



CITY OF LODI COUNCIL COMMUNICATION

IM

AGENDA TITLE: Review of City's Annual Financial Report (Fiscal Year 2006-07) by Macias, Gini & O'Connell, LLP

MEETING DATE: January 16, 2008

PREPARED BY: Deputy City Manager/Internal Services Director

RECOMMENDED ACTION: Receive for file the following reports and financial statements submitted by Macias, Gini & O'Connell, LLP and the Finance Department for Fiscal-Year 2006-07:

- The Combined Annual Financial & Single Audit Report
- Management Report
- Report on Applying Agreed-upon Procedures

BACKGROUND INFORMATION: The annual audit was conducted to assure the City Council and other interested parties that the City's financial records and reports are prepared in accordance with generally accepted accounting principles (GAAP), that internal controls are adequate to safeguard the City against loss from unauthorized use or disposition of assets and that the City has complied with all agreements and covenants to obtain grant funds and debt financing. Macias, Gini & O'Connell, LLP ("MGO) issued an "unqualified opinion." Scott Brunner, Director of MGO will be present to do the presentation and answer questions during the Council meeting.

The reports will be provided to Federal and State oversight agencies, bond trustees and insurance companies for their review and evaluation. Copies of the reports are provided to the City Council and also available to the public by contacting the Financial Services Division or the City's website at www.lodi.gov and at the Lodi Public Library.

Certificate of Achievement

The City received a Certificate of Achievement for Excellence in Reporting from the Government Finance Officers Association of United States and Canada (GFOA) for the 14th year and the California Society of Municipal Finance Officers (CSMFO) for the ninth year in a row. A copy of the GFOA certificate is included in the 2006-07 Financial Reports.

FISCAL IMPACT: N/A

FUNDING AVAILABLE: N/A



 James R. Krueger
 Deputy City Manager/Internal Services Director

APPROVED: 

 Blair King, City Manager

CITY OF LODI

Agreed-Upon Procedures Report For
Gann Appropriations Limit

For the Fiscal Year Ended June 30,2007



City Council
Lodi, California

*INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
RELATED TO THE ARTICLE XIII B
APPROPRIATIONS LIMIT CALCULATION*

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet of the City of Lodi, California (City) for the fiscal year ended June 30, 2007. These procedures, which were agreed to by the City Council of the City of Lodi, California, and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitutions*), were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the City's reports setting forth the calculations necessary to establish the City's appropriations limit and documentation utilized to calculate such limit for fiscal year 2006-07.

Finding: No exceptions were noted as a result of our procedures.

2. We determined that the current appropriations limit and annual adjustment factors used to calculate the appropriations limit for fiscal year 2006-07 set forth in the accompanying Appropriations Limit Worksheet and the aforementioned City reports, were adopted by resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

3. For the accompanying Appropriations Limit Worksheet, we added the appropriations limit, fiscal year 2005-06, amount to the annual adjustment amount and agreed the resulting amount to the appropriations limit, fiscal year 2006-07, as adopted, amount.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the current year information presented in the accompanying Appropriations Limit Worksheet to the appropriate aforementioned City reports.

Finding: No exceptions were noted as a result of our procedures.

5. We agreed the appropriations limit, fiscal year 2005-06, amount presented in the accompanying Appropriations Limit Worksheet to the prior year appropriations limit adopted by the City Council.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
May 3, 2007

**CITY OF LODI
APPROPRIATIONS LIMIT WORKSHEET
FOR THE FISCAL YEAR ENDED JUNE 30,2007**

	Amount
Appropriations limit, fiscal year 2005-06	<u>\$ 66,082,118</u>
Adjustment factors:	
Population increase, 2006-07	1.0030
Inflation increase, 2006-07	<u>1.0396</u>
Total adjustment factor	<u>4.2719%</u>
Annual adjustment	<u>2,822,948</u>
Appropriations limit, fiscal year 2006-07, as adopted	<u><u>\$ 68,905,066</u></u>

CITY OF LODI, CALIFORNIA

Report to Management

For the Year Ended June 30,2007

CITY OF LODI, CALIFORNIA
Report to Management
For the Year Ended June 30,2007

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MACIAS GINI & O'CONNELL LLP
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City Council
City of Lodi, California

We have audited the financial statements of the City of Lodi, California (City) for the year ended June 30, 2007, and have issued our report thereon dated December 5, 2007. Professional standards require that we provide you with information related to our audit. That information is included in the Required Communications section of this report.

Also, in planning and performing our audit of the financial statements of the City for the year ended June 30, 2007, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on internal control over financial reporting.

During our audit for the fiscal year ended June 30, 2007, we became aware of a certain matter that represents an opportunity for strengthening the City's internal control and operational efficiency. The Current Year Management Comment and Recommendation section of this report summarizes our comment and recommendation regarding the matter. We also followed up on those matters we became aware of during the previous year's audit. Those matters are included in the Status of Prior Year Recommendations section of this report. This report does not affect our report dated December 5, 2007, on the basic financial statements of the City.

This letter is intended solely for the information and use of City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. We have discussed our comments and suggestions with management and would be pleased to discuss them further.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 5, 2007

CITY OF LODI, CALIFORNIA
Report to Management
Required Communications
For the Year Ended June 30,2007

I. Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 16, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

11. Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the governmental unit's financial statements and report such as an official statement for a bond offering does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

111. Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

CITY OF LODI, CALIFORNIA
Report to Management
Required Communications (Continued)
For the Year Ended June 30,2007

IV. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were (1) depreciation, (2) allowance for doubtful accounts, (3) compensated absences, and (4) self-insurance liability.

Depreciation

Management's estimates of the expected lives of capital assets are based on experience and guidance from the Internal Revenue Service and impact the computation of the depreciation expense for the year. We evaluated the estimated useful lives of the capital assets for reasonableness and consistency. The resulting depreciation expense computations were reviewed for reasonableness in relation to the financial statements taken as a whole.

Allowance for uncollectible accounts

Management's estimates as to the collectibility of accounts receivable is based on historical experience and trends. The resulting valuation and allowance were reviewed for reasonableness in relation to the financial statements taken as a whole.

Compensated absences

Management's estimate of the compensated absence accrual is based on outstanding vacation hours at current hourly rates. We evaluated the key factors and assumptions used to develop the compensated absence accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

Self-insurance liability

Management's estimate of the self-insurance liability is based on the development of amounts from the various consultants' actuarial studies. For general liability and workers' compensation for the current year, the present value of estimated outstanding losses is reported at the 70% confidence level. We evaluated the actuaries' qualifications, key factors, and assumptions used to develop the claims and judgments payable in determining that it is reasonable in relation to the financial statements taken as a whole.

V. Audit Adjustments

For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. **An** audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

CITY OF LODI, CALIFORNIA
Report to Management
Required Communications (Continued)
For the Year Ended June 30,2007

VI. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VII. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VIII. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IX. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

CITY OF LODI, CALIFORNIA
Report to Management
Current Year Management Comment and Recommendation
For the Year Ended June 30, 2007

INTERNAL SERVICE FUNDS

Condition

Internal service funds are expressly designed to function as *cost-reimbursement devices*. That is, an internal service fund is simply a means of accumulating costs related to a given activity on an accrual basis so that the costs can subsequently be allocated to the benefiting funds in the form of fees and charges. During our audit of the City's financial statements for the period ending June 30, 2007, we noted that the internal service fund does not appear to be recovering the full cost of providing medical insurance benefits to other funds and/or user departments.

We examined, on a test basis, monthly CalPERS invoice billings of health insurance premiums for active participants enrolled in the health care plans offered by CalPERS, the cost of which were expensed in the internal service fund, however, the revenue reported by the internal service funds were consistently less than the related costs of the medical benefits provided. Absent a reconciliation of the enrolled participants in the CalPERS health care plans and the City's internal payroll and Human Resources system, the costs related to the CalPERS invoice billings of health insurance premiums could be permanently stranded in the internal service fund, and therefore, the user departments not being charged their proportionate share of the costs.

Recommendation

We encourage management and/or authorized employees to perform a monthly reconciliation of the enrolled participants in the health care plans as reported by CalPERS in the monthly health insurance invoice roster detail with the City's internal payroll system and HR records to ensure accuracy and completeness of the roster. This strengthens control and ensures that the costs are properly and timely allocated according to the user department or fund and that City is only being charged for current employees at authorized rates.

Management Response

Staff in the Human Resources Division have been tasked with the review of all health insurance bills to ascertain whether the appropriate amount is being charged to other departments of the City. This review of bills should be done by the Human Resources staff since they are the most familiar with staffing additions, deletions and other changes. In addition to this review by Human Resources, there needs to be a continuing reconciliation done by the Budget Division staff to ensure that amounts that are charged to departments for health insurance do in fact get budgeted appropriately and are also charged correctly in the payroll cost reporting system.

Management is implementing a reconciliation process that will utilize staff in the Budget Division to ensure that health insurance and other internal service fund charges are being appropriately monitored to ensure that they are allocated to all operating departments in an appropriate manner.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations
For the Year Ended June 30,2007

The following is a summary of the status of prior years' recommendations. For more detail of the original conditions and recommendations, please refer to the management reports for the years in which the original findings were communicated.

FROM YEAR ENDED JUNE 30,2006 -

ADMINISTRATION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT

Current Year Status

Beginning approximately October 2006, the City has benefited from the contract services of a third party to handle the preparation and processing of CDBG Program disbursements, documentation and recordkeeping. The Community Improvement Manager retains responsibility for the compliance review requirements and approval of all grant expenditures and of all documentation. Therefore, we consider the recommendation implemented.

FROM YEAR ENDED JUNE 30,2005 -

ENVIRONMENTAL REMEDIATION

Current Year Status

Condition unchanged. Prior recommendation remains.

Current Year Management Response

A plan is being developed for the remediation of environmental contamination. The plan could not be developed until the litigation efforts related to all of the contaminated areas were close to being concluded. Most of these litigation efforts have concluded and the City is close to finalizing settlements with all parties. Efforts are now underway and will continue for the next twelve to eighteen months to develop the most cost effective means for cleanup of the contamination.

INFORMATION TECHNOLOGY (IT)

Information Technology Administration – Policies and Procedures

Current Year Status

In process of being implemented. The Electronic Media Acceptable Usage Policy has not yet been adopted for use within the City. A review of the draft policy found that it does not define specific password standards that define the minimum password length, complexity of expiration period.

Current Year Recommendation

The City should make a concerted effort to update the current administrative policies and procedures to include sections pertaining to computer network security, password protection and specific configuration standards, and confidentiality of information.

Current Year Management Response

Management agrees. Adoption should occur in fiscal year 2008-09

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Year Ended June 30,2007

Information Technology Administration – New-Hire Training

Current Year Status

Considered implemented.

Logical Security – Departing Employees

Current Year Status

Not implemented. Prior recommendations remain.

Current Year Management Response

Management agrees. Procedures should be implemented during fiscal year 2008-09.

Logical Security – Access Rights

Current Year Status

In process of being implemented. User lists are periodically reviewed by ISD to identify obsolete accounts and user appropriateness. In addition, department heads are annually sent a list of users within their departments and their access rights. The Deputy City Manager is also sent a list for review. Even though these informal procedures are being conducted, they have not been formally documented requiring quarterly reviews and do not ensure that the lists are being reviewed to ensure appropriate authorization rights are being enforced. Prior recommendation remains.

Current Year Management Response

Management agrees. Policy covering this recommendation should be completed during fiscal year 2008-09.

Accounting System Development and Maintenance

Current Year Status

In process of being implemented. Prior recommendation remains

Current Year Management Response

Management agrees. Staff has implemented a change control process that includes authorization and notification of all significant changes made to the city's network or systems environment and documentation of same. A policy covering change control procedures will be developed by 6/30/08.

Packaged Accounting Software and Systems Software – Selection Method

Current Year Status

Still in process of being implemented. Original recommendation remains.

Current Year Management Response

Management agrees. Documentation will be developed by 6/30/08.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Year Ended June 30,2007

Packaged Accounting Software and Systems Software – Test Environment

Current Year Status

Not implemented. Even though patches and updates are performed according to manufacturer specifications, or they are done by company certified engineers, the procedures are not documented within formal policy. 2006 recommendation remains.

Current Year Management Response

Management agrees. Documentation will be developed by 6/30/08.

Computer Operations – Computer Room

Current Year Status

Not implemented. Condition remains unchanged.

Current Year Recommendation

At a minimum, the City should ensure the water-based system is a “dry pipe” system with high temperature activation heads. This would minimize the risk associated with the possibility of the system activation or break in the pipes.

Current Year Management Response

Management agrees. The City had contracted with its IBM Business Partner in November 2007 to provide disaster recovery services, including recovery equipment hosting and priority equipment replacement. Replacing the current water-based fire suppression system is cost prohibitive.

Computer Operations – Disaster Preparedness/Business Continuity Plans

Current Year Status

In process of being implemented. The City has developed an Information Systems Disaster Preparedness Plan in July 2007 and has also contracted with an IBM Partner for disaster recovery services including recovery equipment hosting and priority equipment replacement. The Plan, however, has not yet been tested. The City IS Division plans to test the Plan in the spring of 2008 as time permits.

Current Year Recommendation

The City should test the Information System Disaster Preparedness Plan as soon as possible and the Plan should be updated with any findings from the testing.

Current Year Management Response

Management agrees. Staff will schedule a test during fiscal year 2008-09.

Computer Operations – Service Level Agreements

Current Year Status

In process of being implemented. No change from 2006 status.

Current Year Management Response

Management agrees. Implementation should occur in fiscal year 2008-09.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Year Ended June 30,2007

Computer Operations – Unauthorized Use of Software

Current Year Status

In process of being implemented. Computers are scanned when there is suspicion that unauthorized software may exist. This is not done on a routine basis. The original recommendation remains to be fully implemented.

Current Year Management Response

Management agrees. Currently, only persons with administrator privileges are able to install or uninstall software or change unit configurations. It is the current ISD policy to deliver all new and replacement PCs with non-admin privileges. The Information Systems Division has embarked on a program to revoke local admin rights on city PCs, a change that will prevent users from installing software or making configuration changes. About half or more of the city's current PC inventory now have non-admin user privileges. It is anticipated that all city PCs will have undergone this change by 12/31/08.

Computer Operations – Read-Write Access to the JDE Application

Current Year Status

In process of being implemented. The purchasing function is now under a new Budget Manager position as of October 2006. Copies of all purchase orders are sent to this new Budget Manager. In addition, there is a quarterly review of all purchases between \$5,000 and \$20,000 that are reported to the City Council. Approximately 2/3rds of all purchasing transactions are now being processed through the JDE application. As time and training allows, other departments are being trained in the use of the JDE application.

Current Year Management Response

Management agrees. Departments continue to be trained in the use of the JDE application for purchasing.

Other Matters

Since 2005, the City has been in various stages of addressing our prior year recommendations. Efforts to implement several have been hampered by budgetary constraints and other higher priority undertakings. Overall, of the 12 EDP Review findings and recommendations from our 2005 review, one has been implemented, three have not been implemented, and eight are in the process of being implemented.

CITY OF LODI, CALIFORNIA
Report to Management
Status of Prior Year Recommendations (Continued)
For the Year Ended June 30,2007

FROM YEAR ENDED JUNE 30,2004 -

CAPITAL ASSETS

Current Year Status

Status unchanged. Prior year recommendation remains.

Current Year Management Response

Finance is currently in the initial stage of assessing the magnitude of this project and coordinating with Information Systems Division to evaluate and establish a project plan. The timeline for implementation is expected to be FY08-09, if not earlier.

FTA INDIRECT COSTS

Current Year Status

Condition unchanged. Prior year recommendation remains.

Current Year Management Response

Management had a review of the city-wide cost allocation plan in September 2007. The review included analysis of all direct and indirect costs and recommendations related to the in-lieu of transfers made to the General Fund. The review of the cost allocation plan will be expanded during 2007-08 to incorporate all charges that may be feasible for recovery from the Federal Transit Authority..



**CITY OF LODI, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

CITY OF LODI, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30,2007

JOANNE MOUNCE, MAYOR
LARRY HANSEN, MAYOR PRO TEMP
SUSAN HITCHCOCK, COUNCILMEMBER
BOB JOHNSON, COUNCILMEMBER
PHIL KATZAKIAN, COUNCILMEMBER

BLAIR KING, CITY MANAGER

Prepared by the Finance Department
James Krueger, Deputy City Manager/Internal Services Director/Treasurer
Ruby Paiste, Financial Services Manager
Coriene Wadlow, Sr. Accountant
Odette Bondoc, Accountant II

INTRODUCTORY SECTION

**CITY OF LODI
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30,2007**

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 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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**CITY OF LODI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30,2007**

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CITY COUNCIL

JOANNE MOUNCE, Mayor
LARRY HANSEN, Mayor Pro
Tempore
COUNCILMEMBERS:
SUSAN HITCHCOCK
BOB JOHNSON
PHIL KATZAKIAN

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BLAIR KING
City Manager
RANDI JOHL
City Clerk
STEVE SCHWABAUER
City Attorney

December 7, 2007

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

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007, is hereby submitted. This report is provided to present the financial position, results of operations and cash flows of the City's proprietary funds as of June 30, 2007, in conformity with generally accepted accounting principles. The report conforms to the highest standards of financial reporting as established by the Governmental Accounting Standards Board (GASB), for reporting by State and local governments. The responsibility for the accuracy, fairness and completeness of the report rests with the City.

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

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

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

THE REPORTING ENTITY AND SERVICES PROVIDED

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

The City of Lodi (City) was incorporated December 6, 1906, as a municipal corporation under the general laws of the State of California. The City operates under a Council-Manager form of government. Under the Council-Manager form of government, policy making and legislative authority are entrusted to the City Council. The City Council consists of five members elected at-large by its voters for four-year terms, with no term limits. Elections are held in November of even-numbered years. Each year the Mayor and Mayor Pro-Tempore are chosen by the members of the City Council. The Mayor presides at Council meetings and acts as the ceremonial head of the City, the Mayor Pro Tempore serves as Mayor in his or her absence. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for appointing department heads, and overseeing the operations of the City. The City Manager, City Attorney and the City Clerk are appointed by the City Council.

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

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

	Number of Facilities
Elementary and Secondary Schools	18
Sanitation (solid waste) and Cable Television	2
Ambulance	1
Gas and Telephone	2

ECONOMIC CONDITION AND OUTLOOK

The City is located in the San Joaquin Valley between Stockton 10 miles to the south, and Sacramento 35 miles to the north, and adjacent to U.S. Highway 99. The City population is 63,395 and is contained in an area of 13.92 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to 70,500 people by the year 2012. The City's growth is provided for in both the General Plan and the City's growth control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

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

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

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

Economic Development

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

MAJOR GOALS, OBJECTIVES AND PROJECTS

To assist the citizens of Lodi in understanding where the City intends to allocate available resources, the City Council, the City Manager and Department Heads established in 2004 a hierarchy of major goals, objectives and major projects that support and re-enforce the City's mission statement.

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

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

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

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

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

As discussed above, economic revitalization continued to be an active focal point of the City in 2006-07. The following projects are underway and will be completed in 2008.

Court Space Remodel

The court facility is being remodeled to provide additional workspace for the Finance and Budget divisions. Both divisions are currently housed in space that is leased. The court space is currently used by Superior Court #1 which is moving across the street to the new police building. The use of this space by city departments will save more than \$140,000 in annual lease payments.

Police Building Improvements for Housing San Joaquin Court Facilities

The new police facilities building was opened in 2002. The new building included space that was built to house Superior Court #1. The facility improvements will be completed in 2008 and Court #1 will move into the police facilities and will be leasing the space from the City. This will result in additional revenues at approximately \$194,000.

FINANCIAL INFORMATION, MANAGEMENT AND CONTROL

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

Basis of Accounting

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

Accounting System and Budgetary Control

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

In addition, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The City Manager is responsible for the preparation of the budget and its implementation after adoption. The City Council has the authority to amend the budget at any time during the year. The City Manager has the authority to make adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted year-end balances. During fiscal year 2006-07, the City Council and City Manager made several supplemental budget appropriations, the majority of which relate to operating budgets and capital projects.

Fund Balance

It is the City's goal to target and maintain an unreserved, undesignated fund balance in the General Fund and working capital balances in the Water and Wastewater enterprise funds of at least 15% of operating expenditures. Based on a study completed during the last year, the target for the Electric enterprise fund working capital is \$12.1 million. The goals allow for variations from year-to-year to account for economic and fiscal changes. The General Fund maintained an unreserved undesignated fund balance of \$5,175,522 or 12.93%, of operating expenditures at the end of fiscal year 2006-07.

Cash Management

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

Appropriation Limitation

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

Excluded from the limitation are appropriations funded through charges for services, fines and forfeitures, grants, transfers of service responsibilities between government agencies and indebtedness incurred prior to Fiscal Year 1979. Pursuant to subsequent legislation adopted after Article XIII B, the City is required to annually establish and adopt its appropriations limit by resolution. For 2006-07, the City's appropriations subject to limit were \$34,165,830 and the appropriation limit was \$68,905,066 leaving appropriations at \$34,739,236 below the limit.

Debt Administration

At June 30, 2007, the City had outstanding Certificates of Participation of \$139,502,922. These liabilities are discussed in Note 8 of the Basic Financial Statements and summarized below.

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

The City also issued \$10.12 million for the renovation of the Performing Arts Center on August 1, 1996; the 2002 Certificates of Participation also refunded these bonds.

On December 1991, the Wastewater Utility issued \$11.17 million Certificates of Participation to repay the 1988 Wastewater Certificates of Participation previously issued for the Wastewater Treatment Plant Expansion Project, at a lower rate.

In 1999, the Electric Utility issued \$43.96 million Certificates of Participation to finance the costs of certain improvements to the distribution and transmission facilities of the City's electric system. These bonds were refunded by the issuance of the 2002 Electric Systems Revenue Certificates of Participation.

