



**Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2005**

Financial Section

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A Professional Corporation

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Elk Grove
Elk Grove, California

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elk Grove, California, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated November 10, 2005, on our consideration of the City of Elk Grove, California's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City Council
City of Elk Grove,

The Management's Discussion and Analysis (MD & A) and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

Roseville, CA
November 10, 2005

Management's Discussion and Analysis

This section of the City of Elk Grove's (City) Comprehensive Annual Financial Report presents a discussion and analysis of the City's financial performance during the year ended June 30, 2005. Please read it in conjunction with the City's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2004-2005 fiscal year by \$281,846,915 (*net assets*). Of this amount, \$47,369,546 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, and \$183,153,470 is restricted for capital projects, debt service and legally segregated taxes, grants and fees.
- As of June 30, 2005, the City governmental funds reported combined fund balances of \$242,966,665. Approximately 94% of the combined fund balances, \$228,008,274 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, unreserved, designated for economic uncertainty fund balance for the general fund was \$12,994,326, or 27% of total general fund expenditures.
- The City's total long-term debt decreased by \$1,965,010 in comparison with the prior year. The decrease resulted primarily from principal debt service payments in the 2004-05 fiscal year.
- The Vehicle License Fee has been permanently reduced from 2% to .65% by the State of California, and while the backfill has been eliminated, it has been replaced with a like amount of property taxes for the City and the swap is supposed to be revenue neutral.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and, 3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

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 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 net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual and administrative leave).

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 all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public protection, public ways and facilities. The business-type activities of the City include Solid Waste, Drainage, Commercial Hauler and Utility Billing, and Transit.

The government-wide financial statements can be found on pages 13-15 of this report.

Management's Discussion and Analysis (Continued)

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary 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 funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. The City considers revenue to be available if they are collected within 60 days after the fiscal year end.

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

The City currently maintains four individual governmental 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. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental funds financial statements can be found on pages 16-22 of this report.

Proprietary funds are maintained two ways. *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 Transit, Solid Waste, Drainage, Commercial Hauler and Utility Billing. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its risk management, equipment and facilities improvement. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City's three internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the supplementary information section of this report.

The proprietary funds financial statements can be found on pages 23-25 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on page 26 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 28-63 of this report.

Required Supplementary Information is presented on the City General Fund budgetary schedule. Infrastructure assets are depreciated. The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The required supplementary information can be found on pages 58-64 of this report.

Management's Discussion and Analysis (Continued)

The combining and individual fund statements and schedules information for non-major governmental funds, enterprise and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 65-160 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on the net assets and changes in net assets of the City as a whole.

Governmental Activities

Table 1
Governmental Net Assets
June 30,

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 285,501,218	\$ 235,320,953
Capital assets	<u>92,965,142</u>	<u>49,780,865</u>
Total Assets	<u>378,466,360</u>	<u>285,101,818</u>
Current and other liabilities	19,502,644	12,953,404
Long-term liabilities	<u>86,712,745</u>	<u>89,724,754</u>
Total Liabilities	<u>106,215,389</u>	<u>102,678,158</u>
Net Assets:		
Invested in capital assets, net of related debt	42,674,599	48,590,590
Restricted net assets	183,153,470	91,444,083
Unrestricted net assets	<u>46,422,902</u>	<u>42,389,017</u>
Total Net Assets	<u>\$ 272,250,971</u>	<u>\$ 182,423,690</u>

The City's governmental net assets amounted to \$272 million as of June 30, 2005, an increase of \$90 million over fiscal year ended 2004. This increase is the change in net assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2005, comprised the following:

- Cash and investments comprised \$210 million in the city treasury and \$44 million of restricted cash with fiscal agents. Substantially all of these amounts were held in relatively short term investments in governmental securities, as detailed in Note 3 to the financial statements.
- Receivables comprised \$16 million of current receivables and long term receivables of \$11 million which are over one year or longer periods of time.
- Capital assets of \$93 million, net of depreciation charges, which does not include all of the City's infrastructure, but does include all other City assets. The City has not fully implemented GASB Statement No. 34 capital assets requirement as it relates to infrastructure as of the June 2005 year end. The City has until fiscal year end 2007 after converting to GASB 34 to include all historical infrastructure costs.
- Current liabilities, includes accounts payable, claims, deferred revenue and other amounts due currently totaling \$14 million.
- Net assets invested in capital assets net of related debt of \$43 million, representing the City's investment in infrastructure and other capital assets used in Governmental activities, net of amounts borrowed to finance that investment.
- Restricted net assets totaling \$183 million, which may be used only to construct specified capital projects, debt service, or for community development projects.
- Unrestricted net assets are part of net assets that can be used to finance day to day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had \$46 million of unrestricted net assets as of June 30, 2005. While these assets technically unrestricted, most of these assets are designated for a specific use.

