

CITY COUNCIL MEETING
DECEMBER 19, 1984

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AUDIT AND
MANAGEMENT
LETTER - 6/30/84
RECEIVED FOR
FILING

Following introduction of the matter by City Manager Glaves,
Council, on motion of Council Member Pinkerton, Hinchman
second, received for filing the City of Lodi June 30, 1984
Audit and Management Letter as prepared by Ernst and Whinney.

**Audited Financial Statements
and Other Financial Information**

City of Lodi

June 30, 1984

Ernst & Whinney

**Audited Financial Statements
and Other Financial Information**

CITY OF LODI

June 30, 1984

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Ernst & Whinney

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916/447-3237

The City Council
City of Lodi
Lodi, California

We have examined the combined financial statements of the City of Lodi as of and for the year ended June 30, 1984, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Complete records are not maintained for general fixed assets and, therefore, the combined financial statements referred to above do not include a statement of general fixed assets, which should be included to conform with generally accepted accounting principles.

The records of the enterprise funds were incomplete as to fixed assets and related depreciation. Because we were unable to satisfy ourselves by appropriate audit tests or by other means as a result of such incomplete records, we are unable to express an opinion on the accompanying financial statements of the enterprise funds.

In our opinion, except that the omission of the financial statement described above results in an incomplete presentation, as explained in the preceding paragraph, the combined financial statements, other than the enterprise funds, referred to above present fairly the financial position of the City of Lodi at June 30, 1984 and the results of its operations and the changes in financial position of its proprietary fund types and similar trust funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the changes, with which we concur, resulting from the application of Statement 4 of the National Council on Governmental Accounting as described in Note C to the financial statements.

Our examination was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements of the City of Lodi. The information has been subjected to the auditing procedures applied in the examination of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Ernst & Whinney

Sacramento, California
October 23, 1984

COMBINED BALANCE SHEET - ALL FUND TYPES
AND ACCOUNT GROUP

CITY OF LODI

June 30, 1984

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Special Assessment</u>
ASSETS				
Cash and investments--Note E	\$3,301,797	\$4,531,158	\$212,424	\$ 525,810
Receivables (net of allowances for uncollectibles):				
Accounts	215,858	44,797		
Special assessments				1,820,785
Interest	84,960	56,407		236,884
Due from other fund or governmental agencies--Note D	631,999		3,186	
Supplies inventory	71,631			
Other assets	50,375			
Fixed assets				
Accumulated depreciation				
Amount available in Debt Service Fund				
Amount to be provided for retirement of general long-term debt--Note F				
TOTAL ASSETS	<u>\$4,356,620</u>	<u>\$4,632,362</u>	<u>\$215,610</u>	<u>\$2,583,479</u>

See notes to financial statements

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Totals</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>
\$ 7,693,102	\$1,431,743	\$2,263,549		\$19,959,583
959,601	949			1,221,205
167,131	23,323	2,126		1,820,785
				570,831
849,393				635,185
9,092	41,230			921,024
25,633,923				100,697
(8,175,968)				25,633,923
			\$ 215,610	(8,175,968)
				215,610
			<u>4,017,351</u>	<u>4,017,351</u>
<u>\$27,136,274</u>	<u>\$1,497,245</u>	<u>\$2,265,675</u>	<u>\$4,232,961</u>	<u>\$46,920,226</u>

COMBINED BALANCE SHEET - ALL FUND TYPES
AND ACCOUNT GROUP

CITY OF LODI

June 30, 1984

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Special Assessment</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable and other liabilities	\$ 393,529	\$ 62,896		\$ 11,398
Accrued salaries and wages	240,412	15,622		
Payable from restricted assets--Note E				
Due to other funds		145,884		
Accrued compensated absences--Note C	500,878			
Deferred revenue				2,042,992
Accrued self-insurance claims				
General obligation bonds payable-- Note F				
Special assessments--bonds payable net of discount--Note F				1,474,654
TOTAL LIABILITIES	<u>1,134,819</u>	<u>224,402</u>		<u>3,529,044</u>
FUND EQUITY				
Retained earnings				
Fund balances:				
Reserved for encumbrances	296,699	811,562		380,899
Reserved for supplies inventory	71,631			
Unreserved:				
Designated for debt service			\$215,610	111,160
Designated for subsequent years' expenditures	2,853,471	2,424,861		
Undesignated		1,171,537		(1,437,624)
TOTAL FUND EQUITY	<u>3,221,801</u>	<u>4,407,960</u>	<u>215,610</u>	<u>(945,565)</u>
COMMITMENTS AND CONTINGENCIES--Note H and I				
TOTAL LIABILITIES AND FUND EQUITY	<u>\$4,356,620</u>	<u>\$4,632,362</u>	<u>\$215,610</u>	<u>\$2,583,479</u>