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

On October 21, 2003, the City of Lodi and the City of Fort Bragg issued Water and Wastewater revenue bonds (2003B) through the California Statewide Communities Development Authority ("the Authority") under its pooled financing program. Total bonds issued were \$9,855,000 of which \$5,000,000 was for the upgrade of the City of Lodi's wastewater facilities.

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

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

Interim Financial Reporting

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

Single Audit

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

Competitive Bidding Policy

All required purchases for materials, equipment and services during 2006-07 were made pursuant to competitive bidding procedures as established under the City's purchasing ordinance. Contracts for construction projects were awarded pursuant to competitive bidding procedures established by the State of California for projects in excess of \$5,000.

Risk Management

The City is self-insured for dental care, workers' compensation, general liability and unemployment insurance. General liability and workers' compensation are administered by outside agencies. The City administers unemployment insurance. Self-insurance transactions are accounted for under the City's Claims and Benefits Fund. At June 30, 2007, the Claims and Benefits Fund had a deficit of 813,142. It is the City's goal to gradually eliminate the deficit in the Internal Service Funds.

INDEPENDENT AUDIT

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

CERTIFICATES OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. The City did not submit for the California Society of Municipal Finance Officers (CSMFO) award program last year. These Certificates of Achievement are prestigious national and state awards recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

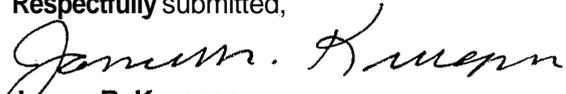
A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last fourteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA this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

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James R. Krueger". The signature is fluid and cursive, with the first name being the most prominent.

James R. Krueger

Deputy City Manager/Internal Services Director/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lodi
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

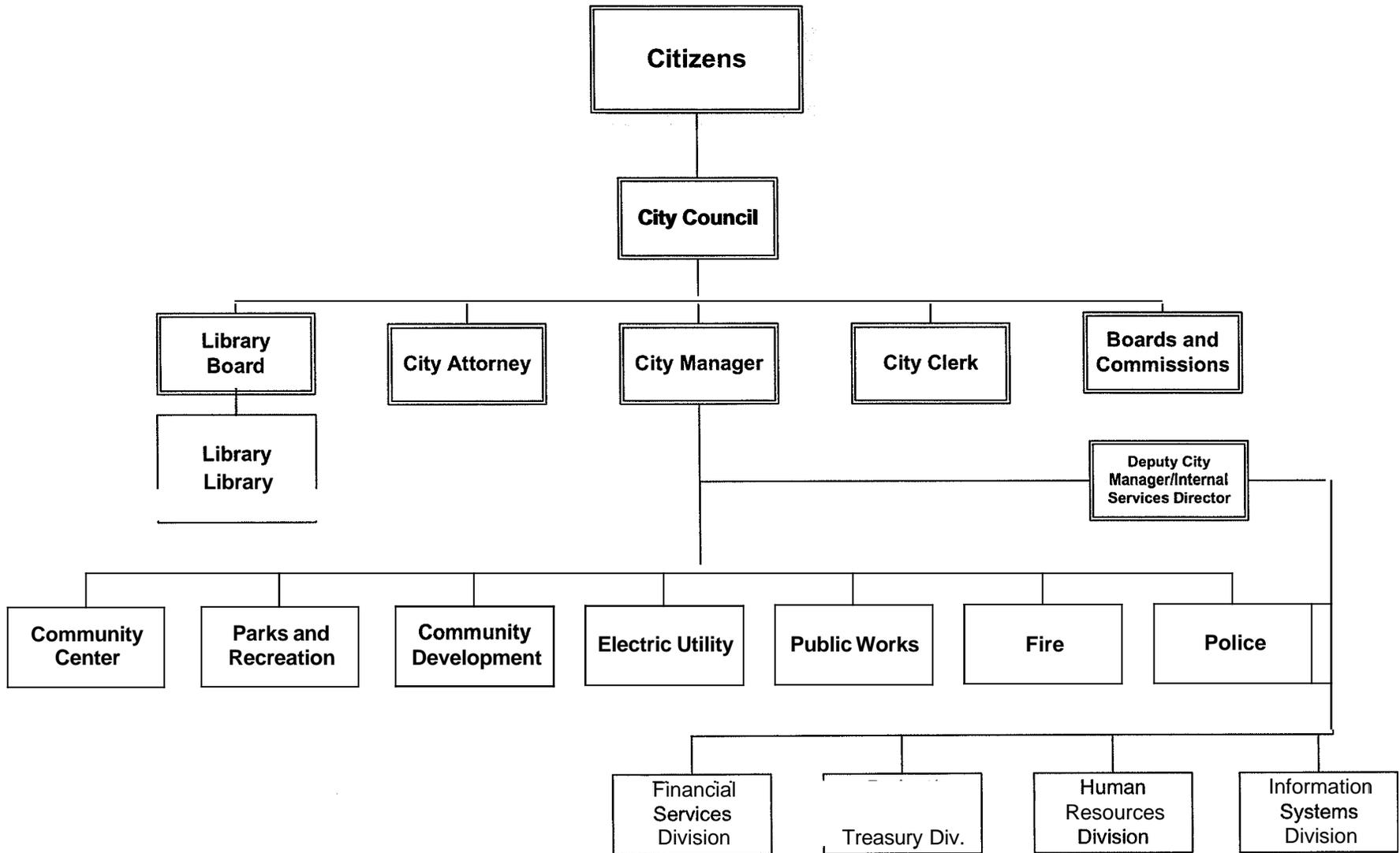
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

City of Lodi



DIRECTORY OF OFFICIALS AND ADVISORY BODIES

CITY COUNCIL

Joanne Mounce
Larry Hansen
Susan Hitchcock
Bob Johnson
Phil Katzakian

Mayor
Mayor Pro Temp
Council Member
Council Member
Council Member

ADVISORY BODIES

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

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

PRINCIPAL ADMINISTRATIVE OFFICERS

Blair King
Steve Schwabauer
Randi Johl
Nancy Martinez
James Krueger
Mike Pretz
James Rodems
Richard Prima
George Morrow
Randy Hatch
Jerry Adams
Steve Dutra

City Manager
City Attorney
City Clerk
Library Services Director
Dep. City Mgr/Internal Services Dir/Treasurer
Fire Chief
Community Center Director
Public Works Director
Electric Utility Director
Community Development Director
Police Chief
Interim Parks & Recreation Director

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FINANCIAL SECTION

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

The Honorable Members of City Council
City of Lodi, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the year ended June **30**, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, 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**, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and **not to** provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedule of funding progress – pension plan, and schedule of revenues, expenditures and changes in fund balance – budget and actual – for the General Fund are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comprehensive Annual Financial Report is presented as discussion and analysis of the financial performance of the City of Lodi (the City) for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

- The assets of the City of Lodi exceeded its liabilities at the close of the 2007 fiscal year by \$234,980,025 (net assets). Of this amount, \$2,449,223 is unrestricted net assets, needed to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$27,376,642 in fiscal year 2007
- **As** of June 30, 2007, the City's governmental funds reported combined ending fund balances of \$21,044,025, an increase of \$3,603,397 in comparison with the prior year. Of this amount, \$18,026,704 is available for spending at the City's discretion (unreserved fund balance).
- At the close of the fiscal year, fund balance for the general fund was \$6,319,402 (of which \$5,175,522 is unreserved and undesignated) or 15.8 % of total general fund expenditures of \$40,041,238.
- The City's total long-term debt decreased by \$3,989,852 (2.8%) during the current fiscal year

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 are comprised of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the Financial Statements. This report also includes other **supplementary information** in addition to the basic financial statements.

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through users fees and charges (business-type activities). The governmental activities of the City include general government, public protection, public works, community development, library, and parks and recreation. The business-type activities of the City include electric operations, wastewater operations, water operations and public transit operations.

Fund Financial Statements

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

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

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

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

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

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Electric, Wastewater, Water, all of which are considered to be major funds and the Transit system, which is considered to be a nonmajor proprietary fund.

- **Internal Service funds** are used to report activities that account for various employee benefits and self-insurance activities and fleet activities of the City. Because these activities predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Combining Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Lodi assets exceeded liabilities by \$234,980,025 at the close of the current fiscal year.

The largest portion (\$208,775,405) of the City's net assets reflects its investment in capital assets net of any associated depreciation (e.g., land, buildings and improvements, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lodi's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets:						
Current and other assets	\$ 32,649,784	26,306,575	82,844,456	85,587,439	\$ 115,494,240	111,894,014
Capital assets	135,878,115	137,535,891	157,655,799	136,816,229	293,533,914	274,352,120
Total assets	<u>168,527,899</u>	<u>163,842,466</u>	<u>240,500,255</u>	<u>222,403,668</u>	<u>409,028,154</u>	<u>386,246,134</u>
Liabilities:						
Long-term liabilities outstanding	41,842,787	42,911,609	119,527,995	123,232,209	161,370,782	166,143,818
Other liabilities	4,794,355	3,670,776	7,882,992	8,828,157	12,677,347	12,498,933
Total liabilities	<u>46,637,142</u>	<u>46,582,385</u>	<u>127,410,987</u>	<u>132,060,366</u>	<u>174,048,129</u>	<u>178,642,751</u>
Net assets:						
Invested in capital assets, net of related debt	110,814,721	111,572,441	97,960,684	77,493,888	208,775,405	189,066,329
Restricted	15,044,403	14,525,637	8,710,994	10,969,285	23,755,397	25,494,922
Unrestricted	(3,968,367)	(8,837,997)	6,417,590	1,880,129	2,449,223	(6,957,868)
Total net assets	<u>\$ 121,890,757</u>	<u>117,260,081</u>	<u>113,089,268</u>	<u>90,343,302</u>	<u>\$ 234,980,025</u>	<u>207,603,383</u>

An additional portion of the City's net assets, \$23,755,397 (10.11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted assets amounts to \$2,449,223. At the end of the current fiscal year, the City is able to report positive balances in the three categories of net assets for the government as a whole. Unrestricted net assets are negative for the governmental activities. The deficit in unrestricted net assets in the governmental activities at the end of the year was \$3,968,367 primarily due to the accrual of compensated absences for \$10,210,966 and the inclusion of the internal service funds in the governmental activities that had negative net assets of \$878,768.

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

City of Lodi's Change in Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues:						
Charges for services	\$ 4,392,225	4,717,215	84,772,926	76,768,433	\$ 89,165,151	81,485,648
Operating grants and contributions	2,588,592	2,586,677	2,621,063	3,376,995	5,209,655	5,963,672
Capital grants and contributions	6,974,545	14,630,848	19,983,761	11,145,804	26,958,306	25,776,652
General revenues:						
Property taxes	9,523,684	8,030,641			9,523,684	8,030,641
Other taxes	11,070,609	10,063,090			11,070,609	10,063,090
Grants and contributions not restricted to specific programs	14,771,547	14,214,678			14,771,547	14,214,678
Litigation- environmental lawsuits proceeds			6,222,568	6,700,399	6,222,568	6,700,399
Other	1,495,383	1,340,239	4,128,972	4,063,465	5,624,355	5,403,704
Total revenues	<u>50,816,585</u>	<u>55,583,388</u>	<u>117,729,290</u>	<u>102,055,096</u>	<u>168,545,875</u>	<u>157,638,484</u>
Expenses						
General government	7,852,819	9,746,613			7,852,819	9,746,613
Public protection	23,327,792	22,104,641			23,327,792	22,104,641
Public works	10,599,292	13,228,998			10,599,292	13,228,998
Community development	2,130,349	2,290,412			2,130,349	2,290,412
Library	1,630,145	1,484,793			1,630,145	1,484,793
Parks and recreation	4,171,750	4,113,772			4,171,750	4,113,772
Interest on long-term debt	1,201,086	1,233,982			1,201,086	1,233,982
Electric			67,533,822	63,779,870	67,533,822	63,779,870
Wastewater			9,270,669	8,574,212	9,270,669	8,574,212
Water			9,874,702	8,256,175	9,874,702	8,256,175
Transit			3,576,807	3,643,035	3,576,807	3,643,035
Total expenses	<u>50,913,233</u>	<u>54,203,211</u>	<u>90,256,000</u>	<u>84,253,292</u>	<u>141,169,233</u>	<u>138,456,503</u>
Changes in net assets before transfers	(96,648)	1,380,177	27,473,290	17,801,804	27,376,642	19,181,981
Transfers	4,727,324	4,922,835	(4,727,324)	(4,922,835)		
Changes in net assets	4,630,676	6,303,012	22,745,966	12,878,969	27,376,642	19,181,981
Net assets at beginning of year	117,260,081	110,957,069	90,343,302	77,464,333	207,603,383	188,421,402
Net assets at end of year	\$ <u>121,890,757</u>	<u>117,260,081</u>	<u>113,089,268</u>	<u>90,343,302</u>	\$ <u>234,980,025</u>	<u>207,603,383</u>

Analysis of Channes in Net Assets

Governmental activities.

Governmental activities increased the City’s net assets by \$4,630,676 or 17% of the total increase in the City’s net assets.

The key factors impacting the change in net assets are:

- Moderate revenue growth
- Slow down on new residential developments
- Increased assessed valuations due to growth in new homes in prior year
- Significant restraint in spending.

Charges for services decreased by 7%, a net amount of \$324,990 from the prior fiscal year largely from development related fees essentially from the continuing slow down of new residential developments.

- Construction permits decreased by \$315,900 or 33%
- Planning and plan check fees decreased by \$167,854 or 30%

Capital grants and contributions decreased by \$7,656,303 or 52% from prior fiscal year. This was substantially the effect of the slow down in new developments resulting in a decrease of \$2,687,586 in the contribution of capital assets from developers. Street projects funded by Measure K also decreased by \$4,765,517. Commercial developments remained steady resulting in an increase in development impact mitigation fees collected by \$932,772.

The City’s governmental activities also realized the following revenue increases:

- Property taxes - \$1,493,043 – 19%
- Sales and use taxes - \$325,015 – 3.31%
- Motor Vehicle license fees - \$231,855 – 5.27%
- In-lieufranchise taxes - \$848,914 – 10.84%

Expenses for governmental functions totaled \$50,913,233 a decrease of \$3,289,978 from the prior fiscal year. This largely reflects the net decrease in the actuarial estimates for the reserves required for general liability and workers compensation included in general government and the net effect of the continued effort to cut back on spending.

Business-type activities.

Business-type activities increased the City’s net assets by \$22,745,966 or 25% of the total increase in the City’s net assets. The key elements of this increase are:

- Capital Contributions:

Electric Fund - \$69,000

Wastewater Fund - \$11,475,030

Water Fund - \$7,296,968

- Proceeds from litigation settlements - \$6,222,568.

The City also implemented a rate increase for Electric Utility effective June 1, 2006, to offset the increase of purchased power expenses resulting in increased operating revenue of \$6,696,277 or 11% from prior fiscal year. An Energy Cost Adjustment (ECA) was adopted in June 2007 to replace the Market Cost Adjustment (MCA) that was adopted in 2002. The ECA is intended to automatically adjust the electric rates for monthly fluctuations in the City's purchased power expenses.

Wastewater and water rates were also increased during the year resulting in increased operating revenues of \$317,514 or 4% in Wastewater Utility; and \$1,696,716 or 20% in Water Utility. Sewer connection fees were accounted for as operating revenues in prior years and as a capital contribution in the current year therefore showing a net decrease in wastewater operating revenues of \$403,074.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds.

The focus of the City of Lodi's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, special revenue funds, debt service funds and capital projects funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$21,044,025, an increase of \$3,603,397 in comparison to the prior year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$5,175,522 while total fund balance was \$6,319,402, an increase of \$1,950,461 from prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12.93% of total general fund expenditures.

Governmental fund balances have increased for the last two years as a result of continued spending restraint and the receipt of unexpected revenues from the State of California which includes reimbursements for mandated costs and receipts of more than expected vehicle license fees.

Proprietary Funds

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

Unrestricted net assets at the end of the year for the Electric Fund were (\$2,514,064), Wastewater Fund \$3,022,494, Water Fund \$4,463,762 and Transit Fund \$1,445,398.

The Internal Service Funds are reporting a deficit in unrestricted net assets as a result of the City not fully funding its self-insurance activities. The City continues its efforts to gradually eliminate the deficit in the Internal Service Funds by funding the deficit over the next three fiscal years.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Significant differences between the original operating budget and the final amended operating budget in the General Fund were a net increase in appropriation of \$2,040,975. The increase in appropriations can be briefly summarized as follows:

- \$133,804 increase in general government
- \$5,074 increase in public protection
- \$1,998,807 increase in public works
- \$11,225 increase in library
- \$107,935 decrease in parks and recreation

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

- Taxes – a favorable variance of \$952,685 was attributed to underestimated increases in assessed values, which resulted in additional property tax revenues in the amount of \$906,054.
- Intergovernmental revenues – a favorable variance of \$885,811 was largely due to the increased Vehicle License Fees received in the amount of \$764,786 and the reimbursement of state mandated costs not previously funded by the State in the amount of \$224,638.
- Fines, forfeits and penalties – an unfavorable variance of \$139,858 resulting from revenues that did not come in as expected.
- For expenditures, a favorable variance between the final budget and actual expenditures of \$1,921,520 was due to savings from several vacancies and the continued overall effort to reduce spending and costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets.

The City of Lodi's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$293,533,914 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in the City of Lodi's investment in capital assets for the current fiscal year was 6.99% (a 1.21% decrease in governmental activities and 15.23% increase in business-type activities) as shown in the table below.

Changes in Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 24,016,374	\$ 24,016,374	\$ 5,247,806	\$ 5,247,806	\$ 29,264,180	\$ 29,264,180
Buildings and Improvements	37,792,666	39,284,078	25,529,753	26,390,168	63,322,419	65,674,246
Machinery and Equipment	1,331,961	1,080,497	98,359,132	83,489,707	99,691,093	84,570,204
Vehicles	1,474,697	1,741,279	2,150,827	1,988,516	3,625,524	3,729,795
Infrastructure	68,454,801	68,151,049			68,454,801	68,151,049
Work of Art	62,024	62,024			62,024	62,024
Construction in Progress	2,745,592	3,200,590	26,368,281	19,700,032	29,113,873	22,900,622
Total	\$ 135,878,115	\$ 137,535,891	\$ 157,655,799	\$ 136,816,229	\$ 293,533,914	\$ 274,352,120

A significant increase in machinery and equipment and construction in progress compared to prior year was primarily due to the Phase III improvements to the White Slough Pollution Control Facility.

Additional information on the City of Lodi's capital assets can be found in note 6 on pages 42-44 of this report.

Long-term debt.

At the end of the current fiscal year, the City of Lodi had total bonded debt outstanding of \$139,502,922. Of this amount, \$23,975,000 is the outstanding balance of the bonds issued to fund the new public safety building, refinancing of the performing arts center and the downtown and Cherokee Lane improvements. The total of \$115,527,922 from the business-type activities consists of \$38,771,408 for the Wastewater Fund; and \$76,756,514 for the Electric Fund.

City of Lodi's Outstanding Debt

	<u>Governmental Activities</u>	<u>Business-type activities</u>	<u>Total</u>
Certificates of Participation	\$ 23,975,000	115,527,922	139,502,922

The City of Lodi's total bonded debt decreased by \$3,989,852 (2.8%) during the current fiscal year.

Bond Rating.

In response to a review of interim financial results, Fitch Rating Services changed the rating on outstanding electric utility debt instruments from BBB- to BBB. In light of more favorable financial results as reflected in the full year financial results as compared to the interim results, Fitch Ratings Services also removed the negative outlook to positive.

Standard and Poor's also reviewed the rating on the outstanding electric utility debt instruments and retained a BBB+ rating and changed the outlook to stable.

Additional information on the City of Lodi's long-term debt can be found in note 8 on pages 45-53 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The General Fund budget for fiscal year 2007-08 incorporates expenditure levels for Police and Fire Departments, which have filled positions that were left vacant in prior fiscal year budgets. The primary growth in expenditures in the fiscal year 2007-08 budget results from filling these public safety positions. General tax revenues are estimated to increase sufficiently to offset the impact on the budget of filling these positions.

The Electric Utility budget for 2007-08 was adopted with revenues exceeding expenditures by approximately \$1.5 million. Most of these results from the implementation of an energy cost adjustment that adjusts revenues to reflect increasing cost of purchased energy since the last rate increase in November 2005. There are some vacancies and reductions in operational expenditures that are also helping to create the difference. The rate increases in 2005 and other cost cutting measures will be used to increase the cash balances to approximately \$7.1 million by the end of fiscal year 2007-08.

Economic Development

There are two major developments in process in Lodi at the time of this report. The Reynolds Ranch development on the southern end of the city will provide approximately 500 jobs to the community within the next two years. Blue Shield of California will be located in this development and other businesses will be located around the Blue shield facilities. The additional jobs and the expanded economic activity from the commercial development in this project will provide needed additional property and sales tax revenues to the City's revenue base. Additionally, the development plans include approximately 1,000 new residences to be built. This will add significantly to the City's property tax base.

On the west end of town the Southwest Gateway and West End development projects are in the planning stages of development. Frontier Community Builders (FCB) is the developer in these projects and has been involved in building many new neighborhoods in the City of Lodi. Both of these projects could add as many as 2,000 new residences to the city.

Both of these projects include development agreements that will provide for public facilities to be contributed as the development proceeds. This as well as Impact Development Fees will allow for the provision of public facilities that would otherwise need to be funded with General Fund revenue sources. Development agreements have not been used by the City to provide for public improvements in the past.

Housing market factors will affect the timing of when the residences will be built, but it is anticipated that both projects will proceed over the course of the next 15-20 years.

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City' accountability for the money it receives. If you have any questions about this report or need additional information, contact the Financial Services Division of the City of Lodi at 300 W. Pine Street, Lodi, California, 95240.

