management's Discussion and Analysis sections titled *Financial Analysis of the City's Funds* and *General Fund Budgetary Highlights*.

THE LOCAL ECONOMY AND CITY FINANCIAL CONDITION

According to University of the Pacific's Eberhardt School of Business, Business Forecasting Center September 2013 projections, Stockton will see gradual growth in its economy over the next five years. The region has yet to show any rebound like the other parts of California. Based on forecasts, discussions with the San Joaquin County Assessor, and the City's tax consultants, we have projected a 2.3% growth in revenues in fiscal 2014. After filing for bankruptcy, which helped close a \$26 million 2012-13 budget gap, revenues have roughly kept pace with the reduced level of expenditures required to provide current service levels. The local economy is expected to benefit from the opening of a new Department of Corrections health care facility that will create thousands of professional, high-skilled jobs. This will cause Stockton to lead the county in job growth, but future trends for growth are expected

to be gradual with unemployment rates remaining at approximately 50% above the statewide rate and about 150% above San Francisco-Bay Area rates.

Because of the large number of vacant and foreclosed properties, our Community Development Department does not expect a normal housing market to become established until 2016 or 2017. The City Council's focus on increasing public safety through the Marshall Plan on Crime aims at improving the health, safety and welfare of the community, hiring 120 additional police officers over a 3 year period, and supporting investment by businesses and in real estate in Stockton.

The lack of growth in the region compared to other parts of California will pose challenges in operating efficiently and effectively within our means. Service and cost management initiatives currently underway and those planned after the City emerges from bankruptcy are intended to address these challenges.

PLAN OF ADJUSTMENT AND FINANCIAL RECOVERY

On October 10, 2013, the City filed a proposed plan of adjustment to restructure its obligations, which, if accepted, will reduce the City's long-term obligations by an excess of \$2 billion and allow the City to emerge from bankruptcy. Bankruptcy counsel anticipates that the chapter 9 confirmation process could be completed by early 2014. The proposed plan is subject to continuing mediation and negotiation and could change before it is confirmed by the court. If confirmed in spring 2014, the bankruptcy process will have consumed nearly two years, with the first nine months spent in litigation over eligibility.

Current information, including a copy of the plan of adjustment, is available on the City's web site at www.stocktongov.com/bankruptcy.

RESERVE POLICIES

The City Council has adopted policies establishing minimum target levels of unassigned fund balance to be maintained in the various funds.

Target amounts protect the City's financial exposure to severe unforeseen emergencies and economic uncertainties and are an important component of the City's long-term financial management.

The following Council policies are accessible from the City's web site:

- [700-4](#) Reserve Policy – General Fund
5% of appropriations for catastrophic events and 5% for economic contingencies and budget uncertainty
- 700-5 Reserve Policy – Municipal Utilities Department Operating Funds
Six months of operational expenses
- [500-2](#) Public Safety – Measure W Oversight Committee
25% of anticipated annual revenues

The current financial crisis has prevented the City from achieving these established reserves for the General Fund at June 30, 2012. Unassigned and available General Fund balances were negative at the end of the fiscal year. Measure W and

Municipal Utilities are restricted funds and are below but near their minimum reserve levels and are monitored during the year.

The reserve policies were adopted with the goal to accumulate the targeted reserves over the course of future years. The City's Charter contemplates, but does not require, a reserve equal to five months of expenditures to provide working capital and mitigate the uneven flow of revenues.

The current General Fund target reserve policy is due for a review and revision to accommodate changes in accounting principles and evaluate the adequacy of reserves once it emerges from the Plan of Adjustment and its bankruptcy process.

DEBT POLICIES

The City's debt policies are reviewed by the Debt Policy Committee and adopted by the City Council. The *Capital Financing and Debt Management Policy* and the *Policies and Procedures for Land-Secured Financing* are available on the City of Stockton web site:

www.stocktongov.com/adminservices/documents/2008-ADOPTED-CIPDebtPolicies-Procedures-FINALIZED06Jun08.pdf

www.stocktongov.com/adminservices/documents/2008-ADOPTED-LandSecuredDebtPolicies-Procedures-FINALIZED06Jun08.pdf

INVESTMENT POLICY

The City adopts an investment policy annually that provides guidelines for the prudent investment of the City's cash balances. In late 2006 with the support of the Budget, Finance and Economic Development Committee, the City Council authorized the Administrative Services Department to contract for investment portfolio management services. Effective July 1, 2007, the City entered into an agreement with Chandler Asset Management for management of the City's long-term investment portfolio. Both the City's long-term investment portfolio management and daily liquid cash requirements are overseen by the Administrative Services Department.

The City's investment policy is posted to the City's web site:

http://www.stocktongov.com/files/2011-12_Investment_Policy.pdf

CASH AND INVESTMENTS

The California Government Code, and the City's investment policy adopted in compliance with that Code, defines how the City's cash can be invested. The City's policy also outlines the principles for maximizing the efficiency of the City's cash management operations while meeting the daily cash flow demands of the City. The average rate of return on funds not held by fiscal agents for the fiscal year ending June 30, 2012 was 1.70%. The average rate earned for prior year was 3.70%. As of June 30, 2012, the market value for the City's investments, excluding cash with fiscal agents, totaled \$232.9 million, which compares to current holdings at October 31, 2013 of \$242.6 million. The City uses professional portfolio management for that part

portion of its portfolio not needed for operations and contingencies over the next six months. Cash required for operations is managed in highly liquid short-term investments by the City's Treasury staff.

Additional information on the City's cash and investment management can be found in Notes 1 and 2 in the notes to the financial statements.

INTERNAL CONTROLS AND LIMITATIONS

The intent of the CAFR is to provide the City Council and the public with a firm understanding of the City's financial position. Management assumes responsibility for the completeness, accuracy and reliability of the information presented in this report. To provide a reasonable basis for making these representations, City management established an internal control framework intended to protect the City's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of the City's financial statements.

In connection with the effort to analyze and correct problems discovered in the detailed evaluation of the City's financial records described above, the City's management concluded that elements of the existing internal control framework were not working properly, resulting in several material weaknesses and significant deficiencies in its internal controls. The City Manager requested an evaluation of internal controls by the City's independent auditor and for the City's Internal Auditor to conduct a risk assessment and internal control audit. In response, Maze & Associates expanded the depth of their audit to address weaknesses identified by management. This audit took nearly a year to complete; however, it helped to identify what is needed to improve the City's internal controls. To improve the integrated system of internal controls, the City contracted with Moss Adams LLP in spring 2013 to serve as the Internal Auditor and conduct an even more extensive review of the City's internal controls. This work has resulted in a risk assessment of the City's major processes and a work plan to improve the City's internal controls. The implementation will take place over a 24 month period and lay the groundwork for the future.

Despite the delay in issuing financial reports the City has made great progress in improving its financial management capabilities through the work of the Administrative Services Department and our consultants. Ongoing financial operations, support of the bankruptcy processes and required improvements in systems and internal controls will support restoring the City's fiscal health and sustainability.

Budgetary control is at the department level and has greatly improved for the General Fund and at the fund level for all other funds. Fund transfers within like categories of the same department require City Manager approval, and revisions to increase appropriation authority above a department's original adopted budget require City Council approval.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR with contents that conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. Through 2010, the City received a Certificate of Achievement for the last 22 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements. Due to other priorities such as bankruptcy and getting the City's fiscal house in order, the fiscal 2012 and 2011 CAFR's were not submitted for the award. Plans are in place to begin submissions again with the 2013 CAFR.

ACKNOWLEDGEMENTS


The preparation of this report would not have been possible without the dedicated service of employees in the Administrative Services Department Finance Division and the cooperation of employees from City departments that provided detailed information and other support and assistance in the preparation and production of the CAFR.

We also want to thank the Mayor, Council members and the Audit Committee for your interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,



KURT O. WILSON
INTERIM CITY MANAGER



VANESSA BURKE
CHIEF FINANCIAL OFFICER



CITY OF STOCKTON CITY COUNCIL



ANTHONY SILVA
MAYOR



PAUL CANEPA
VICE MAYOR
District 3



ELBERT H. HOLMAN, JR.
COUNCILMEMBER
District 1



KATHERINE M. MILLER
COUNCILMEMBER
District 2



MOSES ZAPIEN
COUNCILMEMBER
District 4



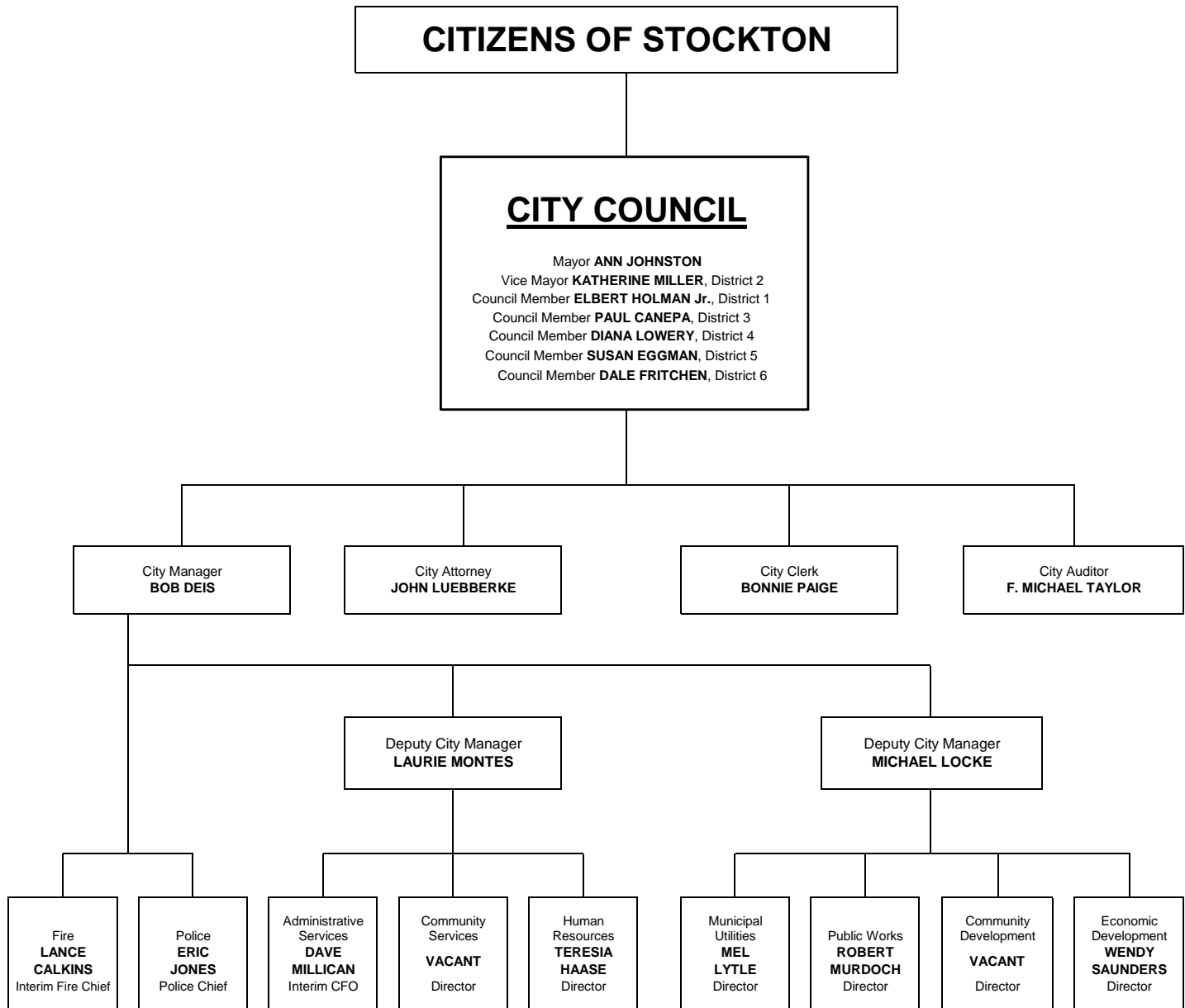
DYANE BURGOS-MEDINA
COUNCILMEMBER
District 5



MICHAEL D. TUBBS
COUNCILMEMBER
District 6



CITY OF STOCKTON
ORGANIZATION CHART / LIST OF PRINCIPAL OFFICIALS
AS OF JUNE 30, 2012





CITY OF STOCKTON



FINANCIAL SECTION



1655 North Main Street
Suite 355
Walnut Creek, California 94596

Phone: (925) 954-3300
Fax: (925) 954-3350
www.pm-llp.com

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Stockton
Stockton, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Stockton, California (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18A to the financial statements, on June 28, 2012, the City filed a case seeking bankruptcy protection and adjustment of its liabilities under Chapter 9 of the United States Bankruptcy Code. This condition raises uncertainty regarding future operations of the City. Management's plans regarding those matters also are described in Note 18A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 16A to the basic financial statements, on December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation that provides for the dissolution of the California Redevelopment Agencies. The Agency was dissolved on February 1, 2012. On August 23, 2011, the City Council adopted a resolution and continue to assume the housing functions from the former Stockton Redevelopment Agency, all housing assets and liabilities were transferred to the City and reported in the Low and Moderate Income Housing Special Revenue Fund, and non-housing assets and liabilities were transferred to the Successor Agency to the Stockton Redevelopment Agency on February 1, 2012.

To the Honorable Mayor and Members of the City Council
of the City of Stockton
Stockton, California
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Ron Mc Geady" followed by "LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California
December 9, 2013



CITY OF STOCKTON



MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Management's Discussion and Analysis is intended as an introduction to the City of Stockton's basic financial statements for the fiscal year ended June 30, 2012. The purpose of the MD&A is not complicated. It is to provide readers information necessary to enhance the understanding of the City's financial condition, changes in financial condition and results of operations. Three principal objectives are:

- to provide a narrative explanation of a the City's financial statements that enables readers and investors to see the City through the eyes of management;
- to enhance the overall financial disclosure and provide the context within which financial information should be analyzed; and
- to provide information about the quality of, and potential variability of, a the City's change in net assets and cash flow, so that readers and investors can ascertain the likelihood that past performance is indicative of future performance.

Where appropriate we include comparisons to the audited June 30, 2011 financial statements. The information presented here should be considered with the information furnished in the Letter of Transmittal, the opinion of the independent auditor's in their report, and the Comprehensive Annual Financial Report (CAFR).

Analyses included here focus on the information presented in the CAFR. For more detailed information about the Significant Financial Events described herein, the City's website includes filings with the U.S. Bankruptcy Court, declarations by management of the City, the 2012-2013 Pendency Plan Budget, long-term forecasts for the General Fund, a second opinion offered by Management Partners about the 2012-13 budget and solvency, and the City's petition for protection under chapter 9 of the U.S. Bankruptcy Code. Due to the delay in issuing the Fiscal 2012 financial statements as described in the Transmittal Letter, this MD&A will describe important uncertainties facing the City at June 30, 2012 that may have since been resolved or are ongoing. It is important for context that readers compare the MD&A's discussion of current events of fiscal year 2012 to those described in the subsequent event footnotes included in the CAFR.

SIGNIFICANT FINANCIAL EVENTS

Past Fiscal Emergencies

The City of Stockton's financial condition has been severely challenged for a number of years by the significant negative economic impacts of the "Great Recession". After two years of significant budgetary cutbacks, on May 26, 2010, the City Council declared a state of fiscal emergency and directed the City Manager to take appropriate and lawful measures, primarily impacting employee compensation, to achieve a balanced budget for fiscal year 2011. On June

21, 2011, the City Council voted to continue the declaration of fiscal emergency and directed the City Manager to take measures to achieve a balanced budget for fiscal year 2012.

The City's fiscal health deteriorated in fiscal year 2011-12 to the point of insolvency despite the severe cost cutting measures of the prior several years, and the adoption of what was planned to be a balanced 2011-12 General Fund budget. This deterioration was partially reflective of the continuing recessionary impacts on the City, as revenues did not meet budgeted expectations, but was impacted much more significantly due to the discovery of serious issues with prior year financial statements, including the impact of State actions which required the City to close out Redevelopment Agency activities.

Entering Neutral Mediation under AB 506

In February 2012, a re-review of the 2009 and 2010 financial statements indicated significant problems with prior financial reporting. The result was the need for sizeable negative restatements of both the 2009-10 and 2010-11 General Fund Ending Balances. The 2009-10 issues primarily revolved around double counted cash and a large overstatement of General Fund account receivables. The net impact of this review was a reduction of the previously reported year-end 2010 General Fund ending balance of \$3.8 million (from what had reported to be a \$1.1 million surplus to a negative \$2.7 million). For 2010-11, the review revealed an additional set of issues, the largest of which resulted from the requirement for the City to assume a Redevelopment Agency deficit of \$3.9 million as the Agency was dissolved after the State legislative actions. The deficit of the Agency had overspent its available revenues and had papered over those deficits with unauthorized working capital loans to the Agency. Those City loans were never correctly budgeted or recorded. The combined impact of the re-stated 2009-10 and 2010-11 financial statements was to revise the June 2011 General Fund Ending Fund balance from a positive \$722,000 to a negative \$6.6 million.

The February report to City Council also revealed serious negative projections for 2011-12. Those projections for 2011-12, in addition to the revised negative beginning balance, was a negative \$8.7 million unrestricted fund balance. A small portion of the projected 2011-12 deficit resulted from revenues running slightly below budgeted estimates (\$826,000), but the primary issue was the unforeseen need to subsidize the former Redevelopment activities with an unbudgeted amount of \$2.1 million, the need for additional subsidies for Pension Obligation Bonds, costs for the 400 E. Main building resulting from cancelling the planned move of the City Hall staff to that building, and the need to set aside \$3.5 million in previously unbudgeted funds for the costs for conducting the required confidential neutral mediation process required by State law (AB 506), a preparatory step toward considering entry into bankruptcy proceedings. The net result of all of these problems, including the restated beginning fund balance as reported in the February staff report was a projected shortfall in the 2011-12 General Fund available fund balance of \$15.2 million.

Presented with this dismal financial projection the City Council had no choice but to adopt a plan to rebalance the budget that was draconian in scope. Actions taken in February 2012 included "sweeping" balances from nearly every unrestricted fund in the City (Library, 400 E. Main Operating, Entertainment Venues, Capital, Fleet ISF, and Retirement ISF), funding additional safety personnel from Measure W, and eliminating the Arts Endowment reserve (\$1.3 million). The total value of these actions was \$13.2 million. Lacking any other viable options, the Council chose to close the remaining gap of \$2.05 million by suspending certain debt service payments through the remainder of the 2011-12 fiscal year on the 2004 Parking

Bonds, the 2009 Public Facility Fee bonds, and the 400 E. Main Building bonds. The outcome was the City lost its possessory interest in the buildings. Concurrent with these actions, the City entered the required AB 506 pre-bankruptcy mediation process.

Bankruptcy – Insolvency and the Last Resort

After 90 days in AB 506, the process failed to result in agreements with the City's creditors and the most pivotal event in the City's history took place. With impending cash insolvency and failure to achieve a balanced budget for 2012-13, the City filed a petition for bankruptcy protection on June 28, 2012. The City Council's decision to seek protection pursuant to chapter 9 of the U.S Bankruptcy Code (The Filing) and adoption of a 2012-2013 Pendency Plan Budget authorized changes in payments relating to contractual obligations during the bankruptcy process.

The City in determining whether to file for bankruptcy had to establish its eligibility and that it was, in fact, insolvent. The City used three measures to assess its insolvency. Those were service level solvency, budget solvency, and cash solvency.

Service level insolvency considered whether all business costs of the current service levels were being covered by sufficient revenues and whether service levels were adequate to protect the health, safety and welfare of the community. With declarations of fiscal emergencies in the prior years, the City had been impairing labor agreements, cutting costs, reducing service levels, reducing staff, imposing furloughs, and deferring replacement and preventative maintenance for equipment and infrastructure. Previously reduced to very low levels, it was clear that the City was insolvent from a service level standpoint.

Budget solvency is where resources are budgeted to equal or exceed expenditures in order to meet the City's service levels and contractual obligations. As the City's new management team began to look deeper at its fiscal problems, a projected deficit in fiscal year 2011-12 began to emerge. The shortfall became evident after detailed analysis by management, confirmed by a second opinion from the City's financial consultant, revealed that prior capital spending, interfund borrowings and receivable amounts were misstated and required prior period adjustments which reduced the available General Fund balance. In addition, the State of California's legal victory in defense of legislation abolishing local redevelopment agencies threatened to increase costs to the General Fund in Fiscal 2011-2012. Only through Council's actions to transfer to the General Fund virtually all available unrestricted funds remaining in the City and by defaulting on debt payments on three bonds, was the City able to adopt a budget amendment that would keep the City budget solvent through June 30, 2012. During the 2011-12 fiscal year, the budget preparation for fiscal year 2012-13 was underway. Staff was forecasting a budget deficit for 2012-13 of \$26 million

Finally, the City's cash solvency analysis indicated that after paying its first payroll of the year and other debt obligations, the City would be unable to fund operations and contractual obligations through the first month of the new fiscal year and would not recover to a positive position in any month following. In June 2012, the City Manager and the City's CFO declared that the City was likely insolvent as the unrestricted General Fund cash was only \$1.3 million at the end of the year and would likely be negative in as early as July 2013 after its first payroll and payment of the Howard-Jarvis Settlement with no ability to make up the negative cash in any month in the next fiscal year due to the \$26 million budget gap. The California Constitution

prohibits the creation of debt by spending more than a City will collect or have on hand absent obtaining voter approval. This limit prohibits borrowing and spending funds legally restricted to other uses without an ability to repay prior to the close of the fiscal year. It was clear that Stockton would be unable to achieve budget and cash solvency after June 30, 2012 resulting in the creation of impermissible debt, a violation of the California Constitution.

In the fiscal 2011-2012 Comprehensive Annual Financial Report, insolvency of the General Fund is reflected in the lack of available fund balance (the General Fund's unassigned balance at June 30, 2012 was zero), in the City's decision to default on bond obligations prior to June 30, 2012 to remain solvent through the end of the fiscal year, and in the large deficit fund balances in the internal service funds resulting from the City's inability to cover the full business costs of its essential service levels. The reader should consider with this MD&A discussion of bankruptcy issues in CAFR footnotes on long-term debt, retiree medical, chapter 9 bankruptcy, and Redevelopment Agency dissolution footnotes.

Bankruptcy Impact to Operations

There is a ripple effect from the filing for bankruptcy. The Pendency Plan Budget changes were substantial and reduced the \$26 million budgetary imbalance in annual expenditures by impairing certain City obligations. Those reductions are detailed in the 2012-13 adopted Budget. The most significant relate to cancellation of debt service payments paid by the General Fund, cancellation of payments on lease obligations of certain leased City facilities, substantial reduction in and the ultimate elimination of retiree health insurance contributions by the City, and other significant changes to compensation and benefits of current employees. Although the Filing resulted from insolvency in the City's General Fund, contract obligations (i.e. retiree health benefits, compensation) span the entire workforce of the City. Other funds therefore are directly affected by the reductions; however, the City has worked extremely hard to preserve the firewall between the City's General Fund operations and its restricted fund operations. The City has not impaired debt or contractual obligations specific to particular restricted funds such as the City's Utilities or borrowed from those funds to support its unrestricted funds.

Severe workload increases and demands have resulted from pre- and post-bankruptcy mediation and negotiations. The City has undergone an enormous effort for litigation support, data collection, financial evaluation and legal filings. It has been share that with competing demands on an already reduced workforce, management's ability to identify, monitor and address financial management issues of the past on a timely basis has been compromised. The remaining staff have struggled to keep up with these demands, normal day to day operations, and external financial reporting. Substantial investigation and discovery of past financial records to uncover years of inaccurate accounting was needed and exposed a cumbersome system for closing and reporting the financial records, weak and obsolete financial management software, and unmanaged risks and weak internal controls throughout the City. These conditions continue to be obstacles to a full recovery for the City but new management has put strategic plans in place to address these issues. Despite this challenging work environment, the City was able to work with its independent auditors to produce the Fiscal 2011 and 2012 CAFRs with unqualified or "clean" opinions.

Alerted by management to the City's fiscal crisis and bankruptcy filing, the State Controller's Office (SCO) chose to initiate five separate audits of the City in the following areas: Gas Tax and Traffic Congestion Relief Funds, Redevelopment Agency Transfer of Assets, Accounting and Administrative Controls, State and Federal Funds, and Mandated Costs Crime Statistics Report

for the Department of Justice. After nearly 18 months on site investigating an already overburdened team attempting to pull the City out of its fiscal crisis, the results of the audits were released by the SCO in Fall 2013. The reports were critical of past management of the city's financial affairs and its internal control environment before bankruptcy but exposed nothing new that management had not already reported. The total financial impact of the findings were limited to \$10,686 relating to Gas Tax interest allocation issues and \$1,361,531 of an unallowable Redevelopment asset transfer for a loan repayment. The City disagreed with both findings and intends to vigorously defend its position.

The ability of the City Council, the City's staff and the community to identify problems with its financial structure and systems and to take decisive action to correct its problems was a major highlight of the year. Strong teamwork, collaborative negotiations and extensive analysis of options supporting a transparent process prepared the foundation for successful restructuring of obligations and access to new resources. The City swiftly and effectively used its budget, labor negotiations, emergency powers and, finally, chapter 9 to dramatically arrest its decline and improve its future prospects.

Dismantling of the City's former Redevelopment Agency

While grappling with the City's bankruptcy, another significant financial event was taking place during the year. The California Supreme Court ruled in favor of the State of California, upholding its action to terminate all community redevelopment agencies (RDA) in the State. The outcome of the ruling was unclear legislative language combined with aggressive enforcement action by the State Controller's Office and the Department of Finance to increase benefits from the legislation to the State in order to balance the State's budget. The full impact of the legislation is not yet known. After the State assesses its recovery efforts, further action by the State could be taken on local governments though we do not anticipate it impacting the City.

Due to the depressed property values continuing to exist in the State, bondholders will continue to face future risk of nonpayment as a result of declining property tax increment revenues. With Stockton and the Central Valley being the hardest hit of all areas within California in property values, tax increment revenues dropped precipitously since 2007. As recently as September 2013, the City had to use its reserves to pay its Successor Agency bond payments which are considered a technical default on these payments.

Reserves are Insufficient

The General Fund Unrestricted Fund Balance is far below reserve levels in the City Council Policy or recommended by the Government Finance Officers Association (GFOA) offering little protection in the event of a severe economic downturn. Despite the achievements of Fiscal 2012, the City of Stockton still faces challenges that the reader should take into account when using the information provided in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. In addition to the basic financial statements, this report includes other supplementary information.

Government-wide financial statements

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances and information about the activities of the City as a whole, in a manner similar to a private-sector business using full accrual. The government-wide financial statements include 1) the statement of net assets, and 2) the statement of activities. Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, land use regulation and development review and inspection, libraries, parks and recreation programs, and general government services. The business-type activities of the City include the water utility, wastewater utility and stormwater utilities, the central parking district, municipal golf courses and the solid waste franchise .

Certain community development, revitalization activities and infrastructure construction were previously provided through the Stockton Redevelopment Agency ("Agency"), a legally separate entity. Effective February 1, 2012, all city and county redevelopment agencies in California were dissolved as a result of State legislation. Actions required to wrap-up the affairs of the Agency have been transferred to the Successor Agency of the City of Stockton ("Successor Agency").

The City Council sits as the Stockton Redevelopment Agency's Board; however, all actions pertaining to the Successor Agency's obligations are made by the Successor Agency Oversight Board, which is comprised of members representing the interests of local jurisdictions affected by redevelopment activities and revenue claims, including the City. The City receives a minor amount of revenue from the Successor Agency for administrative support provided to the Agency by the City's Economic Development Department and Administrative Services.

This CAFR includes the financial activity of separate legal entities controlled by the City. These entities include:

- Stockton Redevelopment Agency (July 1, 2011 to January 31, 2012)
- Stockton Public Financing Authority

The Successor Agency's activities are reported as a private-purpose trust fund in the CAFR.

The *statement of net assets* presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets and liabilities may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave).

The government-wide financial statements can be found on pages 48-50 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives, or as required by legal enabling legislation. The City of Stockton uses fund accounting to ensure and demonstrate compliance with legal reporting requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as focus on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains several individual governmental funds organized according to their category type. The governmental fund category types are the General Fund, special revenue, debt service, capital projects, and permanent funds. Information is presented separately in the governmental funds' balance sheet and in the governmental funds' statement of revenues, expenditures, and changes in fund balances for the General Fund, HOME Program Loans, Low-Moderate Income Housing City Loans and Capital Improvement funds, which are reported as major funds. Data from the remaining non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements in the later sections of this report.

The City adopts an annual budget for its General Fund and various other funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget. Budgetary comparison schedules for various other governmental funds are also provided in later sections of this report.

The basic governmental funds financial statements can be found on pages 51-56 of this report.

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Water Utility, Wastewater Utility, Stormwater Utility and Central Parking District, which are reported as major funds. Data for the remaining

non-major enterprise funds are combined into a single, aggregated presentation. Additional information is provided for each of these non-major enterprise funds in the later sections of this report.

- **Internal service funds** are used to report activities that provide goods and services for certain City insurance, pension and other related programs and activities. The City uses internal service funds to account for its self-insurance programs, pension obligations, active and retired employee health benefit insurance, fleet of vehicles, information technology systems, and radio and other equipment.

Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund information for the internal service funds is provided in the form of combining statements in the later sections in this report. This represents generally accepted practice for reporting these funds. However, it should be noted that this disclosure does not provide detailed information about the relative shares of accrued and actuarial liabilities for business and type and government type funds and activities. In normal operations this distinction does not have material implications for the reader. However, in bankruptcy, the relative share of costs and accrued or actuarial liabilities in solvent and insolvent funds and legal limits on the use of resources for specific purposes becomes important in restructuring obligations, like Pension Obligation Bonds (POB). The City of Stockton's proposed Plan of Adjustment and negotiations with creditors reflects, where feasible, proportional, allowed uses of the resources of solvent funds to restructure citywide obligations.

The basic proprietary fund financial statements can be found on pages 57-64 of this report.

Fiduciary funds. The fiduciary funds are used to account for resources held for the benefit of parties outside the government. This includes resources related to land secured financing, employee payroll withholdings, area of benefit fees, public facilities pass through fees, and other miscellaneous fiduciary activities. The City's fiduciary funds are reported as agency funds and are not reflected in the government-wide financial statements since the resources of the funds are not available to support the City's own programs and services.

The City has established a new private-purpose trust fund (agency fund) effective February 1, 2012 for purposes of accounting for the winding down of the Successor Agency.

The basic fiduciary funds financial statement can be found on pages 65-66 of this report.

Notes to the financial statements.

The notes to the financial statements provide additional information that is essential to a full understanding of the financial information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 67-152 of this report.

Other information.

In addition to the basic financial statements, this report presents certain required supplementary information. This information provides a budgetary comparison schedule for

the City's General Fund, HOME Program Loans Fund, and the Low-Moderate Income Housing RDA Loans Fund as well as information about the City's participation in the CalPERS and PARS defined benefit pension plans, and the City's defined other post-employment benefits (OPEB). Required supplementary information can be found on pages 153-160 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets of the City

Net assets serve as a useful indicator of a government's financial position. In the case of the City of Stockton, assets exceed liabilities by \$1,186.9 million at the close of the fiscal year, which is a \$79.5 million increase, or 7.2%, from 2011 total net assets. Of this increase, a \$73.9 million increase is attributable to governmental activities and a \$5.6 million increase to business-type activities. The increase in the governmental activities is primarily due to a one-time extraordinary item (\$75.4 million) related to the transfer of assets and liabilities to the Successor Agency.

The largest component of the City of Stockton's net assets is its capital assets of \$1,135.3 million (e.g., land and easements, buildings and improvements, infrastructure, intangible assets and equipment), net of any related outstanding debt used to acquire these assets.

The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to reduce these liabilities.

An additional portion of the City's net assets, \$112.1 million or 9.4%, represents resources that are subject to various external restrictions on how they may be used. Net assets classified for capital assets and restricted assets amount to more than 100%, reflecting the fact that, in aggregate, the City's resources are entirely committed in illiquid capital assets or are restricted in their uses. The net result is a deficit of \$60.5 million in unrestricted net assets for the City of which governmental activities were a \$114.9 million deficit and enterprise activities were \$54.3 million positive. Deficits in unrestricted net assets are an obvious indicator of the dire financial situation of the governmental activities of the City as of June 30, 2012.

Also, current Generally Accepted Accounting Principles (GAAP) do not provide for fully recording unfunded actuarial liabilities as liabilities in the financial statements. The difference between the actuarially required contributions and contributions made for other post-employment benefits since the implementation of GASB Statement 45 is \$123.5 million. In addition the actuarial liability for self-insurance claims is recorded based on a 70% confidence level, consistent with prior years. As described in footnotes 10, 11, and 12, the balance of City's unfunded actuarial liabilities for its pension plan, its self-insurance program, and its retiree health benefit plan, respectively totaling \$664.2 and million are not recorded as liabilities in the City's Statement of Net Assets but are disclosed consistent with GAAP.

The accounting and reporting for chapter 9 bankruptcies is provided in GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* and require governments that have filed for bankruptcy to disclose among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services. Though certain obligations of the City's general fund are in default as of June 30, 2012, the outstanding obligation, net of those paid by bond insurers, related to those defaults continues to remain outstanding until a the Plan of Adjustment is confirmed by the United States Bankruptcy Court. Proceeds received from the bond insurers to pay debt service on the bonds for those obligations that are insured, are reported as an Other Financing Source in the respective fund and are included as a current obligation in long-term debt. Once the Plan is confirmed a write down of those liabilities will occur resulting in a corresponding gain to the City. In addition, though the City has lost its possessory interest in certain leased assets (e.g. parking garages and 400 East Main) as a result of the default, the City continues to hold title to the assets and those assets are still included in the capital assets of the City. The possessory interest only grants the Trustee the right to the use of the buildings and structures but they do not have the ability to transfer, assign, or sell those assets. In addition, certain other obligations of the City are subject to the stay in bankruptcy which prevents the creditor from pursuing the City for payment. These debts are claims in the bankruptcy and are subject to final adjustment through the City's Plan of Adjustment in bankruptcy. The details of the Plan of Adjustment are available on the City's website.

The following table presents the government-wide assets, liabilities, and net assets for both 2012 and 2011.

City of Stockton's Net Assets

(dollar amounts in thousands)

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current and other assets	406,220	421,943	134,661	\$ 191,068	\$ 540,881	\$ 613,011
Capital assets	788,143	793,267	783,208	733,980	1,571,351	1,527,247
Total assets	1,194,363	1,215,210	917,869	925,048	2,112,232	2,140,258
Liabilities:						
Current and other liabilities	55,112	35,529	12,238	21,252	67,350	56,781
Long-term liabilities	343,210	473,278	391,233	395,000	734,443	868,278
Net pollution liabilities	-	1,893	-	-	-	1,893
Net OPEB obligation	123,534	105,887	-	-	123,534	105,887
Total liabilities	521,856	616,587	403,471	416,252	925,327	1,032,839
Net assets:						
Invested in capital assets, net of related debt	703,266	645,249	432,082	414,066	1,135,348	1,059,315
Restricted	93,162	122,730	27,976	33,558	121,138	156,288
Unrestricted	(123,921)	(169,356)	54,340	61,172	(69,581)	(108,184)
Total net assets	\$ 672,507	\$ 598,623	\$ 514,398	\$ 508,796	\$ 1,186,905	\$ 1,107,419

Governmental activities. Total assets for governmental activities decreased by \$20.8 million, with current and other assets in governmental activities decreasing by \$15.7 million and capital assets decreasing by \$5.1 million. This is primarily due to the transfer of the assets of the Redevelopment Agency in the amount of \$32.6 million to the Successor Agency offset by \$56.7 million in new construction projects and asset purchases and current year depreciation on assets of \$22.7 million.

Total governmental activities liabilities decreased by \$94.7 million, with current and other liabilities increasing by \$19.6 million, long-term liabilities decreasing by \$130.1 million, net OPEB obligations increasing by \$17.6 million, and net pollution remediation liabilities decreasing by \$1.9 million. The \$130.1 million decrease in long-term liabilities reflects the transfer of long-term debt obligations and the pollution remediation liabilities of the Redevelopment Agency of \$128.9 million to the Successor Agency and \$6.7 million of scheduled repayments, offset by \$414,000 from bond insurer reimbursement and minor additional borrowings. There was an additional \$6.6 million of long-term self-insurance claims and judgments for property-casualty general liability, workers' compensation and health insurance.

Of the \$73.9 million increase in total net assets of governmental activities, capital assets net of related debt increased by \$58.0 million and restricted assets decreased by \$38.6 million, which was offset by increases in deficit unrestricted net assets of \$54.5 million during the year. This results in a deficit unrestricted net assets balance of \$114.9 million. The impact of the elimination of the redevelopment agencies in the State has caused the City to realize an extraordinary gain of \$75.4 million due to the transfer of liabilities in excess of the assets of the RDA to the Successor Agency. By construct, the Redevelopment Agency debts were supported by future property tax increment revenues versus by assets to pay the debts therefore resulting in deficits being transferred off to the trust for the future winding down. If we exclude this one-time activity the City's governmental activities resulted in an increase in net assets of \$1.5 million.

Business-type activities. Total assets for business-type activities decreased by \$7.2 million or 0.8%, with current and other assets decreasing by \$56.4 million and capital assets increasing by \$49.2 million.

Total liabilities decreased by \$12.8 million or 3.1%, with other liabilities decreasing by \$9.0 million and long-term liabilities decreasing by \$3.8 million. Total net assets for business-type activities increased by \$5.6 million, or 1.1%.

Of these changes the most significant items are the write down of the Howard-Jarvis receivable as a result of the City's bankruptcy and the completion of the Delta Walter Supply Project in June 2012. The Howard-Jarvis settlement is a claim subject to the outcome of the bankruptcy proceedings. Enterprise funds record activities on an accrual basis. Accordingly, the receivable from the General Fund in the amount of \$7,361,280 and \$11,418,524 reflected in the Water and Wastewater funds, respectively are deemed to be uncollectible from the General Fund at this time and a write down was made. Cash with fiscal agent was used to complete the construction of the Delta Water Supply Project. Accordingly the liabilities outstanding at the end of the year for construction related payables also decreased.

Of the \$5.6 million total increase in net assets, capital assets, net of related debt, increased by \$18.1 million and restricted net assets decreased by \$5.6 million. Business-type activities

unrestricted net assets decreased by \$6.9 million which is comprised of an increase of \$19.7 million in the Water Utility which includes a prior period adjustment of \$9.9 for construction period interest in prior years, decrease of \$11.7 million in the Stormwater Utility, and a net \$1.1 million in the Other Enterprise Funds.

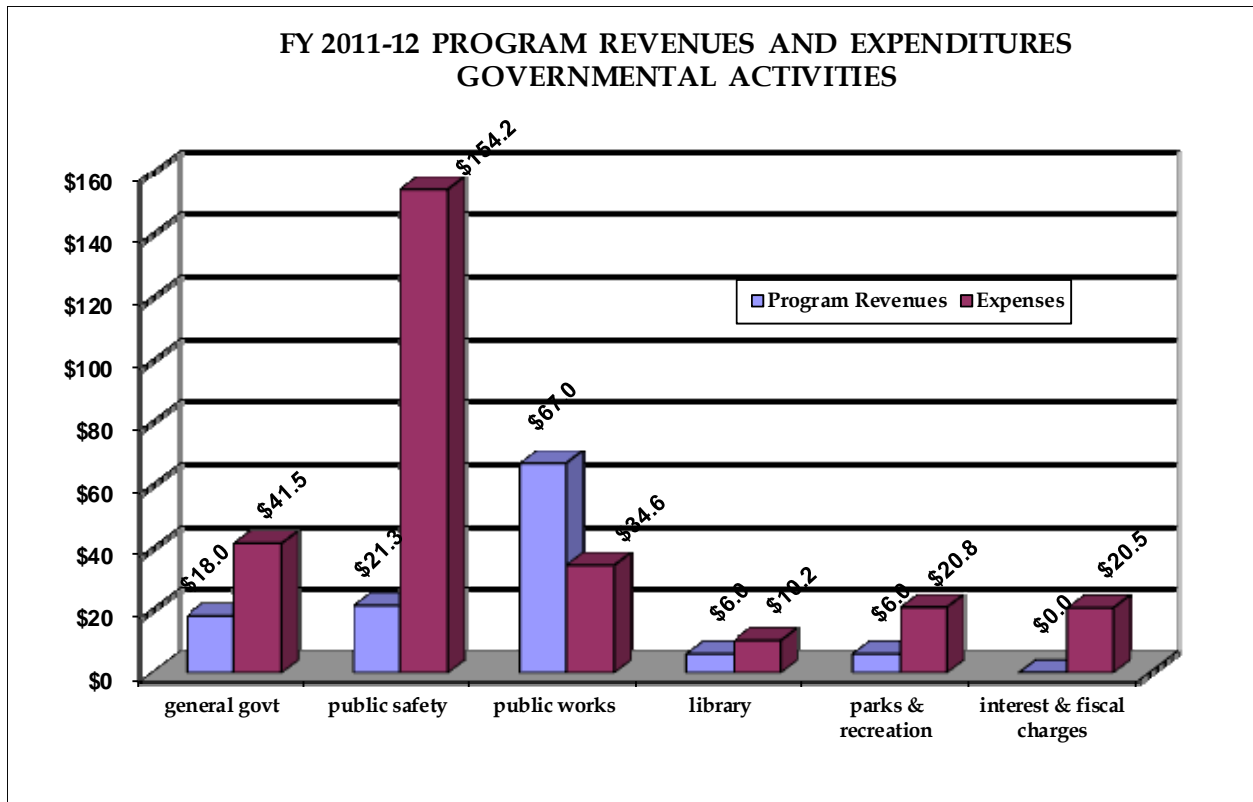
Change in Net Assets of the City

The City's net assets increased overall by \$79.5 million. Excluding one-time items such as the extraordinary gain from the dissolution of the Redevelopment Agency of \$75.9 million and the prior period adjustment for construction period interest of \$9.9 million, the City's government-wide net assets would have decreased by \$5.8 million overall due to the City total program expenses of \$378.9 million exceeding total revenues of \$373.1 million. The gain that resulted from the dissolution of the Redevelopment Agency is the net difference between the liabilities and the assets of the Agency. Cash is not received as a result of this transaction to transfer assets and liabilities but an accounting gain is recorded.

City of Stockton's Change in Net Assets
(dollar amounts in thousands)

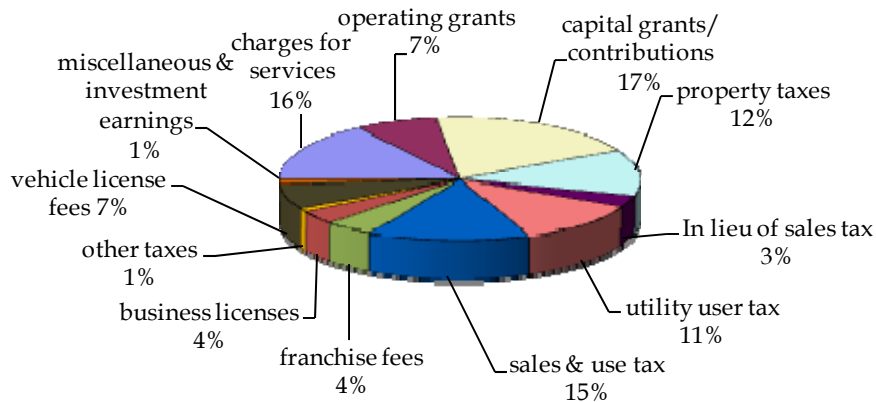
	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program revenues:						
Charges for services	\$43,355	\$56,795	\$95,078	\$83,970	\$138,433	\$140,765
Operating grants and contributions	20,460	22,355	4,175	4,175	24,635	26,530
Capital grants and contributions	54,487	50,112	10,139	15,960	64,626	66,072
General revenues:						
Property taxes	32,772	41,051	-	-	32,772	41,051
In lieu of sales tax	8,392	8,118	-	-	8,392	8,118
Utility user taxes	31,505	30,994	-	-	31,505	30,994
Sales and use taxes (City levied)	8,576	7,876	-	-	8,576	7,876
Franchise taxes	12,465	11,503	-	-	12,465	11,503
Business licenses	9,873	9,855	-	-	9,873	9,855
Hotel/motel room taxes	1,933	1,799	-	-	1,933	1,799
Document transfer taxes	603	583	-	-	603	583
Other taxes	159	155	1,205	1,152	1,364	1,307
Motor vehicle fees in lieu	17,734	20,014	-	-	17,734	20,014
Sales and use taxes (State levied)	32,604	30,061	-	-	32,604	30,061
Other shared revenue	-	352	-	-	0	352
Investment earnings	2,802	1,620	1,865	3,176	4,667	4,796
Miscellaneous	974	1,083	(18,012)	-	(17,038)	1,083
Gain on sale of capital assets	-	-	-	-	-	0
Total revenues	278,694	294,326	94,450	108,433	373,144	402,759
Expenses						
General government	41,548	40,873	-	-	41,548	40,873
Public safety	154,230	182,582	-	-	154,230	182,582
Public works	34,635	48,826	-	-	34,635	48,826
Library	10,176	11,589	-	-	10,176	11,589
Parks and recreation	20,760	24,435	-	-	20,760	24,435
Interest and fiscal charges	20,529	19,274	-	-	20,529	19,274
Water utility	-	-	30,162	35,909	30,162	35,909
Wastewater utility	-	-	51,530	49,234	51,530	49,234
Stormwater utility	-	-	6,685	7,406	6,685	7,406
Central parking district	-	-	4,903	4,264	4,903	4,264
Other	-	-	3,750	3,517	3,750	3,517
Total expenses	281,878	327,579	97,030	100,330	378,908	427,909
Increase/ decrease in net assets before transfers	(3,184)	(33,253)	(2,580)	8,103.00	(5,764)	(25,150)
Transfers	1,718	542	(1,718)	(542)	-	-
Extraordinary gain	75,350	3,270	-	-	75,350	3,270
Change in net assets	73,884	(29,441)	(4,298)	7,561	69,586	(21,880)
Net assets, beginning, original	598,623	662,020	508,796	474,408	1,107,419	1,136,428
Prior period adjustments	-	(33,956)	9,900	26,827	9,900	(7,129)
Net assets, beginning, restated	598,623	628,064	518,696	501,235	1,117,319	1,129,299
Net assets, end of year	\$672,507	\$598,623	\$514,398	\$508,796	\$1,186,905	\$1,107,419

Governmental activities. Program revenue associated with Governmental Activities totaled \$118.3 million, or 42% of program expenditures. Expenditures not covered by program revenues must be funded from non-program sources like general tax revenues. In the chart below, the program revenue and expense bars illustrate the gap between program revenues and expenditures by major activity. Public safety programs rely heavily on taxes to support operations. General government programs provide benefit to both business-type and governmental activities and receive some funding through internal indirect cost allocations to supplement program revenue and general tax revenue.



The pie chart below illustrates the distribution of total revenues of \$278.7 million among its various sources. The largest revenue sources for governmental activities are charges for services of \$43.3 million or 16% and capital grants/contributions of \$54.5 million or 17% of total revenues. Property tax and sales & use tax are also significant revenue sources for the City's governmental activities, amounting to 12% and 15%, respectively. The remaining 40% of revenue for governmental activities comes from special taxes, franchise fee revenue, operating grants and other intergovernmental revenues.

FY 2011-12 REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total government activities revenues decreased by \$15.6 million, or 5.3%, compared to the prior year due primarily to decreases in charges for services of \$13.4 million or 23.7% and the decrease of property tax by \$8.3 million or 20.2%. The large decrease in property tax on the year to year comparison is partially due to the Successor Agency operations beginning on February 1, 2012. Five months of redevelopment incremental property tax revenue, that was a governmental activity in the prior year, is now reported in a the Private-Purpose Trust Agency Fund and totaled \$5.0 million for the five months ended June 30, 2012.

Changes in City's general revenues occurred as follows:

- General Fund property taxes decreased by \$8.3 million or 20.2%. Property taxes have declined significantly since FY 2007-2008 due to declining residential home values and foreclosures in the Central Valley, resulting in a devaluation of the City's assessed valuation performed by San Joaquin County. Since FY 2007-2008 the assessed values in San Joaquin County have declined from over \$62.6 billion prior to the Great Recession to as low as \$53.2 billion (FY 2012-2013), a drop of 15 percent. FY 2013-14 will be the first year since 2007 that the roll value countywide has increased. For the City of Stockton, assessed values as reported by San Joaquin County declined 1.56% from FY 2010-11. The large decline is also affected by second installment of property tax increment revenue for the Redevelopment Agency. Due to the dissolution this installment is reported in the Successor Agency Private Purpose Trust Fund.
- There were increases of \$2.5 million in sales and use tax and an approximate \$700,000 in sales tax levied by the City (Measure W). The combined sales and use tax-related revenue growth of 7.4% reflects an increase in taxable sales activity in several categories, the largest of which were new car sales and gasoline sales due to higher fuel prices.
- Investment earnings increased \$1.2 million or 73.0%. This was due, in most part, to the termination of a Guaranteed Investment Contract that resulted in a premium of \$812,100. The General Fund and Low-Moderate Income Housing Fund both had negative interest earnings due to negative cash balances in fiscal year 2011. These funds together saw an

increase of \$512,410 in investment earnings in 2012 due to increases in cash and investments. Increased earnings were offset by a decrease in the average rate of return on the City's general investment pool, from 3.70% in fiscal year 2011 to 1.70% in fiscal year 2012 and use of pooled cash and investment during the year for a reduction of \$35.2 million, or 24.6%.

Capital grants and contributions total \$54.5 million or 46.1% of the City's total governmental activities program revenues, an increase of \$4.4 million from the prior year. Capital grants and contributions include the following:

- \$3.1 million in contributions of capital assets from developers;
- \$12.5 million in Measure K funding, to fund projects including \$3.9 million Arch and Sperry Road extension, \$2.6 million for Eight Mile road/Union Pacific Railroad East Grade Separation, \$2.3 million for Lower Sacramento road widening/UPRR, \$1.7 million for Eight Mile road / UPRR West separation.
- \$30.1 million in federal and state grant revenues expended on projects such as \$10.8 million in Arch and Sperry Road extension, \$6.6 million for Lower Sacramento road widening/UPRR, \$2.5 million for rubberized cape seal.
- \$8.1 million in Gas Tax for street related projects.

Program expenses for governmental activities decreased by \$45.7 million, or 14%. Key changes in governmental expenses occurred as follows:

- Public works decreased by \$14.2 million, or 29.1%, due to imposed concessions on salary and benefits and unfilled vacancies in positions during the year due to attrition and reduction in services for preventative maintenance.
- Public safety decreased by \$28.4 million, or 15.5%, due to imposed concessions on salary and benefits and unfilled vacancies in positions during the year due to attrition.
- Parks and recreation decreased by \$3.7 million, or 15.0%, primarily due to a decrease in maintenance and repair costs for parks.
- Library costs decreased by \$1.4 million, or 12.2%, primarily due to reductions in staffing levels and reduced hours of operation.
- General government expenses increased by \$0.7 million, or 1.7%, primarily due to legal costs associated with AB 506 process.
- Interest and fiscal charges increased by \$1.3 million, or 6.5%, due to increase in rates on 2007 Bonds used to acquire City Admin building offset by lower interest expense on the remaining debt which resulted from principal retention and RDA move.

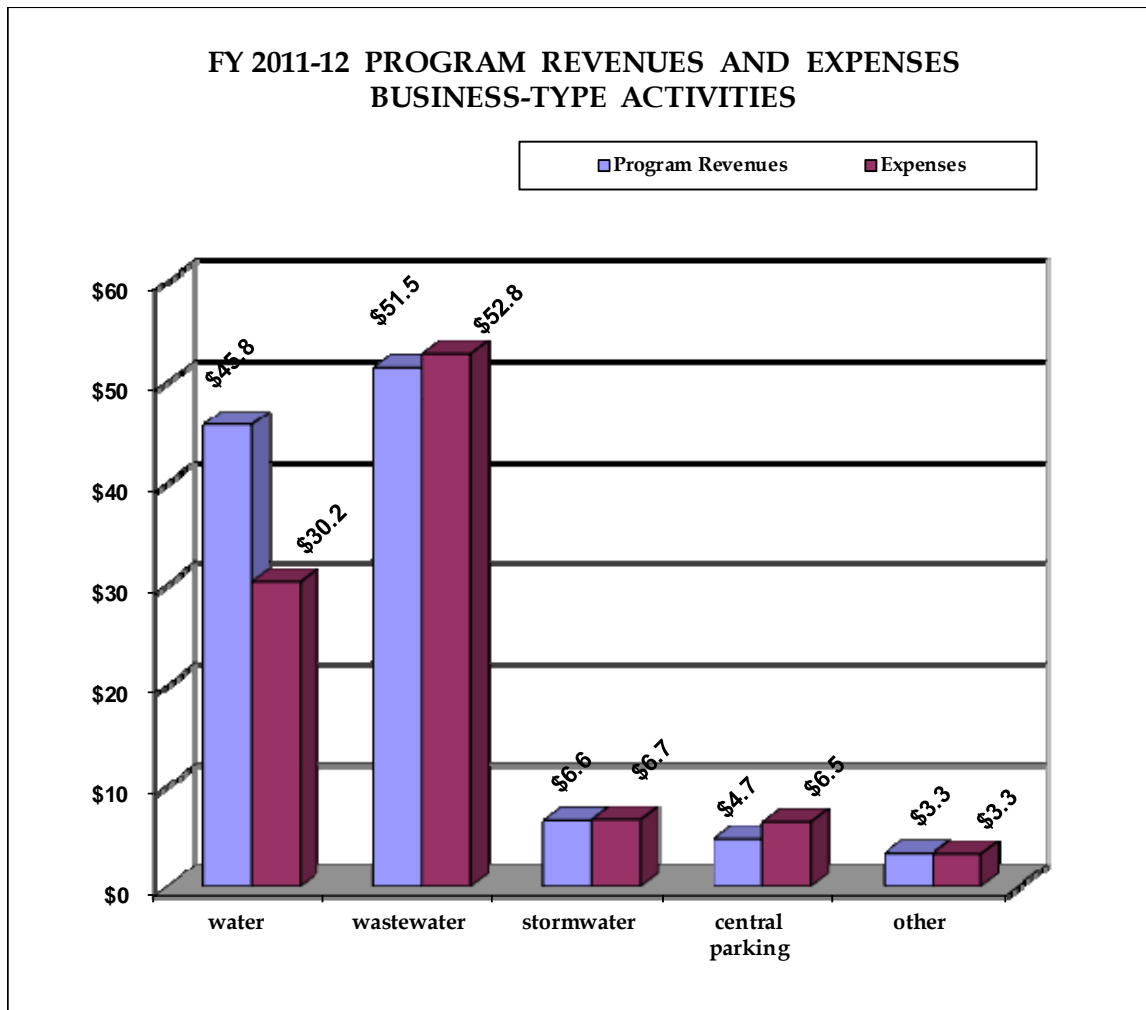
Extraordinary Item of the Governmental Funds

During the year ended June 30, 2012, the transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported as an extraordinary gain in the amount of \$75.4 million in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Business-type activities. The City operates three enterprise funds that offer water, wastewater and stormwater services to Stockton residents.

The water utility treats and distributes clean drinking water and performs repair and maintenance functions of existing wells, reservoirs, and water lines, as well as builds additional

water distribution system capital improvements through its capital improvement master plan. The wastewater utility collects, treats, and disposes of sewer, and builds additional wastewater collection system capital improvements through its capital improvement master plan. The stormwater utility collects drainage and disposes of stormwater runoff from City streets and builds additional storm drainage distribution system capital improvements through its capital improvement master plan. The wastewater and stormwater enterprises also perform repair and maintenance functions of existing wastewater and stormwater mains, pump stations, and treatment facilities. Other enterprise functions, such as the central parking facilities, downtown marina, and municipal golf courses, are also business-type activities of the City.

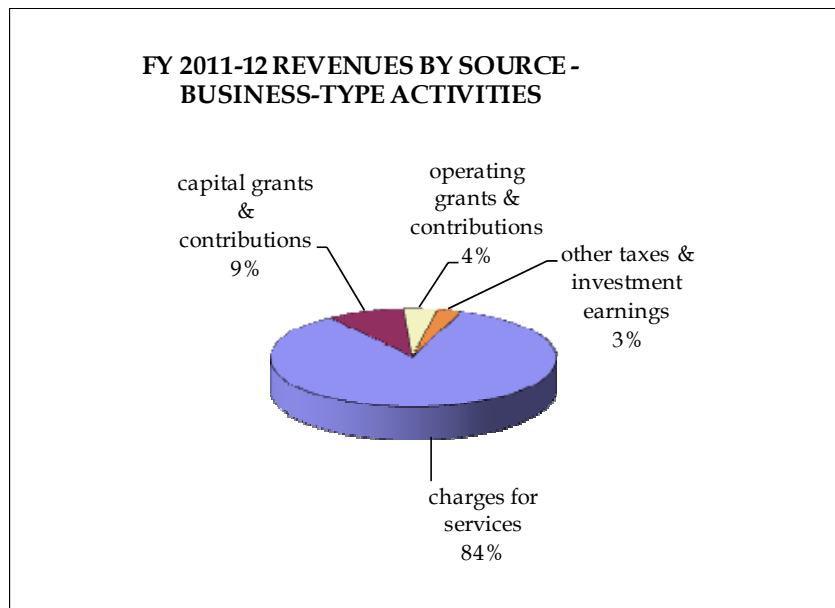


Business-type activities accounted for a \$5.6 million increase in the City's net assets, however includes an increase in net assets of \$9.9 million due to a prior period adjustment for capitalizing construction period interest for the Delta Water Supply Project. The interest costs were previously expensed but should be capitalized under GAAP. Excluding this increase, net assets would have decreased by \$4.3 million. The bar chart above illustrates how total program revenues and expenses compare. Program revenues exceeded program expenses for one of the five enterprise categories, water by \$15.6 million. Of the water program revenues, \$8.5 million is from the balance of the Proposition 84 grant for the Delta Water Supply Project that cannot be depended upon to pay for ongoing operating costs in the future. There is also a one-time write down in water fund of \$7.1 million for the Howard-Jarvis settlement from the City's general

fund that is not included in program expenses. Program expenses exceed revenues in wastewater by \$1.3 million which also does not include \$11.0 million for the write down on the Howard-Jarvis settlement. Stormwater and other nonmajor enterprise funds operated at nearly breakeven this year. Central parking was near breakeven except for a one-time unrestricted cash transfer of \$804,000 to the general fund to maintain general fund cash liquidity prior to bankruptcy and for a share of debt service payments on the SEB building of \$774,000.