See notes to financial statements

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Totals</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>
\$ 1,072,799		\$ 10,649		\$ 1,551,271
51,590				307,624
		1,900,380		1,900,380
		486,115		631,999
204,140			\$ 467,961	1,172,979
	\$ 900,003			2,042,992
				900,003
			3,765,000	3,765,000
				<u>1,474,654</u>
<u>1,328,529</u>	<u>900,003</u>	<u>2,397,144</u>	<u>4,232,961</u>	<u>13,746,902</u>
25,807,745				25,807,745
				1,489,160
				71,631
				326,770
				5,278,332
	597,242	(131,469)		199,686
<u>25,807,745</u>	<u>597,242</u>	<u>(131,469)</u>		<u>33,173,324</u>
<u>\$27,136,274</u>	<u>\$1,497,245</u>	<u>\$2,265,675</u>	<u>\$4,232,961</u>	<u>\$46,920,226</u>

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
AND EXPENDABLE TRUST FUNDS

CITY OF LODI

Year Ended June 30, 1984

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Special Assessment	Expendable Trust	
REVENUES						
Taxes	\$ 5,569,665	\$1,846,511		\$ 426,946		\$ 7,843,122
Licenses and permits	241,281					241,281
Intergovernmental revenues	333,102	1,138,613				1,471,715
Charges for services	1,939,107	37,082				1,976,189
Fines, forfeits and penalties	222,910	31,227				254,137
Use of money and property	402,964	353,133		223,914	\$ 9,382	989,393
Miscellaneous revenues	571,296	377,568		(180,725)	4,379	772,518
TOTAL REVENUES	9,280,325	3,784,134		470,135	13,761	13,548,355
EXPENDITURES						
Current:						
General government	1,315,126	392,198				1,707,324
Public protection	4,558,856					4,558,856
Public works	1,442,522	440,245				1,882,767
Sanitation	1,522,548					1,522,548
Library		474,040				474,040
Parks and recreation	1,201,874	27,986				1,229,860
Capital outlay	439,773	2,857,182		313,600		3,610,555
Debt service:						
Principal retirement			\$ 300,000			300,000
Interest and fiscal charges			154,384			154,384
TOTAL EXPENDITURES	10,480,699	4,191,651	454,384	313,600		15,440,334
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,200,374)	(407,517)	(454,384)	156,535	13,761	(1,891,979)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	2,263,802	14,442	457,570			2,735,814
Operating transfers out	(175,523)	(13,189)				(188,712)
TOTAL OTHER FINANCING SOURCES (USES)	2,088,279	1,253	457,570			2,547,102
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	887,905	(406,264)	3,186	156,535	13,761	655,123
Fund balances - July 1, 1983 as originally reported	2,809,552	4,814,224	212,424	(1,102,100)	91,000	6,825,100
Cumulative effect of change in accounting principle--Note C	(475,656)					(475,656)
As restated	2,333,896	4,814,224	212,424	(1,102,100)	91,000	6,349,444
FUND BALANCES - JUNE 30, 1984	\$ 3,221,801	\$4,407,960	\$ 215,610	\$ (945,565)	\$104,761	\$ 7,004,567

See notes to financial statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL AND SPECIAL REVENUE FUND TYPES

CITY OF LODI

Year Ended June 30, 1984

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Taxes	\$ 5,055,035	\$ 5,569,665	\$ 514,630
Licenses and permits	268,650	241,281	(27,369)
Intergovernmental revenues	323,265	333,102	9,837
Charges for services	1,770,950	1,939,107	168,157
Fines, forfeits and penalties	263,950	222,910	(41,040)
Use of money and property	355,620	402,964	47,344
Miscellaneous revenues	238,425	571,296	332,871
TOTAL REVENUES	<u>8,275,895</u>	<u>9,280,325</u>	<u>1,004,430</u>
EXPENDITURES			
Current:			
General government	1,231,678	1,315,126	(83,448)
Public protection	4,365,392	4,558,856	(193,464)
Public works	1,523,390	1,442,522	80,868
Sanitation	1,417,505	1,522,548	(105,043)
Library			
Parks and recreation	1,164,117	1,201,874	(37,757)
Capital outlay	1,147,858	439,773	708,085
TOTAL EXPENDITURES	<u>10,849,940</u>	<u>10,480,699</u>	<u>369,241</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,574,045)	(1,200,374)	1,373,671
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,828,685	2,263,802	435,117
Operating transfers out	(152,960)	(175,523)	(22,563)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,675,725</u>	<u>2,088,279</u>	<u>412,554</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(898,320)	887,905	1,786,225
Fund balances - July 1, 1983 as originally reported	2,809,552	2,809,552	
Cumulative effect of change in accounting principle--Note C	(475,656)	(475,656)	
As restated	<u>2,333,896</u>	<u>2,333,896</u>	
FUND BALANCES - JUNE 30, 1984	<u><u>\$ 1,435,576</u></u>	<u><u>\$ 3,221,801</u></u>	<u><u>\$1,786,225</u></u>