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BASIC FINANCIAL STATEMENTS

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LODI
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 22,744,481	8,375,941	\$ 31,120,422
Restricted assets	1,750,204	29,871,849	31,622,053
Accounts receivable, net	3,606,321	13,842,494	17,448,815
Property tax receivable	1,901,316		1,901,316
Interest receivable	201,303	65,597	266,900
Internal balances	(749,911)	749,911	
Due from other governmental agencies	1,911,215	970,061	2,881,276
Loan receivable	1,084,000		1,084,000
Advance receivable		4,790,663	4,790,663
Inventory	137,931	1,701,197	1,839,128
Other assets	62,924	5,627	68,551
Deferred charges		22,471,116	22,471,116
Capital assets, net:			
Nondepreciable	26,823,990	31,616,087	58,440,077
Depreciable, net	109,054,125	126,039,712	235,093,837
TOTAL ASSETS	168,527,899	240,500,255	409,028,154
LIABILITIES			
Accounts payable and accrued liabilities	3,146,437	4,295,437	7,441,874
Accrued salaries and wages	1,364,788		1,364,788
Accrued interest	283,130	2,348,162	2,631,292
Unearned revenue		1,239,393	1,239,393
Long-term liabilities:			
Due within one year	5,854,889	4,133,452	9,988,341
Due in more than one year	35,987,898	115,394,543	151,382,441
TOTAL LIABILITIES	46,637,142	127,410,987	174,048,129
NET ASSETS			
Invested in capital assets, net of related debt	110,814,721	97,960,684	208,775,405
Restricted for:			
Capital projects	13,011,928		13,011,928
Debt service	1,749,214		1,749,214
Other purposes	283,261	8,710,994	8,994,255
Unrestricted (deficit)	(3,968,367)	6,417,590	2,449,223
TOTAL NET ASSETS	\$ 121,890,757	113,089,268	\$ 234,980,025

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

CITY OF LODI
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 7,852,819	1,280,338	272,138	233,876	(6,066,467)		\$ (6,066,467)
Public protection	23,327,792	581,835	801,209	475,108	(21,469,640)		(21,469,640)
Public works	10,599,292	295,098	1,146,428	5,743,572	(3,414,194)		(3,414,194)
Community development	2,130,349	1,174,470		23,905	(931,974)		(931,974)
Library	1,630,145	53,207	97,657		(1,479,281)		(1,479,281)
Parks & recreation	4,171,750	1,007,277	271,160	498,084	(2,395,229)		(2,395,229)
Interest on long-term debt	1,201,086				(1,201,086)		(1,201,086)
Total governmental activities	50,913,233	4,392,225	2,588,592	6,974,545	(36,957,871)		(36,957,871)
Business-type activities:							
Electric	67,533,822	65,808,864		69,000		(1,655,958)	(1,655,958)
Wastewater	9,270,669	8,523,530		11,475,030		10,727,891	10,727,891
Water	9,874,702	10,039,706		7,296,968		7,461,972	7,461,972
Transit	3,576,807	400,826	2,621,063	1,142,763		587,845	587,845
	90,256,000	84,772,926	2,621,063	19,983,761		17,121,750	17,121,750
Total primary government	\$ 141,169,233	89,165,151	5,209,655	26,958,306	(36,957,871)	17,121,750	\$ (19,836,121)
General revenues:							
Taxes:							
Property taxes					9,523,684		9,523,684
Franchise taxes					9,608,581		9,608,581
Business license tax					1,081,691		1,081,691
Transient occupancy tax					380,337		380,337
Grants and contributions not restricted to specific programs					14,771,547		14,771,547
Investment earnings					873,925	2,379,735	3,253,660
Litigation - environmental lawsuits proceeds						6,222,568	6,222,568
Other					621,458	1,749,237	2,370,695
Transfers					4,727,324	(4,727,324)	
Total general revenues and transfers					41,588,547	5,624,216	47,212,763
Change in net assets					4,630,676	22,745,966	27,376,642
Net assets, beginning of year					117,260,081	90,343,302	207,603,383
Net assets, end of year					\$ 121,890,757	113,089,268	\$ 234,980,025

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

FUND FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

Governmental Fund Types

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

Major Governmental Fund:

General Fund

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

Proprietary Fund Types

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

Major Enterprise Funds include:

Electric Fund

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

Sewer Fund

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

Water Fund

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

Nonmajor Enterprise Fund:**Transit Fund**

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

Fiduciary Fund Type**Private-purpose Trust Funds**

These funds are used to account for assets held by the Library Board as trustee of the Lodi Public Library and for assets held by the City in accordance with the trust agreement on behalf of the Hutchins Street Square.

Agency Fund

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the IndustrialWay Beckman Districts and the Downtown and Cherokee Lane Districts and various landscape and lighting districts around the City.

**CITY OF LODI
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 3,981,991	13,316,450	\$ 17,298,441
Restricted assets		1,750,204	1,750,204
Receivables:			
Accounts, net	3,355,991	46,695	3,402,686
Property taxes	1,901,316		1,901,316
Interest	47,401	108,660	156,061
Due from other funds	149,568	978,064	1,127,632
Due from other governmental agencies	5,300	1,905,915	1,911,215
Loan receivable		1,084,000	1,084,000
Inventory	29,407		29,407
Advances to other funds	272,800	646,770	919,570
Other assets	59,695	508	60,203
Total assets	<u>\$ 9,803,469</u>	<u>19,837,266</u>	<u>\$ 29,640,735</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other liabilities	\$ 2,119,279	871,580	\$ 2,990,859
Accrued salaries and wages	1,364,788		1,364,788
Due to other funds		652,370	652,370
Advances from other funds		2,144,743	2,144,743
Deferred revenue		1,443,950	1,443,950
Total liabilities	<u>3,484,067</u>	<u>5,112,643</u>	<u>8,596,710</u>
Fund balances :			
Reserved	1,143,880	1,873,441	3,017,321
Unreserved reported in:			
General Fund	5,175,522		5,175,522
Special revenue funds		6,651,315	6,651,315
Capital projects funds		6,199,867	6,199,867
Total fund balances	<u>6,319,402</u>	<u>14,724,623</u>	<u>21,044,025</u>
Total liabilities and fund balances	<u>\$ 9,803,469</u>	<u>19,837,266</u>	<u>\$ 29,640,735</u>

CITY OF LODI
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30,2007

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

Fund balances - total governmental funds	\$	21,044,025
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		
Nondepreciable capital assets		26,823,990
Depreciable capital assets, net		109,015,050
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds as follows:		
Compensated absences		(10,210,966)
Long-term debt		(25,063,394)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due		(283,130)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		1,443,950
Internal service funds are used by management to charge the costs of general liability insurance, workers' compensation insurance, health benefits insurance, other insurance and the cost of operating and maintaining the City's fleet to individual funds. The assets of the internal service fund is included in governmental activities in the statement of net assets		(878,768)
Net assets of governmental activities	\$	121,890,757

CITY OF LODI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2007

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 20,594,293		\$ 20,594,293
Licenses and permits	83,964	632,820	716,784
Intergovernmental revenues	16,091,446	3,800,342	19,891,788
Charges for services	1,854,575	2,841,633	4,696,208
Fines, forfeits and penalties	1,241,051	4,225	1,245,276
Investment and rental income	380,375	617,703	998,078
Miscellaneous revenue	210,495	93,576	304,071
Total revenues	<u>40,456,199</u>	<u>7,990,299</u>	<u>48,446,498</u>
Expenditures:			
Current:			
General government	8,893,677		8,893,677
Public protection	21,775,531	435,792	22,211,323
Public works	3,871,311	1,715,482	5,586,793
Community development		2,061,706	2,061,706
Library	1,587,714		1,587,714
Parks and recreation	3,597,718		3,597,718
Capital outlay		3,526,339	3,526,339
Debt service:			
Interest and fiscal charges	41,464	1,163,635	1,205,099
Principal payments	273,823	626,233	900,056
Total expenditures	<u>40,041,238</u>	<u>9,529,187</u>	<u>49,570,425</u>
Excess (deficiency) of expenditures over (under) revenues	<u>414,961</u>	<u>(1,538,888)</u>	<u>(1,123,927)</u>
Other financing sources (uses):			
Transfers in	4,937,314	3,926,356	8,863,670
Transfers out	(3,401,814)	(734,532)	(4,136,346)
Total other financing sources (uses)	<u>1,535,500</u>	<u>3,191,824</u>	<u>4,727,324</u>
Net change in fund balances	1,950,461	1,652,936	3,603,397
Fund balances, beginning of year	<u>4,368,941</u>	<u>13,071,687</u>	<u>17,440,628</u>
Fund balances, end of year	<u>\$ 6,319,402</u>	<u>\$ 14,724,623</u>	<u>\$ 21,044,025</u>

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

CITY OF LODI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2007

Amounts reported for governmental activities are different because:

Net change in fund balances-total governmental funds	\$	3,603,397
--	----	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays, capital contributions and depreciation expense are as follows:

Capitalized capital outlays		3,526,339
Capital contributions		2,136,331
Depreciation expense		(7,359,521)

Long-term debt proceeds, net of discounts, provide current financial resources to governmental funds, but issuing debt proceeds increases long-term liabilities in the statement of net assets. Repayments of the principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.

Repayments of principal are as follows:

Capital leases		273,823
Certificates of participation principal		535,000
Loan principal		91,233

Internal service funds are used by management to charge the costs of certain activities, such as health benefits and self-insurance, costs of operation and maintenance of the City's fleet, to individual funds.

The net revenue (expenses) of the internal service funds are reported with governmental activities.		2,175,868
---	--	-----------

Deferred revenues recognized in the funds that were previously recognized in the statement of activities		(10,000)
--	--	----------

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		(345,807)
Change in accrued interest		4,013

Change in net assets of governmental activities	\$	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">4,630,676</td> </tr> </table>	4,630,676
4,630,676			

CITY OF LODI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	Business-type Activities-Enterprise Funds				Total	Governmental Activities- Internal Service Funds
	Electric	Wastewater	Water	Nonmajor Fund Transit		
ASSETS						
Current assets:						
Cash and Investments	\$ 5,162,284	3,000,445		213,212	\$ 8,375,941	\$ 5,446,040
Restricted cash and investments			8,410,994		8,410,994	
Restricted assets with fiscal agents	10,131,013	11,029,071	300,771		21,460,855	
Receivables:						
Accounts, net	4,335,315	2,620,025	6,275,419	611,735	13,842,494	203,635
Interest	37,748	5,261	20,773	1,815	65,597	45,242
Due from other governmental agencies		85,182		884,879	970,061	
Advance receivable	4,790,663				4,790,663	
Inventory	1,501,423	13,022	186,752		1,701,197	108,524
Other assets	82	4,188	1,357		5,627	2,721
Total current assets	<u>25,958,528</u>	<u>16,757,194</u>	<u>15,196,066</u>	<u>1,711,641</u>	<u>59,623,429</u>	<u>5,808,162</u>
Noncurrent assets:						
Advances to other funds			1,225,173		1,225,173	
Deferred charges and other assets	21,730,962	740,154			22,471,116	
Capital assets, net:						
Nondepreciable	4,043,564	24,146,041	1,904,656	1,521,826	31,616,087	
Depreciable, net	34,000,593	52,083,087	28,736,192	11,219,840	126,039,712	39,075
Total capital assets	<u>38,044,157</u>	<u>76,229,128</u>	<u>30,340,848</u>	<u>12,741,666</u>	<u>157,655,799</u>	<u>39,075</u>
Total noncurrent assets	<u>59,775,119</u>	<u>76,969,282</u>	<u>31,866,021</u>	<u>12,741,666</u>	<u>181,352,088</u>	<u>39,075</u>
TOTAL ASSETS	<u>85,733,647</u>	<u>93,726,476</u>	<u>47,062,087</u>	<u>14,453,307</u>	<u>240,975,517</u>	<u>5,845,237</u>
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	696,877	1,776,967	1,556,326	265,267	4,295,437	155,578
Accrued interest	1,731,278	600,485	16,399		2,348,182	
Due to other funds			475,262		475,262	
Unearned revenue		71,175	1,168,218		1,239,393	2,265,383
Self-insurance liability						
Accrued compensated absences	280,616	231,799	6,399	976	519,790	67,293
Certificates of participation payable	2,083,948	1,365,904			3,449,852	
Water note payable			163,810		163,810	
Total current liabilities	<u>4,792,719</u>	<u>4,046,330</u>	<u>3,386,414</u>	<u>266,243</u>	<u>12,491,706</u>	<u>2,488,254</u>
Noncurrent liabilities:						
Self-insurance liability						4,130,617
Accrued compensated absences	773,402	765,357	23,108		1,561,867	105,134
Certificates of participation payable	74,672,566	37,405,504			112,078,070	
Water note payable			1,754,606		1,754,606	
Total noncurrent liabilities	<u>75,445,968</u>	<u>38,170,861</u>	<u>1,777,714</u>		<u>115,394,543</u>	<u>4,235,751</u>
TOTAL LIABILITIES	<u>80,238,687</u>	<u>42,217,191</u>	<u>5,164,128</u>	<u>266,243</u>	<u>127,886,249</u>	<u>6,724,005</u>
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	8,009,024	48,486,791	28,723,203	12,741,686	97,960,684	39,075
Restricted:						
Other purposes			8,710,994		8,710,994	
Unrestricted (deficit)	(2,514,064)	3,022,494	4,463,762	1,445,398	6,417,590	(917,843)
TOTAL NET ASSETS (DEFICIT)	<u>\$ 5,494,960</u>	<u>51,509,285</u>	<u>41,897,959</u>	<u>14,187,064</u>	<u>\$ 113,089,268</u>	<u>\$ - (878,768)</u>

CITY OF LODI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2007

	Business-type Activities- Enterprise Funds				Total	Governmental Activities- Internal Service Funds
	Electric	Wastewater	Water	Nonmajor Fund Transit		
OPERATING REVENUES						
Charges for services	\$ 65,808,864	8,523,530	10,039,706	400,826	\$ 84,772,926	\$ 10,100,165
OPERATING EXPENSES						
Personnel services	4,597,337	2,289,035	1,077,002	115,746	8,079,120	1,255,538
Supplies, materials and services	8,904,769	2,314,233	6,924,896	2,810,889	20,954,787	6,003,510
Utilities	43,429,227	683,669	698,063	47,369	44,858,328	14,587
Depreciation and amortization	6,625,207	1,967,035	1,106,609	602,803	10,301,654	1,447
Claims						1,578,383
TOTAL OPERATING EXPENSES	<u>63,556,540</u>	<u>7,253,972</u>	<u>9,806,570</u>	<u>3,576,807</u>	<u>84,193,889</u>	<u>8,853,465</u>
OPERATING INCOME (LOSS)	<u>2,252,324</u>	<u>1,269,558</u>	<u>233,136</u>	<u>(3,175,981)</u>	<u>579,037</u>	<u>1,246,700</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	1,206,412	922,153	235,742	15,428	2,379,735	203,234
Interest expense	(3,977,282)	(2,016,697)	(68,132)		(6,062,111)	
Rent		176,202	12,049	4,000	192,251	
Operating grants				2,621,063	2,621,063	
Litigation-environmental lawsuits proceeds			6,222,568		6,222,568	
Other revenues	849,797	259,618	353,028	94,543	1,556,986	685,412
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(1,921,073)</u>	<u>(658,724)</u>	<u>6,755,255</u>	<u>2,735,034</u>	<u>6,910,492</u>	<u>888,646</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	331,251	610,834	6,988,391	(440,947)	7,489,529	2,135,346
Capital contributions	69,000	11,475,030	7,296,968	1,142,763	19,983,761	40,522
Transfers in		2,377,724			2,377,724	
Transfers out	(2,702,736)	(1,062,533)	(3,339,779)		(7,105,048)	
Net capital contributions and transfers	<u>(2,633,736)</u>	<u>12,790,221</u>	<u>3,957,189</u>	<u>1,142,763</u>	<u>15,256,437</u>	<u>40,522</u>
Change in net assets	(2,302,485)	13,401,055	10,945,580	701,816	22,745,966	2,175,868
NET ASSETS (DEFICIT)- BEGINNING OF YEAR	<u>7,797,445</u>	<u>38,108,230</u>	<u>30,952,379</u>	<u>13,485,248</u>	<u>90,343,302</u>	<u>(3,054,636)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 5,494,960</u>	<u>51,509,285</u>	<u>41,897,959</u>	<u>14,187,064</u>	<u>\$ 113,089,268</u>	<u>\$ (878,768)</u>

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

CITY OF LODI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2007

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
Cash flows from operating activities:						
Receipts from customers and users	3 65,381,498	7,393,356	4,749,095	(404,057) 3	77,119,892 3	490,763
Receipts from interfund services provided	380,769				380,769	10,100,165
Cash paid to suppliers for goods & services	(54,630,021)	(1,068,931)	(6,885,369)	(2,739,294)	(65,323,615)	(8,291,928)
Payments to employees	(4,739,525)	(2,225,027)	(1,087,695)	(117,746)	(8,169,993)	(1,083,111)
Payments for interfund services provided	(2,385)	(630,045)	(671,117)	(31,833)	(1,335,380)	
Proceeds from litigation settlements			6,222,568		6,222,568	
Net cash provided by (used in) operating activities	6,390,336	3,469,353	2,327,482	(3,292,930)	8,894,241	1,215,889
Cash flows from noncapital financing activities:						
Loaned from other funds			475,262		475,262	
Operating grants				2,621,063	2,621,063	
Transfers in		2,377,724			2,377,724	
Transfers out	(2,702,736)	(1,062,533)	(3,339,779)		(7,105,048)	
Net cash provided by (used in) noncapital financing activities	(2,702,736)	1,315,191	(2,864,517)	2,621,063	(1,630,999)	
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(613,011)	(6,511,739)	(699,421)	(1,105,264)	(8,929,435)	
Fees received from developers		1,454,915	119,837		1,574,752	
Capital grants received		74,941		1,119,488	1,194,429	
Principal payments on debt	(2,350,000)	(1,315,000)	(158,489)		(3,823,489)	
Interest payments on debt	(4,134,214)	(2,054,520)	(69,487)		(6,258,221)	
Net cash provided by (used in) capital and related financing activities	(7,097,225)	(8,351,403)	(807,560)	14,224	(16,241,964)	
Cash flows from investing activities:						
Rent of City property		176,202	12,049	4,000	192,251	
Proceeds from sales and maturities of investments		12,408,768			12,408,768	
Interest on investments	1,191,586	925,459	253,768	15,428	2,386,241	169,735
Net cash provided by investing activities	1,191,586	13,510,429	265,817	19,428	14,987,260	169,735
Net increase (decrease) in cash and cash equivalents	(2,218,039)	9,943,570	(1,078,778)	(638,215)	6,008,538	1,385,624
Cash and cash equivalents, beginning of year, restated	17,511,336	1,916,096	9,790,543	851,427	30,069,402	4,060,416
Cash and cash equivalents, end of year	3 15,293,297	11,859,666	8,711,765	213,212 3	36,077,940 3	5,446,040
Reconciliation to the statement of net assets:						
Cash and investments	3 5,162,284	3,000,445		213,212 \$	8,375,941 \$	5,446,040
Restricted cash and investments			8,410,994		8,410,994	
Restricted assets with fiscal agents	10,131,013	11,029,071	300,771		21,460,855	
Less long-term investments		(2,169,850)			(2,169,850)	
Total cash and cash equivalents	3 15,293,297	11,859,666	8,711,765	213,212 \$	36,077,940 3	5,446,040
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating Income (loss)	\$ 2,252,324	1,269,558	233,136	(3,175,981) \$	579,037 3	1,246,700
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	6,625,207	1,967,035	1,106,609	602,803	10,301,654	1,447
Proceeds from litigation settlements			6,222,568		6,222,568	
Other revenues	849,797	259,618	353,028	94,543	1,556,986	685,412
Change in assets and liabilities:						
Decrease (increase) in accounts receivable	727,412	(1,290,572)	(5,643,557)	(12,732)	(6,219,449)	(203,635)
Increase in advance receivables	(1,625,082)				(1,625,082)	
Increase in interest receivables				(1,815)	(1,815)	
Increase in due from other governmental agencies		(67,280)		(884,879)	(952,159)	
Decrease (increase) in inventory	(34,819)	692	(3,410)		(37,537)	(108,524)
Decrease (increase) in other assets	1,276	(213)	(82)		981	8,986
Increase (decrease) in accounts payable and other liabilities	(2,263,591)	1,298,234	69,883	87,131	(808,343)	100,076
Increase (decrease) in compensated absences	(142,188)	64,008	(10,693)	(2,000)	(90,873)	172,427
Decrease in unearned revenue		131,727)			(31,727)	
Decrease in self-insurance liability						(687,000)
Net cash provided by (used in) operating activities	3 6,390,336	3,469,353	2,327,482	(3,292,930) 3	8,894,241 \$	1,215,889
Noncash Investing, Capital and Financing Activities						
Capital contributions	3 69,000	9,945,174	7,177,131	23,275 3	17,214,580 3	40,522

**CITY OF LODI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30,2007**

	Private-Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Investments	\$ 848,151	\$ 589,683
Receivables:		
Special assessments		79,508
Interest		5,495
TOTAL ASSETS	848,151	674,686
 LIABILITIES		
Agency obligations		674,686
TOTAL LIABILITIES		674,686
 NET ASSETS	\$ 848,151	\$

CITY OF LODI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30,2007

		Private-Purpose Trust Funds
ADDITIONS		
Investment and rental income	\$	100,627
Total additions		100,627
DEDUCTIONS		
Current		
Library		11,866
Total deductions		11,866
CHANGE IN NET ASSETS		88,761
NET ASSETS, BEGINNING OF YEAR		759,390
NET ASSETS, END OF YEAR	\$	848,151

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NOTES TO THE FINANCIAL STATEMENTS

CITY OF LODI
Notes to Basic Financial Statements
June 30,2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Financial Reporting Entity

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

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

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

Blended Component Units

The blended component units of the City are as follows:

The Lodi Public Improvement Corporation (LPIC) was formed on April 26, 1988, for the purpose of rendering financial assistance to the City in the issuance of the 1988 Certificates of Participation (refunded by the issuance of the 1991 Certificates of Participation) to finance the expansion of the City's White Slough Pollution Control Facility, the 1995 and 1996 Certificates of Participation to finance the Central City Revitalization Projects and the Performing Arts/ Conference Center, (refunded by the issuance of the 2002 Certificates of Participation), the issuance of the 1999 Certificates of Participation to finance the Electric Systems improvements (refunded by the 2002 Certificates of Participation Series A and B), the 2002 Certificates of Participation Series C and D to fund the buy-out of the CalPine Energy Purchase Commitment, and the issuance of the 2004 Wastewater System Revenue Certificates of Participation Series A to provide funds to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City.