Both wastewater and stormwater conducted a fee and charges for services rate study in fiscal year Fiscal 2010-2011. Wastewater utility rates have been increased through a proposition 218 vote that passed in August 2010 to cover increased operating costs and meet required coverage ratios. The rate increases are phased in over a five year period beginning in fiscal year 2010-11 and include an adjustment mechanism to account for inflation. A Proposition 218 stormwater ballot initiative for a “Clean Water Fee” was also undertaken that year, but failed to get voter approval. In 2011, there was also a water rate increase under the water rate study, approved in 2010 as part of funding for the multi-year Delta Water Supply Project. The 2012 rate increase was 12%.

The pie chart below illustrates the distribution of business-type revenues by category. All the City’s business-type activities rely heavily on charges for services to fund their operations, comprising 84% of total business-type revenues. Capital/operating grants and contributions revenues comprise 13% and parking assessments (other taxes) and investment earnings are 3% of total revenues.



Business-type activities program revenue increased overall by \$6.6 million, or 6.2%. Charges for services revenue increased \$11.1 million over the prior year, or 13.2% due to the rate increases in water and wastewater described above. Operating grants and contributions increased \$3.8 million over the prior year, or 90.5%. Capital grants and contributions decreased \$9.6 million, or 60%. This increase is due to a Proposition 84 Grant received from the State of California for the Delta Water Supply Project of \$8.5 million, and an increase in developer contributions of \$3.1 million overall in the Water, Wastewater and Stormwater funds. It is important to note that these revenues are one-time in nature and cannot be used to fund operating costs, which may serve to obscure the need for rate increases.

Investment earnings in business-type activities total \$1.9 million, a decrease of \$1.3 million or 41.3% from fiscal year 2011, due to a decline in cash held by fiscal agents for bond project accounts.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Stockton uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. This financial analysis of the major governmental and proprietary funds provides an overview of the City's financial performance. The financial analysis tables in the following section provide summary financial information of the City's major and internal service funds' asset and liabilities balances and current year transactions, along with prior year comparative information.

Governmental funds

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The statement provides fund balance categories and classifications as non-spendable, restricted, committed, assigned and unassigned (Note 1P). The fund balance note disclosures also give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The financial analysis information provided in the following tables is useful in assessing the City's financing requirements. In particular, committed, assigned and unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Total fund balance for the governmental funds fund balance of \$79.9 million declined by \$33.4 million compared to the prior year. Of the total governmental fund balances, \$0.7 million is non-spendable, \$85.7 million is restricted, \$8.1 million is committed, \$4.1 million is assigned, resulting in overall deficit unassigned fund balance of \$18.8 million. The deficit is a result of the Howard-Jarvis Settlement payable from general fund debt service to water and wastewater. Until a Plan of Adjustment is confirmed by the United States Bankruptcy Court, the amount remains outstanding under accounting standards.

General Fund.

The General Fund is the chief operating fund of the City and reflects financial activity related to many tax-supported services provided to Stockton citizens. The total fund balance increased by \$2.5 million compared to the prior year. At the end of the fiscal year, current assets exceed current liabilities by \$15.8 million and there were no noncurrent assets and approximately \$1.1 in noncurrent liabilities. Cash and investment balances decreased by approximately \$1.5 million from the prior year balances, to total \$10.7 million at June 30, 2012. Of importance in this analysis is that the City's General Fund includes certain other funds of the City that are restricted such as the City's Library system it operates for the County, Entertainment Venues, and other programs that are subject to user fees and charges to support its operations. The City's General Fund alone ended the year with only \$1.5 million in Cash and Investments which was not sufficient to continue its operations. Absent the drastic measures taken by City Council in February 2012 and a bankruptcy filing to allow the City to curtail its debts and impair its

obligations in the 2012-13 Pendency Plan Budget, the City's General Fund would not have had sufficient cash to continue to operate into the next fiscal year.

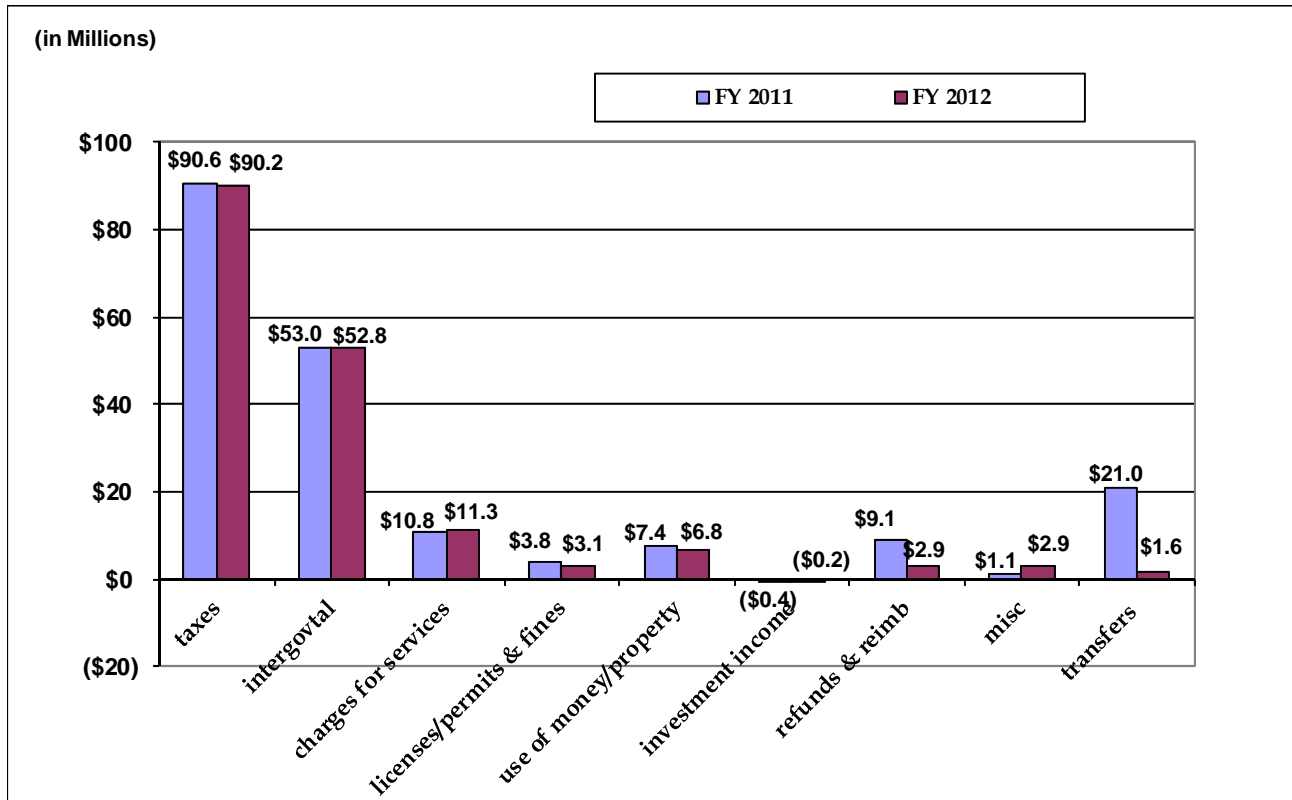
General Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<i>Balance Sheets</i>			
Cash and investments	\$ 10.7	\$ 12.2	\$ (1.5)
Other current assets	20.2	20.5	(0.3)
Current liabilities	(15.2)	(19.6)	4.4
Net current assets (liabilities)	15.7	13.1	2.6
Noncurrent assets	-	-	-
Noncurrent liabilities	(1.1)	(0.9)	(0.2)
Net noncurrent assets (liabilities)	(1.1)	(0.9)	(0.2)
Total Fund Balance, End of Year	\$ 14.6	\$ 12.2	\$ 2.4
 <i>Statements of Revenues, Expenditures and Changes in Fund Balance</i>			
Revenues	\$ 169.9	\$ 175.3	\$ (5.4)
Expenditures	(162.3)	(178.1)	15.9
Other financing sources (uses)	(5.2)	7.1	12.3
Net change in Fund Balance	2.4	4.3	(1.9)
Total Fund Balance, Beginning, as originally reported	12.2	23.1	(10.9)
Prior period adjustment	-	(15.2)	15.2
Total Fund Balance, Beginning, as adjusted	12.2	7.9	4.3
Total Fund Balance, End of Year	\$ 14.6	\$ 12.2	\$ 2.4
 Fund Balances:			
Nonspendable	\$ 0.3	\$ 0.3	\$ -
Restricted	\$ 2.1	\$ 2.1	\$ -
Committed	\$ 8.1	\$ 5.1	\$ 3.0
Assigned	\$ 4.1	\$ 4.7	\$ (0.6)
Unassigned		\$ -	\$ -

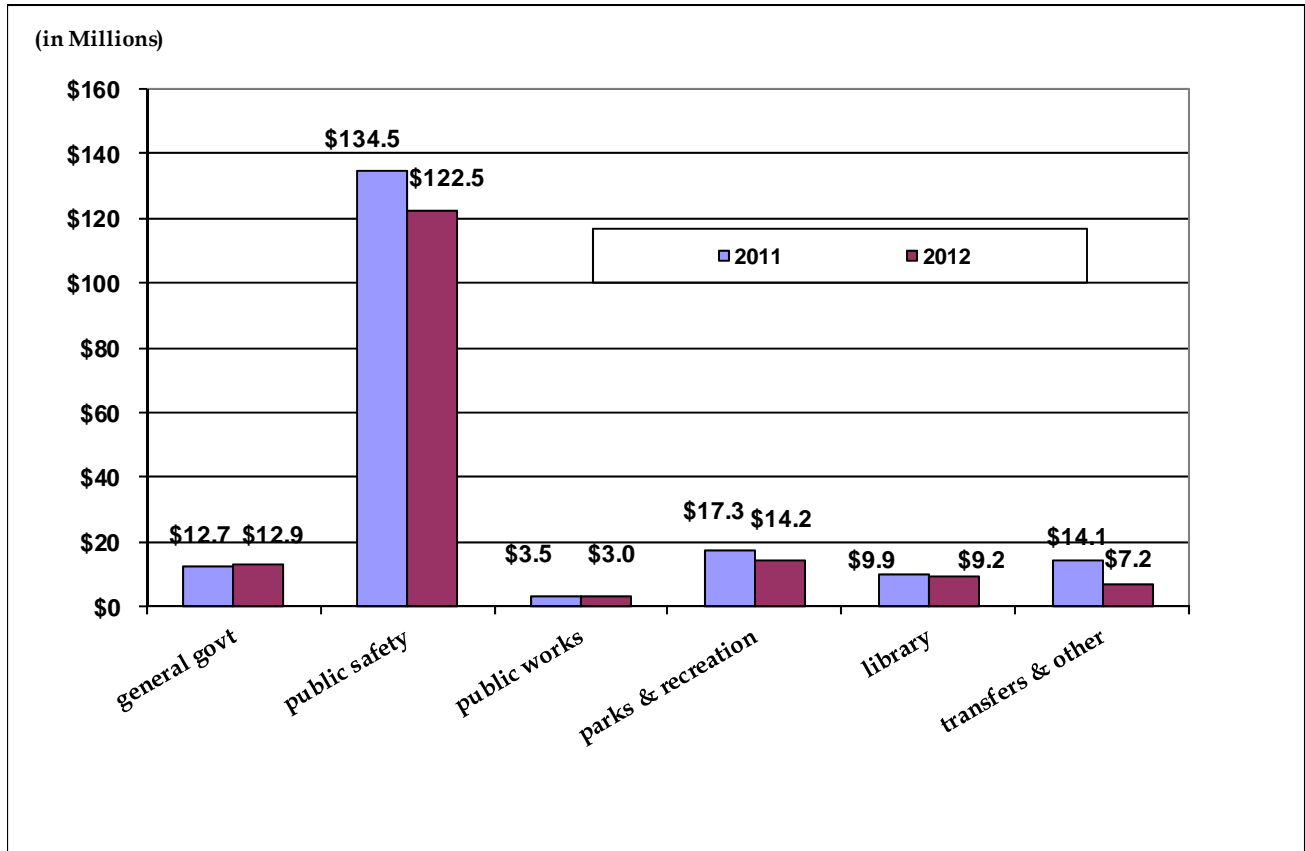
Fiscal year 2012 General Fund revenues were below prior year totals by \$5.4 million reflecting continued recessionary impacts on City General Fund property tax revenues. Property tax revenues declined by approximately \$2.9 million since FY 2010-11. In addition, business license tax decreased by approximately \$300,000 and the State eliminated the Motor Vehicle License Tax, which decreased by \$1.5 million.

General Fund Revenue Actuals by Source Category - FY 2010-11 vs. FY 2011-12



Expenditures decreased from the prior year by \$15.9 million, primarily reflecting imposed concessions and staffing reductions as a result of the declared fiscal emergency necessary to balance the 2011-12 general fund budget. Other financing sources (transfers) normalized from the prior year and primarily reflect budgeted transfers for debt service payments made, capital improvement programs, and subsidies to the Redevelopment Agency, Successor Agency, and Downtown Marina. This was dramatically different from the 2010-11 totals which reflected the multiple transfers into the General Fund from other unrestricted City funds necessary to balance the anticipated two year deficits for FY 2010-11 and FY 2011-12 of \$15.2 million as described under "Entering Neutral Mediation under AB 506". The net result of operations for this fiscal year after these mitigating measures was an increase in total fund balance by \$2.4 million.

General Fund Expenditures Actual by Services Program FY 2010-11 vs. FY 2011-12



At the end of this fiscal year, the total fund balance for the General Fund of \$14.6 million includes non-spendable fund balance of approximately \$0.3 million, restricted fund balance of \$2.1 million, committed fund balance of \$8.1 million, assigned fund balance of \$4.1 million, and zero unassigned fund balance. As a measure of the General Fund’s liquidity, it is useful to compare assigned and unassigned fund balances of \$4.1 million to the General Fund’s total expenditures of \$169.1 million, amounting to only 2.4% solely from assigned funds which have already been appropriated by City Council.

HOME Fund

The Stockton First-Time Homebuyer Program is managed by the Economic Development Department and funded through U.S. Department of Housing and Urban Development HOME funds. The program offers equity sharing deferred home financing loans to qualified homeowners. Cash and investment balances increased by approximately \$700,000 from prior year due to income from operations. The prior period adjustment in FY 2011 resulted from the change in accounting method for the housing loan programs (FY 2010-11 CAFR Note 14).

HOME Fund

(\$ in millions)

	2012	2011	Variance
<u>Balance Sheets</u>			
Cash and investments	\$ 0.7	\$ -	\$ 0.7
Other current assets	0.2	0.2	-
Current liabilities	(0.1)	(0.1)	-
Net current assets (liabilities)	<u>0.8</u>	<u>0.1</u>	<u>0.7</u>
Noncurrent assets	30.4	29.7	0.7
Noncurrent liabilities	(30.4)	(29.7)	(0.7)
Net noncurrent assets (liabilities)	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance, End of Year	<u>\$ 0.8</u>	<u>\$ 0.1</u>	<u>\$ 0.7</u>
<u>Statements of Revenues, Expenditures and Changes in Fund Balance</u>			
Revenues	\$ 1.7	\$ 3.3	\$ (1.6)
Expenditures	(1.0)	(3.5)	2.5
Net change in Fund Balance	<u>0.7</u>	<u>(0.2)</u>	<u>0.9</u>
Total Fund Balance, Beginning, as originally reported	0.1	24.6	(24.5)
Prior period adjustment	-	(24.3)	24.3
Total Fund Balance, Beginning, as adjusted	<u>0.1</u>	<u>0.3</u>	<u>(0.2)</u>
Total Fund Balance, End of Year	<u>\$ 0.8</u>	<u>\$ 0.1</u>	<u>\$ 0.7</u>
Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 0.8	\$ 0.1	\$ 0.7
Committed	\$ -	\$ -	\$ -
Assigned	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ -	\$ -

Revenues for FY 2012 decreased by \$1.6 million and expenditures decreased by \$2.5 million compared to the prior year. The decrease in revenue is due to a decrease in federal reimbursements from the United States Department of Housing and Urban Development and decrease in principal and interest payments on the loans. Revenues decreased consistent with decreases in expenditures due to reduced HOME program activity.

Low-Moderate Income Housing RDA Loans Fund

The Low-Moderate Income Housing Fund accounts for loans to non-profit developers and property owners for rehabilitation and/or construction of housing units, which are deed restricted for occupancy by low-and-moderate income households. The total fund balance decreased by \$0.6 million from the prior year to total \$3.1. At the end of the fiscal year, current assets exceed current liabilities by \$1.9 million. The prior period adjustment in FY 2011 is a result of the change in accounting method for the housing loan programs (FY 2010-11 CAFR Note 14).

Low-Moderate Income Housing Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Balance Sheets</u>			
Cash and investments	\$ 0.1	\$ -	\$ 0.1
Other current assets	1.1	1.8	(0.7)
Current liabilities	(0.0)	-	(0.0)
Net current assets (liabilities)	<u>1.2</u>	<u>1.8</u>	<u>(0.6)</u>
Noncurrent assets	55.6	54.4	1.2
Noncurrent liabilities	(53.7)	(52.5)	(1.2)
Net noncurrent assets (liabilities)	<u>1.9</u>	<u>1.9</u>	<u>-</u>
Total Fund Balance, End of Year	<u>\$ 3.1</u>	<u>\$ 3.7</u>	<u>\$ (0.6)</u>
<u>Statements of Revenues, Expenditures and Changes in Fund Balance</u>			
Revenues	\$ 0.1	\$ 1.1	\$ (1.0)
Expenditures	-	(5.2)	5.2
Other financing sources (uses)	-	(2.5)	(2.5)
Extraordinary item	3.0	-	-
Net change in Fund Balance	<u>3.1</u>	<u>(6.7)</u>	<u>(9.8)</u>
Total Fund Balance, Beginning, as originally reported		51.8	(51.8)
Prior period adjustment	-	(41.4)	(41.4)
Total Fund Balance, Beginning, as adjusted	<u>-</u>	<u>10.4</u>	<u>10.4</u>
Total Fund Balance, End of Year	<u>\$ 3.1</u>	<u>\$ 3.7</u>	<u>\$ (0.6)</u>
Fund Balances:			
Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 3.1	\$ 3.7	\$ (0.6)
Committed	\$ -	\$ -	\$ -
Assigned	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ -	\$ -

Revenues for FY 2012 decreased by \$1.0 million and expenditures decreased by \$5.2 million compared to the prior year. The decreased in revenue is due to decrease in repayment of principal on the loans. The reduction in expenditure is attributable to decrease in program activities as a result of Redevelopment Agency dissolution effective February 1, 2013.

Capital Improvement Project Fund.

The Capital Improvement Fund accounts for the acquisition, construction, and improvement of capital facilities financed by grants, capital lease proceeds and transfers from other City funds.

Capital Improvement Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Balance Sheets</u>			
Cash and investments	\$ -	\$ 1.9	\$ (1.9)
Other current assets	23.2	14.2	9.0
Current liabilities	(20.9)	(13.1)	(7.8)
Net current assets (liabilities)	2.3	3.0	(0.7)
Noncurrent assets	-	-	-
Noncurrent liabilities	-	-	-
Net noncurrent assets (liabilities)	-	-	-
Total Fund Balance, End of Year	\$ 2.3	\$ 3.0	\$ (0.7)

Statements of Revenues, Expenditures and Changes in Fund Balance

	2012	2011	Variance
Revenues	\$ 31.1	\$ 26.2	\$ 4.9
Expenditures	(32.4)	(27.2)	(5.2)
Other financing sources (uses)	0.6	9.4	(8.8)
Net change in Fund Balance	(0.7)	8.4	(9.1)
Total Fund Balance, Beginning, as originally reported	3.0	14.0	(11.0)
Prior period adjustment	-	(19.4)	19.4
Total Fund Balance, Beginning, as adjusted	3.0	(5.4)	8.4
Total Fund Balance, End of Year	\$ 2.3	\$ 3.0	\$ (0.7)

Fund Balances:

Nonspendable	\$ -	\$ -	\$ -
Restricted	\$ 2.3	\$ 3.0	\$ (0.7)
Committed	\$ -	\$ -	\$ -
Assigned	\$ -	\$ -	\$ -
Unassigned	\$ -	\$ -	\$ -

As the table above details, expenditures exceeded revenues by \$1.3 million. Revenues increased from the prior year by \$4.9 million due to an increase in capital grants for street related projects. Expenditures totaled \$32.4 million which is \$5.2 million higher than the prior year due to increased expenditures for various street related projects funded by capital grants. The \$8.8 million decrease in other financing sources reflects the reclassification in Fiscal Year 2010-2011 of Howard Jarvis settlement obligation from the capital improvement fund to the debt service fund, offset by transfers. The increase of other current assets in the amount of \$9.0 was due to the increase in receivables from other governments as a result of outstanding reimbursements under capital grants for street related projects.

The entire \$2.3 million fund balance is restricted for ongoing projects.

Proprietary Funds

Proprietary funds consist of enterprise funds and internal service funds. The proprietary funds' financial statements provide additional detailed information not found in the government-wide financial statements. Both presentations are accounted for on the full accrual accounting basis. Each funds' financial transactions, both near-term and historic, is provided in the statement of net assets and the statement of revenues, expenses and changes in net assets.

Total net assets of all the enterprise funds totaled \$514.4 million, a decrease of \$4.3 million from the prior year (excluding the increase from prior period adjustment of \$9.9 million for capitalized interest). In fiscal year 2012, the Stormwater Utility fund experienced an operating loss of \$0.3 million. Operating losses signal that an enterprise's operating revenue structure is not meeting standard operating and infrastructure renewal and replacement cost needs. This is the eleventh consecutive year that the Stormwater Utility Fund has ended the year with an operating loss. A stormwater utility ballot initiative that would have resulted in increased rates failed to achieve voter approval in 2010. On the other hand the Wastewater Utility Fund, which had suffered 5 straight years of operating losses, finished the 2011-12 year with a positive Operating Income of \$3.4 million after voter approved rate increases were adopted in August 2010. This compares with an operating loss in 2011 of \$1.9 million.

At the end of the fiscal year, enterprise unrestricted net asset balances are as follows: Water Utility, \$37.0 million; the Wastewater Utility, \$15.8 million; and the Stormwater Utility, \$2.8 million. The Central Parking District reports deficit unrestricted net assets of \$.9 million. The Solid Waste, Downtown Marina Complex and Golf funds are combined for financial reporting purposes and together have deficit unrestricted net assets of less than \$150,000.

The City's internal service funds are reported in the following two categories in the supplementary information section of the CAFR:

- 1) insurance/pension-related funds, and
- 2) equipment-related funds.

Total internal service fund net assets declined by \$23.9 million to a deficit \$158.0 million. Of the \$158.0 million deficit, \$9.5 million is invested in capital assets, net of related debt and the balance is an unrestricted deficit totaling \$167.5 million. The deficit unrestricted net assets arise from the insurance/pension-related funds which totals \$176.6 million. This is offset by positive unrestricted net assets in the equipment related funds of \$9.1 million, though these funds are committed for future computer, radio and fleet replacement.

Enterprise Funds Financial Analysis

Water Utility Fund.

The Water Utility Fund accounts for activities associated with the acquisition or construction of water treatment facilities, production, distribution and transmission of potable water to users, and operations related to the provision of services. The total net asset balance increased by \$19.7 million from the prior year to total \$164.7 million. At the end of the fiscal year, current assets exceed current liabilities by \$30.4 million and noncurrent assets exceed noncurrent liabilities by \$134.3 million. Cash and investment balances decreased by \$2.0 million from the prior year balances, to \$32.5 million.

Water Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Statements of Net Assets</u>			
Cash and investments	\$ 32.5	\$ 34.5	\$ (2.0)
Other current assets	8.8	12.9	(4.1)
Current liabilities	(10.9)	(16.5)	5.6
Net current assets (liabilities)	30.4	30.9	(0.5)
Noncurrent assets	393.6	377.2	16.4
Noncurrent liabilities	(259.3)	(263.1)	3.8
Net noncurrent assets (liabilities)	134.3	114.1	20.2
Total Net Assets, End of Year	<u>\$ 164.7</u>	<u>\$ 145.0</u>	<u>\$ 19.7</u>
<u>Statements of Revenues, Expenses and Changes in Net Assets</u>			
Operating revenues	\$ 33.3	\$ 30.1	\$ 3.2
Operating expenses	(23.1)	(22.5)	0.6
Operating income (loss)	10.2	7.6	3.9
Non-operating revenues (expenses)	(4.8)	1.6	(6.4)
Capital contributions & transfers	4.4	2.2	2.2
Net change in Fund Balance	9.8	11.4	(1.6)
Total Fund Balance, Beginning, as originally reported	145.0	131.1	(5.8)
Prior period adjustment	9.9	2.4	7.5
Total Net Assets, Beginning of Year, as restated	154.9	133.5	23.8
Total Net Assets, End of Year	<u>\$ 164.7</u>	<u>\$ 145.0</u>	<u>\$ 19.7</u>
Invested in capital assets, net of related debt	\$ 119.4	\$ 94.1	\$ 25.3
Restricted Net Assets	\$ 8.3	\$ 9.2	\$ (0.9)
Unrestricted Net Assets	\$ 37.0	\$ 41.7	\$ (4.7)

Operating revenues increased in 2012 by \$3.2 million, while operating expenses increased by approximately \$600,000. The fund had operating income of \$10.2 million for the year, which is a \$3.9 million improvement over the prior fiscal year. The reason for the improved financial performance is due to charges for services increasing by \$3.3 million resulting from a 12% rate increase to support the capital and operating costs of the Delta Water Supply Project. Operating expenses also increased \$0.6 million primarily due to operational cost of the Delta Water Supply Project being placed in service in June.

Non-operating revenues (expenses) decreased in 2012 by \$6.5 million. In 2011, the Water Fund was awarded a State of California Proposition 84 Grant for the Delta Water Supply Project Intake and Pump Station Facility providing an additional \$8.5 million in non-operating revenues. Federal Interest Subsidy payments from the U.S. Treasury on the 2009 Delta Water bond interest also increased \$1.7 million in 2011. This was offset by increased interest expense of \$4.5 million in 2011 primarily due to a full year of interest payments on 2009 Delta Water Supply Series B Project Bonds.

Capital contributions and transfers increased by approximately \$2.1 million to \$4.3 million. This is due to an increase in developer contributions of \$1.6 million and an increase in connection fees of \$477,000.

Components of the Water Fund total net assets of \$164.7 million include invested in capital assets net of related debt of \$119.4 million, which increased by \$25.3 million. Restricted net assets of \$8.3 million were down \$0.9 million from the prior year, while unrestricted net assets of \$37.0 million decreased by \$4.7 million from the prior year.

Wastewater Utility Fund.

The Wastewater Utility fund accounts for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater. The total net asset balance decreased by \$11.3 million from the prior year to total \$275.9 million. At the end of the fiscal year, current assets exceed current liabilities by \$12.7 million and noncurrent assets exceed noncurrent liabilities by \$263.2 million. Cash and investment balances increased by \$8.2 million from the prior year balances, to total \$13.2 million.

Wastewater Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Statements of Net Assets</u>			
Cash and investments	\$ 13.2	\$ 5.0	\$ 8.2
Other current assets	6.2	5.6	0.6
Current liabilities	(6.8)	(6.9)	0.1
Net current assets (liabilities)	12.6	3.7	8.9
Noncurrent assets	345.1	368.5	(23.4)
Noncurrent liabilities	(82.2)	(85.0)	2.8
Net noncurrent assets (liabilities)	262.9	283.5	(20.6)
Total Net Assets, End of Year	<u>\$ 275.5</u>	<u>\$ 287.2</u>	<u>\$ (11.7)</u>
<u>Statements of Revenues, Expenses and Changes in Net Assets</u>			
Operating revenues	\$ 50.3	\$ 42.6	\$ 7.7
Operating expenses	(46.9)	(44.5)	(2.4)
Operating income (loss)	3.4	(1.9)	5.3
Non-operating revenues (expenses)	(15.0)	(4.0)	11.0
Capital contributions & transfers	(0.1)	2.2	(2.2)
Net change in Fund Balance	(11.7)	(3.7)	(8.0)
Total Net Assets, Beginning, as originally reported	287.2	293.1	(5.9)
Prior period adjustment	-	(2.2)	2.2
Total Net Assets, Beginning, as restated	287.2	290.9	(3.7)
Total Net Assets, End of Year	<u>\$ 275.5</u>	<u>\$ 287.2</u>	<u>\$ (11.7)</u>
Invested in capital assets, net of related debt	\$ 240.1	\$ 244.6	\$ (4.5)
Restricted Net Assets	\$ 19.8	\$ 24.4	\$ (4.5)
Unrestricted Net Assets	\$ 15.6	\$ 18.2	\$ (2.6)

Operating revenues increased in 2012 by \$7.7 million, while operating expenses increased by \$2.4 million. The result is the first year with operating income in 5 years. This is an improvement of \$5.3 million compared to FY 2011 reflecting the impact of the 2010 increase in the rate structure, which had not been changed since 1992. The Municipal Utility Department undertook a wastewater rate study and a Proposition 218 voter ballot initiative resulting in Council adoption in August 2010. The multi-year rate increase is to ensure revenues meet the future operational and capital improvement needs of the wastewater system for the near term future.

Capital contributions and transfers decreased by approximately \$2.2 million due to decreased developer contributions of \$1.3 million, decrease in connection fees of approximately \$150,000, and an increase of transfers out of \$800,000 for vehicle and equipment transfers.

The components of the \$275.5 million in total assets include: invested in capital assets net of related debt of \$240.1 million, which decreased by approximately \$4.5 million; restricted net assets of \$19.8 million, which also decreased by \$4.5 million; and unrestricted net assets of \$15.6 million, which decreased by \$2.6 million.

Stormwater Utility Fund.

The Stormwater Utility Fund accounts for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater. The total net asset balance fell slightly (\$0.1) million from the prior year to \$54.8 million. At the end of the fiscal year, current assets exceed current liabilities by \$2.9 million and noncurrent assets exceed noncurrent liabilities by \$51.9 million. Cash and investment balances were up by \$0.6 million to \$2.2 million.

Stormwater Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Statements of Net Assets</u>			
Cash and investments	\$ 2.2	\$ 1.6	\$ 0.6
Other current assets	0.9	0.6	0.3
Current liabilities	(0.2)	(0.2)	(0.1)
Net current assets (liabilities)	2.9	2.0	0.7
Noncurrent assets	51.9	52.9	(1.0)
Noncurrent liabilities	-	-	-
Net noncurrent assets (liabilities)	51.9	52.9	(1.0)
Total Net Assets, End of Year	\$ 54.8	\$ 54.9	\$ (0.1)
<u>Statements of Revenues, Expenses and Changes in Net Assets</u>			
Operating revenues	\$ 5.9	\$ 5.7	\$ 0.2
Operating expenses	(6.2)	(6.9)	0.7
Operating income (loss)	(0.3)	(1.2)	0.9
Non-operating revenues (expenses)	(0.5)	(0.2)	(0.3)
Capital contributions & transfers	0.7	2.1	(1.4)
Net change in Fund Balance	(0.1)	0.7	(0.8)
Total Net Assets, Beginning, as originally reported	54.9	43.4	(2.5)
Prior period adjustment		10.8	(10.8)
Total Net Assets, Beginning, as restated	54.9	54.2	0.7
Total Net Assets, End of Year	\$ 54.8	\$ 54.9	\$ (0.1)
Invested in capital assets, net of related debt	\$ 52.0	\$ 52.8	\$ (0.8)
Restricted Net Assets	\$ -	\$ -	\$ -
Unrestricted Net Assets	\$ 2.8	\$ 2.1	\$ 0.7

Operating revenues grew slightly \$200,000 from the prior year of \$5.9 million, while operating expenses decreased by approximately \$700,000. The \$300,000 operating loss, an improvement from the prior year loss of \$1.2 million, resulted in the twelfth consecutive year in which the Stormwater Utility Fund has had a net operating loss. One cause for this continuing loss is due to payment to the General Fund for prior subsidies in the amount of \$488,690. A net operating loss is an indicator that an enterprise's operating income structure is not meeting standard operating and infrastructure renewal and replacement cost needs. In December 2010, the City Council announced that the Stormwater Utility Fund new "Clean Water Fee" failed to secure a majority of affirmative ballots. Management is still considering options to remedy the ongoing issue of operating losses, which could include future rate increases.

Capital contributions and transfers fell by approximately \$1.4 million, reflecting the impacts of the inadequacy of the current rate structure.

Components of the \$54.8 million total net assets include: invested in capital assets net of related debt of \$52.0 million, which was down by approximately \$700,000; no restricted net assets; and unrestricted net assets of \$2.8 million, which increased by \$700,000 compared to the prior year.

Central Parking District Fund

The Central Parking District accounts for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities. The total net asset balance decreased by \$1.8 million from the prior year to \$3.9 million. At the end of the fiscal year, current assets exceed current liabilities by \$100,000 and noncurrent assets exceed noncurrent liabilities by \$4.0 million. Cash and investment balances only changed by \$100,000.

Central Parking District Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Statements of Net Assets</u>			
Cash and investments	\$ 1.0	\$ 0.9	\$ 0.1
Other current assets	-	0.3	(0.3)
Current liabilities	(1.1)	(1.1)	-
Net current assets (liabilities)	(0.1)	0.1	(0.2)
Noncurrent assets	37.1	39.0	(1.9)
Noncurrent liabilities	(33.1)	(33.4)	0.3
Net noncurrent assets (liabilities)	4.0	5.6	(1.6)
Total Net Assets, End of Year	<u>\$ 3.9</u>	<u>\$ 5.7</u>	<u>\$ (1.8)</u>
<u>Statements of Revenues, Expenses and Changes in Net Assets</u>			
Operating revenues	\$ 3.5	\$ 3.6	\$ (0.1)
Operating expenses	(3.3)	(2.6)	(0.7)
Operating income (loss)	0.2	1.0	(0.8)
Non-operating revenues (expenses)	(0.4)	(0.4)	-
Capital contributions & transfers	(1.6)	(0.6)	(1.0)
Net change in Fund Balance	(1.8)	-	(1.8)
Total Net Assets, Beginning, as originally reported	5.7	6.8	(1.1)
Prior period adjustment	-	(1.1)	1.1
Total Net Assets, Beginning, as restated	5.7	5.7	-
Total Net Assets, End of Year	<u>\$ 3.9</u>	<u>\$ 5.7</u>	<u>\$ (1.8)</u>
Invested in capital assets, net of related debt	\$ 4.8	\$ 6.4	\$ (1.6)
Restricted Net Assets	\$ -	\$ -	\$ -
Unrestricted Net Assets	\$ (0.9)	\$ (0.7)	\$ (0.2)

Operating revenues decreased in 2012 by \$100,000, while operating expenses increased by \$700,000. Bankruptcy costs of \$360,000 were the largest component of the increase. The result is that the Central Parking net operating income decreased by \$800,000 as compared to FY 2011. The prior period adjustment of \$1.1 million was comprised of the recording of an approximate

\$800,000 allowance for uncollectible loans receivable and approximately \$300,000 of accounting corrections.

Components of the \$3.9 million total net assets of the Central Parking District Fund include: invested in capital assets, net of related debt, of \$4.8 million, which decreased by approximately \$1.6 million, and a deficit unrestricted net assets of approximately \$900,000, an increase of approximately \$200,000 compared to the prior year.

Internal Service Funds Financial Analysis

Internal service funds are established to account for the financing of goods and services provided by one City department to other City departments, on a cost reimbursement basis. The City's internal service activities are categorized into two categories, those relating to the:

- 1) City's insurance/pension-related transactions; such as general liability, workers' compensation liability, employee and retiree health benefits liability, retirement/pension benefits and other insurance liability items; and
- 2) City's various equipment and vehicle fleet needs and information technology equipment and services.

Insurance/Pension-Related, Internal Service Fund

Insurance/Pension-related internal service funds have been combined below and include the General Liability Insurance Fund, Workers' Compensation Liability Insurance Fund, Employee and Retiree Health Insurance funds, the Retirement Benefits Fund, and the Other Benefits and Insurance Fund. These funds also account for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions approved by management.

The *General Liability Insurance Fund* accounts for premiums and claims paid and administration of general liability insurance provided to all City departments on a cost reimbursement basis. The *Workers' Compensation Liability Insurance Fund* accounts for premiums and claims paid and administration of workers' compensation insurance provided to City employees incurring injury on the job, of which health benefits and other related liability costs are supported by City department payments into the fund. The *Employee Health and Retiree Health Insurance Fund* accounts for premiums and claims paid and administration of health benefits insurance provided to qualified active and retired City employees, with City departmental payments made to the funds sought to reimburse health related expenses incurred for active employees and current retirees.

The *Retirement and Other Benefits Insurance Fund* accounts for the accumulation and payout of resources for the purpose of providing defined retirement and disability benefits, annual cost of living adjustments and death benefits to City employee plan members and beneficiaries through the California Public Employees' Retirement System (CalPERS) on a cost reimbursement basis and to account for premiums and claims paid and administration of comparatively smaller insurance funds provided to City employees on a cost reimbursement basis, to include long-term disability, life insurance, and termination pay and compensated absences benefits.

The prior year deficit (\$148.6 million) in the insurance/pension-related internal service funds' increased by \$28.0 million to total \$176.6 million deficit. At the end of the fiscal year, current assets exceed current liabilities by \$2.4 million and noncurrent assets fell short of noncurrent liabilities by \$179.0 million. Cash and investment balances increased slightly by \$800,000 to \$9.9 million.

Insurance/Pension-Related, Internal Service Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Statements of Net Assets</u>			
Cash and investments	\$ 9.9	\$ 10.7	\$ (0.8)
Other current assets	12.2	7.9	4.3
Current liabilities	(19.7)	(17.4)	(2.3)
Net current assets (liabilities)	2.4	1.2	1.2
Noncurrent assets	122.9	130.3	(7.4)
Noncurrent liabilities	(301.9)	(280.1)	(21.8)
Net noncurrent assets (liabilities)	(179.0)	(149.8)	(29.2)
Total Net Assets, End of Year	<u>\$ (176.6)</u>	<u>\$ (148.6)</u>	<u>\$ (28.0)</u>
<u>Statements of Revenues, Expenses and Changes in Net Assets</u>			
Operating revenues	\$ 88.5	\$ 89.6	\$ (1.1)
Operating expenses	(114.6)	(124.8)	10.2
Operating income (loss)	(26.1)	(35.2)	9.1
Non-operating revenues (expenses)	(2.8)	(3.3)	(0.5)
Capital contributions & transfers	0.9	(0.5)	1.4
Net change in Fund Balance	(28.0)	(39.0)	10.0
Total Net Assets, Beginning, as originally reported	(148.6)	110.6	259.2
Prior period adjustment	-	1.0	1.0
Total Net Assets, Beginning, as restated	(148.6)	(109.6)	(39.0)
Total Net Assets, End of Year	<u>\$ (176.6)</u>	<u>\$ (148.6)</u>	<u>\$ (28.0)</u>
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -
Restricted Net Assets	\$ -	\$ 2.6	\$ (2.6)
Unrestricted Net Assets	\$ (176.6)	\$ (151.2)	\$ (25.4)

Operating revenues dropped by \$1.1 million in 2012 primarily due to changes in employee and retiree health insurance including modifications to the City's self-funded medical plan and offering employees a less expensive Kaiser Plan. Correspondingly, operating expenses decreased by \$10.2 million mainly due to the previously mentioned changes to health insurance plans. The reduction in health insurance expenses was offset by an increase in CalPERS retirement benefit costs. Overall, the operating loss decreased by \$9.1 million to total an operating loss of \$26.1 million. Non-operating expenses decreased by \$0.5 million. There were no prior period adjustments in 2011-12.

The \$176.6 million of insurance/pension-related deficit is classified as unrestricted and is comprised of General Liability deficit of \$4.9 million, Workers' Compensation deficit of \$44.0 million, Employee & Retiree Health Insurance deficit of \$125.0 million and Retirement Benefits of \$3.1 million. The significant portion of the deficit is driven from the unfunded liabilities in the retiree health benefits as these benefits were paid for on a pay as you go basis. In addition, the outstanding pension obligation bond asset that was contributed to CalPERS when the bond was issued now has a carrying amount that is less than the amount of the outstanding bond obligation of \$124.3 million. This results from the City paying less than is actuarially required to contribute to fund current benefits due to declining payrolls and increasing discount rates at CalPERS. In addition, the workers' compensation claims is continuing to outpace the contribution therefore the actuarially determined liabilities are continuing to grow. The post-retirement employee health benefits liability is subject to negotiations and mediation under the chapter 9 bankruptcy proceeding. A tentative agreement has been reached with the retirees that could result in an adjustment to the liabilities; however, the outcome is contingent on the bankruptcy proceedings. In addition, the City's contribution towards post-retirement health benefits is being phased out over a two year period beginning in FY 2012-13 and will be completely eliminated in FY 2014-15.

Absent a plan to address the growing deficits in the insurance/benefit-related funds, these unfunded liabilities will continue to accrue to the City. In addition, readers should be aware that with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* in FY 2014-15 additional and significant long-term liabilities will begin to be reported in these financial statements. With already depleted reserves and deficits in net assets in governmental activities of \$114.9 million, the capacity to absorb these obligations will need to be evaluated.

Equipment-Related, Internal Service Fund.

Equipment-related internal service funds have been combined below and include the Vehicle Fleet Equipment, Computer Equipment, Radio Equipment, and Other Equipment.

The *Vehicle Fleet Equipment Fund* accounts for the financing, operating and maintenance of vehicles and similar equipment provided to City departments on a cost reimbursement basis. The *Computer Equipment Fund* accounts for the financing, service and maintenance of all computer and related equipment provided to City departments on a cost reimbursement basis. The *Radio Equipment Fund* accounts for the financing, service and maintenance of radio equipment provided to City departments on a cost reimbursement basis. *Other Equipment Funds* accounts for the financing, operating and maintenance of other, comparatively smaller equipment funds provided to City departments on a cost reimbursement basis, which included telephone, other office, and printing and mailing equipment.

The total net asset balance increased by \$4.1 million from the prior year to total \$18.6 million. At the end of the fiscal year, current assets exceed current liabilities by \$9.4 million and noncurrent assets exceed noncurrent liabilities by \$9.2 million. Cash and investment balances increased by \$2.8 million from the prior year balances, to total \$10.6 million.

Equipment-Related, Internal Service Fund Financial Analysis

(\$ in millions)

	2012	2011	Variance
<u>Statements of Net Assets</u>			
Cash and investments	\$ 10.7	\$ 7.9	\$ 2.8
Other current assets	0.2	-	0.2
Current liabilities	(1.5)	(1.7)	0.2
Net current assets (liabilities)	<u>9.4</u>	<u>6.2</u>	<u>3.2</u>
Noncurrent assets	10.9	10.3	0.6
Noncurrent liabilities	(1.7)	(2.0)	0.3
Net noncurrent assets (liabilities)	<u>9.2</u>	<u>8.3</u>	<u>0.9</u>
Total Net Assets, End of Year	<u><u>\$ 18.6</u></u>	<u><u>\$ 14.5</u></u>	<u><u>\$ 4.1</u></u>
<u>Statements of Revenues, Expenses and Changes in Net Assets</u>			
Operating revenues	\$ 20.4	\$ 18.6	\$ 1.8
Operating expenses	(18.0)	(19.0)	1.0
Operating income (loss)	<u>2.4</u>	<u>(0.4)</u>	<u>2.8</u>
Non-operating revenues (expenses)	0.1	-	(0.1)
Capital contributions & transfers	1.6	(2.7)	4.3
Total Net Assets, Beginning of Year	<u>14.5</u>	<u>17.6</u>	<u>(3.1)</u>
Total Net Assets, End of Year	<u><u>\$ 18.6</u></u>	<u><u>\$ 14.5</u></u>	<u><u>\$ 4.1</u></u>
Invested in capital assets, net of related debt	\$ 9.5	\$ 8.8	\$ 0.7
Restricted Net Assets	\$ 9.1	\$ -	\$ 9.1
Unrestricted Net Assets	\$ -	\$ 5.7	\$ (5.7)

Operating revenues increased in 2012 by approximately \$1.8 million due to replacement rate increases (\$1.3) million and the first year of funding for the Citywide Technology Strategic Plan (\$0.5) million, while operating expenses decreased by \$1.0 million. This resulted in an operating income of \$2.4 million, an improvement over the \$0.4 million loss experienced in the prior year. Capital contributions and transfers returned to a more normal level of \$1.6 million, as compared to the negative \$2.7 million experienced in the prior year. A \$2.3 million transfer from the Fleet Equipment Fund to the General Fund was made after the City Council approved in February 2012 a plan to address a \$15.2 million shortfall in the General Fund available fund balance.

Components of the \$18.6 million total net assets include: invested in capital assets net of related debt, which increased by \$0.7 million to \$9.5 million; and restricted net assets, that increased by \$9.1 million due to reclassification from prior year for equipment and fleet replacement.

GENERAL FUND BUDGETARY HIGHLIGHTS

As experienced by many California cities, the City of Stockton's General Fund budget was severely impacted by the economic downturn that began in the winter of 2008 and has progressively worsened through fiscal year 2012. The General Fund's original budgeted revenue and transfers in were \$175.2 million, which decreased during the year to \$171.8 million, primarily due the continued decline of property tax revenues, the loss of Motor Vehicle License Fee revenue from the state and corrections to parking ticket revenue collections. The original budgeted expenditures and transfers out of \$177.1 million increased 3.4% to a final revised budget of \$183.1 million due primarily to an increase of \$3.5 million to budgeted transfers out to subsidize the former Redevelopment activities with an unbudgeted amount of \$2.1 million, the need for additional subsidies for Pension Obligation Bonds, costs for the 400 E. Main building resulting from the need to cancel the planned move of the City Hall staff to that building, and the need to set aside \$3.5 million in previously unbudgeted funds for the costs for conducting the required confidential neutral mediation process required by State law (AB 506) as a preparatory step toward considering entry into bankruptcy proceedings.

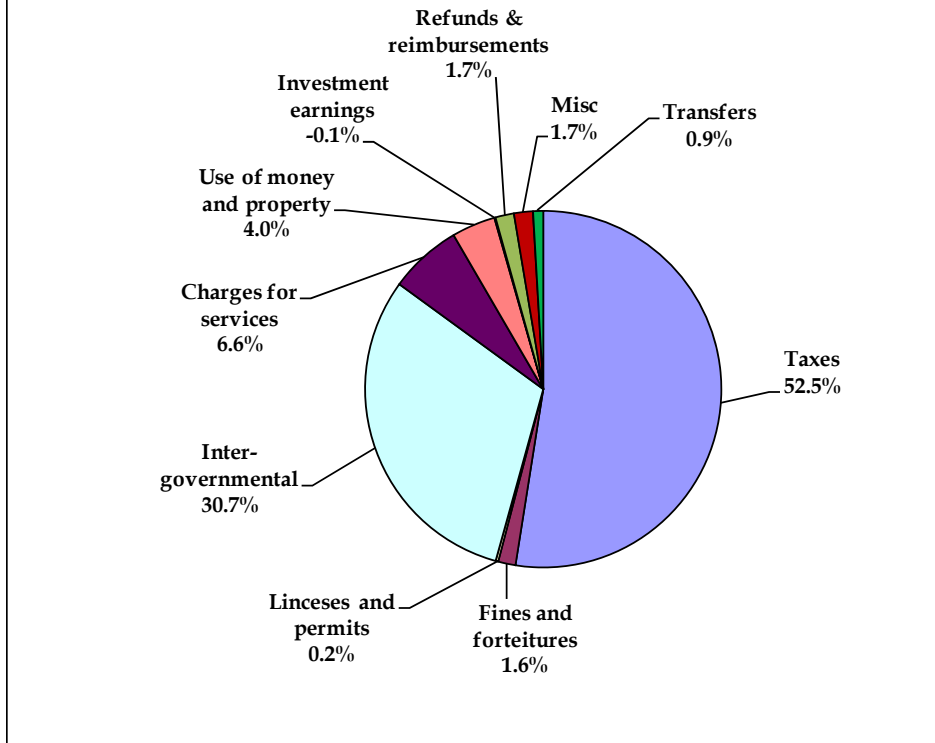
The 2012 fiscal year-end total fund balance increased \$2.4 million, to \$14.6 million. This increase is the result of reductions in expenses including high vacancy levels in staffing and defaulting on bonded debt to conserve cash liquidity while the City went through the AB 506 mediation process. General Fund assigned fund balance ended the fiscal year with \$4.1 million, or 2.5% of total expenditures for the fiscal year. The fiscal year 2012 General Fund unassigned fund balance is zero as all residual balances have been assigned for future appropriations and other operating needs as approved by the City Manager and City Council.

General Fund Revenues and Transfers

Of the \$171.5 million in actual total 2012 General Fund revenues and transfers, \$90.2 million or 52.5% were from taxes. Tax collections support citizen services such as for police and fire protection that cannot be provided in the private sector without a substantial subsidy. The taxes category includes collections for property tax, utility user tax, franchise fees, business licenses, in lieu of sales tax, the hotel/motel transient occupancy tax, and other smaller tax revenue sources.

Taxes are followed by intergovernmental revenues as the second largest revenue source, amounting to \$52.8 million, or 30.7% of the total. This category is comprised of motor vehicle in lieu registration fees, sales and use tax levied by the State of California, payments from San Joaquin County to support the City's operating costs of eight out of thirteen library branches located outside the City's boundaries, and grant funds from the federal and state governments. The third largest revenue source in fiscal 2012 was charges for services reported at \$11.3 million or 6.6% of the total. These revenues are collected in exchange for specific services provided by the City.

FY 2011-12 General Fund Revenues/Transfers



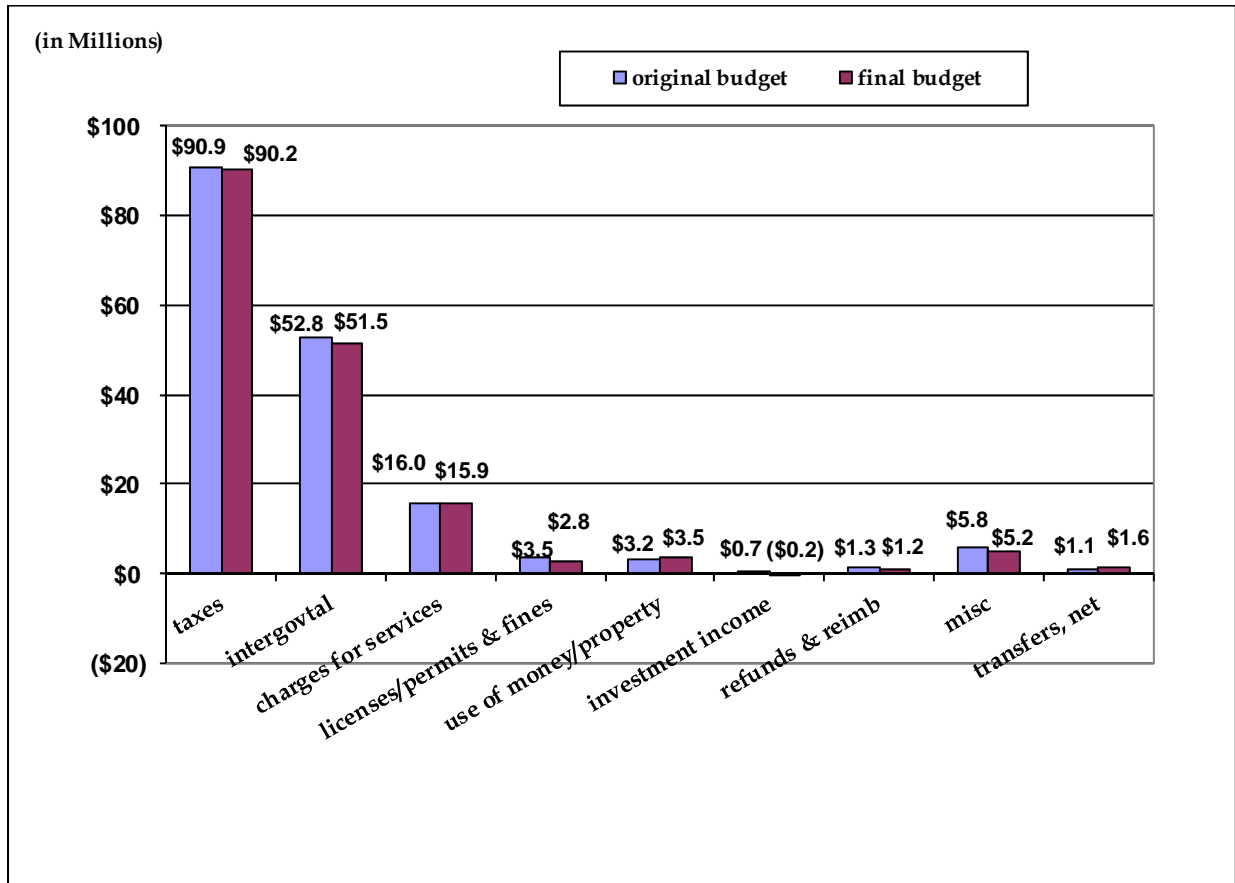
Collection of these revenues assists in defraying the costs of services, but cannot exceed the reasonable cost of the service. There was a \$0.5 million increase from fiscal 2011 primarily due to the receipt of prior year settlement payments from three fire districts contracting with the City for services. Of the total, the majority are revenues generated from the following areas and programs: \$1.7 million from recreational services and programs, \$4.8 million from mutual aid Fire Department services contractually provided to neighboring jurisdictions, \$2.6 million in charges to City property owners related to code enforcement efforts and \$1.0 million in other service charges by the Police Department.

The last primary source of General Fund revenue is from use of money and property amounting to \$6.8 million in fiscal 2012, 4% of total revenues and transfers in. The two primary sources in this category are revenues generated by the entertainment venue activities and rent paid to the General Fund from the Municipal Utilities funds for properties used by the utilities.

The remaining revenue categories are 6% of the total, and include licenses and permits, investment earnings, fines and forfeitures, refunds and reimbursements, and miscellaneous revenue.

The graph below illustrates the significant level of tax support for General Fund services, amounting to \$90.2 million or 52.5% of the total final budgeted revenue and transfers estimate of \$171.8 million.

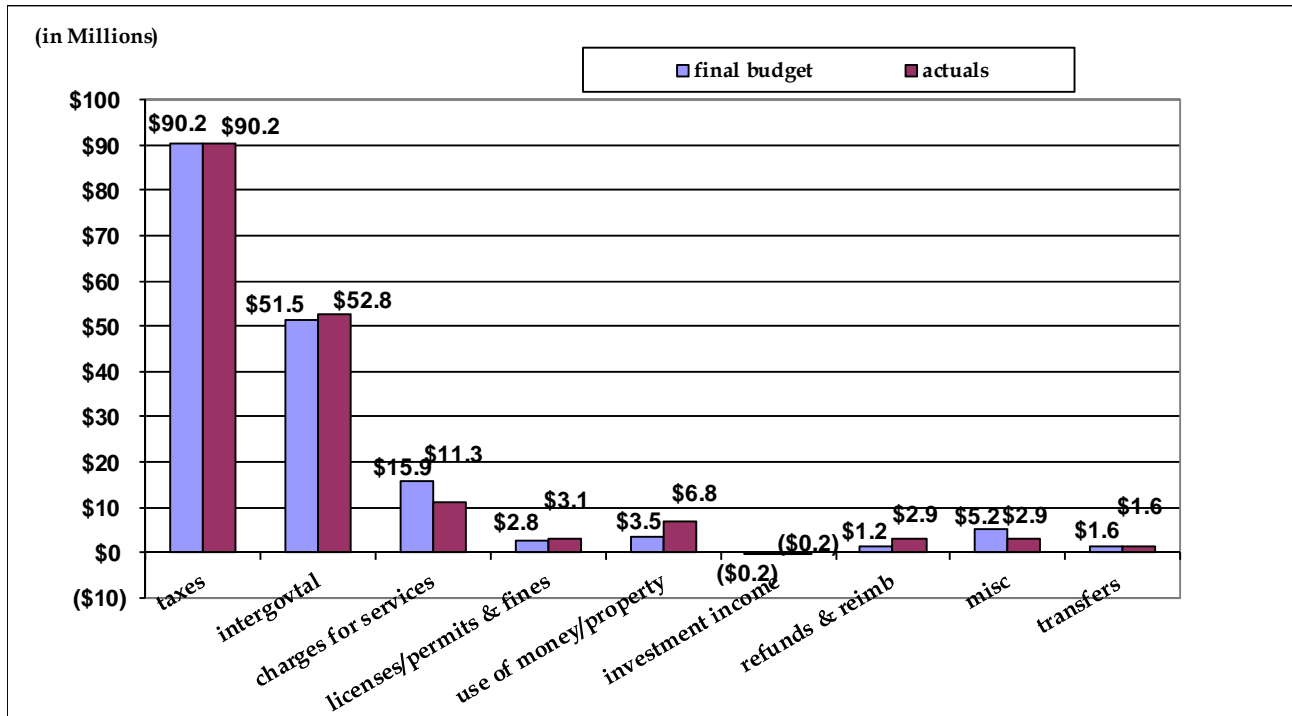
FY 2011-12 General Fund Original vs. Final Budget Revenues by Source Category



The following graph illustrates that during the year actual revenue collections and transfers of \$171.4 million were \$0.4 million above final budgetary estimates of \$171.8 million. Key components of this 0.2% difference are as follow:

- Tax revenues came in close to budget with lower property and business license tax revenues being offset by higher utility user, franchise, and hotel/motel tax revenues.
- An increase in intergovernmental revenues of approximately \$1.3 million primarily due to increase in sales tax revenue levied by the State.
- A shortfall of approximately \$4.6 million in charges for services due to entertainment venue revenues being recorded as use of money and property but budgeted as charges for services.
- An increase of approximately \$313,000 in revenue from fines due to improved revenue collections of criminal fines and parking citations.
- Use of money and property revenues was greater than the budget because entertainment revenues were posted to this category rather than charges for services.
- Refunds and reimbursement revenues are greater than budget primarily due to the booking a \$1.5 million receivable for state mandated costs. An allowance for this receivable reduces total revenues in the miscellaneous revenue category.