See notes to financial statements

Special Revenue Fund			Totals (Memorandum Only)		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 1,136,980	\$1,846,511	\$ 709,531	\$ 6,192,015	\$ 7,416,176	\$1,224,161
			268,650	241,281	(27,369)
1,090,350	1,138,613	48,263	1,413,615	1,471,715	58,100
31,495	37,082	5,587	1,802,445	1,976,189	173,744
	31,227	31,227	263,950	254,137	(9,813)
281,175	353,133	71,958	636,795	756,097	119,302
149,000	377,568	228,568	387,425	948,864	561,439
<u>2,689,000</u>	<u>3,784,134</u>	<u>1,095,134</u>	<u>10,964,995</u>	<u>13,064,459</u>	<u>2,099,564</u>
394,923	392,198	2,725	1,626,601	1,707,324	(80,723)
			4,365,392	4,558,856	(193,464)
442,591	440,245	2,346	1,965,981	1,882,767	83,214
			1,417,505	1,522,548	(105,043)
493,310	474,040	19,270	493,310	474,040	19,270
111,905	27,986	83,919	1,276,022	1,229,860	46,162
6,642,719	2,857,182	3,785,537	7,790,577	3,296,955	4,493,622
8,085,448	4,191,651	3,893,797	18,935,388	14,672,350	4,263,038
(5,396,448)	(407,517)	4,988,931	(7,970,493)	(1,607,891)	6,362,602
	14,442	14,442	1,828,685	2,278,244	449,559
	(13,189)	(13,189)	(152,960)	(188,712)	(35,752)
	<u>1,253</u>	<u>1,253</u>	<u>1,675,725</u>	<u>2,089,532</u>	<u>413,807</u>
(5,396,448)	(406,264)	4,990,184	(6,294,768)	481,641	6,776,409
4,814,224	4,814,224		7,623,776	7,623,776	
			(475,656)	(475,656)	
<u>4,814,224</u>	<u>4,814,224</u>		<u>7,148,120</u>	<u>7,148,120</u>	
<u>\$ (582,224)</u>	<u>\$4,407,960</u>	<u>\$4,990,184</u>	<u>\$ 1,853,352</u>	<u>\$ 7,629,761</u>	<u>\$6,776,409</u>

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN RETAINED EARNINGS/FUND BALANCES - ALL PROPRIETARY
 FUND TYPES AND SIMILAR TRUST FUNDS

CITY OF LODI

Year Ended June 30, 1984

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>	<u>Totals</u> <u>(Memorandum</u> <u>Only)</u>
	<u>Enterprise</u>	<u>Internal</u> <u>Service</u>	<u>Non-</u> <u>Expendable</u> <u>Trust</u>	
OPERATING REVENUES				
Charges for services	\$16,488,267			\$16,488,267
Contributions		\$ 161,402	\$ 59,000	220,402
TOTAL OPERATING REVENUES	<u>16,488,267</u>	<u>161,402</u>	<u>59,000</u>	<u>16,708,669</u>
OPERATING EXPENSES				
Personal services	1,510,478		133,624	1,644,102
Supplies, materials, and services	491,091			491,091
Electric, sewer, and water	12,993,010			12,993,010
Depreciation	903,221			903,221
Benefit payments		505,395		505,395
Refunds	467,401			467,401
TOTAL OPERATING EXPENSES	<u>16,365,201</u>	<u>505,395</u>	<u>133,624</u>	<u>17,004,220</u>
NET OPERATING INCOME (LOSS)	<u>123,066</u>	<u>(343,993)</u>	<u>(74,624)</u>	<u>(295,551)</u>
NONOPERATING REVENUES				
Taxes-bond redemption	289,102			289,102
Interest revenue	770,706	141,625		912,331
Rent	105,741		10,178	115,919
Other	(32,204)	(92,555)		(124,759)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,133,345</u>	<u>49,070</u>	<u>10,178</u>	<u>1,192,593</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>1,256,411</u>	<u>(294,923)</u>	<u>(64,446)</u>	<u>897,042</u>
Operating transfers in (out)	(654,194)	200,274	19,255	(434,665)
NET INCOME	<u>602,217</u>	<u>(94,649)</u>	<u>(45,191)</u>	<u>462,377</u>
Retained earnings/fund balances -				
July 1, 1983 as previously reported	25,399,558	691,891	(191,039)	25,900,410
Cumulative effect of change in accounting principle--Note C	(194,030)			(194,030)
As restated	<u>25,205,528</u>	<u>691,891</u>	<u>(192,039)</u>	<u>25,706,380</u>
RETAINED EARNINGS/FUND BALANCES - JUNE 30, 1984	<u>\$25,807,745</u>	<u>\$ 597,242</u>	<u>\$(236,230)</u>	<u>\$26,168,757</u>