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

The Lodi Financing Corporation (LFC) was formed on October 12, 1999, for the purpose of assisting the City with the financing of the costs of its environmental abatement program and enhancing the water supply of the City for the use, benefit and enjoyment of the citizens served by the City. The City Council is the Board of Directors of LFC. The funds of LFC are included in the Water Fund in the accompanying basic financial statements.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

(b) Government-wide and fund financial statements

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus and accrual basis of accounting*, as are the proprietary fund and private-purpose trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met. Agency funds use the accrual basis of accounting, but they do not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal year. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30.2007

The City reports the following major governmental fund:

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

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

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

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

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

Additionally, the City reports the following fund types:

The **Internal Service Funds** account for the City's claims and benefits and fleet services.

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

Private-Purpose Trust Funds are used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments. They were established to account for assets held and invested by the Library Board as trustee; and to account for assets held by the City in accordance with a trust agreement on behalf of the Hutchins Square. These funds can only be spent in accordance with the trust agreements.

Agency Fund accounts for assets held by the City as a trustee or as an agent for individuals, private organizations, related organizations and/or other governmental units. This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the Industrial Way/Beckman Districts, the Downtown/Cherokee Lane Districts and various landscape and lighting districts around the City.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the business-type activities in the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges for customer services including: electric, wastewater, water and public transportation fees. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

(d) Cash and Investments

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

Cash and cash equivalents were increased at June 30, 2006 by \$10,529,239, \$49,291, and \$300,739 from the amount previously reported in the Electric, Wastewater, and Water funds, respectively. These increases represent the proceeds from debt and other cash and investments held by fiscal agents by agreement classified as restricted assets that meet the definition of cash and cash equivalents.

(e) Restricted Cash and Investments

The City established an escrow account (the "Central Plume Fund") into which certain settlement payments were deposited with the mutual agreement between the City and the other parties that these funds will be used exclusively for environmental clean up, investigation or remediation expenses incurred by the City in the Central Plume Area and that it will not be used for the payment of legal or technical fees. These funds are accounted for in the Water Fund.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

(f) Restricted Assets with Fiscal Agents

In the Enterprise (Electric) Fund, restricted assets represent the proceeds of the 1999 Certificates of Participation held by the trustee for the planned improvements of the City electric systems. In the Capital Outlay Reserve Fund, the restricted assets represent the proceeds of the 2002 Improvement bonds reserved for debt service. In the Wastewater fund, the restricted assets represent the proceeds of the 2003B and the 2004A Certificates of Participation issued for improvements to the City's wastewater collection, treatment and disposal system. In the Water Fund, the restricted assets represent funds held by the attorneys in connection with the PCE/TCE litigation.

(g) Property Taxes

San Joaquin County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the provisions of Proposition 13 plus a percentage of the increase in market value in specific areas. The City's property tax is lien based on the assessed value listed as of the prior January 1st for all real and personal property located in the City. Property sold after the assessment date (January 1st) is reassessed and the amount of property tax assessed is prorated. The assessed value at January 1, 2005, upon which the 2006 levy was based, was \$5,043,996,000.

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

Property taxes levied for the year ended June 30, 2007, are recorded as receivables, net of estimated uncollectible amounts. Property taxes paid to the City by the County within 60 days of the fiscal year end are considered "available" and are, therefore, recognized as revenue.

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

(h) Due From/Due To Other Funds, Advances To/Advances From Other Funds, and Internal Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds." Long-term interfund loans receivable are reported as "advances to other funds." The corresponding long-term interfund loans payable are reported as "advances from other funds." In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Receivables and payables between the governmental activities and the business-type activities are classified as internal balances.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30,2007

(i) Transfers

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

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

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

(j) Long-term obligations

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Gains or losses occurring from advance refunding are deferred and amortized into expense for both governmental and business-type activities.

(k) Loan receivable

Loan receivable reported in the HOME Program & Community Development Block Grants Special Revenue Fund represent funds the City loaned to a developer on November 15, 1995 for a low-income housing project. The City will receive principal and interest from the original loan in 2025 and can use it for allowable projects or to make new loans.

(l) Advance receivable

Advance receivable reported in the Enterprise Fund (Electric) represents the City's portion of the Northern California Power Agency's (NCPA) General Operating reserve that is refundable upon demand by the City. (See Note 13.)

(m) Inventory

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

(n) Deferred Charges

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

(o) Capital Assets

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

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

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

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

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

(p) Compensated Absences/Vacation and Sick Leave

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

(q) Self-Insurance

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

(r) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(s) Statement of Cash Flows

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

(t) Use of Estimates

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

(2) CASH AND INVESTMENTS

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	\$	31,120,422
Restricted assets		31,622,053
Fiduciary funds cash and investments:		
Private-purpose trust funds		848,151
Agency fund		589,683
Total cash and investments	\$	<u>64,180,309</u>

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30.2007

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$	2,071
Deposits with financial institutions		17,140,453
Restricted cash with fiscal agent		300,000
Investments		<u>46,737,785</u>
Total cash and investments	\$	<u><u>64,180,309</u></u>

a) Authorized Investments

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

b) Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by the provisions of the debt agreements and to the extent that they are permissible investments of funds of the City. The following table below identifies the permitted investment types authorized per the City's investment policy. The table also identifies certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

Permitted Investments/Deposits	Maximum Maturity	Maximum % of Portfolio	Maximum Investment in One issuer	Minimum Credit Quality
U.S. Treasury Obligations	5 years	100%		AAA
U.S. Agency Securities	5 years	100%		AAA
Banker's Acceptances	180 days	40%	25%	AAA
Certificates of Deposit	5 years	100%	33%	
Negotiable Certificates of Deposit	5 years	30%		
Commercial Paper	270 days	40%		AAA
California State Local Agency Investment Fund (LAIF)	Indefinite	100%	\$40m per account	unrated
Money Market Mutual Funds	Indefinite	20%		AAA
Guaranteed investment contracts (GICs)	5 years	100%		AA-
Medium term Notes	5 years	30%		AAA

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

c) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

Investment as of June 30, 2007	<u>Maturity Less than One Year</u>	<u>Maturity One to Five Years</u>	<u>Total</u>
LAIF	\$ 23,088,384		\$ 23,088,384
Money Market Mutual Funds	585,820		585,820
Equities and options	152,511		152,511
Held by bond trustee:			
Money Market Mutual Funds	20,741,220		20,741,220
Guaranteed investment contracts (GICs)		2,169,850	2,169,850
Total	<u>\$ 44,567,935</u>	<u>2,169,850</u>	<u>\$ 46,737,785</u>

Investments in equities are shares of stocks received by the Library as an endowment from a private citizen.

d) Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The money market funds are registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and have a rating by S & P of "AAAm-G," "AAA-m" or "AA-m" and rated by Moody's "Aaa," "Aa1" or "Aa2." The GICs and LAIF do not have a rating provided by a nationally recognized statistical rating organization.

e) Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in LAIF and money market mutual funds are not subject to the concentration of credit risk disclosure.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30,2007

f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits. \$17,441,229 of the City's deposits with financial institutions, which exceeded federal depository insurance limits, was collateralized in this fashion.

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

g) Investment in State Investment Pool

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

The total amount invested by all public agencies in LAIF at June 30, 2007 was \$19.7 billion. LAIF is part of the California Pooled Investment Account (PMIA), which at June 30, 2007 had a balance of \$65.6 billion. Of this amount, 3.466% were invested in structured notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 176 days as of June 30,2007.

The Local Investment Advisory Board has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool of shares in LAIF, which maybe withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool. Withdrawals from LAIF are done on a dollar for dollar basis.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

In accordance with **GASB 31**, investments are marked to fair values annually and an adjustment is made to each fund accordingly. However, actual daily activity is done on a dollar to dollar basis and only a withdrawal from the pool size that jeopardizes pool participants would cause the withdrawal to be done at market value.

(3) ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Receivables of the General Fund, Electric, Wastewater and Water funds are reported net of uncollectible amounts. Total allowance provided for uncollectible amounts related to receivables of the current period are as follows:

Uncollectibles related to late charges and services	\$	22,300
Uncollectibles related to electric sales and services		213,000
Uncollectibles related to wastewater services		56,700
Uncollectibles related to water sales and services		68,800
Total uncollectibles of the current fiscal year	\$	360,800

(4) INTERFUND RECEIVABLES/PAYABLES

Interfund receivables and payables at June 30, 2007 are as follows:

Due from	Due to	Amount
Other governmental	General Fund	\$ 149,568
Water Fund	Other governmental	475,262
Other governmental	Other governmental	502,802
		\$ 1,127,632

“Due to” and “due from” balances are recorded primarily when funds overdraw their share of pooled cash or when there are short-term loans between funds. The \$ 149,568 and \$502,802 represent cash deficits in other governmental funds. The Water Fund had a cash deficit of \$475,262.

Advances from	Advances to	Amount
General	Other governmental	\$ 272,800
Other governmental	Other governmental	646,770
Water	Other governmental	1,225,173
		\$ 2,144,743

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

The \$272,800 from the General Fund to the Other governmental is an advance used for the start up costs of a redevelopment agency. The \$646,770 advance from Other governmental was used for the Lower Sacramento Road expansion project and other street projects. The \$1,225,173 advanced from the Water Fund was used for the construction of Fire Station #4.

(5) TRANSFERS

Transfers for the year ended June 30, 2007, are summarized as follows:

<u>Transfers out:</u>	<u>Transfers in</u>			
	General	Other Governmental	Wastewater	Total
General	\$	3,401,814		\$ 3,401,814
Other governmental	332,990	401,542		734,532
Electric	2,702,736			2,702,736
Wastewater	939,533	123,000		1,062,533
Water	962,055		2,377,724	3,339,779
Total	\$ 4,937,314	3,926,356	2,377,724	\$ 11,241,394

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

Transfers out from Other Governmental to the General Fund of \$332,990 include transfers of \$115,130 from Fire Facilities Impact fees to cover lease payment of the new fire truck; \$50,000 to reimburse the General Fund for the costs associated with the administration of the IMF program; \$164,760 for engineering costs of services; and \$3,100 for the Arts in Public Places program.

The \$2,702,736 transfer out from the Electric Fund is for cost of services reimbursement to the General Fund, \$939,533 from Wastewater includes cost of services of \$908,793 and engineering cost of \$30,740. The \$962,055 from Water includes \$909,259 for cost of services and \$52,796 for engineering costs.

The \$3,401,814 transfers out from the General Fund to Other Governmental represent transfers of \$1,682,842 to the Debt Service Fund for the principal, interest and fiscal charges required to pay the 2002 Certificates of Participation; \$300,000 to the Community Development Fund; \$1,337,271 to the Vehicle and Equipment Replacement Fund which include \$1,012,010 for vehicles, \$50,000 for equipment, \$165,000 for information systems replacements and \$110,261 for photocopiers; \$54,789 for the Blakely Pool maintenance work; \$16,000 for benches and tables at Lodi Lake; \$8,680 for fire prevention tools and \$2,232 for sidewalk repairs.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

The transfer out of \$401,542 from Other Governmental to Other Governmental includes \$300,000 transferred from the Capital Outlay Reserve Fund to the Community Development Fund; and the annual transfer of \$96,106 to the Debt Service Fund for the principal and interest payment of the City's Measure K loan from San Joaquin Council of Governments for the construction costs incurred for the Highway 12/Kettleman Lane/Highway 99 Interchange Improvements project and transfer of \$5,436 for Fleet replacement.

The \$123,000 transfer out from Wastewater Fund to the Other Governmental is for the reimbursement of additional cost of street sweeping. The transfer of \$2,377,724 from the Water Fund to the Wastewater Fund is for the reimbursement of PCE/TCE charges.

(6) CAPITAL ASSETS

Capital assets activity of the primary government for the year-ended June 30, 2007, was as follows:

<u>Governmental activities</u>	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 24,016,374			\$ 24,016,374
Work of art	62,024			62,024
Construction in progress	3,200,590	843,916	(1,298,914)	2,745,592
Total capital assets, not being depreciated	27,278,988	843,916	(1,298,914)	26,823,990
Capital assets, being depreciated:				
Buildings and improvements	56,812,827			56,812,827
Machinery and equipment	7,772,000	613,192		8,385,192
Vehicles	8,847,785	216,353		9,064,138
Infrastructure	107,501,719	5,328,645		112,830,364
Total capital assets, being depreciated	180,934,331	6,158,190		187,092,521
Less accumulated depreciation for:				
Buildings and improvements	17,528,749	1,491,412		19,020,161
Machinery and equipment	6,691,503	361,728		7,053,231
Vehicles	7,106,506	482,935		7,589,441
Infrastructure	39,350,670	5,024,893		44,375,563
Total accumulated depreciation	70,677,428	7,360,968		78,038,396
Total capital assets, being depreciated, net	110,256,903	(1,202,778)		109,054,125
Governmental activities capital assets, net	\$ 137,535,891	(358,862)	(1,298,914)	\$ 135,878,115

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

<u>Business-type activities</u>	Balance			Balance
	June 30, 2006	Increases	Decreases	June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 5,247,806			\$ 5,247,806
Construction in progress	19,700,032	7,748,007	(1,079,758)	26,368,281
Total capital assets, not being depreciated	24,947,838	7,748,007	(1,079,758)	31,616,087
Capital assets, being depreciated:				
Buildings and improvements	34,461,202			34,461,202
Machinery and equipment	116,178,355	18,841,846		135,020,201
Vehicles	6,931,878	633,920		7,565,798
Total capital assets, being depreciated	157,571,435	19,475,766		177,047,201
Less accumulated depreciation for:				
Buildings and improvements	8,071,034	860,415		8,931,449
Machinery and equipment	32,688,648	3,972,421		36,661,069
Vehicles	4,943,362	471,609		5,414,971
Total accumulated depreciation	45,703,044	5,304,445		51,007,489
Total capital assets, being depreciated, net	111,868,391	14,171,321		126,039,712
Business-type activities capital assets, net	\$ 136,816,229	21,919,328	(1,079,758)	\$ 157,655,799

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

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

Governmental activities:

General government	\$	646,129
Public protection		941,514
Public works		5,135,138
Community development		3,190
Library		31,949
Parks and recreation		601,601
Internal service funds		1,447
Total depreciation expense - governmental activities	\$	<u>7,360,968</u>

Business-type activities:

Electric	\$	1,685,118
Wastewater		1,909,915
Water		1,106,609
Transit		602,803
Total depreciation expense - business-type activities	\$	<u>5,304,445</u>

(7) OPERATING LEASES

The City is obligated under various operating leases for the use of buildings and office space. Total costs for such leases were \$151,995 for the year ended June 30, 2007.

Future minimum lease payments required by lease agreements that have initial or remaining noncancellable lease terms of one year or more as of June 30, 2007, are as follows:

<u>Fiscal Years Ending</u>		
2008	\$	<u>152,036</u>
Total minimum lease payments required under operating leases	\$	<u>152,036</u>

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

8) LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	Interest Rates	June 30, 2006	Additions	Reductions	June 30, 2007	Amounts Due Within One Year
Governmental activities:						
Compensated absences		\$ 9,865,159	3,596,531	(3,078,297)	\$ 10,383,393	\$ 2,692,054
2002 Certificates of Participation	3.0-5.0%	24,510,000		(535,000)	23,975,000	555,000
Note payable	5.0%	245,000			245,000	
Loan payable	4.0%	278,513		(91,233)	187,280	92,828
Capital leases	5.3-5.39%	929,937		(273,823)	656,114	249,624
Self-insurance liability		7,083,000	1,578,383	(2,265,383)	6,396,000	2,265,383
Governmental activity long-term liabilities		<u>\$ 42,911,609</u>	<u>5,174,914</u>	<u>(6,243,736)</u>	<u>\$ 41,842,787</u>	<u>\$ 5,854,889</u>
	Interest Rates	June 30, 2006	Additions	Reductions	June 30, 2007	Amounts Due Within One Year
Business-type activities:						
Compensated absences		\$ 2,172,530	519,790	(610,663)	\$ 2,081,657	\$ 519,790
California Safe Drinking Water Note Payable	3.41%	2,076,905		(158,489)	1,918,416	163,810
Certificates of Participation:						
1991 Certificates of Participation	4.5-6.6%	9,010,000		(210,000)	8,800,000	225,000
Less deferred amounts:						
For issuance discounts		(296,753)		14,475	(282,278)	(14,475)
Net		<u>8,713,247</u>		<u>(195,525)</u>	<u>8,517,722</u>	<u>210,525</u>

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

	Interest Rates	June 30, 2006	Additions	Reductions	June 30, 2007	Amounts Due Within One Year
2002 Certificates of Participation A & B	Variable	46,760,000			46,760,000	
Less deferred amounts:						
From refunding		(6,880,542)		286,688	(6,593,854)	(286,688)
Net		<u>39,879,458</u>		<u>286,688</u>	<u>40,166,146</u>	<u>(286,688)</u>
2002 Certificates of Participation C & D	1.54-5.25%	38,645,000		(2,350,000)	36,295,000	2,305,000
Add deferred amounts:						
For issuance premium		<u>361,004</u>		<u>(65,636)</u>	<u>295,368</u>	<u>65,636</u>
Total		<u>39,006,004</u>		<u>(2,415,636)</u>	<u>36,590,368</u>	<u>2,370,636</u>
2003 Certificates of Participation B	2.0-5.0%	4,630,000		(190,000)	4,440,000	195,000
Add deferred amounts:						
For issuance premium		<u>70,759</u>		<u>(4,102)</u>	<u>66,657</u>	<u>4,102</u>
Total		<u>4,700,759</u>		<u>(194,102)</u>	<u>4,506,657</u>	<u>199,102</u>
2004 Certificates of Participation A	2.0-5.5%	26,295,000		(915,000)	25,380,000	935,000
Add deferred amounts:						
For issuance premium		<u>388,306</u>		<u>(21,277)</u>	<u>367,029</u>	<u>21,277</u>
Total		<u>26,683,306</u>		<u>(936,277)</u>	<u>25,747,029</u>	<u>956,277</u>
Total Certificates of Participation		<u>118,982,774</u>		<u>(3,454,852)</u>	<u>115,527,922</u>	<u>3,449,852</u>
Business-type activity long-term liabilities		<u>\$ 123,232,209</u>	<u>519,790</u>	<u>(4,224,004)</u>	<u>\$ 119,527,995</u>	<u>\$ 4,133,452</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$6,396,000 of internal service funds self-insurance liability and \$172,427 of compensated absences were included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the General Fund and the internal service funds.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Long-term debt payable at June 30, 2007, comprised of the following individual issues:

California Safe Drinking Water Note Payable

The City entered into a contract on October 16, 1991, with the State of California Department of Water Resources to assist the City in financing the construction of water wells enabling the City to meet safe drinking water standards established by the State. The original amount of the note was \$3,129,828 and is secured by the project and a pledge of user fees collected by the Water Enterprise Fund. Semiannual payments of \$113,988, are payable each October 1 and April 1 through 2017.

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

Fiscal Year Ending June 30,	Business-type Activities	
	Principal	Interest
2008	\$ 163,810	\$ 64,166
2009	169,695	58,281
2010	175,409	52,567
2011	181,442	46,534
2012	187,602	40,374
2013-2017	1,040,458	99,422
Total	\$ <u>1,918,416</u>	\$ <u>361,344</u>

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Note Payable

The City issued a \$245,000 promissory note to James E. Dean and Carol Dean, as trustees of the James E. Dean Family Trust, for the purchase of 307 W. Elm Street property, which is the site of the new Public Safety Building. Interest is payable quarterly and principal is due on April 1, 2012.

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

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2008	\$	\$ 14,700
2009		14,700
2010		14,700
2011		14,700
2012		11,025
Total	\$	\$ 69,825

Loan Payable

The City entered into an agreement and issued a promissory note to San Joaquin County Council of Governments, a joint powers agency acting as the San Joaquin County Transportation Authority, in the amount of \$840,000 on February 5, 1999 for the purpose of funding the Kettleman Lane/SR 99 Interchange project. The balance remaining as of June 30, 2007, is \$187,280. Interest and principal is due and payable annually and matures on July 1, 2009.

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

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 92,828	3,277
2009	94,452	1,653
Total	\$ 187,280	\$ 4,930

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Certificates of Participation

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

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

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

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

\$26,745,000 Certificates of Participation (2002 COP) were issued in January 2002 to provide funds to finance the costs of constructing, furnishing and equipping a new police building and jail for the City; to finance portions of certain other projects and to refund the outstanding 1995 and 1996 Certificates of Participation. As of June 30, 2007, there are no outstanding balances of these refunded Certificates. The 1995 Certificates of Participation (1995 COP) were sold in October 1995 to finance the City Downtown Revitalization and the Cherokee Lane Beautification projects. The 1996 Certificates of Participation (1996 COP) were sold in August 1996 to finance the construction of the Hutchins Street Square Conference and Performing Arts Center. Principal is payable annually on October 1 in amounts from \$730,000 to \$1,600,000 with final payment due October 1, 2031.