FY 2011-12 General Fund Final Budget vs. Actual Revenues by Source Category



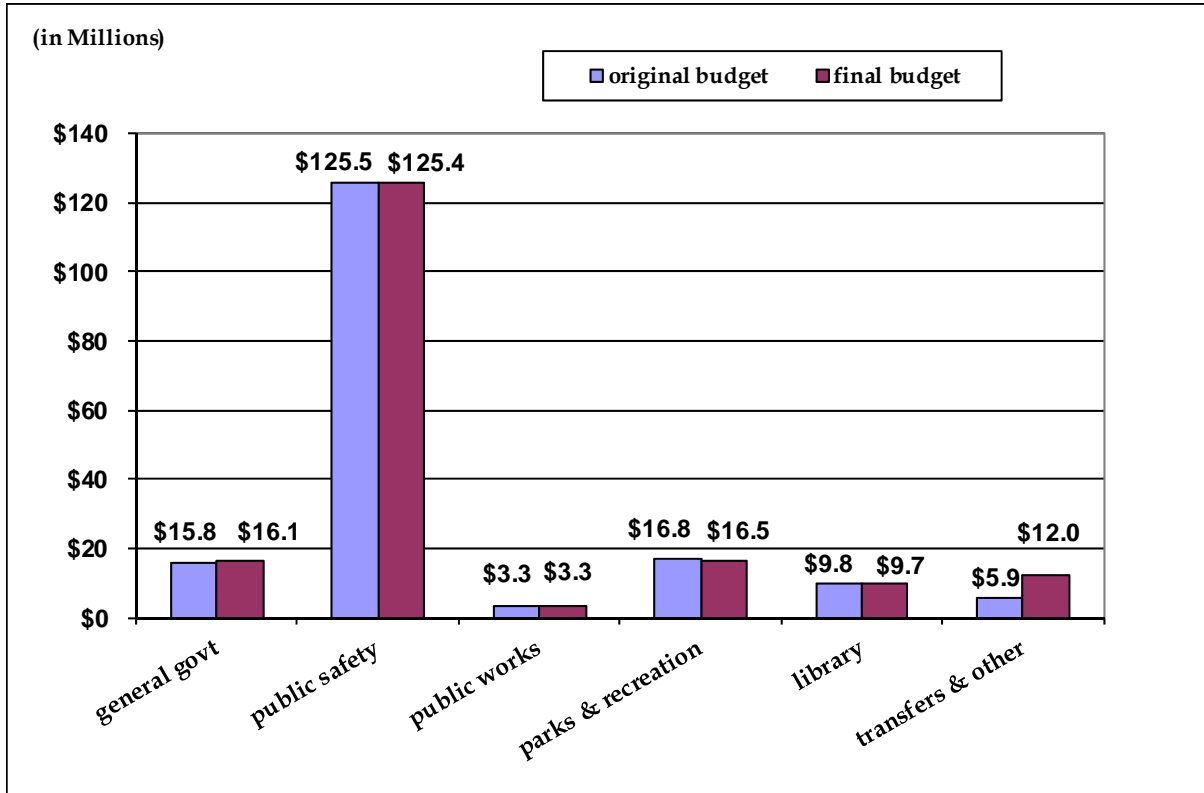
General Fund Expenditures and Transfers

Of the \$169.1 million of actual expenditures and transfers out, on a budgetary basis, of the General Fund, \$122.5 million, or 72%, were spent on public safety services. The second largest service category was parks and recreation at \$14.2 million, or 8%, of the total. General government services were the third largest category at \$12.9 million, or 8% of the total; followed by library services amounting to \$9.2 million, 5% of the total. Transfers to other funds totaled \$7.2 million or 4% of the total and lastly Public works' operating expenditures are recorded at \$3.0 million or 2% of the total, with the City's costs for road maintenance and repair, resurfacing and transportation-related infrastructure construction cost being recorded in other special revenue funds supported by state and federal subventions and specific grant programs.

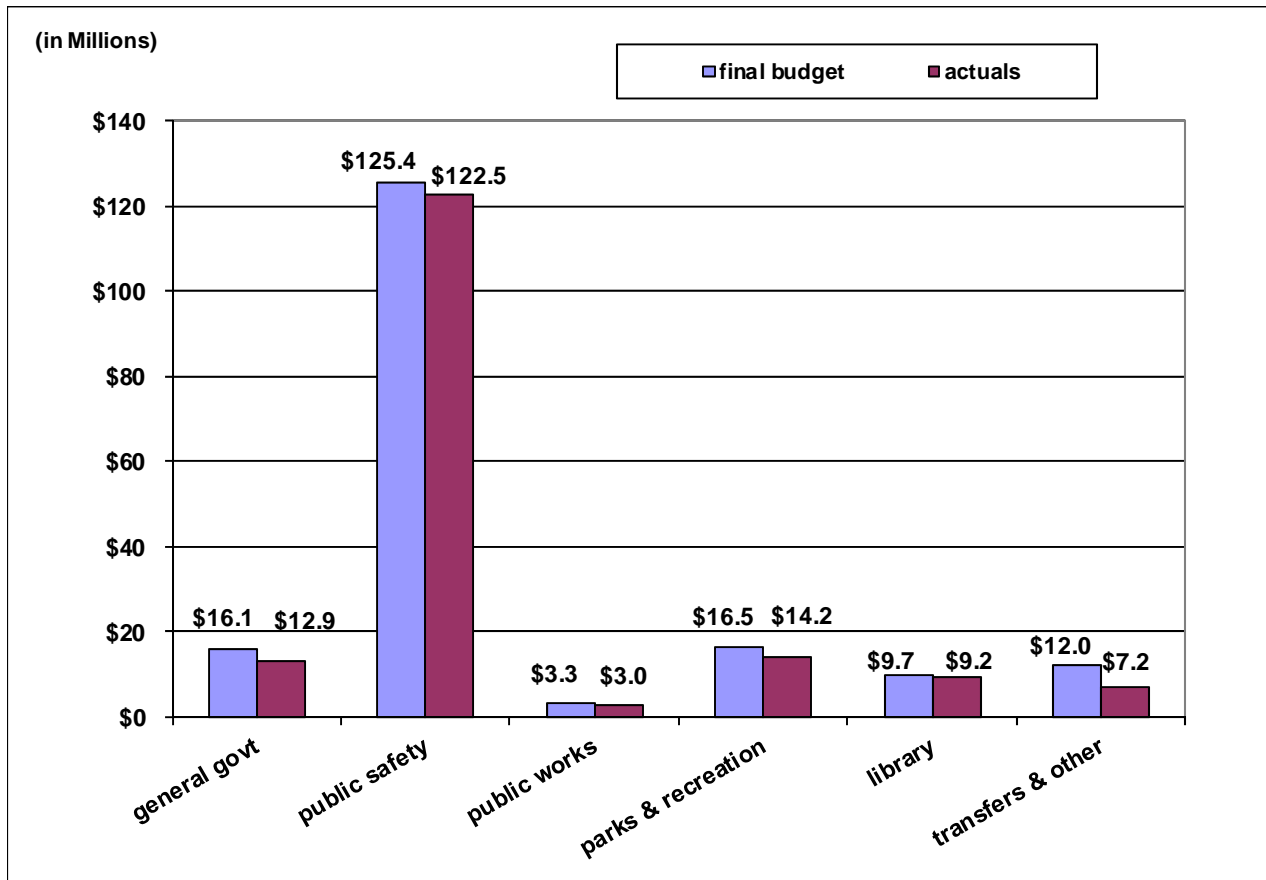
The General Fund ended the year with a total expenditures and transfers budget of \$183.1 million, compared to the originally adopted budget of \$177.1 million. Between the original and final budgets, Transfers and Other were increased by \$6.1 million to fund additional subsidies and capital projects. Transfers increased \$3.6 due to council approved subsidy transfers to the Redevelopment Agency fund, Retirement Benefits fund, and 400 E. Main Administration Building operating costs. \$2.4 million in capital outlay appropriations not fully expended at the end of the prior fiscal year were re-appropriated and included in the final FY 2012 budget per City Charter provisions.

The graph below illustrates the changes from the original budget during the year. Significant commitment of the total final budget is allocated for public safety (police and fire), amounting to \$125.4 million or 69.6% of the total final budget.

FY 2011-12 General Fund Original and Final Budget Expenditures by Services Program



FY 2011-12 General Fund Final Budget vs. Actual Expenditures by Services Program

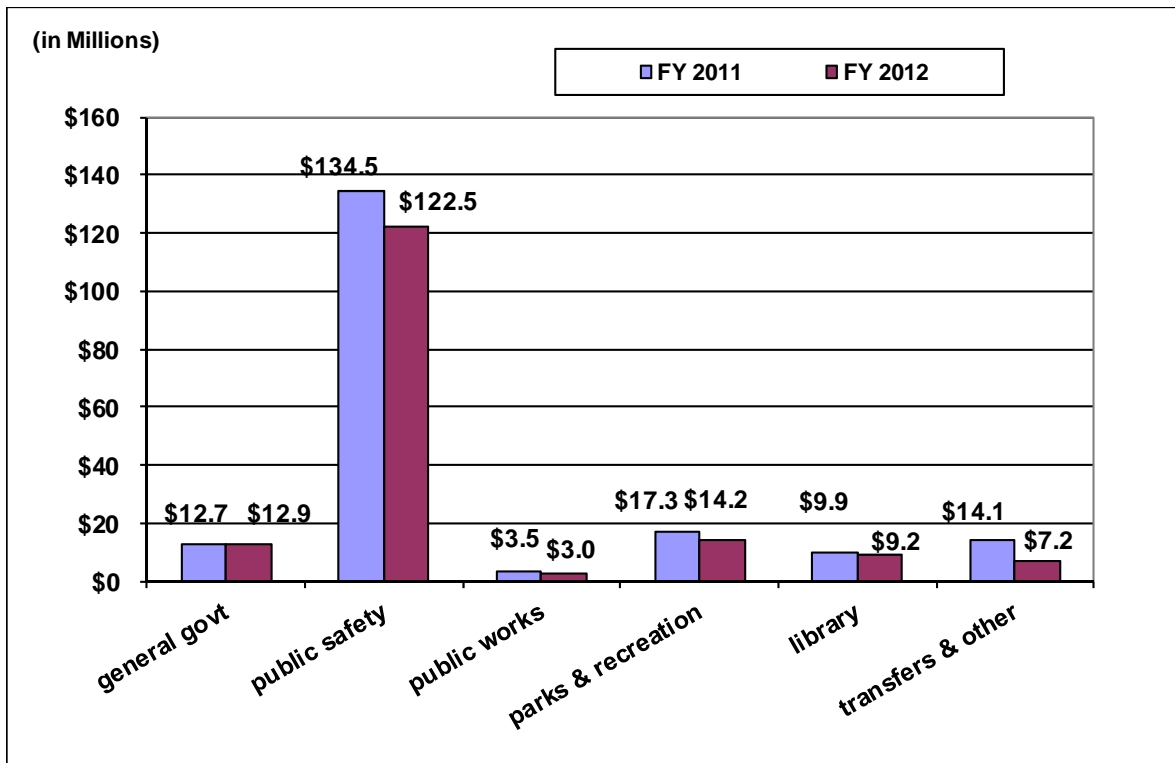


The below graph illustrates how General Fund actual expenditures are distributed amongst the six functional categories of the organization, with prior year actual expenditures as comparative data. Total expenditures in fiscal year 2012 of \$169.1 million were \$23 million lower than the prior fiscal year. This reduction in spending is the result of a \$37 million budget reduction plan involving reductions in both services and employee compensation. These reductions crossed all service areas but public safety was heavily impacted because the Fire union Memorandums of Understanding expired on June 30, 2012. The adopted budget had a Plan A that reduced the funding deficit by \$37 million through services and staffing reductions and a Plan B based on imposing compensation reductions on labor totaling \$24.9 million and service reductions of \$12.1 million. Plan B was implemented with over \$19 million or 51% of the cost reductions coming from the Fire Department followed by 38% in the Police Department. Cost reduction measures previously implemented in FY 2011 were continued. These measures included the renegotiation of bargaining unit labor agreements, 96 hours of furlough for all miscellaneous City employees and 62 hours for police personnel, reduced City contributions to employee retirement and health insurance, and a reduction of hours in City operations. Prior year reductions to internal service fund rates paid by General Fund departments were maintained, reducing expenditure levels in operating departmental funds across the City, yet increasing the prior year levels of net asset deficits, especially adversely impacting the financial position of the City's employee benefit internal service funds. Reductions in specific City programs were also implemented across the City's citizen services base.

Key components of significant changes are as follows:

- Public safety expenditures declined \$12 million or 8.9%. In the police department this was due to labor cost reductions and the inability to fill Police Officer vacancies as the department continued to experience high attrition rates and difficulty in recruiting new officers as a result of imposed compensation reductions under the City’s Fiscal Emergency Declaration. The Fire Department reduced expenses \$6.1 million through renegotiated labor contracts with fire employee bargaining units and cutting daily fire suppression staffing resulting in the elimination of 48 sworn positions.
- General government increased by \$0.3 million due to the legal costs incurred while undergoing the confidential neutral mediation process required by State law (AB 506) as a preparatory step toward considering entry into bankruptcy proceedings.
- Parks and recreation decreased by \$3.1 million due to a one-time termination fee in the Entertainment Venues paid in FY 2011.
- The Transfers and Other expenditure category decreased \$6.9 million with the elimination of one-time subsidies to the Compensated Absences ISF (\$3.7) million and the Redevelopment Agency (\$2.8 million less in FY 2012) that occurred as a result of the February 2012 City Council actions to balance the 2010-11 and 2011-12 budgets.

General Fund Actual Expenditures by Services Program - FY 2010-11 vs. FY 2011-12



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City’s investment in capital assets, net of depreciation expense, for its governmental and business-type activities as of June 30, 2012 amounts to \$1.1 billion. This investment in capital assets includes land and easements, buildings and improvements, water and sewer systems, machinery and equipment, park facilities, roads, streets, and bridges. The total increase in the

City's capital assets for the fiscal year was \$44.1 million or 2.9%. Governmental activities decreased \$5.1 million or 0.7% and business-type activities increased \$49.2 million, as shown in the following table.

Changes in Capital Assets, Net of Depreciation
(dollar amounts in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$44,769	\$56,719	\$15,607	\$15,607	\$60,376	\$72,326
Intangible Assets	3,435	2,806	750	750	4,185	\$3,556
Building and Improvements	271,385	266,460	742,917	517,293	1,014,302	783,753
Machinery and Equipment	4,590	14,041	2,979	3,008	7,569	17,049
Infrastructure	333,410	333,662	-	-	333,410	333,662
Construction in Progress	130,553	119,579	20,955	197,322	151,508	316,901
Total	<u>\$788,142</u>	<u>\$793,267</u>	<u>\$783,208</u>	<u>\$733,980</u>	<u>\$1,571,350</u>	<u>\$1,527,247</u>

Construction in progress decreased by \$165.4 million, or 52.2%, mostly in business type activities that comprised \$176.4 million of the decrease. This is as a result of completing the Delta Water Supply Project in June 2012 when it was placed in service and depreciation began. The governmental activities' construction in progress increased by \$11.0 million and includes Eight Mile Road/UPRR West and East Grade Separation, Lower Sacramento Road Widening, Arch/Sperry Road Extension and Arch Road/State Route 99 Interchange Improvements.

Land decreased by \$12.0 million in fiscal year 2012 due to the transfer of land held by the former Redevelopment Agency to the Successor Agency offset by small land purchase of \$1.0 million. Building and improvements increased by \$230.5 million due primarily to the capitalization of the Delta Water Supply Project, which were offset by annual depreciation. Machinery and equipment decreased overall by \$9.5 million primarily due to the transfer of \$10.9 million from the former Redevelopment Agency to the Successor Agency.

Additional information on the City's capital assets can be found in Note 6 Capital Assets on pages 97-100 of this report.

Long-term debt

At the end of the fiscal year, the City's total outstanding net bonded debt is \$601.9 million.

Of this amount, \$223.3 million (\$223.7 million including amounts owed to bond insurers) is related to governmental activities and \$378.6 million are debt obligations of business-type activities.

Governmental activities net bonded indebtedness decreased by \$131.7 due to the movement of \$127.8 million in former Redevelopment Agency obligations to the Successor Agency and \$1.2 million due to scheduled principal payments and amortization of deferred charges (\$3.9 million including former Redevelopment Agency debt service payments).

Business-type activities net bonded indebtedness decreased by \$3.6 million due to scheduled principal payments and amortization of deferred charges.

Governmental outstanding net bonded debt of \$223.3 million includes \$11.4 million of lease revenue bonds for the City's Stewart/Eberhardt Building/Parking Structure (SEB), \$40.4 million (\$40.8 if including amounts owed to bond insurer) of Series A (tax exempt) and B (taxable) Variable Rate Demand Lease Revenue Bonds for the acquisition of an office building and parking garage in downtown Stockton planned to be the new City administration building (400 East Main), \$12.9 million of certificates of participation for various redevelopment housing projects, \$124.3 million of pension obligation bonds, and \$34.3 in lease revenue bonds for various capital projects facilities expended from the Public Facility Impact Fees Fund.

Bonded debt in the amount of \$127.8 in debt was transferred in FY 2011-12 to the Successor Agency and is reported separately in a Private Purpose Trust Fund. Scheduled principal payments and amortization of deferred charges through January 31, 2012 was \$2.7 million. The balance outstanding at June 30, 2012 includes \$46.8 million of revenue bonds for the Stockton Events Center-Arena and \$81.0 million of revenue bonds for various redevelopment and housing projects referred to as the Strong Neighborhoods Initiative (SNI).

Business-type activities outstanding net bonded debt obligations of \$378.6 million includes \$262.6 million of revenue bonds of the Water Utility, \$84.4 million in certificates of participation for the Wastewater Utility, and \$31.6 million in lease revenue bonds in the Central Parking District.

Additional information on the City's long-term debt can be found in Note 7-Long-Term Debt on pages 102-125 of this report.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

The following items are currently known facts, decisions or conditions that management were aware of as of the date of the auditor's report and/or were considered in preparing the City's budget for the 2012-13 fiscal year.

- Several City creditors challenged the City's eligibility to be a Chapter 9 debtor shortly after the City filed for bankruptcy. After a nearly nine month discovery and mediation process and a three day trial, the United States Bankruptcy Court Judge on April 1, 2013 ruled the City had negotiated in good faith, was insolvent and that it was eligible for Chapter 9 bankruptcy protection. Prior to the ruling, the city had reached agreement with all of its labor unions, one bond insurer and its retirees. The City has continued to mediate with the remaining creditors since the eligibility trial with the court appointed mediator. Tentative agreements have been reached with the majority of the City's major creditors and have been incorporated into the proposed plan of adjustment, which was filed October 10, 2013, as

amended November 15, 2013, with the United States Bankruptcy Court. Since the filing of the plan of adjustment, one creditor has filed a challenge to the plan of adjustment. Though the outcome of the bankruptcy and any challenges the City may receive is uncertain, management is continuing to proceed towards confirmation of the plan of adjustment with its creditors. A status conference was held November 18, 2013 allowing the City to submit the Plan to a vote of its creditors. The City's Plan is scheduled for trial in early 2014.

- In connection with the City's filing for bankruptcy protection under Chapter 9, the City adopted a pendency plan budget for fiscal year 2012-13 which included several measures and cost reductions to close a \$26.0 million shortfall to balance the budget. Of these reductions, the City effective July 1, 2012 reduced the City's contribution towards the cost of retiree medical for current and future retirees to a fixed dollar amount depending upon years of service to the city and retirement status. This resulted in approximately \$7.7 million in total annual budget savings for the City's general fund. Effective July 1, 2013, the City completely eliminated its contribution for all retiree medical benefits for current retirees and employees. This is anticipated to result in an additional increase in total annual budget savings from \$7.7 to \$9.5 million. The City's retirees are creditors in the bankruptcy case and have been in mediation with the City. A tentative settlement of the retirees' claims in the amount of \$5.1 million has been negotiated and approved but is subject to bankruptcy court approval.
- The City has undergone multiple bond rating downgrades during the fiscal year as discussed further in the notes to the financial statements (Note 18). These downgrades have been to both Governmental Activities outstanding debt, as well as Water and Wastewater outstanding debt. The credit rating agency cited the City's narrow financial position, its inability to produce timely financial information, the City's unwillingness to pay as evidenced by defaults in debt payments after year end, and economically challenged tax base as the reason for its bond rating changes. After the close of FY 2012, the City has continued to operate under financial stress and its governmental activities debt has undergone additional bond rating downgrades.
- The City issued \$55.0 million in Series 2010A Revenue Bonds near the time this report will be released. These bonds were remarketed to fixed interest rates from variable rates in order to cancel the letter of credit that was due to expire and to reduce overall risk to the Water Utility System cash flow. Undertaking this transaction has improved the bond ratings of the Water and Wastewater debt as the rating agencies more closely evaluated the City, its bankruptcy impacts to those funds, and the firewall that the City had established between its restricted and unrestricted funds. In addition, as evidenced in this report the operations of the Water fund are improving as it is implementing the Proposition 218 Rate Study increases.

REQUESTS FOR INFORMATION

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





CITY OF STOCKTON



BASIC FINANCIAL STATEMENTS



CITY OF STOCKTON



GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STOCKTON
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and investments	\$ 101,866,006	\$ 49,214,054	\$ 151,080,060
Restricted cash and investments	5,364,529	66,720,186	72,084,715
Interest receivable	734,476	15,329	749,805
Accounts receivable, net	15,572,122	11,120,303	26,692,425
Internal balances	1,893,499	(1,893,499)	-
Due from other governments, net	42,114,092	3,554,348	45,668,440
Inventory of supplies	289,703	1,422,249	1,711,952
Other assets	288,272	99,866	388,138
Loans to property owners, net	114,090,411	-	114,090,411
Deferred charges	3,171,695	4,408,553	7,580,248
Net pension asset	120,835,510	-	120,835,510
Capital assets:			
Nondepreciable	178,756,726	37,312,116	216,068,842
Depreciable, net	609,385,881	745,895,990	1,355,281,871
Total assets	<u>1,194,362,922</u>	<u>917,869,495</u>	<u>2,112,232,417</u>
LIABILITIES			
Accounts payable and accrued expenses	17,687,826	4,509,956	22,197,782
Accrued payroll and benefits	3,084,872	-	3,084,872
Accrued interest	4,183,150	6,057,765	10,240,915
Deposits and other liabilities	2,931,172	1,670,981	4,602,153
Unearned revenue	8,445,287	-	8,445,287
Settlement payable	18,779,804	-	18,779,804
Long-term liabilities:			
Due within one year	28,702,084	7,808,394	36,510,478
Due in more than one year	314,508,340	383,424,464	697,932,804
Net OPEB obligation	123,534,000	-	123,534,000
Total liabilities	<u>521,856,535</u>	<u>403,471,560</u>	<u>925,328,095</u>
NET ASSETS			
Invested in capital assets, net of related debt	703,265,759	432,082,104	1,135,347,863
Restricted for:			
Capital projects	45,688,482	27,975,497	73,663,979
Debt service	4,006,390	-	4,006,390
Loan programs	6,973,183	-	6,973,183
Low and moderate-income housing	3,055,896	-	3,055,896
Public safety	1,116,674	-	1,116,674
Street improvements	8,254,928	-	8,254,928
Special maintenance districts	12,338,798	-	12,338,798
Fleet and equipment replacement	9,062,912	-	9,062,912
Endowments:			
Nonexpendable	304,314	-	304,314
Expendable	311,758	-	311,758
Other purposes	2,049,019	-	2,049,019
Unrestricted (deficit)	(123,921,726)	54,340,334	(69,581,392)
Total net assets	<u>\$ 672,506,387</u>	<u>\$ 514,397,935</u>	<u>\$ 1,186,904,322</u>

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

CITY OF STOCKTON
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 41,547,600	\$ 15,341,794	\$ 2,675,359	\$ -
Public safety	154,229,975	15,001,943	6,285,790	-
Public works	34,635,410	6,254,714	6,228,017	54,487,274
Library	10,176,044	719,349	5,258,631	-
Parks and recreation	20,759,643	6,036,806	11,841	-
Interest and fiscal charges	20,529,040	-	-	-
Total governmental activities	281,877,712	43,354,606	20,459,638	54,487,274
Business-type activities:				
Water utility	30,162,420	33,307,964	4,175,006	8,268,591
Wastewater utility	51,529,773	50,323,700	-	1,149,052
Stormwater utility	6,684,972	5,888,413	-	721,505
Central parking district	4,902,939	3,486,666	-	-
Other	3,749,592	2,070,926	-	-
Total business-type activities	97,029,696	95,077,669	4,175,006	10,139,148
Total	\$ 378,907,408	\$ 138,432,275	\$ 24,634,644	\$ 64,626,422
General revenues:				
Taxes:				
Property				
In lieu of sales tax				
Utility user				
Sales - levied by City				
Franchise fees				
Business license				
Hotel/motel room				
Document transfer				
Other				
Shared revenue:				
Vehicle license fees				
Sales and use tax levied by state				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Extraordinary item (Note 16)				
Change in net assets				
Net assets, beginning of year, as originally reported				
Prior period adjustments (Note 15)				
Net assets, beginning of year, as adjusted				
Net assets, end of year				

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals
\$ (23,530,447)		\$ (23,530,447)
(132,942,242)		(132,942,242)
32,334,595		32,334,595
(4,198,064)		(4,198,064)
(14,710,996)		(14,710,996)
(20,529,040)		(20,529,040)
<u>(163,576,194)</u>		<u>(163,576,194)</u>
	\$ 15,589,141	15,589,141
	(57,021)	(57,021)
	(75,054)	(75,054)
	(1,416,273)	(1,416,273)
	<u>(1,678,666)</u>	<u>(1,678,666)</u>
	12,362,127	12,362,127
<u>(163,576,194)</u>	<u>12,362,127</u>	<u>(151,214,067)</u>
32,771,579	-	32,771,579
8,392,001	-	8,392,001
31,504,709	-	31,504,709
8,576,425	-	8,576,425
12,464,835	-	12,464,835
9,872,955	-	9,872,955
1,932,631	-	1,932,631
603,313	-	603,313
158,596	1,205,281	1,363,877
17,734,072	-	17,734,072
32,603,668	-	32,603,668
2,802,397	1,864,516	4,666,913
973,912	(18,012,467)	(17,038,555)
1,717,809	(1,717,809)	-
<u>162,108,902</u>	<u>(16,660,479)</u>	<u>145,448,423</u>
75,350,345	-	75,350,345
<u>73,883,053</u>	<u>(4,298,352)</u>	<u>69,584,701</u>
598,623,334	508,795,989	1,107,419,323
-	9,900,298	9,900,298
<u>598,623,334</u>	<u>518,696,287</u>	<u>1,117,319,621</u>
<u>\$ 672,506,387</u>	<u>\$ 514,397,935</u>	<u>\$ 1,186,904,322</u>





CITY OF STOCKTON



FUND FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

Governmental Fund Types

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

Special revenue and capital projects funds are used to account for the financial resources that are restricted, committed, or assigned to expenditures for special purposes or capital outlays, including the acquisition and development of capital facilities and other capital assets.

The City's major governmental funds include:

General Fund

To account for resources not accounted for in another fund. The General Fund is the City's main operating fund reflecting transactions related to municipal governmental services supported by taxes, intergovernmental revenues, charges for services and other governmental type revenues.

HOME Program Loans Special Revenue Fund

To account for the City's HOME Program providing affordable housing for low- and very low-income residents in accordance with various federal and state laws.

Low and Moderate-Income Housing City Loans Special Revenue Fund

To account for loans extended to eligible low and moderate-income families as approved by the former Stockton Redevelopment Agency and the California Health and Safety Code.

Capital Improvement Capital Projects Fund

To account for the acquisition, construction and improvement of capital facilities as required by City Council action or state law in which the projects are financed by grants, lease proceeds and transfers from other City governmental funds.



Proprietary Fund Types

Proprietary funds focus on the determination of operating income, changes in net assets, financial position, and cash flows. There are two different types: enterprise funds and the internal service funds. Enterprise funds are used to report activities for which a fee is charged to external users for goods and services. Internal service funds may be used to report any activity that provides goods and services on a cost-reimbursement basis to other City funds, departments, or agencies of the primary government and its component units, or to other governments. The City's internal service funds include: General Liability Insurance, Workers' Compensation Insurance, Employee and Retiree Health Insurance, Retirement Benefits, Other Benefits and Insurance, Vehicle Fleet Equipment, Computer Equipment, Radio Equipment, and Other Equipment funds.

The City's major enterprise funds include:

Water Utility Enterprise Fund

To account for activities associated with the acquisition or construction of water treatment facilities, production, distribution and transmission of potable water to users, and operations related to the provision of services.

Wastewater Utility Enterprise Fund

To account for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater, and operations related to the provision of services.

The City elects to present the following as major funds:

Stormwater Utility Enterprise Fund

To account for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater, and operations related to the provision of services.

Central Parking District Enterprise Fund

To account for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities, and operations related to the provision of services.



Fiduciary Fund Types

The fiduciary funds are used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Funds financial statements. The fiduciary funds category includes agency funds and private-purpose trust funds.

Agency Fund

To account for land secured financing, developer area of benefit fees, pass-thru public fees on behalf of other entities, funds held in trust as security for development projects, and various community enhancement programs the City administers on behalf of other entities.

Successor Agency to the Redevelopment Agency of the City of Stockton

To account for a separate legal entity, which was formed to hold the assets and liabilities of the former Redevelopment Agency pursuant to the City Council actions taken on August 23, 2011. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Stockton as Successor Agency of the former Redevelopment Agency. The nature and significance of the relationship between the City and the Successor agency is such that it would be misleading to exclude the Successor Agency from the City's financial statements. The Successor Agency is presented herein in the City's fiduciary funds as a private-purpose trust fund.

CITY OF STOCKTON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Special Revenue	
		Home Program Loans	Low-Moderate Income Housing City Loans
ASSETS			
Cash and investments	\$ 10,678,348	\$ 679,462	\$ 73,771
Cash and investments with fiscal agents	-	-	-
Receivables, net:			
Interest	729,824	-	-
Accounts and other receivables, net	13,514,543	-	1,106
Advance deposits	64,617	-	-
Due from other funds	-	-	1,106,580
Due from other governments, net	5,683,241	230,133	-
Inventory of supplies	289,703	-	-
Prepaid expenses	923	-	-
Loans to other funds, net	-	-	1,888,752
Loans to property owners, net	-	30,445,387	53,679,915
Total assets	\$ 30,961,199	\$ 31,354,982	\$ 56,750,124
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 4,081,491	\$ 53,460	\$ 14,313
Accrued payroll and benefits	3,084,872	-	-
Due to other funds	-	-	-
Due to other governments	757,242	-	-
Due to other agencies	600,005	-	-
Deposits and other liabilities	1,102,922	-	-
Deferred revenue	6,697,920	30,445,387	53,679,915
Loans from other funds, net	-	-	-
Total liabilities	16,324,452	30,498,847	53,694,228
FUND BALANCES (DEFICIT):			
Nonspendable	355,243	-	-
Restricted	2,100,000	856,135	3,055,896
Committed	8,070,458	-	-
Assigned	4,111,046	-	-
Unassigned (deficit)	-	-	-
Total fund balances	14,636,747	856,135	3,055,896
Total liabilities and fund balances	\$ 30,961,199	\$ 31,354,982	\$ 56,750,124

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

<u>Capital Projects</u>		
<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 69,824,602	\$ 81,256,183
-	5,362,592	5,362,592
-	4,652	734,476
134,147	1,487,558	15,137,354
-	-	64,617
-	-	1,106,580
23,067,120	10,638,266	39,618,760
-	-	289,703
-	66,064	66,987
-	1,274,444	3,163,196
-	29,965,109	114,090,411
<u>\$ 23,201,267</u>	<u>\$ 118,623,287</u>	<u>\$ 260,890,859</u>

\$ 6,243,308	\$ 5,952,011	\$ 16,344,583
-	-	3,084,872
9,471,844	2,312,367	11,784,211
29,652	17,922	804,816
-	-	600,005
-	374,325	1,477,247
5,209,709	32,114,875	128,147,806
-	18,779,804	18,779,804
<u>20,954,513</u>	<u>59,551,304</u>	<u>181,023,344</u>

-	370,378	725,621
2,246,754	77,477,005	85,735,790
-	-	8,070,458
-	-	4,111,046
-	(18,775,400)	(18,775,400)
<u>2,246,754</u>	<u>59,071,983</u>	<u>79,867,515</u>
<u>\$ 23,201,267</u>	<u>\$ 118,623,287</u>	<u>\$ 260,890,859</u>



CITY OF STOCKTON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Total Governmental Funds \$ 79,867,515

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.

Non-depreciable	178,756,726
Depreciable (net of accumulated depreciation, and net of \$10,949,207 reported in the Internal Service Funds)	598,436,674

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

(158,039,440)

Various long-term liabilities are not due and payable in the current period, and therefore, are not reported in the governmental funds:

Compensated absences	(19,967,003)
Pollution remediation	-
Bonds payable and other long-term debt	(127,547,374)
Unamortized bond discounts, premiums and deferred amount on refunding	1,446,202
Accrued interest payable (\$2,311,745 is reported in the Internal Service Funds)	(1,871,405)

Deferred inflows and outflows of resources are not available for current period and, therefore, are deferred in the governmental funds or not recorded in the governmental funds:

Deferred revenue	119,702,519
Deferred charges	<u>1,721,973</u>

Net assets of governmental activities \$ 672,506,387

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

CITY OF STOCKTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue		Capital Projects
		Home Program Loans	Low-Moderate Income Housing City Loans	Capital Improvement
REVENUES:				
Taxes:				
Property	\$ 26,375,894	\$ -	\$ -	\$ -
In lieu of sales tax	8,392,001	-	-	-
Utility user	31,504,709	-	-	-
Sales - levied by City	-	-	-	-
Franchise fees	12,464,835	-	-	-
Business license	8,915,457	-	-	-
Hotel/motel room	1,932,631	-	-	-
Document transfer	603,313	-	-	-
Other	-	-	-	158,596
Licenses and permits	402,790	-	-	-
Intergovernmental:				
Federal grants and subsidies	-	1,022,641	-	8,422,270
Sales and use tax - levied by state	28,904,817	-	-	-
Other governmental	23,863,912	-	-	22,311,337
Charges for services	11,301,510	-	-	-
Fines and forfeitures	2,718,157	-	-	-
Use of money and property	6,823,921	713,436	75,731	13,872
Investment income:				
Interest income	(176,600)	5,185	6,369	103,479
Refunds and reimbursements	2,896,350	-	-	73,856
Miscellaneous	2,949,934	-	51,276	-
Total revenues	169,873,631	1,741,262	133,376	31,083,410
EXPENDITURES:				
Current:				
General government	12,923,916	-	-	-
Public safety	122,524,104	-	-	-
Public works	3,021,441	-	-	-
Library	9,181,370	-	-	-
Parks and recreation	14,228,595	-	-	-
Capital outlay	371,117	962,621	74,325	32,164,470
Debt service:				
Principal retirement	-	-	-	160,130
Interest and fiscal charges	-	-	-	88,648
Total expenditures	162,250,543	962,621	74,325	32,413,248
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	7,623,088	778,641	59,051	(1,329,838)
OTHER FINANCING SOURCES (USES):				
Transfers in	1,579,521	-	25,790	1,273,100
Transfers out	(6,822,096)	-	(24,276)	(666,972)
Issuance of long-term debt	-	-	-	-
Total other financing sources (uses)	(5,242,575)	-	1,514	606,128
EXTRAORDINARY ITEM (Note 16)	-	-	2,995,331	-
NET CHANGE IN FUND BALANCES	2,380,513	778,641	3,055,896	(723,710)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	12,256,234	77,494	-	2,970,464
FUND BALANCES, END OF YEAR	\$ 14,636,747	\$ 856,135	\$ 3,055,896	\$ 2,246,754

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

Other Governmental	Total Governmental Funds
\$ 6,395,685	\$ 32,771,579
-	8,392,001
-	31,504,709
8,576,425	8,576,425
-	12,464,835
957,498	9,872,955
-	1,932,631
-	603,313
-	158,596
3,621,031	4,023,821
10,482,233	19,927,144
3,698,851	32,603,668
20,809,054	66,984,303
10,353,983	21,655,493
74,237	2,792,394
4,220,939	11,847,899
2,428,879	2,367,312
243,600	3,213,806
3,087,004	6,088,214
<u>74,949,419</u>	<u>277,781,098</u>
9,818,209	22,742,125
16,523,342	139,047,446
10,967,868	13,989,309
355,816	9,537,186
2,658,291	16,886,886
34,432,801	68,005,334
5,722,738	5,882,868
13,442,365	13,531,013
<u>93,921,430</u>	<u>289,622,167</u>
<u>(18,972,011)</u>	<u>(11,841,069)</u>
21,827,718	24,706,129
(17,936,594)	(25,449,938)
532,731	532,731
<u>4,423,855</u>	<u>(211,078)</u>
<u>(24,319,177)</u>	<u>(21,323,846)</u>
(38,867,333)	(33,375,993)
<u>97,939,316</u>	<u>113,243,508</u>
<u>\$ 59,071,983</u>	<u>\$ 79,867,515</u>



**CITY OF STOCKTON
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds: \$ (33,375,993)

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

Governmental funds report capital outlays as expenditures. As donated capital assets don't create or use financial resources, they are not reported in governmental funds. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays, donated capital assets, capital asset disposals and depreciation expense are as follows:

Capitalized capital outlays	51,921,195
Donated capital assets	3,108,405
Capital asset disposals, net	(7,689,773)
Depreciation expense (net of \$2,208,761 reported in Internal Service funds)	(20,515,650)
Capital assets transferred to the Successor Agency	(32,640,965)

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

Long-term debt issuance	(532,731)
Settlement obligation	-
State animal control obligation	(51,966)
Repayment of principal	5,882,868
Costs of issuance	-
Long-term debt assumed by the Successor Agency	124,695,000

Internal service funds are used by management to charge the costs of certain activities, such as central garage, equipment and insurance, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities. (23,861,477)

Revenues in the statement of activities previously recognized as revenue for amounts that were deferred in the governmental funds, as amounts did not represent current financial resources. (348,817)

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

Change in compensated absences	2,788,390
Change in pollution remediation liability	1,892,733
Amortization of bond discounts and premiums, costs of issuance, and deferred amount on refunding	(7,400)
Change in accrued interest	(108,189)
Accrued interest assumed by the Successor Agency	2,251,890
Bond premium assumed by the Successor Agency	3,140,934
Cost of issuance transferred to the Successor Agency	(2,665,401)

Change in net assets of governmental activities \$ 73,883,053

CITY OF STOCKTON
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2012

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
ASSETS			
Current assets:			
Cash and investments	\$ 32,450,321	\$ 13,224,024	\$ 2,175,504
Cash and investments with fiscal agents	-	-	-
Receivables, net:			
Interest	9,057	20	-
Accounts and other receivables	5,278,619	4,845,836	917,928
Due from other funds	-	-	-
Due from other governments, net	3,554,348	-	-
Inventory of supplies	-	1,377,180	-
Deposits and advances	-	-	-
Prepaid expenses	-	-	-
Total current assets	<u>41,292,345</u>	<u>19,447,060</u>	<u>3,093,432</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments	8,251,365	19,724,132	-
Cash and investments with fiscal agents	36,703,975	188,229	-
Loans to other funds, net	-	-	-
Deferred charges	2,890,677	823,324	-
Pension asset	-	-	-
Capital assets, net:			
Nondepreciable	13,589,948	15,072,712	461,471
Depreciable, net	332,140,288	309,264,313	51,512,855
Total noncurrent assets	<u>393,576,253</u>	<u>345,072,710</u>	<u>51,974,326</u>
Total assets	<u>434,868,598</u>	<u>364,519,770</u>	<u>55,067,758</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,610,471	2,140,560	220,879
Due to other governments	358,325	-	-
Deposits and other liabilities	1,408,187	-	10,000
Accrued interest	3,610,578	1,451,501	-
Capital lease obligation	-	-	-
Compensated absences - current	161,168	450,107	10,437
Self-insurance claims and judgments - current	-	-	-
Other long-term debt - current	3,793,892	2,810,482	-
Total current liabilities	<u>10,942,621</u>	<u>6,852,650</u>	<u>241,316</u>
Noncurrent liabilities:			
Loans from other funds, net	-	-	-
Compensated absences - long-term	63,009	654,255	13,972
Self-insurance claims and judgments - long-term	-	-	-
Capital lease obligations	-	-	-
Notes payable	331,060	-	-
Certificates of participation	-	81,585,369	-
Bonds payable	258,892,305	-	-
Net OPEB obligation	-	-	-
Total noncurrent liabilities	<u>259,286,374</u>	<u>82,239,624</u>	<u>13,972</u>
Total liabilities	<u>270,228,995</u>	<u>89,092,274</u>	<u>255,288</u>
NET ASSETS			
Invested in capital assets, net of related debt	119,416,954	240,129,403	51,974,326
Restricted for capital projects	8,251,365	19,724,132	-
Restricted for debt service	-	-	-
Restricted for equipment replacement	-	-	-
Unrestricted (deficit)	36,971,284	15,573,961	2,838,144
Total net assets (deficit)	<u>\$ 164,639,603</u>	<u>\$ 275,427,496</u>	<u>\$ 54,812,470</u>

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

Central Parking District	Enterprise		Governmental
	Other Nonmajor Enterprise	Totals	Activities Internal Service
\$ 968,294	\$ 395,911	\$ 49,214,054	\$ 20,609,823
-	-	-	-
6,252	-	15,329	-
57,679	20,241	11,120,303	434,768
-	-	-	11,784,211
-	-	3,554,348	-
-	45,069	1,422,249	-
-	-	-	111,668
-	99,866	99,866	45,000
<u>1,032,225</u>	<u>561,087</u>	<u>65,426,149</u>	<u>32,985,470</u>
-	-	27,975,497	-
1,852,485	-	38,744,689	1,937
-	-	-	619,055
694,552	-	4,408,553	1,449,722
-	-	-	120,835,510
7,828,180	359,805	37,312,116	-
26,712,928	26,265,606	745,895,990	10,949,207
<u>37,088,145</u>	<u>26,625,411</u>	<u>854,336,845</u>	<u>133,855,431</u>
<u>38,120,370</u>	<u>27,186,498</u>	<u>919,762,994</u>	<u>166,840,901</u>
36,276	128,322	4,136,508	1,343,243
-	15,123	373,448	-
156,642	96,152	1,670,981	49,104
535,772	459,914	6,057,765	2,311,745
-	-	-	343,627
6,786	-	628,498	271,027
-	-	-	16,989,759
357,581	217,941	7,179,896	930,000
<u>1,093,057</u>	<u>917,452</u>	<u>20,047,096</u>	<u>22,238,505</u>
1,893,499	-	1,893,499	500,000
2,433	-	733,669	471,238
-	-	-	53,481,125
-	-	-	1,305,473
-	10,652,880	10,983,940	-
-	-	81,585,369	-
31,229,181	-	290,121,486	123,350,000
-	-	-	123,534,000
<u>33,125,113</u>	<u>10,652,880</u>	<u>385,317,963</u>	<u>302,641,836</u>
<u>34,218,170</u>	<u>11,570,332</u>	<u>405,365,059</u>	<u>324,880,341</u>
4,806,831	15,754,590	432,082,104	9,491,015
-	-	27,975,497	-
-	-	-	1,937
-	-	-	9,062,912
(904,631)	(138,424)	54,340,334	(176,595,304)
<u>\$ 3,902,200</u>	<u>\$ 15,616,166</u>	<u>\$ 514,397,935</u>	<u>\$ (158,039,440)</u>

CITY OF STOCKTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
OPERATING REVENUES:			
Charges for services	\$ 32,618,726	\$ 49,456,000	\$ 5,579,223
Miscellaneous	689,238	867,700	309,190
Total operating revenues	<u>33,307,964</u>	<u>50,323,700</u>	<u>5,888,413</u>
OPERATING EXPENSES:			
Operation and maintenance	7,255,688	27,751,421	1,466,099
General and administrative	3,116,705	7,877,581	3,140,690
Depreciation and amortization	3,073,820	11,273,058	1,589,493
Purchased water	9,682,663	-	-
Total operating expenses	<u>23,128,876</u>	<u>46,902,060</u>	<u>6,196,282</u>
OPERATING INCOME (LOSS)	<u>10,179,088</u>	<u>3,421,640</u>	<u>(307,869)</u>
NON-OPERATING REVENUES (EXPENSES):			
Taxes	-	-	-
Grants and subsidies	7,955,228	-	-
Investment income:			
Interest income	1,291,590	540,569	38,271
Gain (loss) from disposal of capital assets	-	-	-
Interest expense and fiscal charges	(7,033,544)	(4,627,713)	(488,690)
Other non-operating revenues	(7,059,470)	(10,952,997)	-
Total non-operating revenues (expenses)	<u>(4,846,196)</u>	<u>(15,040,141)</u>	<u>(450,419)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>5,332,892</u>	<u>(11,618,501)</u>	<u>(758,288)</u>
Capital contributions	1,314,232	843,622	721,505
Developer Contributions	3,174,137	305,430	-
Transfers in	-	-	-
Transfers out	(62,141)	(1,277,939)	(31,180)
CHANGE IN NET ASSETS	<u>9,759,120</u>	<u>(11,747,388)</u>	<u>(67,963)</u>
Net assets (deficits) at beginning of the year, as originally reported	144,980,185	287,174,884	54,880,433
Prior period adjustments (Note 15)	<u>9,900,298</u>	<u>-</u>	<u>-</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR, AS ADJUSTED	<u>154,880,483</u>	<u>287,174,884</u>	<u>54,880,433</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 164,639,603</u>	<u>\$ 275,427,496</u>	<u>\$ 54,812,470</u>

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

Central Parking District	Enterprise		Governmental
	Other Nonmajor Enterprise	Totals	Activities Internal Service
\$ 3,484,524	\$ 1,306,589	\$ 92,445,062	\$ 109,001,001
2,142	764,337	2,632,607	-
<u>3,486,666</u>	<u>2,070,926</u>	<u>95,077,669</u>	<u>109,001,001</u>
2,129,416	2,649,627	41,252,251	124,623,732
362,161		14,497,137	5,792,508
775,847	601,021	17,313,239	2,262,932
-		9,682,663	-
<u>3,267,424</u>	<u>3,250,648</u>	<u>82,745,290</u>	<u>132,679,172</u>
219,242	(1,179,722)	12,332,379	(23,678,171)
1,205,281	-	1,205,281	-
-	-	7,955,228	318,145
25,857	(31,771)	1,864,516	435,085
-	-	-	-
(1,635,515)	(498,944)	(14,284,406)	(6,882,438)
-	-	(18,012,467)	3,484,284
<u>(404,377)</u>	<u>(530,715)</u>	<u>(21,271,848)</u>	<u>(2,644,924)</u>
(185,135)	(1,710,437)	(8,939,469)	(26,323,095)
-	-	2,879,359	-
-	-	3,479,567	-
-	1,232,000	1,232,000	2,461,618
(1,577,927)	(622)	(2,949,809)	-
<u>(1,763,062)</u>	<u>(479,059)</u>	<u>(4,298,352)</u>	<u>(23,861,477)</u>
5,665,262	16,095,225	508,795,989	(134,177,963)
-	-	9,900,298	-
<u>5,665,262</u>	<u>16,095,225</u>	<u>518,696,287</u>	<u>(134,177,963)</u>
<u>\$ 3,902,200</u>	<u>\$ 15,616,166</u>	<u>\$ 514,397,935</u>	<u>\$ (158,039,440)</u>

CITY OF STOCKTON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 32,332,319	\$ 49,605,892	\$ 5,551,963
Receipts for interfund services provided	-	-	-
Payments to suppliers	(23,107,058)	(21,396,640)	(2,970,851)
Payments to employees	(5,590,420)	(14,324,148)	(1,556,087)
Net cash provided by (used for) operating activities	3,634,841	13,885,104	1,025,025
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	-	-	-
Transfers out	(62,141)	(1,277,939)	(31,180)
Receipt of cash subsidies and federal grants	12,906,576	-	-
Interest on settlement	300,118	219,730	(488,690)
Settlement payment	141,655	465,530	-
Principal paid on pension obligation debt	-	-	-
Interest paid on pension obligation debt	-	-	-
Due from other funds	-	-	-
Due to other funds	-	-	-
Advances to other funds	-	-	-
Advances received from other funds	-	-	-
Proceeds from taxes	-	-	-
Net cash provided by (used for) noncapital financing activities	13,286,208	(592,679)	(519,870)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchases of capital assets	(48,527,258)	(3,027,829)	(10,921)
Capital contributions received	1,314,232	305,430	-
Principal paid on debt	(725,320)	(2,955,000)	-
Interest paid on debt	(6,905,736)	(4,669,690)	-
Cost of issuance paid	-	59,604	-
Net cash provided by (used for) capital and related financing activities	(54,844,082)	(10,287,485)	(10,921)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment earnings	1,290,621	540,565	38,271
Net cash provided by (used for) investing activities	1,290,621	540,565	38,271
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,632,412)	3,545,505	532,505
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	114,038,073	29,590,880	1,642,999
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 77,405,661	\$ 33,136,385	\$ 2,175,504

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

		Enterprise		Governmental
Central Parking	Other Nonmajor			Activities
District	Enterprise	Totals		Internal Service
\$ 3,687,812	\$ 2,141,494	\$ 93,319,480		109,120,653
-	-	-		3,484,284
(1,600,494)	(2,842,685)	(51,917,728)		(73,233,663)
(896,076)	(5,448)	(22,372,179)		(25,487,065)
<u>1,191,242</u>	<u>(706,639)</u>	<u>19,029,573</u>		<u>13,884,209</u>
-	1,232,000	1,232,000		2,461,618
(1,577,927)	(622)	(2,949,809)		-
-	-	12,906,576		318,145
-	-	31,158		-
-	-	607,185		-
-	-	-		(380,000)
-	-	-		(6,870,388)
-	-	-		(4,561,668)
-	-	-		-
-	-	-		(9,063)
26,165	-	26,165		-
<u>1,205,281</u>	<u>-</u>	<u>1,205,281</u>		<u>-</u>
(346,481)	1,231,378	13,058,556		(9,041,356)
-	(8,804)	(51,574,812)		(2,900,816)
		1,619,662		
(305,000)	(251,307)	(4,236,627)		(329,559)
(1,639,582)	(468,370)	(13,683,378)		(84,593)
-	-	59,604		-
<u>(1,944,582)</u>	<u>(728,481)</u>	<u>(67,815,551)</u>		<u>(3,314,968)</u>
29,606	(31,771)	1,867,292		435,085
29,606	(31,771)	1,867,292		435,085
(1,070,215)	(235,513)	(33,860,130)		1,962,970
3,890,994	631,424	149,794,370		18,648,790
<u>\$ 2,820,779</u>	<u>\$ 395,911</u>	<u>\$ 115,934,240</u>		<u>\$ 20,611,760</u>

CITY OF STOCKTON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise		
	Water Utility	Wastewater Utility	Stormwater Utility
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 10,179,088	\$ 3,421,640	\$ (307,869)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	3,073,820	11,273,058	1,589,493
Other non-operating revenues	1,692	-	-
Changes in assets and liabilities:			
Accounts and other receivables	(925,791)	(717,808)	(336,450)
Prepaid expenses	-	-	-
Inventory of supplies	-	38,832	-
Deposits and advances	-	-	-
Deferred charges	-	-	-
Pension asset	-	-	-
Accounts payable	(8,770,958)	(290,524)	73,535
Due to other governments	98,565	-	-
Deposits and other liabilities	(51,546)	-	-
Compensated absences	29,971	159,906	6,316
Self-insurance - claims and judgments	-	-	-
Net OPEB obligation	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 3,634,841</u>	<u>\$ 13,885,104</u>	<u>\$ 1,025,025</u>
NONCASH TRANSACTIONS:			
Amortization of issuance discounts	\$ 14,219	\$ (30,806)	\$ -
Amortization of issuance premiums	(44,892)	-	-
Amortization of loss on refunding	(16,818)	(269,040)	-
Capital Contributions	3,174,137	843,622	721,505
Costs of issuance paid from bond proceeds	135,510	-	-
Transfer of capital assets from (to) other funds	-	-	-
Change in accrued interest related to loans to other funds	7,361,280	11,172,727	-
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS:			
Cash and investments	\$ 32,450,321	\$ 13,224,024	\$ 2,175,504
Cash with investments fiscal agents	-	-	-
Restricted assets:			
Cash and investments	8,251,365	19,724,132	-
Cash and investments with fiscal agents	36,703,975	188,229	-
Total cash and investments	<u>\$ 77,405,661</u>	<u>\$ 33,136,385</u>	<u>\$ 2,175,504</u>

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

Central Parking District	Enterprise		Totals	Governmental Activities
	Other Nonmajor Enterprise			Internal Service
\$ 219,242	\$ (1,179,722)	\$ 12,332,379	\$ (23,678,171)	
775,847	601,021	17,313,239	2,262,932	
-	-	1,692	3,484,284	
236,868	13,944	(1,729,237)	231,320	
-	(95,459)	(95,459)	-	
-	(15,853)	22,979	-	
-	-	-	(111,668)	
-	-	-	54,171	
-	-	-	7,318,542	
(10,903)	(103,866)	(9,102,716)	50,138	
-	15,123	113,688	-	
(35,722)	72,573	(14,695)	-	
5,910	(14,400)	187,703	30,648	
-	-	-	6,595,013	
-	-	-	17,647,000	
<u>\$ 1,191,242</u>	<u>\$ (706,639)</u>	<u>\$ 19,029,573</u>	<u>\$ 13,884,209</u>	
\$ (2,419)	\$ -	\$ (19,006)	\$ -	
-	-	(44,892)	-	
-	-	(285,858)	-	
-	-	4,739,264	-	
-	-	135,510	-	
-	-	-	720	
-	-	18,534,007	-	
\$ 968,294	\$ 395,911	\$ 49,214,054	\$ 20,609,823	
-	-	-	-	
-	-	27,975,497	-	
1,852,485	-	38,744,689	1,937	
<u>\$ 2,820,779</u>	<u>\$ 395,911</u>	<u>\$ 115,934,240</u>	<u>\$ 20,611,760</u>	

CITY OF STOCKTON
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	Agency Funds	Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund
	<u>Agency Funds</u>	<u>Private-Purpose Trust Fund</u>
ASSETS		
Cash and investments	\$ 50,904,822	\$ 3,846,643
Cash and investments with fiscal agents	16,916,643	23,302,515
Receivables, net:		
Interest	101,921	14,784
Accounts and other receivables	1,198,254	13,178
Due from other funds		
Due from other governments	803	-
Loans to other property owners		157,629
Deferred charges		2,538,538
Capital assets:		
Nondepreciable		13,047,928
Depreciable, net		18,977,181
	<u> </u>	<u> </u>
Total assets	<u>\$ 69,122,443</u>	<u>\$ 61,898,396</u>
LIABILITIES		
Accounts payable	\$ 335,750	\$ 9,124
Due to other funds		-
Due to other governments	803,623	-
Deposits and other liabilities	67,983,070	-
Deferred revenue		-
Loans from the City		2,495,332
Accrued interest		2,205,623
Bonds payable - current		2,721,560
Bonds payable - noncurrent		125,114,374
Pullution remediation		1,891,896
	<u> </u>	<u> </u>
Total liabilities	<u>\$ 69,122,443</u>	<u>134,437,909</u>
NET ASSETS (DEFICIT)		<u>\$ (72,539,513)</u>

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

CITY OF STOCKTON
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FIVE MONTHS ENDED JUNE 30, 2012

	Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund
ADDITIONS	
Property tax	\$ 4,972,124
Use of money and property	161,027
Investment Income	80,829
Refunds and reimbursements	1,071
Miscellaneous	650,163
Total additions	<u>5,865,214</u>
DEDUCTIONS	
General government	1,059,697
Public Works	1,362,683
Interest expense	632,002
Total deductions	<u>3,054,382</u>
Transfer of Assets and Liabilities from Redevelopment Agency upon Dissolution (Note 16)	<u>(75,350,345)</u>
CHANGE IN NET ASSETS	<u>(72,539,513)</u>
NET ASSETS (DEFICIT)	
Beginning of year	<u>-</u>
End of year	<u>\$ (72,539,513)</u>

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





CITY OF STOCKTON



NOTES TO BASIC FINANCIAL STATEMENTS

City of Stockton
Notes to Basic Financial Statements
For the year ended June 30, 2012

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City of Stockton
Notes to Basic Financial Statements
For the year ended June 30, 2012

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City of Stockton
Notes to Basic Financial Statements
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Stockton, California (the "City") have been prepared in conformity with Generally Accepted Accounting Principles of the United States of America ("U.S. GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City was incorporated on July 25, 1850 under the general laws of the State of California. Under the charter adopted in 1923, the City operates under a Council-Manager and appointed City Manager form of government and provides the following services as authorized by its charter: public safety, community services, engineering services, planning services, public works, general administrative services and capital improvements.

These basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and either the City is able to impose its will on that organization or there is a potential for that organization to provide financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Each blended component unit has a June 30 year-end. The following entities are reported component units:

Blended Component Units

The Redevelopment Agency of the City of Stockton (the "Agency")

The Agency was created by the City of Stockton City Council ("City Council") in February 1975. It was established pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Redevelopment Law." Its purpose is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the territorial limits of the City of Stockton. On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in the State of California. In accordance with the timeline set forth in the bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. The Agency's operations are governmental in nature and, as such, have been included in the special revenue, capital projects, and debt service funds for the seven month period ending January 31, 2013 since the City Council, through the date of dissolution, acted as the Agency's governing board and exerted significant influence over its operations until that time.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity, Continued

Fiduciary Component Unit

The Successor Agency to the Redevelopment Agency of the City of Stockton ("Successor Agency") is a separate legal entity, which was formed to hold the assets and liabilities of the former Redevelopment Agency pursuant to City Council action taken on August 23, 2011. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Stockton as Successor Agency of the former Redevelopment Agency. The nature and significance of the relationship between the City and the Successor Agency is such that it would be misleading to exclude the Successor Agency from the City's financial statements. The Successor Agency is presented herein in the City's fiduciary funds as a private-purpose trust fund for the five month period ended June 30, 2012.

The Stockton Public Financing Authority (the "SPFA")

The SPFA was created in June 1990 and carries out lease debt financing for the City and Redevelopment Agency. The governing body of the SPFA is comprised of City Council members. The SPFA is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to the City and/or to refinance outstanding obligations of the City. The City does not produce separate financial statements for the SPFA.

Excluded Agency

An additional governmental agency in which the City participates is the San Joaquin Area Flood Control Agency (SJAFCA) which is jointly governed by the City and the County of San Joaquin (County). The City retains neither an on-going financial interest in, nor obligation to SJAFCA, therefore financial information for the SJAFCA is not included in the accompanying financial statements.

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

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities and business-type activities for the City, the primary government, accompanied by a total column. Fiduciary activities of the City are not included in these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

The Government-Wide financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued

Government-Wide Financial Statements, Continued

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to, Due from other funds
- Loans to, Loans from other funds
- Transfers in, Transfers out

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them such as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences.

The City reports the following major governmental funds:

- **General Fund**
To account for resources not accounted for in another fund. The General Fund is the City's main operating fund reflecting transactions related to municipal governmental services supported by taxes, intergovernmental revenues, charges for services and other governmental type revenues.
- **HOME Program Loans Special Revenue Fund**
To account for the City's HOME Program providing affordable housing for low- and very low-income residents in accordance with various federal and state laws. HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low- and very low- income households.
- **Low and Moderate-Income Housing City Loans Special Revenue Fund**
To account for loans extended to eligible low and moderate-income families as approved by the Stockton Redevelopment Agency (until dissolution on February 1, 2012) and the California Health and Safety Code. Loans have not been extended subsequent to the date of dissolution.
- **Capital Improvement Capital Projects Fund**
To account for the acquisition, construction and improvement of capital facilities as required by City Council action or state law in which the projects are financed by grants, lease proceeds and transfers from other City governmental funds.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for all proprietary funds.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued

Proprietary Fund Financial Statements, Continued

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major enterprise funds:

- ***Water Utility Enterprise Fund***
To account for activities associated with the acquisition or construction of water treatment facilities, production, distribution and transmission of potable water to users, and operations related to the provision of services.
- ***Wastewater Utility Enterprise Fund***
To account for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater, and operations related to the provision of services.

The City elects to present the following as major funds:

- ***Stormwater Utility Enterprise Fund***
To account for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater, and operations related to the provision of services.
- ***Central Parking District Enterprise Fund***
To account for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities, and operations related to the provision of services

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements. Internal service funds are a type of proprietary fund used to report any activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units on a cost-reimbursement basis. The City's internal service funds include nine individual funds which provide services directly to other City funds.

- The Internal Service Funds of the City are the General Liability Insurance, Workers' Compensation Insurance, Employee and Retiree Health Insurance, Retirement Benefits, Other Benefits & Insurance, Vehicle Fleet Equipment, Computer Equipment, Radio Equipment, and Other Equipment funds.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Presentation, Measurement Focus and Basis of Accounting, Continued*

Fiduciary Fund Financial Statements

Fiduciary funds include private-purpose trust and agency funds. Fiduciary fund types are accounted for according to the nature of the fund. Agency fund financial statements include a Statement of Net Assets. The City has agency funds, which are purely custodial in nature (assets equal liabilities), and thus do not involve measurement of results of operations. The agency funds are accounted for on the accrual basis of accounting like the Proprietary funds. These funds are used to account for money and property held by the City as trustee or custodian. They are also used to account for various assessment districts for which the City acts as an agent for debt service activities. The private-purpose trust fund accounts for assets, liabilities and activities of the dissolved Redevelopment Agency of the City of Stockton, which is accounted for in the Successor Agency Trust Fund (Note 16).

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of budgetary controls. Encumbrance amounts outstanding at year-end are reported within fund balance as they represent a commitment of fund balance for expenditures during a subsequent period.

D. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents. The statement of cash flows requires presentation of "cash and cash equivalents." For the purposes of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as "cash and cash equivalents," as such funds are available to the various funds as needed.

The City participates in an external investment pool managed by the State of California (State), the Local Agency Investment Fund (LAIF). The City records its investment in LAIF at fair value based on information obtained from the State on the holdings in the pool.

Investment income consists of interest income, dividend income, and recognized gains or losses on investments. Money market investments and certain guaranteed investment contracts are carried at cost. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. The City allocates the fair value adjustment for unrealized gains and losses along with interest earnings on investments to the individual pooled funds quarterly based on each fund's average pooled cash and investments balances. The City reported its investments at fair value and the unrealized losses on investments amounted to \$393,294 for the fiscal year ended June 30, 2012.

Certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas are presented in the footnotes:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk
- Foreign Currency Risk

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Restricted Cash and Investments

Restricted cash and investments consist of cash and investments held with fiscal agents are restricted due to limitations on their use by bond covenants or donor limitations. Cash held in the Rate Stabilization Fund established pursuant to the 2009 Water Rate and Financing Study. Fiscal agents acting on behalf of the Fund hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificate of participation or tax allocation bonds and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

F. Receivables and Payables

Revenues are recorded when received in cash, except revenues subject to accrual (up to 90 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services.

Federal and State grants are considered receivable and accrued as revenue when all eligibility requirements have been met under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available.

Long-term loans receivable, which consist of the principal amount of the loan plus the accrued borrower's deferred interest, is reported in the governmental fund statements with offsetting deferred revenue as resources are not available for expenditure. Long-term loans receivable reported in the governmental activities on the government-wide statement of net assets is not offset by deferred revenue as it is recorded on an accrual basis at its net realizable value based on an estimate of uncollectible amounts for loan losses.

Unbilled utility revenue earned is recognized as revenue and accounts receivable in the enterprise funds.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Interfund Loans and Advances

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "loans to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Management has determined that there are a number of interfund balances which may or may not be repaid within a reasonable period of time. Generally Accepted Accounting Principles permit the reporting of interfund balances such as interfund loans and advances only when repayment is expected within a reasonable period of time. However, City policy does not permit the elimination of interfund balances without City Council approval. Accordingly, interfund balances, which are not expected to be repaid within a reasonable period of time or not at all, have been offset with an allowance for uncollectible advances and the owing fund's obligation is offset by a contra-liability account.

H. Inventory of Supplies

Inventories consist of expendable supplies held for consumption. Inventories are valued at weighted average cost using the first-in first-out basis. Inventories of all funds are recorded as expenditures/expenses when consumed rather than purchased. Inventory of supplies is recorded in the Wastewater Fund, for the City's Water, Wastewater, and Stormwater Enterprise Funds which operates as a central store for all of the City's utilities.

I. Accrued Payroll and Related Liabilities

The City is on a semi-monthly payroll period and employees are paid seven days after the end of the payroll periods ending on the 15th and the end of the month or the last working day prior to that date. It is the City's policy to accrue its payroll and benefits liabilities in the Payroll Fund, which is combined with the General Fund for financial reporting purposes. Cash is transferred from the respective funds to the Payroll Fund to cover that Fund's portion of the accrued liabilities with the corresponding payroll expenditures being recorded in the Fund. As of June 30, the payroll accrual is recorded in the City's General Fund with corresponding cash collected in other funds to offset the accrual.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 for equipment and works of art; \$10,000 for land, buildings, improvements and intangible assets; \$50,000 for infrastructure, all of which must have an estimated useful life in excess of one year. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and structures	30-50 years
Improvements other than buildings	20-30 years
Machinery and equipment	3-30 years
Infrastructure	50-100 years

Major outlays for capital assets are capitalized as projects once constructed. Repairs and maintenance costs are expensed. Interest accrued during capital assets construction, if any, is capitalized for the business-type funds as part of the asset cost.

K. Capital Contributions

Capital contributions are comprised of cash and assets donated from developers. Connection fees are reported as capital contributions in the Water Utility and Wastewater Utility enterprise funds.

L. Accrued Compensated Absences

In accordance with negotiated labor agreements, employees accumulate earned but unused vacation, other compensated leave, and sick leave pay benefits. Until February 17, 2012, accrued vacation leave was payable at 100% of accumulated hours upon separation of service and accrued sick leave was payable at 50% of accumulated hours for all City employees upon separation of service due to death, service or disability retirement. Management employees, mid-management, and unrepresented employees were also eligible for pay-off of 50% of accumulated sick leave upon termination after ten years of service. Depending upon bargaining unit and date of hire, employees were allowed to apply 100% of accrued sick leave hours for additional California Public Employees' Retirement System (CalPERS) service credit upon retirement.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Accrued Compensated Absences, Continued

In connection with the City Council decision on February 28, 2012 to extend its fiscal emergency declaration (Note 18) the City Manager suspended and the City Council ratified the suspension of sick leave and vacation payouts to retiring workers. After filing for bankruptcy, labor agreements were renegotiated. For employees separating from service after February 17, 2012, vacation payouts are now paid in annual installments on the separation date equal to the greater of \$10,000 or 1/3 of the employees accrued balance until paid in full and sick leave accruals are no longer paid out.

After subtracting the sick leave balance equivalent of one full year of service credit (2080 hours), which may be applied to CalPERS service credit, any sick leave balance remaining upon separation shall be paid at a specific percentage of the cash value to employees who have remained in City service until the dates specified in the labor agreements.

Government-Wide Financial Statements

For governmental and business-type activities, compensated absences are recorded as expenses when liabilities are incurred.

Fund Financial Statements

For governmental funds, compensated absences are recorded as expenditures in the year matured. The General Fund is typically used to liquidate compensated absences. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund's share of the unpaid liability is recorded as a long-term liability of the fund.

M. Long-Term Debt

In the Government-wide and proprietary fund financial statements, long-term debt and other long-term financial obligations are reported as liabilities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, in the year of issuance. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. The differences between the government-wide and fund financial statements are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Property Taxes

Property taxes are levied on October 1 and are payable by property owners in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of San Joaquin, California ("County") bills and collects property taxes and remits them to the City according to a payment schedule established by the County. The County operates under the Teeter Plan, whereby the County pays the City 100% of the taxes levied. The County assumes responsibility for collecting any delinquent amounts and upon collection retains the penalty and interest portion of those amounts. Therefore no allowance for doubtful accounts is considered necessary.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year or the current CPI, whichever is less. The City receives a share of this basic tax levy proportionate to what it received during the years 1980-1981.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 90 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

O. Net Assets

For government-wide and proprietary fund financial statements, net assets are categorized as follows:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments and can be used toward targeted reserves.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

P. Fund Balances

For governmental fund financial statements, fund balances are categorized as follows:

Nonspendable - Amounts that cannot be spent because they are (1) not in spendable form, such as prepaid items, inventories and long-term receivables for which the payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund or (2) legally or contractually required to be maintained intact.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Fund Balances, Continued

Restricted - Amounts that are restricted by external parties such as creditors or imposed by grants, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The City has legislative restrictions on amounts collected and reported in the City's various governmental funds. As a result, these restrictions have been classified as restricted for community development, debt service reserve, general government, housing projects/loans, libraries and arts, parks and recreation, public safety, public services, redevelopment projects, solid waste/recycling and streets, transit and traffic.

Committed - This amount indicates the portion of fund balances which can only be used for specific purposes pursuant to formal resolution or ordinance of the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

Assigned - Amounts that have been allocated by action of an official authorized by the Stockton City Council in which the City's intent is to use the funds for a specific purpose. The City considers this level of authority to be with the City Manager of the City of Stockton.

Unassigned - Amounts that constitute the residual balances that have no restrictions placed upon them. As restrictions exceed available resources at June 30, 2011, only deficit amounts are reported in the unassigned category.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned depending on the nature of the expenditure.

Q. Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates and assumptions.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Accounting Change

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, improves financial reporting by addressing issues related to service concession arrangements (SCA's), which are a type of public-private or public-public partnership. The City intends to implement the new requirements for the fiscal year 2012-13 financial statements.

GASB Statement No. 62, *Codification of Pre-November 30, 1989 FASB Pronouncements* combines the authoritative accounting and financial reporting of the FASB and the American Institute of Certified Public Accountants ("AICPA"). The statement eliminates the need for financial statement preparers and auditors to determine whether FASB and AICPA pronouncement provisions apply to state and local governments. This statement became effective for periods beginning after December 15, 2011. To improve clarity and understandability of financial reporting, the City has elected to early implement this statement. Management has evaluated and concluded that this statement does not have a significant impact on the Fund's financial statements for the year ended June 30, 2012.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of pooled cash and investments, including restricted cash and investments at June 30, 2012:

Deposits:	
Cash on hand	\$ 32,140
Demand deposits	1,488,838
Total deposits	<u>1,520,978</u>
Investments	<u>316,614,420</u>
Total cash and investments	<u><u>\$ 318,135,398</u></u>
 Presented in the government-wide statement of net assets:	
Cash and investments	\$ 151,080,060
Restricted cash and investments	72,084,715
 Presented in the statement of fiduciary net assets:	
Cash and investments	54,751,465
Cash and investments with fiscal agents	<u>40,219,158</u>
Total cash and investments	<u><u>\$ 318,135,398</u></u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

A. Cash Deposits

The carrying amount of the City's Pooled cash deposits was \$1,520,978 at June 30, 2012. Bank balances before reconciling items were \$3,320,298 at that date, the total amount of which was insured or collateralized with securities held by the pledging financial institutions in the Fund's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Fund's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures or by donor direction. Prior to July 1, 2011, investment income earned on pooled cash and investments was allocated on a monthly basis to the various funds based on average daily cash balances. Effective July 1, 2011, the City changed its accounting policy and method to a quarterly allocation on the basis of average daily cash balances. This change was made on a prospective basis. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

B. Authorized Investments

Investments Authorized by the California Government Code and the City's Investment's Policy

The table below identifies the investment types that are authorized for the City by the California Government Code or the City's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the City's investment policy, which are more restrictive and address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum in Portfolio	Minimum Credit Quality
Securities of the U.S. Government or its agencies:			
U.S. Treasury Bonds, Notes and Bills	10 Years**	No Limit	N/A
State of California Obligations	5 Years	No Limit	N/A
49 other States Obligations	5 Years	No Limit	N/A
California Non Stockton Local Agency Obligations	5 Years	No Limit	N/A
U.S. Agency and U.S. Government sponsored Enterprise Securities	10 Years**	No Limit	N/A
City of Stockton Obligations	5 Years*	None	None
Negotiable Certificates of Deposit	5 Years*	30%	AA
Time Certificates of Deposit	5 Years	30%	N/A
Bankers' Acceptances	180 Days	40%	N/A
Commercial Paper	270 Days	25%	A1, P1, F-1
Medium-Term Corporate Notes	5 Years	30%	A
California Local Agency Investment Fund (LAIF)			
- Investments made in County or other types of investment pools require due diligence	Upon Demand	\$50,000,000 per account	N/A
California Asset Management Program (CAMP)	Upon Demand	No Limit	N/A
Repurchase Agreements			
- If the City invests in Repurchase Agreements, a Master Repurchase Agreement is required	92 days	20%	N/A
Demand Accounts - Insured/Collateralized Medium Term Notes	N/A	No Limit	N/A
Mutual Funds			
SEC registered Money Market Funds limited to a percentage of the City's surplus as narrowly defined in the California Government Code Section 53601 et seq.	N/A	20%	AAA

* Limited to 5 years, except permits investment in variable rate demand obligations (VRDO) that are City obligations up to 10 years maturity, as allowed under IRS and SEC rulings. VRDO investments are limited to

** Securities with term to maturity greater than 5 years shall not exceed 15% of the total portfolio value.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

B. Authorized Investments, Continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the City's bond trustee are governed by provisions of the debt agreement, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	30 days	Top Four Rating Categories	No Limit	No Limit
U.S. Treasury Bonds, Notes and Bills	No Limit	N/A	No Limit	No Limit
U.S. Agency and U.S. Government Sponsored Enterprise Securities	No Limit	No Limit	No Limit	No Limit
State Obligations	No Limit	Not lower than their bond rating	No Limit	No Limit
Commercial Paper	270 days	A-1+	No Limit	No Limit
Negotiable Certificates of Deposit	No Limit	N/A	No Limit	No Limit
Time Certificates of Deposit	No Limit	N/A	No Limit	No Limit
Corporate Notes and Bonds	No Limit	Not lower than their bond rating	No Limit	No Limit
Guaranteed Investment Contracts	No Limit	Not lower than their bond rating	No Limit	No Limit
Shares of Beneficial Interest	No Limit	Top Rating Category	No Limit	No Limit
Money Market Mutual Funds	No Limit	Aam	20%	No Limit
Bankers' Acceptances	365 days	A-1+	30%	30%
Municipal Bonds	No Limit	AAA	No Limit	No Limit
California Local Agency Investment Fund (LAIF)	Upon Demand	N/A	\$50,000,000	\$50,000,000
Investment Agreements	No Limit	AA-	No Limit	No Limit

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

C. Investments in Local Agency Investment fund

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments in LAIF included a portion of pool funds invested in structured notes and asset-backed securities:

Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from pool of assets such as principal and interest repayments from a pool of mortgages (such as collateralized mortgage obligations) or credit card receivables.

As of June 30, 2012, the City had \$50,000,000 invested in LAIF, which had invested 3.47% of the Pool investment funds in medium-term and short-term structured notes and asset-backed securities.

D. Investments in Repurchase Agreements

Repurchase agreements are a type of short-term investment where there is a sale of securities together with an agreement for the seller to buy back the securities at a later date. The City has a repurchase agreement with Wells Fargo Bank which is an overnight sweep of its operating cash account with a one-day maturity. Essentially this serves to invest excess operating cash in the City's investment pool overnight in order to receive an investment return on those funds. These repurchase transactions occur daily.

E. Investments in Guaranteed Investment Contracts

The City and Successor Agency has entered into nonparticipating guaranteed investment contracts (GICs), which are authorized under bond documents as outlined in the City's investment policy or the debt agreement.

GICs are non-marketable interest bearing agreements with or guaranteed by certain financial institutions. The agreements provide for a guaranteed return on principal over a specified period. A GIC is a general obligation instrument issued by a financial institution, subject to applicable legal restrictions. The Fund's investments in GIC's represent proceeds from bond issues that have been set aside (held for the benefit of the bondholders) as debt service reserves and proceeds of bonds that have been invested until used on the projects being financed. The investment contracts holding debt service reserves are held long-term and bear interest ranging from 1.73% to 5.316%, while most project funds are invested short-term at a rate of 0.23%. Certain investment contracts are collateralized by investments, with \$4,501,335 collateralized at 104% to 105%, as set forth in the agreements.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

F. Risk Disclosures

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. The exceptions to this policy are that U.S. Treasury or U.S. Agency securities may be invested for greater than five years and investment in variable rate obligations of the City of Stockton is permissible when allowed by the IRS and SEC. Investments maturing beyond a five-year horizon should not exceed fifteen percent (15%) of the total portfolio value at any given time. The City does not hold any investments with maturities greater than 5 years as of June 30, 2012. Maturity of investments is evaluated prior to purchase depending on liquidity needs.

Information about the sensitivity of the fair values of the Fund's investments (including investments held by fiscal agents) to market interest rate fluctuations is provided by the following table that shows the distribution of the Fund's investments by maturity or earliest call date.

Investment Type	Fair Value	Investment Maturities			
		1 year or less	1-3 years	3-5 years	5 years or more
U. S. Agencies	\$ 73,780,344	\$ 24,221,632	\$ 14,158,591	\$ 35,400,121	\$ -
U. S. Treasuries	21,022,563	-	1,294,313	19,623,173	105,077
Medium term notes	33,024,247	3,874,144	27,393,609	1,749,484	7,010
Medium term notes (FDIC Insured)	4,837,744	4,837,744	-	-	-
Local Agency Investment Fund	50,000,000	50,000,000	-	-	-
Money market mutual funds	38,466,219	38,466,219	-	-	-
Negotiable certificates of deposits	3,009,193	3,009,193	-	-	-
Tax exempt municipal bonds	1,842,462	-	1,159,437	683,025	-
Repurchase agreement	32,713,957	32,713,957	-	-	-
Guaranteed investment contracts	23,657,046	-	13,720,695	5,435,016	4,501,335
Commercial paper	34,250,845	34,250,845	-	-	-
Common/preferred stocks and income bonds*	9,800	9,800	-	-	-
Total	\$ 316,614,420	\$ 191,383,534	\$ 57,726,645	\$ 62,890,819	\$ 4,613,422
Allocation by percentage	100%	60%	18%	20%	1%

The weighted average maturity of the portfolio was 1.61 years.

*Investments are not allowed by the California Government Code Section 53601 or the City's investment policy but are donated equity securities held in trust.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

E. Risk Disclosures, Continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as of June 30, 2012 for each investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAM	AA / AA+ / AA-	A / A+ / A-	A-1+	Total
Held by the City and its Component Units:					
U. S. Agencies:					
Non-callable	\$ -	\$ 51,635,475	\$ -	\$ -	\$ 51,635,475
Callable	-	2,191,186	-	-	2,191,186
Medium term notes:					
Non-callable	-	12,508,521	18,688,378	-	31,196,899
Callable	-	-	1,820,339	-	1,820,339
Medium term notes (FDIC Insured)	-	4,837,744	-	-	4,837,744
Money market mutual funds	72,468	-	-	-	72,468
Commercial paper	-	-	-	34,250,845	34,250,845
Negotiable certificates of deposit	-	-	-	2,500,000	2,500,000
Repurchase agreement	-	-	-	32,713,957	32,713,957
Held by Fiscal Agents:					
U. S. Agencies	-	20,058,744	-	-	20,058,744
Money market mutual funds	38,393,767	-	-	-	38,393,767
Municipal securities	819,163	1,023,299	-	-	1,842,462
Total	\$ 39,285,398	\$ 92,254,969	\$ 20,508,717	\$ 69,464,802	
Not rated or exempt from rating disclosure:					
Local Agency Investment Fund					50,000,000
U. S. Treasuries					20,917,485
Negotiable certificates of deposits					509,193
Guaranteed investment contracts					23,657,046
Common/preferred stocks and income bonds					16,810
Total Investments					\$ 316,614,420

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

F. Risk Disclosures, Continued

Credit Risk, Continued

The City's portfolio manager utilizes ratings of S&P in compiling the previous table. Last fiscal year, S&P took an extraordinary stance of downgrading debt of the United States and numerous agencies whose debt it stands behind. Moody's and Fitch only took moves to lower the outlook on U.S. debt while still maintaining the AAA ratings on these entities. In June 2013, Moody's brought their outlook back to stable while Fitch still maintains a negative outlook, awaiting final decisions related to the raising of the U.S. debt ceiling which has since been deferred.

Custodial Credit Risk

For an investment, custodial credit risk refers to the event in which the custodial bank (outside party) in possession of an investment security fails to supply the value of investments or collateral securities to the Fund upon demand. All securities, with the exception of the money market mutual funds and LAIF, are held by a third party custodian, Union Bank of California (UBOC). UBOC is a registered member of the Federal Reserve Bank. The securities held by UBOC are in the street name with a customer number assigned to the City that identifies ownership.

Concentration Credit Risk

The City's investment policy regarding the amount that can be invested in any one issuer are stipulated by the California Government Code. Concentrations of 5.0% or more in investments in any one issuer, held by individual funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investment pools are required to be disclosed.

At June 30, the City's Pooled investments that represent a concentration in the securities of any individual issuers, other than U. S. Treasury securities or mutual funds, are set forth below:

Issuer	Investment Type	Reported Amount
Held by City and its Component Units:		
Wells Fargo Corp	Repurchase Agreement	\$ 32,713,957
Federal National Mortgage Association	Federal Agency Securities	\$ 16,263,727
Held by Fiscal Agent:		
Trinity Plus	Guaranteed Investment Contract	\$ 15,695,424
Federal Home Loan Mortgage Corporation	Federal Agency Securities	\$ 17,215,423
Federal National Mortgage Association*	Federal Agency Securities	\$ 2,738,240

* FNMA Security listed separately due to concentration of FNMA holdings in City Pool in the aggregate.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

G. Restricted Cash and Investments

Certain proceeds of revenue bonds and other long-term liabilities are classified as restricted cash and investments on the statement of net assets as their use is limited by applicable indentures or covenants. Covenants provide that these funds, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may require. The ordinances, resolutions, and indentures are generally more restrictive than the City’s investment policy. Restricted cash and investments of the Fund is primary for the construction or acquisition of facilities, and reserves for payment of debt service as required by the bond indentures.

The City has a reserve policy governing the establishment of Rate Stabilization Fund for its Water, Wastewater, and Stormwater Funds. These reserves are to ease future revenue fluctuations, where revenues are interrupted or otherwise insufficient to offset the operating expenditures and to minimize the impact of rate increases. The City has established a “Rate Stabilization Fund” in the Fund in connection with the issuance of its 2010 Variable Rate Demand Water Revenue Bonds. The City may apply moneys on deposit in the Rate Stabilization Fund for any lawful purpose. All interest or other earnings in the Rate Stabilization Fund may be withdrawn and accounted for as revenues or used for any lawful purpose. The balance in the Water Rate Stabilization Account at June 30, 2012 was \$8.2 million.

At June 30, 2012, Government-Wide restricted cash and investments and restricted cash and investments with fiscal agents are as follows:

Governmental activities	\$ 5,364,529
Business-type activities:	
Water Utility	44,955,340
Wastewater Utility	19,912,361
Central Parking District	1,852,485
Subtotal	<u>66,720,186</u>
Total restricted cash and investments	<u>\$ 72,084,715</u>

3. INTERFUND TRANSACTIONS

A. Due To/From Other Funds

“Due to” and “due from” report lending transactions primarily when individual funds overdraw their share of pooled cash or when there are short-term loans between funds. The following is a summary of interfund balances as of June 30, 2012.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. INTERFUND TRANSACTIONS, Continued

A. Due To/From Other Funds, Continued

The most significant interfund transactions were as follows:

Fund Making Short Term Loan	Fund Receiving Short Term Loan	Amount
Internal Service Fund - Workers' Compensation	Capital Improvement Funds	9,471,844
	Non-Major Governmental:	
	Measure W Special Revenue Fund	684,198
	Special Grants Special Revenue Fund	1,427,531
	Public Facilities Impact Fees Capital Projects Fund	200,638
		11,784,211
Low Moderate Income Housing Special Revenue Fun RDA-Successor Agency Waterfront Fund		1,106,580
		\$ 12,890,791

- \$11,784,211 was borrowed from the Workers' Compensation Fund to cover cash overdrafts in the Capital Improvements Funds and the Other Non-major Governmental Special Revenue Funds in the investments pool as of June 30, 2012.
- \$1,106,580 was borrowed from the Low-Moderate Income Housing Special Revenue Fund to cover cash overdrafts in the RDA-Successor Agency (Waterfront) Fund in the investment pool as of June 30, 2012.

B. Loans To/From Other Funds

“Loans to” and “loans from” balances represent loan activity between funds that is non-current. Interfund balances, which are not expected to be repaid within a reasonable period of time or not at all, have been offset with an allowance for uncollectible loans.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. INTERFUND TRANSACTIONS, Continued

B. Loans To/From Other Funds, Continued

The most significant interfund transactions were as follows:

Fund Making Loan	Fund Receiving Loan	Amount	Allowance for Uncollectable Loans	Net
Non-major Governmental - Public Facilities Impact Fees Capital Projects Fund	Central Parking District Enterprise Fund	\$ 1,274,444	\$ -	\$ 1,274,444
Private-Purpose Trust Fund				
Successor Agency to the Redevelopment Agency	Internal Service Funds -Workers' Comp.	500,000	-	500,000
Internal Service Funds	Central Parking District Enterprise Fund	619,055	-	619,055
Low Moderate Income Housing RDA Loans	Redevelopment Agency Capital Projects Fund	1,888,752	-	1,888,752
Non-Major Governmental - CDBG Fund	Redevelopment Agency Capital Projects Fund	13,863,641	(13,863,641)	-
Non-major Governmental - Public Facilities Impact Fees Capital Projects Fund	Redevelopment Agency Capital Projects Fund	100,207	(100,207)	-
Non-Major Governmental - Dev. Services Fund	Redevelopment Agency Capital Projects Fund	196,950	(196,950)	-
Wastewater Utility Enterprise Fund	Redevelopment Agency Capital Projects Fund	48,731	(48,731)	-
Central Parking District Enterprise Fund	Redevelopment Agency Capital Projects Fund	847,000	(847,000)	-
General Fund	Redevelopment Agency Capital Projects Fund	727,957	(727,957)	-
	Stormwater Utility Enterprise Fund	10,490,365	(10,490,365)	-
Capital Improvement Capital Projects Fund	Redevelopment Agency Capital Projects Fund	17,056,101	(17,056,101)	-
	Public Facilities Impact Fees Capital Proj. Fund	961,593	(961,593)	-
	Stormwater Utility Enterprise Fund	797,749	(797,749)	-
	Non Major Enterprise Funds - Golf Courses Fund	763,500	(763,500)	-
	Interest on Redevelopment Agency Loans	78,801,374	(78,801,374)	-
Total		<u>\$ 128,937,419</u>	<u>\$ (124,655,168)</u>	<u>\$ 4,282,251</u>

- The \$1,274,444 loan from Public Facilities Impact Fees Capital Projects Fund to the Central Parking District Enterprise Fund is for construction costs of new parking structures.
- The \$500,000 loan from the Redevelopment Agency Waterfront Project Area to the City's Downtown Marina Enterprise Fund was for the initial start-up operations of the Downtown Marina. In the fiscal year ended June 30, 2011, this loan obligation was transferred from the Downtown Marina to the Workers' Compensation Internal Service Fund because the Downtown Marina did not have the demonstrated ability to repay the loan in the foreseeable future. The transfer of this obligation was done to offset a portion of another loan that the Workers' Compensation Fund had extended to the Waterfront Project in the fiscal year ending June 30, 2010.
- The \$619,055 loan from the General Insurance Internal Service Fund to the Central Parking District Enterprise Fund is for settlement costs of property acquired through eminent domain.
- The \$1,888,752 of loans from the Low-Moderate Income Housing RDA Loans Special Revenue Fund to the Redevelopment Agency Capital Projects Fund for payment of tax increment to the San Joaquin County Supplemental Educational Revenue Augmentation Fund under Assembly Bill 26 4x to be repaid in five installments beginning in FY 2012. The FY 2012 payment was not made due to the dissolution of the Redevelopment Agency effective January 31, 2012.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. INTERFUND TRANSACTIONS, Continued

B. Loans To/From Other Funds, Continued

- The \$13,863,641 in loans from the CDBG Programs Special Revenue Fund to the Redevelopment Agency Capital Projects Fund was for project area expenditures.
- The \$100,207 loan from the Public Facilities Impact Fees Capital Projects Fund to the Redevelopment Agency Capital Projects Fund represents permit fees deferred under the Enterprise Zone Deferral Program.
- The \$196,950 loan from the Non-Major Governmental Development Services Fund to the Redevelopment Agency Capital Projects Fund was for funding building permit fees.
- The \$48,731 loan from the Wastewater Utility Enterprise Fund to the Redevelopment Agency Capital Projects Fund was for funding of two development project permit fees.
- The \$847,000 is a loan from the Central Parking District Enterprise Fund to the Redevelopment Agency Capital Projects Fund for the Waterfront Redevelopment Project Area.
- The \$727,957 is a loan from the General Fund to the Redevelopment Agency Capital Projects Fund for various project areas.
- The \$10,490,365 is a loan from the General Fund to the Stormwater Utility Enterprise Fund for subsidizing its operations established as a result of the *MuniFinancial Review of General Fund Cost Recovery from Utility Funds Report* (dated October 6, 2008), accepted by the Court and City Council. The loan to the Stormwater Utility Enterprise Fund are deemed to be uncollectible due to ongoing operating losses in the fund and continued subsidy of its operations by the General Fund. Absent the passage of additional rate increases in the future, the collectability of this loan is deemed to be unlikely. The City is anticipating going to the voters for a rate increase which could be used to repay this loan at a future time.
- The \$17,056,101 from the Capital Improvement Capital Projects Fund to the Redevelopment Agency Capital Projects Fund represents loans for various project areas.
- The \$961,593 loan from the Capital Improvement Capital Projects Fund to the Public Facilities Impact Fees Capital Projects Fund is for construction costs for community centers.
- The \$797,749 is a loan from the Capital Improvement Capital Projects Fund to the Stormwater Utility Enterprise Fund for subsidizing its operations established as a result of the *MuniFinancial Review of General Fund Cost Recovery from Utility Funds Report* (dated October 6, 2008), accepted by the Court and City Council.
- The \$763,500 loan from the Capital Improvement Capital Projects Fund to the Nonmajor Enterprise Funds is for the Swenson Irrigation System Project at the golf course.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. INTERFUND TRANSACTIONS, Continued

C. Transfers

Interfund transfers report the nonreciprocal contributions of resources from one fund to another that include program support, debt service and settlement, and other one-time transfers. The following is a summary of transfers for the year ended June 30, 2012:

		<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities:				
General Fund	Program Support	\$ 1,579,521 ⁽¹⁾	\$ (3,767,766)	\$ (2,188,245)
General Fund	Debt Service/ Settlement	-	(3,054,330)	(3,054,330)
Low-Moderate Income Housing City Loans	Program Support	25,790	-	25,790
Low-Moderate Income Housing City Loans	Debt Service/ Settlement	-	(24,276)	(24,276)
Capital Improvement	Program Support	620,000	-	620,000
Capital Improvement	Debt Service/ Settlement	653,100	(666,972)	(13,872)
Other Governmental non-major funds	Program Support	5,053,643 ⁽²⁾	(3,522,997) ⁽²⁾	1,530,646
Other Governmental non-major funds	Debt Service	16,774,075	(14,413,597) ⁽²⁾	2,360,478
Internal Service Funds	Program Support	2,461,618	-	2,461,618
Total governmental activities		<u>27,167,747</u>	<u>(25,449,938)</u>	<u>1,717,809</u>
Business-type Activities:				
Water Utility	Program Support	-	(62,141)	(62,141)
Wastewater Utility	Program Support	-	(1,277,939)	(1,277,939)
Stormwater Utility	Program Support	-	(31,180)	(31,180)
Central Parking District	Program Support	-	(804,000) ⁽¹⁾	(804,000)
Central Parking District	Debt Service/ Settlement	-	(773,927)	(773,927)
Other Enterprise non-major funds	Program Support	500,000	(622)	499,378
Other Enterprise non-major funds	Debt Service/ Settlement	732,000	-	732,000
Total business-type activities		<u>1,232,000</u>	<u>(2,949,809)</u>	<u>(1,717,809)</u>
Total government-wide statements		<u>\$ 28,399,747</u>	<u>\$ (28,399,747)</u>	<u>\$ -</u>

Nonroutine and Infrequent Transfers:

⁽¹⁾ The General Fund includes a one-time transfer in to preserve cash liquidity in the amount of \$804,000 from the Central Parking District Fund and \$775,520 for Central Parking Districts share of the SEB Building debt service.

⁽²⁾ Assembly Bills AB26 and AB27 were passed by the State Legislature on 2011 to dissolve the Redevelopment Agencies (RDA) as of January 31, 2012. The City of Stockton elected to become the Successor Agency for the City Of Stockton Redevelopment Agency. New funds were created effective February 1, 2012 to account for the activity of the RDA-Successor Agency. The Redevelopment Agency Non-Major Governmental Funds accounted for the July 1, 2011 thru January 31, 2012 activity and the RDA-Successor Agency Funds accounted for the February 1, 2012 thru June 30, 2012 activity.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

4. LOANS TO PROPERTY OWNERS

Loans provided to property owners are managed by the City's Economic Development Department. Loans receivable under the City's loan programs at June 30, 2012 are as follows:

Loan Programs	Governmental Activities		
	Principal	Deferred Interest	Total
First Time Home Buyers Program (HOME)	\$ 25,435,530	\$ 5,395,857	\$ 30,831,387
Community Development Block Grant Programs	17,043,369	3,864,712	20,908,081
Neighborhood Stabilization First Time Home Buyer Program	6,295,449	43,033	6,338,482
California Home Loans	3,024,250	185,296	3,209,546
Low & Moderate Income Housing Programs (former Agency)	48,735,199	4,944,716	53,679,915
	<u>\$ 100,533,797</u>	<u>\$ 14,433,614</u>	<u>114,967,411</u>
Less: Allowance for doubtful accounts			(877,000)
			<u>\$ 114,090,411</u>

First Time Home Buyers Program

The Home Investment Partnerships Loan Programs are funded through U.S. Department of Housing and Urban Development HOME funds. The programs include deferred gap financing loans for qualified first time homebuyers, owner occupied housing rehabilitation loans to qualified borrowers, and multifamily loans to qualified housing developers. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

Community Development Block Grant Program

The Community Development Block Grants Loan Programs are funded through U.S. Department of Housing and Urban Development CDBG funds. The programs include deferred gap financing loans for qualified first time homebuyers, owner occupied emergency repair loans, public facility project loans, and commercial loan programs. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

Neighborhood Stabilization Program

The Neighborhood Stabilization Program loans are funded through U.S. Department of Housing and Urban Development Neighborhood Stabilization program funds. The programs include acquisition, rehabilitation, and resale of foreclosed homes to qualified home buyers, deferred gap financing loans for qualified home buyers; and acquisition, rehabilitation, and rent of foreclosed properties in targeted areas. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

California Home Loans Program

The California Home Loans Program are funded through the California Department of Housing and Community Development. The programs include deferred gap financing loans to qualified first time homebuyers and owner occupied rehabilitation loans. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

4. LOANS TO PROPERTY OWNERS, Continued

Redevelopment Agency Affordable Housing Program

The Redevelopment Agency Affordable Housing Loans Programs are funded through the Low and Moderate-Income Housing RDA Loans Special Revenue Fund and/or Strong Neighborhoods Initiative Bond proceeds. The programs include loans for rehabilitation and/or construction of affordable housing units which are deed restricted for occupancy by low and moderate income households for at least fifty five years. Interest income is recorded as payments are received.

5. SETTLEMENT RECEIVABLE

The City of Stockton and the Howard Jarvis Taxpayers Association entered into a settlement on March 24, 2009. Under the terms of the settlement agreement, the City's General Fund is required to repay the Water and Wastewater Utility Funds \$20,268,225. At June 30, 2012, the outstanding balance of the settlement was \$7,361,280 and \$11,418,524, respectively. Upon the City's filing for bankruptcy on June 28, 2012 (Note 18), the Funds established a 100% valuation allowance against the receivable as the collectability of the amount is uncertain and is subject to a creditor's claim and the City's confirmation of a plan of adjustment in the United States Bankruptcy Court. In the City's 2012-2013 adopted the budget under its pendency plan, payments from the City's General Fund for this obligation were discontinued.

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2012, the City's capital assets consisted of the following:

	<u>Governmental</u> <u>Activities</u>	<u>Business -Type</u> <u>Activities</u>	<u>Total</u>
Capital assets, not being depreciated:			
Land	\$ 44,768,669	\$ 15,606,841	\$ 60,375,510
Intangible assets - easements	3,434,980	750,453	4,185,433
Construction in progress	130,553,077	20,954,822	151,507,899
Total capital assets, not being depreciated	<u>178,756,726</u>	<u>37,312,116</u>	<u>216,068,842</u>
Capital assets, being depreciated:			
Infrastructure	455,521,748	-	455,521,748
Buildings and improvements	342,306,914	973,516,000	1,315,822,914
Machinery and equipment	52,810,697	9,822,015	62,632,712
Total capital assets, being depreciated	<u>850,639,359</u>	<u>983,338,015</u>	<u>1,833,977,374</u>
Less accumulated depreciation for:			
Infrastructure	(121,260,583)	-	(121,260,583)
Buildings and improvements	(82,199,440)	(230,598,882)	(312,798,322)
Machinery and equipment	(37,793,455)	(6,843,143)	(44,636,598)
Total accumulated depreciation	<u>(241,253,478)</u>	<u>(237,442,025)</u>	<u>(478,695,503)</u>
Total capital assets, being depreciated, net	<u>609,385,881</u>	<u>745,895,990</u>	<u>1,355,281,871</u>
Total capital assets, net	<u>\$ 788,142,607</u>	<u>\$ 783,208,106</u>	<u>\$ 1,571,350,713</u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. CAPITAL ASSETS, Continued

B. Governmental Activities

Summary of changes in governmental activities capital assets for the year ended June 30, 2012 are as follows:

Governmental activities:	Balance at July 1, 2011	Additions	Deletions	Transfers	Transfer to Successor Agency	Balance at June 30, 2012
Capital assets, not being depreciated:						
Land	\$ 56,719,278	\$ 997,319	\$ -	\$ -	\$ (12,947,928)	\$ 44,768,669
Intangible assets - easements	2,806,235	728,745	-	-	(100,000)	3,434,980
Construction in progress	119,578,608	47,507,139	(7,689,773)	(28,842,897)	-	130,553,077
Total capital assets, not being depreciated	179,104,121	49,233,203	(7,689,773)	(28,842,897)	(13,047,928)	178,756,726
Capital assets, being depreciated:						
Infrastructure	444,301,557	3,108,405	-	19,010,335	(10,898,549)	455,521,748
Buildings and improvements	342,702,240	2,022,300	-	9,331,903	(11,749,529)	342,306,914
Machinery and equipment	51,045,666	2,353,664	(1,957,825)	1,840,739	(471,547)	52,810,697
Total capital assets, being depreciated	838,049,463	7,484,369	(1,957,825)	30,182,977	(23,119,625)	850,639,359
Less accumulated depreciation for:						
Infrastructure	(110,640,341)	(11,216,382)	-	-	596,140	(121,260,583)
Buildings and improvements	(76,242,096)	(8,797,113)	-	-	2,839,769	(82,199,440)
Machinery and equipment	(37,004,503)	(2,710,917)	1,831,286	-	90,679	(37,793,455)
Total accumulated depreciation	(223,886,940)	(22,724,412)	1,831,286	-	3,526,588	(241,253,478)
Total capital assets, being depreciated, net	614,162,523	(15,240,043)	(126,539)	30,182,977	(19,593,037)	609,385,881
Governmental activities capital assets, net	\$ 793,266,644	\$ 33,993,160	\$ (7,816,312)	\$ 1,340,080	\$ (32,640,965)	\$ 788,142,607

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2012 are as follows:

General Government	\$ 5,131,843
Public Works	11,601,328
Parks & Recreation	2,771,103
Library	107,070
Public Safety	904,307
Internal Service Funds	2,208,761
Total	\$ 22,724,412

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. CAPITAL ASSETS, Continued

C. Business-Type Activities

Summary of changes in Business-Type activities capital assets for the year ended June 30, 2012 are as follows:

Business-type activities:	Balance at July 1, 2011	Additions	Deletions	Transfers	Transfers from Agency	Balance at June 30, 2012
Capital assets, not being depreciated:						
Land	\$ 15,606,841	\$ -	\$ -	\$ -	\$ -	\$ 15,606,841
Intangible asset - easements	750,453	-	-	-	-	750,453
Construction in progress	197,322,141	61,892,331	-	(238,259,650)	-	20,954,822
Total capital assets, not being depreciated	213,679,435	61,892,331	-	(238,259,650)	-	37,312,116
Capital assets, being depreciated:						
Buildings and improvements	731,055,277	242,460,723	-	-	-	973,516,000
Machinery and equipment	9,599,407	1,562,688	-	(1,340,080)	-	9,822,015
Total capital assets, being depreciated	740,654,684	244,023,411	-	(1,340,080)	-	983,338,015
Less accumulated depreciation for:						
Buildings and improvements	(213,762,827)	(16,836,055)	-	-	-	(230,598,882)
Machinery and equipment	(6,591,684)	(251,459)	-	-	-	(6,843,143)
Total accumulated depreciation	(220,354,511)	(17,087,514)	-	-	-	(237,442,025)
Total capital assets, being depreciated, net	520,300,173	226,935,897	-	(1,340,080)	-	745,895,990
Business-type activities capital assets, net	\$ 733,979,608	\$ 288,828,228	\$ -	\$ (239,599,730)	\$ -	\$ 783,208,106

Business-Type activities depreciation expenses for capital assets for the year ended June 30, 2012 are as follows:

Water Utility	\$ 2,968,984
Wastewater Utility	11,186,159
Stormwater Utility	1,589,493
Central Parking District	741,857
Golf Courses	69,501
Marina	531,520
Total	<u>\$ 17,087,514</u>

For the year ended June 30, 2012, there was \$8.2 million in capitalized interest associated with construction of assets.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. CAPITAL ASSETS, Continued

D. Fiduciary Fund -Type Activities

Summary of changes in Fiduciary Fund activities capital assets for the year ended June 30, 2012 are as follows:

Fiduciary fund activities:	Balance at July 1, 2011	Transfer from Successor Agency	Additions	Deletions	Transfers	Balance at June 30, 2012
Capital assets, not being depreciated:						
Land	\$ -	12,947,928	\$ -	\$ -	\$ -	\$ 12,947,928
Intangible assets - easements	-	100,000	-	-	-	100,000
Construction in progress	-	-	-	-	-	-
Total capital assets, not being depreciated	-	13,047,928	-	-	-	13,047,928
Capital assets, being depreciated:						
Infrastructure	-	11,749,529	-	-	-	11,749,529
Buildings and improvements	-	471,547	-	-	-	471,547
Machinery and equipment	-	10,898,549	-	-	-	10,898,549
Total capital assets, being depreciated	-	23,119,625	-	-	-	23,119,625
Less accumulated depreciation for:						
Infrastructure	-	(2,839,769)	(420,057)	-	-	(3,259,826)
Buildings and improvements	-	(90,679)	(13,364)	-	-	(104,043)
Machinery and equipment	-	(596,140)	(182,435)	-	-	(778,575)
Total accumulated depreciation	-	(3,526,588)	(615,856)	-	-	(4,142,444)
Total capital assets, being depreciated, net	-	19,593,037	(615,856)	-	-	18,977,181
Governmental activities capital assets, net	\$ -	\$ 32,640,965	\$ (615,856)	\$ -	\$ -	\$ 32,025,109

Fiduciary fund activities depreciation expenses for capital assets for the year ended June 30, 2012 are as follows:

Fiduciary Fund Activities:	
Successor Agency	\$ 615,856
Total	\$ 615,856

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT

A. Government-Wide Financial Statements

At June 30, 2012, the City's long-term debt consisted of the following:

	Balance		
	June 30, 2012	Current	Non-Current
Long-Term Debt:			
Governmental Activities	\$ 322,501,156	\$ 22,743,368	\$ 299,757,788
Business-Type Activities	389,870,691	7,179,896	382,690,795
Compensated Absences:			
Governmental Activities	20,709,268	5,958,716	14,750,552
Business-Type Activities	1,362,167	628,498	733,669
Total	\$ 734,443,282	\$ 36,510,478	\$ 697,932,804

B. Governmental Activities

Summary of changes in governmental activities long-term debt for the year ended June 30, 2012 are as follows:

	Balance			Transfer to Successor Agency	Balance		
	June 30, 2011	Additions	Reductions		June 30, 2012	Current	Non-Current
Lease Revenue Refunding Bonds:							
2006 Series A (Essential Services Building)	\$ 12,470,000	\$ -	\$ (385,000)	\$ -	\$ 12,085,000	\$ 400,000	\$ 11,685,000
Deferred amount on refunding	(642,492)	-	31,728	-	(610,764)	(31,728)	(579,036)
Unamortized discount	(68,626)	-	3,389	-	(65,237)	(3,389)	(61,848)
Lease Revenue Bonds:							
2009 Series A Capital Improvement Bonds	35,080,000	-	-	-	35,080,000	-	35,080,000
Unamortized discount	(726,842)	-	26,653	-	(700,189)	(26,653)	(673,536)
Variable Rate Demand Lease Revenue Bonds:							
2007 Series A	36,500,000	-	-	-	36,500,000	-	36,500,000
2007 Series B	4,000,000	-	(145,000)	-	3,855,000	155,000	3,700,000
Total Lease Revenue Bonds	86,612,040	-	(468,230)	-	86,143,810	493,230	85,650,580
Certificates of Participation:							
Series 2003A (former Redevelopment Housing)	1,160,000	-	(35,000)	-	1,125,000	35,000	1,090,000
Series 2003B (former Redevelopment Housing)	12,140,000	-	(295,000)	-	11,845,000	310,000	11,535,000
Unamortized discount	(73,170)	-	3,158	-	(70,012)	(3,158)	(66,854)
Total Certificates of Participation	13,226,830	-	(326,842)	-	12,899,988	341,842	12,558,146
Pension Obligation Bonds:							
2007 Series A	96,335,000	-	(380,000)	-	95,955,000	930,000	95,025,000
2007 Series B	28,325,000	-	-	-	28,325,000	-	28,325,000
Total Pension Obligation Bonds	124,660,000	-	(380,000)	-	124,280,000	930,000	123,350,000
Redevelopment Agency:							
Revenue Bonds:							
Series 2004 (Stockton Events Center-Arena)	45,985,000	-	(395,000)	(45,590,000)	-	-	-
2006 Series A (Redevelopment Projects)	52,415,000	-	-	(52,415,000)	-	-	-
2006 Series B (Redevelopment Projects)	4,000,000	-	(1,665,000)	(2,335,000)	-	-	-
2006 Series C (Housing Projects)	24,800,000	-	(445,000)	(24,355,000)	-	-	-
Unamortized premium	3,267,494	-	(126,560)	(3,140,934)	-	-	-
Total Redevelopment Agency	130,467,494	-	(2,631,560)	(127,835,934)	-	-	-
Other long-term obligations:							
Notes payable:							
U.S. Dept. of Housing and Urban Development	20,220,000	-	(1,220,000)	-	19,000,000	1,250,000	17,750,000
Loans payable:							
San Joaquin Council of Governments #1	3,268,209	-	(1,137,738)	-	2,130,471	1,194,707	935,764
San Joaquin Council of Governments #2	528,222	118,571	-	-	646,793	-	646,793
Capital lease obligations:							
Fire Vehicles	815,142	-	(57,524)	-	757,618	59,767	697,851
Civic auditorium HVAC system	1,777,734	-	(160,130)	-	1,617,604	168,401	1,449,203
Citywide communications system	1,162,820	-	(271,338)	-	891,482	283,860	607,622
State Animal Control Obligation	1,615,286	51,965	-	-	1,667,251	385,777	1,281,474
Settlement obligation - Marina Towers	1,581,094	-	-	-	1,581,094	231,864	1,349,230
Reimbursements to Bond Insurers	-	414,161	-	-	414,161	414,161	-
Total other long-term obligations	30,968,507	584,697	(2,846,730)	-	28,706,474	3,988,537	24,717,937
Total	\$ 385,934,871	\$ 584,697	\$ (6,653,362)	\$ (127,835,934)	\$ 252,030,272	\$ 5,753,609	\$ 246,276,663

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Lease Revenue Bonds

2006 Lease Revenue Refunding Bonds, Series A (the "2006 Bonds")

The 2006 Bonds were issued by the SPFA in the amount of \$13,965,000 on April 6, 2006. As of June 30, 2012, bonds totaling \$12,085,000 are due in installments ranging from \$400,000 on August 1, 2012 to \$875,000 on August 1, 2031, with interest rates ranging from 4.0% to 4.5% and a final maturity date of August 1, 2031. The 2006 Bonds are insured and have a reserve fund surety provided by National Public Finance Guaranty "NPFPG".

The 2006 Bonds were issued to advance, refund, and retire \$13,795,000 in outstanding 1999 Certificates of Participation which were used to finance a portion of the acquisition and construction of the Stewart/Eberhardt Building and an adjacent parking facility in downtown Stockton.

The 2006 Bonds are limited obligations of the SPFA payable solely from all amounts received by the SPFA or the Trustee pursuant to the Lease Agreement and other assets pledged under the Indenture.

The Leased Premises consists of the Stewart/Eberhardt Building (the "Eberhardt Building") located at 22 East Weber Avenue and the adjacent public parking facility located at 15 North El Dorado Street in downtown Stockton.

The General Fund is obligated to make the lease payments and no other funds are legally pledged to the repayment of the 2006 Bonds; however, the City makes the lease payments from two different internal sources of funding approximately 85% is paid by the Central Parking District Fund and approximately 15% is paid from the Public Facilities Fee Fund (Police Stations). The principal amount due is reported net of a negative deferred amount on refunding of \$610,764 and an unamortized discount \$65,237.

The City is current on the payment of the 2006 Bonds.

Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects) (the "2009 Bonds")

The 2009 Bonds were issued by the SPFA in the amount of \$35,080,000 on September 9, 2009. As of June 30, 2012, bonds totaling \$35,080,000 are due in installments ranging from \$525,000 on September 1, 2013 to \$2,750,000 on September 1, 2038, with interest rates ranging from 6.75% to 7.0%, and a final maturity date of September 1, 2038. The 2009 Bonds were issued to finance various capital improvements located throughout the City. The 2009 Bonds are 100% owned by Franklin Advisors and have a cash reserve fund.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

The 2009 Bonds are limited obligations of the SPFA payable solely from revenues consisting primarily of certain lease payments made by the City of Stockton to the SPFA for the beneficial use and occupancy of the Property. The City, as lessor, and the SPFA, as lessee, entered into a site and facility lease dated as of September 1, 2009, pursuant to which the City will lease to the SPFA certain real property, and the facilities located thereon. The 2009 Bonds were issued pursuant to Marks-Roos Local Bonds Pooling Act of 1985, as amended, and an Indenture of Trust dated as of September 1, 2009 (the "Indenture") by and between the SPFA and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Pursuant to the Indenture, the SPFA will pledge to the Trustee, for the benefit of the owners of the 2009 Bonds, all of the Revenues, consisting primarily of the Lease Payments.

The General Fund is obligated to make the lease payments and no other funds are legally pledged to the repayment of the 2009 Bonds; however, the City has previously made the lease payments from four internal sources of funding consisting of the Public Facilities Fee Funds for Fire Stations, Police Stations, Parklands and Street Improvements. The principal amount due is reported net of an unamortized discount of \$700,189.

The Property consists of three separate properties owned by the City: Oak Park, Swenson Golf Course, and Van Buskirk Golf Course. The property includes site development, landscaping, utilities, equipment, furnishings, improvements and appurtenant and related facilities located thereon.

In March 2012, the City defaulted on the 2009 Bonds (Note 18).

Variable Rate Demand Lease Revenue Bonds 2007 Series A and Taxable 2007 Series B (the "2007 Bonds")

The 2007 Bonds were issued in two series: Series A (Tax-Exempt) in the amount of \$36,500,000 and Series B (Taxable) in the amount of \$4,270,000 on November 29, 2007. As of June 30, 2012, 2007 Bonds from Series A totaling \$36,500,000 remain outstanding with principal installments ranging from \$10,000 on September 1, 2018 to \$2,825,000 on September 1, 2048, and a final maturity date of September 1, 2048. As of June 30, 2012 2007 Bonds for Series B bonds totaling \$3,855,000 remain outstanding with principal installments ranging from \$155,000 on September 1, 2012 to \$345,000 on September 1, 2048, and a final maturity date of September 1, 2048.