See notes to financial statements

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

CITY OF LODI

Year Ended June 30, 1984

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Non- Expendable Trust	
SOURCE OF WORKING CAPITAL				
Operations:				
Net income	\$ 602,217	\$ (94,649)	\$ (45,189)	\$ 462,379
Depreciation not requiring working capital	903,221			903,221
TOTAL SOURCES OF WORKING CAPITAL	<u>1,505,438</u>	<u>(94,649)</u>	<u>(45,189)</u>	<u>1,365,600</u>
USE OF WORKING CAPITAL				
Acquisition of fixed assets	950,050			950,050
NET INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 555,388</u>	<u>\$ (94,649)</u>	<u>\$ (45,189)</u>	<u>\$ 415,550</u>
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL				
Cash and investments	\$ 782,481	\$ (2,303)	\$ 246,691	\$1,026,869
Receivables	(296,464)	19,508		(276,956)
Due from other funds	52,735			52,735
Supplies inventory	104,796			104,796
Other assets	2,267	3,605	(20)	5,852
Accounts payable and other liabilities	(71,277)	1,007	352	(69,918)
Accrued salaries and wages	(9,040)		(207)	(9,247)
Accrued compensated absences	(10,110)			(10,110)
Due to other funds			(282,000)	(282,000)
Accrued self-insurance claims		(116,466)		(116,466)
Contracts payable			(10,005)	(10,005)
NET INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 555,388</u>	<u>\$ (94,649)</u>	<u>\$ (45,189)</u>	<u>\$ 415,550</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

CITY OF LODI

June 30, 1984

NOTE A--FINANCIAL REPORTING ENTITY

For financial reporting purposes, in conformance with NCGA Statement 3, the City includes all funds, account groups, agencies, boards, commissions, and authorities that are controlled by or dependent on the City's executive or legislative branches (the Mayor or the Council, respectively). Control by or dependence on the City was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligation of the City, obligations of the City to finance any deficits that may occur, or receipt of significant subsidies from the City. Based on the foregoing criteria, all funds and account groups of the City, except for the general fixed asset group of accounts for which complete records are not maintained, are included in the City's financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City summarized below conform to generally accepted accounting policies for governmental entities, except that complete records are not maintained for fixed assets.

Basis of Presentation: The financial transactions of the City are recorded in individual funds and account group. The various funds and account group are reported by type in the financial statements. Amounts in the "Totals (Memorandum Only)" columns in the financial statements represent a summation of the combined financial statement line items of the fund types and account group and are presented only for analytical purposes. The summation includes fund types and the account group that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the City.

The City uses the following fund categories, fund types, and account group:

General Fund: To account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds: To account for the proceeds of specific revenue sources, other than special assessments, expendable trusts, or capital projects, that are legally restricted to expenditure for specific purposes.

Debt Service Funds: To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Special Assessment Funds: To account for the financing of public improvements deemed to benefit the properties against which special assessments are levied.

Enterprise Funds: To account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Services Funds: To account for the financing of services provided by one department to other departments of the governmental unit on a cost-reimbursement basis.

Trust and Agency Funds: To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds and nonexpendable trust funds.

General Long-Term Debt Account Group: To account for unmatured general long-term liabilities of the City.

Basis of Accounting: Governmental, expendable trust, and agency funds are accounted for on the modified accrual basis of accounting. Governmental and expendable trust fund revenues are recognized when received in cash except those accruable, which are recorded as receivables when measurable and available to pay current-period liabilities. Expenditures are recognized on the accrual basis, except for principal and interest of general and special assessment long-term debt, which is recognized when financial resources are provided.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary and nonexpendable trust funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred.