\$46,760,000 2002 Variable Rate Demand Series A and **\$8,400,000** 2002 Taxable Series B Electric System Revenue Certificates of Participation were sold in January 2002. The proceeds of the 2002A Certificates of Participation were used to advance refund the 1999 Electric System Certificates of Participation Series A and the 1999 Series B Capital Appreciation certificates, The 1999 Series A and Series B Revenue Certificates of Participation were sold on August 18, 1999, to provide funds to finance the costs of certain improvements to the distribution and transmission facilities of the City's Electric System. As of June 30, 2007, the outstanding balance of the advanced refunded certificates is \$43,957,682 and will be called in full on January 15, 2009. The proceeds of the 2002B Certificates were deposited in the Rate Stabilization Fund and applied to certain power purchase costs of the City. Principal for Series A is payable annually beginning 2011 to 2032 in amounts ranging from \$1,175,000 to \$3,460,000. Series B was fully paid as of June 30, 2005.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

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

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

In February 2001, the City entered into an energy purchase agreement (the Original Agreement) with Calpine Energy Services L.P. (Calpine) to purchase 25 MW of energy at \$65/mwh for a ten-year period beginning January 1, 2002. Since the execution of the Original Agreement, actions of the State in connection with the energy market conditions, including the initiation of conservation programs, and other factors, have resulted in lower electric load requirements and reduced energy costs throughout the State. As a result, the City’s need for the energy purchased under the Original Agreement to serve its load has been reduced. The Original Agreement was amended on September 4, 2002, and was divided into three parts. The City sold its interests in the energy purchased under the Original Agreement to Calpine and nets the payments due from the City with respect to its purchase of such energy against the payments due from Calpine with respect to its purchase of the City’s rights to such energy. On November 21, 2002, the City issued \$21,225,000 Revenue Certificates of Participation 2002 Series C and \$22,740,000 Revenue Certificates of Participation 2002 Taxable Series D to buy out the amended contract in the amount of \$42,406,175.

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

Interest Rate Swaps

1999 \$42 Million Forward Basis Swap Termination

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

As a means to lower its borrowing costs, the City executed a forward floating-to-floating (“Basis”) swap in connection with its existing \$42,000,000 Electric System Revenue Certificates of Participation, 1999 Series A and B. The intention of the swap was to provide protection against rising short-term interest rates since the City’s net payment increases as rates rise. On July 15, 2003, the City entered into a \$42,000,000 basis swap with Citigroup Financial Products Inc. The City pays interest based on The Bond Market Association Municipal Swap Index™ (BMA) in return for a 74.25% 1-Month London Interbank Offered Rate (LIBOR) starting January 15, 2004 with semi-annual payments thereafter until termination date of September 29, 2014.

On April, 16, 2003, the City entered into a \$42,000,000 Fixed-to-Floating swap with Citigroup Financial Products Inc. The City pays BMA plus 100 basis points in return for a fixed receipt of 4% starting July 15, 2003 with payments semi-annually thereafter until termination date of January 15, 2009.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

The City terminated both swaps effective February 7, 2007, to manage risk exposure. On June 6, 2006, Fitch Ratings downgraded the rating on the City's Electric system's certificates of participation to BBB minus that had an impact on the existing interest rate swap agreements. The decline in the City's rating triggered a collateral posting requirement of \$450,000. Although the City is not expecting another downgrade, any further decline in rating would require termination of the swaps that could cause a financial penalty to the City contingent on market conditions. In full consideration of all obligations with respect to the 1999 Forward Basis Swap termination the City paid Citigroup Financial Products Inc. \$426,785 and the City received from Citigroup Financial Group Inc. \$429,312 with respect to the 2003 Fixed-to Floating Swap termination, a net amount of \$2,527 for both transactions.

2002 \$46.8 Million Step-Up Coupon Swap

Objective:

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

Terms:

Under the swap, the City pays Citigroup (previously Salomon) a fixed rate with an initial coupon of 2.503%. Beginning July 1, 2005, the swap coupon stepped up to 3.749% and then steps up to 4.945% on July 1, 2010 until maturity. In exchange, the City receives an initial variable rate equal to 59.65% of the 1-month London Interbank Offered Rate (LIBOR). Beginning January 1, 2004, the percent of LIBOR received by the City stepped up to 60.56% and then steps up to 62.92% of LIBOR on January 1, 2007 until maturity. The 4.945% coupon in the final period reflects the above-market fixed rate required to offset the first two periods' below-market fixed rates of 2.503% and 3.749% respectively. The effective at-market fixed rate for the entire swap term equals 3.85% or approximately 61.71% of LIBOR. The notional amount of the swap matches the notional amount of the Certificates outstanding in each year. The Certificates' variable-rate coupons are assumed to be based on The Bond Market Association Municipal Swap Index™ (BMA).

The Certificates and related swap mature on July 1, 2032. As of June 30, 2007, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.74900%
Variable payment from counterparty	62.92% of LIBOR	(3.34793%)
Net interest rate swap payments		0.40107%
Variable rate bond payments	BMA	3.54104%
Synthetic interest rate on bonds		3.94211%

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Fair Value:

As of June 30, 2007, the swap had a fair value of (\$4,840,055). The negative fair value of the swap is a result of the decline in interest rates since the inception date of the swap. The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Credit Risk:

As of June 30, 2007, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

Basis Risk:

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

Termination Risk:

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap contract is insured by MBIA Insurance Corporation. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if both the insurer and the City's credit rating are downgraded below AA-, Aa3 and the City's credit rating falls below Baa3 as determined by Moody's Investor Service or BBB- as determined by Standard & Poor's. If the swap is terminated, the Certificates would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt.

Using rates as of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Fiscal Year Ending June 30	2002 Electric Certificates of Participation Series A			
	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2008	\$	1,655,790	187,540	\$ 1,843,330
2009		1,655,790	187,540	1,843,330
2010		1,655,790	187,540	1,843,330
2011		1,655,790	467,165	2,122,955
2012	1,175,000	1,634,988	737,407	3,547,395
2013-2017	6,885,000	7,486,200	3,376,406	17,747,606
2018-2022	8,890,000	6,097,847	2,750,234	17,738,081
2023-2027	11,495,000	4,301,566	1,940,081	17,736,647
2028-2032	14,855,000	1,982,008	893,920	17,730,928
2033	3,460,000	61,260	27,629	3,548,889
	\$	<u>46,760,000</u>	<u>28,187,029</u>	\$ <u>85,702,491</u>

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

Fiscal Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 555,000	\$ 1,123,642	\$ 3,660,000	\$ 5,194,335
2009	565,000	1,104,874	6,640,000	4,955,681
2010	590,000	1,084,071	4,390,000	4,774,101
2011	610,000	1,060,956	4,610,000	4,583,553
2012	630,000	1,036,156	6,040,000	4,351,419
2013-2017	3,580,000	4,737,423	35,655,000	16,305,796
2018-2022	4,485,000	3,792,545	20,900,000	10,527,198
2023-2027	5,695,000	2,556,375	21,465,000	5,275,815
2028-2032	7,265,000	943,625	14,855,000	1,982,008
2033			3,460,000	61,260
Total	\$ <u>23,975,000</u>	\$ <u>17,439,667</u>	\$ <u>121,675,000</u>	\$ <u>58,011,166</u>

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Capital Leases

The City has entered into lease agreements for financing the acquisition of two fire trucks and the improvements to the leased Finance Building. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of inception date. The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles	\$2,307,123
Leasehold improvements	124,478
Less accumulated depreciation	(1,347,745)
Total	\$ 1,083,856

The present values of future minimum capital lease payments as of June 30, 2007, are as follows:

Fiscal Years Ending			
2008	\$	279,348	
2009		148,003	
2010		148,003	
2011		148,003	
Total minimum lease payments		723,357	
Less amounts representing interest		(67,243)	
Present value of minimum capital lease payments	\$	656,114	

Special Assessment District Debt

The City issued limited obligation improvement bonds on July 22, 1996, for the "Lodi Central City Revitalization Assessment District." These bonds have no governmental commitment and debt service is recorded in an Agency Fund. These bonds were issued under the Improvement Act of 1915 and will mature in the year 2011. The City's liability in the event of delinquent assessment shall not exceed the balance of the established Reserve Fund. The amount outstanding as of June 30, 2007, is \$735,000.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Industrial Development Bonds

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

Woodbridge Irrigation District Bonds

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

(9) NATURE AND PURPOSE OF REPORTED FUND EQUITY

The following is a summary of reserved, unreserved-designated and unreserved-undesignated fund balances at June 30, 2007:

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Reserved for:			
Library	\$ 659,572		\$ 659,572
Encumbrances	182,101	1,226,671	1,408,772
Advances to other funds	272,800	646,770	919,570
Inventory	29,407		29,407
Total Reserved	<u>1,143,880</u>	<u>1,873,441</u>	<u>3,017,321</u>
Unreserved-designated for:			
Specific projects and programs		12,851,182	12,851,182
Total Designated		<u>12,851,182</u>	<u>12,851,182</u>
Unreserved - undesignated	<u>5,175,522</u>		<u>5,175,522</u>
Total Fund Balances	<u>\$ 6,319,402</u>	<u>14,724,623</u>	<u>\$ 21,044,025</u>

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Reserved Fund Balance

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

Unreserved-Designated Fund Balance

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

Unreserved-Undesignated Fund Balance

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

(10) DEFINED BENEFIT PENSION PLAN

(a) Plan Description

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

(b) Funding policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 12.221% for miscellaneous employees, 24.108% for fire and police employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

(c) Annual Pension Cost

For fiscal 2007, the City's annual pension cost of \$4,437,303 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected annual salary increases that vary by age, length of service, and type of employment (c) 3.25% payroll growth, and (d) 3.00% inflation. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. Amortization of the remaining period varies: (a) safety police plan over 30 years (b) safety fire plan over 30 years, and (c) miscellaneous plan over 24 years as of June 30, 2006.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

(d) Trend Information

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$ 3,614	100%	\$0
6/30/06	4,814	100%	\$0
6/30/07	4,437	100%	\$0

(11) POST-RETIREMENT HEALTH CARE BENEFITS

The City provides no post-employment benefits for its employees other than the minimum employer contribution required by statute if the City remains with CalPERS health plan. There are currently 129 retirees of which the City contributed approximately \$125,000 towards health care during the current fiscal year. The City's contributions are financed on a pay-as-you-go basis.

Employees hired prior to July 1, 1994, who retire after ten years of service, however, may elect to convert accumulated sick leave time to establish an individual medical insurance account. Depending on the bargaining unit of the employee, the value of the insurance account shall be determined by the following options:

a) Option I- "Bank"

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

b) Option II - "Conversion"

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

c) Option III - "Cash-Out"

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

d) Option IV – “Service Credit”

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

(12) CLAIMS AND BENEFITS

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-insured as discussed in the following paragraphs for which liabilities are recorded in the Internal Service Fund-Claims and Benefits.

The City is self-insured for general liability up to the first \$500,000 per occurrence with claims from \$500,000 to \$40,000,000 per occurrence and in the aggregate insured through the California Joint Powers Risk Management Authority. The City never had any settlements that exceeded its general liability insurance coverage. (See note 14)

The City is self-insured for workers’ compensation up to the first \$250,000 per claim. Any claims of \$250,000 up to California statutory limits are covered under a purchased policy through the membership with the Local Agency Workers’ Compensation Excess Joint Powers Authority. Workers’ compensation coverage increased from \$150,000,000 in prior year to \$200,000,000 in the current year. The City never had any settlements that exceeded its workers’ compensation insurance coverage. (See note 14).

The City is fully self-insured for dental and unemployment for its employees.

General liability and workers’ compensation claims are administered by an outside agency and all other claims are administered by the City. The City has accrued a liability of \$6,396,000 at June 30, 2007, for all self-insured claims in the Internal Service Fund-Claims and Benefits that includes an amount for incurred but not reported claims. The liability amount is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the **loss** can be reasonably estimated. In the opinion of the City, the amounts accrued are adequate to cover claims incurred but not reported in addition to known claims.

Changes in the self-insurance liability for fiscal years ended June 30, 2007 and 2006 are as follows:

	<u>Beginning</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending</u>
FY 05-06	\$ 5,140,000	3,455,368	(1,512,368)	\$ 7,083,000
FY 06-07	\$ 7,083,000	1,578,383	(2,265,383)	\$ 6,396,000

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

(13) PARTICIPATION IN JOINT VENTURES

Northern California Power Agency

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

Project Financing and Construction

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

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

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

General Operating Reserve with NCPA

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

As of June 30, 2007, the City's balance in the NCPA General Operating Reserve, which has been credited with annual interest earnings and settlements, is \$4,790,663.

Project Particioation

The NCPA members and their percentage share at June 30, 2007, which is the most recent available data, are as follows:

	Geothermal Project	Hydro Electric Project	Combustion Turbine Project #1	Multiple Capital Facilities	Transmission Project
Alameda	16.8825%	10.00%	13.092%	19.00%	31.8707%
Biggs	0.2270		.120		0.4015
Gridley	0.3360		.213		0.6390
Healdsburg	3.6740	1.66	3.500		6.9343
Lodi	10.2800	10.37	34.780	39.50	20.1330
Lompoc	3.6810	2.30	3.500	5.00	6.9485
Palo Alto		19.66			
Plumas-Sierra Rural Electric Coop	.7010	1.69	1.090	1.3363	
Roseville	7.8830	15.26	13.251	36.50	14.3798
Santa Clara	44.3905	37.02	25.000		5.9649
Turlock Irrigation District	6.3305				.7950
Ukiah	5.6145	2.04	5.454		10.5970

Bulk power purchased by the City through NCPA amounted to \$43,362,499 during the year ended June 30, 2007 and is reflected in utilities expense in the Electric Enterprise Fund.

NCPA Geothermal Project

A purchase power agreement with NCPA obligates the City for a 10.28% share of the operating costs and debt service of two of NCPA's 110-megawatt steam powered plants, Project Number 2 and Project Number 3. Outstanding long-term debt related to this project was approximately \$127 million at June 30, 2006.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

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

Calaveras Hydroelectric Project

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

Under a power purchase agreement the City is obligated to pay 10.37% of the debt service and operating costs. At June 30, 2006, approximately \$490 million in long-term debt used to finance this project was outstanding.

NCPA Combustion Turbine Project

The project consists of five combustion turbine units, each nominally rated at 25 megawatts. Two such units are located in Roseville, two in Alameda and one in Lodi. The project provides capacity during peak load periods and emergency capacity reserves. Excess capacity and energy from the project are also sold to other entities from time to time. Under the NCPA power agreement, the City is obligated to pay 34.78% of the debt service and operating costs. At June 30, 2006 approximately \$18 million in long-term debt was outstanding.

Transmission Project

The project was undertaken to meet certain obligations of NCPA under the NCPA/PG & E Interconnection Agreement. The project includes an ownership interest in PG & E's 230kv Castle Rock to Lakeville Substation Transmission Line in Sonoma County, additional firm transmission rights in that Transmission Line, and a central scheduling and dispatch facility in service at the NCPA headquarters in Roseville, California. Under a power purchase agreement, the City is obligated to pay 20.13% of the debt service and operating costs. At June 30, 2006, approximately \$4.0 million in long-term debt was outstanding.

Capital Facilities Project

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30,2007

Under a power purchase agreement, the City is obligated to pay 39.5% of the debt service and operating costs. At June 30, 2006, approximately \$65.8 million in long-term debt was outstanding.

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

Combined Balance Sheet			
June 30,2006			
Assets		Liabilities and Capitalization	
Current assets	\$ 81,720,000	Current portion of long-term debt	\$ 36,095,000
Restricted assets	83,347,000	Other current liabilities	42,795,000
Electric plant, net	407,576,000	Other liabilities and deferred credits	150,578,000
Other assets and deferred charges	<u>251,494,000</u>	Long-term debt	664,904,000
		Accumulated net revenues	<u>29,765,000</u>
Total assets	<u>\$ 924,137,000</u>	Total liabilities and capitalization	<u>\$ 924,137,000</u>
Combined Statement of Revenue and Expenses		Combined Statement of Cash Flow	
Year ended June 30,2006		Year ended June 30,2006	
Sales to participants for resale	\$ 312,564,000	Net cash provided by operating activities	\$ 108,839,000
Operating expenses	(258,997,000)	Net cash used in investing activities	(35,134,000)
Other revenues (expenses)	(32,747,000)	Net cash used in capital and related financing activities	(97,504,000)
Future recoverable costs	<u>416,000</u>	Net cash used in noncapital and related financing activities	<u>(24,382,000)</u>
Net revenues before refunds	21,236,000		
Refunds to participants	<u>(10,379,000)</u>	Decrease in cash and cash equivalents	(48,181,000)
Net revenues	10,857,000		
Accumulated net revenues, beginning of year	<u>18,908,000</u>	Cash and cash equivalents, beginning of year	<u>116,577,000</u>
Accumulated net revenues, end of year	<u>\$ 29,765,000</u>	Cash and cash equivalents end of year	<u>\$ 68,396,000</u>

At June 30, 2006, NCPA's total outstanding long-term debt was \$700,999,000 at an average interest rate of 5%. The current portion of long-term debt at June 30,2006, was \$36,095,000.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

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

Northern California Power Agency
180 Cirby Way
Roseville, CA 95678

Transmission Agency of Northern California

The Transmission Agency of Northern California (TANC) was organized under the California Government Code pursuant to a joint powers agreement entered into by fifteen Northern California utilities including the City of Lodi. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro rata share of the costs to operate TANC and has the right to participate in future project agreements. The joint power agreement remains in effect until debt obligations and interest thereon have been paid, unless otherwise extended by the members.

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

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

California-Oregon Transmission Project

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

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30,2007

Under the TANC joint powers agreement, the City is obligated to pay 1.89% of its debt service and operating costs. At June 30, 2006, approximately \$374 million in long-term debt was outstanding of which \$14 million is considered current.

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

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

(14) MEMBERSHIP IN INSURANCE POOLS

California Joint Powers Risk Management Authority

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

The ultimate cost of the program to the City depends on the catastrophic losses of all members, as well as the City's own loss experience and will be determined retrospectively five years after the end of the current program year. The City periodically pays deposits to the CJPRMA. These deposits are recorded as expenditures in the year paid, as they are a reasonable estimate of the actual cost of the program. During the year ended June 30,2007, deposits of \$462,680 were paid to CJPRMA.

The participants at June 30, 2007, are as follows: City of Alameda, MPANC , Chico, Central San Joaquin Valley Risk Management Authority, Fairfield, Fremont, Livermore, Lodi, Manteca, NCCSIF, Petaluma, Pomona, PERMA, Redding, Redwood Empire Municipal Insurance Fund, Roseville, San Leandro, San Rafael, Santa Rosa, Santa Barbara Area Joint Powers Insurance Authority, Small Cities Organized Risk Effort, Stockton, Sunnyvale, Vacaville, Vallejo, and Yolo County Public Agencies Risk Management Insurance Authority.

Complete financial information for CJPRMA maybe obtained at the following administration office:

California Joint Powers Risk Management Authority
2333 San Ramon Valley Boulevard Suite 250
San Ramon, CA 94583-4456

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

Local Agency Workers' Compensation Excess Joint Powers Authority

The City, along with thirty-five other public agencies, is a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which was formed July 1992, for the purpose of sharing the risk of workers' compensation losses. LAWCX offers \$150,000, 250,000, \$350,000, \$500,000 and \$1 million self-insured retentions (SIR) or a member can attach directly to the purchased excess insurance. LAWCX covers the layer above the member SIR up to \$5 million. The City of Lodi's self-insured retention is \$250,000. LAWCX participates in the California State Association of Counties Excess Insurance Authority (CSAC-EIA) to obtain coverage up to \$200 million. The City paid \$298,438 in deposits to LAWCX during the fiscal year ended June 30, 2007.

The participants at June 30, 2007, are as follows: Alameda, ABAG, BCJPIA, City of Benicia, CCCTA, CHWCA, Central San Joaquin Valley Risk Mgmt Authority (CSJVRMA), City of Clovis, City of Coronado, East Bay Regional Park District, City of Encinitas, FASIS, City of Fremont, City of Gilroy, City of Livermore, City of Lodi, City of Los Gatos, City of Merced, MBASIA, MCLAIA, City of Morgan Hill, City of Newark, PARSAC, City of Placentia, PERMA, City of Roseville, City of San Leandro, City of Santa Maria, City of Santee, Small Cities Org. Risk Effort (SCORE), City of South Lake Tahoe, City of Suisun City, City of Vacaville, City of Vallejo, Vector Control JPA and City of Vista.

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

Local Agency Workers' Compensation Excess Joint Powers Authority
1831 K Street
Sacramento, CA 95814

California Transit Insurance Pool

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

Liability protection coverage is provided under two programs:

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

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

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

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

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

The City paid \$107,578 in deposits to CalTIP during the fiscal year ended June 30, 2007. There have been no reductions in insurance coverage from the prior year and there were no insurance settlements in excess of insurance coverage in any of the last three years

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

Complete financial information for CalTip maybe obtained at the following administration office:

California Transit Insurance Pool
1415 L Street, Suite 200
Sacramento, CA 95814

(15) DEFICIT IN FUND EQUITY

Internal Service Fund - Claims and Benefits - A deficit in fund equity at June 30, 2007, in the amount of \$813,142 in the Claims and Benefits Fund is due primarily to the self-insurance liability accrued to cover both incurred and incurred-but-not-reported (IBNR) claims. The City continues its effort to reach the reserves recommended by an actuary and gradually eliminate the deficit in the Internal Service Fund.

Internal Service Fund – Fleet Services – A deficit in fund equity in the amount of \$65,626 at June 30, 2007, in the Fleet Services Fund is due to the lack of seed money transferred to this fund when it was set up. This will be rectified in the future.

Nonmaior Governmental Fund – Community Development – A deficit in fund equity in the amount of \$167,024 at June 30, 2007, is attributed to the unprecedented decrease in residential developments due to the slowing housing market. Building and construction permits decreased by \$315,900 compared to prior year.

CITY OF LODI
Notes to Basic Financial Statements (Continued)
June 30, 2007

(16) COMMITMENTS AND CONTINGENCIES

Litigation and claims - The City is engaged in litigation over its groundwater contamination as a potential responsible party and in litigation with its former outside counsel regarding malpractice and fee claims. The City estimates that it will need to raise \$45 million to cover past costs, past settlements and future obligations and have increased its water rates in an amount sufficient to cover these estimated expenses. Citizen efforts to reduce these rates via initiative failed in November 2006 election by a vote of **64%** to 36%. As such, the City Attorney does not anticipate a material effect on the City's financial condition.