The 2007 Bonds from Series A and B were issued to provide funds to finance the acquisition of an office building and parking garage located at 400 E. Main in downtown Stockton. The Plan was to convert the building into the City Administration Building replacing the aging City Hall building and consolidate other City offices.

The Bonds are special limited obligations of the SPFA payable from and secured by Revenues, consisting primarily of lease payments to be made by the City to the Authority (the "Lease Payments") pursuant to a Lease Agreement dated as of November 1, 2007 (the "Lease") between the SPFA, as lessor, and the City, as lessee. Lease Payments are to be made by the City for the right to use and occupy the Property.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Variable Rate Demand Lease Revenue Bonds 2007 Series A and Taxable 2007 Series B, Continued

The 2007 Bonds liquidity is provided under a Standby Bond Purchase Agreement between the City of Stockton, the SPFA, Wells Fargo Bank, National Association and Dexia Credit Local (the "Liquidity Provider"). Interest is paid monthly and the interest rate is reset weekly. The 2007 Bonds are insured and have a reserve fund surety provided by Assured Guaranty.

Prior to default, the Bonds interest rate was based on a weekly rate established by the remarketing agent based on prevailing market conditions. The maximum interest rate allowable on the bonds is 12% per annum for the 2007 Bonds for Series A and 15% per annum for the 2007 Bonds for Series B. As of June 30, 2012, the interest rate was 6.25%. Rates paid during the year varied from a low of 3.75% to a high of 6.5%.

On February 29, 2012 the City notified the bondholders that it would default on the 2007 Bonds. Funds with the Trustee were used to make the monthly debt service payments through April 2012. In May 2012, the City defaulted on the lease payments and the Bond Trustee pursued the City in litigation ultimately taking possession of the building (Note 18). The scheduled annual debt service requirements to maturity have been increased by the amount of insurance proceeds received from the bond insurers on defaulted debt service payments made to the bondholders by the insurer prior to June 30, 2012. The insurance proceeds were \$375,235 and \$38,926 for the Series A and B, respectively, and have been reported in the maturity schedule in 2013 as the amounts are due on demand. These payments also accrue interest at prime rate plus 3% (6.25% at June 30, 2012) from time amounts are paid.

The City has been informed that Assured Guaranty has purchased all of the 2007 Bonds from Dexia and now is the sole holder of the 2007 Bonds.

The bonds are subject to purchase on the demand of the bondholder at a price equal to principal plus accrued interest with seven days' notice and delivery to the City's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. If the remarketing agent is unable to remarket any of the 2007 Bonds for a period of 180-days, the bonds become purchased ("bank bonds") and bear interest at the default rate which is the prime rate plus 3.00%. Between February 24, 2012 and September 14, 2012, the remarketing agent was unable to place the bonds in other investor hands and under terms of the Standby Bond Purchase the 2007 Bonds of both Series A and B were purchased by the Liquidity Provider and began paying the Default Rate (6.25%). Bank bonds are subject to special mandatory redemption over a seven year period with 14 equal semi-annual installments. Under the Bond Insurance Policy, the bond insurer Assured Guaranty is obligated to pay the Liquidity Provider under the accelerated repayment schedule.

Under the Standby Bond Purchase Agreement between the Stockton Public Financing Authority, Wells Fargo Corporate Trust (Trustee) and Dexia Credit Local (liquidity facility), the Trustee or remarketing agent is entitled to draw an amount sufficient to pay the purchase price of bonds delivered by bondholders. The agreement carries a variable interest rate equal to the "base rate" plus 1.0 percent. The base rate is described as the higher of the prime rate as described in the Wall Street Journal or the Federal Funds rate plus 0.50%. In no event will the rates exceed the capped rate of 25% on any outstanding bonds. The expiration date of the Standby Bond Purchase Agreement was November 29,

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Variable Rate Demand Lease Revenue Bonds 2007 Series A and Taxable 2007 Series B, Continued

2014. In August 2012, Dexia terminated the Standby Bond Purchase Agreement effective September 30, 2012 as a result of the City defaulting on the 2007 Bonds. Dexia is no longer obligated to purchase Bonds under the Standby Bond Purchase Agreement.

The City is required to pay Dexia Credit Local (liquidity facility) quarterly commitment fees based on a 0.20% for an S&P A rating to .475 for a rating of BBB-. If S&P shall withdraw or suspend its rating or shall reduce the rating below "BBB-", then the fee shall increase automatically and immediately by one hundred basis points (1.0%) per annum above the fee in effect immediately prior to such rating downgrade, suspension or withdrawal (1.475% at June 30, 2012). The City also pays quarterly remarketing fees based on a 0.08% annual rate on outstanding bond balances.

Beginning in February 2012, the 2007 Bonds were tendered on the following dates and in the following amounts:

Tender Date	Series A	Series B
February 24, 2012	\$ 34,475,000	\$ 810,000
February 24, 2012	200,000	-
February 27, 2012	1,500,000	1,620,000
February 28, 2012	225,000	-
February 29, 2012	100,000	-
September 14, 2012	-	1,425,000
Total	\$ 36,500,000	\$ 3,855,000

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Certificates of Participation Series 2003A and Taxable Series 2003B (the "2003 COPs")

The 2003 COPs were issued in two series on June 27, 2003 to finance the construction of capital improvements to provide redevelopment housing in the City.

The 2003 COPs, Series A were issued in the amount of \$1,160,000. As of June 30, 2012, \$1,125,000 remains outstanding with principal installments ranging from \$35,000 on September 1, 2012 to \$75,000 on September 1, 2033, with interest rates ranging from 3.25% to 4.375%, and a final maturity date of September 1, 2033. The principal amount outstanding at June 30, 2011 is reported net of unamortized discount of \$14,752.

The 2003 COPs, Series B were issued in the amount of \$12,140,000. As of June 30, 2012, \$11,845,000 remains outstanding with principal installments ranging from \$310,000 on September 1, 2012 to \$870,000 on September 1, 2033, with interest rates ranging from 4.52% to 5.28%, and a final maturity date of September 1, 2033. The principal amount outstanding at June 30, 2011 is reported net of unamortized discount of \$55,260.

For the right to the use and occupancy of the Leased Premises, the Lease Agreement requires the City to make lease payments. The Leased Premises collectively consists of the real property comprising of the City's main police facility located in the downtown area near City Hall, the Southeast Branch Library, and three of the City's Fire Stations (No's. 1, 5 and 14). Lease payments are due and payable from available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in the Lease Agreement. The Lease Payments are payable from any source of legally available funds of the City, which includes the General Fund. Both Series A and Taxable Series B for the 2003 COPs are insured by Ambac and have a cash reserve fund.

The City and the Redevelopment Agency have a reimbursement agreement under which the Agency has agreed to reimburse the City for payments the City makes in connection with the COPs from Housing Set-Aside monies. In the event the Agency does not have sufficient Housing Set-Aside amounts in a particular year to make such payment or any portion thereof, the City agrees to allow the Agency to carry the balance forward until there is sufficient Housing Set-Aside amount available to meet the obligation or the City may waive such payments. Unpaid reimbursement payments shall bear interest at the City's annual investment rate of return at the time in effect until paid.

As of June 30, 2012 there are no unpaid amounts by the Agency to the City. The City has pledged lease payments, to the SPFA to repay the outstanding COPs. The General Fund is obligated to make lease payments, and as described above, the General Fund has the right to reimbursement for certain Agency tax increments. For the year ended June 30, 2012, lease reimbursements were \$989,937 and the 20% Agency Housing Set-Aside was \$2,273,562. The City is current on the payment of the 2003 COPs.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Taxable Pension Obligation Bonds 2007 Series A and Series B (the "2007 POB's")

The 2007 POBs were issued on March 26, 2007 to refinance the obligation of the City to make payments to the California Public Employees Retirement System ("CalPERS") for retirement benefits accruing to its employees and retirees. The 2007 POBs for Series A were issued in the amount of \$96,985,000. As of June 30, 2012, bonds totaling \$95,955,000 are due in installments ranging from \$930,000 on September 1, 2012 to \$8,400,000 on September 1, 2037, with interest rates ranging from 5.14% to 5.455%, and a final maturity date of September 1, 2037. The 2007 POBs for Series B were issued in the amount of \$28,325,000. As of June 30, 2012, bonds totaling \$28,325,000 are due in installments ranging from \$715,000 on September 1, 2018 to \$2,800,000 on September 1, 2037, with interest rates ranging from 5.675% to 5.795%, and a final maturity date of September 1, 2037. The Series A and Series B for the 2007 POBs are insured by Assured Guaranty and do not have a reserve fund.

The obligation of the City to pay the principal and interest on the Series 2007 Bonds when due is an absolute and unconditional obligation of the City imposed by law, and payment of principal of and interest on the Series 2007 Bonds is not limited to any special source of funds. Pursuant to the Indenture, the City is obligated to deposit with the Trustee the payment of debt service on the Series 2007 Bonds for the current fiscal year no later than August 15 of each year, commencing August 15, 2007.

The City however makes debt service payments on the Bonds from various funds of the City. Approximately 83% of the obligation is paid from the General Fund and approximately 17% is paid from other than General Fund sources though this amount may vary from year to year. No funds are specifically pledged for repayment of the POBs; however, for budgeting purposes the City treats amounts payable on the POBs in the same way it treats other budgeted payments of the City's annual required contributions to CalPERS.

In August 2012, the City defaulted on the 2007 POBs for both Series A and B (Note 18). The scheduled annual debt service requirements to maturity have been increased by the amount of insurance proceeds received from the bond insurers on defaulted debt service payment made to the bondholders by the insurer prior to June 30, 2012. The insurance proceeds received subsequent to year end were \$6,079,713 for the Series A and \$1,630,898 for the Series B and are due on demand. These payments also accrue interest at prime rate plus 3% (6.25% at June 30, 2012) from time amounts are paid.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Annual Debt Service Requirements to Maturity

Year Ending June 30,	Lease Revenue Bonds		Certificates of Participation		Pension Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 555,000	\$ 5,950,171	\$ 345,000	\$ 645,170	\$ 930,000	\$ 6,782,550
2014	1,105,000	5,493,375	360,000	629,681	1,580,000	6,718,043
2015	1,175,000	5,428,321	375,000	613,471	1,800,000	6,631,177
2016	1,235,000	5,359,385	390,000	596,539	2,035,000	6,532,617
2017	1,305,000	5,286,569	410,000	578,522	2,280,000	6,421,722
2018-2022	7,945,000	25,155,458	2,355,000	2,573,690	15,770,000	29,875,330
2023-2027	11,280,000	22,314,124	3,010,000	1,894,916	21,785,000	24,569,730
2028-2032	15,735,000	18,204,679	3,875,000	1,005,937	27,345,000	18,079,636
2033-2037	16,610,000	12,925,808	1,850,000	97,379	39,555,000	8,891,666
2038-2042	13,740,000	7,104,142	-	-	11,200,000	310,240
2043-2047	11,335,000	3,467,696	-	-	-	-
2048-2050	5,500,000	243,208	-	-	-	-
Total	\$ 87,520,000	\$ 116,932,936	\$ 12,970,000	\$ 8,635,305	\$ 124,280,000	\$ 114,812,711

The amounts in the annual debt service requirements to maturity schedule are the scheduled debt service under the bond indentures. The City defaulted subsequent to June 30, 2012 on the Pension Obligation Bonds after filing for bankruptcy protection under chapter 9. The City defaulted on the 2009A and 2007 Series A and B Lease Revenue Bonds prior to the end of the fiscal year 2012 but before the filing for chapter 9 bankruptcy protections. The current maturity of principal on the Pension Obligation Bond of \$930,000 has been classified as noncurrent in the City's government-wide financial statement as the creditor, under chapter 9, loses its right to demand repayment of the debt in accordance with the stay in bankruptcy unless granted an order for relief from the stay. Also, the principal portion of the scheduled lease payments that were due in fiscal year 2013 of \$155,000 are classified as noncurrent in the City's government-wide financial statements because of protections under the debt limit of the State of California Constitution that prevents acceleration of the future rent due in the event rent is not paid when due by the City.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Other Long-term Obligations

Notes Payable

The City has entered into four Section 108 loan guarantee agreements with the U.S. Department of Housing and Urban Development (HUD) to complete redevelopment projects. As of June 30, 2012, the first loan totaling \$1,690,000 has notes due in installments ranging from \$525,000 to \$600,000 and are to be paid August 1, 2012 through August 1, 2014, with interest rates ranging from 6.00% to 6.17%; the second loan totaling \$1,835,000 has notes due in installments ranging from \$155,000 to \$260,000 and are to be paid August 1, 2012 through August 1, 2020, with interest rates ranging from 6.00% to 6.62%; the third loan totaling \$4,575,000 has notes due in installments ranging from \$645,000 to \$890,000 and are to be paid August 1, 2015 through August 1, 2020, with interest rates ranging from 5.07% to 5.53%; the fourth loan totaling \$10,900,000 has notes due in installments ranging from \$500,000 to \$1,920,000 and are to be paid through August 1, 2024, with interest rates ranging from 3.82% to 5.25%. Repayment of the loans will be financed from program income from the use of loan funds.

Loan Payable -- San Joaquin Council of Governments Loan #1

In 2009 the City entered into a loan agreement with the San Joaquin Council of Governments (SJCOG) through an advance of future Measure K maintenance funds in the amount of \$6,543,238 to expand the City's street maintenance program. As of June 30, 2012, the outstanding balance is \$2,130,471. The term of the loan is six years in which quarterly repayments of \$272,634 began in September 2008 and continued through March 31, 2011. No interest was charged during the period of September 2008 through March 2011. Beginning April 1, 2011 through March 31, 2014, quarterly payments will be \$319,312 plus interest on any outstanding balance. The interest charges to be incurred will be based upon SJCOG's borrowing rate for the period. At June 30, 2012 the interest rate was 4.854%.

Loan Payable -- San Joaquin Council of Governments Loan #2

In 2009 the City entered into a loan agreement with the San Joaquin Council of Governments (SJCOG) through an advance of future Measure K street maintenance funds in the total amount of \$863,589 to be used for preliminary engineering design of the Otto Drive Interstate I-5 interchange. As of June 30, 2012, the outstanding balance is \$646,793, with the remainder of the loan anticipated to be drawn down in fiscal year 2012/13. The loan was due in full by December 2, 2013. However, the outstanding principle balance of \$646,793 was paid in full in July 2013. The interest charges to be incurred will be based upon SJCOG's borrowing rate for the period. At June 30, 2012 the interest rate was 4.854%.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Annual Debt Service Requirements to Maturity

Year Ending June 30,	<u>Notes Payable</u>		<u>Loans Payable</u>	
	U.S. Dept. of Housing & Urban Development and California Housing Finance Agency		San Joaquin Council of Governments Loan #1 and San Joaquin Council of Governments Loan #2	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,250,000	\$ 957,670	\$ 1,194,902	\$ 82,345
2014	1,290,000	892,991	1,582,362	57,018
2015	1,335,000	824,098		
2016	1,365,000	754,835	-	-
2017	1,400,000	685,400	-	-
2018-2022	7,995,000	2,226,217	-	-
2023-2027	4,365,000	277,130	-	-
Total	<u>\$ 19,000,000</u>	<u>\$ 6,618,341</u>	<u>\$ 2,777,264</u>	<u>\$ 139,363</u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Capital Lease Obligations

Fire Vehicles - (Lease #1)

On April 17, 2007 Resolution 07-0133 approved the execution of a Master Equipment/Lease Agreement in the amount of \$7,000,000 with Banc of America Leasing and Capital, LLC to provide a tax-exempt financing mechanism and established the underlying financing tool for designated capital projects. Under the terms of the Master Equipment/Lease Agreement, the City authorized the purchase of an aerial fire truck and water rescue vehicle for the Fire Department in the amount of \$1,000,000. The remaining \$6,000,000 of the original amount authorized by City Council was never utilized and is no longer available due to the City's bankruptcy filing. The long-term master lease agreement with Banc of America Public Capital Corporation for the purchase of these vehicles has lease payments due on April 26 and October 26 through October 26, 2022 with an interest rate of 3.862%.

The assets acquired through the capital lease are as follows:

Machinery and Equipment	\$ 1,005,792
Less: Accumulated depreciation	(348,520)
Total	<u>\$ 657,272</u>

Capital Lease Obligations, Continued

Civic Auditorium HVAC System - (Lease #2)

On December 15, 2009 Resolution 09-0422 approved the execution of a lease purchase agreement with Wells Fargo Securities, LLC in an aggregate amount not to exceed \$2,236,000 to provide a tax-exempt financing mechanism and establish the underlying financing tool for replacement of the Heating, Ventilation & Air Conditioning (HVAC) system for the Stockton Memorial Civic Auditorium. The City authorized the purchase and installation of the HVAC system, making use of \$1,930,000 of the amount authorized. The remaining portion of the project costs were covered through federal grant funding. The lease agreement has payments due on February and August through February 2020 with an interest rate of 5.10%. Lease payments are repayable from the Capital Improvement Projects Fund.

The assets were completed at the end of June 2012 and were capitalized as follows:

Machinery and Equipment	\$ 1,861,906
Less: Accumulated depreciation	-
Total	<u>\$ 1,861,906</u>

Depreciation will begin on the asset next year.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Citywide Communications System - (Lease #3)

On June 24, 2008 Resolution 08-0261 approved the execution of a tax exempt lease through Key Government Finance in the amount of \$2,430,632 to implement a Citywide Unified Communication Environment. The tax-exempt lease has annual lease payments due on August 1 through 2014 with an interest rate of 4.615%.

The assets acquired through the capital lease are as follows:

Machinery and Equipment	\$	441,334
Less: Accumulated depreciation		(322,908)
Total	\$	<u>118,426</u>

These three leases qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments. As of June 30, 2012, the future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	Capital Lease #1		Capital Lease #2		Capital Lease #3	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 59,767	\$ 28,688	\$ 168,401	\$ 80,378	\$ 283,860	\$ 41,140
2014	62,098	26,357	177,099	71,680	296,959	28,041
2015	64,519	23,936	186,246	62,533	310,663	14,337
2016	67,035	21,420	195,866	52,913		
2017	69,649	18,806	205,983	42,796	-	-
2018-2022	391,161	51,113	684,009	62,328	-	-
2023-2027	43,389	838	-	-	-	-
Total	<u>\$ 757,618</u>	<u>\$ 171,158</u>	<u>\$ 1,617,604</u>	<u>\$ 372,628</u>	<u>\$ 891,482</u>	<u>\$ 83,518</u>

State Animal Control Obligation

The City claimed \$2.9 million from July 1, 1998 through June 30, 2007, in unreimbursed State mandates from the State of California, excluding July, 1 2003 through 2005 in Animal Adoption Program costs. Upon an audit of the mandated claims file, the State disallowed \$2.5 million of the \$2.9 million costs claimed but had already paid the City \$2.1 million for the periods mentioned above. The State findings were that the remaining \$1.9 million must be repaid to the State. The City will receive credit for repayment from offsetting future State reimbursements for mandated costs. The City obligation was adjusted during the year by \$51,965. The balance of the obligation at June 30, 2012 was \$1,667,251.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

B. Governmental Activities, Continued

Settlement Obligation

On September 30, 2003, the City of Stockton, upon Resolutions 03-0588 and 03-0589, acquired the properties known as the Marina Towers through the eminent domain process. The properties were eventually rehabilitated and are currently part of the Banner Island Ballpark.

Subsequent to these acquisitions, lawsuits were filed in the Superior Court of San Joaquin regarding the legality of the eminent domain process undertaken to acquire these properties. On June 8, 2010 the City entered into an all-inclusive settlement of both cases. This settlement, passed by Resolution 10-0173, requires that payments of \$312,500 per year be made to Marina Towers LLC. These payments will be made over the course of eight years for a total of \$2,500,000.

The first payment was made in June 2010. The liability is being reported in the City's government-wide financial statements at the present value of the remaining payments in the amount of \$1,581,094, discounted at 5.1%, at June 30, 2012. In July 2012, the City defaulted on these payments (Note 18). Subsequently the City Council, on September 24, 2013, approved a settlement agreement with Marina Towers LLC that authorized the transfer of specific surplus property of the City with an estimated market value of \$973,500 in exchange for the settlement of their claim of \$1.875 million and for the release and transfer of fee title to the City on property that covers the right field of the Stockton Ballpark.

Annual Debt Service Requirements to Maturity

Year Ending June 30,	Settlement Obligation	
	Principal	Interest
2013	\$ 231,864	\$ 80,636
2014	243,689	68,811
2015	256,117	56,383
2016	269,179	43,321
2017	282,908	29,592
2018	297,337	15,164
Total	\$ 1,581,094	\$ 293,907

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities

Summary of changes in governmental activities long-term debt for the year ended June 30, 2012 are as follows:

	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Current	Non-Current
Water Utility						
California Statewide Community Development Authority Revenue Bonds						
Series 2002A (Water System Capital Improvements)	\$ 10,070,000	\$ -	\$ (640,000)	\$ 9,430,000	\$ 670,000	\$ 8,760,000
Deferred amounts on refunding	(199,015)	-	16,818	(182,197)	(16,818)	(165,379)
Unamortized discount	(168,259)	-	14,219	(154,040)	(14,219)	(139,821)
Stockton Public Financing Authority Revenue Bonds						
Series 2005A (Water System Capital Improvements)	24,230,000	-	-	24,230,000	-	24,230,000
Unamortized premium	109,104	-	(4,468)	104,636	4,468	100,168
Stockton Public Financing Authority Revenue Bonds						
Series 2009A (Delta Water Project)	18,575,000	-	-	18,575,000	3,035,000	15,540,000
Series 2009B (Delta Water Project)	154,550,000	-	-	154,550,000	-	154,550,000
Unamortized premium	1,098,185	-	(40,424)	1,057,761	40,424	1,017,337
Stockton Public Financing Authority Revenue Bonds						
Series 2010A (Delta Water Project)	55,000,000	-	-	55,000,000	-	55,000,000
Note payable						
Federal Drought Relief Act Loan	477,561	-	(71,464)	406,097	75,037	331,060
Total Water Utility	263,742,576	-	(725,319)	263,017,257	3,793,892	259,223,365
Wastewater Utility						
Stockton Public Financing Authority Certificates of Participation						
Revenue COP 1998 Series A (Wastewater Projects)	80,435,000	-	(2,330,000)	78,105,000	2,440,000	75,665,000
Refunding COP 2003 Series A (Wastewater Projects)	10,110,000	-	(625,000)	9,485,000	650,000	8,835,000
Deferred amounts on refunding	(3,068,701)	-	252,222	(2,816,479)	(252,222)	(2,564,257)
Unamortized discount	(404,966)	-	27,296	(377,670)	(27,296)	(350,374)
Total Wastewater Utility	87,071,333	-	(2,675,482)	84,395,851	2,810,482	81,585,369
Central Parking District						
Stockton Public Financing Authority Lease Revenue Bonds						
Series 2004 (Parking and Capital Projects)	31,945,000	-	(305,000)	31,640,000	360,000	31,280,000
Unamortized discount	(55,657)	-	2,419	(53,238)	(2,419)	(50,819)
Total Central Parking District	31,889,343	-	(302,581)	31,586,762	357,581	31,229,181
Marina						
State DBAW						
Construction & Planning Loan	11,122,128	-	(251,307)	10,870,821	217,941	10,652,880
Total Marina	11,122,128	-	(251,307)	10,870,821	217,941	10,652,880
Total	\$ 393,825,380	\$ -	\$ (3,954,689)	\$ 389,870,691	\$ 7,179,896	\$ 382,690,795

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities, Continued

Water Utility

Note Payable

In August 1977, the City accepted a Federal Drought Relief Act loan to finance drought relief projects for the Fund. The loan bears interest at 5.0% per annum with final payment due in July 2017. The note is repayable from the net revenue of the Fund.

California Statewide Community Development Authority Revenue Bonds Series 2002A

On April 16, 2002, the City participated in the California Statewide Community Development Authority (CSCDA) Water and Wastewater Revenue Bond (Pooled Financing Program), Series 2002A, which issued Bonds in the amount of \$14,280,000 for the City of Stockton. Bonds are due in installments ranging from \$670,000 to \$1,090,000 through October 1, 2022, with interest rates ranging from 4.375% to 5.125% on the bonds outstanding. The Bonds were issued to refinance prior water system expansion bonds. Repayment of the Bonds is financed from net revenues pledged by the Fund. The principal amount due is reported net of a deferred loss on refunding and unamortized discount.

Stockton Public Financing Authority Revenue Bonds Series 2005A

The 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) were issued in the amount of \$24,230,000 by the Stockton Public Financing Authority ("SPFA") on November 3, 2005. Bonds are due in installments ranging from \$150,000 to \$2,350,000 beginning October 1, 2017 through October 1, 2035, with interest rates ranging from 4.0% to 5.0% on the bonds outstanding. The Bonds were issued to finance various water system capital improvement projects. Repayment of the Bonds is financed from net revenues pledged by the Fund. The principal amount due is reported net of unamortized premium.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities, Continued

Water Utility, Continued

Stockton Public Financing Authority Revenue Bonds Series 2010A

The 2010 Variable Rate Demand Water Revenue Bonds, Series A (Delta Water Supply Project) were issued in the amount of \$55,000,000 by the SPFA on October 20, 2010. Bonds are due in installments ranging from \$180,000 to \$15,405,000 beginning October 1, 2017 through October 1, 2040. The bonds bear interest at a "weekly rate" established by the remarketing agent with regard for prevailing market conditions. Interest is paid monthly based on the rate, which is reset on a weekly basis. The maximum interest rate allowed on the bonds is 12% per annum and, as of June 30, 2012, the interest rate was 0.50%. Rates paid during the year varied from a low of 0.05% to a high of 0.60%. The bonds were issued for the design and construction of the first phase of the Delta Water Supply Project. The repayment of the bonds is from a pledge of net revenues of the Fund.

With the issuance of the 2010 Variable Rate Demand Water Revenue Bonds ("2010A Bonds") the City entered into an irrevocable transferable letter of credit with Union Bank, N.A. in order to remarket the bonds at lower interest rates. The letter of credit is valid through October 18, 2013. The City is required to pay Union Bank, N.A. a quarterly Letter of Credit Fee on the outstanding principal amount of the Bonds (2.75% at June 30, 2012). Prior to The City filing Chapter 9 bankruptcy on June 26, 2012, the rate being paid on Letter of Credit was 0.92%. In addition, the remarketing agent receives an annual Remarketing Fee equal to 0.10% of the average principal amount of the outstanding bonds.

The letter of credit with Union Bank, N.A. and the bond indentures for all outstanding debt, excluding the Federal Drought Relief Act Loan, contain subjective acceleration provisions that upon the declaration of an "event of default" which, under the terms of the indenture, consists of the filing for bankruptcy or the default on payments of debt, the bonds would be due on demand. The City defaulted on payment of certain general fund obligations beginning in March 2012 and filed for bankruptcy in June 2012.

Union Bank, N.A. subsequently issued a letter on March 19, 2012 to the City stating that the Bank would not make any present demand on the City for payment nor did it intend to formally declare an Event of Default, however it did not waive its rights and remedies available to them. In the event the Bank were to act upon their rights and formally declare an Event of Default, the total principal outstanding on the 2010A Bonds in the amount of \$55.0 million would become immediately due and payable. The Bank's actions until now do not appear to indicate this would occur and management does not believe Union Bank will exercise its rights and remedies prior to the expiration of the letter of credit. Accordingly, 2010A Bonds have been classified as a long-term liability in the accompanying statements of net assets as of June 30, 2012 pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities, Continued

Upon the consummation of the remarketing transaction, contemplated for the conversion of the Series 2010A Bonds from variable rate to fixed rates, the letter of credit would be canceled. On October 8, 2013, City Council approved an agreement with the Bank to enter into an extension of the letter of credit for a period of sixty days in order to allow sufficient time for the completion of the remarketing (Note 19E).

Stockton Public Financing Authority Revenue Bonds Series 2009A

The 2009 Water Revenue Bonds, Series A (Tax-Exempt, Delta Water Supply Project) were issued in the amount of \$18,575,000 by the SPFA on August 11, 2009. Bonds are due in installments ranging from \$3,035,000 to \$5,655,000 beginning October 1, 2012 through October 1, 2016, with interest rates ranging from 4.0% to 5.0% on bonds outstanding. The bonds were issued for the design and construction of the first phase of the Delta Water Supply Project. Repayment of the bonds is from a pledge of net revenues from the Fund.

Stockton Public Financing Authority Revenue Bonds Series 2009B

The 2009 Water Revenue Bonds, Series B (Taxable Build America Bonds, Delta Water Supply Project) were issued in the amount of \$154,550,000 by the SPFA on August 11, 2009. The Taxable 2009B Bonds were issued as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. The Authority receives a cash subsidy from the United States Treasury pursuant to the Recovery Act equal to 35% of the interest payable on or about each Interest Payment Date. The amount of the subsidy received for June 30, 2012 was \$4,175,006. Bonds are due in installments ranging from \$3,835,000 to \$13,570,000 beginning October 1, 2017 through October 1, 2038, with interest rates ranging from 6.09% to 7.942% on bonds outstanding. The bonds were issued for the design and construction of the first phase of the Delta Water Supply Project. Repayment of the bonds is financed from net revenues pledged by the Fund. The principal amount due is reported net of unamortized premium.

Pledge Revenues

The City has pledged future net system revenues from the Fund for the repayment of all of the Revenue Bonds of the Water Utility.

For the year ended June 30, 2012, principal and interest paid was \$15,155,638 and net revenues were \$15,858,729. The total principal and interest remaining to be paid on the Water Utility Revenue Bonds is \$517,719,787.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities, Continued

Debt Covenants

The Revenue Bonds all require the maintenance of a financial covenant of a minimum debt service coverage (DSC) ratio. The minimum DSC ratio for both the senior and subordinate bonds is 115% of net system revenues. The DSC ratio is the measure of the Fund's ability to have sufficient resources to pay its debt service. The Fund has met its DSC for the fiscal years ended June 30, 2012 at each measurement period.

The Revenue Bonds and the Letter of Credit with Union Bank contain various subjective acceleration clauses in an event of default due to material adverse changes, such as filing for bankruptcy. In accordance with GASB Statement Number 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, the classification of the borrowings in the statement of net assets are required to be reclassified to current liabilities unless:

1. The creditor has waived or subsequently lost the right to demand repayment for more than one year from the date of the financial statements.
2. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

The City has not received from its bond trustee a waiver of its right to call the debt or to act upon the event of default. Union Bank has indicated it will not exercise its rights to demand repayment. Management has evaluated with its bankruptcy counsel, through the date of this report, the relevant facts and circumstances surrounding the likelihood that the trustee or Union Bank will exercise its rights under the subjective acceleration clauses. Management believes it to be unlikely that the trustee or Union Bank will exercise their rights as all debt service payments for the Fund have been met, been made timely, and the trustee nor Union Bank have not exercised their rights since the City filed for bankruptcy over one year ago which was prior to the date of the financial statements. Accordingly, this obligation has been classified as a long-term liability in the accompanying statements of net assets. In the event the Trustee, or Union Bank, exercised their rights, their claims would be subject to the automatic stay in the U.S. Bankruptcy court.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities, Continued

Wastewater Utility

Certificates of Participation

Revenue Certificates of Participation (COP) 1998 Series A (Wastewater System Project) were issued in the amount of \$101,650,000 by the SPFA on February 3, 1998. As of June 30, 2012, certificates totaling \$78,105,000 are due in installments ranging from \$2,440,000 to \$7,325,000 through September 1, 2029, with interest rates ranging from 4.7% to 5.2% on the certificates outstanding. The proceeds of the 1998 issue were used to finance the design and construction of a sewer interceptor, to make improvements and modifications to the southern industrial sewer trunk line, and to refund the 1995 Certificates of Participation issue that financed the design, improvements and modifications to the regional wastewater control facilities. Repayment of the COPs is financed from net revenues pledged by the Wastewater Utility Fund. The principal amount due is reported net of a deferred loss on refunding of \$2,816,479 and unamortized discount of \$259,878.

Refunding Certificates of Participation (COP) 2003 Series A (Wastewater System Project) were issued in the amount of \$14,135,000 by the SPFA on May 21, 2003. As of June 30, 2012 certificates totaling \$9,485,000 are due in installments ranging from \$650,000 to \$965,000 through September 1, 2023, with interest rates ranging from 3.1% to 4.25% on the certificates outstanding. The COPs were issued to advance refund the 1993 certificates of participation. Repayment of the COPs is financed from net revenues pledged by the Wastewater Utility Fund. The principal amount due is reported net of an unamortized discount of \$117,792.

The City has pledged future net revenues from the Wastewater Utility Fund for the repayment of the COPs. For the year ended June 30, 2012, the City paid principal and interest of \$7,372,468 from net revenues in fiscal year 2012 and net revenues were \$16,078,888. The total principal and interest remaining to be paid on the Wastewater Utility COPs is \$133,605,850.

Wastewater utility rates have been increased through a proposition 218 vote that passed in August 2010, are being raised to cover increased operating costs and meet required coverage ratios. The rate increases are phased in over a five year period beginning in fiscal year 2010-11 and include an adjustment mechanism to account for inflation. As a result of these efforts, the debt coverage ratio for FY 2011-12 was 2.18.

Central Parking District

Lease Revenue Bonds, Series 2004 ("2004 Parking Bonds")

The 2004 Parking Bonds were issued in the amount of \$32,785,000 by the SPFA on June 25, 2004. As of June 30, 2012, bonds totaling \$31,640,000 are due in installments ranging from \$360,000 on September 1, 2012 to \$2,950,000 on September 1, 2034, with interest rates ranging from 4.0% to 5.25%, and a final maturity date of September 1, 2034. The Bonds were issued to finance the construction of the Stockton Events Center Parking Structure, the Edward S. Coy Parking Garage, and other parking facilities within the Central Parking District.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities, Continued

Central Parking District, continued

The Bonds are special limited obligations of the SPFA payable from and secured by Revenues, consisting primarily of lease payments to be made by the City to the SPFA pursuant to a Lease Agreement dated as of June 1, 2004 by and between the SPFA, as lessor, and the City, as lessee. The lease payments are to be made by the City for the right to use and occupy the Property, consisting of New Parking Projects and an existing parking facility of the City, and the sites on which such parking facilities are located.

The City utilizes net revenue from the Central Parking District fund to make debt service payments on the bonds. The Central Parking District also maintains surface parking and parking meters throughout the Central Business District and levies a special tax pursuant to the Mello-Roos Community Facilities District Act of 1982. However, under the existing documents these revenues are not pledged as security for the bonds. The leased premises by themselves do not generate enough net revenue to cover debt service on the garages, requiring an annual subsidy from district revenues from the other facilities and special tax revenues.

The principle amount due is reported net of unamortized discount of \$53,238. In March 2012, the City defaulted on the 2004 Parking Bond lease payments. The Bond Trustee pursued the City in litigation to take possession of the City's three parking garages (Note 18).

Marina

Note Payable

On March 17, 1997, the City entered into an agreement with the California Department of Boating and Waterways (DBAW) for a planning loan to provide funding toward a feasibility study regarding the potential construction of waterfront improvements. That feasibility study was approved on May 16, 2000 and application was made for a construction loan to develop a small craft harbor facility. Engineering work began in fiscal year 2006 and construction of the facility started during the fiscal year ended June 30, 2009. This project was completed in 2011. The combined amount outstanding on both the planning and construction loans as of June 30, 2012 is \$10,870,821.

The construction note will be repaid under a 30-year repayment schedule at 4.5% interest, and repayment of principal began August 2011. Repayment of the note is secured by a pledge of the gross revenues of the Marina, but such amounts are insufficient to pay full debt service. The loan provides that, subject to the requirements of Article XVI, Section 18 of the California Constitution (the "Debt Limit"), the City will make up any shortfall in debt service after application of Marina revenues. The Marina does not generate sufficient revenues to cover operational costs (net of debt service) and the City has subsidized the shortfall in operation expenses. Under the City's chapter 9 bankruptcy filing and pendency plan budget for fiscal year 2012-13 the City did not make payment of the required debt service on August 1, 2012 (Note 17). The City does not believe the requirements of the Debt Limit have been satisfied such that the City's General Fund is obligated to make payments on the loan.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

C. Business-Type Activities, Continued

Annual Debt Service Requirements to Maturity

Year Ending June 30,	Water Utility		Wastewater Utility		Central Parking District	
	Revenue Bonds and		Certificates of		Lease	
	Federal Drought Relief Act Loan		Participation		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 3,780,037	\$ 14,589,043	\$ 3,090,000	\$ 4,287,088	\$ 360,000	\$ 1,600,116
2014	3,938,789	14,431,842	3,230,000	4,143,138	410,000	1,584,716
2015	4,102,728	14,267,152	3,390,000	3,985,729	470,000	1,566,529
2016	4,291,865	14,077,183	3,555,000	3,819,526	530,000	1,545,279
2017	6,542,678	13,808,751	3,730,000	3,642,751	600,000	1,520,516
2018-2022	27,760,000	64,296,326	21,630,000	15,256,721	4,165,000	7,085,861
2023-2027	35,070,000	54,278,074	28,085,000	9,214,557	6,710,000	5,707,797
2028-2032	44,890,000	40,570,093	20,880,000	1,666,340	10,160,000	3,557,944
2033-2037	60,000,000	22,572,694	-	-	8,235,000	669,769
2038-2042	71,815,000	2,637,532	-	-	-	-
Total	\$ 262,191,097	\$ 255,528,690	\$ 87,590,000	\$ 46,015,850	\$ 31,640,000	\$ 24,838,527

Year Ending June 30,	Marina Note Payable	
	Principal	Interest
2013	\$ 217,941	\$ 501,724
2014	194,372	490,329
2015	203,318	481,383
2016	212,677	472,024
2017	221,170	463,531
2018-2022	1,274,126	2,149,379
2023-2027	1,595,722	1,827,783
2028-2032	1,998,509	1,424,996
2033-2037	2,502,599	920,906
2038-2042	2,450,387	288,382
Total	\$ 10,870,821	\$ 9,020,437

The amounts in the annual debt service requirements to maturity schedule are the scheduled debt service under the bond indentures. The City defaulted on the 2004 Parking Bonds prior to the end of the fiscal year 2012 but before the filing for chapter 9 bankruptcy protections. The principal portion of the scheduled lease payments that were due in fiscal year 2013 of \$360,000 are classified as noncurrent in the City's government-wide and enterprise financial statements because of protections under the debt limit of the State of California Constitution that prevents acceleration of the future rent due in the event rent is not paid when due by the City.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

D. Fiduciary Activities

Summary of changes in fiduciary fund activities long-term debt for the year ended June 30, 2012 are as follows:

	Balance June 30, 2011	Additions	Reductions	Transfers from Agency	Balance June 30, 2012	Current	Non-Current
Successor Redevelopment Agency:							
Revenue Bonds:							
Series 2004 (Stockton Events Center-Arena)	-	-	-	45,590,000	45,590,000	455,000	45,135,000
2006 Series A (Redevelopment Projects)	-	-	-	52,415,000	52,415,000	310,000	52,105,000
2006 Series B (Redevelopment Projects)	-	-	-	2,335,000	2,335,000	1,355,000	980,000
2006 Series C (Housing Projects)	-	-	-	24,355,000	24,355,000	475,000	23,880,000
Unamortized premium	-	-	-	3,140,934	3,140,934	126,560	3,014,374
Total Successor Redevelopment Agency	-	-	-	127,835,934	127,835,934	2,721,560	125,114,374
Total	\$ -	\$ -	\$ -	\$ 127,835,934	\$ 127,835,934	\$ 2,721,560	\$ 125,114,374

Successor Redevelopment Agency

Revenue Bonds Series 2004 (Event Center – Arena Project)

The Redevelopment Agency of the City of Stockton issued Revenue Bonds, Series 2004 (“2004 Arena Bonds”) in the amount of \$47,000,000 on March 16, 2004 to provide funds to finance a portion of the costs of an indoor arena consisting of approximately 220,000 square feet, including facilities for ice hockey indoor football, indoor soccer, concerts and other events and with a seating capacity of approximately 10,000. As of June 30, 2012, bonds totaling \$45,590,000 are due in installments ranging from \$455,000 on September 1, 2012 to \$4,035,000 on September 1, 2036, with interest rates ranging from 2.875% to 5.00%, and a final maturity date of September 1, 2036. The 2004 Arena Bonds are insured by National Public Finance Guaranty and have a cash reserve fund. The principal amount due is reported net of unamortized premium of \$1,220,330.

The bonds are limited obligations of the Successor Agency payable from and secured by revenues consisting primarily of lease payments to be made by the City to the Successor Agency pursuant to a Lease Agreement dated as of March 1, 2004 between the Successor Agency, as lessor, and the City, as lessee and a pledge of payments to be made by the Successor Agency from Tax Revenues derived from the Project Area, pursuant to a pledge agreement dated as of March 1, 2004 between the Successor Agency and the City. Lease Payments are to be made by the City for the right to use and occupy the Project and the site on which the Project is located.

The pledge agreement provides security for the Bonds from tax increment revenues derived from the Project Area pursuant to and under Article 6 of Chapter 6 of Part 1 of Division 24 of the California Health and Safety Code. The Project Area is commonly known as the West End Project Area a sub area of the Merged Waterfront Project Area. The Successor Agency’s obligation to make payments under the pledge agreement is secured by a pledge of and a first lien on the tax revenues. To the extent pledge payments are applied to pay debt service on the Bonds, there will be a corresponding reduction in the lease payments.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

D. Fiduciary Activities, Continued

Successor Redevelopment Agency, Continued

The leased premises are an indoor arena (“the Arena”) with a seating capacity of approximately 10,000. It is part of the Stockton Events Center (the “Events Center”) project which also includes a baseball stadium with a seating capacity of approximately 5,000, an approximately 150-unit hotel complex, and approximately 60,000 square feet of retail/commercial space. The Events Center, including the Arena, is located in downtown Stockton on approximately twenty-four acres immediately north of and adjacent to the Stockton Channel and within the Waterfront Project Area.

Prior to the dissolution of redevelopment in California, the City used tax increment from the Merged Waterfront Project Area to service the debt. After dissolution, the pledge for repayment is being honored from a combination of the pledged tax increment in the West End Project Area and a pro rata share of all of the other tax increment revenue of the Successor Agency available to support enforceable obligations of the Successor Agency pursuant to the dissolution (Note 16).

For the year ended June 30, 2012, principal and interest paid was \$2,522,412 and project area tax increment was \$5,045,428. The total principal and interest remaining to be paid on the Revenue Bonds, Series 2004 is \$82,317,206. The Successor Agency to the Redevelopment Agency of the City defaulted on this obligation effective September 1, 2013 (Note 19).

Revenue Bonds Series 2006 (Strong Neighborhoods Initiative)

The SPFA issued Revenue Bonds (Redevelopment Projects), 2006 Series A, Taxable Revenue Bonds (Redevelopment Projects, 2006 Series B and the Taxable Revenue Bonds (Housing Projects, 2006 Series C (the “SNI Bonds”) in the amount of \$75,755,000 on July 12, 2006. As of June 30, 2012, bonds totaling \$52,415,000 are due in installments ranging from \$310,000 on September 1, 2012 to \$3,060,000 on September 1, 2037, with interest rates ranging from 5.00% to 5.25%, with a final maturity date of September 1, 2037. The principal amount due is reported net of unamortized premium of \$1,920,604.

The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a portion of three loans (collectively, the Redevelopment Loans) made pursuant to three loan agreements (the Redevelopment Agreement) between the SPFA and the former Redevelopment Agency, relating respectively, to the Redevelopment Agency’s Midtown Redevelopment Project, North Stockton Redevelopment Project and South Stockton Redevelopment Project. The portion of each Redevelopment Loan allocable to the Series A Bonds was used to finance certain redevelopment projects within or of benefit to the Midtown, North Stockton, and South Stockton Redevelopment Projects. The Bonds are special obligations of the former and Successor Redevelopment Agencies payable from tax increment revenues from the Midtown, North Stockton, and South Stockton Redevelopment Project Area.

The Taxable 2006 Series B from the SNI Bonds were issued in the amount of \$8,445,000 on July 12, 2006. As of June 30, 2012, bonds totaling \$2,335,000 are due in installments ranging from \$1,355,000 on September 1, 2012 to \$980,000 on September 1, 2013, with interest rates ranging from 6.08% to 6.10%, with a final maturity date of September 1, 2013.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

D. Fiduciary Activities, Continued

Successor Redevelopment Agency, Continued

The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a portion of the Redevelopment Loans made pursuant to the Redevelopment Agreements. The portion of each Redevelopment Loan allocable to the Series B Bonds was used by the Agency to finance certain redevelopment projects within or of benefit to the Midtown, North Stockton, and South Stockton Redevelopment Projects. The Bonds are special obligations of the former and Successor Redevelopment Agency's payable from tax increment revenues from the Midtown, North Stockton, and South Stockton Redevelopment Project Areas.

The Taxable 2006 Series C from the RDA Bonds were issued in the amount of \$25,985,000 on July 12, 2006. As of June 30, 2012, bonds totaling \$24,355,000 are due in installments ranging from \$475,000 on September 1, 2012 to \$1,720,000 on September 1, 2037, with interest rates ranging from 6.15% to 6.87%, with a final maturity date of September 1, 2037.

The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a loan (the Housing Loan) made pursuant to a loan agreement, dated July 1, 2006, by and among the SPFA, the Agency and the Trustee (the Housing Loan Agreement). The Housing Loan was used by the Agency to finance certain low and moderate income housing projects throughout the City of Stockton. The Bonds are special obligations of the Agency payable from the low and moderate income housing allocation.

The RDA Bonds for Series A, Taxable Series B and Taxable Series C are insured by Radian and have cash reserve funds allocable to each loan agreement by project area. The Successor Agency to the City of Stockton defaulted on a portion of the Series A for the 2006 RDA Bonds on September 1, 2013 (Note 19)

Annual Debt Service Requirements to Maturity

Year Ending June 30,	Redevelopment Revenue Bonds	
	Principal	Interest
2013	2,595,000	6,546,780
2014	2,890,000	6,401,376
2015	2,280,000	6,270,438
2016	2,125,000	6,163,845
2017	2,730,000	6,045,831
2018-2022	17,830,000	27,537,284
2023-2027	21,655,000	22,893,635
2028-2032	28,970,000	16,060,137
2033-2037	38,900,000	6,851,048
2038-2042	4,720,000	137,832
Total	<u>\$ 124,695,000</u>	<u>\$ 104,908,206</u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

7. LONG-TERM DEBT, Continued

E. Debt Without City Commitment

Land Secured Debt Financing (No City Commitment) - The City has authorized the formation of community facilities districts (CFDs) and assessment districts (local improvement districts) (LIDs) and the issuance of bonds under various public improvement acts of the State of California to finance eligible public facilities necessary to serve developing commercial, industrial, residential and/or mixed use developments. The bonds are secured by annual special tax levies or liens placed on the property within the districts.

The City is not liable for repayment and is only responsible for collecting the special taxes or assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings when necessary. These bonds are payable solely from special taxes or assessments, specific reserves, and the proceeds from property foreclosures. Accordingly, the bonds are not reported as liabilities in the City's basic financial statements. As of June 30, 2012, there were eight CFD special tax bonds, three special assessment bonds, and six revenue bonds outstanding with aggregate principal amounts payable of \$80,550,000, \$21,605,000, and \$33,140,000, respectively.

Conduit Debt (No City Commitment) - Revenue bonds, certificates of participation, and capital leases have been issued to provide financial assistance to public and private sector entities for the funding of mortgage loans, capital improvements to medical facilities and refinancing of previously existing debt deemed to be in the public interest. The debt is secured by the property financed and is payable solely from payments received on the underlying assets. Neither the City, nor the State, nor any political subdivision thereof is obligated in any manner for repayment of the debt. Accordingly, the outstanding debt is not reported as liabilities in the City's basic financial statements. As of June 30, 2012, there were two series of revenue bonds, one certificate of participation, and two leases with an aggregate principal amount payable of \$30,059,307.

8. ACCRUED COMPENSATED ABSENCES

The value of accumulated vacation, sick, and longevity vacation allowance is accrued, as appropriate, for all funds. A liability for these amounts is presented in the government-wide and proprietary fund financial statements. The changes in Compensated Absences of governmental and business-type activities were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 23,467,010	\$ 1,174,464	\$ 24,641,474
Additions	12,896,740	1,457,446	14,354,186
Payments	<u>(15,654,482)</u>	<u>(1,269,743)</u>	<u>(16,924,225)</u>
Ending Balance	<u>\$ 20,709,268</u>	<u>\$ 1,362,167</u>	<u>\$ 22,071,435</u>
Current Portion	<u>\$ 5,958,716</u>	<u>\$ 628,498</u>	<u>\$ 6,587,214</u>
Non-Current Portion	<u>\$ 14,750,552</u>	<u>\$ 733,669</u>	<u>\$ 15,484,221</u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

9. FUND BALANCES

A summary of the composition of the City's reported nonspendable, restricted, committed, assigned and unassigned fund balance amounts as reported in the City's Governmental Funds balance sheet at June 30, 2012 is as follows:

	General Fund	HOME Program Loans	Low-Moderate Income Housing City Loans	Capital Improvement	Other Governmental	Total Governmental Funds
Fund balances:						
Nonspendable:						
Inventories	\$ 289,703	\$ -	\$ -	\$ -	\$ -	\$ 289,703
Prepaid expense	923	-	-	-	370,378	371,301
Advance deposits	64,617	-	-	-	-	64,617
Total Nonspendable	<u>355,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>370,378</u>	<u>725,621</u>
Restricted for:						
DS/SC Invest-Dept Boat/Water	1,100,000	-	-	-	-	1,100,000
Section 108 Loan	1,000,000	-	-	-	-	1,000,000
Community development	-	-	-	-	13,791,648	13,791,648
Debt service reserve	-	-	-	-	3,913,116	3,913,116
General government	-	-	-	1,503,863	1,147,566	2,651,429
Housing	-	856,135	3,055,896	-	4,570,746	8,482,777
Libraries and arts	-	-	-	576,696	9,515,896	10,092,592
Parks and recreation	-	-	-	-	5,388,378	5,388,378
Public safety	-	-	-	-	2,204,208	2,204,208
Public service	-	-	-	-	-	-
Redevelopment	-	-	-	-	-	-
Solid waste/recycling	-	-	-	-	1,933,094	1,933,094
Streets, transit & traffic	-	-	-	166,195	35,012,353	35,178,548
Total Restricted	<u>2,100,000</u>	<u>856,135</u>	<u>3,055,896</u>	<u>2,246,754</u>	<u>77,477,005</u>	<u>85,735,790</u>
Committed for:						
Bankruptcy	6,953,857	-	-	-	-	6,953,857
General government operations	1,116,601	-	-	-	-	1,116,601
Total Committed	<u>8,070,458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,070,458</u>
Assigned for:						
General government	594,186	-	-	-	-	594,186
General government operations	3,516,860	-	-	-	-	3,516,860
Total Assigned	<u>4,111,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,111,046</u>
Unassigned:	-	-	-	-	(18,775,400)	(18,775,400)
Total Fund Balances	<u>\$ 14,636,747</u>	<u>\$ 856,135</u>	<u>\$ 3,055,896</u>	<u>\$ 2,246,754</u>	<u>\$ 59,071,983</u>	<u>\$ 79,867,515</u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS

The City of Stockton contributes to three pension plans; the Safety Plan of the City of Stockton, and the Miscellaneous Plan of the City of Stockton, which are both part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), and the City of Stockton Retirement Enhancement Plan, a customized supplemental retirement plan administered by Public Agency Retirement Services (PARS) for municipal utilities employees who worked under a private contract between 2003 and 2008.

CalPERS is an agent multiple-employer agency trust, that acts as a common investment and administrative agent for participating public entities in the State of California, providing retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. CalPERS benefits are payable monthly for life in an amount equal to a certain percent of the employees highest annual salary. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the CalPERS comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA, 95814

PARS is an agent multiple-employer agency trust that acts as a common investment and administrative agent for participating public entities in the State of California. Annual financial reports for the aggregate Plan may be obtained by contacting PARS directly.

SAFETY PLAN:

Plan Description - The Safety Plan of the City of Stockton is for sworn Police and Fire employees. Sworn Safety employees are eligible for retirement at age 50 or older with a minimum of five years CalPERS service.

Funding Policy - Safety Plan participants are required to contribute 9% of their annual covered salary. As part of the City employees' benefit package, the City pays the employees' contribution. The City is required to contribute at an actuarially determined rate. The rate for Safety Plan members was 29.099% of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost - For the year ended June 30, 2012, the City's Safety Plan annual pension costs were \$17,335,483 The annual pension costs were more than the City's required and actual contributions of \$13,312,786 due to positive interest earnings on the net pension asset offset by a negative adjustment to the annual required contribution. This was due to a declining active payroll percentage contribution. The required contribution rates were determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.55% to 13.15%; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the Safety Plan's assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Based on the actuarial valuation dated June 30, 2009, the remaining average amortization period was 29 years for the Safety Plan.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

SAFETY PLAN, Continued:

Funded Status and Funding Progress - As of June 30, 2012, the Safety Plan was 85.4% funded. The actuarial accrued liability for benefits was \$802,778,310. The actuarial value of assets was \$685,732,778 resulting in an unfunded actuarial accrued liability (UAAL) of \$117,045,532. The covered payroll (annual payroll of active employees covered by the plan) was \$50,960,671, and the ratio of the UAAL to covered payroll was 229.7%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Pension Asset - The City prepaid its Annual Required Contributions (ARC) with proceeds from the 2007 Taxable Pension Obligation Bonds Series A and Series B (Note 7). The City's net pension asset was determined in accordance with the provisions of GASB Statement No. 27 and represents contributions in excess of the ARC. The pension asset is being amortized over a 30 year period. The pension asset balance at June 30, 2012 is \$90,318,904 for the Safety Plan.

The City's annual pension cost and change in the net pension asset related to the Safety Plan for the year ended June 30, 2012, were as follows:

Annual required contribution	\$ 18,767,773
Interest on beginning net pension asset	(7,311,472)
Adjustment to the annual required contribution	5,879,152
Annual pension cost	<u>17,335,453</u>
Contributions made	13,312,786
Less: annual pension cost	(17,335,453)
Change in pension asset	<u>(4,022,667)</u>
Pension asset, beginning of the year	94,341,571
Pension asset, end of the year	<u><u>\$ 90,318,904</u></u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

SAFETY PLAN, Continued:

Three-Year Trend Information					
Fiscal Year	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Pension Asset	
6/30/2012	\$ 17,335,453	\$ 13,312,786	77%	\$	90,318,904
6/30/2011	12,996,540	12,703,252	98%	\$	94,341,571
6/30/2010	10,624,275	12,260,454	115%	\$	94,634,859

MISCELLANEOUS PLAN:

Plan Description – The Miscellaneous Plan of the City of Stockton is available to full time employees not enrolled in the Safety Plan. Part-time employees must meet specific criteria for participation. City employees are eligible for service or normal retirement at age 55 or older with a minimum of five years CalPERS service.

Funding Policy – Miscellaneous Plan participants are required to contribute 7% of their annual covered salary. Until July 1, 2011, as part of the City employees' benefit package, the City paid the employees' contribution. Subsequent to July 1, 2011, the employees began paying the participants share of 7%. The City is required to contribute at an actuarially determined rate. The rate for Miscellaneous Plan members was 16.941% of annual covered payroll for the fiscal year ended June 30, 2012. The contribution requirements of the plan members and the City are established by CalPERS and may be amended.

Annual Pension Cost – For the year ended June 30, 2012, the City's Miscellaneous Plan annual pension costs were \$11,097,096. The annual pension costs were more than the City's required and actual contributions of \$7,801,222 due to positive interest earnings on the net pension asset offset by a negative adjustment to the annual required contribution. This was due to a declining active payroll percentage contribution. The required contribution rates were determined as part of the June 30, 2009 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.55% to 14.45%; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the Miscellaneous Plan's assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Based on the actuarial valuation dated June 30, 2009, the remaining average amortization was 24 years for the Miscellaneous Plan.

Funded Status and Funding Progress – As of June 30, 2011, the most recent valuation date, the Miscellaneous Plan was 90.4% funded. The actuarial accrued liability for benefits was \$568,852,600 and the actuarial value of assets was \$513,963,229 resulting in unfunded actuarial accrued liabilities (UAAL) of \$54,889,371. The covered payroll (annual payroll of active employees covered by the plan) was \$53,699,986 and the percentage of the UAAL to covered payroll was 102.2%.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

MISCELLANEOUS PLAN, Continued:

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Pension Asset - The City prepaid its Annual Required Contributions (ARC) with proceeds from the 2007 Taxable Pension Obligation Bonds Series A and Series B (Note 7). The net prepaid pension asset was determined in accordance with the provisions of GASB Statement No. 27 and represents contributions in excess of the ARC. The pension asset is being amortized over a 30 year period. The pension asset balance at June 30, 2012 is \$30,516,606 for the Miscellaneous Plan.