Budgetary Accounting: An operating budget is adopted each fiscal year for the general and special revenue funds on the same modified accrual basis used to reflect actual revenues and expenditures. Budgetary control is exercised at the department level. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any supplemental appropriations that amend the total expenditures of any fund require City Council resolution. Reported budget amounts are as originally adopted or as amended by City Council resolution. Unencumbered appropriations lapse at year-end.

Pooled Cash and Investments: Cash balances of most City funds are pooled and invested. Interest earned from investments purchased with pooled cash was allocated to each of the funds based on the fund's average cash balance. Investments are stated at cost which approximates market.

Inventories: Inventory-type items are considered expenditures at the time of issuance of supplies. Inventories of supplies are stated at the lower of cost (generally determined on a weighted average basis) or market.

Fixed Assets: Complete fixed-assets records for the enterprise funds are not maintained. As a result, records are also incomplete for depreciation.

Encumbrances: Encumbrances are established in the general, special revenue, and special assessment funds to recognize future obligations of the City. They cease to be encumbrances when paid or when the actual liability is recorded.

Fund Equity: Amounts reported as designated for subsequent year's expenditures in unreserved fund equity relate to unused appropriations for which there are no purchase orders or contracts, but are expected to be expended during the next fiscal year.

Special Assessment Fund Deficit: The fund balance deficit of the special assessment fund arises because of the application of generally accepted accounting principles to the financial reporting for such funds. Bond proceeds used to finance construction of special assessment projects are not

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognized as an "other financing source." Liabilities for special assessment bonds payable are accounted for in the special assessment fund. Special assessments are recognized as revenue only to the extent that individual installments are considered current assets. The deficits of both funds will be reduced and eliminated as deferred special assessment installments become current assets.

Property and Special Assessment Taxes: The City receives property tax revenues based on an allocation factor calculated by the County of San Joaquin under the provisions of Proposition 13. Property taxes are received from the County throughout the year and are recognized when received. There was no receivable at year-end. Collections in 1984 were \$3,045,250.

Special assessments are levied and collected by the County and are recognized when received. Special assessments receivable consist of deferred revenue since the amounts are not considered available under generally accepted accounting principles.

Sales and Use Taxes: The City receives an allocation of sales and use taxes from the State of California monthly and recognizes the revenues when received. The City receives 1% of the 6% sales tax assessed within City limits.

Grants and Other Governmental Revenues: On grants, where expenditure of funds is the prime factor for determining earnings of grant funds, the receivable and revenue are recognized when the expenditures have been incurred. Amounts due from other governmental agencies and the related revenue thereon are recorded when earned.

Interfund Transactions: During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by City Council.

Internal service funds are used to record charges for services to all City departments and funds as operating revenue. The enterprise funds record these payments to the internal service fund as operating expenses, and the other funds record the payment as transfers out.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE B--SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general fund provides administrative services to enterprise funds. Amounts charged to a fund for these services are based on the City's central service cost allocation plan and are treated as a reduction of expenditures in the general fund and as operating expenses in the enterprise funds.

Self-Insurance: The City provides workers' compensation benefits and public liability and damage benefits under self-insured plans. Estimated liabilities for benefit payments related to outstanding claims are recorded at year-end.

NOTE C--CHANGE IN ACCOUNTING PRINCIPLE

In accordance with the provisions of NCGA Statement 4, the City has recorded liabilities for future compensated absences (sick leave and vacation pay) earned but unused as of June 30, 1984. Fund balances and retained earnings as of July 1, 1983 in the General Fund and Enterprise Fund have been restated to conform to generally accepted accounting principles.

Amounts classified as current have been included in current year operations. Amounts determined to be noncurrent for the General Fund have been recorded as liabilities of the General Long-Term Debt Account Group.

NOTE D--GRANTS

The total amount of grants available was approximately \$792,000 with \$709,000 of revenues earned through June 30, 1984. Grants receivable at year-end amounted to \$37,000. The amount of grants available for future use at June 30, 1984 was \$83,000.

NOTE E--EMPLOYEE BENEFIT PLANS

The City participates in the State of California's Public Employees' Retirement System (PERS), which covers substantially all employees, except elected officials and those compensated on an hourly basis who were hired after May 31, 1966. The City's total contributions to PERS for the year were approximately \$1,214,000. Information is not available as to the excess, if any, of the actuarially-computed value of vested benefits over the total assets of the retirement fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE E--EMPLOYEE BENEFIT PLANS (Continued)

The City's deferred compensation plan has assets and liabilities totaling \$1,900,380 as of June 30, 1984 recorded in an expendable trust fund. The deferred compensation plan is a contributory deferred contribution plan that covers substantially all eligible employees and provides retirement and death benefits.