All other actions against the City are under \$75,000 or have no arguable cost and will therefore not have a material financial effect on the City.

Arbitrage Earnings Rebate Liability - Arbitrage earnings are defined as income earned on the unexpended tax-exempt certificate proceeds in excess of that which would have been earned had the moneys been invested in securities with a yield of the effective rate of the certificates. Currently, arbitrage earnings must be rebated to the United States Treasury every five years from the date of August 18, 1999, for the Electric System Certificates of Participation. There is no cumulative arbitrage liability as of June 30, 2007.

(17) FUTURE GASB PRONOUNCEMENTS

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers of Post-employment Benefits Other Than Pensions. GASB Statement No. 45 establishes standards for the measurement, recognition and display of other post-employment benefits (OPEBs) expenses/expenditures, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB No. 45 will be effective for the fiscal year ending June 30, 2009.

The City does not provide post-employment benefits for its employees other than as described in Note 11. The City is currently working with an actuary to determine the unfunded actuarial liability. In addition, the City will be evaluating alternatives to funding and reducing the liability.

The GASB has issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which provides guidance on how to calculate and report costs and obligations associated with pollution clean up efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Lodi
Required Supplementary Information
Schedule of Funding Progress - Pension Plan
June 30, 2007
(in thousands of dollars)

Actuarial Valuation Date	Actuarial Asset Value (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability [(B) - (A)]	Funded Ratio [(A) / (B)]	Covered Payroll (C)	Unfunded Actuarial Liability as Percentage of Covered Payroll {[(B) - (A)]/(C)}
6/30/04	\$ 139,694	\$ 165,273	\$ 25,579	85%	\$ 26,334	97.13%
6/30/05	150,967	177,150	26,183	85%	26,992	97.00%
6/30/06	163,888	190,366	26,478	86%	26,836	98.67%

amount) is at the department level. The operating budget is prepared and controlled at the department level (e.g., city clerk, city manager, etc.) for the General Fund. Special revenue fund expenditures, including transfers out, are approved by Council at the fund level.

- The City Manager may transfer appropriations from one activity to another within a department without approval from the City Council. All other appropriation adjustments during the year, whether transfers, increases or decreases, require City Council approval.

CITY OF LODI
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

Year ended June 30, 2007

	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 19,641,608	19,641,608	20,594,293	\$ 952,685
Licenses and permits	80,717	80,717	83,964	3,247
Intergovernmental revenues	15,205,635	15,205,635	16,091,446	885,811
Charges for services	1,933,921	1,814,886	1,854,575	39,689
Fines, forfeits and penalties	1,380,909	1,380,909	1,241,051	(139,858)
Investment and rental income	379,863	379,863	380,375	512
Miscellaneous revenue	254,395	254,395	210,495	(43,900)
Total revenues	38,877,048	38,758,013	40,456,199	1,698,186
EXPENDITURES				
Current				
General government:				
City Council	107,719	107,719	83,248	24,471
City Manager	835,842	835,842	788,492	47,350
City Clerk	499,846	499,846	381,870	117,976
City Attorney	465,572	514,372	495,071	19,301
Human Resources	587,333	570,636	438,1a5	132,451
Information Systems	1,078,143	1,092,482	1,072,088	20,394
Community Center	1,433,543	1,487,678	1,487,415	283
Finance	1,998,617	2,062,768	1,877,546	185,222
Non Departmental	2,327,951	2,297,027	2,269,762	27,265
Total general government	9,334,566	9,468,370	8,893,677	574,693
Public protection:				
Police	14,240,003	14,240,741	13,439,760	800,981
Fire	8,422,164	8,426,500	8,335,771	90,729
Total public protection	22,662,167	22,667,241	21,775,531	891,710
Public Works				
	1,999,710	3,998,517	3,871,311	127,206
Library				
	1,646,336	1,657,561	1,587,714	69,847
Parks and recreation				
	3,963,717	3,855,782	3,597,718	258,064
Debt service:				
Interest and fiscal charges	41,464	41,464	41,464	
Principal payments	273,823	273,823	273,823	
Total debt service	315,287	315,287	315,287	
Total expenditures	39,921,783	41,962,758	40,041,238	1,921,520
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,044,735)	(3,204,745)	414,961	3,619,706
OTHER FINANCING SOURCES (USES)				
Transfers in	4,937,314	4,937,314	4,937,314	
Transfers out	(3,401,814)	(3,401,814)	(3,401,814)	
Total other financing sources (uses)	1,535,500	1,535,500	1,535,500	
NET CHANGE IN FUND BALANCE	490,765	(1,669,245)	1,950,461	3,619,706
FUND BALANCE, beginning of year	2,802,660	4,368,941	4,368,941	
FUND BALANCE, end of year	3,293,425	2,699,696	6,319,402	3,619,706

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

CITY OF LODI
Notes to the Required Supplementary Information
June 30,2007

Budgetary Data

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

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

Original Budget

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

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

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

Final Budget

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

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

COMBINING AND INDIVIDUAL FUND STATEMENTS
AND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor Governmental Funds include:

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

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

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

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007**

	Special Revenue	Capital Projects	Total
<u>Assets</u>			
Cash and investments	\$ 7,575,610	5,740,840	13,316,450
Restricted assets		1,750,204	1,750,204
Receivables:			
Accounts, net	46,695		46,695
Interest	66,103	42,557	108,660
Due from other funds	471,844	506,220	978,064
Due from other governmental agencies	1,399,037	506,878	1,905,915
Loan receivable	1,084,000		1,084,000
Other assets	508		508
Advances to other funds		646,770	646,770
Total assets	<u>\$ 10,643,797</u>	<u>9,193,469</u>	<u>19,837,266</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and other liabilities	\$ 779,105	92,475	871,580
Due to other funds	621,412	30,958	652,370
Advances from other funds	646,770	1,497,973	2,144,743
Deferred revenue	1,084,000	359,950	1,443,950
Total liabilities	<u>3,131,287</u>	<u>1,981,356</u>	<u>5,112,643</u>
Fund Balances :			
Reserved for encumbrances	861,195	365,476	1,226,671
Reserved for advances to other funds		646,770	646,770
Unreserved-designated for specific projects and programs	6,651,315	6,199,867	12,851,182
Total fund balances	<u>7,512,510</u>	<u>7,212,113</u>	<u>14,724,623</u>
Total liabilities and fund balances	<u>\$ 10,643,797</u>	<u>9,193,469</u>	<u>19,837,266</u>

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2007

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Licenses and permits	\$ 632,820			\$ 632,820
Intergovernmental revenues	3,565,416		234,926	3,800,342
Charges for services	2,180,863		660,770	2,841,633
Fines, forfeits and penalties	4,225			4,225
Investment and rental income	301,225		316,478	617,703
Miscellaneous revenue	83,576		10,000	93,576
Total revenues	6,768,125		1,222,174	7,990,299
Expenditures:				
Current:				
Public protection	435,792			435,792
Public works	1,715,482			1,715,482
Community development	2,061,706			2,061,706
Parks and recreation				
Capital outlay	2,280,375		1,245,964	3,526,339
Debt service:				
Interest and fiscal charges		1,152,715	10,920	1,163,635
Principal payments		626,233		626,233
Total expenditures	6,493,355	1,778,948	1,256,884	9,529,187
Excess (deficiency) of revenues over (under) expenditures	274,770	(1,778,948)	(34,710)	(1,538,888)
Other financing sources (uses):				
Transfers in	733,912	1,778,948	1,413,496	3,926,356
Transfers out	(101,542)		(632,990)	(734,532)
Total other financing sources (uses)	632,370	1,778,948	780,506	3,191,824
Net change in fund balances	907,140		745,796	1,652,936
Fund balances, beginning of year	6,605,370		6,466,317	13,071,687
Fund balances, end of year	\$ 7,512,510		7,212,113	\$ 14,724,623

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

SPECIAL REVENUE FUNDS

Public Safety

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

Community Development

This fund was established to account for development planning and project review services including land use entitlements, permit processing and review/inspection of public improvements to ensure orderly physical growth and development of the City.

Streets Fund

This fund was established to account for the following:

Gas Tax

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

Development Impact Mitigation Fees

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

Measure K Sales Tax

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

Intermodal Surface Transportation Efficiency Act (ISTEA)

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

Transportation

This fund was established to account for the receipt of moneys from the State of California apportioned to the City for transportation purposes. The State has designated 1/4% of the 6% sales tax levied statewide for local transportation purposes. Funding for this program was provided during the 1971 legislative session with the enactment of the Transportation Development Act, which extended the 6% sales tax to include purchases of gasoline. Revenues allocated to the City of Lodi under this program are divided into two categories: Article 8 funds, which are restricted for the improvement and maintenance of street systems; and Article 4 funds, which are restricted for public transit systems.

HOME Program and Community Development Block Grants

This fund was established to account for the City's HOME Program that provides adequate and affordable housing for low and very low-income residents, and Community Development Block Grants provided to the City principally for low and moderate income residents to develop a suitable living environment and expand economic opportunities.

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
June 30, 2007**

	<u>Public Safety</u>	<u>Community Development</u>	<u>Streets</u>	<u>Transportation</u>	<u>HOME Program & Community Development Block Grants</u>	<u>Total</u>
ASSETS						
Cash and Investments	\$ 125,584		7,357,087	92,939	\$	7,575,610
Receivables:						
Accounts, net		19,961	26,734			46,695
Interest	1,433		63,892	778		66,103
Due from other funds			471,844			471,844
Due from other governmental agencies	70,013		857,180		471,844	1,399,037
Other assets			508			508
Loan receivable					1,084,000	1,084,000
TOTAL ASSETS	<u>\$ 197,030</u>	<u>19,961</u>	<u>8,777,245</u>	<u>93,717</u>	<u>1,555,844</u>	<u>\$ 10,643,797</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and other liabilities	\$ 6,486	37,417	734,202	1,000	\$	779,105
Due to other funds		149,568			471,844	621,412
Advances from other funds			646,770			646,770
Deferred revenue					1,084,000	1,084,000
TOTAL LIABILITIES	<u>6,486</u>	<u>186,985</u>	<u>1,380,972</u>	<u>1,000</u>	<u>1,555,844</u>	<u>3,131,287</u>
FUND BALANCES (DEFICIT)						
Fund balances:						
Reserved for encumbrances	1,869	6,434	850,042	2,850		861,195
Unreserved-designated for specific projects and programs	188,675	(173,458)	6,546,231	89,867		6,651,315
TOTAL FUND BALANCES (DEFICIT)	<u>190,544</u>	<u>(167,024)</u>	<u>7,396,273</u>	<u>92,717</u>		<u>7,512,510</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ 197,030</u>	<u>19,961</u>	<u>8,777,245</u>	<u>93,717</u>	<u>1,555,844</u>	<u>\$ 10,643,797</u>

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2007

	Public Safety	Community Development	Streets	Transportation	HOME Program & Community Development Block Grants	Total
REVENUES						
Licenses and permits	\$	632,820				\$ 632,820
Intergovernmental revenues	221,757	23,905	3,181,427	50,350	87,977	3,565,416
Charges for services		540,525	1,640,338			2,180,863
Fines, forfeits and penalties	3,100	1,125				4,225
Investment and rental income	9,759		288,368	3,098		301,225
Miscellaneous revenue		23,051	60,525			83,576
Total revenues	234,616	1,221,426	5,170,658	53,448	87,977	6,768,125
EXPENDITURES						
Current						
Public protection	435,792					435,792
Public works			1,627,505		87,977	1,715,482
Community development		2,061,706				2,061,706
Capital outlay			2,213,916	66,459		2,280,375
Total expenditures	435,792	2,061,706	3,841,421	66,459	87,977	6,493,355
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(201,176)	(840,280)	1,329,237	(13,011)		274,770
OTHER FINANCING SOURCES (USES)						
Transfers in	8,680	600,000	125,232			733,912
Transfers out		(5,436)	(96,106)			(101,542)
Total other financing sources (uses)	8,680	594,564	29,126			632,370
NET CHANGE IN FUND BALANCES	(192,496)	(245,716)	1,358,363	(13,011)		907,140
FUND BALANCES, beginning of year	383,040	78,692	6,037,910	105,728		6,605,370
FUND BALANCES (DEFICIT), end of year	\$ 190,544	(167,024)	7,396,273	92,717		\$ 7,512,510

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2007

	PUBLIC SAFETY		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 221,757	221,757	
Fines, forfeits and penalties		3,100	3,100
Investment and rental income		9,759	9,759
Total Revenue	221,757	234,616	12,859
EXPENDITURES			
Current		-	
Public protection	435,792	435,792	
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(214,035)	(201,176)	12,859
OTHER FINANCING SOURCES			
Transfers in	8,680	8,680	
NET CHANGE IN FUND BALANCE	(205,355)	(192,496)	12,859
FUND BALANCE, BEGINNING OF YEAR	383,040	383,040	
FUND BALANCE, END OF YEAR	\$ 177,685	190,544	12,859

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2007

	<u>COMMUNITY DEVELOPMENT</u>		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Licenses and permits	\$ 939,470	632,820	(306,650)
Intergovernmental revenues		23,905	23,905
Charges for services	735,881	540,525	(195,356)
Fines, forfeits and penalties	8,875	1,125	(7,750)
Investment and rental income	9,452		(9,452)
Miscellaneous revenue	1,008	23,051	22,043
Total Revenue	<u>1,694,686</u>	<u>1,221,426</u>	<u>(473,260)</u>
EXPENDITURES			
Current			
Community development	<u>2,175,623</u>	<u>2,061,706</u>	<u>113,917</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(480,937)</u>	<u>(840,280)</u>	<u>(359,343)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	600,000	600,000	
Transfers out	(5,436)	(5,436)	
Total other financing sources (uses)	<u>594,564</u>	<u>594,564</u>	
NET CHANGE IN FUND BALANCE	113,627	(245,716)	(359,343)
FUND BALANCE, BEGINNING OF YEAR	<u>78,692</u>	<u>78,692</u>	
FUND BALANCE (DEFICIT), END OF YEAR	<u><u>192,319</u></u>	<u><u>(167,024)</u></u>	<u><u>(359,343)</u></u>

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STREETS FUND
Year ended June 30, 2007

	STREETS		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 7,736,000	3,181,427	(4,554,573)
Charges for services	1,520,000	1,640,338	120,338
Investment and rental income	3,800	288,368	284,568
Miscellaneous revenue		60,525	60,525
Total Revenue	9,259,800	5,170,658	(4,089,142)
EXPENDITURES			
Current			
Public works	3,227,874	1,627,505	1,600,369
Capital outlay	6,571,795	2,213,916	4,357,879
Total Expenditures	9,799,669	3,841,421	5,958,248
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(539,869)	1,329,237	1,869,106
OTHER FINANCING SOURCES (USES)			
Transfers in	1,139,314	125,232	(1,014,082)
Transfers out	(136,984)	(96,106)	40,878
Total other financing sources (uses)	1,002,330	29,126	(973,204)
NET CHANGE IN FUND BALANCE	462,461	1,358,363	895,902
FUND BALANCE, BEGINNING OF YEAR	6,037,910	6,037,910	
FUND BALANCE, END OF YEAR	\$ 6,500,371	7,396,273	895,902

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
Year ended June 30, 2007**

	TRANSPORTATION		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 174,249	50,350	(123,899)
Investment and rental income	3,000	3,098	98
Total Revenue	177,249	53,448	(123,801)
EXPENDITURES			
Capital outlay	282,977	66,459	216,518
NET CHANGE IN FUND BALANCE	(105,728)	(13,011)	92,717
FUND BALANCE, BEGINNING OF YEAR	105,728	105,728	
FUND BALANCE, END OF YEAR	\$	92,717	92,717

CITY OF LODI
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 Year ended June 30,2007

	HOME PROGRAM and COMMUNITY DEVELOPMENT BLOCK GRANTS		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmentalrevenues	\$ 3,347,644	87,977	(3,259,667)
EXPENDITURES			
Current			
Publicworks	3,347,644	87,977	3,259,667
NET CHANGE IN FUND BALANCE			
FUND BALANCE, BEGINNING OF YEAR	_____	_____	_____
FUND BALANCE, END OF YEAR	\$ _____	_____	_____

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NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECT FUNDS

CAPITAL PROJECT FUNDS

Vehicle and Equipment

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

Library

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

Subdivision

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

Hutchins Street Square

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

Capital Outlay Reserve

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

Lodi Lake

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

**CITY OF LODI
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
June 30, 2007**

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
ASSETS							
Cash and investments	\$ 1,307,968	12,677	300,339	2,181	4,117,675		\$ 5,740,840
Restricted assets					1,750,204		1,750,204
Receivables:							
Interest					42,557		42,557
Due from other funds					506,220		506,220
Due from other governmental agencies					359,950	146,928	506,878
Advances to other funds					646,770		646,770
TOTAL ASSETS	\$ 1,307,968	12,677	300,339	2,181	7,423,376	146,928	\$ 9,193,469
LIABILITIES							
Accounts payable and other liabilities	\$ 16,774				62,577	13,124	\$ 92,475
Due to other funds						30,958	30,958
Advances from other funds					1,497,973		1,497,973
Deferred revenue					359,950		359,950
TOTAL LIABILITIES	16,774				1,920,500	44,082	1,981,356
FUND BALANCES							
Fund balances:							
Reserved for encumbrances					308,917	56,559	365,476
Reserved for advances to other funds					646,770		646,770
Unreserved-designated for specific projects and programs	1,291,194	12,677	300,339	2,181	4,547,189	46,287	6,199,867
TOTAL FUND BALANCES	1,291,194	12,677	300,339	2,181	5,502,876	102,846	7,212,113
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,307,968	12,677	300,339	2,181	7,423,376	146,928	\$ 9,193,469

CITY OF LODI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
 Year ended June 30, 2007

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
REVENUES							
Intergovernmental revenues	\$					234,926	\$ 234,926
Charges for services					660,770		660,770
Investment and rental income					316,478		316,478
Miscellaneous revenue					10,000		10,000
Total revenues					<u>987,248</u>	<u>234,926</u>	<u>1,222,174</u>
EXPENDITURES							
Capital outlay	342,238				665,874	237,852	1,245,964
Debt service:							
Interest and fiscal charges					10,920		10,920
Total expenditures	<u>342,238</u>				<u>676,794</u>	<u>237,852</u>	<u>1,256,884</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(342,238)</u>				<u>310,454</u>	<u>(2,926)</u>	<u>(34,710)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	1,342,707					70,789	1,413,496
Transfers out					(632,990)		(632,990)
Total other financing sources (uses)	<u>1,342,707</u>				<u>(632,990)</u>	<u>70,789</u>	<u>780,506</u>
NET CHANGE IN FUND BALANCES	1,000,469				(322,536)	67,863	745,796
FUND BALANCES, BEGINNING OF YEAR	<u>290,725</u>	<u>12,677</u>	<u>300,339</u>	<u>2,181</u>	<u>5,825,412</u>	<u>34,983</u>	<u>6,466,317</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,291,194</u>	<u>12,677</u>	<u>300,339</u>	<u>2,181</u>	<u>5,502,876</u>	<u>102,846</u>	<u>\$ 7,212,113</u>

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INTERNAL SERVICE FUNDS

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

Claims and Benefits Funds

This fund is used to account for the following insurance and certain employee benefits:

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

Fleet Services

This fund is used to account for the operation, maintenance and timely replacement of the City's fleet of vehicles which serve the transportation needs of all city departments.