The City's annual pension cost and change in the net pension asset related to the Miscellaneous Plan for the year ended June 30, 2012, were as follows:

Annual required contribution	\$ 11,610,447
Interest on beginning net pension asset	(2,620,467)
Adjustment to the annual required contribution	2,107,117
Annual pension cost	<u>11,097,097</u>
Contributions made	7,801,222
Less: annual pension cost	<u>(11,097,097)</u>
Change in pension asset	(3,295,875)
Pension asset, beginning of the year	<u>33,812,481</u>
Pension asset, end of the year	<u><u>\$ 30,516,606</u></u>

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contributions</u>	<u>Percentage of APC Contributed</u>	<u>Pension Asset</u>
6/30/2012	\$ 11,097,097	\$ 7,801,222	70%	\$ 30,516,606
6/30/2011	9,755,736	7,484,660	77%	33,812,481
6/30/2010	7,602,409	8,226,273	108%	36,083,557

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

ENHANCEMENT PLAN:

Plan Description – The City of Stockton Retirement Enhancement Plan (REP), a closed retirement plan, provides retirement benefits for Municipal Utility Department employees for the period of time they worked for OMI-Thames Water Stockton, Inc. The City of Stockton entered into an agreement with Public Agency Retirement Services (PARS) (a public sector retirement plan administrator specializing in providing public entities customized retirement plans and solutions) to contribute to a supplemental plan for employees joining or re-joining City service after having been employed between 2003 and 2008 by OMI-Thames, a private sector utility contractor. OMI-Thames employees did not earn CalPERS service credit during the period of time OMI-Thames operated the City utilities. Upon retirement, the REP benefits will supplement any CalPERS retirement for which those particular employees are eligible. Eligibility for the REP, a single-employer postemployment defined benefit plan, other than employment with OMI-Thames between 2003 and 2008, is defined as concurrent retirement with CalPERS and the City upon attaining age 55 and a minimum of 5 years of full-time continuous service with the City, with at least 1 year of continuous City service after March 1, 2008.

Funding Policy – The City is required to make contributions at an actuarially determined rate. The rate for members of the REP was 14.16% of annual covered payroll. As part of the OMI-Thames relinquishment agreement, the City pays for the entire benefit obligation. A level dollar contribution amortized over 20 years is used to determine the City contribution. The contribution requirements of the plan may be amended depending on future actuarial valuations and earnings levels.

Annual Pension Cost – For the year ended June 30, 2012, the City's REP annual pension costs were \$736,445 and the City's contributions were \$736,445. The required contribution rate was determined as part of the June 30, 2010 actuarial valuation, using the entry age normal actuarial cost method with contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses); (b) projected salary increases that vary based on years of service from 3.85% to 12.65%; (c) inflation of 3.0%; (d) payroll growth of 3.0%. The actuarial value of the REPs assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over time. The City's REPs unfunded actuarial accrued liability is being amortized as a level dollar amount over a 20 year amortization period on a closed basis. Based on the actuarial valuation dated June 30, 2010, the remaining amortization period as of June 30, 2012 was 17.67 years.

Funded Status and Funding Progress – The REP began on March 1, 2008. As of June 30, 2012, the most recent actuarial valuation date, the REP was 40% funded. The actuarial accrued liability (AAL) for benefits was \$8,346,437 and the actuarial value of plan assets was \$3,338,831, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,007,606. The covered payroll (annual payroll of active employees covered by the REP) was \$3,970,538 and the percentage of the UAAL to covered payroll was 126.12%.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

ENHANCEMENT PLAN, Continued:

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contributions</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2012	\$ 736,445	\$ 736,445	100%	\$ -
6/30/2011	736,445	842,523	114%	(106,078)
6/30/2010	729,867	623,789	85%	106,078

The following is a summary of the Net Pension Asset by pension plan at June 30, 2012:

Retirement Plans:	
Safety Plan	\$ 90,318,904
Miscellaneous Plan	30,516,606
Enhancement Plan	-
Total	<u>\$ 120,835,510</u>

11. RISK SERVICES

The City is exposed to various risks of loss related to liability torts; theft of, damage to, and destruction of assets; errors and omissions; health and medical needs of employees; and natural disasters. The City established three internal service insurance funds (General Liability, Workers' Compensation and Employee and Retiree Health Insurance funds) to account for and finance its self-insured risks of loss. Under the City's risk management program, the City retains risk for up to \$1,000,000 for each general liability claim, \$500,000 for each workers' compensation claim and \$250,000 for each medical plan member under the health benefits program. The City purchases stop loss coverage for the health benefits program from Union Labor Life Insurance Company up to a maximum of \$1,750,000 per member. The City's coverage for excess claims for general liability and workers' compensation is discussed later in this note under risk pools. The workers' compensation and health benefits programs are administered by third-party claims administrators. The general liability program is self-administered by the City of Stockton.

The City records estimated liabilities for claims filed or expected to be filed up to the amounts for which it retains risk in the Internal Service Funds, under the title, *Self-insurance claims and judgments*. Charges to the General Fund and other funds are determined from an analysis of claims costs, and are recorded as expenditures or expenses in the various funds and revenues in the internal service insurance funds. Charges for general liability and workers' compensation insurances are a percentage of payroll, and the charge for health benefits is a monthly dollar amount for all active occupied positions.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

11. RISK SERVICES, Continued

The City contracts with independent actuaries to perform an analysis of the City's potential liability for the City's retained risk portions of the various self-insurance programs. The amounts recorded as liabilities represent estimates of amounts to be paid for reported claims, as well as incurred but not reported claims based upon past experience, modified for current trends and information. For general liability and workers' compensation for the current year, the present value of estimated outstanding losses is recognized at a 70% confidence level, using a 2.49% discount rate to reflect future investment earnings. Prior to 2006, it had been the City's practice to report the undiscounted expected value of estimated unpaid claims liabilities. While the ultimate amounts of losses incurred through June 30, 2011 are dependent on future developments, based upon information provided from the City Attorney, outside counsel and others involved with the administration of the programs, the City's management believes that the aggregate accrual is adequate to recognize such losses. There have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded coverage each of the past three years. During this fiscal year the City's self-insured retention under the health benefits program was \$250,000.

Changes in the balances of the City's claims liabilities, which include incremental claims adjustments expenses, for the current and prior fiscal years, are as follows:

	General Liability	Workers' Compensation	Health Benefits	Total
Balance, June 30, 2010	\$ 5,676,000	\$ 49,705,000	\$ 4,196,000	\$ 59,577,000
Claims incurred	2,034,839	11,197,257	34,086,354	47,318,450
Claims paid	(1,223,276)	(7,593,349)	(34,202,954)	(43,019,579)
Balance, June 30, 2011	6,487,563	53,308,908	4,079,400	63,875,871
Claims incurred	2,523,401	12,494,578	30,377,122	45,395,101
Claims paid	(639,552)	(7,787,514)	(30,373,022)	(38,800,088)
Balance, June 30, 2012	<u>\$ 8,371,412</u>	<u>\$ 58,015,972</u>	<u>\$ 4,083,500</u>	<u>\$ 70,470,884</u>

Risk Pools - The City is a member of two joint powers authorities organized pursuant to California Government Code for the purpose of pooling self-insured losses, as described below.

General Liability Insurance - In 1986, the City joined with other municipalities and regional municipal joint powers authorities to form the California Joint Powers Risk Management Authority (CJPRMA), a public entity risk pool currently operating as a general liability risk management and insurance program for 22 member entities. The City's self-insured retention (SIR) is \$1 million. Losses above the City's SIR are pooled up to \$5 million per occurrence, with reinsurance in place above the \$5 million up to \$40 million. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions, physical automobile damage and certain other coverage.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

11. RISK SERVICES, Continued

The CJPRMA governing board is comprised of a representative from each member entity. All members have a single vote for policy and charter changes. An executive committee of seven is elected to handle administration. Members are assessed annual contributions based on actuarially determined rates. CJPRMA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves. Financial statements for CJPRMA for the fiscal year ended June 30, 2012 can be obtained from CJPRMA at 322 Constitution Drive, Livermore, California 94551.

Workers' Compensation Insurance - The City of Stockton has been self-funded for its Worker's Compensation Program since 1979. In July 2003, in an effort to stabilize and control its costs of access to workers' compensation coverage, the City joined California Public Entity Insurance Authority (CPEIA), a public entity risk pool which operated an Excess Workers' Compensation (EWC) Program. CPEIA has since merged into an existing authority known as California State Association of Counties Excess Insurance Authorities (CSACEIA). The City's self-insured retention is currently set at \$500,000 per occurrence. Losses above the City's SIR are pooled up to \$4 million per occurrence by the Authority.

CSACEIA was formed in 1979 by 29 California counties for the purpose of pooling risk and providing a viable and cost effective solution for the counties' insurance and risk management needs. It has since expanded to allow admittance from cities and other entities and currently includes 93% of the counties in California, nearly 61% of the cities, as well as, numerous school districts, special districts, housing authorities and other Joint Powers Authorities.

Property Protection - The City participates in CJPRMA's All Risks Property Protection Program, which is primarily underwritten by a casualty insurance company. The Program provides \$10 million per occurrence in coverage to participating members, subject to a deductible of \$25,000. Premiums, which are negotiated each year, are based on property values and are not subject to retroactive adjustments.

12. POSTEMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits through CalPERS, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and various employee bargaining units.

Plan Description - The City of Stockton's Retiree Healthcare Plan (RHP) is a single-employer defined benefit healthcare plan administered by Delta Health Systems of Stockton, California. All City management and public safety employees who receive a CalPERS retirement allowance upon separation are eligible for coverage under the RHP at age 50. Other miscellaneous employees who receive a CalPERS retirement allowance and have 15 or more years of service are eligible for coverage at age 50. Some employees, retired for disability, may qualify at a younger age. Employees retired for disability must be covered under a medical plan of the City and be eligible to receive monthly pension for CalPERS Disability Retirement. However, disability retirement is not available to other miscellaneous employees. Currently, 1,095 retirees meet these eligibility requirements and participate in the Plan.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

12. POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

Funding Policy - The contribution requirements are paid by City departments and are based on amounts established in the City's Annual Budget. For the 2011/12 year, the City's contributions were financed on a pay-as-you-go basis. During the year, expenditures of approximately \$14,327,000 were recognized for payment of post-employment health care benefits. Most retirees do not contribute to the plan. Retirees who exhaust their City-paid benefit before reaching age 65 can purchase coverage until they reach age 65. Those that qualify for City paid benefits may purchase coverage for additional dependents not covered by the City's contribution to the RHP.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The components of the City's annual OPEB cost, contributions to the plan, and changes in the City's net OPEB obligation for the year ended June 30, 2012 were as follows:

Annual required contribution (ARC)	\$ 32,136,000
Interest on net OPEB obligation	4,765,000
Adjustment to the annual required contribution	(4,927,000)
Annual OPEB cost (AOC)	<u>31,974,000</u>
Contributions made	(14,327,000)
Increase in net OPEB obligation	<u>17,647,000</u>
Net OPEB Obligation at June 30, 2010	105,887,000
Net OPEB Obligation at June 30, 2011	<u><u>\$ 123,534,000</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the year ended June 30, 2012 are as follows:

Fiscal Year	Annual OPEB Cost (AOC)	Percentage of Annual OPEB Contributed	OPEB Obligation
6/30/2012	\$ 31,974,000	45%	\$ 123,534,000
6/30/2011	42,977,000	30%	105,887,000
6/30/2010	40,891,000	34%	75,854,000

Funded Status and Funding Progress - As of June 30, 2011 (the most recent actuarial valuation date), the actuarial accrued liability for benefits was \$416,737,585 and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$416,737,585. The covered payroll (annual payroll of active employees covered by the plan that included data through June 30, 2011) was \$102,040,120 and the ratio of the UAAL to the covered payroll was 408.41%.

12. POSTEMPLOYMENT HEALTH CARE BENEFITS, Continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) 4.5% investment rate of return on the City's pooled investments, (b) 3.0% general inflation assumption, (c) 3.25% projected salary increase and (d) healthcare cost trend rate of 9.3% for members who are also covered by Medicare and 9.0% for non-Medicare members. The healthcare cost trend rate was reduced by decrement to an ultimate rate of 5.0% after 8 years for both groups. The UAAL is being amortized as a level percentage of projected payroll over 30 years on a closed basis. The remaining amortization period at June 30, 2012 is 25 years.

13. POLLUTION REMEDIATION OBLIGATIONS

GASB Statement No. 49 requires the former Agency, now Successor Agency, to report a pollution remediation liability upon the occurrence of an obligating event, such as being compelled by a regulatory agency or legal action to cleanup existing pollution. The liability is estimated based on the expected future cash flows technique (i.e., the sum of the probability-weighted amounts in a range of possible estimated amounts). Only components of the liability (e.g., site assessment, site investigation, corrective measures feasibility study, remediation design, remediation operations and maintenance, and post-remediation monitoring) which can be reasonably estimated are included in the estimated liability. Expected recoveries from insurers and other responsible parties reduce the estimated liability.

Actual pollution remediation costs may vary from the estimated liability for many reasons, including changes in pollution laws and regulations, technology used for the cleanup, the remediation plan or operating conditions, prices of products and services.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

13. POLLUTION REMEDIATION OBLIGATIONS, Continued

The former Agency, now Successor Agency, has identified six sites along the Stockton channel that are designated "Brownfields" by the U.S. Environmental Protection Agency (EPA), with the goal of revitalizing contaminated properties that the Successor Agency currently owns in the area near Stockton's downtown waterfront in the Waterfront Redevelopment Project Area. The following are details of each of the six Successor Agency-owned contaminated sites, including a description of the pollution, the obligating event requiring remediation action, estimable remediation costs components, and recoveries by responsible parties. Details of the liabilities as of June 30, 2012 are also discussed.

In order to provide clarification of the following discussion, the California Polanco Redevelopment Act (AB 3193, Chapter 1113, Statutes of 1990, Polanco), part of the Community Redevelopment Act, was enacted by the California legislature to assist redevelopment agencies in responding to brownfield properties in their redevelopment areas. It prescribes processes for redevelopment agencies to follow when cleaning up a hazardous substance release in a redevelopment project area. It also provides immunity from liability for redevelopment agencies and subsequent property purchasers for sites cleaned up under a cleanup plan approved by the California Department of Toxic Substances Control (DTSC) or a Regional Board.

The following provides a discussion of the six identified brownfield sites of the Successor Agency:

Area 1 (Southpointe) – Soil and groundwater contamination has been identified in Area 1 associated with historic railroad lines and underground petroleum storage tanks and pipelines. The obligating events for this site stem from a Polanco agreement notice issued to the responsible party associated with the soil contamination, and the Agency encountering groundwater contamination as part of the planned development of the site. Estimable costs are for consultant, legal and City personnel costs for cleanup of the site. Ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2012 was \$896,978, which included reasonably estimable recovery of costs by the responsible parties.

Area 2A-Unocal – Soil and groundwater contamination has been identified in Area 2A-Unocal associated with total petroleum hydrocarbons, volatile and semi-volatile organic compounds. The obligating event for this site stems from a Polanco agreement notice issued to the responsible party, currently in negotiation for settlement. Estimable costs are for consultant, legal and City personnel costs for cleanup of the soil contamination, and pre-cleanup and investigative study of the site relative to the groundwater contamination. Future groundwater cleanup and ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2012 was \$403,101, which included reasonably estimable recovery of costs by the responsible party.

13. POLLUTION REMEDIATION OBLIGATIONS, Continued

Area 2A-Morton/Alco – Groundwater contamination has been identified in Area 2A-Morton/Alco associated with total petroleum hydrocarbons, volatile and semi-volatile organic compounds. The Agency has entered into a Polanco agreement with the Regional Water Quality Control Board for remediation action. Estimable costs are for consultant services and City personnel costs for pre-cleanup and investigative study of the site relative to the groundwater contamination. Future groundwater cleanup and ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2012 was \$466,910, which included reasonably estimable recovery of pre-cleanup and investigative study costs by the responsible party.

Area 3, Area 4 and Area 24 – Soil and groundwater contamination has been identified in Area 3, Area 4 and Area 24 associated with total petroleum hydrocarbons and metals emanating from the French drains along the railroad spurs on the site. The Agency has entered into a voluntary cleanup agreement with the California Department of Toxic Substances Control (DTSC) for oversight of lead contamination on the property. A soil management plan was completed for lead and a deed restriction was placed on the property limiting it to commercial and industrial land uses. A voluntary cleanup agreement has been completed with the Central Valley Regional Water Quality Control Board (CVRWQCB) related to petroleum contaminated soil and groundwater that emanated from the French drains. The Agency is currently under discussions with the state DTSC and the CVRWQCB regarding the appropriate agency to enter into a Polanco agreement to access sub-surface conditions in Areas 3, 4, and 24.

Estimable costs include consultant, legal and City personnel costs for cleanup of the sites and for post-remediation/monitoring. The net pollution remediation liability for Area 3 and Area 4 includes reasonably estimable recovery of post-remediation/monitoring costs by the responsible parties. The net liability of Area 3 as of June 30, 2012 is (\$67,600) which included reasonably estimable recovery of costs by the responsible party and adjustments in the estimate during fiscal year 2011 for corrective measures, feasibility study and remediation design, offset by a revised estimate of the recovery by the responsible parties. A net recovery is expected due to expenditures incurred by the Agency during fiscal year 2011. The net liability for Area 4 at June 30, 2012 remains at \$55,000. The net pollution remediation liability for Area 24 as of June 30, 2012 was \$137,507, which included reasonably estimable recovery of costs by the responsible party.

The total estimated net pollution remediation liability for the six sites in the amount of \$1,891,896, which included reasonably estimable recovery of costs by the responsible parties, is reported in the Successor Agency as of June 30, 2012. During the year ended June 30, 2012, the Agency incurred \$837 in related pollution remediation outlays and adjustments to future outlays, and recoveries for the polluted sites.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

14. INDIVIDUAL FUND DISCLOSURES

A. Deficit Fund Balances

At June 30, 2012, the following funds had net assets or fund balance deficits:

Fund	Fund Type	Deficit
Stockton Public Financing Authority	Non-Major Governmental - Special Revenue Fund	\$ (14,862,284)
Successor Agency to the Redevelopment Agency	Private-Purpose Trust Fund	\$ (72,539,513)
General Liability Insurance	Internal Service Fund	\$ (4,919,508)
Workers' Compensation Insurance	Internal Service Fund	\$ (43,994,920)
Employee and Retiree Health Insurance	Internal Service Fund	\$ (124,983,176)
Retirement Benefits	Internal Service Fund	\$ (3,084,169)

- The Stockton Public Financing Authority Debt Service Fund has a deficit fund balance of (\$14,862,284) as of June 30, 2012 due to the reclass of the (\$19,141,192) Howard Jarvis settlement pertaining to the Water and Wastewater Enterprise Funds into the Fund in 2010-11. The liabilities were previously recorded in the General Fund (\$7,502,935) and Capital Improvement Fund (\$11,638,257). The General Fund and Capital Improvement Fund are to transfer monies to the SPFA to pay the settlement.
- The Successor Agency to the City's Redevelopment Agency (private-purpose trust fund) has an accumulated deficit fund balance of (\$72,539,513) as of June 30, 2012. This is a result of the transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds. The deficit is resulted from an extraordinary loss realized primarily from outstanding long-term debt in excess of long-term assets transferred to the Successor Agency (Note 16).
- General Liability Insurance Fund has an accumulated deficit fund balance of (\$4,919,508) as of June 30, 2012. The City has historically budgeted revenues and projected on a cash basis. Contributions to cover claims expenditures are based on a percentage of payroll based upon city-wide loss experience. As a result, contributions have been insufficient to cover the outstanding claims liabilities. On an accrual basis of accounting, the Fund has a long-term liability of (\$5,332,213) for claims and judgments while the cash balance of the fund as of June 30, 2012 is \$2,551,210. Currently the rates are proposed to cover anticipated annual cash flow, and have not been increased to cover the actuarial value of losses for the year or to address past funding deficits.
- The Workers' Compensation Insurance Fund has an accumulated deficit fund balance of (\$43,994,920) as of June 30, 2012. The City has historically budgeted revenues and projected expenditures in the Fund on a cash basis. Contributions to cover claims expenditures are based on a percentage of payroll based upon city-wide loss experience. As a result, contributions have been insufficient to cover the outstanding claims liabilities. On an accrual basis of accounting, the Fund has a long-term liability of (\$48,148,911) for claims and judgments while the cash balance of the fund as of June 30, 2012 is \$4,312,691. The City has increased rates in Fiscal Year 2012-13 to help fund the accumulated deficit over time.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

14. INDIVIDUAL FUND DISCLOSURES, Continued

A. Deficit Fund Balances, Continued

- The Employee and Retiree Health Insurance Fund has an accumulated deficit fund balance of (\$124,983,176) as of June 30, 2012. The City budgets revenues and projects expenses in the on a cash basis. On an accrual basis of accounting, the Fund has a long-term liability for Other Postemployment Benefits (OPEB) of (\$123,534,000) and an operating loss of (\$30,812,071) due to the increase in the OPEB accrual. The Fund had a cash balance of \$2,747,099 as of June 30, 2012. As part of the City's pendency plan filed under Chapter 9 bankruptcy, the City Council has authorized the discontinuance of the retiree health benefits to be phased in over a two year period beginning in Fiscal Year 2012-13. This action was taken to reduce or eliminate the unfunded OPEB liability and restore the Fund's financial health.
- The Retirement Benefits Fund has an accumulated deficit fund balance of (\$3,084,169) as of June 30, 2012. The City budgets revenues and projects expenses in the on a cash basis. On an accrual basis of accounting, the Fund has a long-term liability for Pension obligation bonds of (\$123,350,000). The Fund had a cash balance of \$1,287,980 as of June 30, 2012.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

15. PRIOR PERIOD ADJUSTMENTS

A. Fund Financial Statements - Proprietary

On July 1, 2012, the City recorded the following prior period adjustments to the following proprietary funds:

	Water Utility	Total Enterprise Funds
Fund Balances, as Previously Reported	\$ 144,980,185	\$ 508,795,989
Correction of Errors:		
Capitalized interest on constructed assets	9,900,298	9,900,298
Total	<u>9,900,298</u>	<u>9,900,298</u>
Fund Balances, as Adjusted	<u>\$ 154,880,483</u>	<u>\$ 518,696,287</u>

Water Fund

On July 1, 2012, the Water Fund recorded an adjustment of \$9,900,298 to capitalize construction period interest relating to the Delta Water Supply Project.

B. Government-Wide Financial Statements

In addition to the prior period adjustments recorded in the Fund Financial Statements, the City recorded the following additional prior period adjustments in the Government-Wide Financial Statements:

	Fund Balances, as Previously Reported	Corrections of Errors	Fund Balances, as Restated
Governmental Activities	\$ 598,623,334	\$ -	\$ 598,623,334
Business-Type Activities	508,795,989	9,900,298	518,696,287
Total	<u>\$ 1,107,419,323</u>	<u>\$ 9,900,298</u>	<u>\$ 1,117,319,621</u>

Accordingly, net assets were restated as follows:

Business-Type Activities

Business-Type activities adjustments of \$9,900,298 are the same as those recorded in the Proprietary Enterprise Funds as there were no eliminations between Proprietary Funds and the Government-Wide Financial Statements (Note 14 A).

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

16. EXTRAORDINARY ITEM

A. *Dissolution of the Redevelopment Agency of the City of Stockton*

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the bill”) that provided for the dissolution of all redevelopment agencies in the State of California. The bill provided that upon dissolution of the Redevelopment Agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On August 23, 2011, the City Council elected to become the Successor Agency for the former Redevelopment Agency in accordance with the bill as part of City resolution number 11-0251.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. In the event that the California Department of Finance ultimately maintains that the obligations are not enforceable, the City’s legal counsel believes that it is likely that a legal determination will be made at a later date by an appropriate judicial authority that will resolve this issue favorably to the City and confirm the obligations as enforceable.

In accordance with the timeline set forth in the bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported as a Special Item in the governmental funds as an extraordinary gain in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary gain recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the fiduciary fund financial statements. This difference is primarily due to long-term debt in excess of long-term assets transferred to the Successor Agency.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

16. EXTRAORDINARY ITEM, Continued

A. Dissolution of the Redevelopment Agency of the City of Stockton, Continued

The difference is reconciled as follows:

	As of January 31, 2012
Extraordinary gain reported as Special Item in governmental funds related to transfer of assets and liabilities to Successor Agency upon dissolution:	\$ 24,319,177
Reconciliation of extraordinary gain reported as Special Item in the governmental funds to the net increase in net assets of the Successor Agency Trust Fund:	
Low-Moderate Income Housing City Loans retained by the City	(2,995,331)
Capital assets (net of accumulated depreciation) reported in the government-wide financial statements	32,640,965
Issuance costs reported in the government-wide financial statements	2,665,401
Accrued bond interest reported in the government-wide financial statements	(2,251,890)
Long-term debt and premium reported in the government-wide financial statements	(127,835,934)
Pollution remediation reported in the government-wide financial statements	(1,892,733)
Net loss to net assets of the Successor Agency Trust related to transfer of assets and liabilities to Successor Agency upon dissolution	\$ (75,350,345)

17. COMMITMENTS AND CONTINGENCIES

Contingent Liability - Pending Litigation

Various claims and legal actions are pending against the City, some of which have a reasonable possibility for an unfavorable outcome. These legal actions involve property, personal injury, and civil rights claims. GASB Statement No. 62 requires disclosure of pending litigation for which a contingency is reasonably possible and the amount reasonably estimable. Amounts for the above mentioned claims, that are not reasonably estimable at this time, have not been included in the financial statements. Management believes that ultimate disposition of these matters will not have a material adverse effect on the City's financial position or results of operations.

The final total cost for the construction of the City's Delta Water Supply Project is estimated to be approximately \$221.5 million. Preston Pipelines Inc., a firm that worked on the DWSP, has filed a lawsuit against the City in September 2013 seeking an additional approximately \$3.5 million for extra work on one of the pump station facilities. The City filed a cross-complaint against Preston Pipelines Inc. alleging over \$500,000 in liquidated damages. The mediation for this legal action is set for February 2014.

The City is self-insured and participates in two public entity risk pools. Details of this are covered in Note 11.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

17. COMMITMENTS AND CONTINGENCIES, Continued

Police Department Labor Agreements

In 2010, the City Council enacted Resolution No. 10-0166 that declared a state of emergency based on fiscal circumstances, and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget for fiscal year 2010-11. On June 22, 2010, the City Council approved resolutions 10-0200 and 10-0201 adopting emergency measures affecting the terms and conditions of labor agreements for sworn employees in the Police departments. The emergency measures temporarily suspended scheduled pay increases from taking effect during fiscal year 2010-11, as scheduled by labor agreements with the police union. Additional concessions were also imposed as part of the adoption of the fiscal year 2011-12 adopted budget in order to balance the City's budget and the fiscal emergency declaration was continued. As a result of the adoption of the fiscal emergency declaration and measures, the Stockton Police Officers Association ("SPOA") initiated grievance claims for some of the disputes that could have led to arbitration actions against the City.

Subsequently the City filed for bankruptcy on June 28, 2012 after a mandatory mediation period under AB 506 with SPOA, the City's other labor groups and creditors. SPOA filed claims in the bankruptcy case relating to the modification of its 2009 Memorandum of Understanding ("MOU") under the declarations of fiscal emergency and asserted that the claims exceeded \$13 million. The City disputed whether the claims were allowable in chapter 9 and, if so, that the amount would be less than \$13 million. The City reached agreement with the SPOA in mediation after filing for bankruptcy. As part of the MOU adopted by the City Council on December 11, 2012 and effective July 1, 2012, the City and SPOA agreed that the claim allowed in chapter 9 would be \$8.5 million, and in return SPOA members would receive 22 additional hours of paid leave. Those SPOA employees who were employed during some portion of the period July 1, 2010 through July 1, 2012 and who were still current employees as the date of agreement would be eligible for the additional hours. The 22 hours would be credited ratably over two years. The first 11 hours in the year the Plan is approved, and the balance in the following fiscal year.

In the event the Plan is not confirmed, the claims are considered as unresolved and each party reserves the right to assert or dispute claims. The term of the current MOU with SPOA is July 1, 2012 through June 30, 2014.

Capital Commitments

The City is undertaking a number of capital improvement projects, the most significant of which include the following capital project commitments outstanding at June 30, 2012:

	<u>Amount</u>
Arch/Sperry Roadway Extension	\$ 17,264,221
Eight Mile Road/UPRR West Sep.	5,826,324
Eight Mile Road/UPRR (E) Grade Sep.	5,736,394
Developer reimbursements	5,598,041
French Camp/Sperry Road/Performance	3,842,333
Lower Sacramento Road Widening/UPRR	3,513,320
Total capital project commitments	<u>\$ 41,780,633</u>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

17. COMMITMENTS AND CONTINGENCIES, Continued

Operating Leases

Operating lease obligations are primarily for rental of parking facilities space, but other lease obligations are included. The future minimum lease payments required for those operating leases are as follows:

Year Ended		Amount
June 30,		
2013	\$	230,815
2014		242,355
2015		254,473
2016		267,196
2017		280,556
2018-2022		1,627,757
2023-2027		2,077,470
Total	\$	<u>4,980,622</u>

Encumbrances

The City utilizes encumbrance accounting as a means of controlling expenditures. Under this method, funds are encumbered when purchase orders, contracts and other commitments are signed or approved by authorized City officials. Such outstanding commitments at year-end do not constitute expenditures or liabilities.

GASB Statement No. 54 provides additional guidance on the classification within the fund balances section of amounts that have been encumbered. Encumbrances of balances within the governmental funds are classified as either nonspendable, committed, restricted or assigned and are included in the respective functional categories. These encumbrances are not separately classified in the financial statements, and are summarized at June 30, 2012 as follows:

	Amount
General Fund	\$ 1,434,721
Public Facility Impact Fees	\$ 8,526,115
Capital Improvements	\$ 20,650,986
Redevelopment Agency	\$ 1,342,299
Other Governmental	\$ 24,418,389

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

17. COMMITMENTS AND CONTINGENCIES, Continued

Facilities Management Agreement

On January 25, 2011, the Stockton City Council approved a Facilities Management Agreement (Agreement) with SMG for providing operation management and marketing services to the City for the Stockton Events Center, which includes a multi-purpose indoor arena and a baseball park, the Events Center common areas, the Bob Hope Theatre and the Oak Park Ice Arena. The Agreement was entered into upon termination of the agreement with International Facilities Group (IFG), which had been managing the Arena venue since 2004.

SMG is responsible for operating these facilities in keeping with the management goals set and approved each year by the City Council, with the overarching goal of having the facilities operating revenues exceed the respective operating expenses.

The Agreement is for a period of five years commencing in 2011, and may be renewed at the option of the City for one additional five-year period. Either party may terminate the Agreement for cause during the agreement period due to a material breach by the other party or for default. Beginning in 2014, the City may terminate the Agreement without cause.

SMG is required to provide various fidelity and performance bonds, which includes various types of coverage in the amount of \$1,000,000. This coverage extends to the areas of: Commercial General and Automobile Liability, Professional Errors and Omissions, Crime, Employment and Worker's Compensation. Additionally, there is an Umbrella Liability coverage requirement of \$5,000,000.

Compensation to SMG is determined from a base fee for all venues, plus performance based compensation, as defined in the Agreement. Both of these components are eligible for periodic adjustments based on the consumer price index (CPI).

Financial activities of the service organization is combined with and reported in the General Fund.

Federal and State Grant Programs

The City participates in a number of state and federal grant programs that are subject to financial and compliance audits by the grantors. Audits of certain grant programs for or including the year ended June 30, 2012, have not yet been conducted or completed. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, management does not believe that any audit disallowances would have a material effect on the financial position of the City.

State Controller's Office to Review Transfers From Agency to City Executed After January 1, 2011

Section 34167.5 of the Bill authorizes the State Controller to review transfers of assets from redevelopment agencies to the City that occurred after January 1, 2011. As a result of that review the State Controller has ordered that the City return transferred assets in the amount of \$1.3 million back to the Successor Agency. The City disagrees with the Controller's position and plans to vigorously defend its position in this matter.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

18. CHAPTER 9 BANKRUPTCY

On May 26, 2010, the City Council declared a state of emergency based on fiscal circumstances and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget for fiscal year 2010-11, which was accomplished. The City's fiscal health continued to deteriorate in fiscal years 2010-11 and 2011-12 despite various cost cutting measures the City implemented. As a result, the fiscal emergency was continued on May 17, 2011 and February 28, 2012, along with Council authorization for the City Manager to enter into the measures specified in California Assembly Bill 506 (AB 506). By participating in the AB 506 process, the City hoped that discussions with creditors would yield concessions relating to the City's obligations. While progress was made with some creditors, sufficient progress was not made to avoid insolvency, thereby leading the City to file a petition for chapter 9 bankruptcy relief on June 28, 2012. The Bankruptcy Judge appointed a mediator for the City and its largest creditors during the bankruptcy process to work towards a plan of adjustment.

The City was current on all debt payments for fiscal year 2010-11. On February 28, 2012, the Council approved suspending payment on three bonds, with payments due at various times prior to the end of the fiscal year 2011-12, to preserve General Fund cash and attempt to avoid insolvency. Accordingly, the City entered into default on the following debt obligations, beginning in fiscal year 2011-12:

- 2004 Series Lease Revenue Bonds of the Stockton Public Financing Authority (Parking and Capital Projects)
- 2007 Series A and B Variable Rate Demand Lease Revenue Bonds (City Admin Building)
- 2009 Series A Lease Revenue Refunding Bonds (Capital Improvement Bonds)

Subsequently, the City adopted a Pendency Plan on June 26, 2012, under which it operated for fiscal year 2012-13. Payments of principal and interest for General Fund debt obligations not required for the City to operate were suspended, pending the outcome of the bankruptcy process. The City's bankruptcy filing and Pendency Plan notified creditors that the City would enter into default on the following debt and contractual obligations beginning in fiscal year 2012-13 in addition to the ongoing default on the three issues listed above:

- 2003 Series A and Series B Certificates of Participation (Redevelopment Housing Program)
- 2007 Series A and B Pension Obligation Bonds
- California Department of Boating & Waterways (Stockton Downtown Marina)
- Howard - Jarvis Settlement
- Marina Towers

As a result of the defaults but prior to bankruptcy, certain creditors exercised their default rights and remedies to security and petitioned the courts to take possession and control of the assets backed by the debt obligations. These possessory interests in the assets were granted to the creditors and included three downtown parking structures (securing 2004 Series Lease Revenue Bond) and 400 East Main Street, the City Administration Building (securing 2007 Series A and B Variable Rate Demand Lease Revenue Bonds).

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

18. CHAPTER 9 BANKRUPTCY, Continued

Several City creditors challenged the City's eligibility to be a Chapter 9 debtor shortly after the City filed for bankruptcy. After a nearly nine month discovery and mediation process and a three day trial, the United States Bankruptcy Court Judge on April 1, 2013 ruled the City had negotiated in good faith, was insolvent and that it was eligible for Chapter 9 bankruptcy protection. Prior to the ruling, the city had reached agreement with all of its labor unions, one bond insurer and its retirees. The City has continued to mediate with the remaining creditors since the eligibility trial with the court appointed mediator. Tentative agreements have been reached with the majority of the City's major creditors and have been incorporated into the proposed plan of adjustment, which was filed October 10, 2013 with the United States Bankruptcy Court. Since the filing of the plan of adjustment, one creditor has filed a challenge to the plan of adjustment. Though the outcome of the bankruptcy and any challenges the City may receive is uncertain, management is continuing to proceed towards confirmation of the plan of adjustment with its creditors. A status conference is scheduled for November 18, 2013 and the City anticipates the Plan will be set for trial in early 2014.

On July 9, 2013, the Stockton City Council unanimously approved placing a three quarter (3/4) cent sales tax on a November 5, 2013, Special Election ballot. Measures A and B were passed by voters on November 5, 2013 and will go into effect, April 1, 2014. Measure B is a non-binding advisory measure, on the same ballot as Measure A. Measure B provided an opportunity for voters to express an opinion about how the money from the Measure A sales tax will be used. Measure B requires the approval of a majority of those casting votes. Because this is a general tax, the City may legally use tax funds for service restoration. City Council has indicated it will use the tax to increase law enforcement with the hiring of an additional 120 police officers, increase crime prevention services such as those described in Stockton's Marshall Plan on Crime, replenish reserves to prepare for the next recession, restore funds for technology and equipment replacement, fund our bankruptcy exit plan, and any other legal purpose.

Measure A is projected to raise approximately \$6.8 million in the fiscal year ending June 30, 2014. It is anticipated that the City would realize a benefit of approximately \$28 million per year in the first full fiscal year, July 1, 2014 through June 30, 2015, and in each future fiscal year.

The aggregate gain expected to occur by re-measuring liabilities subject to the proposed Plan of Adjustment and contingent claims are not able to be reasonably measured or estimated, given that settlements with all creditors has not been reached and the Plan will not be heard by the U.S. Bankruptcy Court until early 2014. The Plan of Adjustment does not contemplate termination of services, discontinuance of operations, or termination of the City.

The full Plan of Adjustment can be found on the City's website at:
<http://www.stocktongov.com/government/departments/manager/bankruptcy/default.html>

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions through the date of the financial statements require adjustment to or disclosure in the financial statements as follows:

A. Defaults on Successor Redevelopment Agency Debt

On September 1, 2013, due to significant reductions in assessed values throughout the various project areas and the former housing set-aside, the Successor Agency to the City of Stockton defaulted on the following obligations:

- City of Stockton, Certificates of Participation (Redevelopment Housing Projects) Series 2003A and Taxable Series 2003B
- Redevelopment Agency of the City of Stockton, Revenue Bonds, Series 2004 (Events Center - Arena Project)
- Stockton Public Financing Authority, Revenue Bonds (Redevelopment Projects), 2006 Series A

Cash held in reserve with the Fiscal Agent was used to make the principal and interest payments to bondholders in September 2013.

B. Elimination of City Contribution for Post-Retirement Health Benefits for Retirees and Current Employees

In connection with the City's filing for bankruptcy protection under Chapter 9, the City adopted a pendency plan budget for fiscal year 2012-13 which included several measures and cost reductions to close a \$26.0 million shortfall to balance the budget. Of these reductions, the City effective July 1, 2012 reduced the City's contribution towards the cost of retiree medical for current and future retirees to a fixed dollar amount depending upon years of service to the city and retirement status. This resulted in approximately \$7.7 million in total annual budget savings for the City's general fund. Effective July 1, 2013, the City completely eliminated its contribution for all retiree medical benefits for current retirees and employees. This is anticipated to result in an additional increase in total annual budget savings from \$7.7 to \$9.5 million. The City's retirees are creditors in the bankruptcy case and have been in mediation with the City. A tentative settlement of the retirees' claims in the amount of \$5.1 million has been negotiated and approved but is subject to bankruptcy court approval.

The total outstanding OPEB obligation as of June 30, 2012 and 2011 for the City was \$123,534,000 and \$105,887,000, respectively. Until a final settlement is reached with all creditors and/or until the final plan of adjustment is confirmed by the bankruptcy court, this amount will not be adjusted under GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Once a plan is confirmed, any gain as a result of a reduction in this liability will be recognized as of that date in the statement of revenues, expenses and changes in net assets as an extraordinary item.

C. AMBAC Assurance Corporation Settlement

Ambac Assurance Corporation ("Ambac") is the insurer for the Series 2003A and B Certificates of Participation (Note 7A) that were issued to finance affordable housing projects within the City, including the Hotel Stockton and Gleason Park. This financial obligation was entered into by the Redevelopment Agency and the City agreed to pay from other eligible funding sources such as the General Fund in the event of a debt service shortfall. With the State dissolution of Redevelopment

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

19. SUBSEQUENT EVENTS, Continued

D. AMBAC Assurance Corporation Settlement, continued

Agencies in February 2012, the City became the Successor Agency that is ultimately responsible for managing the obligations of the former Redevelopment Agency. Through the fiscal year ending June 30, 2012, all debt service payments were made on the 2003 COPs which are insured by Ambac. In March 2013, the City negotiated a Settlement Agreement (the "Agreement") with Ambac relating to the COPs debt obligation. The Agreement was approved by the United States Bankruptcy Court in April 2013, and though subject to the City completing an approved plan of adjustment, is not dependent on a confirmed plan of adjustment. The City is operating under the approved terms of the Settlement Agreement subsequent to April 2013. With a reduction in funds available from the former Redevelopment Agency Housing Reimbursement Agreement due to lower property tax increment revenues, debt service reserve funds were used in September 2013 to make the debt service payments under the terms of the Settlement Agreement.

Significant terms of the Agreement are summarized below:

- General fund of the City has its annual liability capped at 80.5% of annual debt service. Under the Agreement, to the extent that Set Aside revenues are insufficient to cover scheduled debt service, debt service reserves will continue to be used, and as resources are available, be replenished. Should reserve funds become depleted, the General Fund will provide resources to a level of 80.5% of scheduled debt service. Any amounts not paid become a separate obligation to be paid as Set Aside revenues permit.
- The City shall reimburse Ambac and the Trustee for the fees and expenses incurred through the date of the Agreement, in the amount of \$240,000, as Set Aside revenues permit.
- The Redevelopment Housing Set aside revenues are pledged toward repayment of the 2003 COPs and any monies paid by Ambac.
- The City shall cause the Successor Agency to work with Ambac to agree upon a list of properties which will be sold to satisfy outstanding obligations of the successor Agency, potentially providing coverage for any shortfalls that may arise and be paid by Ambac.
- The term of the bonds was extended from 2033 to 2048, in the event that the City incurs shortages that have not been made up by the time the original debt service schedule has been completed.

E. Remarketing of \$55,000,000 Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A

On August 13, 2013, the City Council and Stockton Public Financing Authority ("Authority") authorized the remarketing under the terms of the remarketing agreement for the conversion of \$55,000,000 Variable Rate Demand Water Revenue Bonds, Series 2010A ("2010A Bonds") from a variable rate of interest to a fixed rate of interest through the final term of the Bonds (October 1, 2040). The remarketing of the bonds is approved up to a maximum interest rate not to exceed 6.75%.

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

19. SUBSEQUENT EVENTS, Continued

E. Remarketing of \$55,000,000 Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A, continued

Concurrently with such Conversion, modification of certain terms of the Bonds, the Indenture, and the Installment Purchase Contract will be made. Upon the remarketing of the bonds, there will be a mandatory tender of the existing outstanding bonds on the date of the conversion, under a bond purchase contract among the remarketing agent, the Authority and the City. This transaction is scheduled to close on November 22, 2013 prior to the expiration of the Union Bank Letter of Credit (Note 7B).

F. Bond Rating Changes

On September 5, 2013, Fitch upgraded the ratings on the following obligations from "BB+" to "BBB".

- Stockton Public Financing Authority, Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project)
- Stockton Public Financing Authority, 2005 Water Revenue Bonds, Series A

On September 5, 2013, Fitch upgraded the ratings on the following obligations from "BB+" to "BBB-".

- Stockton Public Financing Authority, Water Revenue Bonds, Series 2009A (Delta Water Supply Project)
- Stockton Public Financing Authority, Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project)

On October 14, 2013, Moody's downgraded the ratings on the following obligations from "Caa3" to "Ca".

- City of Stockton 2007 Taxable Pension Obligation Bonds, Series A
- City of Stockton 2007 Taxable Pension Obligation Bonds, Series B

On October 25, 2013, Standard and Poor's upgraded the ratings on the following obligations from "C" to "CC".

- Redevelopment Agency of the City of Stockton 2004 Revenue Bonds (Stockton Events Center- Arena Project)
- 2003 City of Stockton Certificates of Participation, Series A and Series B
- Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A

On November 25, 2013, Standard and Poor's upgraded the ratings on the following obligations from "BB+" to "BBB+".

- Stockton Public Financing Authority, Water Revenue Bonds, Series 2009A (Delta Water Supply Project)
- Stockton Public Financing Authority, Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project)

City of Stockton
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

19. SUBSEQUENT EVENTS, Continued

F. Bond Rating Changes, Continued

On November 25, 2013, Standard and Poor's upgraded the ratings on the following obligations from "BB+" to "A-".

- Stockton Public Financing Authority, 2005 Water Revenue Bonds, Series A
- Stockton Public Financing Authority, Water Revenue Bonds, Series 2010A (Delta Water Supply Project)*

*Upon the conversion of the 2010A Bonds (Note 19E) .

G. GASB Statement No. 68, Accounting and Financial Reporting for Pension Plans

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Management is evaluating the impact of the adoption of this standard on the financial statements and believes that its impact, when adopted, may be material to the City. The standard will be implemented effective with the fiscal year 2014-2015 financial statements.



CITY OF STOCKTON



REQUIRED SUPPLEMENTARY INFORMATION

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

1. BUDGETARY INFORMATION

Budget Process

- In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. Total appropriations shall not exceed the total of estimated revenues, estimated unencumbered balances of funds to be carried over from the preceding year and unencumbered available fund balances. The General Fund, HOME Program Loans Special Revenue Fund, Low-Moderate Income Housing RDA Loans Special Revenue Fund and certain nonmajor special revenue funds (Solid Waste and Recycling, Gas Tax, Measure K Streets Sales Tax, Measure W Public Safety Sales Tax, Special Assessments, Development Services, and Other Special Revenue) and certain capital projects funds (Public Facilities Impact Fees and Capital Improvement) have legally adopted annual budgets. Prior to July 1, the original adopted budget is legally enacted through the passage of a resolution by the City Council. In the event this does not occur, the City Manager's draft budget is in force until a budget is adopted by the City Council.
- Enterprise and internal service funds are accounted for on a cost of service (net income) or capital maintenance measurement focus. The City is not legally mandated to report the results of operations for these fund types on a budgetary comparison basis; therefore, budgetary data related to these funds has not been presented.
- If expenditures exceed appropriations at the department level for the General Fund or at the fund level for all other funds, the City Manager is authorized to transfer budgeted amounts between line items within any fund. During the year, the City Council approves supplemental appropriations and, by resolution, has also authorized the City Manager to transfer fund balances to applicable appropriation accounts, or to transfer between funds, when necessary to continue purposes approved by the City Council in the current year, adopted budget, or subsequent action. Amounts reported as final budget in the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - On a Budgetary Basis include amendments authorized throughout the year.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and certain special revenue and capital projects funds. Formal budgetary integration is not employed for the debt service funds because effective budgetary control is alternatively achieved through bond indenture provisions.
- All unencumbered appropriations lapse at year-end, with the exception of some capital improvement projects and miscellaneous grants in the respective funds. Encumbered appropriations are re-appropriated in the following year's budget.

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

1. BUDGETARY INFORMATION, Continued

Budgetary Basis of Accounting

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

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

The variations from GAAP that are for budgetary purposes include the following:

- Outstanding commitments relating to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under GAAP, these obligations are recognized when goods are received or services are rendered.
- The write-off of uncollectible accounts receivables is not recognized as an expenditure. Under GAAP, these write-offs are recognized as expenditures when the accounts receivables are determined to be uncollectible.

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

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule – General Fund

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 28,230,000	\$ 26,848,000	\$ 26,375,894	\$ (472,106)
In lieu of sales tax	8,614,000	8,392,000	8,392,001	1
Utility user	31,141,736	31,236,736	31,504,709	267,973
Franchise fees	11,756,238	12,207,238	12,464,835	257,597
Business license	8,669,432	9,145,432	8,915,457	(229,975)
Hotel/motel room	1,800,000	1,800,000	1,932,631	132,631
Document transfer	640,000	604,000	603,313	(687)
Licenses and permits	432,500	432,500	402,790	(29,710)
Intergovernmental:				
Federal grants and subsidies	-	-	-	-
Sales and use tax - levied by state	27,036,000	27,788,000	28,904,817	1,116,817
Other governmental	25,781,709	23,678,504	23,863,912	185,408
Charges for services	15,960,761	15,872,545	11,301,510	(4,571,035)
Fines and forfeitures	3,105,100	2,375,722	2,718,157	342,435
Use of money and property	3,210,060	3,514,060	6,823,921	3,309,861
Investment income:				
Interest income	650,000	(160,000)	(176,600)	(16,600)
Net increase in fair value of investments	-	-	-	-
Refunds and reimbursements	1,298,581	1,198,764	2,896,350	1,697,586
Miscellaneous	5,773,686	5,249,686	2,949,934	(2,299,752)
Total revenues	<u>174,099,803</u>	<u>170,183,187</u>	<u>169,873,631</u>	<u>(309,556)</u>
EXPENDITURES:				
General government:				
City council	521,797	501,797	501,695	102
City manager	746,704	748,054	730,917	17,137
City attorney	913,894	838,894	735,989	102,905
City clerk	766,597	766,597	709,677	56,920
City auditor	435,545	535,545	448,924	86,621
Administrative services	3,321,567	3,333,066	3,316,246	16,820
Human resources	1,356,832	1,358,532	1,242,134	116,398
Housing and redevelopment	487,199	487,199	355,310	131,889
Non-departmental	7,203,088	7,537,980	4,883,024	2,654,956
Total general government	<u>15,753,223</u>	<u>16,107,664</u>	<u>12,923,916</u>	<u>3,183,748</u>

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

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule – General Fund, Continued

	Budget		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Police	85,551,354	83,499,202	81,066,234	2,432,968
Fire	39,914,108	41,866,868	41,457,870	408,998
Total public safety	<u>125,465,462</u>	<u>125,366,070</u>	<u>122,524,104</u>	<u>2,841,966</u>
Public works	<u>3,252,313</u>	<u>3,344,113</u>	<u>3,021,441</u>	<u>322,672</u>
Library	<u>9,809,726</u>	<u>9,748,496</u>	<u>9,181,370</u>	<u>567,126</u>
Parks and recreation	<u>16,837,870</u>	<u>16,517,492</u>	<u>14,228,595</u>	<u>2,288,897</u>
Capital Outlay	<u>551,545</u>	<u>2,992,914</u>	<u>371,117</u>	<u>2,621,797</u>
Total expenditures	<u>171,670,139</u>	<u>174,076,749</u>	<u>162,250,543</u>	<u>11,826,206</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	<u>2,429,664</u>	<u>(3,893,562)</u>	<u>7,623,088</u>	<u>11,516,650</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,074,515	1,578,515	1,579,521	1,006
Transfers out	<u>(5,394,468)</u>	<u>(9,044,184)</u>	<u>(6,822,096)</u>	<u>2,222,088</u>
Total other financing sources (uses)	<u>(4,319,953)</u>	<u>(7,465,669)</u>	<u>(5,242,575)</u>	<u>2,223,094</u>
NET CHANGE IN FUND BALANCE (GAAP BASIS)	<u>\$ (1,890,289)</u>	<u>\$ (11,359,231)</u>	<u>2,380,513</u>	<u>\$ 13,739,744</u>
BASIS ADJUSTMENT:				
Encumbrances (included in Final Budget above)			<u>(1,434,721) *</u>	
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)			<u>945,792</u>	
FUND BALANCE, BEGINNING OF YEAR AS ADJUSTED			<u>12,256,234</u>	
FUND BALANCE, END OF YEAR			<u>\$ 13,202,026</u>	

* Adjusted to Budgetary Basis.

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule – HOME Program Loans Special Revenue Fund

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental:				
Federal grants and subsidies	\$ 1,985,066	\$ 5,753,348	\$ 1,022,641	\$ (4,730,707)
Use of money and property	-	-	713,436	713,436
Interest income	120,000	120,000	5,185	(114,815)
Miscellaneous	-	-	-	-
Total revenues	<u>2,105,066</u>	<u>5,873,348</u>	<u>1,741,262</u>	<u>(4,132,086)</u>
EXPENDITURES:				
Capital outlay	<u>5,248,318</u>	<u>2,832,220</u>	<u>962,621</u>	<u>1,869,599</u>
Total expenditures	<u>5,248,318</u>	<u>2,832,220</u>	<u>962,621</u>	<u>1,869,599</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES (GAAP BASIS)	<u>(3,143,252)</u>	<u>3,041,128</u>	<u>778,641</u>	<u>(2,262,487)</u>
NET CHANGE IN FUND BALANCE (GAAP BASIS)	<u>\$ (3,143,252)</u>	<u>\$ 3,041,128</u>	<u>778,641</u>	<u>\$ (2,262,487)</u>
BASIS ADJUSTMENT:				
Encumbrances			<u>-</u>	
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)			<u>778,641</u>	
FUND BALANCE, BEGINNING OF YEAR AS ADJUSTED			<u>77,494</u>	
FUND BALANCE, END OF YEAR			<u>\$ 856,135</u>	

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

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule – Low and Moderate-Income Housing City Loans Special Revenue Fund

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ 132,252	\$ 75,731	\$ (56,521)
Interest income	-	-	6,369	6,369
Miscellaneous	-	-	51,276	51,276
Total revenues	-	132,252	133,376	1,124
EXPENDITURES:				
General government	-	119,744	-	119,744
Capital outlay	-	994,348	74,325	920,023
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	-	1,114,092	74,325	1,039,767
DEFICIENCY OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	-	(981,840)	59,051	1,040,891
OTHER FINANCING SOURCES (USES):				
Transfers in	-	2,377,878	25,790	(2,352,088)
Transfers out	-	(2,179,488)	(24,276)	2,155,212
Total other financing sources (uses)	-	198,390	1,514	(196,876)
SPECIAL ITEM			2,995,331	
NET CHANGE IN FUND BALANCE (GAAP BASIS)	\$ -	\$ (783,450)	3,055,896	\$ 844,015
BASIS ADJUSTMENT:				
Encumbrances			-	
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)			3,055,896	
FUND BALANCE, BEGINNING OF YEAR AS ADJUSTED			-	
FUND BALANCE, END OF YEAR			\$ 3,055,896	

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

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

2. DEFINED BENEFIT PENSION PLAN

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

The four tables below are based on the most recent information available.

**PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)
SAFETY PLAN
SCHEDULE OF FUNDING PROGRESS
(\$ amounts in thousands)**

Valuation Date	Entry Age Actuarial Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (UAAL) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/11	\$ 802,778	\$ 685,733	\$ 117,045	85.4%	\$ 50,961	229.7%
6/30/10	758,326	662,602	95,724	87.4%	54,798	174.7%
6/30/09	724,324	644,940	79,384	89.0%	58,596	135.5%
6/30/08	664,028	625,633	38,395	94.2%	56,811	67.6%
6/30/07	619,816	592,315	27,501	95.6%	54,128	50.8%

**PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)
MISCELLANEOUS PLAN
SCHEDULE OF FUNDING PROGRESS
(\$ amounts in thousands)**

Valuation Date	Entry Age Actuarial Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (UAAL) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/11	\$ 568,853	\$ 513,963	\$ 54,890	90.4%	\$ 53,700	102.2%
6/30/10	548,130	495,326	52,804	90.4%	56,256	93.9%
6/30/09	535,151	478,673	56,478	89.4%	62,265	90.7%
6/30/08	491,467	460,950	30,517	93.8%	66,743	45.7%
6/30/07	453,621	434,989	18,632	95.9%	57,120	32.6%

City of Stockton
Required Supplementary Information, (Unaudited)
For the year ended June 30, 2012

2. DEFINED BENEFIT PENSION PLAN, Continued

RETIREMENT ENHANCEMENT PLAN (PARS)
MUNICIPAL UTILITY DEPARTMENT PLAN (CLOSED)
SCHEDULE OF FUNDING PROGRESS
(\$ amounts in thousands)

Valuation Date	Actuarial Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (UAAL) (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/12	8,346	3,339	5,007	40.0%	3,970	126.12%
6/30/10	7,079	1,643	5,436	23.2%	5,200	104.54%
3/1/08	4,846	-	4,846	0.0%	5,740	84.43%

3. OTHER POST EMPLOYMENT BENEFITS

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for the City's Plan
(\$ amounts in thousands)

Valuation Date	Actuarial Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/11	416,738	-	416,738	0.0%	102,040	408.4%
6/30/09	543,702	-	543,702	0.0%	107,679	504.9%
6/30/07	388,303	-	388,303	0.0%	98,464	394.4%

GASB 45 actuarial valuations are only required to be performed and reported every two years. As required by GASB Statement No. 45, the City will report three actuarial reports of data in the above table as the information becomes available in subsequent years. Therefore, new data will be added in subsequent financial reports.



CITY OF STOCKTON



NONMAJOR GOVERNMENTAL FUNDS

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific governmental revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects.

The City's non-major governmental special revenue funds include:

Special Grants Fund

To account for resources from miscellaneous, comparatively smaller grants from federal and state governments to support public safety and other community programs which are not otherwise accounted for in other special revenue funds.

Solid Waste and Recycling Fund

To account for the administration of solid waste collection services, and the planning and implementation of solid waste reduction and recycling programs, in compliance with California Public Resources Code Section 40050 through 40063 (AB 939).

Gas Tax Fund

To account for revenues and expenditures apportioned to the City under the California Streets and Highway Code, sections 2103 through 2107.5. Expenditures of these resources for administration, maintenance and construction must be street and transportation related. This fund includes state and federal funding from the Intermodal Surface Transportation Efficiency Act, SB325 Non-Transit, and Traffic Congestion Relief program.

Measure K Streets Sales Tax Fund

To account for revenues and expenditures apportioned to the City from ½ cent sales tax collections under Measure K. The Measure K program is administered by the San Joaquin Council of Governments (SJCOG) as the Local Transportation Authority for San Joaquin County. SJCOG was established as the Local Transportation Authority for this measure when San Joaquin County voters approved the enactment of the Measure K program in 1990. In 2006 voters approved to extend this measure for an additional 30 years. Expenditures for administration, maintenance and construction received under Measure K must be for street and transportation related projects.

Measure W Public Safety Tax Fund

To account for revenues and expenditures apportioned to the City ¼ cent sales tax collections from the district including the City of Stockton under Measure W, which was adopted by local voters in November 2004. Expenditures are for administration, implementation, and operation of the Police and Fire Safe Neighborhood Gang and Drug Prevention Program, among other programs.