NOTE F--LONG-TERM DEBT

Bonds payable at June 30, 1984 were comprised of the following individual issues:

General obligation bonds:

\$5,500,000 Series A serial bonds, issued in 1965, due in annual installments of \$185,000 to \$290,000 through October 1, 1995; interest at 6%	\$2,890,000
\$740,000 Series B serial bonds, issued in 1969, due in annual installments of \$30,000 to \$55,000 through May 1, 1994; interest at 6%	415,000
\$960,200 Series C serial bonds, issued in 1975, due in annual installments of \$70,000 to \$105,000 through November 1, 1988; interest at 6%	<u>460,000</u>
	<u>\$3,765,000</u>

Special assessment bonds:

\$1,588,000 Turner Road/Cluff Avenue serial bonds, issued in 1981, due in annual installments of \$103,000 to \$135,000 through July 2, 1994; interest at 10%; net of discount of \$251,433 resulting in an effective interest rate of 12.64%	\$1,098,567
\$388,720 United Downtown Assessment District Beautification Project, Series 1984-1, Serial Bonds, issued in 1984, due in annual installments of \$44,000 to \$54,000 commencing on July 2, 1986 through July 2, 1999; interest from 6.50% to 9.90%; less discount of \$12,633	<u>376,087</u>
	<u>\$1,474,654</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE F--LONG-TERM DEBT (Continued)

The following is a summary of bond transactions of the City for the year ended June 30, 1984:

	<u>General Obligation</u>	<u>Special Assessment</u>	<u>Total</u>
Bonds payable at July 1, 1983	\$4,065,000	\$1,485,000	\$5,550,000
Bonds retired	(300,000)	(135,000)	(435,000)
New issuances	<u> </u>	<u>388,720</u>	<u>388,720</u>
Bonds payable at June 30, 1984	<u>\$3,765,000</u>	<u>\$1,738,720</u>	<u>\$5,503,720</u>

Debt service requirements are as follows:

1985	\$ 450,000
1986	464,000
1987	485,000
1988	505,000
1989	525,000
1994-1996	<u>3,074,720</u>
	<u>\$5,503,720</u>

Series A bonds maturing by their terms on and after October 1, 1988 and all Series B bonds are subject to call and redemption at the option of the City. No bonds were called during the year.

The City is required to, and has set aside, 7% and 5% of the principal of the Turner Road/Cluff Avenue and the United Downtown Assessment District Beautification Project special assessment bonds, respectively, in case of any delinquent assessment levied for retirement of the bonds.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE G--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds which provide electric, sewer, and water services. Segment information for the year ended June 30, 1984 was as follows:

	Electric Utility Fund	Sewer Utility Fund	Water Utility Fund	Total Enterprise Fund
Operating Revenues	\$13,987,605	\$1,194,036	\$1,306,626	\$16,488,267
Depreciation Expense	412,260	352,135	138,826	903,221
Operating Income (Loss)	(339,128)	(70,126)	532,320	123,066
Operating Transfers:				
In	2,633,524	100,000	450,000	3,183,524
Out	2,620,315	132,768	1,084,635	3,837,718
Tax Revenues		289,102		289,102
Net Income (Loss)	804,479	(194,970)	(7,292)	602,217
Property, Plant, and Equipment Additions	507,063	205,176	237,811	950,050
Net Working Capital	6,345,571	1,021,687	1,186,673	8,553,931
Total Assets	14,962,820	8,810,203	3,363,251	27,136,274
Total Equity	13,778,400	8,707,413	3,321,932	25,807,745

Electricity service sales to a single customer were approximately 10% of total operating revenues of the electric utility fund in 1984. No other single customer accounted for more than 10% of total operating revenues in the electric utility fund or in any of the other enterprise funds.

NOTE H--MEMBERSHIP IN THE NORTHERN CALIFORNIA POWER AGENCY

In 1973, the City, along with various other public agencies, formed the Northern California Power Agency (NCPA) for the purpose of exercising their common power to purchase, generate, sell, or interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities.

The City, under its contractual obligations, jointly funds the operations and construction and development programs of NCPA. During the year ended June 30, 1984, total payments for these purposes made to NCPA amounted to \$144,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF LODI

June 30, 1984

NOTE H--MEMBERSHIP IN THE NORTHERN CALIFORNIA POWER AGENCY (Continued)

The City has committed, if necessary, to advance certain annual amounts to NCPA in the future for the continuance of construction and development programs. The contemplated funding of these future advances is \$186,000 for 1985.

NOTE I--COMMITMENTS AND CONTINGENCIES

The City is involved in various other litigation which arose during the normal course of operation. The amount of possible loss cannot be reasonably estimated, but management believes that any loss incurred as a result of current litigation will have an immaterial effect on the City's financial position.