CITY OF LODI
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30,2007

	<u>Fleet Services Fund</u>	<u>Claims and Benefits Funds</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$	5,446,040	\$ 5,446,040
Receivables:			
Accounts, net		203,635	203,635
Interest		45,242	45,242
Inventory	108,524		108,524
Other assets	1,886	835	2,721
Noncurrent assets:			
Capital assets (net)	39,075		39,075
Total current assets	<u>149,485</u>	<u>5,695,752</u>	<u>5,845,237</u>
 LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	42,684	112,894	155,578
Self-insurance liability		2,265,383	2,265,383
Accrued compensated absences	67,293		67,293
Noncurrent liabilities:			
Accrued compensated absences	105,134		105,134
Self-insurance liability		4,130,617	4,130,617
Total liabilities	<u>215,111</u>	<u>6,508,894</u>	<u>6,724,005</u>
 NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	39,075		39,075
Unrestricted (deficit)	(104,701)	(813,142)	(917,843)
Total net assets (deficit)	<u>\$ (65,626)</u>	<u>(813,142)</u>	<u>\$ (878,768)</u>

CITY OF LODI
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
Year ended June 30, 2007

	<u>Fleet Services Fund</u>	<u>Claims and Benefits Funds</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 1,567,016	8,533,149	\$ 10,100,165
OPERATING EXPENSES			
Personnel services	929,589	325,949	1,255,538
Supplies, materials and services	727,541	5,275,969	6,003,510
Utilities	14,587		14,587
Depreciation and amortization	1,447		1,447
Claims		1,578,383	1,578,383
TOTAL OPERATING EXPENSES	<u>1,673,164</u>	<u>7,180,301</u>	<u>8,853,465</u>
OPERATING INCOME (LOSS)	<u>(106,148)</u>	<u>1,352,848</u>	<u>1,246,700</u>
NONOPERATING REVENUES			
Investment income		203,234	203,234
Other revenues		685,412	685,412
TOTAL NONOPERATING REVENUES		<u>888,646</u>	<u>888,646</u>
LOSS (INCOME) BEFORE CAPITAL CONTRIBUTION	(106,148)	2,241,494	2,135,346
Capital contribution	<u>40,522</u>		<u>40,522</u>
Change in net assets	(65,626)	2,241,494	2,175,868
NET ASSETS (DEFICIT) - BEGINNING OF YEAR		<u>(3,054,636)</u>	<u>(3,054,636)</u>
NET ASSETS (DEFICIT) - END OF YEAR	\$ <u>(65,626)</u>	<u>(813,142)</u>	\$ <u>(878,768)</u>

CITY OF LODI
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year ended June 30,2007

	Fleet Services Fund	Claims and Benefits Funds	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ (1,886)	492,649	\$ 490,763
Receipts from interfund services provided	1,567,016	8,533,149	10,100,165
Cash paid to suppliers for goods & services	(807,968)	(7,483,960)	(8,291,928)
Payments to employees	(757,162)	(325,949)	(1,083,111)
Net cash provided by operating activities		1,215,889	1,215,889
Cash flows from investing activities:			
Interest on investments		169,735	169,735
Net increase in cash and cash equivalents		1,385,624	1,385,624
Cash and cash equivalents, beginning of year		4,060,416	4,060,416
Cash and cash equivalents, end of year	\$	5,446,040	\$ 5,446,040
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating Income (loss)	\$ (16,148)	1,352,848	\$ 1,246,700
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,447		1,447
Other revenues		685,412	685,412
Change in assets and liabilities:			
Increase in accounts receivable		(203,635)	(203,635)
Increase in inventory	(108,524)		(108,524)
Decrease (increase) in other assets	(1,886)	10,872	8,986
Increase in accounts payable and other liabilities	42,684	57,392	100,076
Increase in compensated absences	172,427		172,427
Decrease in self-insurance liability		(687,000)	(687,000)
Net cash provided by operating activities	\$	1,215,889	\$ 1,215,889
<u>Noncash Investing, Capital and Financing Activities</u>			
Capital contributions	\$ 40,522		\$ 40,522

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FIDUCIARY FUNDS

Private-purpose Trust Funds

These funds are used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

Agency Fund

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

CITY OF LODI
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
June 30,2007

	Private-Purpose Trust Funds		Total
	Library	Hutchins Street Square Bequest	
ASSETS			
Cash and investments	\$ 846,765	1,386	\$ 848,151
TOTAL ASSETS	<u>846,765</u>	<u>1,386</u>	<u>848,151</u>
NET ASSETS	<u>\$ 846,765</u>	<u>1,386</u>	<u>\$ 848,151</u>

CITY OF LODI
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2007

	Private-Purpose Trust Funds		Total
	Library	Hutchins Street Square Bequest	
ADDITIONS			
Investment income and donations	\$ 100,575	52	\$ 100,627
Total additions	<u>100,575</u>	<u>52</u>	<u>100,627</u>
DEDUCTIONS			
Current			
Library	11,866		11,866
Total deductions	<u>11,866</u>		<u>11,866</u>
CHANGE IN NET ASSETS	88,709	52	88,761
NET ASSETS, BEGINNING OF YEAR	<u>758,056</u>	<u>1,334</u>	<u>759,390</u>
NET ASSETS, END OF YEAR	<u>\$ 846,765</u>	<u>1,386</u>	<u>\$ 848,151</u>

CITY OF LODI
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
Year ended June 30,2007

	Special Assessments			Balance 6/30/07
	Balance 7/1/06	Additions	Deductions	
ASSETS				
Cash and investments	\$ 453,628	739,870	603,815	\$ 589,683
Special assessment receivable	71,594	79,508	71,594	79,508
Interest receivable	2,196	5,495	2,196	5,495
TOTAL ASSETS	\$ 527,418	824,873	677,605	\$ 674,686
LIABILITIES				
Agency obligations	\$ 527,418	147,268		\$ 674,686
TOTAL LIABILITIES	\$ 527,418	147,268		\$ 674,686

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STATISTICAL TABLES

UNAUDITED

STATISTICAL SECTION

The Statistical Section provides detailed information as a framework for understanding the information in the financial statements, notes and required supplementary information. This section presents additional data and analysis that may provide the reader with valuable insight regarding the demographics and the overall health of the City.

Contents

Panes

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being has changed over time.

98-104

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the City's most significant local revenue source, the property tax.

105-109

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

110-115

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

116-118

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the city provides and the activities it performs.

119-123

Sources

Unless otherwise noted, the information in these schedules are derived from the comprehensive annual financial reports for the current year. The City implemented **GASB** Statement 34 for the fiscal year ended June 30, 2003, schedules presenting government-wide information include information beginning that year.

CITY OF LODI

NET ASSETS BY COMPONENT LAST FIVE FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year				
	2007	2006	2005	2004	2003
Governmental activities:					
Invested in capital assets, net of related debt	\$ 110,815	\$ 111,572	\$ 106,293	\$ 100,749	\$ 94,681
Restricted	15,044	14,526	13,465	11,205	12,811
Unrestricted	(3,968)	(8,838)	(8,801)	(9,437)	(7,334)
Total governmental activities net assets	\$ 121,891	\$ 117,260	\$ 110,957	\$ 102,517	\$ 100,158
Business-type activities:					
Invested in capital assets, net of related debt	\$ 97,961	\$ 77,494	\$ 67,668	\$ 64,214	\$ 62,752
Restricted	8,711	10,969	2,351	2,578	240
Unrestricted	6,417	1,880	7,445	(7,511)	(10,270)
Total business-type activities net assets	\$ 113,089	\$ 90,343	\$ 77,464	\$ 59,281	\$ 52,722
Primary government:					
Invested in capital assets, net of related debt	\$ 208,776	\$ 189,066	\$ 173,961	\$ 164,963	\$ 157,433
Restricted	23,755	25,495	15,816	13,783	13,051
Unrestricted	2,449	(6,958)	(1,356)	(16,948)	(17,604)
Total primary government net assets	\$ 234,980	\$ 207,603	\$ 188,421	\$ 161,798	\$ 152,880

Note: The City of Lodi implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

Source: City of Lodi Financial Services Division

CITY OF LODI

CHANGES IN NET ASSETS LAST FIVE FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year				
	2007	2006	2005	2004	2003
Expenses					
Governmentalactivities:					
General government	\$ 7,853	\$ 9,746	\$ 9,958	\$ 13,167	\$ 12,238
Public protection	23,328	22,105	22,253	19,162	16,632
Public works	10,599	13,229	12,377	11,868	10,946
Community development	2,130	2,290			
Library	1,630	1,485	1,484	1,409	1,454
Parks and recreation	4,172	4,114	4,565	4,095	3,989
Interest and fiscal charges	1,201	1,234	1,617	1,267	1,214
Total governmentalactivitiesexpenses	50,913	54,203	52,254	50,968	46,473
Business-typeactivities:					
Electric	67,534	63,780	57,308	55,943	51,388
Wastewater	9,271	8,574	10,653	6,297	6,141
Water	9,875	8,256	11,748	7,489	12,879
Transit	3,577	3,643	3,018	3,064	5,389
Total business-typeactivitiesexpenses	90,257	84,253	82,727	72,793	75,797
Total primary government expenses	\$ 141,170	\$ 138,456	\$ 134,981	\$ 123,761	\$ 122,270
Program Revenues					
Governmentalactivities:					
Chargesfor services:					
General government	\$ 1,280	\$ 1,232	\$ 3,639	\$ 3,144	\$ 2,355
Public protection	582	563	623	525	541
Public works	295	320	461	430	335
Community development	1,174	1,630			
Library	53	54	49	50	57
Parks and recreation	1,007	918	833	679	586
Operating grants and contributions	2,589	2,587	2,195	2,321	3,315
Capital grants and contributions	6,975	14,631	17,559	13,894	6,814
Total governmentalactivitiesprogram revenues	13,955	21,935	25,359	21,043	14,003
Business-type activities:					
Chargesfor services:					
Electric	65,809	59,112	53,908	52,899	48,873
Wastewater	8,524	8,927	8,086	6,560	6,760
Water	10,040	8,343	7,713	6,007	5,532
Transit	401	386	340	244	293
Operating grants and contributions	2,621	3,377	2,731	2,547	1,772
Capital grants and contributions	19,984	11,146	3,401	8,268	6,566
Total business-typeactivitiesprogram revenues	107,379	91,291	76,179	76,525	69,796
Total primary government program revenues	\$ 121,334	\$ 113,226	\$ 101,538	\$ 97,568	\$ 83,799
Net (Expense)/Revenue					
Governmentalactivities	\$ (36,958)	\$ (32,268)	\$ (26,895)	\$ (29,925)	\$ (32,470)
Business-typeactivities	17,122	7,038	(6,548)	3,732	(6,001)
Total primary government net expense	\$ (19,836)	\$ (25,230)	\$ (33,443)	\$ (26,193)	\$ (38,471)

(Continued)

.CITY OF LODI

**CHANGES IN NET ASSETS (Continued)
LAST FIVE FISCAL YEARS
(Dollar amounts in thousands)**

	Fiscal Year				
	2007	2006	2005	2004	2003
General Revenues and Other Changes in Net Assets:					
Governmental activities:					
Taxes:					
Property	\$ 9,524	\$ 8,031	\$ 7,124	\$ 7,188	\$ 6,398
Franchise taxes	9,609	8,721	8,918	8,381	7,624
Business license tax	1,082	973	982	874	822
Transient occupancy tax	380	368	352	317	400
Grants and contributions not restricted to	14,772	14,215	13,193	11,895	12,069
Investment earnings	874	328	150	125	269
Other	621	1,012	608	590	137
Transfers	4,727	4,923	4,008	2,915	2,981
Total governmental activities	<u>41,589</u>	<u>38,571</u>	<u>35,335</u>	<u>32,285</u>	<u>30,700</u>
Business-type activities:					
Investment earnings	2,380	2,008	1,880	2,242	6,457
Litigation-environmental lawsuits	6,222	6,700	9,150	865	2,728
Gain on sale of capital assets					
Other	1,749	2,056	2,432	2,635	1,594
Special item-forgiveness of debt			15,277		
Transfers	(4,727)	(4,923)	(4,008)	(2,915)	(2,981)
Total business-type activities	<u>5,624</u>	<u>5,841</u>	<u>24,731</u>	<u>2,827</u>	<u>7,798</u>
Total primary government	<u>\$ 47,213</u>	<u>\$ 44,412</u>	<u>\$ 60,066</u>	<u>\$ 35,112</u>	<u>\$ 38,498</u>
Change in Net Assets					
Governmental activities	\$ 4,631	\$ 6,303	\$ 8,440	\$ 2,360	\$ (1,770)
Business-type activities	22,746	12,879	18,183	6,559	1,797
Total primary government	<u>\$ 27,377</u>	<u>\$ 19,182</u>	<u>\$ 26,623</u>	<u>\$ 8,919</u>	<u>\$ 27</u>

The City of Lodi implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

Source: City of Lodi Financial Services Division

CITY OF LODI

FUND BALANCES, GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Fund										
Reserved	\$ 1.144	\$ 1,321	\$ 1,185	\$ 1,296	\$ 927	\$ 856	\$ 532	\$ 473	\$ 149	\$ 231
Unreserved	5,175	3,048	1,507	157	640	2,208	3,414	3,315	2,562	2,030
Total General Fund	<u>\$ 6,319</u>	<u>\$ 4,369</u>	<u>\$ 2,692</u>	<u>\$ 1,453</u>	<u>\$ 1,567</u>	<u>\$ 3,064</u>	<u>\$ 3,946</u>	<u>\$ 3,788</u>	<u>\$ 2,711</u>	<u>\$ 2,261</u>
All other governmental funds										
Reserved	\$ 1,874	\$ 1,138	\$ 4,942	\$ 3,778	\$ 6,405	\$ 3,363	\$ 2,779	\$ 555	\$ 2,167	\$ 943
Unreserved, reported in:										
Special revenue funds	6,651	6,271	1,400	534	2,322	1,814	2,439	5,774	2,298	3,042
Capital projects funds	6,200	5,663	5,650	5,720	7,655	17,905	1,695	3,511	2,230	1,859
Total all other governmental funds	<u>\$ 14,725</u>	<u>\$ 13,072</u>	<u>\$ 11,992</u>	<u>\$ 10,032</u>	<u>\$ 16,382</u>	<u>\$ 23,082</u>	<u>\$ 6,913</u>	<u>\$ 9,840</u>	<u>\$ 6,695</u>	<u>\$ 5,844</u>
	<u>\$ 21,044</u>	<u>\$ 17,441</u>	<u>\$ 14,684</u>	<u>\$ 11,485</u>	<u>\$ 17,949</u>	<u>\$ 26,146</u>	<u>\$ 10,859</u>	<u>\$ 13,628</u>	<u>\$ 9,406</u>	<u>\$ 8,105</u>

Source: City of Lodi Financial Services Division

CITY OF LODI

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues:										
Taxes	\$ 20,594	\$ 18,094	\$ 17,606	\$ 16,908	\$ 24,100	\$ 23,043	\$ 21,909	\$ 19,801	\$ 18,594	\$ 17,790
Licenses and permits	717	1,020	2,511	2,021	1,669	1,464	1,592	1,406	1,267	1,183
Intergovernmental revenues	19,892	25,491	22,834	16,657	7,385	22,000	11,641	9,054	8,370	6,291
Charges for services	4,696	3,848	9,404	4,479	6,272	3,888	4,249	4,611	3,874	2,871
Fines and forfeitures	1,245	1,173	1,190	1,085	803	806	765	714	878	662
Investment and rental income	998	707	753	537	832	1,234	1,509	982	982	1,060
Miscellaneous revenue	304	653	458	473	453	1,349	383	764	242	524
Total revenues	48,446	50,986	54,756	42,160	41,514	53,784	42,048	37,332	34,207	30,381
Expenditures:										
Current:										
General government	8,893	8,345	10,858	10,815	10,874	8,987	8,862	7,813	7,239	7,068
Public protection	22,211	20,863	20,351	17,491	15,597	13,562	13,190	11,430	11,225	10,896
Publicworks	5,587	7,827	7,361	7,303	6,926	5,741	6,312	5,039	5,151	4,810
Community development	2,062	1,847								
Library	1,588	1,468	1,420	1,356	1,316	1,158	1,184	1,040	1,030	966
Parks and recreation	3,598	3,440	3,691	3,412	3,385	2,860	2,999	2,670	2,230	2,174
Capital outlay	3,526	7,232	9,508	10,041	12,943	17,948	12,044	6,420	6,640	18,383
Debt service:										
Interest and fiscal charges	1,205	1,238	1,645	1,245	1,220	679	755	777	797	818
Principal payments	900	892	855	759	730	555	530	505	485	470
Total expenditures	49,570	53,152	55,689	52,422	52,991	51,490	45,876	35,694	34,797	45,585
Excess (deficiency) of revenues										
Over (under) expenditures	(1,124)	(2,166)	(933)	(10,262)	(11,477)	2,294	(3,828)	1,638	(590)	(15,204)

(Continued)

CITY OF LODI

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (Continued) LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Other financing sources (uses):										
Transfers in	8,863	9,142	8,017	9,774	11,209	12,500	9,355	9,715	16,486	24,883
Transfers out	(4,136)	(4,219)	(4,009)	(6,859)	(8,228)	(13,052)	(10,090)	(7,130)	(14,410)	(23,392)
Capital lease proceeds			124	883		148	670			695
Proceeds from bond refunding						13,269				
Payment to refunded bond escrow						(13,269)				
Proceeds of certificates of participation						13,396				
Residual equity transfer									(187)	
Total other financing sources (uses)	4,727	4,923	4,132	3,798	2,981	12,992	(65)	2,585	1,889	2,186
Net change in fund balances	3,603	2,757	3,199	(6,464)	(8,496)	15,286	(3,893)	4,223	1,299	(13,018)
Fund balances, beginning of year	\$ 17,441	14,684	11,485	17,949	26,445	10,859	13,628	9,405	8,106	21,124
Adjustment to fund balance as previously reported						300	1.124			
Fund balances, end of year	\$ 21,044	\$ 17,441	\$ 14,684	\$ 11,485	\$ 17,949	\$ 26,445	\$ 10,859	\$ 13,628	\$ 9,405	\$ 8,106
Debt service as a percentage of noncapital expenditures	4.8%	4.9%	5.7%	5.0%	5.1%	3.8%	3.9%	4.6%	4.8%	5.0%

Source: City of Lodi Finance Services Division

City of Lodi

TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year										% Change 1998 to 2007
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	
Property	\$ 9,289	\$ 7,675	\$ 6,771	\$ 6,948	\$ 6,191	\$ 5,641	\$ 5,322	\$ 4,932	\$ 4,517	\$ 4,374	112%
Sales & Use	10,137	9,812	9,183	8,533	8,709	8,300	8,028	7,095	6,523	6,205	63%
Transient Occupancy	380	368	352	317	400	439	390	318	305	278	37%
Franchise	929	890	821	800	730	931	820	675	618	586	59%
Documentary Transfer	235	355	353	240	207	172	158	116	119	77	205%
Motor Vehicle in Lieu	4,635	4,402	4,606	2,767	3,430	3,276	3,051	3,008	2,221	2,478	87%
Public Protection	390	310	304	264	247	231	242	196	180	180	117%
Business License	1,082	973	982	874	822	787	736	658	612	593	82%
In Lieu Franchise	8,679	7,831	8,097	7,580	6,895	6,569	6,015	5,721	5,627	5,546	56%
Totals	\$ 35,756	\$ 32,616	\$ 31,469	\$ 28,323	\$ 27,631	\$ 26,346	\$ 24,762	\$ 22,719	\$ 20,722	\$ 20,317	76%

Note: General governmental tax revenues are included in taxes, licenses and permits, intergovernmental revenues and miscellaneous revenues.

CITY OF LODI

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Secured roll	\$ 4,799,141	\$ 4,254,184	\$ 3,877,398	\$ 3,619,116	\$ 3,381,945	\$ 3,096,937	\$ 2,880,201	\$ 2,707,343	\$ 2,574,622	\$ 2,515,478
Utility roll	2,773	3,654	3,782	3,893	3,352	3,379	3,484	3,525	3,826	3,699
Unsecured roll	242,082	216,065	215,469	202,785	207,095	198,678	177,040	163,299	146,345	129,396
Gross assessed value	5,043,996	4,473,903	4,096,649	3,825,794	3,592,392	3,298,994	3,060,725	2,874,167	2,724,793	2,648,573
Less exemptions (1)	229,049	220,590	217,077	212,102	200,957	190,252	185,473	183,294	179,835	176,500
Net assessed value	<u>4,814,947</u>	<u>4,253,313</u>	<u>3,879,572</u>	<u>3,613,692</u>	<u>3,391,435</u>	<u>3,108,742</u>	<u>2,875,252</u>	<u>2,690,873</u>	<u>2,544,958</u>	<u>2,472,073</u>
Land	1,431,203	1,226,293	1,107,776	1,027,462	960,166	889,262	832,788	787,249	756,166	728,900
Improvements	3,327,453	2,989,575	2,739,061	2,549,860	2,366,887	2,164,121	1,982,668	1,847,800	1,748,387	1,705,635
Personal property	285,340	258,035	249,812	248,472	265,339	245,611	245,269	239,118	220,240	214,038
Gross assessed value	5,043,996	4,473,903	4,096,649	3,825,794	3,592,392	3,298,994	3,060,725	2,874,167	2,724,793	2,648,573
Less exemptions (1)	229,049	220,590	217,077	212,102	200,957	190,252	185,473	183,294	179,835	176,500
Net assessed value	<u>\$ 4,814,947</u>	<u>\$ 4,253,313</u>	<u>\$ 3,879,572</u>	<u>\$ 3,613,692</u>	<u>\$ 3,391,435</u>	<u>\$ 3,108,742</u>	<u>\$ 2,875,252</u>	<u>\$ 2,690,873</u>	<u>\$ 2,544,958</u>	<u>\$ 2,472,073</u>
Total Direct Tax Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

(1) All exemptions (secured, utility, and unsecured rolls) are homeowners - \$72,127 and other - \$156,922 = 229,049

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 assessed 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

CITY OF LODI

DIRECT AND OVERLAPPING PROPERTY TAX RATES LAST TEN FISCAL YEARS (Rate per \$100 of assessed value)

Fiscal Year	Basic Countywide Levy	School	All Other	Total
2007	1.0000	0.0478	0.0000	1.0478
2006	1.0000	0.0570	0.0000	1.0570
2005	1.0000	0.0311	0.0000	1.0311
2004	1.0000	0.0475	0.0000	1.0475
2003	1.0000	0.0487	0.0000	1.0487
2002	1.0000	0.0002	0.0000	1.0002
2001	1.0000	0.0002	0.0000	1.0002
2000	1.0000	0.0002	0.0034	1.0036
1999	1.0000	0.0001	0.0034	1.0035
1998	1.0000	0.0019	0.0034	1.0053

Source: San Joaquin County Auditor/Controller's Office

CITY OF LODI

PRINCIPAL PROPERTY TAX PAYERS CURRENT YEAR AND NINE YEARS AGO (Dollar amounts in thousands)

Taxpayer	Fiscal Year					
	2007			1999*		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value (1)	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
General Mills, Inc	\$ 145,809	1	3.188 %	\$ 175,049	1	7.310 %
Pacific Coast Producers	34,451	2	0.753	44,686	2	1.866
Pacific Coast Producers Corp.	27,719	3	0.606			
Cottage Bakery Inc.	24,966	4	0.546			
KristmontWest	21,961	5	0.480			
Certainteed Corp.	19,455	6	0.425			
Parinehs Exchange 2004 LLC	19,318	7	0.422			
Dart Container Corp.	17,980	8	0.393	12,885	5	0.538
Panattoni, Carl D ETAL	13,243	9	0.290			
Ford ConstructionCo Inc	13,031	10	0.285			
Dayton Hudson Corp				15,623	3	
CaliforniaWaste Removal System				14,354	4	
GFLIP Limited Partners				12,941	6	
Wells Fargo Bank				11,775	7	
First Lodi Associates				11,620	8	
Wallace Computer Service				10,738	9	
Edmund N. Richmond				10,455	10	
Principal Secured Property Valuation	337,933		7.390	320,126		13.368
Other Secured Taxpayers	4,461,208		97.553	2,254,496		94.142
Exemptions relative to secured tax roll	226,041		4.943	179,835		7.509
Total Secured Property Valuation	<u>\$ 4,573,100</u>		<u>100.000 %</u>	<u>\$ 2,394,787</u>		<u>100.000 %</u>

* 1998 information is not readily available.