Special Assessments Fund

To account for revenues and expenditures related to levies on property owners as approved by the City Council and state laws for special types of services – basic street and neighborhood lighting, land and streetscapes, and stormwater drainage maintenance services.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

Community Development Block Grant

To account for federal grant programs and other resources that provide for development of a viable urban community by providing a suitable living environment and expansion of economic opportunities, principally for low- and moderate-income residents. This fund includes the City's annual federal funding from the Community Development Block Grant, Community Rehabilitation Loan program, federal revolving loan program, and revitalization activities in the designated Urban Development Action Grant area.

Neighborhood Stabilization Loan Program Fund

To account for the City's Neighborhood Stabilization Loan Program that provides loans to non-profit housing developers to acquire and rehabilitate abandoned and foreclosed homes, and provides down payment assistance to qualified low- and moderate-income households who purchase from the non-profit organization authorized under the NSLP program as authorized by Division B, Title 111 of the U.S. Housing and Economic Recovery Act (HERA) of 2008.

Housing Grants and Loans Program Fund

To account for the City's economic development and federal department of Housing and Urban Development (HUD) Section 108 housing grant and loan programs that provide funding for low- and moderate-income housing development in Stockton, as approved by the City Council and various federal and state laws.

Low and Moderate-Income Housing RDA Loans Special Revenue Fund

To account for loans extended to eligible low and moderate-income families as approved by the Stockton Redevelopment Agency and the California Health and Safety Code.

City Administration Building Fund

To account for the operations and maintenance of the tenant occupied City Administration Building at 400 E. Main Street. Tenants include private sector firms, governmental entities and various City of Stockton departments. This building is managed through a contractual agreement with an outside management firm. Rental revenues from the building tenants and all other revenues are restricted for expenditures towards the building's maintenance and operations.

Development Services Fund

To account for resources for development planning and project review services including land use entitlements, permit processing and review and inspection of public improvements to ensure orderly physical growth and development of the City as approved by the City Council. Revenues and fees collected and recorded in this fund are committed to is related activities.

Other Special Revenue Fund

To account for the resources of comparatively smaller special revenue funds, including the Litigated Asset Seizure public safety program, Cal-Home Reuse Loan Program, State Housing Loan Program and various governmental expendable special revenue/trusts of funds donated to the City for various community projects and programs.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The City's non-major governmental capital project funds include:

Public Facilities Impact Fees Capital Projects Fund

To account for the collection of and expenditure of fees imposed as a condition of new development within the City, in compliance with California Government Code Section 66006 (AB 1600).

Impact fees have been established for each of the following types of public facilities: Traffic signals, Street improvements, Community recreation center, City office space, Fire stations, Libraries, Police stations, Parkland, Street tree & street signs, Street light in-lieu, Air quality mitigation, and Public facilities fees - administration.

Redevelopment Agency Capital Projects Fund

To account for the acquisition, relocation, demolition and sale of land for those portions of the City earmarked for redevelopment as approved by the City of Stockton Redevelopment Agency and the California Health and Safety Code Section 33670 et seq. Projects are financed from bond proceeds, loans from other city funds and property tax increment revenue.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for and report financial resources that are restricted committed, or assigned to expenditures for principal and interest on long-term debt.

The City's non-major governmental debt service funds include:

Redevelopment Agency Debt Service Fund

To account for the accumulation of resources for the retirement of principal and interest payment on long-term debt for revenue bonds issued on behalf of and approved by the Stockton Redevelopment Agency.

Stockton Public Financing Authority Debt Service Fund

To account for the accumulation of resources for the retirement of principal and interest payment on long-term debt for municipal bonds issued on behalf of and approved by the Stockton Public Financing Authority.

PERMANENT FUND

The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, can be spent. Permanent Fund resources help support designated arts, recreation, library and public safety programs.

CITY OF STOCKTON
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue			
	Special Grants	Solid Waste & Recycling	Gas Tax	Measure K Streets Sales Tax
ASSETS				
Cash and investments	\$ -	\$ 1,899,151	\$ 1,391,407	\$ 4,929,965
Cash and investments with fiscal agents	-	-	-	-
Receivables, net:				
Interest	-	-	-	-
Accounts and other receivables	19,874	50,524	11,104	-
Due from other funds	-	-	-	-
Due from other governments, net	2,539,830	-	803,037	4,406,180
Prepaid expenses	-	-	-	-
Loans to other funds, net	-	-	-	-
Loans to property owners, net	-	-	-	-
Total assets	\$ 2,559,704	\$ 1,949,675	\$ 2,205,548	\$ 9,336,145
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 279,489	\$ 14,321	\$ 428,624	\$ 2,527,822
Due to other funds	1,427,531	-	-	-
Due to other governments	-	-	-	-
Deposits and other liabilities	-	2,260	-	-
Deferred revenue	685,795	-	-	330,319
Settlement payable	-	-	-	-
Loan from other funds	-	-	-	-
Total liabilities	2,392,815	16,581	428,624	2,858,141
FUND BALANCES (DEFICIT):				
Nonspendable	-	-	-	-
Restricted	166,889	1,933,094	1,776,924	6,478,004
Unassigned	-	-	-	-
Total fund balances (deficit)	166,889	1,933,094	1,776,924	6,478,004
Total liabilities and fund balances (deficit)	\$ 2,559,704	\$ 1,949,675	\$ 2,205,548	\$ 9,336,145

Special Revenue				
Measure W				
Public	Special	CDBG	Neighborhood	Housing
Safety Tax	Assessments	Programs	Stabilization	Grant / Loan
			Loan Program	Programs
\$ -	\$ 12,797,103	\$ 1,041,120	\$ 1,354,996	\$ 195,602
-	-	-	-	1,256,711
-	-	-	-	160
-	9,400	-	-	-
-	-	-	-	-
1,676,413	-	-	-	1,212,806
-	-	-	-	-
-	-	-	-	-
-	-	20,675,081	6,177,482	-
<u>\$ 1,676,413</u>	<u>\$ 12,806,503</u>	<u>\$ 21,716,201</u>	<u>\$ 7,532,478</u>	<u>\$ 2,665,279</u>
\$ 42,430	\$ 467,705	\$ 155,596	\$ 479,043	\$ 20,117
684,198	-	-	-	-
-	-	17,922	-	-
-	-	-	-	-
-	-	20,675,081	6,177,483	-
-	-	-	-	-
-	-	-	-	-
<u>726,628</u>	<u>467,705</u>	<u>20,848,599</u>	<u>6,656,526</u>	<u>20,117</u>
-	-	-	-	-
949,785	12,338,798	867,602	875,952	2,645,162
-	-	-	-	-
<u>949,785</u>	<u>12,338,798</u>	<u>867,602</u>	<u>875,952</u>	<u>2,645,162</u>
<u>\$ 1,676,413</u>	<u>\$ 12,806,503</u>	<u>\$ 21,716,201</u>	<u>\$ 7,532,478</u>	<u>\$ 2,665,279</u>

CITY OF STOCKTON

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)

JUNE 30, 2012

	Special Revenue			
	Low-Moderate Income Housing RDA Loans	City Administration Building	Development Services	Other Special Revenue
ASSETS				
Cash and investments	\$ -	\$ 293,352	\$ 1,658,649	\$ 1,835,308
Cash and investments with fiscal agents	-	-	-	-
Receivables, net:				
Interest	-	-	-	-
Accounts and other receivables	-	30,149	690,717	3,135
Due from other funds	-	-	-	-
Due from other governments, net	-	-	-	-
Prepaid expenses	-	66,064	-	-
Loans to other funds, net	-	-	-	-
Loans to property owners, net	-	-	-	3,112,546
	<u>\$ -</u>	<u>\$ 389,565</u>	<u>\$ 2,349,366</u>	<u>\$ 4,950,989</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 273,640	\$ 63,108	\$ 110,111
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Deposits and other liabilities	-	-	372,065	-
Deferred revenue	-	-	461,343	3,112,546
Loan from other funds	-	-	-	-
Loan from other funds	-	-	-	-
	<u>-</u>	<u>273,640</u>	<u>896,516</u>	<u>3,222,657</u>
Total liabilities	-	273,640	896,516	3,222,657
FUND BALANCES (DEFICIT):				
Nonspendable	-	66,064	-	-
Restricted	-	49,861	1,452,850	1,728,332
Unassigned	-	-	-	-
	<u>-</u>	<u>115,925</u>	<u>1,452,850</u>	<u>1,728,332</u>
Total fund balances	-	115,925	1,452,850	1,728,332
Total liabilities and fund balances (deficit)	<u>\$ -</u>	<u>\$ 389,565</u>	<u>\$ 2,349,366</u>	<u>\$ 4,950,989</u>

Capital Projects		Debt Service		Permanent	
Public			Stockton Public		
Facilities	Redevelopment	Redevelopment	Financing	Miscellaneous	Totals
Impact Fees	Agency	Agency	Authority		
\$ 41,709,636	\$ -	\$ -	\$ 91,337	\$ 626,976	\$ 69,824,602
192,765	-	-	3,913,116	-	5,362,592
20	-	-	3,482	990	4,652
672,655	-	-	-	-	1,487,558
-	-	-	-	-	-
-	-	-	-	-	10,638,266
-	-	-	-	-	66,064
1,274,444	-	-	-	-	1,274,444
	-	-	-	-	29,965,109
<u>\$ 43,849,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,007,935</u>	<u>\$ 627,966</u>	<u>\$ 118,623,287</u>
\$ 987,696	\$ -	\$ -	\$ 90,415	\$ 11,894	\$ 5,952,011
200,638	-	-	-	-	2,312,367
-	-	-	-	-	17,922
-	-	-	-	-	374,325
672,308	-	-	-	-	32,114,875
-	-	-	18,779,804	-	18,779,804
-	-	-	-	-	-
<u>1,860,642</u>	<u>-</u>	<u>-</u>	<u>18,870,219</u>	<u>11,894</u>	<u>59,551,304</u>
-	-	-	-	304,314	370,378
41,988,878	-	-	3,913,116	311,758	77,477,005
-	-	-	(18,775,400)	-	(18,775,400)
<u>41,988,878</u>	<u>-</u>	<u>-</u>	<u>(14,862,284)</u>	<u>616,072</u>	<u>59,071,983</u>
<u>\$ 43,849,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,007,935</u>	<u>\$ 627,966</u>	<u>\$ 118,623,287</u>

CITY OF STOCKTON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue			
	Special Grants	Solid Waste & Recycling	Gas Tax	Measure K Streets Sales Tax
REVENUES:				
Taxes:				
Sales - levied by City	\$ -	\$ -	\$ -	\$ -
Property	-	-	-	-
Business licenses	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental:				
Federal grants and subsidies	5,539,182	-	-	-
Sales and use tax - levied by state	-	-	-	3,698,851
Other governmental	930,668	-	8,124,566	11,518,231
Charges for services	838,567	-	5,728	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Investment income:				
Interest income	3,861	32,530	14,860	60,504
Refunds and reimbursements	91,038	-	49,524	195
Miscellaneous	-	1,319,291	-	975,307
Total revenues	<u>7,403,316</u>	<u>1,351,821</u>	<u>8,194,678</u>	<u>16,253,088</u>
EXPENDITURES:				
Current:				
General government	2,090,743	-	-	-
Public safety	4,943,585	-	-	-
Public works	-	1,274,334	9,373,720	-
Library	27,469	-	-	-
Parks and recreation	13,679	-	37,900	-
Capital outlay	575,330	-	-	14,181,768
Debt service:				
Principal retirement	-	-	-	1,137,738
Interest and fiscal charges	-	-	-	139,419
Total expenditures	<u>7,650,806</u>	<u>1,274,334</u>	<u>9,411,620</u>	<u>15,458,925</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(247,490)</u>	<u>77,487</u>	<u>(1,216,942)</u>	<u>794,163</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	94,283	622	1,584,752	-
Transfers out	-	-	-	(1,584,752)
Bond insurers proceeds	-	-	-	-
Total other financing sources (uses)	<u>94,283</u>	<u>622</u>	<u>1,584,752</u>	<u>(1,584,752)</u>
SPECIAL ITEM	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(153,207)	78,109	367,810	(790,589)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	<u>320,096</u>	<u>1,854,985</u>	<u>1,409,114</u>	<u>7,268,593</u>
FUND BALANCES (DEFICITS), END OF YEAR	<u>\$ 166,889</u>	<u>\$ 1,933,094</u>	<u>\$ 1,776,924</u>	<u>\$ 6,478,004</u>

Special Revenue				
Measure W Public Safety Tax	Special Assessments	CDBG Programs	Neighborhood Stabilization Loan Program	Housing Grant / Loan Programs
\$ 8,576,425	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	957,498	-	-	-
-	-	-	-	-
-	-	4,683,589	-	259,462
-	-	-	-	-
-	-	-	-	-
-	3,243,963	2,227	-	-
-	-	-	-	-
-	-	236,037	1,779,675	-
1,394	202,730	(10,570)	39,603	1,176
-	-	-	-	-
-	-	-	-	-
<u>8,577,819</u>	<u>4,404,191</u>	<u>4,911,283</u>	<u>1,819,278</u>	<u>260,638</u>
-	989,093	-	-	-
7,896,534	-	-	-	-
-	319,814	-	-	-
-	-	-	-	-
-	2,529,456	-	-	-
-	-	2,616,831	3,038,571	218,254
-	-	1,220,000	-	-
-	-	1,017,493	-	-
<u>7,896,534</u>	<u>3,838,363</u>	<u>4,854,324</u>	<u>3,038,571</u>	<u>218,254</u>
<u>681,285</u>	<u>565,828</u>	<u>56,959</u>	<u>(1,219,293)</u>	<u>42,384</u>
-	31,180	-	-	-
-	-	-	-	-
<u>-</u>	<u>31,180</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
<u>681,285</u>	<u>597,008</u>	<u>56,959</u>	<u>(1,219,293)</u>	<u>42,384</u>
<u>268,500</u>	<u>11,741,790</u>	<u>810,643</u>	<u>2,095,245</u>	<u>2,602,778</u>
<u>\$ 949,785</u>	<u>\$ 12,338,798</u>	<u>\$ 867,602</u>	<u>\$ 875,952</u>	<u>\$ 2,645,162</u>

CITY OF STOCKTON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
 FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue			
	Low-Moderate Income Housing RDA Loans *	City Administration Building	Development Services	Other Special Revenue
REVENUES:				
Taxes:				
Sales - levied by City	\$ -	\$ -	\$ -	\$ -
Property	-	-	-	-
Business licenses	-	-	-	-
Licenses and permits	-	-	3,542,324	78,707
Intergovernmental:				
Federal grants and subsidies	-	-	-	-
Sales and use tax - levied by state	-	-	-	-
Other governmental	-	-	-	96,136
Charges for services	-	-	4,110,278	60,531
Fines and forfeitures	-	-	74,237	-
Use of money and property	149,957	1,962,875	-	43,067
Investment income:				
Interest income	7,748	(8,420)	12,292	39,807
Refunds and reimbursements	-	-	97,093	4,400
Miscellaneous	-	(10,800)	301,612	498,168
Total revenues	<u>157,705</u>	<u>1,943,655</u>	<u>8,137,836</u>	<u>820,816</u>
EXPENDITURES:				
Current:				
General government	-	1,795,134	3,822,387	307,790
Public safety	-	-	3,097,759	585,464
Public works	-	-	-	-
Library	-	-	-	324,141
Parks and recreation	-	-	-	77,256
Capital outlay	814,655	42,239	-	257,927
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>814,655</u>	<u>1,837,373</u>	<u>6,920,146</u>	<u>1,552,578</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(656,950)</u>	<u>106,282</u>	<u>1,217,690</u>	<u>(731,762)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,878,179	235,000	150,000	-
Transfers out	(1,884,416)	(1,479,289)	-	(60,329)
Bond insurers proceeds	-	-	-	-
Total other financing sources (uses)	<u>(6,237)</u>	<u>(1,244,289)</u>	<u>150,000</u>	<u>(60,329)</u>
SPECIAL ITEM	<u>(2,995,331)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(3,658,518)</u>	<u>(1,138,007)</u>	<u>1,367,690</u>	<u>(792,091)</u>
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	<u>3,658,518</u>	<u>1,253,932</u>	<u>85,160</u>	<u>2,520,423</u>
FUND BALANCES (DEFICITS), END OF YEAR	<u>\$ -</u>	<u>\$ 115,925</u>	<u>\$ 1,452,850</u>	<u>\$ 1,728,332</u>

*For the seven months ended January 31, 2012.

Capital Projects		Debt Service		Permanent	
Public			Stockton Public		
Facilities	Redevelopment	Redevelopment	Financing		
Impact Fees	Agency *	Agency *	Authority	Miscellaneous	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,576,425
-	6,395,685	-	-	-	6,395,685
-	-	-	-	-	957,498
-	-	-	-	-	3,621,031
-	-	-	-	-	10,482,233
-	-	-	-	-	3,698,851
-	139,453	-	-	-	20,809,054
2,092,689	-	-	-	-	10,353,983
-	-	-	-	-	74,237
44,569	4,759	-	-	-	4,220,939
846,535	(73,067)	1,144,733	65,039	48,124	2,428,879
1,000	350	-	-	-	243,600
-	3,426	-	-	-	3,087,004
<u>2,984,793</u>	<u>6,470,606</u>	<u>1,144,733</u>	<u>65,039</u>	<u>48,124</u>	<u>74,949,419</u>
-	168,499	13,350	566,653	64,560	9,818,209
-	-	-	-	-	16,523,342
-	-	-	-	-	10,967,868
-	-	-	-	4,206	355,816
-	-	-	-	-	2,658,291
9,780,119	2,907,107	-	-	-	34,432,801
-	-	2,505,000	860,000	-	5,722,738
-	-	6,134,864	6,150,589	-	13,442,365
<u>9,780,119</u>	<u>3,075,606</u>	<u>8,653,214</u>	<u>7,577,242</u>	<u>68,766</u>	<u>93,921,430</u>
<u>(6,795,326)</u>	<u>3,395,000</u>	<u>(7,508,481)</u>	<u>(7,512,203)</u>	<u>(20,642)</u>	<u>(18,972,011)</u>
13,872	1,079,626	9,507,794	7,252,410	-	21,827,718
(1,816,626)	(11,111,182)	-	-	-	(17,936,594)
118,571	-	-	414,160	-	532,731
<u>(1,684,183)</u>	<u>(10,031,556)</u>	<u>9,507,794</u>	<u>7,666,570</u>	<u>-</u>	<u>4,423,855</u>
-	(6,916,187)	(14,407,659)	-	-	(24,319,177)
(8,479,509)	(13,552,743)	(12,408,346)	154,367	(20,642)	(38,867,333)
50,468,387	13,552,743	12,408,346	(15,016,651)	636,714	97,939,316
<u>\$ 41,988,878</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,862,284)</u>	<u>\$ 616,072</u>	<u>\$ 59,071,983</u>





CITY OF STOCKTON



NONMAJOR ENTERPRISE FUNDS

NON-MAJOR ENTERPRISE FUNDS

Enterprise funds are used to report activities for which a fee is charged to external users for goods and services. These funds are used by governments to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of City Council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the City Council has decided that periodic determination of income is appropriate for accountability purposes.

The City's non-major enterprise funds include:

Garden Reuse Enterprise Fund

To account for residual activities as a result of final transition and outsourcing of garden refuse collection services.

Downtown Marina Enterprise Fund

To account for resources and activities associated with the operations and maintenance of the Downtown Stockton Marina facilities.

Golf Courses Enterprise Fund

To account for resources and activities associated with the improvement, operation and maintenance of the Swenson and Van Buskirk golf courses.

CITY OF STOCKTON
COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2012

	Garden Refuse	Downtown Marina	Golf Courses	Total
ASSETS				
Current assets:				
Cash and investments	\$ -	\$ 329,662	\$ 66,249	\$ 395,911
Receivables, net:				
Interest	-	-	-	-
Accounts and other receivables	-	20,241	-	20,241
Prepaid items	-	5,839	94,027	99,866
Inventory of supplies	-	-	45,069	45,069
Total current assets	<u>-</u>	<u>355,742</u>	<u>205,345</u>	<u>561,087</u>
Noncurrent assets:				
Capital assets, net:				
Nondepreciable	-	-	359,805	359,805
Depreciable, net	-	25,366,354	899,252	26,265,606
Total noncurrent assets	<u>-</u>	<u>25,366,354</u>	<u>1,259,057</u>	<u>26,625,411</u>
Total assets	<u>-</u>	<u>25,722,096</u>	<u>1,464,402</u>	<u>27,186,498</u>
LIABILITIES				
Current liabilities:				
Accounts payable	-	31,264	97,058	128,322
Deposits and other liabilities	-	27,798	68,354	96,152
Accrued interest	-	459,914	-	459,914
Due to other governments	-	-	15,123	15,123
Compensated absences - current	-	-	-	-
Other long term debt - current	-	217,941	-	217,941
Total current liabilities	<u>-</u>	<u>736,917</u>	<u>180,535</u>	<u>917,452</u>
Noncurrent liabilities:				
Compensated absences - non current	-	-	-	-
Notes payable	-	10,652,880	-	10,652,880
Total noncurrent liabilities	<u>-</u>	<u>10,652,880</u>	<u>-</u>	<u>10,652,880</u>
Total liabilities	<u>-</u>	<u>11,389,797</u>	<u>180,535</u>	<u>11,570,332</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	-	14,495,533	1,259,057	15,754,590
Unrestricted (deficit)	-	(163,234)	24,810	(138,424)
Total net assets	<u>\$ -</u>	<u>\$ 14,332,299</u>	<u>\$ 1,283,867</u>	<u>\$ 15,616,166</u>

CITY OF STOCKTON
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Garden Refuse	Downtown Marina	Golf Courses	Total
OPERATING REVENUES:				
Charges for services	\$ (75)	\$ 196,900	\$ 1,109,764	\$ 1,306,589
Miscellaneous	464	15,073	748,800	764,337
Total operating revenues	389	211,973	1,858,564	2,070,926
OPERATING EXPENSES:				
Operation and maintenance	(229)	333,352	2,316,504	2,649,627
Depreciation and amortization	-	531,520	69,501	601,021
Total operating expenses	(229)	864,872	2,386,005	3,250,648
OPERATING INCOME (LOSS)	618	(652,899)	(527,441)	(1,179,722)
NON-OPERATING REVENUES AND EXPENSES:				
Investment income:				
Interest income	4	(9,437)	(22,338)	(31,771)
Interest expense and fiscal charges	-	(498,944)	-	(498,944)
Total non-operating revenues (expenses)	4	(508,381)	(22,338)	(530,715)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	622	(1,161,280)	(549,779)	(1,710,437)
Transfers in	-	732,000	500,000	1,232,000
Transfers out	(622)	-	-	(622)
CHANGE IN NET ASSETS	-	(429,280)	(49,779)	(479,059)
NET ASSETS, BEGINNING OF YEAR	-	14,761,579	1,333,646	16,095,225
NET ASSETS, END OF YEAR	\$ -	\$ 14,332,299	\$ 1,283,867	\$ 15,616,166



CITY OF STOCKTON
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Garden Refuse	Downtown Marina	Golf Courses	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 389	\$ 220,731	\$ 1,920,374	\$ 2,141,494
Payments to suppliers	229	(415,809)	(2,427,105)	(2,842,685)
Payments to employees	-	8,952	(14,400)	(5,448)
Net cash provided by (used for) operating activities	618	(186,126)	(521,131)	(706,639)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchases of capital assets	-	(7,994)	(810)	(8,804)
Long-term debt:				
Principal paid	-	(251,307)	-	(251,307)
Interest and financing fees paid	-	(468,370)	-	(468,370)
Net cash provided by (used for) noncapital financing activities	-	(727,671)	(810)	(728,481)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	732,000	500,000	1,232,000
Transfers out	(622)	-	-	(622)
Receipt (payment) of due to other funds	-	-	-	-
Advances received from other funds	-	-	-	-
Net cash provided by (used by) noncapital financing activities	(622)	732,000	500,000	1,231,378
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment earnings	4	(9,437)	(22,338)	(31,771)
NET DECREASE IN CASH AND CASH EQUIVALENTS				
	-	(191,234)	(44,279)	(235,513)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR				
	-	520,896	110,528	631,424
CASH AND CASH EQUIVALENTS, END OF YEAR				
	\$ -	\$ 329,662	\$ 66,249	\$ 395,911
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES:				
Operating income (loss)	\$ 618	\$ (652,899)	\$ (527,441)	\$ (1,179,722)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation and amortization	-	531,520	69,501	601,021
Allowance for uncollectible	-	-	-	-
Changes in assets and liabilities:				
Accounts and other receivables	-	4,539	9,405	13,944
Prepays	-	(1,432)	(94,027)	(95,459)
Inventory of supplies	-	96	(15,949)	(15,853)
Accounts payable	-	(72,169)	(31,697)	(103,866)
Due to other governments	-	-	15,123	15,123
Deposits and other liabilities	-	4,219	68,354	72,573
Compensated absences	-	-	(14,400)	(14,400)
Net cash used for operating activities	\$ 618	\$ (186,126)	\$ (521,131)	\$ (706,639)





CITY OF STOCKTON



INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

Internal service funds are a type of proprietary fund used to report any activity that provides goods and services on a cost-reimbursement basis to other funds, departments, or agencies of the primary government and its component units, or to other governments.

The City's internal service funds include:

General Liability Insurance Fund

To account for premiums and claims paid and the administration of general liability insurance provided to all City departments on a cost reimbursement basis. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions.

Workers' Compensation Insurance Fund

To account for premiums and claims paid and the administration of workers' compensation liability insurance provided to all City employees incurring injury on the job, of which health benefits and other related liability costs are funded by City department payments into the fund. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions.

Employee and Retiree Health Insurance Fund

To account for premiums and claims paid and the administration of health benefits insurance provided to qualified active and qualified retired City employees, with City departmental payments made to the Fund sought to reimburse health related expenses incurred by the Fund. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions.

Retirement Benefits Fund

To account for the accumulation and payout of resources for the purpose of providing defined retirement and disability benefits, annual cost of living adjustments and death benefits to City employee plan members and beneficiaries through the California Public Employees' Retirement System (CalPERS) on a cost reimbursement basis. The fund also accounts for future estimated related liabilities to the City based on independent actuarial studies utilizing insurance industry standards of applicable data, factors and assumptions, of which were pre-funded by bond proceeds from the 2007 Taxable Pension Obligations Bonds, Series A and B.



INTERNAL SERVICE FUNDS (Continued)

Other Benefits and Insurance Fund

To account for premiums and claims paid and the administration of comparatively smaller insurance funds provided to City employees on a cost reimbursement basis. Included are long-term disability, life insurance, and termination pay benefits.

Vehicle Fleet Equipment Fund

To account for the financing, operations, servicing and maintenance of fleet vehicles and major equipment utilized by City departments, of which the services are rendered on a cost reimbursement basis.

Computer Equipment Fund

To account for the financing, service and maintenance of all computer and related equipment provided to City departments on a cost reimbursement basis.

Radio Equipment Fund

To account for the financing, service and maintenance of radio equipment provided to City departments on a cost reimbursement basis.

Other Equipment Fund

To account for the financing, operating and maintenance of other, comparatively smaller equipment funds provided to City departments on a cost reimbursement basis. Included are telephone, office, and printing and mailing equipment.

CITY OF STOCKTON
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012

	General Liability Insurance	Workers' Compensation Insurance	Employee & Retiree Health Insurance	Retirement Benefits
ASSETS				
Current assets:				
Cash and investments	\$ 2,551,210	\$ 2,885,160	\$ 2,747,100	\$ 1,287,979
Receivables, net:				
Accounts and other receivables	432,890	-	1,053	-
Due from other funds	-	11,784,211	-	-
Deposits and advances	-	-	-	-
Prepaid expenses	-	-	-	-
Total current assets	<u>2,984,100</u>	<u>14,669,371</u>	<u>2,748,153</u>	<u>1,287,979</u>
Noncurrent assets:				
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	1,937
Advances to other funds	619,055	-	-	-
Deferred charges	-	-	109,000	1,340,722
Net pension asset	-	-	-	120,835,510
Capital assets, net	-	-	-	-
Total noncurrent assets	<u>619,055</u>	<u>-</u>	<u>109,000</u>	<u>122,178,169</u>
Total assets	<u>3,603,155</u>	<u>14,669,371</u>	<u>2,857,153</u>	<u>123,466,148</u>
LIABILITIES				
Current liabilities:				
Accounts payable	58,142	82,105	171,404	1,500
Deposits and other liabilities	-	49,104	-	-
Accrued interest	-	-	-	2,268,817
Capital lease obligations - current	-	-	-	-
Compensated absences - current	24,657	5,821	19,986	-
Self-insurance claims and judgments - current	3,039,199	9,867,060	4,083,500	-
Total current liabilities	<u>3,121,998</u>	<u>10,004,090</u>	<u>4,274,890</u>	<u>3,200,317</u>
Noncurrent liabilities:				
Loans from other funds	-	500,000	-	-
Compensated absences - long-term	68,452	11,289	31,439	-
Self-insurance claims and judgments - long-term	5,332,213	48,148,912	-	-
Capital lease obligations - long term	-	-	-	-
Bonds payable	-	-	-	123,350,000
Net OPEB obligation	-	-	123,534,000	-
Total noncurrent liabilities	<u>5,400,665</u>	<u>48,660,201</u>	<u>123,565,439</u>	<u>123,350,000</u>
Total liabilities	<u>8,522,663</u>	<u>58,664,291</u>	<u>127,840,329</u>	<u>126,550,317</u>
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	-	-	-	-
Restricted for fleet and equipment replacement	-	-	-	-
Restricted for debt service	-	-	-	1,937
Unrestricted (deficits)	<u>(4,919,508)</u>	<u>(43,994,920)</u>	<u>(124,983,176)</u>	<u>(3,086,106)</u>
Total net assets (deficits)	<u>\$ (4,919,508)</u>	<u>\$ (43,994,920)</u>	<u>\$ (124,983,176)</u>	<u>\$ (3,084,169)</u>

Other Benefits & Insurance	Vehicle Fleet Equipment	Computer Equipment	Radio Equipment	Other Equipment	Total
\$ 461,539	\$ 3,406,470	\$ 5,705,409	\$ 389,257	\$ 1,175,699	\$ 20,609,823
-	535	-	-	290	434,768
-	-	-	-	-	11,784,211
-	-	111,668	-	-	111,668
-	-	-	-	45,000	45,000
<u>461,539</u>	<u>3,407,005</u>	<u>5,817,077</u>	<u>389,257</u>	<u>1,220,989</u>	<u>32,985,470</u>
-	-	-	-	-	1,937
-	-	-	-	-	619,055
-	-	-	-	-	1,449,722
-	-	-	-	-	120,835,510
-	8,463,875	1,026,145	920,976	538,211	10,949,207
-	<u>8,463,875</u>	<u>1,026,145</u>	<u>920,976</u>	<u>538,211</u>	<u>133,855,431</u>
<u>461,539</u>	<u>11,870,880</u>	<u>6,843,222</u>	<u>1,310,233</u>	<u>1,759,200</u>	<u>166,840,901</u>
73,133	343,553	491,945	43,466	77,995	1,343,243
-	-	-	-	-	49,104
-	5,283	-	-	37,645	2,311,745
-	59,767	-	-	283,860	343,627
-	67,420	134,427	7,380	11,336	271,027
-	-	-	-	-	16,989,759
<u>73,133</u>	<u>476,023</u>	<u>626,372</u>	<u>50,846</u>	<u>410,836</u>	<u>22,238,505</u>
-	-	-	-	-	500,000
-	133,653	212,458	1,626	12,321	471,238
-	-	-	-	-	53,481,125
-	697,851	-	-	607,622	1,305,473
-	-	-	-	-	123,350,000
-	-	-	-	-	123,534,000
-	<u>831,504</u>	<u>212,458</u>	<u>1,626</u>	<u>619,943</u>	<u>302,641,836</u>
<u>73,133</u>	<u>1,307,527</u>	<u>838,830</u>	<u>52,472</u>	<u>1,030,779</u>	<u>324,880,341</u>
-	7,706,257	1,026,145	920,976	(162,363)	9,491,015
-	2,857,096	4,978,247	336,785	890,784	9,062,912
-	-	-	-	-	1,937
<u>388,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(176,595,304)</u>
<u>\$ 388,406</u>	<u>\$ 10,563,353</u>	<u>\$ 6,004,392</u>	<u>\$ 1,257,761</u>	<u>\$ 728,421</u>	<u>\$ (158,039,440)</u>

CITY OF STOCKTON
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Liability Insurance	Workers' Compensation Insurance	Employee & Retiree Health Insurance	Retirement Benefits
OPERATING REVENUES:				
Charges for services	\$ 4,279,380	\$ 10,811,645	\$ 33,774,214	\$ 35,357,853
OPERATING EXPENSES:				
Operation and maintenance	3,900,316	12,659,408	52,069,035	36,672,634
General and administrative	1,576,219	2,053,547	1,056,802	-
Depreciation and amortization	-	-	-	54,171
Total operating expenses	5,476,535	14,712,955	53,125,837	36,726,805
OPERATING INCOME (LOSS)	(1,197,155)	(3,901,310)	(19,351,623)	(1,368,952)
NON-OPERATING REVENUES (EXPENSES):				
Federal grants and subsidies	-	-	318,145	-
Investment income:				
Interest income	43,893	212,725	(5,588)	5,629
Interest expense and fiscal charges	-	-	-	(6,809,706)
Other non-operating revenues	-	2,000	3,482,331	-
Total non-operating revenues (expenses)	43,893	214,725	3,794,888	(6,804,077)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,153,262)	(3,686,585)	(15,556,735)	(8,173,029)
Capital contributions	-	-	-	-
Transfers in	-	-	-	876,000
Transfers out	-	-	-	-
CHANGE IN NET ASSETS	(1,153,262)	(3,686,585)	(15,556,735)	(7,297,029)
NET ASSETS (DEFICITS), BEGINNING OF YEAR	(3,766,246)	(40,308,335)	(109,426,441)	4,212,860
NET ASSETS (DEFICITS), END OF YEAR	\$ (4,919,508)	\$ (43,994,920)	\$ (124,983,176)	\$ (3,084,169)

<u>Other Benefits & Insurance</u>	<u>Vehicle Fleet Equipment</u>	<u>Computer Equipment</u>	<u>Radio Equipment</u>	<u>Other Equipment</u>	<u>Total</u>
<u>\$ 4,330,537</u>	<u>\$ 8,745,815</u>	<u>\$ 8,865,696</u>	<u>\$ 835,565</u>	<u>\$ 2,000,296</u>	<u>\$ 109,001,001</u>
4,587,868	5,740,195	7,075,749	773,033	1,145,494	124,623,732
-	1,105,940	-	-	-	5,792,508
-	1,540,626	354,185	124,918	189,032	2,262,932
<u>4,587,868</u>	<u>8,386,761</u>	<u>7,429,934</u>	<u>897,951</u>	<u>1,334,526</u>	<u>132,679,172</u>
<u>(257,331)</u>	<u>359,054</u>	<u>1,435,762</u>	<u>(62,386)</u>	<u>665,770</u>	<u>(23,678,171)</u>
-	-	-	-	-	318,145
9,780	71,200	75,194	10,326	11,926	435,085
-	(30,529)	-	-	(42,203)	(6,882,438)
-	(47)	-	-	-	3,484,284
<u>9,780</u>	<u>40,624</u>	<u>75,194</u>	<u>10,326</u>	<u>(30,277)</u>	<u>(2,644,924)</u>
(247,551)	399,678	1,510,956	(52,060)	635,493	(26,323,095)
-	-	-	-	-	-
-	1,340,080	245,538	-	-	2,461,618
-	-	-	-	-	-
<u>(247,551)</u>	<u>1,739,758</u>	<u>1,756,494</u>	<u>(52,060)</u>	<u>635,493</u>	<u>(23,861,477)</u>
635,957	8,823,595	4,247,898	1,309,821	92,928	(134,177,963)
<u>\$ 388,406</u>	<u>\$ 10,563,353</u>	<u>\$ 6,004,392</u>	<u>\$ 1,257,761</u>	<u>\$ 728,421</u>	<u>\$ (158,039,440)</u>

CITY OF STOCKTON
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Liability Insurance	Workers' Compensation Insurance	Employee & Retiree Health Insurance	Retirement Benefits
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 4,423,687	\$ 10,811,645	\$ 33,861,034	\$ 35,357,853
Receipts for interfund services provided	-	2,000	3,482,331	-
Payments to suppliers	(2,514,349)	(9,340,855)	(21,892,127)	(29,226,635)
Payments to employees	(1,064,526)	(592,893)	(13,398,686)	(71,786)
Net cash provided by (used for) operating activities	844,812	879,897	2,052,552	6,059,432
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	-	-	876,000
Federal grants and subsidies	-	-	318,145	-
Principal paid on pension obligation debt	-	-	-	(380,000)
Interest paid on pension obligation debt	-	-	-	(6,870,388)
Due from other funds	-	(4,561,668)	-	-
Advances to other funds	(9,063)	-	-	-
Net cash provided by (used for) noncapital financing activities	(9,063)	(4,561,668)	318,145	(6,374,388)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchases of capital assets	-	-	-	-
Principal paid on debt	-	-	-	-
Interest paid on debt	-	-	-	-
Net cash used for capital and related financing activities	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment earnings	43,893	212,725	(5,589)	5,630
Net cash provided by (used for) investing activities	43,893	212,725	(5,589)	5,630
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	879,642	(3,469,046)	2,365,108	(309,326)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,671,568	6,354,206	381,992	1,599,242
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,551,210</u>	<u>\$ 2,885,160</u>	<u>\$ 2,747,100</u>	<u>\$ 1,289,916</u>

Other Benefits & Insurance	Vehicle Fleet Equipment	Computer Equipment	Radio Equipment	Other Equipment	Total
\$ 4,331,229	\$ 8,745,575	\$ 8,754,059	\$ 835,565	\$ 2,000,006	\$ 109,120,653
-	(47)	-	-	-	3,484,284
(1,472,805)	(4,093,207)	(2,976,337)	(737,628)	(979,720)	(73,233,663)
(3,109,329)	(2,744,742)	(3,876,184)	(199,663)	(429,256)	(25,487,065)
(250,905)	1,907,579	1,901,538	(101,726)	591,030	13,884,209
-	1,340,080	245,538	-	-	2,461,618
-	-	-	-	-	318,145
-	-	-	-	-	(380,000)
-	-	-	-	-	(6,870,388)
-	-	-	-	-	(4,561,668)
-	-	-	-	-	(9,063)
-	1,340,080	245,538	-	-	(9,041,356)
-	(2,263,383)	(272,337)	(338,616)	(26,480)	(2,900,816)
-	(58,032)	-	-	(271,527)	(329,559)
-	(30,930)	-	-	(53,663)	(84,593)
-	(2,352,345)	(272,337)	(338,616)	(351,670)	(3,314,968)
9,780	71,200	75,194	10,326	11,926	435,085
9,780	71,200	75,194	10,326	11,926	435,085
(241,125)	966,514	1,949,933	(430,016)	251,286	1,962,970
702,664	2,439,956	3,755,476	819,273	924,413	18,648,790
\$ 461,539	\$ 3,406,470	\$ 5,705,409	\$ 389,257	\$ 1,175,699	\$ 20,611,760

CITY OF STOCKTON
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012

	General Liability Insurance	Workers' Compensation Insurance	Employee Health Insurance	Retirement Benefits
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ (1,197,155)	\$ (3,901,310)	\$ (19,351,623)	\$ (1,368,952)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	-	-	-	54,171
Other non-operating revenues	-	2,000	3,482,331	-
Changes in assets and liabilities:				
Accounts and other receivables	144,307	-	86,820	-
Deposits and advances	-	-	-	-
Deferred charges	-	-	-	54,171
Pension asset	-	-	-	7,318,542
Accounts payable	26,869	70,242	169,337	1,500
Compensated absences	(13,058)	1,901	14,587	-
Self-insurance - claims and judgments	1,883,849	4,707,064	4,100	-
Net OPEB obligation	-	-	17,647,000	-
Net cash provided by (used for) operating activities	<u>\$ 844,812</u>	<u>\$ 879,897</u>	<u>\$ 2,052,552</u>	<u>\$ 6,059,432</u>
NONCASH TRANSACTIONS:				
Transfer of capital assets from other funds	-	-	-	-
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS:				
Cash and investments	\$ 2,551,210	\$ 2,885,160	\$ 2,747,100	\$ 1,287,979
Restricted assets:				
Cash with investments fiscal agents	-	-	-	1,937
Total cash and investments	<u>\$ 2,551,210</u>	<u>\$ 2,885,160</u>	<u>\$ 2,747,100</u>	<u>\$ 1,289,916</u>

<u>Other Benefits & Insurance</u>	<u>Vehicle Fleet Equipment</u>	<u>Computer Equipment</u>	<u>Radio Equipment</u>	<u>Other Equipment</u>	<u>Total</u>
\$ (257,331)	\$ 359,054	\$ 1,435,762	\$ (62,386)	\$ 665,770	\$ (23,678,171)
-	1,540,626	354,185	124,918	189,032	2,262,932
-	(47)	-	-	-	3,484,284
692	(240)	31	-	(290)	231,320
-	-	(111,668)	-	-	(111,668)
-	-	-	-	-	54,171
-	-	-	-	-	7,318,542
5,734	(15,450)	220,876	(161,609)	(267,361)	50,138
-	23,636	2,352	(2,649)	3,879	30,648
-	-	-	-	-	6,595,013
-	-	-	-	-	17,647,000
<u>\$ (250,905)</u>	<u>\$ 1,907,579</u>	<u>\$ 1,901,538</u>	<u>\$ (101,726)</u>	<u>\$ 591,030</u>	<u>\$ 13,884,209</u>
-	720	-	-	-	720
\$ 461,539	\$ 3,406,470	\$ 5,705,409	\$ 389,257	\$ 1,175,699	\$ 20,609,823
-	-	-	-	-	1,937
<u>\$ 461,539</u>	<u>\$ 3,406,470</u>	<u>\$ 5,705,409</u>	<u>\$ 389,257</u>	<u>\$ 1,175,699</u>	<u>\$ 20,611,760</u>





CITY OF STOCKTON



AGENCY FUNDS

AGENCY FUNDS

Agency funds are a type of fiduciary fund used to account for assets held in an agency capacity for parties outside the City. The resources of these funds cannot be used to support the City's own programs.

The City's agency funds include:

Land Secured Financing Agency Fund

To account for special taxes or assessment collections from property owners that are authorized under various public improvement acts of the State of California. The City acts only as an agent and forwards collections to bondholders and initiated foreclosure proceedings when necessary.

Area of Benefit Fees Agency Fund

To account for the collection of developer fees, proportionate share fees, and reimbursement of construction costs required as a condition of a development or subdivision for approved public improvements within established areas of benefit.

Public Facilities Fees Agency Fund

To account for fees collected on behalf of other governments and agencies related to community new development impacts.

Miscellaneous Agency Fund

To account for deposits held by the City as security for construction improvements and development, unified utility bill collections on behalf of other entities, and for other deposits held in a fiduciary capacity.

All Other Agency Funds

To account for various cultural, recreational and educational programs that the City administers on behalf of other governmental and private sector entities and organizations.

CITY OF STOCKTON
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
- AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<u>Land Secured Financing</u>				
ASSETS				
Cash and investments	\$ 31,041,100	\$ 19,281,338	\$ 19,345,167	\$ 30,977,271
Cash and investments with fiscal agents	17,263,167	17,974,363	18,320,887	16,916,643
Receivables:				
Interest	101,784	101,921	101,784	101,921
Accounts and other receivables	135,183	18,419,968	18,523,304	31,847
Total assets	<u>\$ 48,541,234</u>	<u>\$ 55,777,590</u>	<u>\$ 56,291,142</u>	<u>\$ 48,027,682</u>
LIABILITIES				
Accounts payable	\$ 46,090	\$ 372,119	\$ 418,209	\$ -
Deposits and other liabilities	48,495,144	19,006,687	19,474,149	48,027,682
Total liabilities	<u>\$ 48,541,234</u>	<u>\$ 19,378,806</u>	<u>\$ 19,892,358</u>	<u>\$ 48,027,682</u>
 <u>Area of Benefit Fees</u>				
ASSETS				
Cash and investments	\$ 12,018,131	\$ 800,772	\$ 63,250	\$ 12,755,653
Total assets	<u>\$ 12,018,131</u>	<u>\$ 800,772</u>	<u>\$ 63,250</u>	<u>\$ 12,755,653</u>
LIABILITIES				
Deposits and other liabilities	\$ 12,018,131	\$ 737,522	\$ -	\$ 12,755,653
Total liabilities	<u>\$ 12,018,131</u>	<u>\$ 737,522</u>	<u>\$ -</u>	<u>\$ 12,755,653</u>
 <u>Public Facilities Fees</u>				
ASSETS				
Cash and investments	\$ 1,187,033	\$ 989,291	\$ 1,081,723	\$ 1,094,601
Receivables:				
Accounts and other receivables	9,871	-	9,871	-
Total assets	<u>\$ 1,196,904</u>	<u>\$ 989,291</u>	<u>\$ 1,091,594</u>	<u>\$ 1,094,601</u>
LIABILITIES				
Accounts payable	\$ 378,713	\$ 923,680	\$ 996,512	\$ 305,881
Due to other governments	818,191	1,014,047	1,043,518	788,720
Total liabilities	<u>\$ 1,196,904</u>	<u>\$ 1,937,727</u>	<u>\$ 2,040,030</u>	<u>\$ 1,094,601</u>

CITY OF STOCKTON
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
- AGENCY FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<u>Miscellaneous</u>				
ASSETS				
Cash and investments	\$ 5,868,593	\$ 112,837,222	\$ 113,062,645	\$ 5,643,170
Receivables:				
Accounts and other receivables	1,066,105	13,439,852	13,343,588	1,162,369
Total assets	<u>\$ 6,934,698</u>	<u>\$ 126,277,074</u>	<u>\$ 126,406,233</u>	<u>\$ 6,805,539</u>
LIABILITIES				
Accounts payable	\$ (6,328)	725,818	\$ 698,980	\$ 20,510
Due to other governments	33,487	270,218	288,802	14,903
Deposits and other liabilities	6,907,539	113,017,011	113,154,423	6,770,127
Total liabilities	<u>\$ 6,934,698</u>	<u>\$ 114,013,047</u>	<u>\$ 114,142,205</u>	<u>\$ 6,805,540</u>
 <u>All Other</u>				
ASSETS				
Cash and investments	\$ 429,195	\$ 349,244	\$ 344,312	\$ 434,127
Receivables:				
Accounts and other receivables		110,331	106,293	4,038
Due from other governments	955	803	955	803
Total assets	<u>\$ 430,150</u>	<u>\$ 460,378</u>	<u>\$ 451,560</u>	<u>\$ 438,968</u>
LIABILITIES				
Accounts payable	\$ 14,193	\$ 297,369	\$ 302,202	\$ 9,360
Deposits and other liabilities	415,957	341,556	327,905	429,608
Total liabilities	<u>\$ 430,150</u>	<u>\$ 638,925</u>	<u>\$ 630,107</u>	<u>\$ 438,968</u>
 <u>Total</u>				
ASSETS				
Cash and investments	\$ 50,544,052	\$ 134,257,867	\$ 133,897,097	\$ 50,904,822
Cash and investments with fiscal agents	17,263,167	17,974,363	18,320,887	16,916,643
Receivables:				
Interest	101,784	101,921	101,784	101,921
Accounts and other receivables	1,211,159	31,970,151	31,983,056	1,198,254
Due from other governments	955	803	955	803
Total assets	<u>\$ 69,121,117</u>	<u>\$ 184,305,105</u>	<u>\$ 184,303,779</u>	<u>\$ 69,122,443</u>
LIABILITIES				
Accounts payable	\$ 432,668	\$ 2,318,985	\$ 2,415,903	\$ 335,750
Due to other governments	851,678	1,284,265	1,332,320	803,623
Deposits and other liabilities	67,836,771	133,102,776	132,956,477	67,983,070
Total liabilities	<u>\$ 69,121,117</u>	<u>\$ 136,706,026</u>	<u>\$ 136,704,700</u>	<u>\$ 69,122,443</u>





CITY OF STOCKTON



STATISTICAL SECTION

STATISTICAL SECTION

The Statistical Section provides financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.

The Statistical Section is required by the Governmental Accounting Standards Board (GASB) to be reported in the following sections:

<u>Contents</u>	<u>Page</u>
Financial Trends Information	183
Helps readers understand how the City's financial position and well-being have changed over time.	
Revenue Capacity Information	195
Helps readers understand and assess the City's ability to generate its own sources of revenue, the most significant local revenue source being property tax.	
Debt Capacity Information	204
Helps readers understand and assess the City's current level of outstanding debt and its ability to issue additional debt.	
Demographic and Economic Information	212
Helps readers understand the socioeconomic environment within which the City's financial activities take place, and provides information to facilitate comparisons of financial statement information over time and among other governments.	
Operating Information	214
Information about the City's operations and resources to help readers use financial information to understand and assess the related services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF STOCKTON

TABLE 1

NET ASSETS BY COMPONENT

LAST TEN FISCAL YEARS

(Dollar amounts in thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
Governmental activities:					
Invested in capital assets, net of related debt	\$ 703,266	\$ 645,249	\$ 612,914	\$ 611,775	\$ 594,070
Restricted	84,099	122,730	188,655	162,363	172,088
Unrestricted	(114,859)	(169,356)	(139,549)	(66,091)	(21,053)
Total governmental activities net assets	\$ 672,506	\$ 598,623	\$ 662,020	\$ 708,047	\$ 745,105
Business-type activities:					
Invested in capital assets, net of related debt	\$ 432,082	\$ 414,066	\$ 402,215	\$ 400,551	\$ 399,813
Restricted	27,976	33,558	30,751	35,408	39,568
Unrestricted	54,340	61,172	41,442	42,449	39,138
Total business-type activities net assets	\$ 514,398	\$ 508,796	\$ 474,408	\$ 478,408	\$ 478,519
Primary government:					
Invested in capital assets, net of related debt	\$ 1,135,348	\$ 1,059,315	\$ 1,015,129	\$ 1,012,326	\$ 993,883
Restricted	112,075	156,288	219,406	197,771	211,656
Unrestricted	(60,519)	(108,184)	(98,107)	(23,642)	18,085
Total primary government net assets	\$ 1,186,904	\$ 1,107,419	\$ 1,136,428	\$ 1,186,455	\$ 1,223,624

Note: Some prior year balances may have been restated from previous CAFRs to reflect new GASB implementations or prior period adjustments.

Beginning with fiscal year 2006, land secured financings were removed from government-wide financial statements. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year				
2007	2006	2005	2004	2003
\$ 636,838	\$ 603,068	\$ 529,250	\$ 289,507	\$ 215,070
161,995	154,758	134,804	143,431	144,275
(338)	(8,497)	(19,407)	5,071	16,162
<u>\$ 798,495</u>	<u>\$ 749,329</u>	<u>\$ 644,647</u>	<u>\$ 438,009</u>	<u>\$ 375,507</u>
\$ 387,198	\$ 368,222	\$ 348,229	\$ 302,497	\$ 265,548
46,850	48,454	55,386	52,415	29,799
32,645	30,465	30,282	48,023	83,815
<u>\$ 466,693</u>	<u>\$ 447,141</u>	<u>\$ 433,897</u>	<u>\$ 402,935</u>	<u>\$ 379,162</u>
\$ 1,024,036	\$ 971,290	\$ 877,479	\$ 592,004	\$ 480,618
208,845	203,212	190,190	195,846	174,074
32,307	21,968	10,875	53,094	99,977
<u>\$ 1,265,188</u>	<u>\$ 1,196,470</u>	<u>\$ 1,078,544</u>	<u>\$ 840,944</u>	<u>\$ 754,669</u>

CITY OF STOCKTON
TABLE 2
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
Expenses					
Governmental activities:					
General government	\$ 41,548	\$ 40,873	\$ 30,765	\$ 33,923	\$ 27,819
Public safety	154,230	182,582	187,647	190,692	181,187
Public works	34,635	48,826	56,416	43,985	134,737
Library	10,176	11,589	12,767	14,852	14,723
Parks and recreation	20,760	24,435	22,309	26,038	33,138
Interest and fiscal charges	20,529	19,274	20,430	19,620	17,921
Total governmental activities	\$ 281,878	\$ 327,579	\$ 330,334	\$ 329,110	\$ 409,525
Business-type activities:					
Water utility	\$ 30,162	\$ 35,909	\$ 28,856	\$ 24,146	\$ 22,070
Wastewater utility	51,530	49,234	45,958	49,414	40,045
Stormwater utility	6,685	7,406	7,842	8,129	6,696
Central parking district	4,903	4,264	4,616	4,810	5,002
Other	3,750	3,517	2,394	2,237	2,093
Total business-type activities	97,030	100,330	89,666	88,736	75,906
Total expenses	\$ 378,908	\$ 427,909	\$ 420,000	\$ 417,846	\$ 485,431
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 15,342	\$ 17,079	\$ 11,387	\$ 13,180	\$ 12,141
Public safety	15,002	16,765	18,812	22,131	30,738
Public works	6,255	15,005	17,755	19,750	30,429
Library	719	593	504	4,800	1,462
Parks and recreation	6,037	7,353	6,464	2,104	9,741
Operating grants and contributions	20,460	22,355	17,251	16,051	10,352
Capital grants and contributions	54,487	50,112	40,661	33,112	43,874
Total governmental activities	\$ 118,302	\$ 129,262	\$ 112,834	\$ 111,128	\$ 138,737
Business-type activities:					
Charges for services:					
Water utility	\$ 33,308	\$ 30,056	\$ 25,775	\$ 24,258	\$ 22,882
Wastewater utility	50,324	42,598	37,271	35,607	33,661
Stormwater utility	5,888	5,879	5,655	5,498	6,160
Central parking district	3,487	3,585	3,672	3,934	3,815
Other	2,071	1,852	1,701	-	-
Operating grants and contributions	7,955	4,175	2,482	1,845	2,065
Capital grants and contributions	6,359	15,960	4,917	4,409	13,251
Total business-type activities	109,392	104,105	81,473	75,551	81,834
Total program revenues	\$ 227,694	\$ 233,367	\$ 194,307	\$ 186,679	\$ 220,571
Net (Expense)/Revenue					
Governmental activities	\$ (163,576)	\$ (198,317)	\$ (217,500)	\$ (217,982)	\$ (270,788)
Business-type activities	12,362	3,775	(8,193)	(13,185)	5,928
Total net expense	\$ (151,214)	\$ (194,542)	\$ (225,693)	\$ (231,167)	\$ (264,860)

Fiscal Year				
2007	2006	2005	2004	2003
\$ 26,517	\$ 20,171	\$ 19,894	\$ 17,569	\$ 15,454
161,895	149,512	145,703	125,837	126,815
59,897	36,481	33,328	42,848	46,031
13,261	13,545	13,190	11,530	11,594
27,429	26,352	19,365	15,854	15,397
11,746	4,136	4,346	13,081	11,954
<u>\$ 300,745</u>	<u>\$ 250,197</u>	<u>\$ 235,826</u>	<u>\$ 226,719</u>	<u>\$ 227,245</u>
\$ 21,750	\$ 19,063	\$ 14,809	\$ 15,548	\$ 14,672
42,084	36,458	31,607	32,674	29,427
7,219	6,009	5,653	6,910	5,657
4,238	3,162	2,487	2,585	2,260
2,057	2,460	2,448	5,022	4,991
<u>77,348</u>	<u>67,152</u>	<u>57,004</u>	<u>62,739</u>	<u>57,007</u>
<u>\$ 378,093</u>	<u>\$ 317,349</u>	<u>\$ 292,830</u>	<u>\$ 289,458</u>	<u>\$ 284,252</u>
\$ 8,429	\$ 10,154	\$ 11,264	\$ 7,962	\$ 9,928
32,447	37,603	39,329	29,960	46,677
21,140	35,054	23,733	21,683	8,693
1,105	1,489	1,920	1,859	515
9,957	12,407	9,988	10,050	1,736
11,065	12,388	9,715	7,924	8,741
83,238	45,745	44,309	47,789	48,914
<u>\$ 167,381</u>	<u>\$ 154,840</u>	<u>\$ 140,258</u>	<u>\$ 127,227</u>	<u>\$ 125,204</u>
\$ 23,092	\$ 20,268	\$ 20,125	\$ 18,328	\$ 15,576
33,099	32,746	31,926	30,483	29,432
5,088	5,063	4,751	4,827	4,391
3,474	3,502	2,696	2,694	2,645
-	-	-	-	-
1,988	2,284	2,433	4,639	7,428
23,721	20,324	28,655	31,535	37,765
<u>90,462</u>	<u>84,187</u>	<u>90,586</u>	<u>92,506</u>	<u>97,237</u>
<u>\$ 257,843</u>	<u>\$ 239,027</u>	<u>\$ 230,844</u>	<u>\$ 219,733</u>	<u>\$ 222,441</u>
\$ (133,364)	\$ (95,357)	\$ (95,568)	\$ (99,492)	\$ (102,041)
13,114	17,035	33,582	29,767	40,230
<u>\$ (120,250)</u>	<u>\$ (78,322)</u>	<u>\$ (61,986)</u>	<u>\$ (69,725)</u>	<u>\$ (61,811)</u>

CITY OF STOCKTON
TABLE 2 (Continued)
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
General Revenues and Other					
Changes in Net Assets:					
Governmental activities:					
Taxes:					
Property	\$ 32,772	\$ 41,051	\$ 45,549	\$ 58,640	\$ 63,998
In lieu of sales tax	8,392	8,118	7,087	9,823	10,164
Utility user	31,505	30,994	30,717	30,854	30,861
Sales - levied by City (1)	8,576	7,875	7,652	7,921	9,409
Franchise fees	12,465	11,503	11,354	11,608	11,537
Business licenses	9,873	9,855	9,717	9,699	10,772
Hotel/motel room	1,933	1,799	1,749	1,962	2,287
Document transfer	603	583	559	702	686
Special assessments	-	-	-	-	-
Other	159	155	203	234	246
Shared revenue:					
Vehicle license fees	17,734	20,014	20,468	23,459	24,051
Sales and use tax levied by state	32,604	30,061	28,856	31,245	36,098
Other	-	352	361	370	389
Investment earnings	2,802	1,620	5,927	13,104	15,007
Gain on sale of capital assets	-	-	8	127	88
Miscellaneous	974	1,083	172	722	756
Special item	-	3,270	(288)	(8,736)	-
Transfers	1,718	542	1,382	803	1,049
Extraordinary item	75,350	-	-	-	-
Total governmental activities	\$ 237,460	\$ 168,875	\$ 171,473	\$ 192,537	\$ 217,398
Business-type activities:					
Other taxes	\$ 1,205	\$ 1,152	\$ 1,095	\$ 1,066	\$ 1,055
Grants and contributions not restricted to specific programs	-	-	-	-	-
Investment earnings	1,865	3,176	4,192	4,075	5,892
Gain on sale of capital assets	-	-	-	-	-
Miscellaneous	(18,012)	-	-	-	-
Special item	-	-	288	8,736	-
Transfers	(1,718)	(542)	(1,382)	(803)	(1,049)
Total business-type activities	(16,660)	3,786	4,193	13,074	5,898
Total general revenues and other changes in net assets	\$ 220,800	\$ 172,661	\$ 175,666	\$ 205,611	\$ 223,296
Change in Net Assets					
Governmental activities	\$ 73,884	\$ (29,442)	\$ (46,027)	\$ (25,445)	\$ (53,390)
Business-type activities	(4,298)	7,561	(4,000)	(111)	11,826
Total primary government	\$ 69,586	\$ (21,881)	\$ (50,027)	\$ (25,556)	\$ (41,564)

Note: Beginning with fiscal year 2006, land secured financings were removed from government-wide financial statements. For comparative purposes, 2005 balances have been restated to reflect this change.