OTHER FINANCIAL INFORMATION

COMBINING BALANCE SHEET - ALL GENERAL FUNDS

CITY OF LODI

June 30, 1984

	<u>General</u>	<u>Stores Inventory</u>	<u>Equipment</u>	<u>Capital Outlay</u>	<u>Work for Others</u>	<u>Totals</u>
ASSETS						
Cash and investments	\$2,006,612	\$(10,791)	\$109,845	\$1,210,752	\$(14,621)	\$3,301,797
Receivables (net of allowances for uncollectibles):						
Refuse	85,186					85,186
Miscellaneous bills collectible	107,407				23,265	130,672
Interest	84,960					84,960
Due from other funds or governmental agencies				594,615	37,384	631,999
Supplies inventory		71,631				71,631
Other assets	50,315	60				50,375
TOTAL ASSETS	<u>\$2,334,480</u>	<u>\$ 60,900</u>	<u>\$109,845</u>	<u>\$1,805,367</u>	<u>\$ 46,028</u>	<u>\$4,356,620</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and other liabilities	\$ 355,909	\$ 12,703	\$ 2,712	\$ 18,390	\$ 3,815	\$ 393,529
Accrued salaries and wages	228,988			231	11,193	240,412
Accrued compensated absences	500,878					500,878
TOTAL LIABILITIES	<u>1,085,775</u>	<u>12,703</u>	<u>2,712</u>	<u>18,621</u>	<u>15,008</u>	<u>1,134,819</u>
FUND BALANCES						
Reserved for encumbrances	16,032		581	280,086		296,699
Reserved for supplies inventory		71,631				71,631
Unreserved:						
Designated for subsequent years' expenditures	1,232,673	(23,434)	106,552	1,506,660	31,020	2,853,471
TOTAL FUND BALANCES	<u>1,248,705</u>	<u>48,197</u>	<u>107,133</u>	<u>1,786,746</u>	<u>31,020</u>	<u>3,221,801</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$2,334,480</u>	<u>\$ 60,900</u>	<u>\$109,845</u>	<u>\$1,805,367</u>	<u>\$ 46,028</u>	<u>\$4,356,620</u>

COMBINING BALANCE SHEET - ALL ENTERPRISE FUNDS

CITY OF LODI

June 30, 1984

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 5,772,615	\$ 969,705	\$ 950,782	\$ 7,693,102
Receivables (net of allowances for uncollectibles):				
Utility	828,100	45,310	66,031	939,441
Miscellaneous bills collectible	12,865	3,680	3,615	20,160
Interest	119,125	19,906	28,100	167,131
Supplies inventory	680,958	7,253	161,182	849,393
Other assets	653	8,435	4	9,092
Fixed assets	11,605,485	10,117,150	3,911,288	25,633,923
Accumulated depreciation	<u>(4,056,981)</u>	<u>(2,361,236)</u>	<u>(1,757,751)</u>	<u>(8,175,968)</u>
TOTAL ASSETS	<u>\$14,962,820</u>	<u>\$ 8,810,203</u>	<u>\$ 3,363,251</u>	<u>\$27,136,274</u>
LIABILITIES AND RETAINED EARNINGS				
LIABILITIES				
Accounts payable and other liabilities	\$ 1,041,255	\$ 15,837	\$ 15,707	\$ 1,072,799
Accrued salaries and wages	27,490	16,765	7,335	51,590
Accrued compensated absences	115,675	70,188	18,277	204,140
TOTAL LIABILITIES	<u>1,184,420</u>	<u>102,790</u>	<u>41,319</u>	<u>1,328,529</u>
RETAINED EARNINGS	<u>13,778,400</u>	<u>8,707,413</u>	<u>3,321,932</u>	<u>25,807,745</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$14,962,820</u>	<u>\$ 8,810,203</u>	<u>\$ 3,363,251</u>	<u>\$27,136,274</u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS - ALL ENTERPRISE FUNDS