CITY OF LODI

PROPERTY TAX LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS (Dollar amounts in thousands)

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Total Collections to Date	
		Amount	Percent of Levy (1)	Amount	Percent of Levy
2007	\$ 8,170	\$ 8,170	100.0%	\$ 8,170	100.0%
2006	7,815	7,815	100.0%	7,815	100.0%
2005	7,057	7,057	100.0%	7,057	100.0%
2004	6,570	6,570	100.0%	6,570	100.0%
2003	5,832	5,832	100.0%	5,832	100.0%
2002	5,757	5,757	100.0%	5,757	100.0%
2001	5,182	5,182	100.0%	5,182	100.0%
2000	5,056	5,056	100.0%	5,056	100.0%
1999	4,653	4,653	100.0%	4,653	100.0%
1998	4,444	4,444	100.0%	4,444	100.0%

1) Per agreement with San Joaquin County, the County provides the City of Lodi with 100% of the amount owed to the City for secured properties, regardless of collection status. In exchange, the County is entitled to 100% of revenues collected for interest and penalties. This agreement is commonly referred to as the Teeter Plan.

Source: San Joaquin County Auditor/Controller's Office

CITY OF LODI

ELECTRICITY SOLD BY TYPE OF CUSTOMER LAST TWO FISCAL YEARS

Type of Customer	Billed Accounts	
	2007	2006
City Accounts	186	184
Contract Large Industrial	5	6
Contract Medium Industrial	1	2
Contract Small Industrial	0	1
Domestic Residential	22,938	22,860
Domestic Mobile Home Park	13	13
Dusk to Dawn	95	95
Large Commercial	375	359
Large Industrial	33	33
Medium Industrial	10	13
Residential Low Income	2,003	1,910
Small Commerical	3,241	3,279
Small Industrial	10	9
Total	28,910	28,764

Information prior to the implementation of **GASB 44** is not available.

Source: City of Lodi Financial Services Division

CITY OF LODI

RATIOS OF OUTSTANDING DEBT BY TYPE LAST TEN FISCAL YEARS (Dollar amounts in thousands, except per capita)

Fiscal Year	Governmental Activities				Business-type Activities				Population	Per Capita
	Certificates of Participation	Loan Payable	Notes Payable	Total Governmental Activities	Certificates of Participation	Notes Payable	Total Business-type Activities	Total Primary Government		
2007	\$ 23,975	\$ 187	\$ 245	24,407	\$ 121,675	\$ 1,918	123,593	\$ 148,000	63	2,349
2006	24,510	279	245	25,034	125,340	2,077	127,417	152,451	63	2,420
2005	25,030	368	245	25,643	126,615	2,230	128,845	154,488	62	2,492
2004	25,530	456	245	26,231	148,675	2,378	151,053	177,284	61	2,906
2003	26,015	543	245	26,803	117,515	2,521	120,036	146,839	61	2,407
2002	26,745	622	245	27,612	75,285	2,660	77,945	105,557	59	1,789
2001	12,980			12,980	59,931	2,794	62,725	75,705	59	1,283
2000	13,510			13,510	55,544	2,923	58,467	71,977	58	1,241
1999	14,015			14,015	9,762	2,892	12,654	26,669	57	468
1998	14,500			14,500	9,872	3,013	12,885	27,385	56	489

Details regarding the City's outstanding debt can be found in the Note 8 on pages 45-57 of these financial statements.

Source: City of Lodi Financial Services Division

CITY OF LODI

RATIOS OF GENERAL BONDED DEBT OUTSTANDING LAST TEN FISCAL YEARS

(Dollar amounts in thousands, except per capita)

Fiscal Year	Certificates of Participation	Total	Percent of Assessed Value (1) of Property	Per Capita
2007	\$ 23,975	\$ 23,975	0.5 %	\$ 381.66
2006	24,510	24,510	0.5	390.18
2005	25,030	25,030	0.6	400.69
2004	25,530	25,530	0.7	420.12
2003	26,015	26,015	0.7	430.00
2002	26,745	26,745	0.8	450.02
2001	12,980	12,980	0.4	221.50
2000	13,510	13,510	0.5	233.33
1999	14,015	14,015	0.5	246.31
1998	14,500	14,500	0.5	260.32

General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

Source: City of Lodi Financial Services Division

CITY OF LODI

LEGAL DEBT MARGIN INFORMATION LAST TEN FISCAL YEARS (Dollar amounts in thousands)

	FISCAL YEAR									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Assessed valuation (1)	\$ 4,887,074	\$ 4,325,000	\$ 3,951,862	\$ 3,686,227	\$ 3,464,195	\$ 3,177,319	\$ 2,942,348	\$2,757,557	\$2,611,744	\$ 2,538,593
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	1,221,769	1,081,250	987,966	921,557	866,049	794,330	735,587	689,389	652,936	634,648
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt Limit	183,265	162,188	148,195	138,234	129,907	119,149	110,338	103,408	97,940	95,197
Total net debt applicable to limit										
Legal debt margin	\$ 183,265	\$ 162,188	\$ 148,195	\$ 138,234	\$ 129,907	\$ 119,149	\$ 110,338	\$ 103,408	\$ 97,940	\$ 95,197
Total net debt applicable to the limit as a percent of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1982 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent Change in ownership for that parcel). The computation shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time the legal debt margin was enacted by the State of California for local governments located within the state.

(1) Reflects City assessed valuation with other exemptions of \$156,922 deducted for 2007.

Source: San Joaquin County Auditor-Controller's Office

CITY OF LODI
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 June 30, 2007

	Total Debt 06/30/07	Percentage Applicable (1)	City's Share of Debt
OVERLAPPING TAX AND ASSESSMENT DEBT:			
San Joaquin Community College District	\$ 82,231,890	8.332 %	\$ 6,851,561
Lodi Unified school District	105,175,000	35.678	37,524,337
City of Lodi 1915 Act Bonds	735,000	100.00	<u>735,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 45,110,898
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Joaquin County Certificates of Participation	\$ 121,090,000	9.178 %	\$ 11,113,640
Lodi Unified School District Certificates of Participation	36,275,000	35.678	12,942,195
City of Lodi Certificates of Participation	23,975,000	100.00	<u>23,975,000</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 48,030,835
COMBINED TOTAL DEBT(2)			<u><u>\$ 93,141,732</u></u>
2006-07 Assessed Valuation	\$ 5,043,996,000		
2006-07 Population	63,395		
DEBT RATIOS	Total Gross Debt	\$ 93,141,732	\$ <u>Per Capita</u> 1,469 <u>Value</u> 1.85%

(1) Percent of overlapping agency's assessed valuation located within the 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.

SOURCE: California Municipal Statistics., San Francisco, CA

San Joaquin County Auditors-Controller Office

State of California, Department of Finance, Demographic Research Unit

CITY OF LODI

**PLEGGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Dollars amounts in thousands)**

Year	Gross Revenues	Less: Operating Expenses (1)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
Electric Revenue Certificates of Participation							
2007	\$ 67,015	\$ 56,932	\$ 10,083	\$ 2,350	\$ 4,134	\$ 6,484	1.56
2006	60,339	54,283	6,056	-	2,049	2,049	2.96
2005	55,183	48,278	6,905	5,895	3,541	9,436	0.73
2004	55,074	46,858	8,216	2,150	3,203	5,353	1.53
2003	55,304	42,739	12,565	4,575	2,836	7,411	1.70
2002	49,089	63,545	(14,456)	1,100	1,359	2,459	(5.88)
2001	44,594	46,253	(1,659)		1,391	1,391	(1.19)
2000	41,219	40,016	1,203		1,330	1,330	0.90
1999	37,847	38,141	(294)				
1998	36,281	34,561	1,720				
1997	36,236	32,992	3,244				

continued

CITY OF LODI

**PLEGGED-REVENUE COVERAGE (continued)
LAST TEN FISCAL YEARS
(Dollars amounts in thousands)**

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
Wastewater Certificates of Participation							
2007	9,446	5,287	4,159	1,315	2,055	3,370	1.23
2006	9,496	4,886	4,610	1,275	2,092	3,367	1.37
2005	8,650	7,028	1,622	540	1,909	2,449	0.66
2004	6,635	4,385	2,250	175	715	890	2.53
2003	6,824	4,380	2,444	160	639	799	3.06
2002	4,193	4,808	(615)	150	649	799	(0.77)
2001	4,868	4,336	532	145	658	803	0.66
2000	4,000	3,147	853	140	667	807	1.06
1999	4,196	2,957	1,239	125	675	800	1.55
1998	4,034	2,914	1,120	120	682	802	1.40
1997	3,719	2,863	856	115	689	804	1.06

Includes all nongeneral obligation long term debt backed by pledged revenues.

Details regarding the City's outstanding debt can be found in the Note 8 on pages 45-57 of these financial statements.

(1) Total operating revenues including investment earnings.

(2) Total operating expenses exclusive of depreciation and amortization.

Source: City of Lodi Financial Services Division

CITY OF LODI

DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

Fiscal Year	Square Miles	City Population	Population Percent Change	San Joaquin County Population	Population Percent of County	Rank in Size of California Cities	Personal Income (millions of dollars)	Per Capita Personal Income
2007	13.17	63,395	0.9%	679,687	9.3%	129	n/a	n/a
2006	12.81	62,817	0.6%	668,265	9.4%	131	\$ 18,273	\$ 27,144
2005	12.81	62,467	2.8%	653,333	9.6%	131	17,387	26,181
2004	12.79	60,769	0.4%	630,600	9.6%	130	16,573	25,527
2003	12.69	60,500	1.8%	613,500	9.9%	179	15,543	24,620
2002	12.62	59,431	1.4%	596,000	10.0%	129	14,747	24,150
2001	12.60	58,600	1.2%	583,700	10.0%	126	14,281	24,086
2000	12.50	57,900	1.8%	566,600	10.2%	125	13,757	24,209
1999	12.32	56,900	2.2%	554,400	10.3%	124	12,632	22,867
1998	12.32	55,700	1.6%	545,200	10.2%	124	11,859	21,952

Personal income is the income received by all persons from all sources. Personal income is the some 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.

Source: State of California, Department of Finance, Demographic Reseach Unit.

CITY OF LODI

PRINCIPAL PRIVATE EMPLOYERS CURRENT YEAR AND NINE YEARS AGO

<u>Employer</u>	Current			Nine Years Ago		
	<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>
Lodi Unified School District	3,301	1	12.64 %	2,247	1	8.60
Pacific Coast Producers	1,430	2	5.47	530	4	2.03
Lodi Memorial Hospital	1,342	3	5.14	650	3	2.49
Cottage Bakery	695	4	2.66			0.00
Blue Shield	650	5	2.49			0.00
City of Lodi	569	6	2.18	387	5	1.48
General Mills	438	7	1.68	852	2	3.26
Farmers & Merchants Bank	334	8	1.28	183	9	0.70
Walmart	317	9	1.21	226	6	0.87
Target	190	10	0.73	200	7	0.77
Valley Industries				191	8	0.73
Lodi Fab Industries, Inc				170	10	0.65
Total	9,266		35.47	5,636		21.57

Note: The City of Lodi implemented GASB 44 for the fiscal year ended June 30,2006
Information prior to the implementation of GASB 44 is not available.

CITY OF LODI

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY DEPARTMENT FOR LAST TEN YEARS

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Department:										
Administration	35	33	37	36	37	34	34	32	30	26
Community Development	18	17	17	17	18	17	17	15	15	14
Electric	64	65	52	52	52	50	47	46	44	44
Finance	30	28	38	38	38	35	34	34	32	34
Fire	64	61	68	61	68	55	52	50	49	48
Library	16	14	15	15	15	14	14	14	14	14
Parks & Recreation	34	31	34	34	34	29	29	26	26	27
Police	116	117	117	116	117	115	114	113	113	112
Public Works	114	99	111	110	110	108	103	99	95	94
Total	491	465	489	479	489	457	444	429	418	413

Source: City of Lodi Budget Document

CITY OF LODI

OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT FOR LAST TWO FISCAL YEARS

	Fiscal Year 2007	Fiscal Year 2006
General government:		
Building permits issued	2,317	2,699
Business tax certificates:		
Retail sales and service	2632	2,565
Manufacturers and processors	78	125
Professions	404	322
Miscellaneous contractors, peddlers, delivery vehicles, etc.	1127	533
Utility billing/customer service:		
Number of customers	25,712	25,655
Energy sales (KWH)	458,740,745	459,637,092
Peak demand (MW)	144	127
Public safety:		
Police:		
Major reported crimes	3,096	3,234
Total arrests	5,463	5,162
Dispatched calls for service	53,686	55,937
Fire:		
Interior structure fire calls	79	66
Non-structural fire calls	163	158
Hazardous materials calls	27	26
Emergency medical calls	3,213	2,912
Total emergency calls	5,000	4,447
Total number of units dispatched	7,005	6,055
Public works:		
Miles of streets resurfaced	4	33
Fleet job orders completed	6,938	5,608
Trees planted	95	300
Water utility:		
New connections	110	266
Water main breaks	10	8
Wastewater utility:		
Average daily treatment (million gal/day)	6.9MG	6.7MG
Library:		
Registered borrowers	44,558	52,779
Circulation of library materials	273,270	281,216
Reference, research and informational questions answered	18,854	17,342
Annual attendance at libraries	288,070	287,986
Number of programs offered	339	320
Annual attendance at programs	10,700	10,872
Public access computer usage	35.260	29,896
Community center:		
Community center bookings	302	220

CITY OF LODI

OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT FOR LAST TWO FISCAL YEARS

	Fiscal Year 2007	Fiscal Year 2006
Instructional classes	478	509
Registered students	3,548	4,369
Yearly attendance	14,429	15,369
Parks and recreation:		
After school program registration (number of participants/sites)	145,000/12	135,000/12
Adult sports		
Program/Participation	36,000	36,000
Programs offered	11	11
Partnerships	3	5
Tournaments	20	20
Youth/Teen sports		
Program attendance	200,000	200,000
Programs offered	14	20
Aquatics		
Program attendance	59,000	59,000
Number of programs	8	6

Note: The City of Lodi implemented GASB 44 for the fiscal year ended June 30, 2006.
Information prior to the implementation of GASB 44 is not available.

Source: City of Lodi

CITY OF LODI

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT LAST THREE FISCAL YEARS

	Fiscal Year		
	2007	2006	2005
General government:			
Total square miles	13.17	12.81	12.81
Public safety:			
Police:			
Facilities:			
Stations	1	1	1
Animal control facility	1	1	1
Police training facility (pistol range)	1	1	1
Vehicles:			
Marked patrol cars	25	28	28
Motorcycles and scooters	5	4	1
Animal control vehicles	2	3	3
Other automobiles	41	41	41
Fire:			
Facilities:			
Fire stations	4	4	4
Vehicles:			
Fire engines	6	5	5
Trucks/Trailers	8	7	7
Other automobiles	10	11	11
Public works:			
Miles of streets	184	198	100
Miles of alley ways	16	16	14
Traffic signals	66	64	60
Street lights	7,270	7,203	6,995

CITY OF LODI

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT LAST THREE FISCAL YEARS

	Fiscal Year		
	2007	2006	2005
Parks and recreation:			
Parks and squares	23	23	23
Park acreage	275	275	275
Boating facilities - launch lanes	1	1	1
Senior center	1	1	1
Community Centers	1	1	1
Swimming pools	3	3	3
Baseball/softball diamonds	26	26	26
Tennis courts	11	11	11
Skateboard park	1	1	1
Playgrounds	22	22	22
Ballpark	26	26	26
Soccer Field	22	22	22
Football Field	3	3	3
Handball/Basketball/Volleyball Courts	8	8	8
Horseshoe Pits	10	10	10
Library:			
Central library	1	1	1
Total items in collection	142,098	134,129	137,673
Integrated library system	1	1	1
Microform readers	1	1	1
Microform readers/printers	1	1	1
Self check out machines	1	1	1
Electric utility:			
Overhead lines 12kv (miles)	129	129	129
Overhead lines 60kv (miles)	13	13	13
Underground lines (miles)	151	151	151

CITY OF LODI

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT LAST THREE FISCAL YEARS

	Fiscal Year		
	2007	2006	2005
Water utility:			
Water main lines	238	235	230
Water storage capacity (gallons)	1,100,000	1,100,000	1,100,000
Water wells	26	26	25
Water reservoirs	2	2	2
Wastewater utility:			
Wastewater main lines (miles)	189	183	182
Treatment capacity	8.5	8.5 MG	8.5 MG
Wastewater treatment plant	1	1	1
Stormwater utility:			
Stormwater main drain lines (miles)	161	115	114
Stormwater pump stations	14	13	14
Central parking district:			
Parking structure	1	1	1
Parking spaces	2453	2,453	2,453
Parking lots	25	25	25

Note: The City of Lodi implemented **GASB 44** for the fiscal year ended June 30, 2006. Information prior to 2005 are not readily available.

Source: City of Lodi Departments

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SINGLE AUDIT REPORTS

CITY OF LODI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30,2007

Federal Grantor

Pass-through Grantor or Direct Program Title	CFDA Number	Grant/Project Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through San Joaquin County Department of Planning and Building Inspection			
Community Development Block Grants/Entitlement Grants:			
2005-2006 Program Year	14.218	N/A	\$ 1,538
2004-2005 Program Year	14.218	N/A	50,098
2003-2004 Program Year	14.218	N/A	36,024
2001-2002 Program Year	14.218	N/A	<u>27</u>
Total Community Development Block Grants/Entitlement Grants			<u>87,687</u>
U.S. Department of Justice			
Direct:			
Local Law Enforcement Block Grant Program	16.592	2004-LB-BX-0133	14,959
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-1492	<u>20,140</u>
Total U.S. Department of Justice			<u>35,099</u>
U.S. Department of Transportation			
Direct:			
Federal Transit Formula Grants:			
2006-2007 Program Year - Operating	20.507	CA-90-Y565-00	1,057,688
2006-2007 Program Year - Capital	20.507	CA-90-Y565-00	97,911
2005-2006 Program Year - Capital	20.507	CA-90-Y413-00	300,000
2004-2005 Program Year - Capital	20.507	CA-90-Y432-00	<u>41,616</u>
Total Federal Transit Formula Grants			<u>1,497,215</u>
U.S. Department of Health and Human Services			
Passed through San Joaquin County Department of Health Services Agency:			
National Family Caregiver Support, Title III. Part E	93.052	A-06-371	<u>7,500</u>
Total federal awards			<u>\$ 1,627,501</u>

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

**CITY OF LODI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30,2007**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2007, presents the activity of all federal award programs of the City of Lodi, California (City). The City reporting entity is defined in Note 1 of the City’s basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the SEFA.

NOTE 2 - BASIS OF ACCOUNTING

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

NOTE 3 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE

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

NOTE 4 - SUBRECIPIENTS

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

Federal Program	Federal CFDA Number	Amount Provided to Subrecipients
Federal Transit Formula Grants	20.507	\$ 296,076

The Honorable Members of City Council
City of Lodi, California

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the fiscal year ended June **30**, 2007, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December **5**, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Lodi, in a separate letter dated December 5, 2007.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 5, 2007

The Honorable Members of City Council
City of Lodi, California

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

Compliance

We have audited the compliance of the City of Lodi, California (City), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A ***control deficiency*** in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A ***significant deficiency*** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2007, and have issued our report thereon dated December 5, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by **OMB Circular A-133**, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 5, 2007

**CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

CITY OF LODI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Identification of major programs:

Federal Transit Formula Grant	CFDA #20.507
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Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30,2007

Prior Year Finding No. 05-03

Community Development Block Grants/Entitlement Grants
CFDA No. 14.218
Department of Housing and Urban Development
Sub-recipient Monitoring

Criteria

Monitoring the sub-recipient's use of federal awards through site visits or other means is required to provide reasonable assurance that the sub-recipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

The City has a sub-recipient agreement dated November 1, 2004 with the Salvation Army that requires the Salvation Army to submit three quarterly reports and one annual report. Per our testing, we noted that the Salvation Army has not submitted any of the required reports as required by the sub-recipient agreement. Further inquiry established that the City Community Development Department does not have a written sub-recipient monitoring procedures policy.

Questioned Costs

The amount passed-through to the Salvation Army during the year was \$355,360.

Cause

The City Community Development Department does not have in place a sub-recipient monitoring policy that establishes written procedures for effective monitoring of sub-recipients. In addition, per admission of the Community Development Director of the City, the Community Development Department does not have sufficient staff to document timely management decisions for audit and monitoring findings, maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient, or maintaining regular contacts with sub-recipients and appropriate inquiries concerning the federal programs.

Effect

The City could be subject to sanctions.

CITY OF LODI
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30,2007

Recommendation

We recommend that the City put into place a comprehensive monitoring policy that establishes clear guidelines for communication of federal award requirements to sub-recipients, responsibilities for monitoring sub-recipients, process and procedures for monitoring, methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control, and requirements for and processing of sub-recipient audits, including appropriate adjustment of pass-through entity's accounts. In addition, we recommend that the City obtain sufficient staffing resources in order to enhance monitoring of sub-recipients. Additional funding for staff can be obtained by using Community Development Block Funds for administration. Currently, the Community Development Department can use 20% of Community Development Block Grant Funds for administration; however, administration charges to these funds have been well below the allotted percentage.

Prior Year's Management's Response

The Community Development Director indicates that they will not receive any monitoring reports from the Salvation Army until after the City delivers the funds and that any monitoring requirements can be handled in their day to day involvement with the Salvation Army.

Prior Year Status

In the current year, there is a new project allocated to the Salvation Army, but the contract has yet to be executed. As such, the City has not disbursed any funds to the Salvation Army this year. Therefore, for the current year there are no progress reports or an annual report for testing. However, the City has not received the required progress reports or an annual report from the prior year's project with the Salvation Army. Although City staff has compiled information from the Salvation Army for reporting purposes, we considered the prior year finding to be a continuing finding for the current year.

Current Year Status

The City has implemented a subrecipient monitoring plan for the CDBG program and obtained monitoring reports of its subrecipients' grant activity, therefore, we consider this finding resolved.