(1) Measure W-Public Safety Tax, approved an additional .25% sales tax which was effective April 1, 2005 to hire up to 40 additional police officers and 40 additional firefighters. Fiscal 2006 included two additional months of sales tax revenue to align revenues to the month they were earned.

(2) In fiscal year 2010-11 Net Assets were restated for prior period adjustments for the Government activities and Business-type activities. See financial statement footnote #15 prior period adjustments for more information.

Source: City of Stockton Department of Administrative Services

		Fiscal Year							
		2007	2006	2005	2004	2003			
\$	60,015	\$	47,495	\$	33,723	\$	28,365	\$	23,449
	11,070		9,274		8,750		-		-
	30,101		34,313		34,908		33,322		32,157
	9,249		9,941		1,047		-		-
	10,817		10,333		9,812		5,725		5,623
	10,285		11,222		8,960		8,014		7,899
	2,180		2,171		2,160		2,030		2,048
	1,187		2,010		2,036		1,525		1,043
	-		-		-		18,211		18,591
	257		218		373		187		174
	22,661		18,173		14,548		11,633		15,008
	36,745		42,063		37,198		40,333		36,628
	384		456		1,589		1,705		1,685
	11,436		3,457		5,554		1,243		5,310
	-		-		-		496		449
	786		1,010		6,603		1,652		2,896
	-		-		-		-		-
	516		7,903		8,076		7,553		6,477
	-		-		-		-		-
\$	207,689	\$	200,039	\$	175,337	\$	161,994	\$	159,437
\$	981	\$	713	\$	733	\$	675	\$	596
	-		-		881		-		1,909
	5,973		3,399		3,842		808		4,052
	-		-		-		76		-
	-		-		-		-		-
	-		-		-		-		-
	(516)		(7,903)		(8,076)		(7,553)		(6,477)
	6,438		(3,791)		(2,620)		(5,994)		80
\$	214,127	\$	196,248	\$	172,717	\$	156,000	\$	159,517
\$	74,325	\$	104,682	\$	79,769	\$	62,502	\$	57,396
	19,552		13,244		30,962		23,773		40,310
\$	93,877	\$	117,926	\$	110,731	\$	86,275	\$	97,706

CITY OF STOCKTON

TABLE 3

FUND BALANCES, GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Dollar amounts in thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
General Fund					
Nonspendable	\$ 355	\$ 317	\$ 13,466	\$ -	\$ -
Restricted	2,100	2,100	2,100	-	-
Committed	8,072	5,081	1,851	-	-
Assigned	4,110	4,758	5,730	-	-
Unassigned	-	-	-	-	-
Total General Fund	\$ 14,637	\$ 12,256	\$ 23,147	\$ -	\$ -
All other governmental funds					
Nonspendable	\$ 370	\$ 304	\$ 1,604	\$ -	\$ -
Restricted	83,636	115,700	228,190	-	-
Committed	-	-	67,466	-	-
Assigned	-	-	1,815	-	-
Unassigned	(18,775)	(15,017)	(63,475)	-	-
Total all other governmental funds	\$ 65,231	\$ 100,987	\$ 235,600	\$ -	\$ -
Total Fund Balances	\$ 79,868	\$ 113,243	\$ 258,747	\$ -	\$ -

	Fiscal Year				
	2012	2011	2010	2009	2008
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ 14,175	\$ 13,498
Unreserved	-	-	-	8,607	9,627
Total General Fund	\$ -	\$ -	\$ -	\$ 22,782	\$ 23,125
All other governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ 285,941	\$ 289,368
Unreserved, reported in:					
Special revenue funds	-	-	-	6,417	24,677
Debt service funds	-	-	-	-	38
Capital projects funds	-	-	-	(53,248)	(25,307)
Permanent Fund	-	-	-	358	333
Total all other governmental funds	\$ -	\$ -	\$ -	\$ 239,468	\$ 289,109
Total Fund Balances	\$ -	\$ -	\$ -	\$ 262,250	\$ 312,234

Notes:

The City implemented the provisions of GASB Statement #54 in fiscal year 2010 which changed the fund balance classifications. The implementation was implemented prospectively. Other prior year balances were changed based on prior period adjustments.

Beginning with fiscal year 2006 land secured financing activity was removed from the capital projects funds and debt service funds and reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances were restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year				
2007	2006	2005	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -

Fiscal Year				
2007	2006	2005	2004	2003
\$ 13,231	\$ 8,352	\$ 6,958	\$ 6,117	\$ 6,255
15,761	23,116	16,506	11,730	11,765
\$ 28,992	\$ 31,468	\$ 23,464	\$ 17,847	\$ 18,020
\$ 298,541	\$ 197,170	\$ 246,051	\$ 317,874	\$ 243,715
3,986	(20,727)	(57,435)	8,627	14,151
(196)	(213)	(42)	(179)	20
(27,899)	(26,296)	(27,487)	(46,437)	(34,948)
297	252	265	207	230
\$ 274,729	\$ 150,186	\$ 161,352	\$ 280,092	\$ 223,168
\$ 303,721	\$ 181,654	\$ 184,816	\$ 297,939	\$ 241,188

CITY OF STOCKTON

TABLE 4

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Dollar amounts in thousands)

	Fiscal Year		
	2012	2011	2010
Revenues:			
Taxes:			
Property	\$ 32,772	\$ 41,051	\$ 45,549
In lieu of sales tax	8,392	8,118	7,087
Utility user	31,505	30,994	30,717
Sales (levied by City) (1)	8,576	7,875	7,652
Franchise fees	12,465	11,503	11,354
Business license	9,873	9,855	9,717
Hotel/motel room	1,933	1,799	1,749
Document transfer	603	583	559
Special assessments	-	-	-
Other	159	155	203
Licenses and permits	4,024	3,584	4,257
Federal grants and subsidies	19,927	33,244	26,034
Other shared revenue (sales and use tax levied by state) (1)	32,604	30,061	28,856
Other governmental	66,985	47,929	47,779
Charges for services	21,655	21,262	26,174
Fines and forfeitures	2,792	3,538	5,090
Use of money and property	11,848	14,966	11,962
Investment income:			
Interest income	2,367	1,339	5,352
Refunds and reimbursements	3,213	9,790	5,186
Miscellaneous	6,088	7,594	8,449
Total revenues	<u>\$ 277,781</u>	<u>\$ 285,240</u>	<u>\$ 283,726</u>
Expenditures:			
Current:			
General government	\$ 22,742	\$ 30,900	\$ 21,818
Public safety	139,047	152,527	152,714
Public works	13,989	13,528	14,029
Library	9,537	10,252	11,041
Parks and recreation	16,887	19,669	17,948
Capital outlay	68,005	66,975	84,194
Debt service:			
Principal retirement	5,883	22,661	11,739
Cost of issuance	-	-	846
Interest and fiscal charges	13,531	12,706	12,523
Total expenditures	<u>\$ 289,621</u>	<u>\$ 329,218</u>	<u>\$ 326,852</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (11,840)</u>	<u>\$ (43,978)</u>	<u>\$ (43,126)</u>

		Fiscal Year						
		2009	2008	2007	2006	2005	2004	2003
\$	58,640	\$ 63,998	\$ 60,015	\$ 47,495	\$ 33,723	\$ 28,365	\$ 23,449	
	9,823	10,164	11,070	9,274	8,750	-	-	
	30,854	30,861	30,101	34,313	34,908	33,322	32,157	
	7,921	9,409	9,249	9,941	1,047	-	-	
	11,608	11,537	10,817	10,333	9,812	5,725	5,623	
	9,699	10,772	10,285	11,222	8,960	8,014	8,065	
	1,962	2,287	2,180	2,171	2,160	2,030	2,048	
	702	686	1,187	2,010	2,036	1,525	1,043	
	-	-	-	-	-	18,211	18,591	
	234	246	257	218	193	187	174	
	4,335	5,273	6,777	8,960	11,112	9,977	11,444	
	12,976	13,617	26,532	21,529	10,465	11,301	15,598	
	31,245	36,098	36,745	42,063	35,904	40,333	36,628	
	53,498	59,976	63,064	52,402	44,737	35,330	40,025	
	31,462	55,244	51,739	66,443	61,903	57,316	43,181	
	4,499	3,321	3,323	3,933	3,250	1,905	1,490	
	13,234	12,922	9,709	6,274	3,370	1,640	2,011	
	11,375	13,100	9,789	2,831	5,019	1,176	5,055	
	4,113	4,253	8,199	8,284	5,524	3,213	4,864	
	13,429	8,515	9,163	8,707	11,662	6,314	8,791	
\$	311,609	\$ 352,279	\$ 360,201	\$ 348,403	\$ 294,535	\$ 265,884	\$ 260,237	
\$	24,272	\$ 22,285	\$ 20,030	\$ 23,935	\$ 23,520	\$ 22,812	\$ 16,321	
	163,339	168,372	163,479	157,299	142,211	123,948	112,668	
	16,113	18,464	19,478	30,959	27,346	38,122	33,987	
	12,485	13,432	12,648	13,283	12,391	11,303	10,475	
	22,376	27,185	25,747	25,637	17,931	14,937	13,330	
	105,384	135,071	98,819	101,399	108,560	60,827	60,390	
	3,973	1,017	591	689	669	8,356	9,654	
	99	777	2,069	341	22	2,177	983	
	11,938	10,771	7,892	4,314	4,183	12,460	11,937	
\$	359,979	\$ 397,374	\$ 350,753	\$ 357,856	\$ 336,833	\$ 294,942	\$ 269,745	
\$	(48,370)	\$ (45,095)	\$ 9,448	\$ (9,453)	\$ (42,298)	\$ (29,058)	\$ (9,508)	

CITY OF STOCKTON

TABLE 4 (Continued)

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Dollar amounts in thousands)

	Fiscal Year		
	2012	2011	2010
Other financing sources (uses):			
Capital contributions	\$ -	\$ (284)	\$ -
Transfers in	24,706	78,125	35,341
Transfers out	(25,450)	(74,128)	(34,357)
Operating transfers out to a component unit	-	-	-
Issuance of long-term debt	533	30	39,702
Sales of capital assets	-	1,127	-
Payment to refunded bond escrow agent	-	-	-
Premiums on debt issuances	-	-	-
Discounts on debt issuances	-	-	(775)
Total other financing sources (uses)	\$ (211)	\$ 4,870	\$ 39,911
Special items	(21,324)	3,270	(288)
Net change in fund balances	(33,375)	(35,838)	(3,503)
Fund balances, beginning of year, as restated	113,244	258,748	262,250
Prior period adjustments	-	(109,666)	-
Fund balances, end of year, as restated	\$ 79,869	\$ 113,244	\$ 258,747
Debt service as a percentage of noncapital expenditures	8.8%	13.4%	9.9%

(1) Measure W, Public Safety Tax, an additional .25% sales tax approved by voters, effective April 1, 2005 allowed for adding up to 40 police officers and 40 firefighters. Fiscal 2006 included two additional months of sales tax revenue to align revenues to the month they were earned.

Note: Some prior year balances may have been restated from previous CAFRs to reflect new GASB implementations or prior period adjustments.

Beginning fiscal year 2006, land secured financings were removed from capital projects and debt service funds and are reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year						
2009	2008	2007	2006	2005	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
46,051	59,991	78,825	45,192	46,449	64,132	71,393
(45,381)	(59,839)	(80,506)	(38,821)	(39,845)	(59,459)	(65,969)
-	-	-	-	-	-	-
6,343	53,436	110,509	14,608	592	79,713	38,110
109	44	5	2	2	5	719
-	-	-	(14,604)	-	-	(17,205)
-	-	2,377	-	-	1,637	-
-	(24)	-	(86)	-	(219)	(554)
\$ 7,122	\$ 53,608	\$ 111,210	\$ 6,291	\$ 7,198	\$ 85,809	\$ 26,494
(8,736)	-	-	-	-	-	-
(49,984)	8,513	120,658	(3,162)	(35,100)	56,751	16,986
312,234	303,721	183,063	184,816	219,916	241,188	224,202
-	-	-	-	-	-	-
\$ 262,250	\$ 312,234	\$ 303,721	\$ 181,654	\$ 184,816	\$ 297,939	\$ 241,188
5.9%	4.2%	3.7%	2.1%	2.2%	10.9%	12.1%

CITY OF STOCKTON

**TABLE 5
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)**

	Fiscal Year				
	2012	2011	2010	2009	2008
Property (1)	\$ 32,772	\$ 41,051	\$ 45,549	\$ 58,640	\$ 63,998
In lieu of sales tax (2)	8,392	8,118	7,087	9,823	10,164
Utility user (3)	31,505	30,994	30,717	30,854	30,861
Sales (levied by city) (4)	8,576	7,875	7,652	7,921	9,409
Franchise fees (5)	12,465	11,503	11,354	11,608	11,537
Business licenses (6)	9,873	9,855	9,717	9,699	10,772
Hotel/motel room	1,933	1,799	1,749	1,962	2,287
Document transfer (7)	603	583	559	702	686
Special assessments (8)	-	-	-	-	-
Other	159	155	203	234	246
Totals	\$ 106,278	\$ 111,933	\$ 114,587	\$ 131,443	\$ 139,960

(1) Property taxes decreased beginning in 2009 due to declining residential home values and foreclosures, resulting in a devaluation of City’s assessed valuation performed by San Joaquin County.

(2) Effective with fiscal year 2005, the City began receiving property tax in-lieu of sales tax under provisions of Proposition 1A approved by the voters of the State of California. Fluctuations are due to the value of property when sold.

(3) The City Council approved a resolution in fiscal year 2005 to reduce the utility user tax rate from 8% to 6%, with the final reduction from 7% to 6% effective July 1, 2006. Mild winter weather combined with lower prices for natural gas to PG & E customers added to the overall reduction in revenues since 2006.

(4) Measure W, Public Safety Tax, approved an additional .25% sales tax which was effective April 1, 2005 to hire up to 40 additional police officers and 40 additional firefighters. Fiscal 2006 included two additional months of sales tax revenue to align revenues to the month they were earned.

(5) Contracts effective June 1, 2004 increased garbage haulers franchise fees.

(6) Business license revenue increased in 2006 based on the revenue generated through the Voluntary Compliance (amnesty) Program.

(7) Document transfer fees are charged when property changes ownership. Home and other property sales have slowed considerably since 2006.

(8) Beginning with fiscal year 2006, land secured financings were removed from the debt service funds and reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Department of Administrative Services

Fiscal Year						% Change 2003 (or inception) to 2012
2007	2006	2005	2004	2003		
\$ 60,015	\$ 47,495	\$ 33,723	\$ 28,365	\$ 23,449	40%	
11,070	9,274	8,750	-	-	0%	
30,101	34,313	34,908	33,322	32,157	-2%	
9,249	9,941	1,047	-	-	0%	
10,817	10,333	9,812	5,725	5,623	122%	
10,285	11,222	8,960	8,014	8,065	22%	
2,180	2,171	2,160	2,030	2,048	-6%	
1,187	2,010	2,036	1,525	1,043	-42%	
-	-	-	18,211	18,591	-100%	
257	218	193	187	174	-9%	
<u>\$ 135,161</u>	<u>\$ 126,977</u>	<u>\$ 101,589</u>	<u>\$ 97,379</u>	<u>\$ 91,150</u>	<u>17%</u>	

CITY OF STOCKTON

TABLE 6

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)**

	Fiscal Year			
	2012	2011	2010	2009
Secured roll	\$ 16,575,192	\$ 17,388,579	\$ 18,339,819	\$ 20,988,391
Utility roll	7,204	7,119	7,081	5,633
Unsecured roll	1,566,928	1,606,951	1,628,749	1,588,293
Gross assessed value	\$ 18,149,324	\$ 19,002,649	\$ 19,975,649	\$ 22,582,317
Less exemptions (1)	1,654,143	1,584,109	1,514,454	1,398,902
Net assessed value	\$ 16,495,181	\$ 17,418,540	\$ 18,461,195	\$ 21,183,415
Land	\$ 4,168,722	\$ 4,461,053	\$ 4,817,327	\$ 6,387,373
Improvements	12,846,828	13,284,209	13,910,082	14,984,980
Personal property	1,133,774	1,257,387	1,248,240	1,209,964
Gross assessed value	\$ 18,149,324	\$ 19,002,649	\$ 19,975,649	\$ 22,582,317
Less exemptions (1)	1,654,143	1,584,109	1,514,454	1,398,902
Net assessed value	\$ 16,495,181	\$ 17,418,540	\$ 18,461,195	\$ 21,183,415
Total Direct Tax Rate	1.00%	1.00%	1.00%	1.00%

(1) For FY 2012, all exemptions (secured, utility, and unsecured rolls) are: homeowners - \$245,891,964 and other - \$1,408,250,793 = \$1,654,142,757.

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the property being sold is reassessed at the purchase price. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Auditor-Controller's Office

Fiscal Year					
2008	2007	2006	2005	2004	2003
\$ 21,520,451	\$ 19,823,995	\$ 16,860,177	\$ 14,398,725	\$ 12,567,832	\$ 11,300,938
5,652	14,092	15,883	16,316	15,054	12,683
1,234,912	1,195,948	1,127,627	1,015,499	951,164	904,354
\$ 22,761,015	\$ 21,034,035	\$ 18,003,687	\$ 15,430,540	\$ 13,534,050	\$ 12,217,975
1,302,249	1,238,271	1,185,310	1,111,509	1,061,968	1,003,662
\$ 21,458,766	\$ 19,795,764	\$ 16,818,377	\$ 14,319,031	\$ 12,472,082	\$ 11,214,313
\$ 6,661,962	\$ 5,992,555	\$ 4,811,339	\$ 4,104,660	\$ 3,532,906	\$ 3,132,565
15,092,621	14,034,608	12,251,910	10,509,572	9,220,951	8,350,637
1,006,432	1,006,872	940,438	816,308	780,193	734,773
\$ 22,761,015	\$ 21,034,035	\$ 18,003,687	\$ 15,430,540	\$ 13,534,050	\$ 12,217,975
1,302,249	1,238,271	1,185,310	1,111,509	1,061,968	1,003,662
\$ 21,458,766	\$ 19,795,764	\$ 16,818,377	\$ 14,319,031	\$ 12,472,082	\$ 11,214,313
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

CITY OF STOCKTON

TABLE 7

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST TEN FISCAL YEARS

(Rate per \$100 of assessed value)

Fiscal Year	Basic Countywide Levy	City	Total Direct	Stockton Unified School District (1)	San Joaquin Delta College District	Total
2012	1.0000	-	1.0000	0.1601	0.0200	1.1801
2011	1.0000	-	1.0000	0.1730	0.0194	1.1924
2010	1.0000	-	1.0000	0.1273	0.0180	1.1453
2009	1.0000	-	1.0000	0.1497	0.0160	1.1657
2008	1.0000	-	1.0000	0.1514	0.0015	1.1529
2007	1.0000	-	1.0000	0.0929	0.0183	1.1112
2006	1.0000	-	1.0000	0.0545	0.0134	1.0679
2005	1.0000	-	1.0000	0.0545	0.0134	1.0679
2004	1.0000	-	1.0000	0.0571	-	1.0571
2003	1.0000	-	1.0000	0.0206	-	1.0206

(1) Stockton Unified School District Building Loan Repayment.

Note: On June 6, 1978, California voters approved an amendment to the Article XIII A of the California Constitution. The amendment, commonly known as Proposition 13, limits the taxing power of California public agencies. The California Legislature enacted legislation to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) providing that local agencies may not levy any property tax except to pay debt service on indebtedness approved by voters prior to July 1, 1978, and that each county will levy the maximum tax permitted of \$1.00 per \$100.00 of full assessed value.

Source: San Joaquin County Tax Rate Book

CITY OF STOCKTON

TABLE 8

**PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO
(Dollar amounts in thousands)**

Taxpayer	Fiscal Year					
	2012			2003		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Excel Stockton LLC	\$ 120,555	1	0.805 %	-	-	- %
Buzz Oates LLC	100,832	2	0.673	-	-	-
Simpson Manufacturing Co Inc	87,199	3	0.582	-	-	-
Diamond Walnut Growers Inc	67,287	4	0.449	\$ 47,710	2	0.462
Corn Products International Inc	64,862	5	0.433	76,478	1	0.741
Fresh and Easy Neighborhood Market Inc	64,230	6	0.429	-	-	-
Tru Properties Inc	35,960	7	0.240	30,893	3	0.299
Unilever Supply Chain Inc	34,080	8	0.228	-	-	-
Oni Stockton Inc	29,170	9	0.195	-	-	-
Eastland Plaza Partnership	19,044	10	0.127	-	-	-
POSDEF Power Co	-	-	-	29,696	4	0.288
Washington Mutual Inc	-	-	-	28,293	5	0.274
Cargill Incorporated	-	-	-	22,935	6	0.222
Newark Group Inc	-	-	-	20,651	7	0.200
Campbell Soup	-	-	-	19,329	8	0.187
Iris, USA	-	-	-	19,175	9	0.186
American Honda	-	-	-	19,058	10	0.185
Principal Secured Property Valuation	\$ 623,219		4.162 %	\$ 314,218		3.043 %
Other Secured Taxpayers	15,951,973		106.204	10,995,553		106.473
Total Secured Property Valuation Before Exemptions	\$ 16,575,192		110.703 %	11,309,771		109.516 %
Less Exemptions relative to secured tax roll (1)	1,602,538		10.703	982,685		9.516
Total Secured Property Valuation	\$ 14,972,654		100.000 %	\$ 10,327,086		100.000 %

(1) Exemptions relative to secured tax roll:

FY 2012 - homeowners - \$245,767 and other - \$1,356,771 = \$1,602,538

FY 2003 - homeowners - \$255,537 and other - \$727,148 = \$982,685

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold. At that point, the purchase price becomes the new assessed value. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Assessor's Office
San Joaquin County Auditor-Controller's Office

CITY OF STOCKTON

TABLE 9

SECURED PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

(Dollar amounts in thousands)

Fiscal Year	Secured Taxes Levied for the Fiscal Year		Collected Within the Fiscal Year of the Levy		Total Collections to Date		
			Amount	Percent of Levy (1)	Collections in Subsequent Years	Amount	Percent of Levy
2012	\$	24,785	\$ 24,785	100 %	-	\$ 24,785	100 %
2011		26,519	26,519	100	-	26,519	100
2010		22,150	22,150	100	-	22,150	100
2009		31,134	31,134	100	-	31,134	100
2008		33,633	33,633	100	-	33,633	100
2007		33,891	33,891	100	-	33,891	100
2006		30,661	30,661	100	-	30,661	100
2005		26,685	26,685	100	-	26,685	100
2004		23,498	23,498	100	-	23,498	100
2003		20,176	20,176	100	-	20,176	100

(1) Per agreement with San Joaquin County; the County provides the City of Stockton with 100% of the amount owed to the City of Stockton for secured properties, regardless of collection status. In exchange, the County is entitled to 100% of delinquency and penalty revenues collected.

Source: San Joaquin County Auditor-Controller's Office

CITY OF STOCKTON

TABLE 10

**WATER SOLD BY CUSTOMER TYPE
LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
<u>Type of Customer</u>					
Residential	9,330,690 cf	9,151,563 cf	9,666,100 cf	10,246,248 cf	10,771,115 cf
Institutional	646,754	629,802	607,127	734,394	788,914
Commercial/Industrial	1,593,141	1,620,597	1,521,663	1,624,864	1,624,218
Irrigation	<u>1,418,354</u>	<u>1,352,387</u>	<u>1,767,675</u>	<u>1,697,051</u>	<u>1,832,861</u>
Total	<u><u>12,988,939</u></u> cf	<u><u>12,754,349</u></u> cf	<u><u>13,562,565</u></u> cf	<u><u>14,302,557</u></u> cf	<u><u>15,017,108</u></u> cf

1 cubic foot (cf) = 7.481 gallons

Source: City of Stockton Department of Administrative Services

CITY OF STOCKTON

TABLE 11

WATER AND WASTEWATER UTILITY RATES

LAST TEN FISCAL YEARS

Fiscal Year	Water		Wastewater
	Monthly Base Rate	Additional Per 100 cf**	Monthly Base Rate
2012	\$20.00	\$1.40	\$28.64
2011	18.80	1.21	24.69
2010	17.65	1.02	20.75
2009	16.75	0.82	20.00
2008	15.90	0.78	21.10
2007	15.60	0.77	20.70
2006	15.10	0.74	20.00
2005	14.55	0.71	19.30
2004	14.20	0.69	18.80
2003	13.79	0.67	18.33

100 cf = 100 cubic feet (748 gallons)

Rates are based on 3/4" meter, which is the standard household meter size.

**The Utility charges an excess use rate above normal demand.

Source: City of Stockton Department of Administrative Services

CITY OF STOCKTON

TABLE 12

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

(Dollar amounts in thousands, except per capita)

Governmental Activities								
Fiscal Year	Revenue Bonds (1)	Certificates of Participation	Redevelopment Agency Revenue Bonds	Notes Payable/ Equip. Leases/ Settlements	Special Assessment/ Mello-Roos Bonds (1)	Pension Bonds	Total Governmental Activities	
2012	\$ 87,520	\$ 12,970	\$ 124,695	\$ 26,625	\$ -	\$ 124,280	\$ 376,090	
2011	88,050	13,300	127,200	29,353	-	124,660	382,563	
2010	88,560	13,300	145,855	42,881	-	124,910	415,506	
2009	53,965	13,300	155,020	38,800	-	125,040	386,125	
2008	54,305	13,300	157,010	32,528	-	125,060	382,203	
2007	13,860	13,300	157,185	19,405	-	125,310	329,060	
2006	13,965	13,300	47,000	19,567	-	-	93,832	
2005	-	27,330	47,000	19,378	-	-	93,708	
2004	98,060	27,550	47,000	19,235	106,927	-	298,772	
2003	102,720	27,760	-	14,813	82,122	-	227,415	

Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements, Note 6-Long-Term Debt and Note 7-Short-Term Debt of these financial statements.

(1) Beginning with fiscal year 2006, land-secured financings were removed from the City's government-wide financial statements and are no longer reported as governmental activities debt. For comparative purposes, 2005 balances were restated to reflect this change. For fiscal years 2004 and prior, the balances of land-secured financings are reflected in the balances reported above as revenue bonds, special assessment bonds, and Mello-Roos bonds of the governmental activities.

(2) These ratios are calculated using the latest available data, personal income for fiscal year 2011 and population for fiscal year 2012.

Sources: City of Stockton Department of Administrative Services
 US Dept. of Commerce, Bureau of Economic Analysis
 State of California, Department of Finance

Business-type Activities

Revenue Bonds	Certificates of Participation	Notes Payable	Mello- Roos Bonds(1)	Special Assessment Bonds(1)	Total Business- type Activities	Total	Percent of Personal Income (2)	Per Capita (2)
\$ 293,425	\$ 87,590	\$ 11,276	\$ -	\$ -	392,291	\$ 768,381	3.56 %	\$ 2,598
294,370	90,545	11,600	-	-	396,515	779,078	3.69 %	\$ 2,654
240,245	90,545	545	-	-	331,335	746,841	3.87	2,557
67,920	96,105	610	-	-	164,635	550,760	2.86	1,896
68,650	98,710	672	-	-	168,032	550,235	2.85	1,898
69,315	101,220	731	-	-	171,266	500,326	2.59	1,727
69,910	103,635	787	-	-	174,332	268,164	1.47	938
46,166	105,965	1,007	-	-	153,138	246,846	1.42	883
46,625	108,215	1,219	-	-	156,059	454,831	2.74	1,690
14,280	109,855	1,421	6,180	-	131,736	359,151	2.31	1,374

CITY OF STOCKTON

TABLE 13

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

(Dollar amounts in thousands, except per capita)

General Bonded Debt Outstanding								
Fiscal Year	Lease Revenue Bonds	Certificates of Participation	Pension Obligation Bonds	Redevelopment Agency Bonds	Total	Percent of Assessed Property Value	Per Capita	
2012	\$ 87,520	\$ 12,970	\$ 124,280	\$ 124,695	349,465	0.021 %	1.182	
2011	88,050	13,300	124,660	127,200	353,210	0.020	1.203	
2010	88,560	13,300	124,910	145,855	372,625	0.020	1.276	
2009	53,965	13,300	125,040	155,020	347,325	0.016	1.196	
2008	54,305	13,300	125,060	157,010	349,675	0.016	1.206	
2007	13,860	13,300	125,310	157,185	309,655	0.016	1.069	
2006	13,965	13,300	-	47,000	74,265	0.004	0.260	
2005	-	27,330	-	47,000	74,330	0.005	0.266	
2004	-	27,550	-	47,000	74,550	0.006	0.277	
2003	-	27,760	-	-	27,760	0.002	0.106	

General bonded debt is payable with governmental fund resources. General obligation bonds (of which the City has none) are backed by the taxing authority of the City (taxes may be raised to provide resources for debt service payments.)

Source: City of Stockton Department of Administrative Services
 San Joaquin County Auditor-Controller's Office
 State of California, Department of Finance

CITY OF STOCKTON

TABLE 14

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

	Total Debt 6/30/2012	Percentage Applicable (1)	City's share of Debt 6/30/2012
OVERLAPPING TAX AND ASSESSMENT DEBT:			
San Joaquin Delta Community College District	\$ 133,626,657	29.255 %	\$ 39,092,479
Stockton Unified School District	321,011,497	83.249	267,238,861
Lodi Unified School District	99,010,000	31.414	31,103,001
Lodi Unified School District School Facilities Improvement District No. 1	44,155,000	83.254	36,760,804
Lincoln Unified School District	45,897,073	87.638	40,223,277
Lincoln Unified School District Community Facilities District No. 1	30,118,007	82.253	24,772,964
Manteca Unified School District	59,186,775	18.632	11,027,680
Manteca Unified School District Community Facilities District No. 1989-1	31,631,013	100.000	31,631,013
Tracy Joint Unified School District and School Facilities Improvement Dist. No.3	64,619,037	0.006 & 0.011	4,748
City of Stockton Community Facilities District No. 1	15,490,000	100.000	15,490,000
City of Stockton Community Facilities District No. 90-1	2,450,000	100.000	2,450,000
City of Stockton Community Facilities District No. 90-2	12,490,000	100.000	12,490,000
City of Stockton Community Facilities District No. 90-4	5,772,000	100.000	5,772,000
City of Stockton Community Facilities District No. 99-02	18,980,000	100.000	18,980,000
City of Stockton Community Facilities District No. 2001-1 (Spanos Park West)	18,515,000	100.000	18,515,000
City of Stockton Community Facilities District No. 2003-1	2,820,000	100.000	2,820,000
City of Stockton Community Facilities District No. 2006-1	3,730,000	100.000	3,730,000
City of Stockton Community Facilities District No. 2006-3	6,075,000	100.000	6,075,000
City of Stockton 1915 Act Bonds	48,973,000	100.000	48,973,000
Reclamation District No. 2042 Community Facilities District No. 2001-1	6,620,000	18.211	1,205,568
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			618,355,395
OVERLAPPING GENERAL FUND DEBT:			
San Joaquin County Certificates of Participation	176,130,000	32.410 %	57,083,733
Lincoln Unified School District Certificates of Participation	5,255,000	87.638	4,605,377
Lodi Unified School District Certificates of Participation	40,710,000	31.414	12,788,639
Stockton Unified School District Certificates of Participation	36,625,880	83.249	30,490,679
South San Joaquin Irrigation District Certificates of Participation	1,265,000	0.702	8,880
TOTAL OVERLAPPING GENERAL FUND DEBT			104,977,308
TOTAL OVERLAPPING DEBT			723,332,703
DIRECT GENERAL FUND DEBT:			
City of Stockton General Fund Obligations	177,720,000	100.000	177,720,000
City of Stockton Pension Obligations	124,280,000	100.000	124,280,000
			302,000,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			406,977,308
Less: South San Joaquin Irrigation District (100% self-supporting)			8,880
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			406,968,428
GROSS COMBINED TOTAL DEBT (2)			1,025,332,703
NET COMBINED TOTAL DEBT			\$ 1,025,323,823
2011-12 Assessed Valuation:	\$ 15,572,566,972		
(after deducting \$1,168,506,250 Redevelopment Incremental Valuation)			
2011-12 Population	295,707		
Debt Ratios			
Total Gross Debt	\$ 1,025,332,703	\$ 3,467	6.58 %
Total Net Debt	1,025,323,823	3,467	6.58
Ratios to 2011-12 Assessed Valuation: Total Overlapping Tax and Assessment Debt			3.69
Ratios to Adjusted Assessed Valuation: Combined Direct Debt	302,000,000		1.94

(1) Percent of overlapping agency's assessed valuation located within boundaries of the City.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Sources: California Municipal Statistics, Inc., San Francisco, CA
 San Joaquin County Auditor-Controller's Office
 State of California, Department of Finance, Demographic Research Unit

CITY OF STOCKTON

TABLE 15

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

(Dollar amounts in thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
Assessed valuation (1)	\$15,572,567	\$16,340,562	\$16,957,547	\$18,903,286	\$19,281,142
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 3,893,142	\$ 4,085,141	\$ 4,239,387	\$ 4,725,822	\$ 4,820,286
Debt limit percentage	15%	15%	15%	15%	15%
Debt Limit	\$ 583,971	\$ 612,771	\$ 635,908	\$ 708,873	\$ 723,043
Total net debt applicable to limit	-	-	-	-	-
Legal debt margin	\$ 583,971	\$ 612,771	\$ 635,908	\$ 708,873	\$ 723,043
Legal debt margin/debt limit	100%	100%	100%	100%	100%

(1) Reflects City assessed valuation excluding Redevelopment tax increments of \$1,168,506,205 and other exemptions of \$1,408,250,793 deducted.

Under State law, the City has a legal debt limitation not to exceed 15% of the total assessed valuation of taxable property within the City boundaries, adjusted for subsequent legislative actions. In accordance with California Government Code Section 43605, only the City's general obligation bonds are subject to the legal limit. The City of Stockton does carry bonded debt secured by special assessments and other revenue sources, but at this time, doesn't have any outstanding general obligation bonds. The City is not at risk of exceeding its legal debt limit of \$583,971.

Sources: City of Stockton Department of Administrative Services
 California Municipal Statistics, Inc., San Francisco, CA
 San Joaquin County Auditor-Controller's Office

Fiscal Year				
2007	2006	2005	2004	2003
\$ 18,043,181	\$ 15,761,940	\$ 14,037,055	\$ 12,313,597	\$ 11,246,185
<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
\$ 4,510,795	\$ 3,940,485	\$ 3,509,264	\$ 3,078,399	\$ 2,811,546
<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
\$ 676,619	\$ 591,073	\$ 526,390	\$ 461,760	\$ 421,732
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 676,619</u>	<u>\$ 591,073</u>	<u>\$ 526,390</u>	<u>\$ 461,760</u>	<u>\$ 421,732</u>
100%	100%	100%	100%	100%

CITY OF STOCKTON

TABLE 16

PLEDGED-REVENUE COVERAGE

LAST TEN FISCAL YEARS

(Dollars amounts in thousands)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service			Debt Coverage Ratio
				Principal	Interest	Total	
Water Revenue Bonds							
2012	\$ 35,914	\$ 20,055	\$ 15,859	\$ 711	\$ 2,146	\$ 2,857	5.55
2011	34,245	19,987	14,258	688	8,839	9,527	1.50
2010	29,131	17,546	11,585	655	3,199	3,854	3.01
2009	26,080	20,123	5,957	627	1,728	2,355	2.53
2008	26,352	18,010	8,342	599	1,758	2,357	3.54
2007	26,787	17,687	9,100	566	1,788	2,354	3.87
2006	22,986	15,631	7,355	538	1,092	1,630	4.51
2005	21,942	12,158	9,784	511	691	1,202	8.14
2004	20,181	13,324	6,857	489	717	1,206	5.69
2003	17,858	12,320	5,538	46	663	709	7.81
Wastewater Certificates of Participation (3)							
2012	\$ 51,708	\$ 35,629	\$ 16,079	\$ 2,955	\$ 4,417	\$ 7,372	2.18
2011	45,152	33,325	11,827	-	4,480	4,480	2.64
2010	39,716	30,094	9,622	2,720	4,659	7,379	1.30
2009	38,298	35,002	3,296	2,605	4,770	7,375	0.45
2008	39,602	25,633	13,969	2,510	4,867	7,377	1.89
2007	41,068	27,791	13,277	2,415	4,959	7,374	1.80
2006	44,609	22,357	22,252	2,330	5,044	7,374	3.02
2005	49,519	17,526	31,993	2,250	5,126	7,376	4.34
2004	48,932	22,418	26,514	1,640	5,079	6,719	3.95
2003	50,901	22,949	27,952	1,935	5,583	7,518	3.72

(Continued)

CITY OF STOCKTON
TABLE 16 (Continued)
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Dollars amounts in thousands)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service			Debt Coverage Ratio
				Principal	Interest	Total	
Central Parking District Lease Revenue Bonds							
2012	\$ 4,718	\$ 2,492	\$ 2,226	\$ 305	\$ 1,613	\$ 1,918	1.16
2011	4,890	1,797	3,093	255	1,625	1,880	1.65
2010	4,907	2,193	2,714	210	1,634	1,844	1.47
2009	5,056	2,320	2,736	165	1,641	1,806	1.51
2008	5,033	2,562	2,471	125	1,647	1,772	1.39
2007	4,667	2,205	2,462	85	1,652	1,737	1.42
2006	4,632	2,021	2,611	-	1,653	1,653	1.58
2005	3,864	1,957	1,907	-	1,130	1,130	1.69
2004	3,360	1,861	1,499	6,180	390	6,570	0.23
2003	3,286	1,359	1,927	210	301	511	3.77

**** Central Parking District revenues are not explicitly pledged in official statements for repayment of these bonds.

Includes all non-general obligation long term debt backed by pledged revenues.

Details regarding the City's outstanding debt can be found in the Note 6 - Long-Term Debt of these financial statements.

(1) Total revenues including investment earnings. Also includes connection fees in Water & Wastewater funds. In 2008 CAFR, statistical section did not include connection fees in Water & Wastewater funds - included in 2009. Also, net increase/decrease in fair value of investments and other non - operating revenues were reported in gross revenues - removed in 2009.

(2) Total operating expenses exclusive of depreciation and amortization.

(3) The FY 2008-09 Wastewater Certificates of Participation debt coverage ratio fell below the 1.25 times net revenues required by the bond covenants.

Source: City of Stockton Department of Administrative Services

CITY OF STOCKTON

TABLE 17

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	Population	Personal Income (millions of dollars)	Per Capita Personal Income	Unemployment Rate	Labor Force	Total Housing Units	Household Average Size	Median Family Income	School Enrollment
2012	295,707	\$ 9,171	\$ 31,013	18.3 %	125,900	99,925	3.19	\$ 47,365	68,568
2011	293,515	9,020	30,732	20.0	128,400	99,637	3.16	47,797	88,258
2010	292,133	9,105	31,166	19.8	131,000	97,085	3.09	63,100	88,185
2009	290,409	N/A	N/A	18.1	130,800	96,854	3.08	63,600	87,446
2008	289,927	8,459	29,178	10.0	127,200	96,553	3.09	61,300	91,744
2007	289,789	8,329	28,743	9.3	120,800	95,864	3.11	60,300	83,440
2006	286,041	7,801	27,272	7.2	120,000	94,409	3.05	57,100	77,982
2005	279,513	7,334	26,239	9.4	119,214	91,725	3.13	55,300	72,097
2004	269,100	6,869	25,527	9.6	118,127	88,826	3.11	55,100	67,674
2003	261,300	6,433	24,620	11.0	121,133	85,988	3.12	50,600	61,853

College and Graduate School Enrollment numbers for 2012 were unavailable.

Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and personal current transfer receipts.

Per capita personal income is calculated as the personal income of residents of a given area divided by the resident population of the area. In computing per capita personal income, Bureau of Economic Analysis uses the Census Bureau's annual midyear population estimates.

Sources: City of Stockton Department of Administrative Services & Community Development Department
 CA Dept. of Finance and Employment Development Department
 US Dept. of Commerce, Bureau of Economic Analysis
 US Census Bureau
 CA Dept. of Education

CITY OF STOCKTON

TABLE 18

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

<u>Employer</u>	Fiscal Year					
	2012			2003		
	<u>Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>
San Joaquin County	6,500	1	5.16 %	-	-	- %
Stockton Unified School District	3,893	2	3.09	4,099	2	3.52
St. Joseph’s Medical Center	2,500	3	1.99	4,600	1	3.95
O-G Packing Company	2,000	4	1.59	-	-	-
City of Stockton	1,683	5	1.34	1,683	3	1.45
Diamond Walnut	1,407	6	1.12	-	-	-
Dameron Hospital	1,200	7	0.95	-	-	-
Pacific Gas and Electric	1,100	8	0.87	1,100	4	0.95
Kaiser Permanente	1,065	9	0.85	1,065	5	0.91
University of the Pacific	1,000	10	0.79	900	9	0.77
Washington Mutual	-	-	-	1,000	6	0.86
San Joaquin Delta College	-	-	-	1,000	7	0.86
Unilever	-	-	-	1,000	8	0.86
SBC	-	-	-	800	10	0.69
Total	22,348		17.75 %	17,247		14.82 %

Note: Principal employers are based on best available information.

Sources: San Joaquin Partnership Survey, September 2010

SJP Membership Directory 2010

ogpacking.com

dameronhospital.org

investor.diamondfoods.com

CITY OF STOCKTON

TABLE 19

**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM/DEPARTMENT
LAST FIVE FISCAL YEARS**

Function/Program/Department:	Fiscal Year				
	2012	2011	2010	2009	2008
Admin Svcs (4)	90	94	87	90	100
City Attorney	9	8	11	14	16
City Auditor	4	4	3	4	7
City Clerk	6	6	5	6	8
City Council/Mayor	2	2	2	2	2
City Manager	19	19	22	24	28
Community Development	26	41	42	50	51
Community Services (1)	80	84	89	103	128
Human Resources	22	27	23	25	26
Police:					
Sworn	316	337	342	389	410
Non-sworn	162	161	173	194	215
Animal control	11	12	13	16	16
Total Police	<u>489</u>	<u>510</u>	<u>528</u>	<u>599</u>	<u>641</u>
Fire:					
Firefighters-sworn	176	220	229	244	257
Firefighters-auxiliary	24	17	24	27	45
Non-sworn personnel	24	24	25	27	28
Paramedic teams (2 per team)	-	-	-	-	-
Total Fire	<u>224</u>	<u>261</u>	<u>278</u>	<u>298</u>	<u>330</u>
Public Works (5)	125	136	139	196	234
Economic Development (2)	17	20	23	28	36
Water Utility (3)	42	37	37	35	33
Wastewater Utility (3)	144	132	133	105	107
Stormwater Utility (3)	4	4	3	6	7
Central Parking District (2)	-	-	-	-	3
Total	<u>1,303</u>	<u>1,385</u>	<u>1,425</u>	<u>1,585</u>	<u>1,757</u>

(1) Recreation and Library were combined in 2008/09 and reported as Community Services.

(2) Housing, Redevelopment, Central Parking, and Economic Development were combined in 2008/09 and reported as Revitalization. Revitalization Dept. was abolished and the Economic Development Dept. was established in 2010.

(3) Municipal Utility functions were returned to the City from private contract March 1, 2008.

(4) Information Technology was combined with Administrative Service in 2008-2009.

(5) Parks was combined with Public Works in 2008/09.

Source: City of Stockton Human Resources Department

CITY OF STOCKTON

TABLE 20

**OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT
LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
General government:					
Building permits issued	4,007	4,020	4,463	4,418	4,726
Business tax certificates:					
Retail sales and service	5,833	5,797	5,924	7,170	7,822
Rental Properties - Commercial and Residential	4,589	4,469	4,255	4,346	4,713
Wholesale	330	327	349	351	295
Manufacturers and processors	175	178	182	186	183
Professions	2,019	2,018	2,057	2,150	2,127
Miscellaneous contractors, peddlers, delivery vehicles, etc.	4,187	4,259	4,170	3,665	3,794
Improvement district and hotel/motel room tax	90	90	90	106	282
Utility billing/customer service:					
Utility bills issued	632,540	630,879	623,513	603,209	617,847
Utility accounts opened and closed	22,198	23,318	26,878	29,722	22,737
New service locations (water) added	1	142	208	231	443
Delinquency Notices Sent - Active Accounts	53,216	74,742	67,073	63,834	60,872
Water Service Terminated for Non-Payment	4,732	4,729	4,533	4,389	5,618
Utility customer service calls received	65,708	102,700	107,091	127,099	141,732
Utility customers using automated voice response (1)	124,804	130,719	125,295	N/A	69,866
Utility Customers Using Online Pmt/ Account Access	23,365	22,397	13,032	9,854	5,214
Miscellaneous accounts receivable bills issued	24,665	26,071	29,592	26,895	22,084
Public safety:					
Police:					
Major reported crimes	20,110	19,752	19,712	20,310	23,182
Total arrests	9,206	11,322	15,892	20,986	22,595
Dispatched calls for service	125,939	134,368	150,705	150,429	155,372
Fire:					
Interior structure fire calls	347	422	412	382	383
Non-structural fire calls	1,152	1,145	1,193	783	1,374
Hazardous materials calls	194	249	253	289	720
Emergency medical calls	21,374	22,704	22,249	22,796	23,904
Total emergency calls	40,050	38,234	36,785	36,103	36,559
Total number of units dispatched	46,865	42,136	43,460	43,320	48,360
Public works:					
Miles of streets resurfaced	15	42	22	48	44
Fleet job orders completed	9,435	9,622	11,548	13,382	13,443

CITY OF STOCKTON

TABLE 20 (Continued)

**OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT
LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
Library:					
Registered borrowers	222,151	286,600	268,128	331,356	307,991
Circulation of library materials	1,707,788	1,686,245	1,644,752	1,926,616	2,084,611
Reference, research and informational questions answered	220,343	228,119	248,692	827,851	415,195
Annual attendance at libraries	1,078,785	1,091,999	1,140,832	1,510,802	1,524,719
Number of programs offered	2,325	2,200	1,889	2,380	2,930
Annual attendance at programs	78,430	59,513	55,883	53,523	90,216
Parks and Recreation:					
Golf rounds:					
Swenson Park golf course	59,699	53,450	57,637	55,864	57,731
Van Buskirk golf course	27,047	23,400	29,830	27,095	24,655
Trees planted	14	420	1	50	660
Heritage tree removal-permits issued	14	24	3	24	19
After school program registration (number of participants)	16,996	44,379	44,856	55,860	90,074
Day camps in winter (number of participants)	19	17	N/A	77	177
Day camps in summer (number of participants)	499	789	1,090	1,277	1,434
Day camps at Children's Museum (number of participants)	N/A	N/A	842	314	202
Day camps in spring (number of participants)	34	32	103	66	217
Day camps in fall (number of participants)	52	64	114	175	453
Mobile recreation programs (number of participants)	-	-	-	-	304
Instructional classes	1,855	1,259	1,525	3,823	4,064
Softball/baseball diamonds bookings	2,839	2,780	2,959	3,372	2,794
Showmobile (Mobile Stage) bookings	24	26	11	32	23
Community center bookings	1,346	552	405	224	59
Picnic facility bookings	393	504	265	501	668
Adult sports (number of teams):					
Softball	324	324	358	548	573
Basketball	69	46	74	67	110
Volleyball	10	4	-	-	-
Youth sports (basketball, track, soccer, baseball, volleyball, flag football) (number of participants)	2,500	5,340	7,146	7,399	6,652

CITY OF STOCKTON
TABLE 20 (Continued)
OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2012	2011	2010	2009	2008
Parks and Recreation (cont.):					
Admissions to:					
Pixie Woods	13,357	20,020	20,632	26,558	32,614
Swimming pools	N/A	N/A	5,143	17,028	19,816
Teen Center	N/A	N/A	18,119	13,708	15,661
Silver Lake	N/A	N/A	N/A	1,250	1,652
Children's Museum	N/A	N/A	40,636	49,274	54,388
Oak Park Tennis	N/A	N/A	N/A	19,329	18,098
Senior Center memberships	678	813	1,410	991	1,779
Civic Auditorium bookings	60	41	46	270	231
Parks and Recreation sponsored events	-	-	2	9	28
Philomathean Club bookings	-	-	-	-	-
Weber Point Events Center bookings	18	15	12	16	25
Economic Development: (2)					
Rental Housing Units	110	-	65	-	91
Owner Housing (Emergency Repair or Rehabilitation)	7	7	12	12	11
Down Payment Assistance	1	17	13	2	21
Special Needs (Homes Repaired or Rehabilitated)	12	5	3	4	9
Public Facilities (Rehabilitated or Constructed)	2	5	2	4	1
Façade Program (Commercial Façade Repair/Rehabilitated)	-	1	-	5	9
Public Services Provided	85,296	75,572	5,661	41,973	18,060
Homeless Services Provided	4,465	5,078	4,177	4,887	10,658
Meals Provided to Homeless	573,591	537,361	567,767	430,790	388,061
Jobs Created and/or Retained	7	18	-	-	-
Water utility:					
New connections (DUE's) (3)	236	654	232	209	450
Water main breaks	19	16	14	26	22
Wastewater utility:					
Average daily influent (million gallons per day)	24 mgd	29 mgd	31 mgd	33 mgd	35 mgd

(1) Information not yet available for 2009. Call center information servers were replaced and data from former server was not yet retrievable.

(2) Housing Dept. was abolished and Economic Development Dept. was established in FY 2010.

(3) Changed reporting to Dwelling Unit Equivalent (DUE) in 2011 to more accurately reflect our new connections. Not all single water connections are equal to one dwelling unit equivalent (DUE), or single family residence. For example, a 12" meter is equal to 209 single family residential connections. In 2011, there were 115 new connections which were equal to 654 DUE's.

Source: City of Stockton Departments

CITY OF STOCKTON

TABLE 21

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT
LAST SIX FISCAL YEARS

	Fiscal Year			Fiscal Year		
	2012	2011	2010	2009	2008	2007
General government:						
Land use-square miles:						
Residential	33.55	33.53	33.69	33.04	33.04	33.31
Mixed use	4.68	4.68	4.68	4.74	1.61	1.62
Commercial	5.49	5.51	5.50	5.56	5.46	6.05
Industrial	11.42	11.42	11.28	10.56	10.56	11.01
Institutional	5.54	5.54	5.32	5.29	5.29	4.86
All other uses	3.79	3.60	3.41	3.22	3.22	3.63
Total square miles	64.47	64.28	63.88	62.41	59.18	60.48
Public safety:						
Police:						
Facilities:						
Stations and substations	1	2	3	5	5	5
Animal control facility	1	1	1	1	1	1
Police training facility (pistol range)	1	1	1	1	1	1
Vehicles:						
Marked patrol cars	157	138	162	160	175	140
Motorcycles and scooters	34	33	39	37	42	42
Animal control vehicles	9	9	9	9	9	9
VIPS vehicles	7	7	6	7	7	5
Other automobiles	165	158	221	217	131	131
Other mobile units (all others)	15	15	13	43	40	37
Public area security cameras	76	76	76	76	76	34
Fire:						
Fire stations	12	13	13	13	13	13
Training facilities	1	1	1	1	1	1
Fire hydrants (2)	8,608	8,558	8,505	8,458	8,508	8,503
Public works:						
Miles of streets	760	760	776	757	754	750
Traffic signals	303	303	303	301	291	290
Street light fixtures	19,188	19,188	20,186	20,095	20,095	19,682

CITY OF STOCKTON

TABLE 21 (Continued)

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT
LAST SIX FISCAL YEARS**

	Fiscal Year			Fiscal Year		
	2012	2011	2010	2009	2008	2007
Parks and recreation:						
Arena	1	1	1	1	1	1
Ballpark	1	1	1	1	1	1
Baseball/softball diamonds	54	54	54	54	54	49
Bike/jogging paths (miles)	20	20	20	20	20	20
Boating facilities - launch lanes	10	10	10	10	10	10
Children's Museum	1	1	1	1	1	1
Civic Auditorium (2,800 capacity)	1	1	1	1	1	1
Community centers	5	5	5	6	6	6
Dog Areas	1	1	1	1	1	1
Family camps	1	1	1	1	1	1
Golf course acreage	371	371	371	371	371	371
Group picnic areas	31	31	31	31	30	26
Gymnasium	5	5	5	1	1	1
Ice rink	1	1	1	1	1	1
Municipal golf courses	3	3	3	3	3	3
Park acreage	625	625	625	643	639	619
Parks and squares	67	67	67	67	66	62
Philomathean Club	1	1	1	1	1	1
Playgrounds	71	71	71	71	71	66
Senior center	1	1	1	1	1	1
Showmobile (Mobile Stage)	1	1	1	1	1	1
Skateboard park	1	1	1	1	1	1
Swimming pools	4	4	4	4	4	4
Teen Center	1	1	1	1	1	1
Tennis courts	67	67	67	67	67	67
Theater (Bob Hope)	1	1	1	1	1	1
Weber Point Events Center	1	1	1	1	1	1
Consolidated landscape maintenance districts:						
Streetscaping (square feet)	2.2 million	2.2 million	2.2 million	2.2 million	2.2 million	2.2 million
Public open spaces (acreage)	68	68	68	68	68	68

CITY OF STOCKTON

TABLE 21 (Continued)

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT
LAST SIX FISCAL YEARS**

	Fiscal Year			Fiscal Year		
	2012	2011	2010	2009	2008	2007
Library:						
Central library (4)	-	1	1	1	1	1
City branches	4	3	4	4	4	4
Library mobile units	2	2	2	2	2	2
San Joaquin County branches	8	8	8	8	8	8
Total items in collection	893,661	954,044	1,030,157	1,099,966	1,109,819	1,097,783
Cargo delivery van	2	2	2	2	2	2
Cargo van	1	1	1	1	1	1
Undeveloped land for branch library	2	2	2	2	2	5
Integrated library system	1	1	1	1	1	1
Microform readers	5	5	2	2	5	5
Microform readers/printers	7	7	5	6	3	3
Self check out machines	15	15	14	15	14	14
Water utility:						
Water main lines (miles)	629	612	612	612	612	586
Storage capacity (thousand gallons)	22,200	22,200	19,200	19,200	18,800	15,800
Water wells (active)	22	22	32	33	40	40
Water reservoirs	7	7	6	6	6	5
Wastewater utility:						
Wastewater main lines (miles) (1)	923	923	922	920	920	920
Treatment capacity (million gals/day)	55	55	55	55	48	48
Wastewater pump stations	27	24	25	25	25	24
Stormwater utility:						
Stormwater main drain lines (miles) (3)	488	488	863	1072	802	650
Stormwater pump stations	72	72	75	75	73	73
Central parking district:						
Parking spaces	3461	5,568	5,535	5,535	5,262	4,745
Parking lots & garages	19	22	22	22	20	19

(1) Collections main line data prior to 2008 was determined by actual and estimated distances via a manual system. In 2008/09, a geographic information system interface was made available to more accurately determine the size of the collections system. The system size for 2008 and 2007 have been reduced to not exceed the actual current system size.

(2) Port of Stockton fire hydrants retired or inactivated in 2008/09

(3) Years prior to 2011 reflected "all" stormwater drain lines instead of just the "main" stormwater drain lines.

(4) Prior to fiscal year ended June 30, 2012, the Central Library total was reported separate from the City Branches total.

Source: City of Stockton Departments