CITY OF LODI

Year Ended June 30, 1984

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$13,987,605	\$1,194,036	\$1,306,626	\$16,488,267
OPERATING EXPENSES				
Personal services	869,142	424,938	216,398	1,510,478
Supplies, materials, and services	213,962	178,270	98,859	491,091
Electric, sewer, and water	12,363,968	308,819	320,223	12,993,010
Depreciation	412,260	352,135	138,826	903,221
Refunds	467,401			467,401
TOTAL OPERATING EXPENSES	<u>14,326,733</u>	<u>1,264,162</u>	<u>774,306</u>	<u>16,365,201</u>
NET OPERATING INCOME (LOSS)	(339,128)	(70,126)	532,320	123,066
NONOPERATING REVENUES (EXPENSES)				
Taxes-bond redemption		289,102		289,102
Interest revenue	548,135	90,753	131,818	770,706
Rent	14,918	70,873	19,950	105,741
Other	567,345	(542,804)	(56,745)	(32,204)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,130,398</u>	<u>(92,076)</u>	<u>95,023</u>	<u>1,133,345</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	791,270	(162,202)	627,343	1,256,411
Operating transfers in	2,633,524	100,000	450,000	3,183,524
Operating transfers out	(2,620,315)	(132,768)	(1,084,635)	(3,837,718)
Net operating transfers in (out)	<u>13,209</u>	<u>(32,768)</u>	<u>(634,635)</u>	<u>(654,194)</u>
NET INCOME (LOSS)	804,479	(194,970)	(7,292)	602,217
Retained earnings - July 1, 1983				
as originally reported	13,079,486	8,972,571	3,347,501	25,399,558
Cumulative effect of change in accounting principle--Note C	(105,565)	(70,188)	(18,277)	(194,030)
As restated	<u>12,973,921</u>	<u>8,902,383</u>	<u>3,329,224</u>	<u>25,205,528</u>
RETAINED EARNINGS - JUNE 30, 1984	<u>\$13,778,400</u>	<u>\$8,707,413</u>	<u>\$3,321,932</u>	<u>\$25,807,745</u>

See notes to financial statements

Management Letter

City of Los Angeles

October 23, 1984

Ernst & Young

Ernst & Whinney

555 Capitol Mall, Suite 650
Sacramento, California 95814

916/447-3237

The City Council
City of Lodi
Lodi, California

We have examined the financial statements of the City of Lodi for the year ended June 30, 1984 and have issued our report thereon dated October 23, 1984. As part of our examination, we made a study and evaluation of the system of internal accounting control only to the extent we considered necessary to determine the nature, timing, and extent of our auditing procedures.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Lodi taken as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness at June 30, 1984. The following suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the use of the City Council.

Ernst & Whinney

Sacramento, California
October 23, 1984

Prior Year Items

In previous management letters, we commented upon areas in which we believed internal accounting controls could be strengthened. Upon considering the City's response to our management letters, we believe that these items have been adequately addressed, except for the item below, and would like to commend the City on their effort to improve internal controls.

Of all assets held by the City, cash is the most liquid and susceptible to loss from employee error or misappropriation. Therefore, the City's system of internal controls must be particularly strong in this area. We believe controls over cash receipts could be strengthened by implementing the following procedures in the collection department.

We recommend that the City use cash registers to record all cash receipts, whether remitted through the mail or directly from customers. Each day, the cash register total should be agreed to the daily deposit by an employee who does not handle the cash receipts. This will establish segregation of duties, control and accountability over the receipts. We believe that with the City's growth, these procedures will result in improved operational efficiency and stronger internal controls over cash.

Computer Applications

We commend the City for their efforts as to utilizing the computer system. We have noted one additional area in which the City should consider automating. Presently records of subdivision deposits from developers are kept on individual file cards. Automating this process would provide increased accounting efficiency and safeguarding of records.

Investments

The Director of Finance has both physical custody over investments and authorization to initiate transactions. We recommend that the City implement procedures to ensure that there is an appropriate segregation of duties for investment activities, especially with respect to negotiable instruments. We understand that the Director of Finance has been in contact with the California Municipal Treasurers Association in an effort to address the problem.

CITY COUNCIL

JOHN R (Randy) SNIDER, Mayor
DAVID M HINCHMAN
Mayor Pro Tempore
EVELYN M OLSON
JAMES W PINKERTON, Jr
FRED M REID

CITY OF LODI

CITY HALL, 221 WEST PINE STREET
POST OFFICE BOX 320
LODI, CALIFORNIA 95241
(209) 334-5634

HENRY A. GLAVES, Jr.
City Manager

ALICE M. REIMCHE
City Clerk

RONALD M STEIN
City Attorney

January 2, 1985

Ernst & Whinney
555 Capitol Mall
Suite 650
Sacramento, CA 95814

Gentlemen:

This letter will confirm the action taken by the Lodi City Council at its regular meeting of December 19, 1984 whereby the Council, by motion action, received for filing the City of Lodi June 1984 Audit and Management Letter as prepared by your firm.

Should you have any questions regarding this matter, please do not hesitate to call this office.

Very truly yours,


Alice M. Reimche
City Clerk

ANR:jj
Enc.