Management's Discussion and Analysis (Continued)

The following table indicates the changes in governmental net assets:

Table 2
Governmental Statement of Activities
For the Year Ended June 30,

	<u>2005</u>	<u>2004</u>
<i>Revenues:</i>		
<i>Program revenues:</i>		
Fees, fines and charges for services	\$ 94,365,800	\$ 101,705,538
Operating grants and contributions	16,024,912	15,739,039
Capital grants and contributions	9,488,331	442,684
	<u>119,879,043</u>	<u>117,887,261</u>
<i>General Revenues:</i>		
Property taxes	7,940,509	3,520,039
State and use taxes	17,035,296	14,093,289
Other Taxes	6,257,417	4,830,387
Unrestricted interest and investment earnings	5,414,239	2,288,067
Miscellaneous	249,582	22,686
	<u>36,897,043</u>	<u>24,754,468</u>
Total Revenues	<u>156,776,086</u>	<u>142,641,729</u>
<i>Expenses:</i>		
General government	13,496,813	8,363,770
Public safety	16,987,764	14,880,041
Public ways and facilities	13,404,331	18,147,367
Community development	11,871,849	11,731,830
Interest on long-term debt	5,274,181	4,348,285
	<u>61,034,938</u>	<u>57,471,293</u>
Total Expenses	<u>61,034,938</u>	<u>57,471,293</u>
Excess (deficiency) before transfers	95,741,148	85,170,439
Transfers	(7,412,702)	152,000
Special items	-	35,055,368
	<u>-</u>	<u>35,055,368</u>
Change in Net Assets	<u>\$ 88,328,446</u>	<u>\$ 120,377,807</u>

As Table 2 above shows, \$120 million, or 76% of the City's fiscal year 2005 revenue derived from the program revenues and \$37 million or 24% from general revenues such as taxes and interest.

Program revenues are composed of fees, fines and charges for service of \$94 million that include permit revenues, fees and charges used to fund expenses incurred in providing services; \$16 million of operating grants and contributions which include gas tax revenues, housing and police grants.

General revenues are not allocable to programs, but are used to pay for the net costs of governmental programs.

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds. The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following table presents the amount of revenues from various sources:

**Table 3
Revenues Classified by Source
Governmental Funds
For the Fiscal Years Ended June 30**

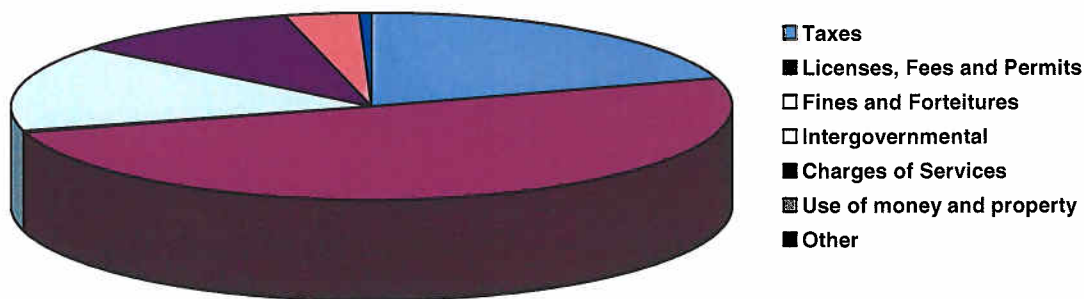
Revenues by Source	2005	2004	% Change
Taxes	\$ 31,233,222	\$ 22,443,715	39%
Licenses, fees and permits ⁽¹⁾	74,376,964	90,776,434	-18%
Fines and forfeitures	726,561	347,248	109%
Intergovernmental	19,378,050	13,388,595	45%
Charges of services ⁽²⁾	18,546,450	10,021,607	85%
Use of money and property ⁽³⁾	5,241,105	2,265,172	131%
Other	255,582	22,686	1027%
Total Revenues	\$ 149,757,934	\$ 139,265,457	8%

⁽¹⁾ Decreased due to reduction in City impact development fees collected during the 2004-05 FY for the City compared to the previous year.

⁽²⁾ Charges for service increased due to the increase in capital project management.

⁽³⁾ The City's investment portfolio increased by 31% over prior year. The use of money and property increased due to the change in the investment portfolio and the high investment interest rates.

**Revenue by Source
Governmental Funds Fiscal Year 2004-05**



Management's Discussion and Analysis (Continued)

The following table presents expenditures by function:

Table 4
Expenditures by Function
Governmental Funds
For the Fiscal Years Ended June 30,

Expenditures by Function	2005	2004	% Change
General government ⁽¹⁾	\$ 13,188,417	\$ 8,170,424	61%
Public safety	18,358,857	16,269,616	13%
Public ways and facilities ⁽²⁾	12,784,116	17,822,554	-28%
Community development	13,498,885	11,668,053	16%
Capital outlay ⁽³⁾	39,567,728	23,794,972	66%
Debt service-principal retirement	1,280,973	423,740	202%
Debt-interest and charges	5,323,293	4,139,097	29%
Total Expenditures	\$ 104,002,269	\$ 82,288,456	26%

⁽¹⁾ Increase in general government was due to the increase in City staffing, technology and operation.

⁽²⁾ Decrease in public ways and facilities was due to the increase in public works projects which reallocate General Fund labor costs to capital projects and infrastructure.

⁽³⁾ Increase due to significant infrastructure for street and road work in the City.

Expenditures by Function
Governmental Funds Fiscal Year 2004-05

